

Detailed Assessment of Observance IAIS Insurance Core Principles (ICPs) Albania

June 2023



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International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland
Tel: +41 61 280 8090

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Executive summary

This document provides a detailed assessment of regulation and supervision of the insurance sector in Albania. The assessment was conducted on behalf of the International Association of Insurance Supervisors (IAIS) at the request of the Albanian Financial Supervisory Authority (AFSA), a member agency, between April 2022 and June 2023, including two weeks of on-site work in Tirana, Albania. The assessment is benchmarked against the Insurance Core Principles (ICPs) issued by the IAIS in October 2011, including revisions approved by the IAIS up until November 2019.

The assessment is based on extensive documentation reviews and meetings in Tirana. The work included reviews of laws, regulations, etc, a full self-assessment of observance of the ICPs prepared by AFSA and examples of supervisory reports. Meetings were held with AFSA's senior management and many of the Authority's staff, with government officials, insurers and intermediaries and with industry and professional bodies. The team of assessors, which was drawn from IAIS members and the Secretariat, supported by an external consultant, is grateful for the excellent cooperation extended by AFSA staff and other parties during its work.

The Albanian insurance sector is small, with motor insurance accounting for a large share and limited life insurance. There are 12 insurers, eight of which are non-life. All are locally incorporated, but subsidiaries of two major Austrian insurance groups account for half of the market. Many insurers are part of groups with more than one insurer in Albania and with operations elsewhere in the region. Non-life insurance, mainly compulsory motor third-party liability, accounts for over 90% of gross written premiums (GWPs). Life insurance is underdeveloped, with credit life (where a bank is the policyholder) accounting for much of the market. Penetration (premiums as a percentage of gross domestic product (GDP)), only 1.02% in 2021, is low compared with other European countries.

The main risks to insurers are related to the importance of motor insurance. The market is competitive and there are risks relating to underpricing and underreserving. Financial risks are relatively limited. Insurers do not hold corporate securities (the range of investable domestic assets is limited), but are exposed to credit risk arising from bank deposits and extensive reinsurance, also a source of liquidity risk. Market risk is limited: government bonds are generally held to maturity and few life insurance products have features giving rise to interest rate risk. Insurers hold significant real estate investments. There are risks from the likelihood of further significant earthquakes (a quake caused large loss of life and damage to buildings in 2019) and other natural catastrophes.

Insurers face strategic risks from the low propensity of Albanians to buy insurance and from adverse economic and demographic trends. They need to develop attractive products and appropriate distribution strategies and ensure that their pricing and selling processes do not expose them to undue insurance or conduct risks. Worsening economic conditions and a reducing population pose additional risks. As Albania continues to align regulations with the European Union (EU; accession negotiations started in 2022), some insurers may be challenged by more complex regulations, as planned for solvency for example, notwithstanding the authorities' commitment to a proportionate approach.

The regulatory and supervisory framework is assessed as having a high level of observance of the ICPs. A large majority of the ICPs are assessed as either Observed or Largely Observed. AFSA and the government have in recent years carried out wide-ranging reforms, strengthening the legislation on AFSA itself and revising insurance sector law and regulations. Progress has been guided by the objective of alignment to EU requirements and by the findings of an assessment of

insurance regulation and supervision by the International Monetary Fund (IMF) and World Bank under a Financial Sector Assessment Program review in 2013.

AFSA's regulation is underpinned by clear objectives, extensive powers (exercised with a high degree of independence from the government) and adequate resources. AFSA's independence in law is matched by independence in practice, balanced by accountability to Parliament. There are comprehensive provisions on legal protection of AFSA and its staff and confidentiality of supervisory information. AFSA determines its own organisation, budget and staff remuneration. Staffing and financial resources appear adequate, taking into account the limited scale and complexity of the sector. AFSA would benefit from greater budgetary flexibility, including to set fee levels appropriate to its plans; it needs to develop its IT resources better to support supervision. Its ability to enforce interventions pending appeals should be reviewed in the light of the outcome of a case being taken by AFSA to the Supreme Court. While relevant risks in the insurance sector are currently limited, AFSA's objectives should be extended to include an explicit objective to contribute towards financial stability.

There is a well developed legislative framework on licensing and other regulatory transactions and suitability requirements. New licences are rare, but AFSA has experience of assessing and, as necessary, rejecting applications. There are wide-ranging requirements on suitability. AFSA places particular emphasis on board members and managing directors, where there is a requirement for prior approval. Candidates have been rejected and action taken when persons have been found no longer fit and proper. They should now develop detailed provisions on suitability of key persons in compliance and risk management functions equivalent to those for actuarial and internal audit. AFSA has no experience of change of control applications or portfolio transfers under current legislation, which does, however, set out the necessary provisions.

There is a framework of requirements on governance and risk management, including risks related to reinsurance. The roles and expectations of boards and senior management are set out appropriately and governance is assessed by supervisors. Board responsibilities should be expanded in due course to include a requirement to approve remuneration policies for senior management and other relevant employees. Insurers are required to establish appropriate systems of risk management and internal controls (and control functions) that include risks in insurers' reinsurance programmes. Requirements generally apply at the level of the insurance company, but some apply to groups, including group-level risk monitoring. AFSA supervisors assess group governance and controls.

There are extensive valuation and solvency requirements, but they reflect the limitations of the EU Solvency I requirements on which they are based. They do not provide for fully market-consistent valuation or risk-based solvency, including at group level. Existing solvency requirements capture key insurance risks and insurers must hold 150% of the minimum solvency margin (not all meet the requirements and AFSA can require and has required recovery plans). Valuation requirements take a conservative approach to technical provisions (no discounting, for example, although also no required margin over current expectations) and, for life insurance, mathematical provisions. The framework is supported by requirements for actuarial opinions, extensive reporting to AFSA and oversight by its actuaries. The requirements apply at company level, but AFSA monitors group financial strength by reviewing group financial statements and intragroup exposures. It is recommended that a timetable be established for implementing relevant parts of the EU Solvency II



framework, AFSA's preferred approach to developing solvency regulation,¹ taking into account the changes to be introduced through the envisaged implementation of IFRS 17 in Albania.

There are elements of an enterprise risk management (ERM) framework and insurers are required to prepare risk evaluation reports for AFSA's review, but they require further development. AFSA's supervisors pay special attention to underwriting risks but also earthquake risk, liquidity and other risks. Full requirements on risk appetite and quantification of risks are lacking. Insurers' risk evaluation reports require further development. The Authority should implement the full range of ERM requirements and apply them at group level. AFSA should also require increased detail in insurers' disclosure of financial strength indicators.

AFSA has a developed supervisory framework, although there is scope for more feedback and discussion of risk with insurers. AFSA conducts off-site supervision based on extensive reports from insurers which enable it to assess key risks. It has resumed on-site work after the Covid-19 pandemic. The current approach is relatively focused on assessing and reporting on compliance. More use could be made of AFSA's risk assessment methodology, with its forward-looking approach, including in feedback to the management of insurers. AFSA also has a full set of powers to require corrective actions and impose sanctions, which it uses in practice. The scale and effectiveness of financial penalties should, however, be reviewed to ensure they meet their purpose.

The framework for ensuring the orderly exit of insurers from the market has gaps, which will be addressed through planned legislative change. AFSA is taking advice on legislative amendments required to ensure there are appropriate bankruptcy arrangements specific to the sector. There is no policyholder compensation scheme, but a clear priority for policyholders in a liquidation.

AFSA carries out effective supervision of intermediaries, with a focus on brokers. There is a full framework of licensing and regulatory requirements for agents and brokers, including on professional qualifications, and a supervisory framework. AFSA cooperates with the Bank of Albania in cases where the broker or agent is a bank.

There are extensive requirements in place and effective supervision of conduct of business, but there is scope for development in some areas. AFSA's wide-ranging consumer protection work, including regulation, surveillance of the market, evaluation of new products, handling of customer complaints and regulating how motor third-party liability (MTPL) claims are to be assessed, enables it to intervene effectively in the interests of consumers. While products and distribution practices are relatively simple from a consumer protection perspective, AFSA should strengthen its approach in the areas of oversight of business culture, arrangements between insurers and intermediaries, new product development and customer risk assessment.

There are broadly adequate requirements on insurance fraud and anti-money laundering. It is recommended, however, that AFSA deepen its understanding and awareness of fraud risks and review the effectiveness of measures for prevention and detection of fraud.

AFSA exchanges confidential information and cooperates with domestic and foreign authorities, including as group-wide supervisor. It has relevant powers and a wide network of agreements. It is a recent signatory of the IAIS Multilateral Memorandum of Understanding (MMoU). The Authority participates in supervisory colleges led by the Austrian regulator and leads colleges as home supervisor with Kosovan supervisors. It has cooperated in practice in the management of a crisis.

¹ The assessors have been informed since the completion of the on-site assessment work in Albania that AFSA has developed a High-Level Roadmap to implement Solvency II.



AFSA has established processes to monitor the insurance sector's impact on the economy and the impact of various risks on insurers. It collects extensive information as part of its macroprudential supervision. It is also highly transparent about the market and its own supervisory practices. It is well placed to identify emerging systemic risks, although in the present market these are limited.

Assessment of Insurance Core Principles

1 Introduction and scope

1. This document provides a detailed assessment of supervision in the insurance sector of Albania. The assessment was conducted by a team of assessors: Ian Tower, Insurance Regulation and Supervision Consultant; Joanna Rakowska, Financial Market Authority (FMA), Austria; Pankaj Kumar Tewari, Insurance Regulatory and Development Authority of India (IRDAI); Brad Roberts, Board of Governors of the Federal Reserve System (FRB), USA; supported by Grzegorz Komarnicki, International Association of Insurance Supervisors (IAIS) Secretariat.
2. The assessment was conducted on behalf of the IAIS, at the request of the Albanian Financial Supervisory Authority (AFSA), between April 2022 and June 2023, including two weeks of on-site work in Tirana, Albania from 26 September to 7 October 2022, and concluding with the publication of this report in mid-2023. The assessment is benchmarked against the Insurance Core Principles (ICPs) issued by the IAIS in October 2011, including revisions approved by the IAIS up until November 2019.² The ICPs apply to all insurers, whether private or government-controlled, in all markets. Specific principles apply to the supervision of intermediaries.
3. The objectives of the assessment are to enhance the understanding of the ICPs, aid in their implementation, identify major differences between existing practices and the international standards as well as provide recommendations and advice to help future development of supervisory programmes. The assessment should not be construed to be part of the IMF/World Bank Financial Sector Assessment Program (FSAP).
4. This detailed assessment included off-site reviews of documents such as laws, regulations, policies and processes and regulatory self-assessments of the jurisdiction, as well as on-site meetings and discussions with government officials, supervisory staff, insurers, intermediaries, industry associations and other stakeholders. The purpose of these meetings was to understand the supervisory requirements in place and to gauge their application in practice.

2 Information and methodology used for assessment

5. The level of observance for each ICP reflects assessment against its standards. Each ICP is rated in terms of the level of observance as follows:
 - Observed (O) – for a Principle Statement to be considered observed, all the standards must be considered observed (except any standards that are considered not applicable);
 - Largely observed (LO) – for a Principle Statement to be considered largely observed, there must be only minor shortcomings which do not raise any concerns about the supervisor’s ability to achieve full observance with the Principle Statement;

² Supervisory standards related to the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which build on the ICPs, were not addressed in this MAP, as they focus on the effective group-wide supervision of Internationally Active Insurance Groups (IAIGs). AFSA is not a group-wide supervisor of an IAIG.

- Partly observed (PO) – for a Principle Statement to be considered partly observed, there are sufficient shortcomings to raise doubts about the supervisor’s ability to achieve observance;
 - Not observed – for a Principle Statement to be considered not observed, there is no substantive progress toward achieving observance; and
 - Not applicable – for a Principle Statement to be considered not applicable, all the standards must be considered not applicable.
6. The assessment is based solely on the laws, regulations and other supervisory practices in place at the time of the on-site phase of the assessment. While the assessment does not reflect ongoing regulatory initiatives, some proposals for regulatory reform are discussed by way of additional comments in this report. The authorities provided a self-assessment, supported by examples of actual supervisory practices and assessments related to supervised entities. These examples enhanced the robustness of the work. Technical discussions with, and briefings by, officials from AFSA have also enriched discussions of this report, as have discussions with industry participants, industry and professional associations and government. Discussions with these stakeholders were conducted on a confidential basis, without the presence of representatives of the supervisory authority.

3 Preconditions for effective insurance supervision

3.1 Sound and sustainable macroeconomic and financial sector policies

7. The Albanian government sets economic policy within an established framework of institutional arrangements. Key institutions are the Ministry of Finance and Economy, which is responsible for macroeconomic and fiscal policy, revenue and budget administration and public debt management; and the Bank of Albania, which under the 1997 Law “On the Bank of Albania” has responsibility for monetary policy. The Council of Ministers presents the state budget to the Parliament annually for debate and adoption. The Bank of Albania has an objective of price stability, which it interprets as keeping the rate of price inflation at 3.0% in the medium term. It has a variety of tools to implement monetary policy, including open market operations and reserve requirements.
8. The Ministry of Finance and Economy is also responsible for financial sector policy, including preparation of new legislation for debate and enactment by the Parliament. The Bank of Albania has powers under the 2006 Law “On banks in the Republic of Albania” to regulate and supervise the banking sector as well as non-deposit-taking lending institutions, savings and credit associations, leasing, factoring and payment service providers. AFSA has responsibility under the 2006 Law “On the Financial Supervisory Authority” for oversight of capital markets and investment business as well as the insurance sector and pension funds.
9. A consultative group on financial stability (the Financial Stability Advisory Group – FSAG) brings together the institutions involved in financial sector oversight. Its members are the Minister of Finance, the Governor of the Bank of Albania and the Chair of the AFSA Board. The Bank of Albania publishes a regular Financial Stability Report and has also developed a range of macroprudential policies and tools.
10. The development of macroeconomic and financial sector policies is influenced by the Government of Albania’s intention for the country to become a member of the European Union (EU) in due course. Albania was granted candidate status by the EU in 2014 and accession

negotiations were started in 2022, as a precondition for which Albania had already taken account of relevant EU legislation when developing its own framework of policies, laws and regulations. Its continuing objective is to maintain a high degree of alignment with EU requirements.

11. Information on the work of the institutions responsible for macroeconomic and financial sector policies is available on their websites.

3.2 Well developed public infrastructure

12. Albania has a framework of business and related laws, governing companies (Law No 9901 of 14 April 2008 “On entrepreneurs and companies”), insolvency (Law No 110 of 22 November 2016 “On bankruptcy”) and consumer protection (Law No 9902 of 17 April 2008 “On consumer protection”). Laws are enforced by responsible agencies and/or the courts.
13. Albania has a civil law system and the constitution provides for the separation of legislative, executive and judicial branches. The court system and legal infrastructure are undergoing a reform process, which includes re-evaluation of all judges and prosecutors (a vetting process) independently overseen by a monitoring operation provided by the European Commission. The Commission has reported steady progress on this project, but also that the number of judges and prosecutors is low by comparison with other European countries, that court infrastructure is poor and that the efficiency of the judicial system has been affected by the length of proceedings, low clearance rate and high backlog.³
14. The National Accounting Council (NAC) is the body that sets accounting standards for approval by the Minister of Finance. Law No 25 of 2018 “On accounting and financial statements”, which reflects the EU Accounting Directive, determines that for general purpose financial reporting, two reporting frameworks are applicable depending on the size of reporting entities and public interest considerations: (i) National Accounting Standards (NAS) and (ii) IFRS as issued by the International Accounting Standards Board (IASB), translated and published in the Albanian language by the NAC.
15. Public interest entities (PIEs) are required to apply IFRS. They are defined as stock exchange listed companies, financial institutions, insurance and reinsurance companies and investment and voluntary pension funds, together with other companies deemed by the Council of Ministers to be relevant to the public interest owing to the nature of their business, their size, or the number of their employees.
16. Law No 10091 of 2009 “On statutory auditing and organization of the accounting profession” requires that International Standards on Auditing (ISAs) be applied and that only registered auditors (both certified public accountants and auditing firms) may practise in Albania. The Institute of Authorised Chartered Auditors of Albania is the professional body of statutory auditors, membership of which is mandatory. The Public Oversight Board (POB) is the independent authority for quality assurance of statutory auditors/auditing firms and certified accountants.
17. There is an actuarial professional body with (at the time of the on-site assessment) 25 members in total, including the 11 actuaries authorised by AFSA under the Insurance Law (insurers are required to appoint an authorised actuary to undertake tasks specified in the law). The work of the Albanian Actuarial Association is mainly focused at present on improving access to actuarial

³ See Commission Staff Working Document, *Albania 2021 Report*, accompanying the document *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 2021 Communication on EU Enlargement Policy*, Strasbourg, SWD (2021) 289 final, 19 October 2021.

training and education, although it also provides input to AFSA on regulatory matters. It does not issue technical, professional or ethical standards itself and does not provide oversight of members' activities or a disciplinary process. The association is an associate member of the International Actuarial Association (IAA; it does not yet qualify for full membership). It is not subject to any form of oversight in Albania.

3.3 Effective market discipline in financial markets

18. The corporate governance framework in Albania is comprised of the general company law as well as the legislation on accounting and auditing standards and practices (see above). Specific regulatory requirements apply to banks, insurers and other regulated entities. A Governance Code was adopted in 2011. It provides a set of recommendations and compliance is voluntary. Joint stock companies can be organised under a one-tier or two-tier governing board system. However, in the two-tier system, the appointment and dismissal of executives can be assigned to the general meeting of shareholders. The Albanian Securities Exchange (ALSE) may set corporate governance standards for listed companies, but there are none yet.

3.4 Mechanism for providing an appropriate level of policyholder protection

19. The Insurance Law provides for a hierarchy of claims, giving policyholders preference. There is no policyholder protection scheme (ie a scheme that would provide compensation to eligible policyholders in case of the failure of an insurer).

20. There is no independent authority for dispute resolution, although policyholders with unresolved complaints may take their complaints to AFSA or the courts.

21. AFSA has the key role in the resolution of an insurer, although there is a need to clarify bankruptcy procedures (see the assessment of ICP 12).

3.5 Efficient financial markets

22. The capital market consists of two main segments: government securities, the largest segment, and bonds issued through private placement. The main sources of long-term financing in Albania are institutional investors, who primarily invest in government securities. Domestic investment funds and insurers invest mainly in domestic corporate bonds, holding only small amounts of foreign corporate bonds. There is no market in equities. The ALSE started operations in 2018, but government securities were the only financial instruments traded on the exchange at the time of this assessment.

4 Assessment summary tables

Table 1: Summary of observance of the ICPs

Insurance Core Principle	Level	Overall comments
1 – Objectives, Powers and Responsibilities of the Supervisor	LO	The legislative framework introduced in 2014 gave AFSA, the insurance sector supervisory authority, wide powers and largely appropriate objectives to regulate all aspects of the sector. Although there are limited risks to stability posed to or by the insurance sector, there is no explicit objective to support financial stability, which is likely to be an increasing focus as the sector develops in the medium term (AFSA already participates by law in financial stability arrangements with other authorities). AFSA's powers to undertake group-wide supervision are appropriate to the relatively simple groups for which it has responsibility at present.
2 – Supervisor	LO	The legislative framework gives AFSA a high degree of independence from government in law, which is matched by independence in practice and balanced by accountability to Parliament. There are comprehensive provisions on legal protection of AFSA and its staff and confidentiality of supervisory information. AFSA determines its own organisation, budget and staff remuneration, although the fees charged to regulated legal entities, the source of its funding, are fixed in law. Staff and financial resources appear adequate, given the limited scale and complexity of the insurance sector.
3 – Information Sharing and Confidentiality Requirements	O	AFSA exchanges confidential information with a wide range of domestic and foreign authorities in accordance with detailed provisions regarding the protection of confidentiality and purpose of the information requests. It has a wide network of exchange agreements and has been a signatory of the IAIS Multilateral Memorandum of Understanding (MMoU) since March 2022.
4 – Licensing	O	The licensing framework in the Insurance Law sets out appropriate requirements and a process for granting licences as well as providing for action to be taken against unlicensed activity. New applications are rare, but AFSA has used its powers both to grant and to refuse applications in recent years.

5 – Suitability of Persons	LO	There are wide-ranging requirements covering senior management and key persons in control functions, although not all are explicitly listed in the legislation. AFSA places particular emphasis on board members and managing directors, who are subject to prior approval. Candidates have been rejected. There is a need for detailed provisions on suitability of key persons in compliance and risk management functions. Although AFSA undertakes supervisory work on suitability, insurers are not explicitly required to demonstrate the suitability of all persons covered by the requirements.
6 – Change of Control and Portfolio Transfers	O	AFSA has no experience of applications for changes of control or portfolio transfers under the 2014 Insurance Law. However, the legislation sets out the requirements for reporting, assessing and making decisions on such applications, with appropriate emphasis on ensuring that transactions do not affect policyholders adversely.
7 – Corporate Governance	LO	The laws and regulations established for the broader business sector as well as those specifically for insurers clearly describe requirements related to corporate governance. The roles and expectations documented for boards and senior management are appropriate and generally consistent with ICP 7. However, board responsibilities in the Insurance Law do not include requirements on remuneration policies.
8 – Risk Management and Internal Controls	O	The Authority has established comprehensive requirements and expectations regarding insurer risk management and internal control systems. Although potentially burdensome for smaller insurers in a developing market, the laws, regulations and supervisory practices in this area have positioned insurers and AFSA well as the market develops with products and risks that are more complex.
9 – Supervisory Review and Reporting	LO	AFSA has a clear supervision strategy and documented processes with regard to its supervisory cycle in its Risk Focused Supervision Manual. The Authority implements its supervisory framework effectively and proportionately, as evidenced by supervisory documents reviewed for the assessment; however, the approach remains relatively compliance-focused in practice. There is scope to develop a fuller assessment of corporate governance, focusing on its effectiveness in practice.

10 – Preventive Measures, Corrective Measures and Sanctions	LO	AFSA has access to a comprehensive set of supervisory measures to address the violation (or risk of violation) of regulatory requirements by insurers. The Insurance Law sets out the circumstances in which actions may be taken and the range of corrective measures. Warnings may be issued and financial penalties imposed, including on individuals in case of violation of requirements. However, the level of fines prescribed in law appears low to be a credible deterrent.
12 – Exit from the Market and Resolution	PO	Although AFSA has no experience of exits in practice under the current legislation, insurance legislation sets out clear procedures for voluntary exit, provisional administration and mandatory liquidation. In relation to bankruptcy (where an insurer is assessed as insolvent), however, the Insurance Law has yet to be updated to reflect recent reform of general bankruptcy legislation and to specify how bankruptcy under that law would work. External expert advice is being taken. There is provision in law for policyholder preference.
13 – Reinsurance and Other Forms of Risk Transfer	O	AFSA has established laws, regulations and supervisory practices that result in effective management of insurer reinsurance programmes. This effectiveness and the quality of the Authority's supervision was proven during recent severe earthquakes, where the insurance industry performed well and fulfilled its obligations without incident.
14 – Valuation	LO	There is a comprehensive set of requirements, drawing on international accounting standards and including detailed provisions on valuation of technical provisions. The requirements include broadly market-consistent valuation of assets and provide for technical provisions to be calculated in a reliable, prudent and objective manner, with the input of judgment (and oversight of valuation) by an actuary authorised by AFSA. AFSA assesses valuation practices when reviewing the extensive regular reports submitted by insurers. However, the approach reflects the EU Solvency I directive. Major changes are planned, including requirements for a more fully economic valuation, which will align the framework more closely with the ICP.
15 – Investments	LO	There is a comprehensive set of requirements which combines detailed quantitative requirements (limits on types of investment, diversification requirements etc)

		with extensive qualitative requirements. In practice, the assets available to insurers are limited and investments are dominated by real estate, government securities and bank deposits. AFSA acknowledges the disadvantages of real estate, in terms of market valuation and illiquidity, as an asset backing insurers' technical and mathematical provisions, but argues that given limited alternatives (and with prudent regulatory requirements) it has a place in insurers' portfolios for the present, including as an effective hedge against inflation.
16 – Enterprise Risk Management for Solvency Purposes	PO	The law and regulations set out elements of a framework for effective ERM, requiring insurers to establish risk management systems with policies, procedures and limits to monitor, control and adjust their activities based on business risks. They must prepare and submit a risk evaluation report with many of the elements of the ICP's own risk and solvency assessment (ORSA) requirements, including stress testing. AFSA supervisors focus in practice on key risks of insurers, particularly underwriting risks but also earthquake and liquidity risks. Other elements of a full set of ERM requirements, including full requirements on insurers' risk appetite and quantification of risks, are lacking. Insurers' risk evaluation reports require further development and the process of supervisory review is not yet a core part of AFSA's supervisory approach.
17 – Capital Adequacy	LO	The capital requirements reflect the well established EU Solvency I framework. Their objectives and the bases on which they are determined are clear. Eligible capital resources are also clearly defined, although with wide scope in the regulations to include some relatively low-quality forms of capital. There are solvency control levels and while AFSA is not required to intervene, it may and does do so. AFSA considers the capital adequacy of insurance groups through supervision, although there are no group-wide capital requirements at present. Solvency I is not a total balance sheet approach and does not cover all risks and their aggregation explicitly (the requirement to meet 150% of the minimum margin implicitly but imperfectly captures some additional risk). AFSA is therefore planning to adopt elements of the EU Solvency II framework, although a detailed roadmap was approved by the Board of AFSA only in early 2023, after the main work on this assessment was completed.

18 – Intermediaries	O	<p>There are extensive requirements for the licensing, regulation and supervision of intermediaries, including requirements on education and professional qualifications and regular training. There are requirements on intermediary financial resources and governance, although there is scope for elaboration of the latter, which rely on general corporate law. AFSA collects data from intermediaries and has been resuming on-site supervision, including of banks, which play an important role in the distribution of life insurance.</p>
19 – Conduct of Business	LO	<p>There are extensive regulatory requirements and AFSA undertakes supervision, supported by expert resources, to assess practices of insurers and intermediaries, including thematic supervision to address such areas as claims handling. AFSA's extensive consumer protection work, including market surveillance, evaluation of new products, handling of complaints and regulating how MTPL claims are to be handled, enables it to intervene effectively in the interests of consumers where necessary.</p> <p>However, there are no explicit requirements for policies and processes on the fair treatment of customers as an integral part of business culture; on arrangements between insurers and intermediaries governing responsibilities on matters such as product promotion; or that product development takes into account the interests of different customers. Requirements to conduct an appropriate customer risk assessment apply only to brokers.</p>
20 – Public Disclosure	LO	<p>Required disclosures cover a wide range of financial and other information and are concentrated in the insurer's annual report, which by regulation and in practice is widely available. Disclosures are in practice largely presented in IFRS formats and related to the consolidated financial position of the insurer and group (limited information is available on the individual insurer). The additional required disclosures, on capital and liquidity adequacy, are limited to indicators, although they may be supplemented by information from the risk evaluation report. Disclosure requirements are therefore limited to the annual report and the report of the external auditor, although they may be sufficient for the currently small and simple (mainly non-life) insurance products.</p>

21 – Countering Fraud in Insurance	LO	Key requirements on insurance fraud are in place and AFSA takes into account the risk of fraud in its inspections of insurers and intermediaries, focusing on systems and controls. AFSA’s experience of fraud is limited in practice. The Authority regards fraud risks as low, partly reflecting the nature of the market and existing controls. Insurers reported that they view the risk as high and there is a need for AFSA to deepen its understanding and awareness of fraud risks.
22 – Anti-Money Laundering and Combating the Financing of Terrorism	O	AFSA has a risk-focused AML/CFT framework for supervision, has issued a regulation and guidance to the life insurance sector and cooperates and exchanges information with other authorities. It has strengthened its AML/CFT framework based on recommendations from the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and the Financial Action Task Force (FATF). AFSA conducts extensive supervision, both off-site and through inspections carried out by specialist staff. On-site work is often conducted jointly with the jurisdictional authority, the General Directorate for the Prevention of Money Laundering (GDPML), with which there is generally close cooperation.
23 – Group-wide Supervision	O	Current laws, regulations and supervisory practices are sufficient to meet the expectations of ICP 23, particularly given the simple legal entity organisation structures in the market. AFSA is reviewing changes that may need to be made related to group-wide supervision as it plans for the implementation of Solvency II in the future.
24 – Macroprudential Supervision	O	Although the size of the market and individual insurers does not warrant concerns from a systemic risk perspective, AFSA has established processes that put it in a good position to monitor the industry’s impact on the economy and the impact of various risks on the industry. The Authority collects extensive information that it uses to actively monitor and report on the industry, including the liquidity of the insurers. It is highly transparent about the market and its own supervisory practices.
25 – Supervisory Cooperation and Coordination	O	Although the insurance market is relatively small, insurance groups account for most of the gross premiums written. Accordingly, the Authority has taken appropriate actions to ensure proper supervision and regulation of insurance groups, including by establishing

		strong working relationships with other relevant regulators and supervisors.
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Table 2: Summary of observance levels

Total	24
Observed (O)	10
Largely Observed (LO)	12
Partly Observed (PO)	2
Not Observed (NO)	0

Table 3: Recommendations to improve observance levels of ICPs⁴

Insurance Core Principle	Recommendations
1 – Objectives, Powers and Responsibilities of the Supervisor	<p>It is recommended that:</p> <ul style="list-style-type: none"> • Primary legislation be amended to give AFSA an explicit objective of supporting financial stability; and • AFSA be given additional powers to undertake direct supervision of groups, including powers to set and enforce group-wide solvency and other requirements.
2 – Supervisor	<p>It is recommended that:</p> <ul style="list-style-type: none"> • Increased budgetary flexibility be considered by the authorities to enable AFSA (i) to set fee levels appropriate to its plans; and (ii) to decide its required level of reserves; • Regulations on conflicts of interest be strengthened with post-employment provisions applicable to staff (for example, requirements on how long after resignation staff may take up roles in the insurance sector); • AFSA develop its IT resources to ensure it remains able to efficiently and effectively capture, analyse and report on insurance sector financial information and manage its supervisory work; and • The ability of AFSA to enforce all types of intervention pending the completion of an appeal process be reviewed in the light of

⁴ Some of these steps reflect actions that are already in progress but are yet to be made fully operational.

	the outcome of the case being taken by AFSA to the Supreme Court at the time of the assessment.
3 – Information Sharing and Confidentiality Requirements	No recommendations.
4 – Licensing	It is recommended that AFSA complete its review of whether exemptions in Article 10 of the Insurance Law are framed too broadly or imprecisely and propose amendments to the law, if appropriate.
5 – Suitability of Persons	<p>To strengthen the requirements further, it is recommended that:</p> <ul style="list-style-type: none"> • Legislation be amended in future to include key persons in all four control functions listed in the ICP explicitly within the requirements; • Detailed provisions on suitability of key persons in compliance and risk management functions be introduced to add to the existing requirements for key persons in actuarial and internal audit functions; • The scope of the approval requirements be extended to capture senior management of companies adopting the unitary board system to align the approach to that applying to companies with a two-tier board system where management board members are all subject to approval; and • Insurers be explicitly required to demonstrate initially, and on an ongoing basis, the suitability of all persons covered by the requirements.
6 – Change of Control and Portfolio Transfers	No recommendations.
7 – Corporate Governance	Notwithstanding the limited risks presented by products currently available in the Albanian insurance market, it is recommended that board responsibilities in the Insurance Law be expanded to include a specific requirement to approve written remuneration policies for senior management and other employees whose actions may have a material impact on the risk exposure of the insurer that do not induce excessive or inappropriate risk-taking.
8 – Risk Management and Internal Controls	No recommendations.

