SCHEDULE 1

Regulation 4

LONG TERM BUSINESS MARGIN OF SOLVENCY

Long term classes I and II

1.—(1) For long term business of class I or II the required margin of solvency shall be determined by taking the aggregate of the results arrived at by applying the calculation described in subparagraph (2) below ("the first calculation") and the calculation described in subparagraphs (3), (4) and (5) below ("the second calculation").

(2) For the first calculation–

(a) there shall be taken a sum equal to 4 per cent of the mathematical reserves for direct business and reinsurance acceptances without any deduction for reinsurance cessions;

(b) the amount of the mathematical reserves at the end of the last preceding financial year after the deduction of reinsurance cessions shall be expressed as a percentage of the amount of those mathematical reserves before any such deduction; and

(c) the sum mentioned in paragraph (a) above shall be multiplied–

(i) where the percentage arrived at under paragraph (b) above is greater than 85 per cent, by that greater percentage, and

(ii) in any other case, by 85 per cent.

(3) For the second calculation–

(a) there shall be taken, subject to subparagraphs (4) and (5) below, a sum equal to 0.3 per cent of the capital at risk for contracts on which the capital at risk is not a negative figure;

(b) the amount of the capital at risk at the end of the last preceding financial year for contracts on which the capital at risk is not a negative figure, after the deduction of reinsurance cessions, shall be expressed as a percentage of the amount of that capital at risk before any such deduction; and

(c) the sum arrived at under paragraph (a) above shall be multiplied–

(i) where the percentage arrived at under paragraph (b) above is greater than 50 per cent, by that greater percentage, and

(ii) in any other case, by 50 per cent.

(4) Where a contract provides for benefits payable only on death within a specified period and is valid for a period of not more than three years from the date when the contract was first made, the percentage to be taken for the purposes of subparagraph (3)(a) above shall be 0.1 per cent; and where the period of validity from the date is more than three years but not more than five years, the percentage to be so taken shall be 0.15 per cent.

(5) For the purposes of subparagraph (4) above, the period of validity of the contract evidencing a group policy is the period from the date when the premium rates under the contract were last reviewed for which the premium rates are guaranteed.

(6) For the purposes of the second calculation, the capital at risk is–

(a) in any case in which an amount is payable in consequence of death other than a case falling within paragraph (b) below, the amount payable on death, and

(b) in any case in which the benefit under the contract in question consists of the making, in consequence of death, of the payment of an annuity, payment of a sum by instalments or any other kind of periodic payments, the present value of that benefit,

less in either case the mathematical reserves in respect of the relevant contracts.

(7) When the amount of the mathematical reserves referred to in subparagraph (2)(a) above, or the amount of the capital at risk referred to in subparagraph (3)(a) above, is to be calculated for the purposes of determining the required margin of solvency, the day as on which that amount is calculated shall be the same as that on which the margin of solvency is determined; and the mathematical reserves referred to in subparagraph (6) above shall also be calculated as on the day when the capital at risk in question is that referred to in subparagraph (3)(a) above, but shall be calculated as at the end of the last preceding financial year when the capital at risk in question is that referred to in subparagraph (3)(b) above.

Long term classes III and VII

2.—(1) For long term business of class III or VII the required margin of solvency shall be determined in accordance with subparagraphs (2) to (5) below.

(2) In so far as a society bears an investment risk, the first calculation shall be applied.

(3) In so far as–

(a) a society bears no investment risk, and

(b) the total expired and unexpired term of the relevant contract exceeds five years, and

(c) the allocation to cover management expenses in the relevant contract has a fixed upper limit which is effective as a limit for a period exceeding five years,

the first calculation shall be applied, but as if paragraph 1(2)(a) above contained a reference to 1 per cent instead of 4 per cent.

(4) If neither subparagraph (2) nor subparagraph (3) above applies, then, subject to sub–paragraph (5) below, the required margin of solvency is zero.

(5) Where a society covers a death risk, a sum arrived at by applying the second calculation disregarding paragraph 1(4) and (5) shall be added to any required margin of solvency, including a required margin of solvency of zero, arrived at under subparagraph (2), (3) or (4) above.

Long term classes IV and VI

3. For long term business of class IV or VI the required margin of solvency shall be determined by applying the first calculation.

Long term class V

4. For long term business of class V the required margin of solvency shall be equal to 1 per cent of the assets of the relevant tontine.