

SCHEDULE 3

Regulation 17

GENERAL BUSINESS SOLVENCY MARGIN: FIRST
METHOD OF CALCULATION (PREMIUM BASIS)

1. In this Schedule—

“gross premiums”, in relation to an insurance company and a financial year—

- (a) means premiums after deduction of discounts, refunds and rebates of premium but before deduction of premiums for reinsurance ceded and before deduction of commission payable by the company, and
- (b) includes premiums receivable by the company under reinsurance contracts accepted by the company;

“receivable”, in relation to an insurance company, a financial year and a premium, means recorded in the company’s books as due to the company in respect of—

- (a) a contract commencing in that year, or
- (b) a contract not accounted for in an annual revenue account of the company prior to that year, even though the contract commenced in an earlier financial year,

whether or not the company has received the premium;

“recoverable”, in relation to an insurance company and a financial year, means recorded in the company’s books as due in that year, whether or not the company has received any payment.

2. The gross premiums receivable in respect of the company’s entire general business for the last preceding financial year shall be aggregated.

3. From the aggregate arrived at under paragraph 2 above there shall be deducted—

- (a) any taxes included in the premiums mentioned in paragraph 2 above, and
- (b) any levies that are related to premiums and are recorded in the company’s books as payable in the last preceding financial year in respect of general business.

4. The amount arrived at under paragraph 3 above shall be multiplied by twelve and divided by the number of months in the financial year.

5. If the amount arrived at under paragraph 4 above is more than 10 million units of account, it shall be divided into two portions, the former consisting of 10 million units of account and the latter comprising the excess.

6. Where there has been a division into two portions pursuant to paragraph 5 above, there shall be calculated and added together 18 per cent. and 16 per cent. of the two portions respectively; and where there has been no such division, there shall be calculated 18 per cent. of the amount arrived at under paragraph 4 above.

7. In the case of general business consisting of health insurance based on actuarial principles, paragraph 6 above shall apply with the substitution of “6 per cent.” for “18 per cent.” and “5 1/3 per cent.” for “16 per cent.”, but only if all the necessary conditions are satisfied.

8. For the purposes of paragraph 7 above, the necessary conditions are as follows, that is to say—

- (a) the gross premiums receivable shall be calculated on the basis of sickness tables appropriate to insurance business;
- (b) the reserves shall include provision for increasing age;
- (c) an additional premium shall be collected in order to set up a safety margin of an appropriate amount;

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- (d) it shall not be possible for the insurer to cancel the contract after the end of the third year of insurance;
- (e) the contract shall provide for the possibility of increasing premiums or reducing payments during its currency.

9. Where paragraph 7 above applies to a company whose general business consists partly of health insurance based on actuarial principles and partly of other business, the procedure provided in paragraphs 2 to 7 above shall operate separately for each part of the general business, so as to produce a sum under paragraph 7 above for the health insurance and a sum under paragraph 6 above for the other business.

10.—(1) If the provision for claims outstanding at the end of the last preceding financial year exceeds the provision for claims outstanding at the beginning of that year, the amount of the excess shall be added to the amount of claims paid in the last preceding financial year.

(2) If the provision for claims outstanding at the beginning of the last preceding financial year exceeds the provision for claims outstanding at the end of that year, the amount of the excess shall be deducted from the amount of claims paid in the last preceding financial year.

11.—(1) For the purposes of paragraph 10 above, the amount of claims paid, in relation to an insurance company and a financial year, is the amount that is recorded in the company's books as at the end of the financial year—

- (a) in relation to general business classes 1 to 17, as paid by it (whether or not payment has been effected in that year) in full or partial settlement of the claims described in sub-paragraph (2) below and the expenses described in sub-paragraph (3) below, or,
- (b) in relation to general business class 18, as being the costs borne by the insurance company (whether or not borne in that year) in respect of the assistance given,

less (in either case) any recoverable amounts within the meaning of sub-paragraph (4) below.

(2) The claims mentioned in sub-paragraph (1) above are claims under contracts of insurance (and under contracts of reinsurance accepted by the company) including claims relating to business accounted for over a longer period than a financial year.

(3) The expenses mentioned in sub-paragraph (1) above are expenses (such as, for example, legal, medical, surveying or engineering costs) which are incurred by the company, whether through the employment of its own staff or otherwise, and are directly attributable to the settlement of individual claims, whether or not the individual claims in question are those mentioned in sub-paragraph (1) above.

(4) Recoverable amounts for the purposes of sub-paragraph (1) above are amounts recoverable by the company in respect of the claims mentioned in that sub-paragraph or other claims, including amounts recoverable by way of salvage, amounts recoverable from third parties and amounts recoverable from other insurers but excluding amounts recoverable in respect of reinsurance ceded by the company.

12.—(1) For the purposes of paragraph 10 above, the provision for claims outstanding, in relation to an insurance company and a financial year, is (subject to any applicable valuation regulations) the amount set aside by the company as at the beginning or end of the financial year as being an amount likely to be sufficient to meet—

- (a) the claims described in sub-paragraph (2) below, and
- (b) the expenses described in sub-paragraph (3) below,

less any recoverable amounts within the meaning of sub-paragraph (4) below.

(2) The claims mentioned in sub-paragraph (1) above are claims under contracts of insurance (and under contracts of reinsurance accepted by the company) in respect of incidents occurring—

- (a) in the case of an amount set aside as at the beginning of the financial year, before the beginning of that year, and
- (b) in the case of an amount set aside as at the end of a financial year, before the end of that year.

being claims which have not been treated as claims paid and including claims relating to business accounted for over a longer period than a financial year, claims the amounts of which have not been determined and claims arising out of incidents that have not been notified to the company.

(3) The expenses mentioned in sub-paragraph (1) above are expenses (such as, for example, legal, medical, surveying or engineering costs) which are likely to be incurred by the company, whether through the employment of its own staff or otherwise, and are directly attributable to the settlement of individual claims, whether or not the individual claims in question are those mentioned in sub-paragraph (1) above.

(4) Recoverable amounts for the purposes of sub-paragraph (1) above are amounts estimated by the company to be recoverable by it in respect of the claims mentioned in that sub-paragraph, including amounts recoverable by way of salvage, amounts recoverable from third parties and amounts recoverable from other insurers but excluding amounts recoverable in respect of reinsurance ceded by the company.

13. From the amount determined under paragraph 10(1) or (2) above there shall be deducted the total sum recoverable in respect of that amount under reinsurance contracts ceded.

14. The amount determined under paragraph 13 above shall be expressed as a percentage of the amount determined under paragraph 10(1) or (2) above.

15. The sum arrived at under paragraph 6 or 7 above or the aggregate of the sums arrived at under those paragraphs, as the case may be, shall be multiplied—

- (a) where the percentage arrived at under paragraph 14 above is greater than 50 per cent. but not greater than 100 per cent., by the percentage so arrived at,
- (b) where the percentage so arrived at is greater than 100 per cent., by 100 per cent., and
- (c) in any other case, by 50 per cent.