9 – Supervisory Review and Reporting	<p>It is recommended that AFSA:</p> <ul style="list-style-type: none"> • Enhance its evaluation of the effectiveness of insurers' corporate governance frameworks through a qualitative approach; and • Enhance discussion with insurers on their risk profile, based on its risk matrix assessment (and taking into account insurers' own assessment of risk in their risk evaluation reports), in the course of supervisory feedback and communicate its findings and views on the risk profile to insurers more fully, focusing on delivering improvement to their risk measurement management.
10 – Preventive Measures, Corrective Measures and Sanctions	<p>It is recommended that in order to ensure sanctions have a deterrent effect, AFSA should review whether fines are effective at their current level and propose legislative change, if necessary.</p>
12 – Exit from the Market and Resolution	<p>It is recommended that AFSA:</p> <ul style="list-style-type: none"> • Identify the amendments required to the Insurance Law to ensure there are appropriate liquidation/bankruptcy arrangements specific to the insurance sector, as required in the general bankruptcy law, ensuring the continued protection of policyholders, and seek legislative change; and • Review, as part of this process, whether to seek additional powers for effective resolution of insurers (such as those set out in ICP 12.7), notwithstanding that existing powers appear adequate to the nature, scale and complexity of current insurers in the Albanian market.
13 – Reinsurance and Other Forms of Risk Transfer	<p>As the insurance market continues to develop, the Authority may want to consider minimum retention limits for some lines of business where retention would promote good risk management and market development, recognising that in other lines such as earthquake insurance, high levels of reinsurance are likely to remain prudent.</p>
14 – Valuation	<p>It is recommended that AFSA develop revised valuation standards in conjunction with its proposed introduction of risk-based solvency standards. These standards should provide, amongst other requirements, for a detailed framework regarding recognition and de-recognition of assets and liabilities, increased clarity on consistency of valuation of assets and liabilities over time and requirements for insurers to carry out economic valuation.</p> <p>It is also recommended that a timetable be established for implementation of relevant parts of the EU Solvency II requirements, the preferred approach of the authorities, taking into</p>

	account the changes to be introduced through the envisaged mandatory implementation of IFRS 17 in Albania. ⁵
15 – Investments	It is recommended that, in addition to continuing to enforce existing limits on real estate investment, AFSA closely monitor the development of alternative assets, seeking opportunities to incentivise assets which present less challenge in terms of price discovery and illiquidity. AFSA should also further consider what can be done, with other authorities, to stimulate the supply of long-term investable assets to help support the development of savings-related life insurance in particular.
16 – Enterprise Risk Management for Solvency Purposes	<p>It is recommended that the Authority:</p> <ul style="list-style-type: none"> • Develop new regulations to implement the full range of ERM requirements covered by the ICP, including requirements for a risk appetite statement and related limits on risks and capital management requirements; • Apply the key requirements, including ORSA, at the group level; and • Set out in more detail the requirements on insurers in respect of recovery planning. <p>AFSA should increase its capacity to assess insurers' ERM practices and risk evaluation reports/ORSA. (It is likely to be appropriate to address the issues with ERM in the context of plans to implement all or part of the EU Solvency II framework).</p>
17 – Capital Adequacy	It is recommended that AFSA develop revised, more risk-based solvency requirements. These should provide, amongst other points, for a full balance sheet approach covering all material risks explicitly, more focus on highest-quality capital resources (a limit on the use of “additional capital”) and reduced discretion to intervene to enforce solvency control levels. AFSA should consider strengthening group-wide capital consistent with the development of its overall approach (currently an indirect one) to group-wide supervision (see ICP 14 recommendations on the need for an implementation timetable).
18 – Intermediaries	It is recommended that AFSA review its requirements on intermediary governance and develop them further, including in the areas of the responsibilities of boards, senior management, compliance, etc.

⁵ The assessors have been informed since the completion of the on-site assessment work in Albania that AFSA has developed a high-level roadmap to implement Solvency II and that the authorities have decided to postpone implementation of IFRS 17 for a number of years.

19 – Conduct of Business	It is recommended that AFSA strengthen its regulatory approach by developing requirements in the areas of business culture, arrangements between insurers and intermediaries regarding their respective responsibilities for product development and customer risk assessment, applying them to both insurers and intermediaries, as appropriate.
20 – Public Disclosure	It is recommended that AFSA focus on increasing disclosures about financial strength of insurers and taking measures to support understanding of the numbers. This would entail requiring insurers to provide more details about capital adequacy, including changes in capital requirements over the period; and taking steps to improve public understanding of the solvency margin and potentially also the liquidity ratio.
21 – Countering Fraud in Insurance	<p>It is recommended that:</p> <ul style="list-style-type: none"> • AFSA deepen its understanding and awareness of fraud risks including fraud typologies and fraud related to different insurance products; • AFSA review the effectiveness of measures for prevention and detection as well as reporting of fraud to the Authority; and • In order to gain more insights into types of fraud and to enhance fraud detection and prevention in the insurance sector and facilitate communication with the sector, AFSA consider appointing an internal contact person on fraud issues.
22 – Anti-Money Laundering and Combating the Financing of Terrorism	No recommendations.
23 – Group-wide Supervision	No recommendations.
24 – Macroprudential Supervision	No recommendations.
25 – Supervisory Cooperation and Coordination	No recommendations.

5 Detailed Principle by Principle assessment

Table 4: Detailed assessment of observance of the ICPs

ICP 1	Objectives, Powers and Responsibilities of the Supervisor Each authority responsible for insurance supervision, its powers and the objectives of insurance supervision are clearly defined.
Description	<p>Supervisory authority</p> <p>AFSA is clearly identified in primary legislation as the authority responsible to the Albanian Parliament for insurance regulation and supervision, including licensing and insurance sector market conduct.</p> <p>Article 2 of Law No 9572 of 3 July 2006 “On the Financial Supervisory Authority” (the “AFSA Law”) sets out the scope of the Authority’s supervisory activities, which include the “insurance market, licensed entities subject to all activities of insurance such as insurance, re-insurance, intermediary and other operations deriving from these activities”. AFSA also supervises the capital markets, the voluntary pension market and other non-bank financial activities.</p> <p>In addition, Article 3 of Law No 52 of 22 May 2014 “On the activity of insurance and reinsurance” (the “Insurance Law”), which sets out the framework of insurance regulation, identifies AFSA as the responsible authority for supervising the implementation of the law.</p> <p>In relation to regulation and supervision of anti-money laundering and combating the financing of terrorism (AML/CFT), the GDPML, a government body, has responsibilities relating to insurance as well as other sectors of the economy (see ICP 22).</p> <p>Objectives</p> <p>Article 12 of the AFSA Law specifies the objectives of the Authority (in respect of all its areas of activity, including insurance) as: (i) to protect the interests of investors and insured persons; (ii) to promote sustainability and enhance transparency and credibility of the supervised financial markets; and (iii) to ensure enforcement of the law.</p> <p>In addition, Article 13 of the AFSA Law establishes that the aim of the Authority shall be to regulate the activity of the supervised subjects and to provide jurisdictional supervision over the insurance and other markets. “Supervised subjects” include insurers and intermediaries, actuaries and claims adjusters.</p> <p>Article 1 of the Insurance Law establishes that the objective of the law is that “the insurance market operates in a safe, stable and transparent environment, where consumers’ rights and interests are protected”.</p> <p>There is no explicit objective in the laws relating to contributing to financial stability (ICP 1.2). In practice AFSA does contribute to financial stability work in Albania through its membership of the consultative group on financial stability – FSAG. FSAG was established by Article 30 of the AFSA Law. Its members are</p>

the Minister of Finance and the Governor of the Bank of Albania as well as the Chair of the AFSA Board. It also seeks to identify risks to the stability of the sector (for example, the risks arising from the Covid-19 pandemic) and to take action (for example, “thematic” supervisory work and a temporary prohibition on insurers paying dividends; see ICP 24).

Powers

The AFSA and Insurance Laws give the Authority extensive powers (many of them vested in the Board of AFSA) to carry out insurance sector supervision and regulation in pursuit of its statutory objectives, including powers to:

- Approve, refuse, suspend or revoke licences in respect of both insurers and intermediaries (Articles 13 and 14 of the AFSA Law and Articles 28 to 39 of the Insurance Law; see ICP 4); and to set fit and proper requirements for shareholders, directors, etc (Article 17 of the Insurance Law; see ICP 5);
- Supervise the activities of insurers and intermediaries, including requiring reports etc (Article 14 of the AFSA Law and Articles 129 to 139 of the Insurance Law);
- Issue regulations, rules, guidelines, manuals or methodologies (Articles 3 and 14 of the AFSA Law);
- Set requirements on governance, risk management, internal controls, etc (Articles 18 to 27 of the Insurance Law; see ICPs 7–8); and on insurer solvency (Articles 75 to 81 of the Insurance Law);
- Approve transfers of insurance portfolios (Articles 45 to 47 of the Insurance Law; see ICP 6) and mergers and divisions of insurers (Article 56 of the Insurance Law);
- Approve auditors of insurers and intermediaries and approve accounting standards and financial reporting forms (Articles 3 and 14 of the AFSA Law); and
- Require corrective measures (Articles 149 to 154 of the Insurance Law); revoke a licence (Articles 155 to 160); initiate administration (Articles 161 to 168); and impose financial penalties on insurers and intermediaries for violations of laws, regulations, etc (Articles 245 to 259).

Powers to supervise insurance groups are set out in Articles 140 to 148 of the Insurance Law (powers to exercise “complementary supervision over insurance groups”). AFSA has powers to require companies related to the insurer subject to complementary supervision to provide access to information unless it is available from the insurer directly, for example (Article 143 of the Insurance Law). It may collect information on intragroup transactions (Article 144, paragraph 1) and may perform on-site verification of information at group companies (Article 144, paragraph 8).

In relation to solvency requirements, AFSA can and does use indirect methods (based on assessing the members of groups, which are limited in scope at present), but lacks powers to set and enforce group-wide requirements, according to methodologies determined by the Authority.

	<p>The Authority is empowered to conclude agreements with a wide range of other domestic and foreign financial supervisory authorities, including AML/CFT authorities, to cooperate or exchange information. It may share a wide range of information, including on supervision of entities, in connection with the licensing of new entities and on “natural persons holding positions of responsibility” in those entities (Article 18/1 of the AFSA Law and Article 236 of the Insurance Law). They are empowered to carry out joint inspections with such other bodies or on their behalf (Article 18/1 of the AFSA Law).</p> <p>Changes in the legislative framework</p> <p>AFSA may initiate or propose changes to primary legislation through the Council of Ministers. AFSA has to submit proposals to the Ministry of Finance, which proposes new legislation to Parliament via the Council of Ministers.</p> <p>AFSA has used this power in practice, for example working with the Ministry of Finance on the development of the 2021 revised law on compulsory motor insurance (Law No 32 of 16 March 2021 “On compulsory insurance in the transport sector”).</p> <p>With respect to other forms of legislation, guidelines, etc, AFSA has its own powers to review and reissue insurance regulations and guidelines in key areas of insurance supervision. It issues new regulations regularly, after consultation.</p>
Assessment	Largely Observed
Comments	<p>The revised legislative framework introduced in 2014 gave AFSA, as the clearly identified insurance sector supervisory authority, wide powers and largely appropriate objectives to regulate all aspects of the sector.</p> <p>Notwithstanding the limited risks to stability currently posed to or by the insurance sector, in the future AFSA would benefit from a more explicit objective to support financial stability (ICP 1.2). This would underpin its existing cooperation with other authorities on financial stability issues (including its contribution to the FSAG) as well as the future development of its crisis management and macroprudential supervisory work. Financial stability is likely to be an increasing focus as the insurance sector develops in the medium term.</p> <p>AFSA’s powers to undertake group-wide supervision are appropriate to the relatively simple groups for which it has responsibility at present, but should be reviewed when it develops a direct supervision approach to groups (as it is planning), which should also include supervision of financial conglomerates.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> • Primary legislation be amended to give AFSA an explicit objective of supporting financial stability; and • AFSA be given additional powers to undertake direct supervision of groups, including powers to set and enforce group-wide solvency and other requirements.

ICP 2	Supervisor The supervisor is operationally independent, accountable and transparent in the exercise of its responsibilities and powers, and has adequate resources to discharge its responsibilities.
Description	<p><i>Independence and accountability</i></p> <p>AFSA is established under Article 3 of the AFSA Law as a public legal institution, independent of government and accountable to Parliament. It is empowered to set its own budget and determine its organisation and use of resources.</p> <p>AFSA's governing body, the board of directors, is responsible for taking decisions on regulatory and supervisory matters and on the internal organisation and affairs of the Authority.</p> <p>Article 3 of the AFSA Law states that there shall be no intervention in AFSA's activity that may affect its independence. Consistent with this, there are no provisions in the AFSA Law or Insurance Law for decisions on regulatory or supervisory issues to be referred to the government or for government representation on AFSA's Board. Most interaction with the Ministry of Finance relates to initiatives requiring new legislation, for example the 2021 revision to the compulsory motor insurance legislation and the development of government policy in relation to the risk of further significant earthquakes.</p> <p>AFSA makes regular reports to Parliament, including the submission of an annual report, a declaration of its annual financial position and a report on budget expenditure. Parliament reviews AFSA's performance and objectives based on its annual report and issues a resolution with comments and recommendations (it can and does carry out further reviews during the course of the year and there is regular contact between AFSA and the Parliament's staff). AFSA takes account of Parliament's views, for example in developing its multi-year strategy (see below), but is not required in law or practice to adopt its recommendations.</p> <p>There are no industry representatives on the Board of AFSA. Various provisions in law aim to protect AFSA from undue industry influence:</p> <ul style="list-style-type: none"> • In the three years prior to appointment, board members may not have served as partners, shareholders, or members of the governing bodies of regulated legal entities; or have family ties with such persons; or have been employees in the regulated legal entities (Article 5 of the AFSA Law). In addition, for the three years following leaving the board, members may not be employed by, or be involved in paid services with, any regulated legal entities (Article 7); and • There are provisions on conflicts of interest applying to board members and staff covering declaration of assets on appointment, recusal from discussions (board members) and supervisory work (staff) in case of a conflict, with provisions for dismissal in case of non-compliance (Article 22 of the AFSA Law).

AFSA Regulations No 131 of 26 November 2015 “On the Code of Conduct” and No 227 of 19 December 2019 “On conflict of interest” set out detailed requirements on staff ethics, conflicts of interest, etc. There are extensive provisions on the disclosure of staff interests, but no post-employment requirements such as those which apply to board members. AFSA’s Human Resources Department monitors compliance with the requirements, including disclosures by staff of their interests.

Financing

AFSA raises funds on its own account, mainly through charging fees to supervised entities, and there is no government funding (Article 26 of the AFSA Law). It also retains income from financial penalties and its investments.

Fees are set for insurers based broadly on the level of their premium income at an amount fixed in Article 27 of the AFSA Law (1.5%). AFSA also charges application fees and can charge fees for special projects benefiting particular supervised entities. While the basis for fees is fixed in law, and fee income from insurers fell in line with reduced premium income during the Covid-19 pandemic, total income from fees and other sources have been sufficient to cover AFSA’s expenses in recent years.

AFSA manages its own budgeting process. There are no requirements for government approval of its budget, including expenditure. It maintains a reserve fund, capped at six months’ expenditure to cover differences between revenues and expenses in any year (Article 26 of the AFSA Law). Amounts in excess of the cap must be used to reduce supervised entities’ fees (Article 27).

Legal protection

AFSA and its staff have legal protection against lawsuits for actions taken in good faith while discharging their duties, provided they have not acted illegally (Article 18 of the AFSA Law). The Law also requires the Authority to compensate board members and staff for any legal costs incurred in the defence against any legal action resulting from the performance of their functions or tasks under the law, etc.

AFSA has no experience of having to defend such legal actions in practice.

Governing body appointments, etc

AFSA’s Board comprises five members, including a Chairperson, General Executive Director, Deputy Executive Director and two other members (Article 4 of the AFSA Law). The Parliament appoints board members based on proposals from various institutions, including the Parliamentary Committee on Economy and Finance (Chairperson), the Council of Ministers (General Executive Director), the Ministry of Finance (Deputy Executive Director) and the Supervisory Board of the Bank of Albania (Articles 5–8). Board members serve five-year terms, starting on appointment (ie they are not co-terminous).

The only reasons for dismissal of a board member are set out in the AFSA Law and include physical or professional incapacity and negligence. Any of the nominating institutions may propose the dismissal of a board member to Parliament, and they must give their reasons as well as evidence. Parliament

makes the decision whether to dismiss. The reasons for the removal are subject to public disclosure by Parliament (Article 8 of the AFSA Law).

In practice, one board member (a General Executive Director) has been dismissed in recent years. The dismissal was decided by the Parliament, as required, and reasons were published in terms of the AFSA Law.

Internal governance, processes, etc

The Board of AFSA, as its governing body, has responsibility for establishing internal processes and controls and for overseeing their effectiveness. Day-to-day administration is the responsibility of the General Executive Director and, in their absence, the Deputy Executive Director.

Decision-making authority for all regulatory and supervisory matters and for organisational and other internal issues is concentrated in the Board of AFSA. There is no delegation of decisions to staff or internal committees. Internal working groups are, however, regularly formed to prepare decisions for the board, for example on licence applications.

AFSA's Board Regulation No 130 of 31 August 2017 "On organization, functioning and job description" sets out details of internal organisation, including departmental responsibilities and the roles of key individuals. The structure was, however, changed in 2020 (see AFSA organisation chart included in the Annex – Institutional and market overview), concentrating responsibility for certain functions such as licensing and AML/CFT work in units covering all sectors regulated by AFSA, although there are insurance sector specialists within those units.

AFSA's organisation is reviewed periodically on the initiative of the board. The board secretariat is responsible for managing board workflow and coordinating updates to the organisation, internal processes, etc.

The board appoints the Head of the Internal Audit Unit, who reports directly to the board on audit matters, and approves the external auditor of the Authority.

AFSA's strategy is approved by the board (the latest is from 2018 – "The development of AFSA and the markets under supervision", covering priorities, action plans and the strategic focus for the medium term). A new strategy, starting from 2023, was under development at the time of the assessment.

Application of requirements and appeals

AFSA has extensive internal procedures, including supervisory process manuals, governing its approach to regulation and supervision. Requirements are applied in the same way to all supervised entities, taking into account the Authority's risk-based approach and consideration of the need for proportionality. The Authority has no powers to waive or modify requirements in respect of individual insurers or intermediaries.

Any decision taken by the Authority may be appealed in the courts (Article 14 of the AFSA Law).

With respect to licensing decisions, rights of appeal are set out separately for each type of legal entity in the Insurance Law. Appeal procedures are governed

by Law No 49 of 2012 “On the organization and functioning of administrative courts and the judicial review of administrative disputes”. Insurers may, for example, bring appeals against refusal of preliminary licensing decisions and revocation (Articles 34, 159, 209, 211 of the Insurance Law).

With respect to fines that may be imposed under Article 246 of the Insurance Law, provisions for appeals in the law on general procedures for administrative contraventions (Law No 10279 of 20 May 2010 “On administrative contraventions”) apply to the Authority (Article 259 of the Insurance Law). Sanctions continue to be in force until the final court decision (Article 14, paragraph 22 and Article 31 of the AFSA Law).

AFSA decisions have been subject to appeal in practice (see table below) and a small number of appeals have been upheld by the court. In one of these cases, which concerns the rules for calculation of available capital for the solvency margin requirements, the Authority has appealed the court decision and is now taking the case to the Supreme Court. In this case, the Authority is unable to enforce the requirements pending the final decision, putting policyholders at one company (and potentially others) at risk.

Table 5: Appeals against AFSA decisions

Year	Number of board decisions on administrative and corrective measures	Number of appeals to court	Claims rejected	Claims admitted	Further appeal (by supervised entity)
2019	32	4	4	0	2
2020	26	1	0	1	0
2021	26	3	1	2	1

Source: AFSA (data for insurers, intermediaries and claims adjusters)

Protection of confidential information

Confidential information is defined in Article 24 of the AFSA Law, which requires that AFSA not disclose such information. Penalties are provided for in case of non-compliance. Any information received by AFSA, and any information provided to other supervisory authorities, shall be treated as confidential and used only for supervision purposes. AFSA and other supervisory authorities shall consult with the party providing the information before taking further action (Article 18/1 of the AFSA Law and Article 236 of the Insurance Law).

Article 25 of the AFSA Law provides for confidentiality to expire after three years, although exceptions apply, and the deadline may be extended by a board decision. Article 18/1 of the AFSA Law has no such limit on confidentiality.

More detailed provisions are set out in AFSA Regulation No 114 of 11 September 2008 “On the confidentiality of the Financial Supervisory Authority”.

Article 8.6 of Regulation No 114 of 2008 provides that information received from foreign authorities cannot be shared with third parties without prior consent being granted in writing by the foreign authority.

Transparency

AFSA uses its website to make public a wide range of information, including relevant laws and regulations, its own decisions and initiatives and developments in the insurance markets. It publishes monthly, quarterly and annual reports with data on premiums, claims, expenses, technical provisions, investments and capital, but not solvency margins (see ICP 20). The website also makes available full lists (registries) of licensed insurers, intermediaries, claims adjusters and certified actuaries.

Board agendas and decisions are published (where not confidential).

AFSA consults on new regulatory requirements. Draft new primary legislation is published on a government website for consultation, as required by law. AFSA consults on draft laws (via links on its website to government sites) and draft regulations with stakeholders. In the case of an urgent need, the Authority can and does issue new requirements without consultation. It did so, for example, during the Covid-19 pandemic.

Adequacy of resources

The Insurance Market Supervision Department has a budget for 15 staff, organised into the Insurance Market Supervision Directorate (11, including the Director) and the Financial Modelling and Risk Management Directorate (four). Roles are for a mixture of junior and senior staff, with provision for three actuaries in the Financial Modelling and Risk Management Directorate (including the Director). There is one qualified accountant and two more in training. Others have backgrounds in finance, mathematics, risk management, insurance and law.

More members of staff are working on insurance sector regulation and supervision in other functions (licensing, consumer protection, AML/CFT, etc) and when these are included, the total (full-time equivalent) staff involved in insurance sector work is estimated at 38.

AFSA reviews staff numbers as part of its annual budgeting process, taking into account workload and developments in the insurance market. It sets staffing terms and conditions, including salaries, itself without reference to civil service pay levels. AFSA benefits from an experienced staff with no recent losses of staff other than through internal transfers due to reorganisation. It supports professional training and has an annual training plan covering education and training and technical assistance from organisations such as the World Bank.

The Authority maintains its own IT tools and services, including an electronic reporting and database system to handle the large volume of reports submitted by insurers and intermediaries. The system does not meet all AFSA's needs. Hard copies of forms showing signature are still required. Supervisors rely extensively on spreadsheets. Options for updating the system, which despite AFSA's status as a public legal institution independent of government have to

	<p>be included within government procurement requirements, are being considered with support from international agencies.</p> <p>Outsourcing, etc</p> <p>To date AFSA has not made use of external contractors or otherwise outsourced supervisory work. It may, however, hire or contract the services of outside experts when necessary, in which case they would be subject to the same confidentiality rules (provided in their contracts) and professional standards as staff (Article 14, paragraph 17 of the AFSA Law).</p>
Assessment	Largely Observed
Comments	<p>The revised legislative framework introduced in 2014 has given AFSA a high degree of independence from government in law, which is matched by independence in practice, balanced by accountability to the public and to Parliament. There are comprehensive provisions on legal protection of AFSA and its staff and confidentiality of supervisory information. AFSA determines its own organisation, budget and staff remuneration, although the level of fees charged to supervised entities, the source of its funding, are fixed in law. Staff and financial resources appear adequate, taking into account the limited scale and complexity of the insurance sector. AFSA's decisions are subject to appeal in accordance with general administrative law, which provides for access to the courts.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> • Increased budgetary flexibility be considered by the authorities to enable AFSA (i) to set fee levels appropriate to its plans; and (ii) to decide its required level of reserves; • Regulations on conflicts of interest be strengthened with post-employment provisions applicable to staff (for example, requirements on how long after resignation staff may take up roles in the insurance sector); • AFSA develop its IT resources to ensure it remains able to efficiently and effectively capture, analyse and report on insurance sector financial information and manage its supervisory work; and • The ability of AFSA to enforce all types of intervention pending the completion of an appeal process be reviewed in the light of the outcome of the case being taken by AFSA to the Supreme Court at the time of the assessment.

