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STATUTORY INSTRUMENTS

1994 No. 1516

The Insurance Companies Regulations 1994

PART IV

MARGINS OF SOLVENCY

Long term classes I, II and IX

18.—(1) For long term business of class I, II or IX the required margin of solvency shall be determined by taking the aggregate of the results arrived at by applying the calculation described in paragraph (2) below ("the first calculation") and the calculation described in paragraphs (3), (4), (5) and (6) 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 sub-paragraph (a) above shall be multiplied—

(i) where the percentage arrived at under sub-paragraph (b) above is greater than 85 per cent. (or, in the case of a pure reinsurer, 50 per cent.), by that greater percentage, and

(ii) in any other case, by 85 per cent. (or, in the case of a pure reinsurer, 50 per cent.).

(3) For the second calculation—

(a) there shall be taken, subject to paragraphs (4), (5) and (6) 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 sub-paragraph (a) above shall be multiplied—

(i) where the percentage arrived at under sub-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, in a case other than that of a pure reinsurer, 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 paragraph (3)(a) above shall be 0.1 per cent.; and where the period of validity from that 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 paragraph (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) In the case of pure reinsurers, the percentage to be taken for the purposes of paragraph (3)(a) above shall be 0.1 per cent.

(7) 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 sub-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.

(8) When the amount of the mathematical reserves referred to in paragraph (2)(a) above, or the amount of the capital at risk referred to in paragraph (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 as on which the margin of solvency is determined; and the mathematical reserves referred to in paragraph (7) above shall also be calculated as on that day when the capital at risk in question is that referred to in paragraph (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 paragraph (3)(b) above.