Council Directive of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings (91/674/EEC)

SECTION 7

Valuation rules

Article 60

Provisions for claims outstanding

1 *Non-life insurance*

a A provision shall in principle be computed separately for each case on the basis of the costs still expected to arise. Statistical methods may be used if they result in an adequate provision having regard to the nature of the risks; Member States may, however, make the application of such methods subject to prior approval.

b This provision shall also allow for claims incurred but not reported by the balance-sheet date; its amount shall be determined having regard to past experience as to the number and magnitude of claims reported after the balance-sheet date.

c Claims settlement costs shall be included in the calculation of the provision irrespective of their origin.

d Recoverable amounts arising out of the acquisition of the rights of policyholders with respect to third parties (subrogation) or of the legal ownership of insured property (salvage) shall be deducted from the provision for claims outstanding; they shall be estimated on a prudent basis. Where such amounts are material, they shall be disclosed in the notes on the accounts.

e By way of derogation from subparagraph (d), Member States may require or permit the disclosure of recoverable amounts as assets.

f Where benefits resulting from a claim must be paid in the form of annuity, the amounts to be set aside for that purpose shall be calculated by recognized actuarial methods.

g Implicit discounting or deductions, whether resulting from the placing of a present value on a provision for an outstanding claim which is expected to be settled later at a higher figure or otherwise effected, shall be prohibited.

Member States may permit explicit discounting or deductions to take account of investment income. No such discounting or deductions shall be permissible unless:

(i) the expected average date for the settlement of claims is at least four years after the accounting date;

(ii) the discounting or deduction is effected on a recognized prudential basis; the competent authority must be given advance notification of any change in method;

(iii) when calculating the total cost of settling claims, an undertaking takes account of all factors that could cause increases in that cost;

(iv) an undertaking has adequate data at its disposal to construct a reliable model of the rate of claims settlements;

(v) the rate of interest used for the calculation of present values does not exceed a prudent estimate of the investment income from assets invested as a provision for claims during the period necessary for the payment of such claims. Moreover, it must not exceed either of the following:

— the investment income from such assets over the preceding five years,

— the investment income from such assets during the year preceding the balance-sheet date.

When discounting or effecting deductions, an undertaking shall, in the notes on its accounts, disclose the total amount of provisions before discounting or deduction, the categories of claims which are discounted or from which deductions have been made and, for each category of claims, the methods used, in particular the rates used for the estimates referred to in the preceding subparagraph, points (iii) and (v), and the criteria adopted for estimating the period that will elapse before the claims are settled.

2 *Life insurance*

a The amount of the provision for claims shall be equal to the sums due to beneficiaries, plus the costs of settling claims. It shall include the provision for claims incurred but not reported.

b Member States may require the disclosure in liabilities item C (2) of the amounts referred to in (a).