ICP 3	<p>Information Sharing and Confidentiality Requirements</p> <p>The supervisor obtains information from, and shares information with, relevant supervisors and authorities subject to confidentiality, purpose and use requirements.</p>
Description	<p><i>Information-sharing agreements</i></p> <p>As noted under ICP 1, the Authority may conclude agreements or memoranda of cooperation with other domestic or foreign financial supervisory authorities, etc, including for sharing a wide range of information (Article 18/1 of the AFSA Law and Article 236 of the Insurance Law).</p> <ul style="list-style-type: none"> • It has signed information exchange agreements with the Bank of Albania, the Ministry of Finance, the Competition Authority, the Deposit Insurance Agency and various government agencies. It has an agreement with the Public Oversight Board (POB), the audit oversight body in Albania, for exchange of information about auditors. • The Authority signed the MMoU with the IAIS in 2022 (the basis for cooperation and exchange of information between signing authorities on the supervision of insurers when cross-border aspects arise). The IAIS MMoU commits signatories to requesting and providing information on insurers and intermediaries supervised by signatories having a legitimate interest. • AFSA has also signed bilateral agreements with foreign supervisors, including the home supervisory authority of the foreign-owned insurers licensed by AFSA (all based in Austria) and with one foreign authority to provide for sharing of information within the framework of a college of supervisors. <p>Although additional agreements are under development, AFSA considers that the combination of bilateral MoUs and the IAIS MMoU provide the framework of agreements appropriate to its current responsibilities.</p> <p>AFSA does not currently publish MoUs on its website, but it intends to do so.</p> <p>The Authority participates in supervisory colleges led by the Austrian Financial Market Authority (FMA) for Austrian insurance groups (annually) and, as home supervisor, leads supervisory colleges for Albanian groups (quarterly; see ICP 25).</p> <p><i>Information requested and received by AFSA</i></p> <p>AFSA regularly requests information from foreign authorities in connection with licensing and supervisory decisions, including when it is approving new board members of an insurer (see ICP 5). There is an internal process for insurance supervisors to generate such requests and transmit them to other authorities, with Legal Department input as necessary.</p> <p>AFSA Regulation No 114 of 11 September 2008 “On the confidentiality of the Financial Supervisory Authority” sets out detailed requirements. Any information</p>

	<p>received from foreign authorities cannot be shared with third parties without the written prior consent of the foreign authority which provided the information.</p> <p>If prior consent is not granted, AFSA has the obligation to use all legal means or any other means to prevent the disclosure of the information (Article 8.6 of Regulation No 114 of 2008). AFSA does not have experience in practice of being required to disclose confidential information, for example by a court decision.</p> <p>Information requested of and provided by AFSA</p> <p>Any information that the Authority provides to other supervisory authorities shall be treated as confidential and used only for supervision purposes (Article 236 of the Insurance Law). Regulation No 114 of 2008 sets out detailed requirements. When AFSA receives a request for information, it must take all the necessary measures to meet the request. If it cannot immediately reply, it has to notify the requesting authority with reasons. The time limit for the reply is within 10 days following the receipt of the request (Article 8.2 of Regulation No 114 of 2008).</p> <p>Regulation No 114 of 2008 also requires that a request to AFSA for information include, amongst other details, the reasons for which the information is required (Article 8.5).</p> <p>In practice, AFSA regularly receives and responds to requests for information in connection with licensing, supervision and enforcement work. There is an internal process for AFSA to process requests and ensure information is shared, in accordance with the requirements of the legislation, with Legal Department input as necessary.</p> <p>AFSA is willing to respond and has in practice responded to requests from foreign agencies with which it has no bilateral agreement, subject to legislative requirements on confidentiality and purpose being met. In addition to sharing with domestic and foreign supervisory authorities, it has shared information on auditors of insurers with the POB.</p> <p>Article 18/1 of the AFSA Law provides for the Authority to conduct investigations on behalf of foreign supervisory agencies at their request. In practice, AFSA has, for example, undertaken on-site supervisory work on issues requested by the home supervisor of foreign-owned insurers. AFSA's practice is to share reports of examinations with home supervisors.</p>
Assessment	Observed
Comments	AFSA exchanges confidential information with a wide range of domestic and foreign authorities in accordance with detailed provisions regarding the protection of confidentiality and purpose of the information requests. It has a wide network of exchange agreements and has been a signatory of the IAIS MMoU since March 2022.

ICP 4	Licensing A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.
Description	<p><i>Licensing requirements</i></p> <p>The Insurance Law defines insurance activities which are subject to licensing (the “drafting, offering, conclusion and performance of life and non-life insurance contracts by an insurance company” – Article 4, paragraph 49 of the Insurance Law). An insurer is defined as an insurance company underwriting a risk by means of an insurance contract (paragraph 41). Only after a company has been granted a licence by AFSA may it start to carry out insurance activity (Article 29 of the Insurance Law).</p> <p>Insurers may engage in only those classes of insurance activity set out in their licence. They may not undertake other types of commercial activity. Insurers must provide only life or non-life insurance and not both (health insurance is primarily a non-life activity, but may be provided by life insurers where linked to life insurance contracts).</p> <p>A reinsurance licence may be issued for the classes of life, non-life or both life and non-life assurance. There is no specialist reinsurer licensed in Albania at present. Insurers may also carry out reinsurance activity if licensed to do so by AFSA (Article 6 of the Insurance Law). There is one insurer so licensed at present.</p> <p>There are some exemptions from licensing requirements. Article 10, paragraph 3 of the Insurance Law exempts the insurance of risks related to maritime and air transport, reinsurance of foreign investment, insurance of persons not residing in the Republic of Albania, or otherwise provided in international agreements. The objective is to ensure availability of insurance for risks likely to be outside the capacity of Albanian insurers as well as access for Albanian insurers to international reinsurance providers. AFSA is reviewing whether the exemption may be framed too broadly or imprecisely, although it is not aware of any abuse.</p> <p>The Authority can impose a fine for carrying out insurance activities without a licence or with a licence that does not include the activities being undertaken (Articles 28–29 and Article 246, paragraph 1 of the Insurance Law).</p> <p>The Insurance Law requires that insurers establish only as joint-stock companies with the head office located in Albania (there is no provision for mutual companies as a legal form). The law provides for foreign insurers to operate via branches or, if from an EU member country, directly on a cross-border basis (Article 10, paragraph 1 of the Insurance Law). However, there is also a provision that all relevant provisions of the Insurance Law apply to foreign insurer branches as they do to domestic insurers (Article 42, paragraph 7). In practice, all insurers operate as legal entities incorporated in Albania.</p>

	<p>An insurer from a foreign country may open a representative office in Albania upon AFSA's approval (Article 44 of the Insurance Law).</p> <p>AFSA's Board is responsible for licensing decisions. The Licensing Directorate is the unit within AFSA responsible for processing licence applications within legal deadlines. The unit works with supervision staff and the Legal Department on new insurer applications in preparation for decisions by the Board of AFSA.</p> <p><i>Licence applications</i></p> <p>Article 29 of the Insurance Law requires a two-part process for licensing: (a) preliminary approval and (b) granting of licence.</p> <p>Licensing requirements and procedures are set out in the Insurance Law (Articles 30–44). Applicants must supply a wide range of information (Article 30) and satisfy the Authority as a condition of preliminary approval (Article 33) on:</p> <ul style="list-style-type: none"> • The business plan, which should outline the objectives of the company for at least the first three years of activity; • When the applicant is part of a group, whether the corporate and group structure enable appropriate supervision. In the case of foreign insurance groups or groups with an Albanian parent, exchange of information between the relevant supervisors and the allocation of responsibilities amongst those authorities must be guaranteed (Article 50 of the Insurance Law); • Whether the qualifying shareholders, members of the board of directors or supervisory board, managing director, members of the management, ultimate controllers and key persons in control functions satisfy fit and proper criteria requirements; there are also requirements on conflicts of interest; • The appropriateness of the organisational structure, the internal audit and risk management function, internal controls, and IT system; • The staffing arrangements including the actuary (Article 223 of the Insurance Law requires that before starting activity an insurer shall appoint an authorised actuary and enable that actuary to perform the tasks set out in the law); and • Whether initial capital is equal to the guarantee fund (see ICP 17) and an additional fund to cover costs of establishment, etc of no less than 5% of the initial capital. AFSA also assesses the applicant's ability to meet minimum solvency margin requirements on an ongoing basis in the context of its review of the business plan. There are restrictions on sources of capital and applicants must satisfy AFSA on actual sources. <p><i>Timelines and scope of licence</i></p> <p>AFSA must either grant or refuse an application (preliminary approval) within four months and inform the insurer in writing of its decision (Article 32 of the Insurance Law). In case of an application to extend a licensed insurer's scope of activity, the notification period is two months. AFSA may extend the deadline if it finds deficiencies in the documentation, or if it otherwise deems it necessary.</p>
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	<p>The extension may not exceed one month and in all cases a licensing application procedure should not be longer than four months.</p> <p>The final licensing decision follows after the applicant has met all requirements, including submission of its approval under company law, lists of directors as appointed, etc (Article 35 of the Insurance Law). AFSA must make the decision on the licensing application within two months from submission of the documents. Under Article 35 of the Insurance Law, if an insurer does not meet all the requirements provided in the law within six months from the preliminary approval decision date, AFSA shall refuse to grant the licence and revoke its decision for granting preliminary approval.</p> <p>Licences are issued for one or more particular class of insurance in accordance with Annex I, Section A (non-life insurance classes) or Section B (life insurance classes) of the Insurance Law. A licence issued on a class shall also be valid for the coverage of ancillary risks under another class if the conditions in Article 6 of the Insurance Law are met (they must be related to the main risk, related to the subject of the main risk, and covered by the same insurance contract).</p> <p>AFSA has limited recent experience of licence applications. In the period since the start of 2019, it has granted only one new licence, for a life insurer that is a subsidiary of an existing non-life insurer. It has also rejected the applications of one domestic and one foreign-owned applicant.</p> <p><i>Lists of insurers, etc</i></p> <p>Article 219 of the Insurance Law requires AFSA to keep a public register of licensed agent companies, licensed brokerage companies, insurance agents and insurance brokers, including information on the approved or licensed persons of those companies. Article 29 of the AFSA Law requires AFSA to keep open records for the public regarding insurers, insurance agents, etc. Actual lists are kept on AFSA's website.</p> <p><i>Procedures for foreign insurers</i></p> <p>Foreign applicant insurers must submit a copy of the licence granted in the home country with financial statements of the last three years and evidence of approval from the home supervisor to expand its operations to Albania. There is no explicit requirement for AFSA to consult with other supervisors, but this is observed in practice (See ICP 3).</p> <p>The AFSA Law (Article 18/1) includes, amongst other types of information to be shared, information on licensing.</p>
Assessment	Observed
Comments	The licensing framework in the Insurance Law sets out appropriate requirements and a process for granting licences as well as providing for action to be taken against unlicensed activity. New applications are rare, but AFSA has used its powers both to grant and to refuse applications in recent years.

	It is recommended that AFSA complete its review of whether exemptions in Article 10 of the Insurance Law are framed too broadly or imprecisely and propose amendments to the law, if appropriate.
ICP 5	<p>Suitability of Persons</p> <p>The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.</p>
Description	<p><i>Suitability requirements</i></p> <p>Suitability requirements and the related AFSA powers are set out in the Insurance Law (Articles 17, 20–21 and 24–25) and AFSA Regulation No 137 of 21 December 2015 “On the procedure, terms and required/additional documentation for the approval of the appointment and reappointment of the members of the board of directors/supervisory board, managing director/members of the management board of the insurance company”.</p> <p>There are also requirements on:</p> <ul style="list-style-type: none"> • Authorised actuaries in AFSA Regulations No 67 of 27 July 2009 “On licensing the authorised actuaries of insurance companies”, No 37 of 27 March 2019 “On the renewal of the license of the authorised actuary” and No 198 of 2020 “On professional qualification and continuing education”; and • Internal (and external) auditors in AFSA Regulation No 153 of 23 December 2014 “On the internal audit activity and the audit committee in an insurance company”. <p>Scope</p> <p>Article 17 of the Insurance Law identifies the persons who are expected to meet suitability requirements: qualifying shareholders, members of the board of directors (or, for companies with a two-tier board system – see ICP 17 – members of the supervisory board), the managing director or (two-tier boards) members of the management board, ultimate controllers (any person exercising any influence on a licensee, either directly or indirectly through a third party) and key functionaries of the insurer (defined as a department or directorate director, an actuary or a head of the internal audit unit of an insurer).</p> <p>Key persons in control functions are not explicitly covered by the suitability requirements except for the head of internal audit. However, AFSA interprets the definition of key functionary to include such persons, including heads of risk management, compliance and actuarial (who will also be covered in practice as an authorised actuary). The Authority expects insurers to identify all staff covered by the scope of the requirements and may check during on-site work whether they have done so in practice (see, however, ICP 8 on the requirements for control functions).</p> <p>Board members and managing directors (unitary boards) of insurers (but not other key persons) may be appointed only after they have been approved by AFSA (Article 21 of the Insurance Law). Regulation No 137 of 2015 sets out</p>

AFSA's procedures, including a requirement to decide on approval within 30 days from the date of notification of the Authority. AFSA's practice is to interview candidates for these roles and to discuss not only their qualifications and integrity, etc but also their likely approach to undertaking the role. AFSA rejects applications for approval in practice.

As noted, in the case of a unitary board, only the managing director and not other members of senior management are subject to the Article 21 approval requirements (and detailed suitability requirements for board members, etc in Article 20 of the Insurance Law and Regulation No 137 of 2015 – see below). However, all senior managers are captured by the definition of (and requirements applying to) key functionaries.

With respect to actuaries, Articles 222–25 of the Insurance Law set out a regulatory framework, giving AFSA power to set requirements on qualifications and training. Insurers must appoint an authorised actuary (Article 223) and enable that actuary to perform the tasks set out in the law (Article 225). Only authorised actuaries may provide actuarial services (Article 222). Authorised actuaries may provide services for more than one company.

Fit and proper requirements

All persons covered by Article 17 of the Insurance Law are required to be fit and proper to hold their actual or proposed new position.

AFSA is required (Article 17, paragraphs 2 and 4) to assess:

- the suitability of persons within scope, taking into account their position in the insurer and whether they have integrity, honesty and commitment, possess the necessary qualifications and professional experience and maintain independence so that the insurer's interests are not affected by any conflict of interests; and
- their past behaviour and business or financial activity, considering whether there is evidence of convictions for money laundering (for example) or of financial losses due to dishonesty, etc or fraudulent business practices or convictions for any other criminal offences in the past five years.

In the case of qualifying shareholders, the Authority must assess whether the person is fit to hold the position and if they enjoy a sound financial position and have integrity as well as their past behaviour and business or financial activity (Article 17, paragraphs 3 and 4). In practice, the Authority assesses the financial statements of new qualifying shareholders and carries out checks by reference to the National Registry of Companies (which maintains the register of beneficial ownership established in 2021, reporting to which is enforced with criminal sanctions) and the credit registry of the Bank of Albania. A qualifying shareholding is defined as 10% or more of the voting shares or exercise of influence, but AFSA's policy is to assess suitability of smaller shareholdings also.

Candidates for membership of a board or managing director position (unitary board) are subject to detailed standards set out in Article 20 of the Insurance Law. They must, for example, have a professional master's university degree

and the professional qualifications necessary to prudently manage the business; and at least five years of professional experience in one of the fields of insurance, accounting and jurisprudence. They may not be a member of the board or a representative or employee or an internal or external auditor of another insurer or intermediary. Regulation No 137 of 2015 sets out requirements in more detail.

Authorised actuaries are subject to detailed requirements in Article 222 and Regulations No 67 of 2009 and No 37 of 2019 (see above). In addition to requirements on integrity and reliability, they must have appropriate professional qualifications in actuarial sciences or mathematics obtained in Albania (University of Tirana) or abroad; and professional experience of no less than three years continuously as an actuary in insurance. They must have passed a test (conducted by a commission appointed by AFSA) on the insurance market in Albania.

Authorised actuaries are also subject to continuous professional development requirements (Regulation No 37 of 2019). The same requirements on suitability apply where actuarial services are outsourced by the insurer as permitted (subject to AFSA approval) under Article 53 of the Insurance Law (see also ICP 8).

The requirements for internal auditors are set out in Regulation No 153 of 2014 (see above). All members of the Internal Audit Unit, including the head, must have professional skills in implementing international standards of internal audit; knowledge and/or experience in applying accounting standards and knowledge of the principles of risk management. The head of the Internal Audit Unit must have a high ethical and professional reputation and sufficient experience in the field of insurance and audit.

There are no specific fit and proper requirements applicable to key persons in risk management and compliance functions (see also ICP 8).

Obligations on insurers

Insurers are required to notify and seek the approval of AFSA for changes in board members or managing directors (unitary boards; Article 25 of the Insurance Law). They must inform AFSA in writing of any changes to the information on the basis of which a member of a board or managing director was assessed and approved. In this case, if AFSA deems it necessary, it must reassess the person (Articles 17 and 20).

Insurers are also required to inform AFSA about the appointment and dismissal of board members and managing directors (unitary boards), key functionaries, authorised actuaries and internal auditors (Article 131 of the Insurance Law).

There is no explicit requirement for the insurer to demonstrate initially, and on an ongoing basis, the suitability of all persons covered by the requirements (ICP 5.3). Rather, the requirement in Article 17, paragraph 5 of the Insurance Law is that the fit and proper requirements be complied with by the persons covered by them (and the key requirement of Article 17 is that the Authority assesses suitability). However, paragraph 5 of Article 17 also gives AFSA the right to ask insurers to provide proof of persons being fit and proper, whenever it deems it

	<p>appropriate. AFSA takes the view that together with other provisions, this requires insurers to take responsibility for suitability of all persons subject to the requirements. AFSA can and does assess their procedures for doing so as part of its on-site work at insurers.</p> <p>Action where a person is no longer fit and proper</p> <p>AFSA may take supervisory measures whenever fit and proper requirements are not met by those persons subject to the requirements (Articles 150 and 152 of the Insurance Law). AFSA may issue an order for the elimination of violations and irregularities (Article 152). AFSA has issued such orders in practice.</p> <p>Exchanges with other supervisory authorities</p> <p>AFSA may exchange information with domestic or foreign authorities on the individuals holding positions of responsibility at insurers and does so in practice (Article 236 of the Insurance Law; see also ICP 3).</p>
Assessment	Largely Observed
Comments	<p>There are wide-ranging initial and ongoing requirements on suitability, which cover senior management and key persons in control functions, even if not all are explicitly listed in the legislation. AFSA places particular emphasis on board members and managing directors (in the case of companies with unitary boards), where there is a requirement for prior approval, which AFSA addresses through interviews as well as other checks. Candidates have been rejected and action taken when persons have been found no longer fit and proper.</p> <p>To strengthen the requirements further, it is recommended that:</p> <ul style="list-style-type: none"> • Legislation be amended in future to include key persons in all four control functions listed in the ICP explicitly within the requirements; • Detailed provisions on suitability of key persons in compliance and risk management functions be introduced to add to those existing requirements for key persons in actuarial and internal audit functions; • The scope of the approval requirements be extended to capture senior management of companies adopting the unitary board system to align the approach to that applying to companies with a two-tier board system where management board members are all subject to approval; and • Insurers be explicitly required to demonstrate initially, and on an ongoing basis, the suitability of all persons covered by the requirements.

ICP 6	<p>Change of Control and Portfolio Transfers</p> <p>The supervisor assesses and decides on proposals:</p> <p>to acquire significant ownership of, or an interest in, an insurer that results in a person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer; and for portfolio transfers.</p>
Description	<p><i>Change of control</i></p> <p>The Insurance Law defines a qualifying holding as a direct or indirect holding of voting shares by a legal or natural person, who holds 10% or more of the shares with voting rights in the insurer’s capital or owns less than 10% but exerts influence on the management of the insurer (Article 4 of the Insurance Law).</p> <p>AFSA does not have experience of receiving applications for changes in control in respect of an insurer under the 2014 Insurance Law.</p> <p>Acquisition of a qualifying holding is subject to AFSA approval (Article 48 of the Insurance Law). A qualifying holding acquired in violation of Article 48 is null and void (Article 51) and AFSA may take appropriate measures to protect policyholders (Article 52).</p> <p>In addition, any increase in a holding such that it reaches or exceeds 20%, 33%, 50% or 75% of the voting rights or participation in the capital of the insurer requires AFSA’s approval. AFSA would respond to applications for approval in a proportionate manner, giving more attention, for example, to increases that would take the shareholding over 50% and give control.</p> <p>A shareholder who has been granted approval must give prior notification to AFSA of any decreases in the holding.</p> <p>AFSA will take a decision on the approval or rejection of the application for the qualified holding within two months from the submission of documentation (Article 49 of the Insurance Law). AFSA would assess the suitability of the proposed shareholder and run checks, including at the new Register of Beneficial Owners (see ICP 5). When the intermediate or ultimate beneficial owner resides outside Albania, AFSA may exchange information with corresponding supervisors (see ICP 3).</p> <p>AFSA will deny the application if it assesses that it could jeopardise the quality of risk management of the insurer or that it would hinder effective supervision, taking into account, in the case of foreign shareholders, the home country’s implementation of legislation or legislative practices (Article 49 of the Insurance Law).</p> <p>Insurers are required to notify AFSA of the full list of their shareholders as well as “influencing holdings” and changes in holdings (Article 131 of the Insurance Law). Details of shareholders must be reported quarterly (Regulation No 34 of 28 May 2015 “On periodic and compulsory reporting by insurance and reinsurance companies”).</p>

	<p>The insurance legislative framework does not recognise the mutual company as a legal form of insurer (ICP 6.3).</p> <p>Portfolio transfers</p> <p>The transfer of all or a part of the insurer's business is subject to approval by AFSA (Article 45 of the Insurance Law). The Authority is required to assess the financial position of the transferee and ascertain that the interests of the policyholders will be protected.</p> <p>AFSA does not have experience of receiving applications for portfolio transfers under the 2014 Insurance Law.</p> <p>AFSA may approve the transfer only if such approval will not jeopardise the insured persons' and creditors' interests (Article 46).</p> <p>The transferee insurer must be licensed in the classes of insurance concerning the transferred portfolio (Article 47). The transferee may be an Albanian insurer, branch of a foreign insurer, EU member state insurer or insurer co-located with the insured risk. Home supervisory approval is required in the case of a foreign insurer branch.</p> <p>Insurers are required to submit to AFSA portfolio transfer applications with specified documentation including approvals from shareholders and boards of the transferor and transferee companies, the list of contracts to be transferred and valuation information and the transferee's business plan reflecting the transfer. They must also submit the portfolio transfer agreement (Article 46 of the Insurance Law).</p> <p>AFSA's assessment focuses on the adequacy of reserves and assets that accompany the transferring portfolio; whether the transferee can meet the solvency margin requirement and coverage of provisions with appropriate assets after the transfer; and whether the transferee's activities and risk management are likely to be jeopardised by the transfer. Approval will be denied if the amount of assets covering technical and mathematical provisions of the transferee is lower than the amount of provisions required for the portfolio (Article 47 of the Insurance Law). AFSA would also assess the impact on the business model and financial position of the transferor.</p> <p>Under Article 45 of the Insurance Law, insurers are required to notify affected policyholders of the transfer using public media in the territory where the risk covered by the contracts is located, within 10 calendar days from the Authority's decision to approve the transfer. Policyholder consent is not required.</p> <p>AFSA has one month to approve the transfer or reject it. A transferring company shall transfer its insurance portfolio to the transferee within three months of the Authority's approval.</p>
Assessment	Observed
Comments	AFSA has no experience of handing applications for changes in control or portfolio transfers under the 2014 Insurance Law. However, the legislation sets out the requirements for reporting, assessing and decision-making on such

	<p>applications, with appropriate emphasis on ensuring that transactions do not affect policyholders adversely. Although legislation focuses on the impact on the transferee company, AFSA would assess the implications for the transferor also.</p>
ICP 7	<p>Corporate Governance</p> <p>The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer’s business and adequately recognises and protects the interests of policyholders.</p>
Description	<p><i>Allocation of oversight and management responsibilities</i></p> <p>Articles in the Insurance Law supplement the requirements in Law No 9901 of 14 April 2008 “On entrepreneurs and companies” (the “Corporate Law”):</p> <ul style="list-style-type: none"> • Article 18 of the Insurance Law requires insurer organisations’ structures to “reflect an appropriate separation and clear designation of responsibilities.” • Article 19 of the Insurance Law describes two board structures permitted in the Albanian market – a single-tier structure that consists of a board of directors with responsibility for both managing and supervising company activities, and a two-tier structure that consists of a supervisory board with supervisory functions and a distinct management board with managerial functions. The two-tier structure is prominent in the Albanian market with the single-tier structure only used by a couple of the smallest companies. <p>The responsibilities of insurer boards under both structures are described in Part V, Title IV, Chapters II and III of the Corporate Law and Article 22 of the Insurance Law. These responsibilities include:</p> <ul style="list-style-type: none"> • Ensuring the insurer’s compliance with legislation; • Establishing an internal controls and internal audit system in all areas of the insurer; • Supervising the management of the insurer’s risks; • Ensuring the accuracy of the financial reports; • Reporting to AFSA as required; • Monitoring and supervising the implementation of business policies by management (Article 154 of the Corporate Law); and • Preparing the compensation scheme for management (Article 160 of the Corporate Law). <p>Although the board duties include preparing the compensation scheme and benefits for senior management, the Authority does not provide specific requirements for this scheme for insurers that address schemes that could inappropriately induce excessive risk taking (ICP 7.6). The requirement also does not extend beyond managing directors to include other employees whose actions may have a material impact on the risk exposure of the insurer.</p>

Article 8 of Regulation No 18 of 28 April 2015 “On the organization of the insurance company risk management system” lists the requirements of the board with respect to the risk management of the insurer. The board is required to ensure the existence of adequate systems and functions for risk management, to supervise the risk management system to ensure effectiveness, to approve the risk management policy (and review it at least annually), to create an integrated culture for risk management in the insurer, to ensure that the insurer carries out the risk and solvency assessment at least annually, and to ensure the establishment of a compliance function within the insurer. Regulation No 18 of 2015 also describes the responsibilities of the risk management committee of the board.

The responsibilities of insurer management (management boards, managing directors) are also described in Part V, Title IV, Chapters II and III of the Corporate Law and Article 22 of the Insurance Law. These responsibilities include:

- Ensuring the insurer’s compliance with legislation;
- Managing the insurer’s risks;
- Preparing financial statements and other reports as required by AFSA;
- Reporting to AFSA as required;
- Creating an early warning system with respect to developments threatening the existence of the insurer; and
- Reporting to the board of directors with respect to implementation of business policies and significant transactions.

Under Article 158 of the Corporate Law, duties of the board may not be delegated to management.

Corporate culture, business objectives and strategies of the insurer

Insurers are required to submit to the Authority an updated business plan every three years and an annual business plan each year that has been approved by the board of directors (Article 4 of Regulation No 38 of 31 March 2016 “On the content, method, terms of periodic reporting and notification to the AFSA from insurance companies”).

Article 31 of the Insurance Law describes the requirements for the business plan, and includes:

- The insurer’s organisational structure;
- The insurance classes sold by the insurer;
- The insurer’s targeted market share;
- Details on the insurer’s distribution channels;
- Its reinsurance strategy;
- A detailed description of the insurer’s various expenses;
- Details on the insurer’s internal controls and risk management system;

- Information on the staff, including actuarial;
- Various estimates of business performance (premium, technical provisions, forecasted balance sheet and income statement, required solvency margin (including calculation methods); and
- An evaluation of the financial resources intended to cover the technical provision.

The Authority assesses insurers' corporate culture during interviews with board members and senior management and during regular on-site inspections.

Structure and governance of the board

The Corporate Law provides basic requirements for the structure and governance of boards of directors which are supplemented by additional requirements in the Insurance Law specific to the boards of insurers. The Corporate Law requirements include:

- Avoiding conflicts of interest (Article 13 of the Corporate Law);
- The obligation to consider the interests of the company when exercising their rights and duties (Article 14 of the Corporate Law);
- The board to be composed of an odd number of members (at least three but not more than 21) with a majority that are independent and non-managing (Article 155 of the Corporate Law);
- That each board meeting be recorded by minutes which the chair must sign;
- That the board should create committees, including committees with the specific responsibilities to nominate managing directors, decide on the remuneration of managing directors, and the audit of the accounting of the company's performance (the majority of each committee to be comprised of independent non-managing directors (Article 161 of the Corporate Law); and
- The obligation to reimburse the company for damages related to violations of their duties.

The Insurance Law provides clear requirements for the composition of insurer boards and their internal governance practices and procedures. These include:

- For a single-tier structure, the board of directors is required to have at least five members, an odd number of members, a managing director who is a member of the board but who is different from the chair, and a majority of directors who are non-executive members (Article 19, paragraph 3 of the Insurance Law);
- For a two-tier system, the supervisory board performs supervisory functions and has a minimum of three members and the number of members must always be odd; the management board shall perform managerial functions and be composed of at least three members. The members of the management board cannot be the same persons as the members of the supervisory board (Article 19, paragraph 4 of the Insurance Law);
- All members of insurer boards must meet the eligibility criteria set out in Article 20 of the Insurance Law; these include minimum requirements for

	<p>education and relevant experience as well as prohibitions for people that have conflicts of interests or have previously engaged in specific illegal/unethical activities; and</p> <ul style="list-style-type: none"> • More broadly, Article 17 of the Insurance Law requires all board members (including senior management) to be fit and proper to hold the particular position (see ICP 5). <p>Additionally, all board members are interviewed by and must be approved by the Authority (Article 21 of the Insurance Law). Although an appropriate mix of board members is not required by law, the Authority considers the qualifications of the individual board member and also the overall composition and competence of the board itself during its interview and approval process for board members (see ICP 5).</p> <p>External audit</p> <p>According to the Article 135 of the Corporate Law, it is the duty of shareholders to elect and dismiss the independent auditor. Article 154 requires boards to ensure that an independent audit is performed at least annually. The independent auditor's report and the board's required comment on the auditor's report must be submitted to shareholders annually.</p> <p>Although Article 26 of the Insurance Law requires the audit committee of the board to "nominate the external auditor, and review and monitor the independence of the audit firm", a more active role for the board, as described in ICP 7.8, is not required by the Authority.</p> <p>Information provision/reporting</p> <p>Article 22 of the Insurance Law describes the board's responsibilities, which include "reporting and informing the Authority in compliance with the provisions of this Law". This requirement is supplemented by Regulation No 38 of 31 March 2016 "On the content, method, terms of periodic reporting and notification to AFSA from insurance companies", which details the reports the insurer is required to file with the Authority. The information to be supplied to the Authority includes various financial reports as well as information on the governance of the insurer, including:</p> <ul style="list-style-type: none"> • Changes to the list of qualifying shareholders; • The appointment and dismissal of board members, members of senior management, the authorised actuary and other key functionaries; • Any changes to the functioning manner of internal audit; • Changes related to the activities of insurer branches; • Acquisitions of qualifying holdings of other insurers; • Significant changes in the capital structure; • The termination of activities of a particular insurance class; • New reinsurance contracts; • Business plan changes approved by the board; and
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- New contracts signed with agents, agent companies, brokers, brokerage companies, claims adjusters and authorised actuaries.

