

SCHEDULE 1

Regulation 7

METHODS OF CALCULATING THE EQUALISATION RESERVE

PART I

Methods of calculating transfers in

1. Amounts to be transferred to the equalisation reserve at the end of a financial year shall be calculated in accordance with paragraphs 2 to 3 below.

2. For business falling within a business group, the amount to be transferred to the equalisation reserve shall be the percentage specified in the table contained in paragraph 3 below of net premiums written in that financial year including adjustments in respect of all previous financial years in respect of that business.

3. The table referred to in paragraph 2 above is as follows.

<i>Business group</i>	<i>Percentage of net premiums written</i>
A	3%
B	3%
C	6%
D	75%
E	11%

PART II

Methods of calculating transfers out

4. Amounts to be transferred from the equalisation reserve at the end of a financial year shall be calculated in accordance with paragraphs 5 to 10 below.

5. For business falling within a business group which is accounted for on an accident year basis, the company shall determine the amount (the “abnormal loss”), if any, by which, taking into account any adjustments in respect of previous years' underwriting, net claims incurred in that financial year in respect of that business exceed the percentage specified in the table contained in paragraph 8 below of net premiums earned in that financial year in respect of that business.

6. For business falling within a business group which is accounted for on an underwriting year basis, the company shall determine the amount (the “abnormal loss”), if any, by which net claims paid plus the increase (or less the decrease) in the net technical provisions (exclusive of any change in claims handling expenses and any equalisation reserve) in that financial year plus adjustments in respect of all previous financial years in respect of that business exceed the percentage specified in the table contained in paragraph 8 below of net premiums written in that financial year plus adjustments in respect of all previous financial years in respect of that business.

7. For the purposes of paragraphs 5 and 6 above, if net premiums earned or net premiums written, as the case may be, in respect of any business in any financial year are negative, their value shall be deemed to be zero for the purposes of calculating the abnormal loss in respect of that business.

8. The table referred to in paragraphs 5 and 6 above is as follows.

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<i>Business group</i>	<i>Percentage of net premiums earned/written</i>
A	72.5%
B	72.5%
C	95%
D	25%
E	100%

9. The abnormal loss for each business group accounted for on an accident year basis and business group accounted for on an underwriting year basis shall be aggregated and shall, subject to paragraph 10 below, be the amount to be transferred from the equalisation reserve.

10. If the abnormal loss in respect of any business group pursuant to paragraph 9 above exceeds the relevant business group maximum at that date, the loss to be aggregated in respect of that business group shall be the business group maximum.

PART III

Method of calculating business group maximum

11. The maximum reserve applicable to a business group (the “business group maximum”) at the end of a financial year shall be calculated in accordance with paragraph 12 below.

12.—(1) The business group maximum at the end of a financial year shall be the percentage specified in the following table of average net premiums written in respect of that business group —

<i>Business group</i>	<i>Percentage of average net premiums written</i>
A	20%
B	20%
C	40%
D	600%
E	75%

(2) For the purposes of sub-paragraph (1) above, the “average net premiums written” in respect of a business group means —

- (a) in the case of a company which has carried on business falling within that business group for no less than five financial years, the average amount of net premiums written in respect of that business in a financial year, calculated on the basis of the last financial year and the previous four financial years;
- (b) in the case of a company which has carried on business falling within that business group for less than five financial years, the average amount of net premiums written in respect of that business in a financial year, calculated on the basis of the last financial year and any previous financial years ending on or after 23rd December 1996.

(3) For the purposes of sub-paragraph (2) above, if any of the financial years which the company is required to take into account for the calculation of average net premiums written has been extended or shortened, pursuant to section 69 of the Act, the value of net premiums written in that financial year shall be the amount represented by the formula—

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$$\frac{NPW \times 365}{d}$$

where—

NPW means net premiums written in the financial year concerned; and
d means the number of days falling in that financial year.

Method of calculating the maximum reserve

13. The maximum reserve at the end of a financial year shall be the aggregate value of the business group maxima as calculated in accordance with paragraph 12 above.