Duties of senior management

Article 158 of the Corporate Law sets out the basic requirements and duties of managing directors (senior management), which include managing the company's business, representing the company, ensuring that the necessary financial records are kept, signing and presenting to the board the annual financial accounts, creating an early warning system to monitor threats to the company, and reporting to the board on the implementation of business policies and the performance of the company.

Article 22, paragraph 3 of the Insurance Law adds to the requirements in the Corporate Law by describing the responsibilities of managing directors and (for two-tier board systems) members of the management board for insurers. These additional requirements include responsibility for the insurer's compliance with legislation, management of its risks, preparation of financial statements and statistical reports of the insurer, and reporting to the Authority regarding compliance with the Insurance Law.

Article 5, paragraph 2 of Regulation No 18 of 28 April 2015 "On the organization of the insurance company risk management system" requires senior management to consult with the board regarding the risk appetite of the insurer. Article 10, paragraph 3 of the same regulation requires senior management to provide reports to the risk committee of the board regarding the implementation of policies, strategies, limits and processes of the risk management programme.

Supervisory review

The Authority requires insurers to demonstrate the adequacy and effectiveness of their corporate governance frameworks through supervisory reporting and on-site inspections. Insurers regularly report to the Authority various details related to their corporate governance (see *Information provision/reporting* above). Section III of the Insurance Law describes the supervisory practices of the Authority. In addition to reviewing reports received by insurers, the Authority is actively engaged in risk-based supervisory work that includes on-site inspections. The Authority's publicly available Risk Focused Supervision Manual provides a description of how it expects insurers to demonstrate the effectiveness of their corporate governance frameworks.

Groups

The current insurance groups within the Albanian market have simple organisational structures that consist only of regulated legal entities. Because of this, the Authority has applied the indirect approach to group-wide supervision, focusing on the application of laws, regulations and supervisory practices at the regulated legal entity level.

Regulation No 55 of 26 May 2017 "On the supervision of the insurance group", however, does describe a more direct approach to group-wide supervision that the Authority can choose to employ as insurance groups operating in the market

	<p>become more complex. With respect to corporate governance, the regulation requires that parent companies:</p> <ul style="list-style-type: none"> • Ensure entities of the group comply with all regulatory reporting requirements, including providing a list of members of the management board and directors of the controlled insurers that describes their level of independence and involvement in other group entities (Article 8); • Have ultimate responsibility for the prudent management of the insurance group (Article 12); • Have an authorised actuary that is liable to provide assurance to the parent company board regarding the accuracy of the calculations and appropriateness of the assumptions used to determine capital and required solvency at the group level; • Require that the external auditor report to the parent company board and the Authority any matter that may harm the financial soundness of the group; and • Have clear criteria regarding the delegation of functions. <p>Regulation No 55 of 2017 also describes the Authority’s supervisory approach for groups, including:</p> <ul style="list-style-type: none"> • Assessing the business strategies between the parent company and the entities of the insurance group; • Assessing the adequacy, accuracy and transparency of group information; • Assessing whether the parent company has internal processes for effective management of the group, including those that describe the responsibilities of managing bodies and directorates, and remuneration policies; • Assessing whether the parent company has effectively defined requirements for senior management to ensure that they are fit and proper and can manage the activities of the group’s companies in a safe and sound manner; • Assessing the overall structure of the insurance group for all significant activities, including non-insurance activities, performed by any legal entity in the group, both inside and outside of Albania; and • Assessing whether the parent company provides effective management for the group, including whether the parent effectively controls the activities that are conducted outside of Albania.
Assessment	Largely Observed
Comments	<p>The laws and regulations established for the broader business sector as well as those established specifically to regulate insurers clearly describe requirements related to corporate governance. The roles and expectations documented for boards and senior management are appropriate and generally consistent with ICP 7.</p> <p>Notwithstanding the limited risks presented by products currently available in the Albanian insurance market, it is recommended that board responsibilities in the</p>

	Insurance Law be expanded to include a specific requirement to approve written remuneration policies for senior management and other employees whose actions may have a material impact on the risk exposure of the insurer that do not induce excessive or inappropriate risk-taking.
ICP 8	<p>Risk Management and Internal Controls</p> <p>As part of its overall corporate governance framework, the supervisor requires an insurer to have effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.</p>
Description	<p><i>Effective risk management system</i></p> <p>Article 27 of the Insurance Law requires insurers to “establish a risk management system, which shall identify and control risks through policies, implementation procedures and application of limits in order to monitor, control and, where necessary, change the quality and level of activity on the basis of risk”.</p> <p>To support Article 27, the Authority issued Regulation No 18 of 28 April 2015 “On the organization of the insurance company risk management system”. This regulation defines a risk management system for insurers and describes the required elements of the system, the risk management function and the responsibilities of the board and senior management related to risk management.</p> <p>Amongst other elements, Article 5 of Regulation No 18 of 2015 requires each insurer’s risk management system to include:</p> <ul style="list-style-type: none"> • A “strategic risk management document” consistent with the insurer’s business strategy and approved by the board; • Appropriate delegation of risk management responsibilities; • A risk appetite that is approved by the board and clearly defines the acceptable levels of risk at a high level and for each type of relevant risk, including for insurance, market, credit, liquidity, operational, reinsurance, outsourcing and group risks; • Documented procedures to be followed in the event of deviation from the risk management strategy or violation of the risk appetite; • Appropriate policies approved by the board for specifying and classifying the material risks that are reasonably foreseeable; • Processes and tools, including models, whenever possible, for determining, assessing, supervising, managing and reporting risks, and also contingency and crisis management plans; and • Procedures for regularly reviewing and improving the risk management system. <p><i>Effective system of internal controls</i></p>

Article 121 of the Insurance Law requires insurers to “establish an internal control system to monitor and implement internal policies and procedures, evaluate the effectiveness of their activity, and monitor the conduct of activity in compliance with the legislation”. The policies establishing the internal control system are required to be documented and reviewed/revised at least annually.

Regulation No 135 of 31 October 2014 “On procedures and minimum principles regarding the internal control system and other aspects of an insurance company information system” builds upon Article 121 of the Insurance Law by describing supervisory requirements and expectations in further detail. An insurer’s internal control system, per this regulation, includes “the entirety of the rules and principles of monitoring and assessing the adequacy and effectiveness of the policies, procedures and control mechanisms within an insurance company and the quality of operations of its activity carried out by its administration, management and control structures, and by persons performing internal control functions”.

Article 6 of Regulation No 135 of 2014 requires that the insurer’s internal controls be performed independently from the management of the business and be commensurate with the size and risks of the insurer.

The Authority tests for effectiveness during on-site inspections. Article 246 of the Insurance Law gives the Authority the ability to address fines against insurers that have not established risk management and internal controls in accordance with the laws and regulations.

Control functions

Article 121 of the Insurance Law describes the requirements for an insurer’s internal control system. The key elements include:

- Insurers are required to establish an internal control system that identifies the types of risks the company is exposed to, and measures, manages and monitors those risks;
- The internal control system includes board-approved policies and risk management, internal audit and, if relevant, outsourcing. These are revised at least annually; and
- The internal control system is expected to be an integral part of the daily activities of the insurer and includes controls within its organisational units, verifications of assets and information, monitoring of compliance with laws and regulations, verification of financial information, and periodic reviews of the effectiveness of controls.

Each of the specific control functions (risk management, compliance, actuarial and internal audit) have direct access to the board to communicate concerns and issues. The heads of these functions are covered by the definition in the Insurance Law of “key functionaries” (see ICP 5) and are subject to fit and proper requirements, conflict of interest restrictions, and approval (and dismissal) by the Authority (Articles 17, 23 and 30).

Each of these functions is also assessed separately by the Authority during its inspections as described in its publicly available Risk Focused Supervision

Manual. The assessment questions in the Manual include questions that specifically assess the independence of these control functions. The Manual also includes an assessment of whether the insurer has the necessary resources to carry out its mission, but does not specifically include an assessment of the sufficiency of resources allocated for control functions.

Risk management function

Article 27 of the Insurance Law requires insurers to establish a risk management system to identify and control risks through policies, procedures, limits and monitoring. Regulation No 18 of 28 April 2015 “On the organization of the insurance company risk management system” provides additional details on the requirements for an insurer’s risk management system. The regulation requires the risk management function to be independent of the business line (Article 6.2) and that risk management be “an integral part of culture and working environment in the insurance company” (Article 6.3b).

Compliance function

The Authority places heavy emphasis on regulatory compliance during its off-site and on-site inspections. Both insurer boards and senior management are explicitly required to ensure that the insurer complies with all relevant laws and regulations (Article 22 of the Insurance Law).

Article 8 of Regulation No 18 of 28 April 2015 “On the organization of the insurance company risk management system” requires the insurer’s board to “establish and guarantee the compliance function as an advisory function for the board”. The role of the compliance function is to advise the board and senior management on the company’s “compliance with relevant legislation and to assess the impact that any change in the regulatory framework has on the company’s activities”.

Actuarial function

Section V (Articles 222–25) of the Insurance Law describes the roles and responsibilities of actuaries. Insurers must appoint an authorised actuary (Article 223) and enable that actuary to perform the tasks set out in the law (Article 225), including:

- Evaluating whether the insurer keeps appropriate data for the calculation of technical provisions and reviewing the accuracy of the data;
- Reviewing the methods used for the calculation of technical provisions and evaluating whether the technical provisions are sufficient to ensure coverage of liabilities; and
- Reviewing whether insurance premiums have been calculated in line with regulations and actuarial professional standards.

Additionally, Article 112 of the Insurance Law requires the authorised actuary’s report to include an opinion of whether the premiums, technical provisions, assets covering technical provisions, guarantee fund, required solvency margin and ceded reinsurance are in compliance with laws and regulations.

Internal audit function

Article 22 of the Insurance Law requires insurer boards to ensure the establishment of an internal audit system that complies with all regulatory requirements.

Additionally, Article 122 of the Insurance Law requires insurers to establish an internal audit unit as part of their internal control system. The responsibility of the internal audit unit is to “employ an integrated and disciplined method for the evaluation and enhancement of their governance, risk management and control processes”. The article requires internal audit to be established as a unit operating independently and objectively. It also requires that internal audit have access to all functional areas of the insurer and have the status and policies necessary to report its findings to the board.

Regulation No 153 of 23 December 2014 “On the internal audit activity and the audit committee in an insurance company” provides further requirements for internal audit. Article 8 of the regulation requires the insurer’s internal rules regarding internal audit to provide for:

- Independence in the decision-making of the head of the internal audit unit, in planning and defining the audits;
- Unrestricted access to data on assets and any other necessary information;
- Direct contact of the head of the internal audit unit with the governing bodies; and
- Avoiding any conflict of interests in performing internal audit tasks.

The duties of the internal audit unit include evaluation of:

- Information and reporting system, including technology and information systems and data accuracy;
- Compliance of the insurer’s activity with the laws and bylaws, the implementation of internal policies, internal regulations and procedures, and the achievement of objectives set by the governing bodies of the insurer;
- Overall efficiency and effectiveness of the insurer’s activity; and
- The risk management system implemented by the insurer.

As with the heads of other control functions, the Authority interviews and approves the head of internal audit and has the power to dismiss them if circumstances warrant.

Outsourcing of material activities or functions

Article 53 of the Insurance Law states that insurers may, with approval from the Authority, outsource claims handling/adjusting, actuarial services, promotional/marketing services, IT services, accounting and management of assets covering technical and mathematical provisions. It also specifically states that the insurer is still responsible for the outsourced functions and that this must be stipulated in the outsourcing contract.

Although activities may be outsourced to a non-insurance company, the Authority maintains the right to supervise companies performing outsourced

	<p>activities (Article 55 of the Insurance Law). This includes performing inspections and reviewing the financial records of companies performing outsourced activities for insurers.</p> <p>Regulation No 120 of 26 November 2015 “On criteria, rules and procedures for the outsourcing of several functions by insurance companies” provides additional supervisory expectations and requirements regarding outsourcing. Key statements from this regulation satisfying the ICP requirements include:</p> <ul style="list-style-type: none"> • “The outsourced person, to whom the functions of an insurance company are outsourced to, shall be fit and proper to perform these functions, as if they were performed by the insurance company” (Article 4.1); • “The outsourced functions shall be carried out in such way as to not risk the capacity, stability, continuity and quality of the activity of an insurance company” (Article 4.2); and • “In no case shall the outsourcing of functions avoid the responsibilities of insurance company governing bodies” (Article 4.3). <p>Insurer board approval and approval of the Authority are required for a function to be outsourced. Requirements on the selection of the outsourcing partner and the documentation, governance and reporting required by the regulation are consistent with ICP 8.8.</p> <p>Groups</p> <p>The current insurance groups within the Albanian market have simple organisational structures that consist only of regulated legal entities. Because of this, the Authority has applied the indirect approach to group-wide supervision, focusing on the application of laws, regulations and supervisory practices at the regulated legal entity level.</p> <p>Regulation No 55 of 26 May 2017 “On the supervision of the insurance group”, however, does describe a more direct approach to group-wide supervision that the Authority can choose to employ as insurance groups operating in the market become more complex. In addition to requiring capital adequacy to be calculated on a consolidated basis (Article 5) and the reporting of intragroup transactions (Article 6), the regulation also requires that parent companies:</p> <ul style="list-style-type: none"> • Ensure entities of the group comply with all regulatory reporting requirements (Article 8); • Have ultimate responsibility for the prudent management of the insurance group (Article 12); • Ensure that the insurance group maintains a level and quality of capital commensurate with the group’s risks; • Have an authorised actuary that is liable to provide assurance to the parent company board regarding the accuracy of the calculations and appropriateness of the assumptions used to determine capital and required solvency at the group level; • Adopt and implement internal control systems that provide monitoring at the group level; and
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	<ul style="list-style-type: none"> Require that the external auditor report to the parent company board and the Authority any matter that may harm the financial soundness of the group. <p>Regulation No 55 of 2017 also describes the Authority's supervisory approach for groups, including:</p> <ul style="list-style-type: none"> Assessing the overall structure of the insurance group for all significant activities, including non-insurance activities, performed by any legal entity in the group, both inside and outside of Albania; Assessing whether the risks of the insurance group are effectively managed, taking into account risks from entities other than the parent that could affect the stability of the parent company in Albania; and Assessing whether the parent company provides effective management for the group, including whether the parent effectively controls the activities that are conducted outside of Albania. <p>Lastly, the regulation allows the Authority to take supervisory measures for the parent company in the case that activities of subsidiaries result in excessive risks that threaten the security and stability of the insurance group.</p>
Assessment	Observed
Comments	The Authority has established comprehensive requirements and expectations regarding insurer risk management and internal control systems. Although potentially burdensome for smaller insurers in a developing market, the laws, regulations and supervisory practices in this area strengthen the industry and have positioned insurers and the Authority well as the market develops with products and risks that are more complex.
ICP 9	<p>Supervisory Review and Reporting</p> <p>The supervisor uses off-site monitoring and on-site inspections to: examine the business of each insurer; evaluate its financial condition, conduct of business, corporate governance framework and overall risk profile; and assess its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.</p>
Description	<p><i>Framework for supervisory review and reporting</i></p> <p>AFSA has a documented supervisory framework and defined rules and conditions in primary legislation on the general framework for supervisory review and reporting. Parts of the supervisory framework have been reviewed over time in response to supervisory needs.</p> <p>Article 18 of the AFSA Law empowers AFSA to review the functioning of the insurance market through: (i) permanent off-site monitoring (collecting, analysing, and verifying information submitted by regulated legal entities); and (ii) on-site (full scope or thematic) inspections. Furthermore, Articles 129–34 of</p>

the Insurance Law enable communication between AFSA and insurers as well as appropriate communication channels between AFSA and external auditors.

While the approach to off-site monitoring is set out in Regulation No 34 of 2015, on-site inspections are defined in AFSA's (published) Risk Focused Supervision Manual and Instruction no 209 of 2021 "On the procedures of inspection in supervised entities by AFSA". The Manual describes the Authority's approach towards off- and on-site monitoring and the cycle under which supervisory priorities and insurer summary profiles are created. It provides documented procedures as regards data collection, inspection planning, risk identification, risk assessment and mitigation strategies as well as the process after inspection findings have been identified.

There are requirements for regular (monthly, quarterly and annual) supervisory reporting. Insurers must submit to AFSA their IFRS-based financial statements (balance sheet, profit and loss statement, cash-flow statement, the structure of assets, insurance reserves) and solvency information, as well as premiums and claims by lines of business.

Both qualitative and quantitative methods are stipulated in the Risk Focused Supervision Manual. Along with the information gathered from the monthly and quarterly reporting, AFSA evaluates through an inspection-planning questionnaire the need to further assess the insurer's conduct of business and corporate governance framework in order to have an understanding of its technical operations, treatment of customers, corporate culture and further internal processes. The answers to the questionnaire are taken into account when determining the overall risk assessment.

AFSA's risk assessment is based on a methodology stipulated in the Risk Focused Supervision Manual. The methodology is based on the identification of higher-risk areas in insurers' activities. The Manual sets out three separate surveillance systems:

- Direct risk-based supervision by AFSA;
- Expectations of the performance of internal monitoring by the board and the senior management, as defined by law, including the need for a well defined enterprise risk management system in line with international practices; and
- A risk-based supervisory and monitoring system that applies to external auditors and authorised actuaries.

AFSA has developed a Risk Matrix which provides an aggregate risk assessment and classifies the risk profile of the insurer. The objective is to enable AFSA and insurers to have a shared overview of risks and to provide for consistency as regards recommendations and required actions.

AFSA's organisational structure facilitates coordination of on-site inspection and off-site monitoring activities. It has a single insurance department comprising 15 full-time equivalent staff responsible for financial supervision (consumer protection and AML/CFT work is undertaken in a separate unit – see ICP 2 and organisation chart set out in the Annex – Institutional and market overview).

Group perspectives

The framework takes into account all entities identified within the scope of an insurance group. However, the supervisory processes, including risk assessment, planning, off-site and on-site work are not conducted at present on a group basis.

Communication and coordination with other involved supervisors of a group legal entity are defined in the Methodological Guideline “On insurance group supervision” (Board’s Decision No 250 of 2018; see ICP 23).

Insurers that are parents of other insurers are required to prepare and submit consolidated audited financial statements. AFSA requires the insurers to correct inaccurate reporting as soon as possible. Under Article 134 of the Insurance Law, AFSA has the right to require more frequent reporting and additional information from insurers as needed.

Supervisory plans

The annual supervision plans approved by the Board of AFSA define the frequency, scope, and extent of off-site monitoring and on-site inspections. Additional ad hoc inspections are approved by the General Executive Director. The on-site inspections and off-site monitoring activities are coordinated by AFSA’s Insurance Market Supervision Department.

Review of outsourced material activities or functions

AFSA is able to review outsourced material activities or functions in the same way as it reviews non-outsourced material activities or functions (Article 55 of the Insurance Law). Outsourced activities or functions are in practice reviewed through the insurer itself in the same way as non-outsourced activities etc. AFSA has not faced any limitations in supervising outsourced activities and functions during on-site inspections or off-site monitoring.

Supervisory reporting

Insurers and reinsurers are required to submit audited financial statements and reports. In addition, parent companies of an insurer shall prepare and submit consolidated financial statements. Under Law No 25 of 10 May 2018 “On accounting and financial statements”, insurers are required to prepare financial statements in accordance with IFRS. Furthermore, under Article 131 of the Insurance Law, insurers must report on any material changes or incidents that could affect their condition or customers.

Supervised entities must provide the Authority with any requested document and information. Regulation 34 of 2015 defines the required regulatory periodic reporting by insurers.

Off-site monitoring

AFSA’s supervisors maintain an ongoing communication with insurers to ensure that requirements on the frequency and content of reporting are met. Current off-site monitoring relies mainly on reported financial data submitted under the monthly, quarterly and yearly required reporting. The reported data is reviewed and analysed by the supervisors. During that process, analysts and inspectors

	<p>work closely together. In case of significant findings, a management letter is sent to the insurer. Board decisions requiring corrective actions, etc may be issued in more serious cases.</p> <p><i>On-site inspection</i></p> <p>The supervision activities are documented and accessible to supervisors and management through AFSA’s internal management information system (MIS). According to AFSA, each year 70% of all insurers are covered in the Authority’s on-site activity, mostly by the inspection plan rather than through ad hoc on-site work.</p> <p>The on-site inspection process itself is defined in the Risk Focused Supervision Manual, according to which the objective of inspection is to detect and prevent violations of laws, etc, irregularities and errors and to take measures in due time to remedy them. The inspection goal is based on the information provided by off-site monitoring or any other information sources. The corresponding work programme and the conduct of on-site inspections are described in the Manual.</p> <p>On-site inspection teams are composed mainly of staff of the Insurance Market Supervision Department. There is no distinction between on-site and off-site staff. Experts from other departments are included, such as staff from the Legal Affairs Department, IT and the Licensing, Consumer Protection and Market Conduct Department.</p> <p>The on-site supervisory process is set out in the Risk Focused Supervision Manual:</p> <ul style="list-style-type: none"> • Gathering and analysing financial filings, reports from auditors and actuaries, information from the marketplace and other data on an ongoing basis; • Refining the risk profiles of insurers with the results of this analysis; • Planning and executing on-site inspections using the risk profiles; and • Further refining the risk profile of the institutions using information obtained in the on-site inspections. <p><i>Supervisory feedback and follow-up</i></p> <p>AFSA informs insurers in writing about the findings of on-site inspections and off-site supervisory review from quarterly reporting in a timely manner. Detected problems are addressed in the form of recommendations or board decisions.</p>
Assessment	Largely Observed
Comments	<p>AFSA has a clear supervision strategy and documented processes with regard to its supervisory cycle in its Risk Focused Supervision Manual. In general, the Authority implements its supervisory framework effectively and proportionately according to the needs and level of market development as evidenced by supervisory documents reviewed for the assessment; however, the approach remains relatively compliance-focused in practice.</p>

	<p>Although AFSA already uses a wide range of information to evaluate insurers' conduct of business and corporate governance as well as their technical operations, there is scope to develop a fuller assessment of corporate governance, focusing on its effectiveness in practice.</p> <p>It is recommended that AFSA:</p> <ul style="list-style-type: none"> • Enhance its evaluation of the effectiveness of insurers' corporate governance frameworks through a qualitative approach; and • Enhance discussion with insurers on their risk profile, based on its risk matrix assessment (and taking into account insurers' own assessment of risk in their risk evaluation reports), in the course of supervisory feedback and communicate its findings and views on the risk profile to insurers more fully, focusing on delivering improvement to their risk measurement management.
<p>ICP 10</p>	<p>Preventive Measures, Corrective Measures and Sanctions</p> <p>The supervisor:</p> <p style="padding-left: 40px;">requires and enforces preventive and corrective measures; and imposes sanctions,</p> <p>which are timely, necessary to achieve the objectives of insurance supervision, and based on clear, objective, consistent, and publicly disclosed general criteria.</p>
<p>Description</p>	<p><i>Insurance activities without the necessary licence</i></p> <p>AFSA takes actions against identified entities that conduct insurance activities without a licence and has the power to take supervisory measures against those doing so as set out in Articles 149, 246, 248, 249 and 251 of the Insurance Law. Furthermore, unlicensed activities are subject to Albanian criminal law. Staff in the AFSA Legal Affairs Department as well as supervisors monitor for and respond to instances of unlicensed insurance.</p> <p><i>Preventive and corrective measures</i></p> <p>Articles 150–51 of the Insurance Law comprehensively define the circumstances for taking supervisory measures and addressing serious violations of supervisory requirements. They include where the Authority “deems that a threat is posed to the interests of the insured and/or that the level of capital is not sufficient in accordance with the provisions of Articles 80 and 81 of this Law” (Article 150).</p> <p>Articles 152 and 153 of the Insurance Law then stipulate escalating measures that AFSA may take when it identifies that the circumstances in Article 150 apply.</p> <p>In addition, when the insurer's capital is inadequate or the interests of insureds are jeopardised, the Authority may require insurers to submit a three-year financial recovery plan with detailed estimates and actions (Articles 82 and 83 of the Insurance Law). The financial recovery plan shall be submitted to the Authority for approval within the time limits specified by the Authority. The</p>

	<p>Authority shall take a decision to approve or reject the financial recovery plan within one month from the date of its submission.</p> <p>The AFSA Law (Articles 31 and 32) also enables AFSA's Board to issue orders concerning preventive measures and/or elimination of violations.</p> <p>The escalating measures which AFSA may take under Article 152 include one or more of:</p> <ul style="list-style-type: none"> • Instructing the insurer to stop performing the specific action or to pursue a specific business ethical conduct, or to perform a specific action which, in the opinion of the Authority, is necessary to improve the situation and/or prevent or correct the violations; • issuing an order for the elimination of violations; • requiring the insurer to submit a financial recovery plan; • requiring alternative external audit authorised by AFSA; • requiring a special audit to company procedures; • appointing an AFSA-approved person to advise the insurer; • asking for a revaluation of assets; • requiring an examination by an external actuary; • requiring the insurer to increase reinsurance capacity; • requiring the recalculation of solvency; • putting the insurer or its assets under provisional administration; and • revoking the licence partly or in full. <p>Article 153 further provides a detailed list of orders that AFSA may issue to eliminate the violations. It may:</p> <ul style="list-style-type: none"> • order the insurer to implement an action plan that ensures the guarantee fund level; • request that the insurer undertake or stop specific actions; • order the insurer to convene the shareholders' meeting and propose specific resolutions; • prohibit the insurer from signing new policies or request that they maintain a specific level of premiums; • prohibit the insurer from making specific types of payments or transactions; • order the insurer to improve risk management procedures, change objectives, limit loans, reduce receivables, carry out a fair valuation of financial items, improve the IT system, improve internal controls and audit; • prohibit the insurer from free use of a part or all of its assets; • order the insurer to maintain sufficient assets within the territory of Albania;
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- prohibit the insurer from assuming financial liabilities from third parties;
- prohibit the insurer from paying or transferring amounts to other persons;
- prohibit the insurer from borrowing, payment of dividends, management fees; and
- order the insurer to dismiss or replace directors, board members, persons in key functions.

AFSA takes actions in practice. During 2021, AFSA's Board took 26 decisions on administrative and corrective measures against regulated legal entities in the insurance sector (including intermediaries – see also ICP 18) as a result of findings from financial analysis and from results of on-site inspections as well as licence suspensions or revocations:

- 17 decisions on corrective measures and fines (15 insurers and two agents' companies);
- two decisions on licence suspension for individual agents;
- one licence renewal rejection and one licence revocation for insurance claims adjusters; and
- six licence suspensions for insurance claims adjusters.

Assessing the effectiveness of the insurer's actions

Article 154 of the Insurance Law requires that the insurer reports on the implementation of AFSA's orders. The insurer must submit a detailed report on the corrective measures undertaken within the time frame defined by the Authority. Along with the report, the insurer must submit any other document or evidence proving the elimination of violations or irregularities. If required by AFSA, the insurer must also submit a report of the auditors.

Article 152 of the Insurance Law enables AFSA to reject the appointment of an external auditor where it has evidence of inadequate expertise and issues with independence, conflicts of interest or professional conduct.

Should an insurer fail to implement corrective measures, AFSA has the power to enforce: (a) provisional administration under Article 161 of the Insurance Law (see ICP 12); and (b) revocation of the licence (Article 155). Extensive conditions for a decision to revoke an insurer's licence are specified in Article 155, including failure to comply with an order of the Authority, failure to comply with the conditions under which the company was licensed and insolvency. Partial revocation (revoking the licence only for one or several specific classes of insurance) is also provided for (Article 156). Articles 157 to 160 set out revocation procedures and provide for publication of licence decisions.

Furthermore, under Article 175, AFSA may escalate the measures by opening compulsory liquidation procedures (see ICP 12).

Sanctions

Sanctions available to AFSA (ie which it may take as administrative measures) are listed in Articles 245–57 of the Insurance Law with provisions setting out the

	<p>amount of financial penalties, the applicable violations and processes to be followed. The sanctions mentioned only include fines.</p> <p>The fines may apply to insurers (in amounts of Albanian lek (ALL) 2 million to 3 million), and (in generally smaller amounts) to individuals, including board and management members, insurance agents and brokers, authorised actuaries, claims adjusters, as well as insurance groups (controlling members). AFSA is required to ensure that the fine is effective and preventive and proportionate to the situation resulting in the imposition of the fine. It must specify the amount of the fine in accordance with the Insurance Law, taking into account the nature and scope of the violation and its impact on the interests of the insured. It must apply the “principle of consistency”, under which similar sanctions are imposed for similar violations.</p> <p>Provisional administrators are also subject to fines if they fail to comply with their reporting and administration obligations.</p> <p>As noted above, AFSA imposes fines in practice.</p>
Assessment	Largely Observed
Comments	<p>AFSA has access to a comprehensive set of supervisory measures to address the violation (or risk of violation) of regulatory requirements by insurers. The Insurance Law sets out the circumstances in which actions may be taken and the range of corrective measures. In extreme cases, AFSA may impose provisional administration or revoke an insurer’s licence.</p> <p>Financial penalties may be imposed, including on individuals, where sanctions are required in cases of violation of requirements. They are published on AFSA’s website. Warnings may be (and are in practice) also issued by AFSA and they too are published. The level of fines set out in the Insurance Law, which do not exceed the equivalent of around USD 30,000 for an insurer, for example, appears low to be a credible deterrent and while they take into account the nature of the offence, they are not scaled to the size of the insurer, which varies significantly.</p> <p>It is recommended that in order to ensure sanctions have a deterrent effect, AFSA should review whether fines are effective at their current level and propose legislative change, if necessary.</p>
ICP 12	<p>ICP 12 Exit from the Market and Resolution</p> <p>Legislation provides requirements for:</p> <p style="padding-left: 40px;">The voluntary exit of insurers from the market; and</p> <p>The resolution of insurers that are no longer viable or are likely to be no longer viable, and have no reasonable prospect of returning to viability.</p>
Description	<p>There is no formally identified resolution authority for insurers in Albania and relevant powers are exercised by AFSA, mainly powers to withdraw the licence and initiate provisional administration and liquidation of an insurer.</p>

	<p>The Insurance Law sets out the framework for insurer resolution. The general bankruptcy law exempts from its provisions insurers and other financial institutions “for which the bankruptcy proceeding is regulated in a special law” (Article 7 of Law No 110 of 22 November 2016 “On bankruptcy”). The implications for and possible required amendments to the Insurance Law were the subject of expert advice being provided to the Authority at the time of this assessment.</p> <p>AFSA has no experience to date of voluntary liquidation or the resolution procedures set out in the Insurance Law being used in practice. (It notes that a similar legislative framework in Kosovo has been used in two cases of resolution, including to resolve the branch of an Albanian insurer, without detriment to policyholders or risks to financial stability.)</p> <p>There is no policyholder protection scheme in Albania that would make payments in case of policyholder loss in the failure of an insurer.</p> <p>Voluntary liquidation</p> <p>The Insurance Law provides various ways in which insurers can exit the market, including voluntary liquidation (Articles 169 to 174 of the Insurance Law).</p> <ul style="list-style-type: none"> • The insurer’s board may initiate voluntary liquidation by applying to AFSA with documents setting out the reasons for the liquidation, the names of nominated liquidators, and a report on the handling of any compensation claims during the liquidation, revenues and expenses, and an estimate of the required time (Article 169). • AFSA has 30 days to make its decision (Article 169). The shareholders’ general meeting of the company may only then formally decide to wind up the company. <p>If the liquidators assess that the insurer is insolvent, they must inform the Authority and submit a proposal to it to open bankruptcy proceedings (Article 173).</p> <p>Resolution</p> <p>Where an insurer is facing financial difficulties, there are three tools: provisional administration, mandatory (ie AFSA-initiated) liquidation and bankruptcy. AFSA is required to use these tools in circumstances prescribed in the law. Provisional administration, if it does not lead to the restoration of a stable financial position for the insurer, may be followed either by mandatory liquidation initiated by AFSA or a proposal by AFSA to open bankruptcy proceedings, which is required where the insurer is (or is assessed to be) insolvent.</p> <p><i>(i) Provisional administration</i></p> <p>AFSA shall decide to restore an insurer’s financial situation, avoiding a mandatory liquidation by putting it under provisional administration (Article 161 of the Insurance Law).</p> <p>It shall do so when an insurer has failed to start implementing supervision measures required under Articles 152 and 153 of the Insurance Law (see ICP 10) or has not implemented them within the time specified by the Authority; or</p>
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	<p>where it has not yet reached the required solvency margin or does not comply with the solvency margin and guarantee fund requirements (see ICP 17); or where further activity of the insurer endangers its liquidity, solvency or security for the insured (Article 161 of the Insurance Law).</p> <ul style="list-style-type: none"> • The provisional administrators are appointed by the Authority (Article 162) and assume all the responsibilities of the board of directors/supervisory board (Article 164). The Authority may give them instructions (Article 164). • The provisional administrators are required to submit to AFSA within nine months a report on the financial position of the insurer, including an assessment of prospects of its recovering as a going concern (Article 166). • Based on the report, the Authority shall instruct the provisional administrator to convene a general meeting of the insurer and propose a capital increase if it deems this necessary (Article 167). <p><i>(ii) Mandatory liquidation</i></p> <p>AFSA shall decide to open mandatory liquidation proceedings against an insurer where (under Article 175 of the Insurance Law):</p> <ul style="list-style-type: none"> • the licence to carry out insurance activity has been revoked; or • the Authority assesses that during the provisional administration the financial position of the company has not improved to the extent that the insurer has reached the solvency margin; or • the shareholders' general meeting of the insurer does not approve the decision to increase the capital of the insurer or approves it but shares cannot be sold. <p>AFSA appoints liquidators and specifies their goals and duties (Article 176) and the liquidators inform creditors, including policyholders (Article 177). During the mandatory liquidation proceedings, the powers of the board and general shareholders' meetings are transferred to AFSA (Article 178). The insurer must cease all new business and renewals. Detailed responsibilities of the liquidator are set out in company law (Article 197 of Law No 9901 of 14 April 2008 "On entrepreneurs and companies") and other provisions of that law apply to the insurer liquidation process.</p> <p><i>(iii) Bankruptcy</i></p> <p>Under Article 183 of the Insurance Law, the Authority shall propose to open bankruptcy proceedings where:</p> <ul style="list-style-type: none"> • it assesses that during the provisional administration the financial position of the insurer has not improved and it cannot meet its current liabilities; or • in the course of supervising the insurer, even after the supervision measures have been taken its assets are found to be insufficient for meeting liabilities towards creditors; or • an insurer is overloaded with debt and, therefore, is not able to continue its activity and meet its obligations towards creditors when they fall due; or
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- the shareholders' general meeting rejects the proposal of the provisional administrator for the capital increase; or
- it finds, in the course of supervising an insurer, another cause for bankruptcy in accordance with the provisions of the Insurance Law.

It is unclear how bankruptcy proceedings would be handled in practice. The Authority's role in the Insurance Law is limited to proposing to open proceedings. However, as noted above, Law No 110 of 22 November 2016 "On bankruptcy", which provides for a court-administered process – which would be outside the control of the Authority (ICP 12.8) – explicitly exempts insurers.

Powers

The Insurance Law in combination with company legislation provides a range of powers to facilitate orderly liquidation.

There is no provision for mechanisms (such as portfolio transfers, including to a bridging institution, if necessary) that would facilitate continuity of cover for any types of insurance contract in case of resolution; nor does AFSA have powers to restructure, limit or write down an insurer's liabilities. AFSA takes the view that continuity of cover, likely to be most important in the case of MTPL policies, could be provided by the use of portfolio transfers as provided for in Article 45 of the Insurance Law (see ICP 6) or by policyholders seeking replacement cover in a competitive market which has many alternative providers.

Priority of policyholder claims

Policyholders and insurance beneficiaries rank ahead of general creditors. Under Article 186 of the Insurance Law, when bankruptcy proceedings start, insurance claims have priority over other liabilities in the following order:

- claims under life assurance contracts and similar;
- claims under non-life assurance contracts occurring before the opening of bankruptcy proceedings;
- the refund of paid premiums for the period to the expiry of those insurance contracts; and
- claims resulting from the insurer's obligations to the MTPL compensation fund.

In addition, Article 184 of the Insurance Law provides that in bankruptcy proceedings the insured and beneficiaries shall be referred to as creditors and their claims shall have priority over other liabilities of the insurer.

For life insurance, there are also specific provisions in Articles 187–91. In bankruptcy proceedings, policyholders are entitled to payment of their claims from the assets covering mathematical provisions, which are to be reserved for them. If these assets are insufficient, then payment of claims is reduced proportionately across all insurance contracts (Article 188).

	<p>Planning</p> <p>There are no requirements on insurers to evaluate prospectively their specific operations and risks in possible resolution scenarios and to put in place procedures for use during a resolution (ICP 12.3). AFSA takes the view that such requirements are not necessary given the nature of insurance products and risks and the approach that would be taken to resolution in practice.</p> <p>Cooperation with other authorities, groups and foreign branches</p> <p>AFSA is the responsible authority involved in overseeing the exit of insurers from the market. As noted under ICP 3, it has the necessary powers and the agreements with other jurisdictional and foreign authorities to exchange confidential information, including for management of the exit of an insurer. While it has no experience of exits from the Albanian market under the current legislative framework, it cooperated with the authorities in Kosovo in the exit from that market of the branch of an Albanian insurer.</p> <p>In the case of foreign insurers' branches in Albania (there are none – see ICP 4), AFSA's authority and powers would apply in the same way as for locally incorporated companies. Regulation No 54 of 26 May 2017 "On compulsory liquidation of an insurance company branch, of a foreign country and an EU Member country" determines the rules of compulsory liquidation of such branches, including a branch of an EU member country insurer (designed for when Albania is a member). The Regulation provides for communication and cooperation between authorities in the case of mandatory liquidation procedures for a branch.</p> <p style="padding-left: 40px;">There are no specific provisions on resolution of insurance groups with a domestic (Albanian) insurer parent. In case of the failure of a group, individual insurers would be subject to separate resolution actions.</p>
Assessment	Partly Observed
Comments	<p>The insurance legislation sets out clear procedures for voluntary exit, provisional administration and mandatory liquidation in prescribed cases that would equip AFSA to require the exit of an insurer that is no longer viable, taking into account the nature of current insurance products and markets. (It has no experience of exits in practice under the current legislation.)</p> <p>In relation to bankruptcy (where an insurer is assessed to be insolvent), reforms to the general bankruptcy law in 2016 recognise that insurers should be exempt where subject to their own regulatory arrangements. However, the Insurance Law has yet to be updated to specify how bankruptcy carried out under that law would work. External expert advice was being taken at the time of the assessment and is likely to lead to appropriate amendments to the Law. It will be important to ensure that these preserve the existing policyholder preference provisions that apply in bankruptcy.</p> <p>It is recommended that AFSA:</p> <ul style="list-style-type: none"> • identify the amendments required to the Insurance Law to ensure there are appropriate liquidation/bankruptcy arrangements specific to the insurance

	<p>sector, as required in the general bankruptcy law, ensuring the continued protection of policyholders, and seek legislative change; and</p> <p>review, as part of this process, whether to seek additional powers for effective resolution of insurers (such as those set out in ICP 12.7), notwithstanding that existing powers appear adequate to the nature, scale and complexity of current insurers in the Albanian market.</p>
ICP 13	<p>Reinsurance and Other Forms of Risk Transfer</p> <ul style="list-style-type: none"> The supervisor requires the insurer to manage effectively its use of reinsurance and other forms of risk transfer. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.
Description	<p><i>Reinsurance programme</i></p> <p>Reinsurance is the primary tool in the Albanian market for managing insurance risks. As such, insurers are required to have a reinsurance programme that is included within their business strategy (Article 31 of the Insurance Law).</p> <p>Article 116 of the Insurance Law requires insurers to reinsure risks in excess of their maximum coverage (maximum coverage is limited to 10% of capital as specified in Article 75). Article 117 requires insurers to prepare a reinsurance needs programme each year that includes specific elements related to risk management and capital management. These include the requirements that the programme contain at least:</p> <ul style="list-style-type: none"> The calculation of net retained risks for each insurance class; Maximum retention and coverage by line of business; Evaluation of the net retention of aggregate maximum coverage for earthquake risks; Internal procedures, technical basis; and Criteria used to determine the maximum retention for the other aggregate and accumulated risks. <p>The Insurance Law is supplemented by Regulation No 85/1 of 30 September 2015 “On reinsurance criteria”, which further describes the Authority’s requirements. Regulation No 85/1 focuses primarily on the credit quality requirements of reinsurers and the Authority’s review and approval of reinsurance contracts.</p> <p>Reinsurance is required to be part of the insurer’s overall risk and capital management strategies, and is also required to be reflected in the insurer’s liquidity risk management metrics (Regulation No 56 of 28 April 2016 “On liquidity management by insurance and reinsurance companies”).</p> <p>In addition to the annual reinsurance programme, the Authority also requires insurers to submit regulatory reports for each reinsurance agreement. The requirements for these reports are prescribed in Regulation No 34 of 28 May 2015 “On compulsory and periodic reporting of insurance and reinsurance</p>

	<p>companies” and include information that the Authority uses to substantiate economic risk transfer.</p> <p>The Authority thoroughly reviews reinsurance contracts and insurer adherence to reinsurance contracts during on-site inspections. The Authority has published a distinct supervision manual for reinsurance describing its supervisory approach.</p> <p>Consideration of foreign reinsurers</p> <p>Regulation No 85/1 of 2015 defines credit quality in terms of credit ratings and the nature of regulation. It assigns the lowest credit quality to reinsurers that are not supervised by Solvency II equivalent regimes. This severely limits the use of these reinsurers and, together with the other requirements in the Regulation, provides assurance to the Authority regarding the level of supervisory oversight and capitalisation for reinsurers used by Albanian insurers.</p> <p>Issues regarding risk transfer to capital markets</p> <p>The Authority does not allow insurers to transfer insurance risk to the capital markets.</p>
Assessment	Observed
Comments	<p>The appropriate use of reinsurance supports a developing insurance market like that in Albania. The Authority has established laws, regulations and supervisory practices that result in effective management of an insurer’s reinsurance programmes. This effectiveness and the quality of the Authority’s supervision was proven during recent severe earthquakes where the insurance industry performed well and fulfilled its obligations without incident. As the insurance market continues to develop, the Authority may want to consider minimum retention limits for some lines of business where retention would promote good risk management and market development, recognising that in other lines such as earthquake insurance, high levels of reinsurance are likely to remain prudent.</p>
ICP 14	<p>Valuation</p> <p>The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.</p>
Description	<p>General framework</p> <p>Article 80 of the Insurance Law sets out requirements for the calculation of the insurer’s solvency margin: the minimum solvency margin shall be calculated in accordance with the methods laid down in regulations by the Authority. Articles 109–11 set out general requirements on accounting and financial reporting, providing that insurers maintain accounting records, value assets and liabilities, prepare financial statements, keep documentation, etc. Article 110 requires that insurers ensure that this information, documentation and data are accurate and reflect their real financial situation truthfully.</p>

	<p>There are similar provisions in Article 5 of Law No 25 of 2018 “On accounting and financial statements”.</p> <p>Article 111, paragraph 1 of the Insurance Law requires insurers to prepare financial statements and other detailed reports on their activities and to submit them to AFSA in accordance with the form, manner, content, list, period and time limits specified by AFSA Regulation No 34 of 28 May 2015 “On compulsory and periodic reporting of insurance and reinsurance companies”.</p> <p>Insurers must value assets and liabilities in accordance with IFRS, the use of which is mandatory for insurers under the general accounting legislation. However, the methods of carrying out the valuation of technical provisions are set out in AFSA’s Regulation No 9 of 25 January 2016 (“On the bases and methods of calculation, methods of maintaining technical provisions, and their criteria and procedures of approval by the Authority” – for non-life insurers) and Regulation No 187 of 24 November 2016 (“On the bases and methods of calculating mathematical provisions, methods on the maintenance of mathematical provisions and the criteria and procedures for their approval” – for life insurers). Regulation No 34 of 2015 (see above) also specifies valuation requirements for the purposes of reports made to AFSA.</p> <p>Albania will be adopting IFRS 17, the new accounting standard on insurance contracts, which is effective for annual reporting periods beginning on or after 1 January 2023. At the time of the main assessment work, AFSA and the accounting and auditing profession were considering how this will be implemented in practice, but AFSA has not published any material on implementation issues as yet.⁶</p> <p>The calculation of technical and mathematical provisions must be certified by authorised actuaries. Articles 223 to 225 of the Insurance Law (and Regulation No 37 of 27 March 2019 “On the renewal of the license of the authorised actuary”) provide for the licensing and regulation of authorised actuaries to ensure that they are qualified and competent to value assets and liabilities. Article 225 of the Insurance Law sets out their required tasks, including the calculation of technical provisions.</p> <p>In addition, Article 125, paragraph 4 of the Insurance Law requires that the audit report containing the opinion on the financial statements is accompanied by the audit company actuary’s report, stating an opinion on the adequacy of the insurer’s technical provisions in accordance with the Insurance Law, etc.</p> <p>Finally, the valuation of technical provisions, including compliance with the requirements of law and regulations, is subject to scrutiny by the actuarial staff of AFSA. Regulation No 34 of 28 May 2015 “On periodic and compulsory reporting by insurance and reinsurance companies” requires all insurers to report details of their technical account to AFSA, including mathematical provisions in the case of life insurers. The regulation also prescribes formats to be used for these submissions. These submissions have to be made quarterly</p>
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⁶ The assessors have been informed since the completion of the on-site assessment work in Albania that the authorities have decided to postpone implementation of IFRS 17 for a number of years to allow more time for the required preparatory work.

	<p>as well as on an annual basis. AFSA supervisors review the submissions and prepare a report for the Board of AFSA covering the opinion of the AFSA actuary on whether the technical provisions are adequate.</p> <p>Detailed valuation requirements</p> <p>Recognition and de-recognition of assets and liabilities is to be undertaken in accordance with applicable IFRS.</p> <p>In respect of technical provisions, Article 89 of the Insurance Law requires that insurers establish and maintain throughout their activity technical provisions that are sufficient to cover in a timely fashion their underwritten responsibilities and losses from risks deriving from insurance contracts. Further requirements are set out in Articles 89–95 of the Insurance Law.</p> <p>Regulation No 187 of 2016 requires <u>life</u> insurers to use discounting. Paragraph 2 of Article 93 of the Insurance Law and Article 4 of Regulation 187 require that an allowance for embedded options in life insurance products must be considered when calculating technical provisions. The assumptions in respect of financial and demographic parameters are to be governed by past experience, relevant regulations and the authorised actuary’s judgment. Life insurers base their calculations in practice on Albanian national mortality tables developed by the statistics authority and data from countries with similar conditions. AFSA sets a maximum technical interest rate to calculate mathematical provisions. Negative reserves may not be established.</p> <p>AFSA’s Regulation No 9 of 2016 prescribes, for non-life insurers, the basis and methods of calculation, methods of keeping technical provisions as well as the criteria and procedures for their approval. These provisions cover unearned premium reserves, unexpired reserves and catastrophe risk reserves. The methods prescribed in the regulations must be used on a consistent, reliable and transparent basis. Insurers are required to value technical provisions on an undiscounted basis.</p> <p>There are no explicit requirements for insurers to apply a margin over current estimate (MOCE) to the valuation of technical provisions. AFSA requires that reserves be established on a prudent basis, leading to provisions in excess of best estimate.</p> <p>Consistent with the overall valuation and solvency framework, which is based on the EU Solvency I directive (see ICP 17), assets are valued using IFRS and current market values do not have to be used. In practice, government securities, for example, are generally valued on the basis that they are held to maturity. For real estate assets, the revaluation process has to be carried out on a periodic basis as provided for in accounting standards (for example, every three years) by an independent, certified evaluator and the final report must be submitted on the same day as the balance sheet.</p> <p>There is no provision for the value of technical provisions and other liabilities to reflect the insurer’s own credit standing.</p>
Assessment	Largely Observed

<p>Comments</p>	<p>There is a comprehensive set of requirements, drawing on international accounting standards and including detailed regulatory requirements for the valuation of technical provisions. AFSA pays particular attention to valuation issues when evaluating the extensive reports submitted by insurers on a regular basis, including quarterly reports.</p> <p>The approach reflects the current overall approach to financial requirements, which is based on the EU Solvency I directive. Major changes, which are likely to align the approach even more closely to the ICP requirements, providing for a more fully economic valuation, are planned with adoption of IFRS 17 (Insurance Contracts) and proposed implementation of all or part of the EU Solvency II requirements. Even so, at present, the requirements include broadly market-consistent valuation of assets and provide for technical provisions to be calculated in a reliable, prudent and objective manner, with the input of judgment (and oversight of valuation by) an actuary authorised by AFSA.</p> <p>It is recommended that AFSA develop revised valuation standards in conjunction with its proposed introduction of risk-based solvency standards. These standards should provide, amongst other requirements, for a detailed framework regarding recognition and de-recognition of assets and liabilities, increased clarity on consistency of valuation of assets and liabilities over time and requirements for insurers to carry out economic valuation.</p> <p>It is also recommended that a timetable be established for implementation of relevant parts of the EU Solvency II requirements, the preferred approach of the authorities, taking into account the changes to be introduced through the implementation of IFRS 17 in Albania (see also comments on observance of ICP 17).</p>
<p>ICP 15</p>	<p>Investments</p> <p>The supervisor establishes regulatory investment requirements for solvency purposes in order for insurers to make appropriate investments taking account of the risks they face.</p>
<p>Description</p>	<p>General framework</p> <p>The general requirements for insurer investments are established in Article 78, paragraph 1 of the Insurance Law, which requires insurers to develop, adopt and implement investment and lending policies, standards and procedures that a prudent professional would implement in relation to investment and lending, to avoid any undue risk of losses and obtain a reasonable return on investment.</p> <p>Investment policies are required by Article 78 of the Insurance Law to be in writing, available for inspection and reviewed by insurers at least annually. Further provisions in Article 78 require that:</p> <ul style="list-style-type: none"> Insurers shall invest only in assets whose risks they can adequately identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency requirements (Article 78, paragraph 2);

- All assets shall be invested in order to ensure the security, quality, liquidity and profitability of the overall portfolio, and be easily accessible to AFSA for inspection purposes (Article 78, paragraph 3); and
- The assets shall be diversified in order to avoid excessive concentration on a single asset, issuer or group of companies or a specific geographical area, and excessive accumulation of risk of the overall portfolio (Article 78, paragraph 4).

The main requirements on permissible investments are set out Articles 96 to 108 of the Insurance Law, for assets covering technical and mathematical provisions, and in Regulation No 76 of 30 May 2016 “On allowed investments categories, applied restrictions and the use of derivative financial instruments”. Article 96, paragraph 1 of the Insurance Law, for example, requires that insurers set aside assets that are sufficient to cover their technical provisions in compliance with relevant provisions.

Regulation No 76 allows insurers to invest in land and buildings, investments in affiliates and companies with participating interests, a wide range of financial investments including bonds and shares, bank deposits, mortgage loans, other loans and “other financial investments”.

There are additional, more detailed requirements:

- For non-life insurance, on the types and characteristics of assets covering technical provisions, including rules on diversification and restriction on types of assets, in Regulation No 19 of 28 April 2015 “On assets covering technical provisions and types of investments allowed for these assets”;
- For life insurance, in Regulation No 200 of 27 December 2016 “On the assets covering mathematical provisions and allowed types of asset investments”.

Limits on types of investment, etc

For non-life insurance, Article 4 of Regulation No 19 of 2015 elaborates on allowable investments set out in Article 97 of the Insurance Law, adding, amongst other items, a reinsurer’s share in technical provisions and amounts owed by policyholders and intermediaries deriving from insurance activity, subject to limits, including on days outstanding.

There is also provision in Article 4 of the Regulation for AFSA to approve other types of assets, including certain highly rated securities issued by an EU member state or OECD member or by a non-governmental EU or OECD entity, certain shares traded in EU or OECD regulated capital markets, and collective investment undertakings in an EU member state or OECD member. The Authority has not given such approval.

In addition, Article 97, paragraph 3 of the Insurance Law provides that in exceptional circumstances, AFSA may, on request from an insurer, temporarily approve other categories of assets covering technical provisions if they are of a prudent nature, diversified and adequately allocated. The Authority has not given such consent.

Article 5 of Regulation 19 sets out diversification and restrictions of assets, stating the percentage of each type to be considered for covering technical provisions.

- They include a limit of 30% of gross technical provisions in real estate, including “10% in each piece of land or building or in a number of parts of land or buildings, close to each other, how much an investment can be effectively assessed” (ie in such cases, only 10% of value can count towards investments covering technical provisions).
- The highest limit is 40% of gross technical provisions for “listed securities”, together with “participation in investment funds or in collective investment schemes”.
- There is also a limit on a reinsurer’s share in technical provisions, but this excludes reinsurers that are classified as BBB– and above.

Separate requirements apply to the assets covering mathematical provisions of life insurers. Articles 100–108 of the Insurance Law require that such assets be used only to pay claims deriving from life assurance contracts for which those provisions have been established. Article 103 sets out the permissible investment types, similar to those applicable to assets covering technical provisions. With respect to real estate, it includes requirements such as that land is registered by the Immovable Property Registration Office in the name of the insurer; and that it yields a return and is not pledged as collateral.

Regulation No 200 of 2016 then sets out more provisions on permissible investments as well as investment principles, diversification requirements and limitations on investments, valuation and reporting to AFSA. Additional investment types are provided for which are similar to the list for technical provisions with conditions, for example on mortgage and other loan assets.

There are similar provisions for additional types of asset with AFSA approval. Certain assets are excluded, including “securities of the companies which are subsidiaries, supporting companies, shareholders of the insurance company” (Article 9 of the Regulation).

Article 10 sets out diversification requirements, etc, which are similar to those for technical provisions except that the limit on real estate is 25% of gross mathematical provisions and the highest limit is 70%, for listed securities, etc (however, the total of such securities and real estate is also limited to 70%). There is a 50% limit on deposits at banks in Albania.

Life insurers are also subject to a general requirement to take into account the need for diversification of investments issued by different issuers and across different activities, the evaluation of risks related to the issuer or the borrower, expected return on investment, duration of the investment and interconnection between different types of investments (Article 7 of the Regulation).

Article 8 of the Regulation requires that they approve an internal investment regulation that defines the strategy, principles, procedures, monitoring and reporting of investments in accordance with the regulations, etc.

	<p>Other requirements</p> <p>Article 96, paragraph 4 of the Insurance Law requires that assets covering technical and mathematical provisions shall be equal to the amount of liabilities arising from insurance contracts in terms of the respective currency.</p> <p>Article 98, paragraph 1 of the Insurance Law requires insurers to appropriately match the amount of investment of assets covering technical and mathematical provisions which are exposed to risk of potential losses due to changes in interest rates, exchanges rates and other market risks, with its liabilities arising from insurance contracts whose level depends on the same changes. When investing assets covering technical and mathematical provisions, insurers shall also take into consideration the maturity date of the liabilities under individual insurance contracts (Article 98, paragraph 2 of the Insurance Law). There are related provisions in the regulations on mathematical provisions of life insurance.</p> <p>Under Article 99, paragraph 1 of the Insurance Law, when investing assets covering technical provisions, insurers may use financial derivatives if they reduce the risk or enable more efficient portfolio management. Insurers must report to AFSA on the use of financial derivatives. There are related provisions in the Regulations. Up till now, no derivatives have been used by insurers.</p> <p>Reporting and supervision</p> <p>Article 4 of Regulation No 34 of 2015 prescribes that every insurer shall report to AFSA on its investment portfolio, including detail on types of investment held and reports on assets covering mathematical provisions on a quarterly basis. AFSA's supervisors analyse the investments of insurers while preparing the company analysis on a quarterly and annual basis.</p> <p>Groups</p> <p>In line with the indirect approach to group-wide supervision taken by AFSA and provided for in laws and regulations, the requirements on investments apply only to individual insurers and not at the group level. There are related group risk management and solvency requirements that give effect to the indirect approach (see ICPs 8, 17 and 23).</p>
Assessment	Largely Observed
Comments	<p>There is a comprehensive set of requirements on insurers' investments which combines detailed quantitative requirements (limits on types of investment, diversification requirements, etc) with extensive qualitative requirements.</p> <p>In practice, the assets available to insurers in the Albanian market are relatively limited and insurers' investments are dominated to an extent not found in EU markets by real estate, government securities and bank deposits (see data in the Annex). AFSA and insurers themselves acknowledge the disadvantages of real estate as an asset backing insurers' technical/mathematical provisions, but argue that given limited alternatives (and with prudent regulatory requirements)</p>

	<p>it has a place in insurers' portfolios for the present, including as an effective hedge against inflation.</p> <p>It is recommended that, in addition to continuing to enforce existing limits on real estate investment (it is well placed to do so given extensive reporting), AFSA closely monitor the development of alternative assets, seeking opportunities to incentivise assets which present less challenge in terms of price discovery and illiquidity. AFSA should also further consider what can be done, with other authorities, to stimulate the supply of long-term investable assets to help support the development of savings-related life insurance in particular.</p>
ICP 16	<p>Enterprise Risk Management for Solvency Purposes</p> <p>The supervisor requires the insurer to establish within its risk management system an enterprise risk management (ERM) framework for solvency purposes to identify, measure, report and manage the insurer's risks in an ongoing and integrated manner.</p>
Description	<p><i>ERM framework – risk identification and measurement</i></p> <p>The main provisions in laws and regulations (see also ICP 8) are in:</p> <ul style="list-style-type: none"> • The Insurance Law, particularly Article 27, which requires insurers to establish risk management systems with policies, procedures and limits to monitor, control and adjust their activities based on business risks; other articles set out related requirements; • Regulation No 18 of 28 April 2015 “On organisational rules of the risk management system in an insurance company”, which sets out principles on risk management systems and policies and processes related to the definition, supervision and control of risks; and • In relation to earthquake risk, Regulation No 57 of 26 May 2017 “On the calculation of net retention of Aggregate Maximum Coverage of the risks deriving from insurance contracts”. <p>Other regulations also set out risk management requirements, including on the management of investments and the management of liquidity.</p> <p>Article 4 of Regulation No 18 of 2015 requires that insurers have in place effective processes targeted at the identification of all significant foreseeable risks such as insurance, market, credit, liquidity, operational and reinsurance risks. This applies to solo insurers and insurance groups (paragraph 4.2).</p> <p>Article 5 of the Regulation requires, amongst other things, that insurers have appropriate processes and tools, including models, whenever possible, for determining, assessing, supervising, managing and reporting risks.</p> <p>Article 7 requires that the risk management function be responsible for defining the risks faced by the insurer. It should assess and aggregate the risks determined as well as the overall risk profile of the insurer and its solvency. It should conduct stress tests and scenario analysis regularly.</p> <p>In addition, the requirement in Article 12 of Regulation No 18 of 2015 for insurers to prepare, submit (and publish as part of the annual report) an annual risk</p>

evaluation report (see below – ORSA) makes clear that insurers should identify risks and use stress and scenario tests to evaluate them.

There are, however, no detailed requirements either on the coverage of risks which are not easily quantified, such as operational risk, or on appropriate methodologies.

A major risk for insurers is earthquake risk. Regulation No 57 of 2017 requires insurers to calculate and report semiannually to AFSA their maximum aggregate net retention indicator, reflecting their reinsurance contracts. Article 10 of Regulation No 57 of 2017 requires that insurers draft internal rules related to the administration and accumulation of the risks linked to other aggregate underwriting risks and make them available to the Authority on request.

Interrelationship of risk appetite, risk limits and capital adequacy

The main requirements are set out in Regulation No 18 of 2015. As noted above, the risk management function should have a responsibility for evaluating the overall risk profile for the insurer, taking into account capital structure and regulatory capital requirements. This applies at company and group level.

Under Article 5 of the Regulation, the elements comprising the insurer’s risk management system must include a statement of the “acceptable risk clearly defined and approved by the Management/Supervision Council, in consultation with senior executives”. There is no detailed requirement on what should be covered by the risk appetite statement or for the risk appetite to be reflected in a structure of limits; nor is there an explicit requirement to link the risk appetite to capital (ie risk capacity).

The annual risk evaluation report which insurers are required to submit to AFSA under Article 12 of Regulation No 18 must, however, include a commentary on the minimum capital requirements and “the actions and estimates to reach the adequate level of capital in compliance with the risk profile”.

Asset-liability management, investment, underwriting and liquidity risk management policies

There are no requirements in Regulation No 18 of 2015 on insurers’ asset and liability management. However, Article 98 of the Insurance Law requires that investments of assets covering technical and mathematical provisions should appropriately match liabilities arising from the written insurance contracts which are exposed to the same risks (interest rate risk, foreign exchange risk or other market risks). Similar provisions are included in Regulation No 200 of 27 December 2016 “On the assets covering mathematical provisions and allowed types of asset investments” (see ICP 15).

Liquidity risk management is addressed by:

- Article 84 of the Insurance Law, which requires insurers to have liquidity management policies, including on the planning of expected and potential cash flows; systematic monitoring of liquidity; and measures to address causes of a lack of liquidity. It also requires insurers to calculate their liquidity on a daily basis; and

- Regulation No 56 of 28 April 2016 “On liquidity management by insurance and reinsurance companies”, which requires insurers to manage liquidity (cash flow planning in particular is required); to evaluate their liquidity position and calculate the relevant indicators on a daily, weekly and monthly basis; and to notify the Authority of shortfalls within 24 hours. A detailed definition of liquid assets and the required liquidity ratio is set out in Article 5 of Regulation 56 and insurers must report monthly on their (daily) liquidity ratios.

In addition, AFSA’s (published) Risk Focused Supervision Manual requires insurers to have a clearly defined internal policy on liquidity risk management.

AFSA monitors in its supervision whether insurers have adequate liquidity to meet liabilities on a daily basis. Liquidity management policies are reviewed as part of on-site supervisory work. The extent of reporting requirements (monthly reporting of daily positions) reflects the importance which AFSA attaches to the liquidity of insurers.

ORSA

AFSA’s version of an own risk and solvency assessment report (ORSA) – the risk evaluation report – is prepared by all insurers and submitted to AFSA annually. Regulation No 18 of 2015 requires that insurers document the process of risk assessment and carry out stress tests so as to provide AFSA with all the necessary information. Article 12 of the Regulation requires insurers to prepare and submit to AFSA the annual risk evaluation report covering, at company and/or group level:

- The Risk Management Framework: the governing structure, risk management function, committees, policies on risk acceptance and management; strategic and specific annual objectives;
- Categories of risk identified;
- Reporting framework: the requirements on risk reporting and the description of the approved methodology for risk evaluation and classification and performance of stress tests;
- Capital management: the requirements on minimum capital and the actions and estimates to reach the adequate level of capital in compliance with the risk profile;
- Risks: the methods, assumptions, determinations, assessment and supervision of each identified risk category, the evidence of stress tests for each category and the required capital;
- Business continuity plans;
- Recommendations and measures to manage risks; and
- A concluding section on the overall risk profile and the measures to be taken for the following year.

Insurers are required to submit the risk evaluation report to AFSA by the end of May each year.

	<p>AFSA has been receiving ORSAs/risk evaluation reports from insurers since Regulation No 18 of 2015 took effect. The approach of insurers is still developing. The reports are in practice still mainly focused on underwriting risk (and credit risk) but insurers are expected to quantify other risks as far as possible. Using the information from the report and from financial reporting, the Authority's supervisors assess and reach a conclusion about the financial position of the insurer, especially the adequacy of technical provisions and capital.</p> <p>Insurers may be provided with feedback. In discussions for the purposes of this assessment, some insurers expressed an appetite for more feedback on the risk evaluation report – interaction with AFSA is mainly focused on the quarterly and annual regulatory reporting.</p> <p>Groups</p> <p>Article 13 of Regulation No 18 of 2015 states that “All the provisions of this regulation relating to the construction, operation and improvement of the risk management system apply to the group as well”. Other provisions of the regulation take into account membership of insurers in wider groups, where applicable.</p> <p>In practice, in line with the indirect approach to group-wide supervision taken by AFSA and provided for in laws and regulations (see ICPs 8 and 23), the application of the requirements is generally to individual insurers. The ORSA/risk evaluation report, although it may be provided on a group basis, is submitted on a solo basis in practice.</p> <p>AFSA's assessment of the report does, however, take into account intragroup exposures and information reported in group annual financial statements, which are reviewed in detail alongside the reports of individual group member insurers (in practice, AFSA observes, where a group contains both a life and non-life insurer, the non-life insurer is predominant and the foreign operations of groups are relatively small).</p> <p>Recovery plans, etc</p> <p>Article 12 of Regulation No 18 of 2015 provides that the insurer must have well defined plans, set out within the risk evaluation report/ORSA, in order to ensure the continuation of activity, to cope with unforeseen situations, to resume activity, as risks materialise or events with harmful effect occur; and the results of the tests carried out. These plans are reviewed by AFSA supervisors and are part of its assessment of the overall risk evaluation report. There is no separate process for ensuring that insurers have effective recovery plans as required by ICP 16.15.</p>
Assessment	Partly Observed
Comments	The Insurance Law and Regulation No 18 of 2015 set out elements of a framework for effective ERM, requiring insurers to establish risk management systems with policies, procedures and limits to monitor, control and adjust their activities based on business risks. They are required to prepare and submit a

	<p>risk evaluation report with many of the elements of the ICP's ORSA requirements, including stress testing. AFSA supervisors pay special attention to key risks affecting insurers, particularly underwriting risks but also earthquake risk and liquidity risk.</p> <p>Other elements of a full set of ERM requirements, including full requirements on insurers' risk appetite and quantification of risks, are lacking. Insurers' risk evaluation reports require further development and the process of supervisory review is not yet a core part of AFSA's supervisory approach, reflecting in part the priority reasonably given to oversight of reserves adequacy, especially of key motor insurance risks.</p> <p>It is recommended that the Authority develop new regulations to implement the full range of ERM requirements covered by the ICP, including requirements for a risk appetite statement and related limits on risks and capital management requirements; apply the key requirements, including ORSA, at the group level; and set out in more detail the requirements on insurers in respect of recovery planning (the identification in advance of options to restore the financial position and viability of an insurer if it were to experience severe stress). AFSA should increase its capacity to assess insurers' ERM practices and risk evaluation reports/ORSAs.</p> <p>As with the valuation and solvency requirements (ICPs 14 and 17), it is likely to be appropriate to address the issues with ERM in the context of plans to implement risk-based capital and enhanced accompanying valuation standards, through the implementation of all or part of the EU Solvency II framework, as currently proposed (see also comments on observance of ICP 17).</p>
ICP 17	<p>Capital Adequacy</p> <p>The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.</p>
Description	<p>Article 75 of the Insurance Law provides details about insurer capital requirements (generally referred to as solvency in the law and regulations). Article 75, paragraph 2 states that, throughout their activity, the insurer shall possess adequate capital. Article 75, paragraph 3 prescribes that solvency shall consist of that company's assets, free of any foreseeable liability, less any intangible assets. Articles 75 to 76 and 79 set out the requirements on the definition of capital to be used in the calculation of capital adequacy. More requirements are set out in regulations.</p> <p>Article 74 states that the insurer's capital should reflect the insurance volume and classes under which it operates, and the risks to which it is exposed. In practice, the current regulatory approach to capital adequacy is based on the EU's Solvency I framework, which sets requirements for capital based mainly on insurance risks proportionately to the scale of the insurance business, but which does not capture all material risks (see ICP 16 also on the ORSA/risk evaluation report requirement).</p>

There is no provision for use of internal models.

Solvency requirements

Article 80 of the Insurance Law requires that the capital of an insurer shall not be below its required solvency margin, defined as the higher amount of:

- the guarantee fund provided for in Article 81 of the Insurance Law (see below); and
- the amount equal to 150% of the minimum solvency margin as calculated in accordance with AFSA's regulations (Regulation No 111 of 26 October 2015 "On the calculation method for the minimum solvency limit of insurance companies performing activities in life and non-life classes").

Article 81, paragraph 2 of the Insurance Law specifies that the guarantee fund may not be less than one third of the minimum solvency margin as specified in Article 80. As shown in Table 6, there are also fixed minimum amounts for the guarantee fund.

Table 6: Fixed minimum amounts of capital for the guarantee fund

Scope of license	Minimum capital
Non-life insurance excluding liability, guarantee and credit	ALL 260 million
Non-life insurance including liability, guarantee and credit	ALL 370 million
Life insurance	ALL 370 million
Reinsurance	ALL 370 million

Article 81, paragraph 5 requires that the guarantee fund be invested only in treasury bills and/or bank deposits with maturity period of no less than one year and be described as an account that may not be used without the Authority's prior approval.

Regulation No 86 of 3 July 2017 "On the management of an insurance company guarantee fund and cases of intervention" sets out rules on the diversification of the investments in terms of counterparty (banks) and limits in each foreign currency. It states that prior notification and approval of the Authority is required for changes in the guarantee fund assets and approval will be given only if the fund level remains above the minimum.

Regulation No 111 of 2015 "On the calculation method for the minimum solvency limit of insurance companies performing activities in life and non-life classes" sets out the required calculation of the minimum solvency margin.

- For non-life business, the required solvency margin is the higher value obtained from (gross) premium-based and claims-based methods of

calculation adjusted (subject to a floor) for the level of reinsurance obtained; requirements are reduced somewhat for higher volumes of business to reflect diversification effects;

- For life business, the required margin is the sum of two calculations:
 - a percentage of mathematical provisions adjusted (subject to a floor) for the level of reinsurance; and
 - to address mortality risk, a percentage of the total amount of “risky capital” for the relevant contracts written, with an adjustment for reinsurance.

There are separate requirements for life insurance contracts linked to investment funds, but these products are not currently sold in Albania.

The overall approach in the case on non-life insurance (over 90% of the market by premium volume) is represented by AFSA as follows:

$$MCR = \alpha \cdot \max [\text{method}(1)(\text{based on premiums}), \text{method}(2)(\text{based on claims})]$$

Where:

$$\text{Method}(1) = \begin{cases} P > 1 \text{ bn} & 18\% \cdot 1 \text{ bn} + 16\% \cdot (P - 1 \text{ bn}) \\ P \leq 1 \text{ bn} & 18\% \cdot P \end{cases}$$

$$\text{Method}(2) = \begin{cases} \bar{D} > 750 \text{ mln} & 26\% \cdot 750 \text{ mln} + 23\% \cdot (\bar{D} - 750 \text{ mln}) \\ \bar{D} \leq 750 \text{ mln} & 26\% \cdot \bar{D} \end{cases}$$

$$\alpha = \max \left(50\%; \frac{\text{net claims incurred(average)}}{\text{gross claims incurred(average)}} \right);$$

$$SCR = \max (\text{Guarantee fund}; 150\% \cdot MCR)$$

Data are in local currency (ALL) and P = gross written premiums, \bar{D} = the average claims over a three- or seven-year horizon, and α = the level of “conservation” (retention). See below on MCR (minimum capital requirement) and SCR (solvency capital requirement) as control levels.

Capital resources

Under Articles 75–77 and 79 of the Insurance Law, eligible capital is composed of:

- The core capital as provided in Article 76 of the Insurance Law, which is defined to include share capital, capital reserves and retained profit brought forward after deduction of payable dividends; and to exclude redeemed own shares, investment in intangible assets, carried forward losses and current-year losses and the difference between discounted and undiscounted claims provisions; and
- The additional capital as provided in Article 77, where approved by AFSA: cumulative preference shares, subordinated debt instruments, capital reserves related to the cumulative preference shares and “other elements”; less
- Required deductions (Article 79 of the Insurance Law) including capital instruments issued by other financial institutions (subject to thresholds) and

	<p>illiquid assets; Regulation No 87 of 26 June 2016 “On deductible elements in the calculation of the capital of insurance companies” sets out more detail on the illiquid assets that must be deducted.</p> <p>Regulation No 111 of 2015 “On the calculation method for the minimum solvency limit of insurance companies performing activities in life and non-life classes” includes Article 5, which includes as core capital “hidden reserves (plus values) deriving from the underestimation of the assets, as long as these hidden reserves (plus values) do not have an uncommon nature”.</p> <p>There is no limit in the law or regulation on how much additional capital may be used in the calculation of capital resources. AFSA notes that revaluation reserves are the only element used by insurers, that amounts included have to be approved by the Authority, and that supervisors intervene in the event that an insurer becomes significantly reliant on additional capital (AFSA uses supervisory powers to approve additional capital or require higher-quality capital).</p> <p><i>Solvency control levels and supervision/intervention</i></p> <p>AFSA views the required minimum solvency margin as the MCR (see formula above), unless the minimum level of the guarantee fund is higher (which was reported to be the case by one insurer in the discussions for the purposes of this assessment). If an insurer’s actual capital resources/solvency margin is below either of these two levels, the Authority may intervene with the appropriate corrective action.</p> <p>The Authority in practice regards the amount equal to 150% of the minimum solvency margin as the SCR and would not normally intervene above this level.</p> <p>Article 4 of Regulation No 34 of 2015 requires insurers to submit to AFSA a capital adequacy report on a quarterly basis in the specified format. This in turn is reviewed by supervisors and an AFSA actuary alongside other information received quarterly.</p> <p>If an insurer fails to comply with any of the capital requirements in the Insurance Law, AFSA’s powers of intervention and sanctions may be exercised as defined in Articles 149–54 (see ICP 10).</p> <p>Specifically, Articles 83 and 152 of the Insurance Law provide that the Authority may (but is not required to) instruct the insurer to file a financial recovery plan, together with proposed reorganisation actions for at least the following three years, containing detailed financial projections. The recovery plan has to be submitted for approval within the time limit set by the Authority, which has one month to make its approval decision and is required to take other actions under Article 152 if it rejects the plan.</p> <p>There are no specific provisions on actions in cases where an insurer fails to comply with the plan, but a wide range of actions under Article 152 would be available. AFSA is required to seek provisional administration when an insurer has failed to start implementing supervision measures required under Articles 152 and 153 of the Insurance Law (see ICP 12).</p>
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	<p>One insurer was not meeting minimum requirements (the SCR) as at Q2 2022 and had not been meeting them for an extended period. Another was meeting them only on the basis of a court-approved interpretation of the solvency requirements which AFSA is challenging at the Supreme Court (see Annex and ICP 2).</p> <p>Group capital adequacy</p> <p>Article 146 of the Insurance Law requires that insurance groups (see ICP 23) must calculate capital adequacy in an insurance group and submit reports to AFSA. In line with the indirect approach to group-wide supervision taken by AFSA and provided for in laws and regulations (see ICPs 8 and 23), in practice AFSA collects information on capital adequacy for each licensed insurer. It then reviews other information on the group-wide financial position, including intragroup exposures, information reported in group annual financial statements (which would help it to identify any double-gearing, for example) or in the ORSA/risk evaluation report, which should address risks related to group membership.</p> <p>Ongoing initiatives</p> <p>At the time of the assessment, AFSA was drafting a high-level roadmap towards implementation of the EU Solvency II framework, with the assistance of the World Bank. It is working in this context on guidelines with new regulatory requirements for insurance groups. Simplified elements of the provisions on corporate governance at the group level as well as risk management may be adopted and a full group-wide capital adequacy assessment will also be considered as provided for in the Solvency II requirements.</p>
Assessment	Largely Observed
Comments	<p>The capital requirements have been established in an open and transparent manner, reflecting the well established EU Solvency I framework. Their objectives and the bases on which they are determined are clear. Eligible capital resources are also clearly defined, although with wide scope in the regulations to include some relatively low-quality forms of capital. There are solvency control levels and, while AFSA is not required to intervene, it may and does do so when, as was the case at the time of the assessment, an insurer has failed to meet requirements. AFSA considers the capital adequacy of insurance groups through supervision, although there are no group-wide capital requirements at present.</p> <p>Solvency I is not a total balance sheet approach, however, and does not cover all risks and their aggregation explicitly (the requirement to meet 150% of the minimum margin implicitly but imperfectly captures some additional risk). AFSA is aware of this and is planning to adopt elements of the EU Solvency II framework.</p> <p>It is recommended that AFSA develop revised, more risk-based solvency requirements. These should provide, amongst other points, for a full balance sheet approach covering all material risks explicitly, more focus on highest-</p>

	<p>quality capital resources (a limit on the use of “additional capital”) and reduced discretion to intervene to enforce solvency control levels. AFSA should consider strengthening group-wide capital consistent with the development of its overall approach (currently an indirect one) to group-wide supervision.</p> <p>It is recommended that if the preferred approach of the Authority is for implementation of relevant parts of the EU Solvency II framework, a timetable be established as soon as possible⁷.</p>
ICP 18	<p>Intermediaries</p> <p>The supervisor sets and enforces requirements for the conduct of insurance intermediaries, in order that they conduct business in a professional and transparent manner.</p>
Description	<p><i>Licensing requirements</i></p> <p>Article 193 of the Insurance Law requires insurance intermediaries (defined to include both natural and legal persons carrying out intermediation activities against charges and commissions) to be licensed by AFSA. Insurance intermediation is defined in Article 192 as “the activity of presenting, proposing and carrying out other preparatory activities up to the signing of an insurance or reinsurance contract, and the provision of assistance during the period of validity of that contract, especially in the case of claims”.</p> <p>Articles 194 and 202 clearly establish the different roles of agents and brokers, clarifying that insurers are responsible for the actions or omissions of the agent in relation to the insured. Insurers must apply to AFSA for approval of the agents through which they distribute their products (Article 199).</p> <p>At end-2021, there were (as listed in AFSA’s Annual Report for 2021):</p> <ul style="list-style-type: none"> • 14 brokerage companies, five banks and four individuals licensed as brokers; seven companies and one bank act only in non-life insurance, while the remainder cover life and non-life, of which four also provide reinsurance brokerage services; and • 863 individuals approved as insurance agents and 53 legal entities, four of which are banks. <p>Article 215 of the Insurance Law restricts intermediaries to performing only activities for which they are licensed and prohibits them from authorising other persons to perform intermediation activities on their behalf.</p> <p>Licensing criteria for agents and brokers are defined in Articles 192–201 of the Insurance Law. Detailed requirements are set out in:</p>

⁷ The assessors have been informed since the completion of the on-site assessment work in Albania that AFSA has consolidated a high-level roadmap to implement Solvency II. This roadmap was drafted with the technical assistance of the World Bank and was formally approved by the Board of AFSA in early 2023 (Board decision No 2, 26 January 2023). AFSA notes that the roadmap will be implemented once further technical assistance from the World Bank is provided.

- Regulation No 79 of 31 August 2015 “On granting approval/licence to carry out the insurance agent activity, as well as denied cases of registration and refusal to grant the license”; and
- Regulation No 48 of 30 June 2015 “On criteria, procedures and terms to grant the licence and cases of refusal to grant the license for carrying out brokerage activity in insurance”.

These regulations establish requirements, for example, on the documentation to accompany an application for licensing, professional liability insurance requirements, etc. Brokers must submit information on their shareholding and organisational structure and their business plan for the first three years, as well as internal processes. Agent companies must have capital of ALL 1 million, while a broker or brokerage company must post financial security at a bank equal to 4% of annual premiums but no less than ALL 1 million.

Related requirements, including for Bank of Albania approval, apply where the agent or brokerage company applicant is a bank (Articles 8–9 of Regulation 79 of 2015 and 9–10 of Regulation 48 of 2015); and where the insurance agency business is related to a separate primary activity (limited in the regulation to postal services, financial services, travelling agency services, real estate agency services and trading of motor vehicles services). In these cases, the entities must be licensed by the Authority and a person responsible for the insurance activity must be identified (Article 10 of Regulation 79 of 2015).

Agents must not be related parties to an insurer, another agent company or insurance and reinsurance brokerage company (Article 201 of the Insurance Law) and brokers/brokerage companies may not hold any shares in insurers and vice versa (Article 208).

Regulation No 40 of 31 March 2016 “On the form, content and rules for keeping the registers of insurance intermediaries” requires AFSA to keep a registry of insurance intermediaries on its website. It maintains an up-to-date list in practice.

Ongoing supervision

Under Article 193 of the Insurance Law, insurance intermediaries are subject to ongoing supervisory review by AFSA. Its Licensing, Consumer Protection and Market Conduct Department follows a risk-based approach in reviewing whether intermediaries fulfil their licensing and conduct of business requirements. It carries out off-site and on-site supervision.

Regular reporting is required under Regulation No 2 of 25 January 2016 “On the form, terms and content of financial statements, statistical reports and other reportings of intermediaries in insurance and reinsurance”, of which:

- Article 3 requires intermediaries to keep business books and (in the case of companies) to submit to AFSA semi-annual and annual financial statements prepared under IFRS; and
- Article 4 requires them to submit quarterly statistical reports with data structured as set out in an appendix to the Regulation.

Inspections are performed in accordance with Instruction No 209 of 25 November 2021 “On inspection procedures in entities supervised by the

	<p>Albanian financial supervisory authority” and are carried out based on AFSA’s annual inspection plan, which also provides for ad hoc inspections in response to issues arising off site.</p> <p>The inspection programme, which was reduced because of the Covid-19 pandemic in 2020 and 2021, focuses particularly on brokerage companies, all of which were inspected in 2021. Selected inspections were undertaken in 2021–22, including of banks, in cooperation with the Bank of Albania and including verification of the agreements of insurers with the banks from the consumer protection perspective.</p> <p>Examples of inspections discussed with AFSA for this assessment included an inspection of a bank undertaken by staff from both the supervision and consumer protection units, taking 10 days, and an inspection of a non-life broker.</p> <p>Inspections of brokers and agents focus on verification of compliance with the requirements of the Insurance Law and Regulations 48 and 79 of 2015 (see above).</p> <p>Professional knowledge and competence</p> <p>Article 199 of the Insurance Law sets out the requirements on professionalism, ethics, and reliability to be met by insurance <u>agents</u>. Paragraph 4 requires agents to maintain appropriate levels of professional knowledge and experience, integrity and competence. Every three years, the agent must undertake professional training and submit the certification to AFSA. Detailed requirements on professional knowledge, etc are laid down in Regulation No 79 of 2015 (see above).</p> <p>The requirements for <u>brokers</u> are set out in Articles 206 and 207 of the Insurance Law and in Regulation No 48 of 2015. The licensing of brokers is subject to a professional exam drafted by AFSA’s Department for Financial Education (Article 3 of Regulation No 48 of 2015). Evidence of professional knowledge for brokers includes experience, education and training. Every three years, brokers must undertake professional qualifications and submit the certification to AFSA (Article 12 of the Regulation).</p> <p>As well as the Insurers Association, AFSA has authorised two companies to offer professional training for agents in insurance. Training syllabuses are posted on AFSA’s website. Every three years, agents and brokers are required to collect 24 and 30 credit points by attending professional training, respectively.</p> <p>Governance</p> <p>Insurance brokerage companies should be established as joint-stock companies. AFSA regulations set out rules on the organisation and operation of brokerage and agent companies (Regulations 48 and 79 of 2015). There are no detailed requirements on governance specific to agent and broker companies.</p> <p>If the brokerage activity is carried out by a licensed bank or a branch of a foreign bank, Article 10 of Regulation No 48 of 2015 sets out licensing requirements, including on the structure of the brokerage unit and business plan.</p>
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	<p>All the requirements are subject to ongoing supervision as well as to on-site inspection.</p> <p>Disclosure requirements</p> <p>Article 60 of the Insurance Law states that insurers and intermediaries must inform the insured of the insurance scope, coverage, duration and other issues related to the contract, prior to signing and throughout the contract validity.</p> <p>Article 61 sets out core principles for information provided to consumers by insurers and intermediaries. In addition to being required to disclose clear and adequate information prior to contract execution, intermediaries must, before execution and during the contract validity period, inform consumers of any conflict of interests that they might have with other parties, including any economic and legal relations that might affect the performance of insurers' obligations towards consumers.</p> <p>Article 63 of the Insurance Law requires that intermediaries provide consumers with information on costs related to the insurance contract prior to signing. This includes tax, fees and commission related to the contract (ie they have to disclose the actual remuneration, not just the basis for remuneration).</p> <p>In 2021, AFSA detected a case of non-compliance with disclosure requirements and followed up with recommendations.</p> <p>Client monies</p> <p>Brokers and brokerage companies are explicitly permitted under Article 205 of the Insurance Law to collect premiums from the insured for insurers. They must use a special account held separately from their business accounts. As noted above, they must also have professional liability insurance and post financial security.</p> <p>Article 198 of the Insurance Law prohibits agents and agent companies from collecting premiums (or any other monies) from the insured. Article 18 of Regulation No 79 of 2015 sets out requirements on the immediate payment of premium received into an insurer bank account (and insurers are responsible under Article 198 for agents' actions or omissions in relation to the insured).</p> <p>The existence and operation of such bank accounts may be checked during on-site inspections by AFSA. There has not been experience of loss to policyholders of premium or other monies in practice since the implementation of Regulations 48 and 79 of 2015.</p> <p>Supervisory measures/sanctions</p> <p>Sanctions on intermediaries are set out in Articles 248 and 249 of the Insurance Law, escalating for each violation of the respective provisions. AFSA may take measures up to the suspension and revocation of a licence in case of violations of requirements.</p> <ul style="list-style-type: none"> • Under Article 201 of the Insurance Law, AFSA shall revoke the <u>agent</u> company's licence if the company fails to fulfil the imposed measures to
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	<p>eliminate violations and irregularities within the specified time frame. The agent's activity may be suspended for a period of up to six months.</p> <ul style="list-style-type: none"> Article 211 defines the type of violations which can cause AFSA to revoke a <u>broker's</u> licence, including absence of professional liability insurance policy, failure to eliminate violations and irregularities as required by AFSA and violation of the provisions of applicable laws. <p>The Authority may suspend a licence for a period of up to six months for violations of the provisions according to Article 211 of the Insurance Law.</p> <p>It is a criminal offence to carry out unlicensed intermediary activities according to Article 251 of the Insurance Law. Upon identification of such cases, AFSA coordinates action with law enforcement authorities.</p>
Assessment	Observed
Comments	<p>There is an extensive set of requirements for the licensing, regulation and supervision of insurance intermediaries, including requirements on education and professional qualifications and regular training both for agents and, more extensively, for brokers. There are requirements on intermediary financial resources and governance, although there is scope for elaboration of the latter, which rely on general corporate law, to reflect the importance of intermediaries in relation to policyholder protection and the significant number and important role in non-life insurance of brokerage companies. AFSA collects data from intermediaries and has been resuming on-site supervision, including of banks, which play an important role in the distribution of life insurance because of their requirement for insurance in connection with loans.</p> <p>It is recommended that AFSA review its requirements on intermediary governance and develop them further, including in the areas of the responsibilities of boards, senior management, compliance, etc.</p>
ICP 19	<p>Conduct of Business</p> <p>The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.</p>
Description	<p><i>Policies and processes on the fair treatment of customers</i></p> <p>Article 58 of the Insurance Law sets out a general requirement on consumer protection applying to insurers and intermediaries and requiring them to:</p> <ul style="list-style-type: none"> Perform their activities with professionalism, care and devotion, acting in good faith and honestly; Inform the insured on the products, conditions of the insurance contract, benefits arising from such contracts as well as premiums and fees; Handle claims in a timely, fair and transparent manner; and

	<ul style="list-style-type: none"> • Not provide information or misrepresentations that misinform or deceive consumers. <p>Other requirements in laws and regulations are aimed at the outcome that customers are treated fairly (so that they are given appropriate information, have their claims and complaints handled fairly, etc). There are no requirements explicitly referring to the need for policies and processes on the fair treatment of customers as an integral part of an insurer's or intermediary's business culture.</p> <p>Conflicts of interest</p> <p>Article 61 of the Insurance Law requires an <u>insurer</u> to inform the consumer of any conflict of interest it may have with any other party, including all economic and legal ties, which might affect the compliance of the insurer's obligations to the consumer.</p> <p>For <u>intermediaries</u>, Article 63 requires that they provide consumers, prior to signing contracts, with information on costs related to the insurance contract. Regulation No 48 of 2015 (Article 8) and No 79 of 2015 (Article 6; see ICP 18) require agent and brokerage companies to have policies and/or processes on conflict of interest management.</p> <p>Arrangements between insurer and intermediaries to ensure the fair treatment of customers</p> <p>Licence applications by insurance agents and brokers have to be accompanied by an agreement between the agent and the insurer detailing which activities the agent will perform (Regulations 48 and 79 of 2015).</p> <p>There are no other explicit requirements on arrangements between insurers and intermediaries that should set out respective responsibilities on matters such as product development and promotion to ensure fair treatment of customers.</p> <p>Product development</p> <p>Insurers must submit information on products, premiums, etc as part of the business plan prepared for licensing and in case of a proposed expansion in the scope of activities to additional insurance classes (Articles 30 and 36 of the Insurance Law).</p> <p>There are no ongoing requirements in relation to product development.</p> <p>However, for specific products or product designs for specific target groups, AFSA assesses and will approve the terms and conditions of products in the course of supervision work. Examples of products approved include decennial liability (insurance to cover costs associated with the potential collapse of a building after completion) and life and health insurance for military personnel.</p> <p>Promotion of products and services in a fair, clear and non-misleading manner</p> <p>The Insurance Law requires insurers and intermediaries to provide consumers with timely, clear and adequate pre-contractual information and information during the life of the contract. Articles 67 and 68 of the Insurance Law require</p>
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that the promotional information on insurers and products, whatever the medium through which it is provided, contain clear, true and complete data.

The Consumer Protection Department of AFSA monitors the published information and promotional campaigns of insurers, and in case of new products, assesses the product's characteristics and its terms and conditions in cooperation with the Risk Management Directorate (where actuarial expertise is located), where necessary.

Pre-contractual stage

Article 213 of the Insurance Law establishes the responsibility of intermediaries to make information available to the insured prior to signing and also when changing or extending the insurance contract. This should include basic factual information such as the name of the insurer they have an agreement with, information on pre-contractual terms and information on submitting complaints.

Taking into account the customer's disclosed circumstances

Article 206 of the Insurance Law defines the responsibilities of brokers and/or brokerage companies to protect the interests of the insured. They should in particular:

- Conduct an appropriate risk assessment and establish the required coverage;
- Provide a written explanation and reason for their proposals as well as inform the insured on the amount of the brokerage fee; and
- Provide brokerage services which follow the requests of the insured in terms of insurance coverage.

Article 213 of the Insurance Law requires brokers to assess a sufficient number of contracts issued in the market to provide relevant professional recommendations to the insured to meet their needs and circumstances.

There are no similar requirements applying to agents or insurers.

Policy servicing

Under Article 64 of the Insurance Law, insurers and intermediaries must inform the insured within 10 days of any changes to the insurance legislation, insolvency, mergers, takeovers, liquidation or winding-up of companies, revocation of a licence for a specific class or all classes of insurance, and of any other change or events affecting the rights and obligations of the insured.

During the validity of the insurance contract, insurers and intermediaries are required to fulfil their obligation to provide information by using their official websites, mail, fax, telegraph, email and secure electronic signature.

Article 62 of the Insurance Law provides that if the insurer or intermediary does not fulfil the obligation for information or the information provided is deceptive or misleading or not relevant and consistent with facts, before the signing or during the validity of the contract, the insured has the right to terminate the contract and claim compensation for damage caused.

Claims handling

Article 59 of the Insurance Law sets requirements on claims handling, requiring that where an insured event occurs, the insurer must pay a compensation or the insured amount to the insured in accordance with the contract. Insurers must establish an internal system for handling insurance claims.

Where claims are handled by claims adjusters, these must be licensed by AFSA.

AFSA has a standard methodology for the handling of the MTPL claims set out in Regulation No 125 of 28 July 2021 “On determining the rules and methodology for calculating the indemnity covered by the compulsory insurance contract in the transport sector”. The regulation was developed based on Article 11 of Law No 32 of 16 March 2021 “On compulsory insurance in the transport sector” and the approach it sets out is mandatory for insurers.

Handling complaints in a timely and fair manner

Article 69 of the Insurance Law provides that customers may file complaints with insurers, which should address them within 15 working days. Insurers should establish internal systems for handling complaints.

AFSA’s Regulation No 35 of 28 May 2015 “On procedures and review of complaints” spells out the complaints procedures. Complaints handling systems are assessed in on-site inspections.

Complaints may also be made to AFSA. During 2021, the Authority handled 221 complaints across all its areas of responsibility, compared with 151 in 2020, an increase of 46%, almost all related to insurance. After the intervention of the Authority, about 58% of these complaints were resolved by agreement between the parties. MTPL insurance generated the highest number of complaints.

Complainants can also take their case to court. There is no other independent dispute settlement process or authority.

AFSA uses data on complaints it receives as an indicator of the activities of the supervised entities and as a signal for the current or possible risks.

Protection and use of information of customers

The principle of confidentiality and obligation to protect confidentiality is set out in Articles 71 and 72 of the Insurance Law. Insurers and intermediaries must keep confidential any data, facts and circumstances related to the insured of which they become aware in the course of conducting their activity.

Under Article 73 of the Insurance Law, insurers must collect, protect, deposit and use personal data obtained through their activity in compliance with Law No 9887 of 10 March 2008 “On personal data protection”. The obligation to protect confidentiality does not apply in prescribed circumstances, including where the insured agrees explicitly in writing to their disclosure; and where the information is required to establish facts in criminal proceedings.

Supervisory publication of information supporting fair treatment of customers

	AFSA's website has a consumer protection section with information, including the charter of consumers' and investors' rights, complaints, verification of MTPL insurance policies, and claims status (which enables policyholders to check the progress of a claim directly online).
Assessment	Largely Observed
Comments	<p>There are extensive regulatory requirements on conduct of business and AFSA undertakes supervision, supported by expert resources, to assess the practices of insurers and intermediaries, including thematic supervision to address such areas as claims handling.</p> <p>The requirements and supervisory practices generally cover the ICP requirements. However, there are no explicit requirements for policies and processes on the fair treatment of customers as an integral part of business culture; for arrangements between insurers and intermediaries governing responsibilities on matters such as product promotion; or for product development to take into account the interests of different customers. Requirements to conduct an appropriate risk assessment apply only to brokers.</p> <p>AFSA's extensive consumer protection work, including surveillance of the market, evaluation of new products, handling of customer complaints and regulating how MTPL claims are to be handled, enables it to intervene effectively in the interests of consumers where necessary. Products and distribution practices are relatively simple and standard, from a consumer protection perspective, in the Albanian market. Nonetheless, it is recommended that AFSA strengthen its regulatory approach by developing requirements in the areas of business culture and arrangements between insurers and intermediaries regarding their respective responsibilities for product development and customer risk assessment, applying them to both insurers and intermediaries, as appropriate.</p>
ICP 20	<p>Public Disclosure</p> <p>The supervisor requires insurers to disclose relevant and comprehensive information on a timely basis in order to give policyholders and market participants a clear view of their business activities, risks, performance and financial position.</p>
Description	<p>Annual report</p> <p>Article 128 of the Insurance Law requires insurers to publish an annual report, including audited financial statements and the auditor's opinion, on their official website no later than six months after the end of the calendar year. Article 66 has a similar requirement that the latest audited financial statements, including the auditor's opinion, be available on company websites.</p> <p>AFSA's Regulation No 110 of 26 October 2015 "On the content of the annual report published by insurance and reinsurance companies" sets out:</p>

- The principles for preparation of the report (completeness, materiality; clarity in expression; simplicity; adequacy in availability and use of the report; Article 5);
- Detailed information which the report must present, including at least (Article 6):
 - Company profile and governance;
 - Financial statements prepared in line with jurisdictional reporting financial standards;
 - External auditor’s report;
 - Internal audit report;
 - Lists of shareholders and participations of the company;
 - A summary description of the principles of monitoring, management and risk control;
 - Objectives of the company for the following year; and
 - Indicators on assets covering technical provisions, capital adequacy and liquidity.
- Requirements to disclose an analysis of the activity of the company (Article 6);
- Requirements that disclosures be made in a manner that is comprehensible to market participants regarding their profile, governance and controls, financial position, technical performance and the risks to which they are exposed (Article 6); and
- A requirement that the annual report be published in written and electronic form and made available on websites and public places (and, via a link) on AFSA’s website (only links to company websites were available at the time of the assessment; Article 7).

Disclosures on company profile, governance, etc

Disclosure requirements are limited to those required to be made in the annual report, including information on governance, risk management and controls (see above). Insurers may report additional details on their websites.

There are no explicit requirements for disclosure of key business segments, the external environment in which the insurer operates or its objectives and the strategies for achieving those objectives (ICP 20.3), although insurers may interpret the requirement to disclose “company profile and governance” (Article 6 of Regulation No 110 of 2015) to include these.

Article 66 of the Insurance Law (which also deals with obligations on insurers to provide information to policyholders) does, however, require that insurers use their websites to provide access to information on the insurer and its management structure and capital as well as the services and products offered, general terms of contracts, etc. Article 66 also requires that insurers establish and maintain their websites to effectively fulfil their information disclosure obligations.

In practice, insurers publish information on their corporate profile and governance in their annual reports.

Disclosures on technical provisions

The disclosure requirements in the Insurance Law and Regulation No 110 of 2015 do not explicitly include disclosure of information on an insurer's technical provisions by business segment, including future cash flow assumptions, choice of discount rates, risk adjustment methodology where used and other information as appropriate (ICP 20.5). These issues are covered in the actuary's report (not published) and may also be covered in the external auditor's report, which must be included in the published annual report under Regulation No 110 of 2015.

Disclosures of material insurance and investment risk exposures and their management, financial instruments and other investments and asset-liability management

Disclosure requirements are limited to those required to be included in the annual report (see above). These require the publication of financial and risk (and risk management) information: the summary description of the principles of monitoring, management and risk control and information on capital adequacy, a liquidity indicator and assets covering technical provisions.

Insurers disclose information as required by IFRS which are mandatory for insurer financial statements.

Regulation No 18 of 28 April 2015 "On the organization of the insurance company risk management system" requires all insurers to prepare an annual risk evaluation report (ORSA – see ICP 16) and submit it to AFSA by the end of May. Such a report must provide a thorough explanation and description of risk exposures, measurement and management. Summary details of the report may be included in the annual report, but there is no explicit requirement to publish any of the risk evaluation report, which is mainly a supervisory report for submission to AFSA.

Capital adequacy and liquidity

Disclosure requirements are again limited to those to be included in the annual report (see above) under Regulation No 110 of 2015. The requirement is only to publish an indicator and insurers meet this requirement by publishing the ratio of available capital to minimum required capital. Other information is published about capital adequacy in line with IFRS requirements, including the composition of capital available to cover regulatory capital requirements and capital management policy. There is no requirement to publish the solvency requirements of jurisdictions in which the insurer operates. Insurers do not use internal models.

Required disclosures on an insurer's liquidity risk are limited to publication of a liquidity indicator. Insurers publish in annual reports a single number liquidity ratio (the average daily liquidity ratio, although no definition is given in Article 6 of the Regulation).

	<p>Performance</p> <p>There are no specific supervisory disclosure requirements covering financial performance, in total and at a segmented level including information on earnings analysis, claims statistics, pricing adequacy and investment performance (ICP 20.12). Disclosure requirements are again limited to those to be included in the annual report under Regulation No 110 of 2015 and in practice insurers make disclosures in line with IFRS requirements.</p>
Assessment	Largely Observed
Comments	<p>Required disclosures cover a wide range of financial and other information and are concentrated in the insurer's annual report, which by regulation and in practice is widely available. The separate requirement on insurers to publish financial statements using IFRS means that disclosures are in practice largely presented in IFRS formats and related to the consolidated financial position of the insurer and group (limited information is available on the individual insurer). The additional required disclosures, on capital and liquidity adequacy, are limited to indicators, although they may be supplemented by information from the risk evaluation report. The annual report also helpfully covers objectives and key business lines of the insurer.</p> <p>As the market is small, mainly focused on non-life insurance and with a limited range of products, existing disclosures, focused on the annual report and report of the external auditor, may be sufficient. Discussions with intermediaries during the assessment work suggested that they are valued and used in practice. In the future, increased disclosures may be required as AFSA develops its financial requirements to align them with the EU Solvency II requirements.</p> <p>It is recommended that AFSA focus on increasing disclosures about financial strength of insurers and taking measures to support understanding of the numbers. This would entail requiring insurers to provide more details about capital adequacy, including changes in capital requirements over the period; and taking steps to improve public understanding of the solvency margin and potentially also the liquidity ratio.</p>
ICP 21	<p>Countering Fraud in Insurance</p> <p>The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.</p>
Description	<p><i>Fraud in insurance in legislation</i></p> <p>Fraud in insurance is a criminal offence under the Criminal Code, Section II (Article 145), which stipulates that submission of a false insurance application (or false information) or fabrication of false insurance claims may be penalised with five years of imprisonment.</p> <p>Under Article 240 of the Insurance Law, insurers and intermediaries must take all the necessary measures for preventing and rectifying any cases of fraud in</p>

	<p>the course of carrying out insurance activity. Insurers and intermediaries must promptly report to AFSA facts that amount to fraud in insurance.</p> <p>Article 125 of the Insurance Law requires the external auditor of the insurer or intermediary to promptly report to the Authority any facts in relation to an insurer of which the audit company has become aware in the course of performing its tasks, and which are related to fraud or embezzlement, theft, money laundering or financing of terrorism.</p> <p>Supervisory framework and different types of fraud risk</p> <p>Regulation No 135 of 31 October 2014 “On procedures and minimum principles regarding the internal control system and other aspects of an insurance company information system” requires, amongst other provisions, that the management of an insurer adopt internal policies on the use of information and communication technology (ICT) systems which aim to prevent and limit (inter alia) fraud and possibilities for abuse of information.</p> <p>AFSA has developed a claims supervision manual (in cooperation with the World Bank) which serves supervisors as guidance to assess whether insurers: (a) establish systems and controls for fraud detection; (b) raise claimants’ awareness of the consequences of submitting false claims; (c) establish databases with suspected fraudulent claims; and (d) train their staff to detect falsehood and possible fraud. In addition, the manual provides a structured approach for AFSA to monitor potential fraud cases during its on-site inspections.</p> <p>AFSA takes into account the risk of fraud in insurance in the course of its on-site inspections, where it discusses the insurer’s fraud systems and controls.</p> <p>Cooperation, coordination and exchange of information with other competent authorities</p> <p>The AFSA Law empowers cooperation and information-sharing with other relevant authorities according to Article 18/1 of the Law (see ICP 3). In addition, under Article 236 of the Insurance Law, AFSA’s powers to cooperate, coordinate and exchange information with other competent authorities, such as law enforcement authorities and other supervisors extend to “required information in relation to fraud committed in the course of carrying out activities in the area of insurance”. Exchange of information is ensured on a high level between relevant authorities such as police departments due to the maintenance of good relationships, according to AFSA.</p>
Assessment	Largely Observed
Comments	<p>Key requirements on insurance fraud are in place and AFSA takes into account the risk of fraud in its inspections of insurers and intermediaries, focusing on systems and controls.</p> <p>However, most fraud cases are reported directly by the insurer to the police and prosecutor’s office and AFSA’s experience of fraud is limited in practice. The Authority regards fraud risks as low, partly reflecting the nature of the market</p>

	<p>and controls such as its online calculator for bodily injury claims, which helps prevent claims inflation. In contrast, insurers reported that they view the risk as high.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> • AFSA deepen its understanding and awareness of fraud risks, including fraud typologies and fraud related to different insurance products; • AFSA review the effectiveness of measures for prevention and detection as well as reporting of fraud to the Authority; and <p>In order to gain more insights into types of fraud and to enhance fraud detection and prevention in the insurance sector and facilitate communication with the sector, AFSA consider appointing an internal contact person on fraud issues.</p>
ICP 22	<p>Anti-Money Laundering and Combating the Financing of Terrorism</p> <p>The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the terrorist financing. The supervisor takes effective measures to combat money laundering and terrorist financing.</p>
Description	<p><i>Jurisdictional framework</i></p> <p>Anti-money laundering and combating the financing of terrorism (AML/CFT) requirements are set out in the AML Law (Law No 9917 of 19 May 2008 “On anti-money laundering and countering financing of terrorism”).</p> <p>The General Directorate for the Prevention of Money Laundering (GDPML) is the jurisdictional authority for AML/CFT policymaking and implementation. It is the financial intelligence unit for the whole economy, operating under the Albanian Ministry of Finance. The GDPML may and does conduct on-site inspections in the insurance sector by itself or jointly with AFSA.</p> <p>Albania is subject to review of its AML/CFT framework by MONEYVAL (the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, a permanent monitoring body of the Council of Europe). According to the MONEYVAL follow-up report of May 2022, Albania has improved AML/CFT measures, demonstrating good progress in the level of compliance with the FATF (Financial Action Task Force) standards. It was assessed as having taken necessary steps in the area of licensing of non-banking financial institutions⁸.</p> <p><i>Understanding of ML/FT risks and a risk-based approach</i></p> <p>AFSA has defined a framework for AML/CFT in Regulation No 58 of 30 June 2015 “On due diligence and enhanced due diligence measures by the subjects of law for anti-money laundering and countering financing of terrorism”, supplementing the AML Law, and has a single risk-based supervisory approach</p>

⁸ Albania remained at the time of the assessment on the list of countries classified by the FATF as “under increased monitoring” (known as the “grey list”), which is used for countries actively working to address strategic deficiencies in their regimes.

for all entities which it supervises, including insurers, laid down in its Anti-Money Laundering Supervision Manual of 2015 (published on the website).

Regulation 58 applies only to “companies involved in life insurance or reinsurance, agents or intermediaries”, reflecting the assessment that AML/CFT risks are limited to life insurance.

Risk assessment is a key part of AFSA’s approach. Regulation No 58 of 2015 includes a Guideline which defines the way to assess ML/FT risks, using a risk matrix which covers internal and external risks. Life insurers are required to assess their risk at least annually in line with the regulation, which also requires them to report transactions to the GDPML, which shares them with AFSA on request. Article 11 of Regulation No 58 requires life insurers to report annually to AFSA their classification of customer risks. Risk assessment work on individual life insurers is shared with the GDPML.

Owing to the underdevelopment of life insurance and reinsurance activities, ML/FT risk across the sector is assessed as low. This is reflected in the jurisdictional risk assessment’s sectoral assessment.

Guidance and feedback to comply with AML/CFT

There is extensive guidance provided by AFSA as part of Regulation 58. This includes questionnaires to be used by insurers covering various issues including their approach to “know-your-customer” (KYC) requirements.

In addition, AFSA’s AML Supervision Manual of 2015 provides guidance on the expected coverage and contents of detailed AML/CFT policies and procedures, including identification of higher-risk accounts, customer due diligence, product design and use; employee compensation and bonus arrangements; monitoring (including the review of early policy terminations and suspicious transaction reporting); and record-keeping.

The guidance in the Regulation also covers:

- The need for insurers’ internal AML policies to set out the responsibilities of the board and management to ensure that the policy is implemented and communicated, appoint an AML compliance officer and other matters. Business functions should have the responsibility to execute AML controls in the first line of defence, including identification and verification of beneficial ownership of the customer and due diligence; and
- Training of employees, all of whom should receive at least basic training on the principles of AML, etc, while employees in exposed functions must have full/enhanced AML training. AML training should be followed by testing.

AFSA provides insurers and intermediaries with information on AML/CFT compliance through emails and the website, for example on amendments to regulations addressing MONEYVAL/FATF recommendations. In cooperation with the GDPML, it also provides training for supervised entities.

Monitoring and enforcing AML/CFT requirements

AFSA has an AML unit in the Enforcement and Anti-Money Laundering Directorate, under the Legal Affairs Department, with four full-time equivalent

	<p>staff, two of whom are dedicated to the insurance sector. Staff receive training. For example, they have participated in training organised by the Council of Europe and FATF for reporting institutions.</p> <p>Supervision is carried out in accordance with the Anti-Money Laundering Supervision Manual of 2015. Risk assessment is undertaken off-site based on reported information and using the risk matrix (see above), which informs the AML inspection plan. During inspections, systems and policies are reviewed and inspection reports, identifying corrective actions, are sent to the company. In 2021, AFSA conducted nine on-site inspections on AML/CFT. A key focus has been CFT risks, reflecting issues raised (for the economy generally) by MONEYVAL. A thematic approach was taken.</p> <p>Cooperation and coordination</p> <p>The AFSA Law empowers cooperation and information-sharing with other relevant authorities according to Article 18/1 of the Law, and AFSA cooperates and shares information, including on AML/CFT issues, in practice (see ICP 3).</p> <p>AFSA has signed a memorandum of understanding with the GDPML. It is also a member of the inter-institutional group created by Decision No 1, dated 19 February 2020, of the Committee on the Coordination of Fight against Money Laundering, to address the recommendations made by the FATF and its International Cooperation Review Group (ICRG). A cooperation agreement was signed between AFSA and the GDPML in 2020 to support this work.</p>
Assessment	Observed
Comments	<p>AFSA has a risk-focused AML framework for supervision, has issued a regulation and guidance to the life insurance sector and cooperates and exchanges information with other authorities. It has strengthened its AML/CFT framework based on MONEYVAL/FATF recommendations. There are no outstanding FATF issues relating to insurance, following work by AFSA on CFT issues.</p> <p>While AML/CFT risks in the insurance sector are assessed as low, AFSA conducts extensive supervision, both off-site based on reporting and through inspections carried out by specialist staff. On-site work is often conducted jointly with the jurisdictional authority, the Albanian government's General Directorate for the Prevention of Money Laundering (GDPML), with whom there is generally close cooperation.</p>
ICP 23	<p>Group-wide Supervision</p> <p>The group-wide supervisor, in cooperation and coordination with other involved supervisors, identifies the insurance group and determines the scope of group supervision.</p>
Description	<p>Identification of group legal entities and scope of supervision</p> <p>There are three international insurance groups operating in the Albanian market. Two of these are groups headquartered in Austria with Albanian insurance</p>

	<p>subsidiaries and the other is headquartered in Albania with subsidiaries in Kosovo. There is also an insurance group doing business exclusively in Albania. The legal entity structure in Albania for all of these groups is simple and does not include any non-regulated entities. This makes identification of the group's legal entities a simple process. All relevant regulators and supervisors have agreed to the list of legal entities and the scope of supervision.</p> <p>Article 50 of the Insurance Law requires that “if a company is going to be a member of an insurance group, that insurance group must have the appropriate structure enabling appropriate exercise of supervision, exchange of information between the responsible supervisory authorities and the allocation of responsibilities among those authorities”.</p> <p>Articles 140–48 of the Insurance Law are directed specifically at insurance groups. The articles in this section describe the scope of group-wide supervision, the entities that make up a group, obligations of an insurer operating within a group, intragroup reporting requirements, group governance, and solvency.</p> <p>Regulation No 55 of 26 May 2017 “On the supervision of the insurance group” provides further supervisory expectations, including information related to the scope of supervision, consolidated group capital adequacy, and reporting requirements. The reporting requirements include a report on the structure of the insurance group that contains a list of group entities with financial and group relationship information for each entity. The regulation also describes requirements for the group's internal control system and how the Authority evaluates groups.</p> <p>The Authority proactively cooperates with and has signed MoUs with insurance supervisors from various foreign jurisdictions, including the Central Bank of Kosovo, Austrian Ministry of Finance and Austrian Financial Market Authority, Insurance Supervision Agency of North Macedonia (ISA), Insurance Supervision Agency of Slovenia, Croatian Financial Services Supervisory Agency (HANFA), Italian Institute for the Supervision of Insurance (IVASS), and Financial Conduct Authority (FCA, UK). AFSA participates in supervisory colleges annually led by the Austrian insurance regulator. It also leads a quarterly supervisory college for the international group headquartered in Albania as the home supervisor with Kosovo.</p> <p>Having signed MoUs with insurance supervisors from various foreign jurisdictions, the Authority is able to be informed of and identify all legal entities that are part of the insurance group and ensure agreement with respect to the scope of supervision.</p>
Assessment	Observed
Comments	Current laws, regulations and supervisory practices are sufficient to meet the expectations of ICP 23, particularly given the simple legal entity organisation structures that exist in the Albanian insurance market. AFSA is reviewing

	changes that may need to be made related to group-wide supervision as it plans for the implementation of Solvency II in the future.
ICP 24	<p>Macroprudential Supervision</p> <p>The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and the insurance sector, uses this information to identify vulnerabilities and address, where necessary, the build-up and transmission of systemic risk at the individual insurer and at the sector-wide level.</p>
Description	<p><i>Data collection for macroprudential supervision</i></p> <p>The Authority publishes statistical information quarterly on its website regarding the insurance sector, including:</p> <ul style="list-style-type: none"> • List of insurers (date licensed to do business, date first policy sold, majority domestic/foreign, class of business sold); • Company statistics: earned premiums, gross written premiums, claims incurred, gross claims paid, capital; • Market statistics (for the entire market and split by life/non-life): balance sheet assets (detailed breakdown, balance sheet liabilities (detailed breakdown, and income statement; and • Efficiency ratios: 29 different ratios, for the entire market and split by life/non-life. <p>On a monthly basis, the Authority publishes a comprehensive statistical report on the performance of the insurance market. The information is broken down by company, insurance product and type of insurance and includes metrics ranging from various market share reports to written premiums and paid claims.</p> <p>The information made available publicly on its website is in addition to the extensive information that the Authority collects but does not make public. Required reporting by insurers is detailed in Regulation No 34 of 28 May 2015 “On compulsory and periodic reporting of insurance and reinsurance companies”. The information collected is both quantitative and qualitative and is used by the Authority to monitor individual firms and the market as a whole.</p> <p><i>Analysis of macroprudential risks</i></p> <p>Because the Albanian insurance market is small, it is unlikely to pose a financial stability risk to the country. The Authority therefore focuses its surveillance on externalities that may impact insurers, including primarily the impact of interest rates and inflation. The Authority also considers concentrations of risk within insurers, such as the increasing concentration of real estate exposure in insurer investment portfolios, and establishes limits as necessary. It considers liquidity risks at individual insurers and across the market.</p> <p>AFSA does not regard any individual insurer as systemically important. In reaching this view, it takes into account the nature of the products in the market (including the high degree of concentration on motor insurance), the number and</p>

	<p>market share of insurers and the ease with which policies could be transferred or replaced in case of failure of one insurer.</p> <p>The Authority is a member of the country's FSAG (see ICP 1), whose objective is to address potential macroprudential issues, and also participates with the Bank of Albania in complex crisis simulations. The Bank of Albania includes an analysis of the insurance sector in its reporting on financial stability issues.</p> <p>Transparency</p> <p>The Authority publishes an annual report that describes the markets it supervises (including insurance). The report includes how the insurance market has performed using various methods and discusses market trends observed and how the industry has responded to various market challenges. The report also discusses the Authority's supervisory activities, including the types of off-site supervisory work performed, on-site inspections, thematic inspections and group-wide supervision.</p> <p>The Authority also publishes an annual supervision report for the insurance industry that includes comprehensive quantitative data on the industry and trend analysis.</p> <p>Official bulletins are published on the Authority's website describing its actions against specific insurers, approval of various measures and other decisions taken.</p>
Assessment	Observed
Comments	Although the size of the market and individual insurers does not warrant concerns from a systemic risk perspective, the Authority has established processes that put it in a good position to monitor the industry's impact on the economy and the impact of various risks on the industry. The Authority collects extensive information that it uses to actively monitor and report on the industry, including the liquidity of the insurers. The Authority is highly transparent about the market and its own supervisory practices.
ICP 25	<p>Supervisory Cooperation and Coordination</p> <p>The supervisor cooperates and coordinates with involved supervisors and relevant authorities to ensure effective supervision of insurers operating on a cross-border basis.</p>
Description	<p>Agreement on identification and role of group-wide supervisor</p> <p>The Authority has signed MoUs and proactively cooperates with insurance supervisors from all relevant foreign jurisdictions, including the Central Bank of Kosovo (CBK), Austrian Ministry of Finance and Austrian Financial Market Authority (FMA), Insurance Supervision Agency of North Macedonia (ISA), Insurance Supervision Agency of Slovenia (AZN), Croatian Financial Services Supervisory Agency (HANFA), Italian Institute for the Supervision of Insurance (IVASS), and Financial Conduct Authority (FCA, UK). The Authority participates</p>

	<p>in supervisory colleges annually led by the Austrian insurance regulator and leads supervisory colleges quarterly as the home supervisor with Kosovo.</p> <p>The Authority recognises, in particular, the significance of the two insurance groups headquartered in Austria and has established close cooperation with the Austrian FMA. It participates in regional supervisory colleges related to the Austrian insurance groups and considers that the effectiveness and maturity of its supervision has benefited significantly from its interaction with the Austrian authority. It has enabled AFSA to understand, for example, how the operations in Albania relate to and affect the operations of the group and vice versa.</p> <p>AFSA also conducts joint inspections with other relevant regulators and supervisors, including with the Austrian FMA in 2018 and 2022, and in prior years with the CBK and ISA.</p> <p>Suitable coordination arrangements</p> <p>Methodological Guideline No 250 of 28 December 2018 “On insurance group supervision” describes the information-sharing agreement between AFSA, ISA (North Macedonia) and the CBK. It sets out general rules of cooperation between the supervisors “aiming at exchanging information in view of an effective supervision at group level for the national insurance and reinsurance companies, which have invested or have their branches in foreign countries”. The reporting forms used to share information are described as well as the plan for supervisory colleges to meet quarterly. The guideline describes the agreement to participate in joint inspections and the confidentiality agreement.</p> <p>Methodological Guideline No 250 also commits AFSA, ISA and the CBK “in the event of a decision, which impacts other companies within the insurance group” to exchanging in advance “information with the Authority where the company affected by such decision-making is located”. AFSA has in practice cooperated with another regulatory authority cross-border in a crisis: with the CBK in respect of the withdrawal of the licence of an Albanian insurer’s Kosovo branch.</p>
Assessment	Observed
Comments	<p>Although the Albanian insurance market is relatively small, insurance groups account for most of the gross premiums written. Accordingly, the Authority has taken appropriate actions to ensure proper supervision and regulation of insurance groups, including by establishing strong working relationships with other relevant regulators and supervisors.</p>

The Authorities' response to the assessment

The Albanian Financial Supervisory Authority (AFSA) would like to share with you its feedback as an evaluated jurisdiction, upon completion of the Member Assessment Programme (MAP) exercise.

With the aim of advancing towards the best international standards in the field of insurance, in the period 2021–22, AFSA was subject to the process of a full assessment of the compatibility of the legal and regulatory frameworks and supervisory practices with the Insurance Core Principles (ICPs). This was the second time Albania had been through the ICP assessment process; the first was carried out in 2013 by the IMF and World Bank, within the framework of the Financial Sector Assessment Program (FSAP). Following the FSAP recommendations, major changes were introduced into AFSA's law, and a new law on insurance and reinsurance activity was approved.

During 2022, the MAP was conducted by the IAIS, following a request from AFSA. The evaluation of ICP compliance was triggered by the above-mentioned legal changes, the dynamics of the development in the insurance market during this period, as well as the need for a new assessment of the compliance of the supervisory practices and standards applied by AFSA, compared with the ICPs' requirements.

This exercise proved to be overall very positive and useful for AFSA as it enhanced the understanding of the ICPs and their implementation in practice, and identified gaps between the existing legal and regulatory framework and practice and those foreseen in the international standards. The process was also helpful in light of the prospective transition to the European Union's (EU) Solvency II regime and bilateral meetings in the context of the EU integration process.

The self-assessment phase allowed AFSA to deepen its insight into the current regulatory framework, supervisory practices and potential areas where improvement is needed. We consider very positively the fact that the evaluation outcome from the Assessment Team in its majority was in line with the self-evaluation.

During the self-assessment and the feedback sessions with the experts, we were able to identify the areas of potential improvement of supervisory practices and reflect on alternative solutions. AFSA remains highly committed to addressing the identified legal and regulatory gaps and to improving supervisory practices.

The peer-review assessment reflects AFSA's achievements in progressing with the regulatory framework and going forward with further alignment with the ICPs. In our view, a few gaps are also subject to a larger macroeconomic context and other country-specific factors and these recommendations should be carefully adapted within the domestic context.

Overall, the MAP provided AFSA with valuable insights towards enhancing the insurance regulatory and supervisory frameworks. Some of the key lessons learnt from the MAP include:

- The importance of a robust legal and regulatory framework that is essential for effective supervision of the insurance industry, clear and enforceable laws and regulations, as well as effective supervision through the use of adequate powers and resources;
- The need for further developing risk-based supervision, with a major focus on areas of higher risks to the insurance industry and policyholders and allocating supervisory resources accordingly;
- The importance of information-sharing and cooperation between different regulators and other stakeholders, both domestically and internationally, to ensure effective supervision; and

- The need for improved transparency and accountability to promote trust in the insurance market and ensure that the regulatory and supervisory frameworks are effective.

We consider that the process was successful, also due to the following:

- Meeting the Assessment Team, composed of professionals of different backgrounds and areas of expertise, was very enriching professionally. The on-site discussions allowed us to exchange our points of view prior to the evaluation, and also permitted AFSA's team to further reflect on particularities and technical aspects of each ICP;
- The preparatory period provided AFSA with the opportunity to independently realise any non-compliance with ICPs. Then, during meetings, the specific issues were further discussed, allowing for an exchange of knowledge and experiences, which, in our opinion, had mutually beneficial results;
- Meetings with the market participants, government representatives, and other key entities in the country provided the team with the necessary feedback, suggestions and comments on the current practices to evaluate the feasibility of any course of action;
- In the beginning of 2023, during the bilateral meetings held in the European Commission on the framework of Albania's accession to the EU, AFSA (as the leader of Chapter IX "Financial Services") discussed, amongst other matters, the current state of the insurance sector and the national legal framework of the insurance market. Therefore, in the context of full alignment with EU Directives, the recommendations from the ICPs assessment are valuable to AFSA in the process of legal and regulatory amendments.

As a conclusion, we are committed to further alignment with the ICPs. This process was highly beneficial to AFSA's work towards achieving its objective of implementing the best international supervisory practices. We thank the Assessment Team for their dedication in making the process run smoothly and delivering successful outcomes.

Acronyms

AFSA	Albanian Financial Supervisory Authority
ALL	Albanian lek
ALSE	Albanian Securities Exchange
AML/CFT	Anti-money laundering and combating the financing of terrorism
AZN	Insurance Supervision Agency of Slovenia
CBK	Central Bank of Kosovo
EU	European Union
ERM	Enterprise risk management
FATF	Financial Action Task Force
FCA	Financial Conduct Authority (UK)
FMA	Austrian Financial Market Authority
FSAG	Financial Stability Advisory Group
FSAP	IMF/World Bank Financial Sector Assessment Program
GDP	Gross domestic product
GDPML	General Directorate for the Prevention of Money Laundering
GWPs	Gross written premiums
HANFA	Croatian Financial Services Supervisory Agency
IAA	International Actuarial Association
IAIG	Internationally Active Insurance Group
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle
ICRG	International Cooperation Review Group

ICT	Information and communication technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	Insurance Supervision Agency of North Macedonia
ISAs	International Standards on Auditing
IVASS	Italian Institute for the Supervision of Insurance
KYC	Know-your-customer requirements
MIS	Management information system
MCR	Minimum capital requirement
MOCE	Margin over current estimate
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MoU	Memorandum of Understanding
MMoU	IAIS Multilateral MoU on Cooperation and Information Exchange
MTPL	Motor third-party liability
NAC	National Accounting Council
NAS	National Accounting Standards
ORSA	Own risk and solvency assessment
PIE	Public interest entity
POB	Public Oversight Board
SCR	Solvency capital requirement

Annex – Institutional and market overview

Geography and population

1. **The Republic of Albania (Republika e Shqiperise) is a small European country with a population of around 2.8 million.** The country, which is located in the southern Balkan peninsular, has great geographic diversity with extensive mountain ranges and a long Adriatic and Ionian coastline. A large share of the total population and economic activity is located in the capital city of Tirana and nearby coastal city of Dures. The country is experiencing high levels of emigration, mainly of younger Albanians to other European countries.⁹

Economy

2. **Albania has transitioned from a socialist planned economy to a mixed economy classified by the World Bank as upper middle income.** Agriculture is an important sector. There is also significant electronics, manufacturing, textile, food, cement, mining and energy production. Albania has the largest oil deposits in Europe after Romania. The services sector has been the fastest-growing in recent years, including a large banking sector, telecommunications and tourism.
3. **Notwithstanding its growth, Albania continues to lag peer group countries in converging to EU living standards.** The economy is characterised by a high level of informality, relatively low labour participation rates and limited government resources, with social protection coverage amongst the lowest in the region. High net migration is a drag on growth.¹⁰ In 2019, Albania was ranked 82 amongst 190 economies by the World Bank in its annual Ease of Doing Business Survey.
4. **The economy has, however, experienced a high degree of stability despite numerous shocks, although growth is now slowing again and inflation increasing.** The economy has limited direct exposure to the impact of Russia's war in Ukraine. It had previously suffered from a major earthquake in 2019 and the Covid-19 pandemic, recovery from both of which was facilitated by IMF emergency financial assistance granted in April 2020. Like many other countries, Albania has been affected by rising energy and food prices. Inflation is projected by the IMF to reach 6.2% in 2022 (which compares with the 3% Bank of Albania target). However, GDP growth is expected to remain positive, while falling to under 4% in 2022 and lower again in 2023. The Bank of Albania has been raising interest rates (its base rate was increased to 2.75% in November 2022 and is expected to go higher).

Government and legislative powers

5. **Albania is a constitutional republic with an elected unicameral parliament.** The parliament is responsible for enacting laws, overseeing the actions of government and evaluating public policy. Members of parliament are elected every four years by universal direct suffrage. Executive powers are exercised mainly by the prime minister, chosen by the president of the

⁹ United Nations data show net migration of an estimated negative around 4 per 1,000 of population in 2021, contributing to a projected reduction in the population to 2.2 million by 2050 (see United Nations, *World Population Prospects 2022*).

¹⁰ See International Monetary Fund, "Albania: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Albania", *IMF Country Report*, no 21/259, December 2021.

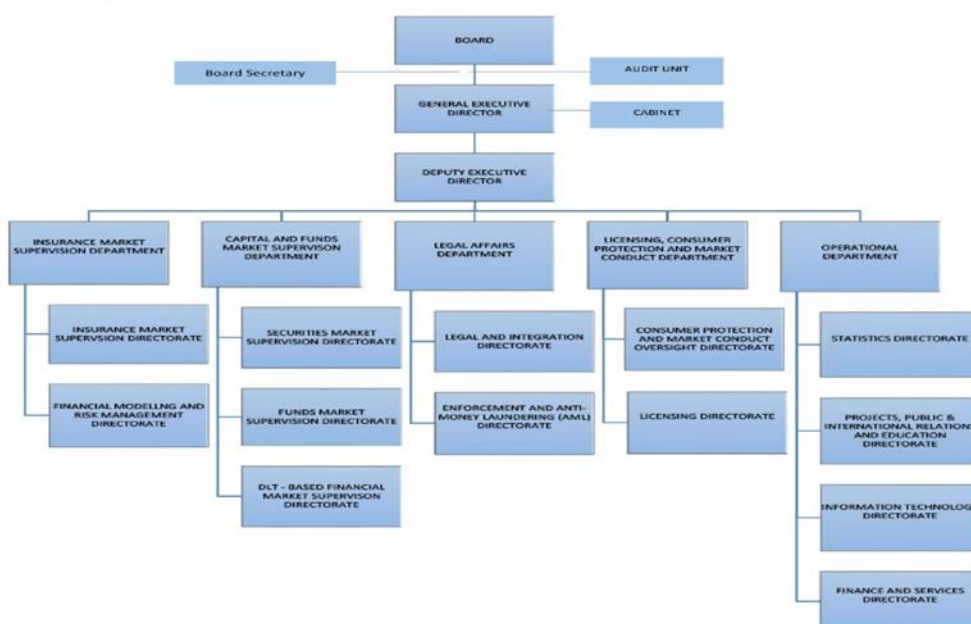
Republic subject to parliamentary approval. The president is elected by parliament for a five-year term and has limited powers.

6. **Albania's is a civil law system and the constitution provides for the separation of legislative, executive and judicial branches.** The court system, which includes a constitutional court and high court, and legal infrastructure are undergoing a reform process (see Section 3 of this report: Preconditions for effective insurance supervision). There are also first and second instance special anti-corruption and organised crime courts responsible for hearing cases prosecuted by the Special Prosecution Office. The National Bureau of Investigation leads on investigation of corruption and organised crime cases.

Institutional framework and arrangements

7. **Financial sector regulation responsibilities fall to the Bank of Albania and AFSA.** The Bank of Albania has powers under the 2006 Law "On banks" in the Republic of Albania to regulate and supervise the banking sector as well as non-deposit-taking lending institutions, savings and credit associations, leasing, factoring and payment service providers. AFSA has responsibility under the 2006 Law "On the Financial Supervisory Authority" for oversight of capital markets and investment business as well as the insurance sector and pension funds.

AFSA Organisational Structure 2021



8. **AFSA is established under the 2006 AFSA Law as a public legal institution, independent of government and accountable to parliament.** It is empowered to set its own budget and determine its organisation (see Table 7) and use of resources. AFSA's governing body, the board of directors, is responsible for taking decisions on regulatory and supervisory matters and on the internal organisation and affairs of the Authority (see ICP 2 assessment).
9. **Most of AFSA's resources are engaged in insurance regulation and supervision and it has an experienced team.** Insurance sector work is carried out in a number of different functions within AFSA in addition to the Insurance Market Supervision Department (see Table 7). While AFSA has been recruiting additional staff and there have been movements of staff out of

insurance sector work in the context of structural reorganisation, AFSA has not lost staff in recent years.

A consultative group on financial stability, the FSAG, brings together the institutions involved in financial sector oversight. Its members are the Minister of Finance, the Governor of the Bank of Albania and the Chair of AFSA's Board.

Table 7: AFSA resources for insurance regulation and supervision (FTE headcount by activity)

	End-2018	End-2021
Staff numbers		
Insurance company supervision ¹¹	16	14
Intermediaries supervision	2	1
Licensing	1	3
Policyholder protection	3	2
Legal affairs and enforcement	7	7
Statistics	3	4
Operational (Projects, IT, Finance, HR)	8	6
Total	40	37
Supervisory experience¹²	19¹³	14
Less than 3 years	8	1
>3 < 5 years	3	5
>5 <10 years	4	4
>10 years	4	4

Industry structure and recent trends

10. There are 12 insurers, eight of which are non-life, all wholly or principally primary insurers.

There have been no new entrants or exits in the past five years. All insurers are locally incorporated. There are no restrictions on new entrants, including foreign insurers, which (in the form of subsidiaries of Austrian insurance groups) currently account for around half of the market. The Insurance Law requires the separation of life from non-life insurance and generally prohibits offering of insurance from outside Albania to residents. It does allow primary insurers to write reinsurance business, although only one does so. Companies may also operate as specialist reinsurers, but none do so.

11. Many insurers are parts of groups with more than one insurer in Albania and with operations elsewhere in the region. The major Austrian groups (the only foreign insurers in

¹¹ The department does not have separate units or staff for types of supervision (off-site, on-site, etc).

¹² Supervision department, years of work experience in supervision, not total years of work experience.

¹³ 16 insurer supervisors as well as intermediaries supervision and licensing staff (all part of the same unit in 2018).

Albania) both have two licensed insurers and the two domestically owned groups have three and two licensed insurers respectively. The foreign operations of the Austrian groups' subsidiaries in Albania and the largest domestic group include licensed insurance business in Kosovo and North Macedonia. The largest domestic insurer owns 51% of a small bank.

12. **Non-life insurance accounts for over 90% of all written premiums.** Motor insurance, both third-party liability (MTPL), a compulsory product, and own damage (usually known as CASCO) account for around 70% of non-life gross written premiums (GWPs). Life insurance remains underdeveloped, with credit life (where a bank is the policyholder) accounting for most of the market.
13. **Penetration of insurance is low compared with other European countries.** In 2021 total GWPs accounted for 1.02% of GDP and insurance density (based on GWPs of EUR 160 million) was around EUR 56 (see Table 8, which, for comparison purposes, shows values in US dollars). The sector employs around 2,000 persons, including part-time and contracted. In the last 10 years there has been no insurer failure, although the branch in Kosovo of one Albanian company was subject to resolution action by the authorities there.

Table 8: Insurance penetration and density in selected countries in 2021 (US dollars)

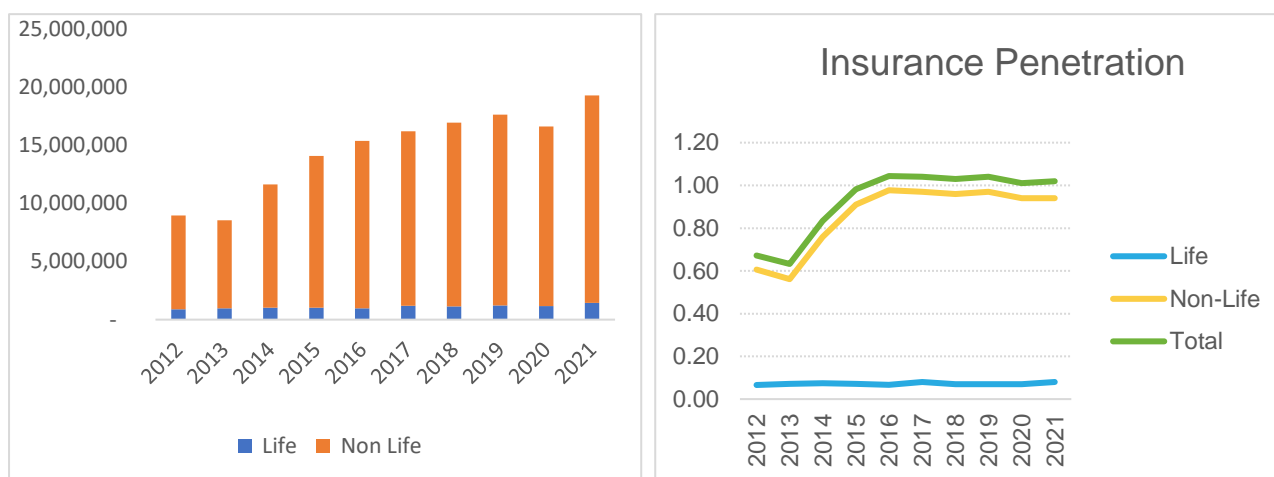
	Insurance penetration (%)	Insurance density (US dollars)
Similar countries in the region		
Bosnia and Herzegovina	2.2	144
Montenegro	2.2	211
North Macedonia	1.5	102
Serbia	1.9	177
Countries with similar per capita income		
Azerbaijan	0.9	49
Ecuador	1.9	112
Colombia	3.0	181
Peru	2.0	137
South Africa	12.2	852
Thailand	5.4	387
Albania	1.0	65

Source: Swiss Re Sigma

14. **The market has shown steady growth in recent years, except for 2020 because of the pandemic.** Growth has been concentrated in the non-life segment (see Table 9) and is sensitive to developments in the motor market such as the reduction of driving during the pandemic. Total life insurance premiums did, however, increase nearly 20% between 2017 and 2021, though without a major impact on penetration rates (see Table 9). Savings-related life insurance is not offered widely at present and accounted for under 10% of life GWPs in 2021.

15. **There are limited prospects for strong growth in current market conditions.** Discussions for the purposes of this assessment highlighted the low propensity of Albanians to buy insurance where not compulsory¹⁴ (much life insurance is effectively compulsory as it is a precondition for banks to grant loans). The major earthquake in 2019 did not lead to a lasting increase in demand for other forms of non-life insurance or in life insurance. A weakening economy may depress demand for insurance. There are, however, prospects for growth in health insurance following initiatives by insurers to build medical facilities, supporting the health insurance business.¹⁵

Table 9: GWPs and penetration for last 10 years (ALL thousands, annual and % of GDP)



16. **Distribution is handled through agent and broker channels and through direct sales.** There are some 756 licensed insurance agents and 52 insurance brokers. Agents are the main channel for MTPL insurance. Banks are an important distribution channel because of their requirement for credit life or credit personal accident protection in connection with loans, but because of the relatively small size of this market and despite their activity as agents in the non-life market, account for only some 3.5% of total GWPs (however, some banks have also established their own brokerage operations).

Operating performance, assets and liabilities, and solvency position

17. **The sector has been profitable in recent years (see Table 10), including during the pandemic and after the 2019 earthquake.** AFSA took measures during the pandemic to require insurers to improve monitoring, including of their liquidity position, to provide information to policyholders and to suspend dividend payments temporarily. With regard to earthquake risk, AFSA had already taken measures to ensure that insurers were assessing exposure appropriately and obtaining adequate reinsurance cover, contributing (together with limited penetration) to relatively low net losses from the 2019 earthquake, in which there was extensive destruction and loss of life in the city of Durrës and its region.

¹⁴ There are other compulsory products, including coverage for certain sectors such as oil and gas and mining, liability or health and life insurance coverage for certain workers.

¹⁵ Health insurance is primarily a non-life activity but may be carried out by life insurers, where linked to life insurance contracts.

Table 10: Insurance sector performance (in per cent)

	2016	2017	2018	2019	2020	2021
Return on assets	1.72	3.03	2.37	2.4	2.68	1.51
Return on equity	4.98	9.56	7.30	7.73	8.73	4.67

18. **Insurers' assets comprise mainly cash/bank deposits, government securities and real estate.** As shown in Table 11, investments held by insurers reflect the limited availability of some assets in Albania, especially corporate bonds (equity holdings include investment in subsidiaries). Insurers rely significantly on real estate, which for many includes offices owned and occupied by the insurer. Insurers do not offer investment-linked insurance contracts at present. There has been a steady growth in insurers' balance sheets in recent years, except in 2020 owing to the pandemic.

Table 11: Total industry assets and liabilities (in ALL thousands)

Grand total (insurance and reinsurance*)	2016	2017	2018	2019	2020	2021
Total assets	29,687,963	30,578,929	31,564,029	38,803,312	38,864,965	40,570,536
Investments:	18,811,497	19,424,706	20,647,281	22,151,339	25,028,762	27,584,573
Government securities	3,922,866	3,586,599	3,424,697	3,783,309	4,053,534	4,922,940
Corporate bonds	0	0	0	0	0	0
Equities	3,312,785	2,787,647	3,350,582	3,415,935	3,537,309	3,734,806
Real estate	2,165,314	3,021,467	3,412,013	3,423,604	4,792,182	5,876,495
Cash and bank balances	9,571,722	10,199,989	10,705,169	11,694,809	12,744,041	13,030,746
Investments supporting unit linked	0	0	0	0	0	0

Grand total (insurance and reinsurance*)	2016	2017	2018	2019	2020	2021
Receivables	2,983,799	3,808,980	4,012,768	4,611,739	3,570,222	3,153,326
Other assets	903,653	571,679	587,173	594,545	608,521	683,758
Total liabilities and equity	29,687,963	30,578,929	31,564,029	38,803,312	38,864,965	40,570,536
Share capital	7,707,544	6,952,515	7,365,937	7,365,937	7,473,417	7,743,417
Accumulated retained earnings**	1,967,247	2,465,535	3,298,741	3,779,301	5,177,852	5,315,771
Technical provisions	15,567,548	15,840,175	16,392,919	22,100,493	20,986,489	22,019,511
Other liabilities	5,320,704	5,320,704	4,506,432	5,557,581	10,568,984	9,828,019

*Reinsurance activity is very limited; therefore, there is no dedicated financial reporting.

**includes current period profits.

19. The sector is adequately capitalised overall, although not all insurers were meeting minimum requirements at the time of the assessment. As shown in Table 12, the sector has exceeded minimum solvency requirements in the last few years, a strengthening of its position compared with 2018 and earlier (numbers shown are the ratios of available solvency capital to total requirements, expressed as 150% of the amount calculated under the regulation). However, one insurer was not meeting minimum requirements as at Q2 2022 and another was meeting it only on the basis of a court-approved interpretation of the solvency requirements which AFSA is challenging at the Supreme Court (see ICP 2).

Table 12: Insurer solvency (in per cent)

	2016	2017	2018	2019	2020	2021
Coverage of minimum requirement	75	51	53	111	161	172

Risks and vulnerabilities

20. **The main risks to insurers are related to the importance of motor insurance.** The market is competitive and there are risks relating to underpricing of policies and underreserving for claims. There are risks from the likelihood of further significant earthquakes or other natural catastrophes. As noted, AFSA has taken action to strengthen insurer resilience and wider initiatives in relation to the implications of earthquake risk for the sector, government finances and the economy are under discussion with input from international agencies. Although the Covid-19 pandemic did not lead to more than 100 deaths attributable to the disease and related claims payments were manageable at around 1.2 million euros in total, there were wider impacts, including some liquidity stresses. A future pandemic remains a material risk, especially if life insurance penetration (with pandemic coverage) increases.
21. **Financial risks are relatively limited.** Not holding corporate securities, insurers are not subject to credit risk to the same extent as in other markets. They are, however, exposed to the capacity of reinsurers (including related group companies in the case of the foreign-owned Albanian companies) to pay claims, also a source of significant liquidity risk. Experience in this regard, including after the 2019 earthquake, is reported to have been good. Market risk is relatively limited given the nature of assets and liabilities. Government bonds are generally held to maturity, for example, and life insurance products are not sold with guarantees or other features giving rise to interest rate risk.
22. **A key risk stems from the challenges of profitably growing business in current market conditions.** Insurers face strategic risks from the low propensity of Albanians to buy insurance as well as the reducing population. They need to develop attractive products and appropriate distribution strategies and ensure that pricing and selling processes do not expose them to undue insurance or conduct risks. As in many markets, there are material risks from insurance fraud, although risks relating to money laundering appear low given the nature of the insurers' products at present. As Albania continues to align regulations with those of the EU, some insurers are likely to face risks related to a more complex regulatory framework (as is planned for solvency, for example), notwithstanding the commitment of the authorities to a proportionate approach.