
STATUTORY INSTRUMENTS

1996 No. 946

The Insurance Companies (Reserves) Regulations 1996

PART II

BUSINESS OTHER THAN CREDIT INSURANCE BUSINESS

Application: Part II

4.—(1) Subject to paragraph (2) below, this Part of these Regulations applies to every company to which Part II of the Act applies—

- (a) whose head office is in the United Kingdom;
- (b) whose business in the United Kingdom is restricted to reinsurance; or
- (c) whose head office is not in a member State.

(2) This Part of these Regulations does not apply to any company which is an assessable mutual.

(3) This Part of these Regulations applies to general business falling within any of the following sub-paragraphs—

- (a) business in accounting class 6 and corresponding proportional reinsurance treaty business categories;
- (b) direct, facultative and proportional reinsurance treaty consequential loss risks;
- (c) business in accounting classes 3 and 4 and corresponding reinsurance treaty business categories;
- (d) nuclear risks; and
- (e) non-proportional reinsurance treaty business categories corresponding to business in accounting class 6 and non-proportional reinsurance treaty consequential loss risks.

(4) For the purposes of paragraph (3) above, any business falling within sub-paragraph (d) shall be treated as if it did not fall within sub-paragraph (a), (b), (c) or (e).

Equalisation reserve: Part II

5.—(1) Subject to paragraph (2) below, a Part II company shall maintain an equalisation reserve in respect of Part II business in accordance with regulations 6 to 10 below.

(2) Regulations 6 to 10 below shall not apply—

- (a) in respect of any Part II business where net premiums written in a financial year of a company in respect of all that business are—
 - (i) less than 1,500,000 units of account; or
 - (ii) less than 4 per cent. of net premiums written in that financial year in respect of all its general business and less than 2,500,000 units of account,

and the company has no equalisation reserve to be brought forward from the previous financial year; and

- (b) in respect of Part II business carried on outside the United Kingdom by a company whose head office is not in the United Kingdom.

Business groups

6.—(1) For the purposes of applying this Part of these Regulations, a Part II company shall classify its Part II business into separate business groups comprising—

- (a) business group A— business falling within sub-paragraph (a) of paragraph (3) of regulation 4 above;
- (b) business group B— business falling within sub-paragraph (b) of that paragraph;
- (c) business group C— business falling within sub-paragraph (c) of that paragraph;
- (d) business group D— business falling within sub-paragraph (d) of that paragraph; and
- (e) business group E— business falling within sub-paragraph (e) of that paragraph.

(2) The company shall further divide its business falling within each business group into business accounted for on an accident year basis and business accounted for on an underwriting year basis.

Transfers to and from the equalisation reserve

7.—(1) At the end of each financial year, a Part II company shall make transfers to the equalisation reserve and transfers from the equalisation reserve in accordance with paragraphs (2) to (6) below.

(2) The company shall calculate—

- (a) the aggregate value of transfers to be made to the equalisation reserve in accordance with Part I of Schedule 1 to these Regulations; and
- (b) the aggregate value of transfers to be made from the equalisation reserve in accordance with Part II of Schedule 1 to these Regulations.

(3) Subject to paragraph (5) below, if the aggregate value of transfers to be made to the equalisation reserve exceeds the aggregate value of transfers to be made from the equalisation reserve, the company shall transfer an amount equal to the excess to the equalisation reserve.

(4) Subject to paragraph (5) below, if the aggregate value of transfers to be made from the equalisation reserve exceeds the aggregate value of transfers to be made to the equalisation reserve, the company shall transfer from the equalisation reserve an amount equal to such excess, or the amount of the equalisation reserve brought forward from the previous financial year (in this regulation referred to as the “previous year’s equalisation reserve”), whichever is the lower.

(5) If the value of the previous year’s equalisation reserve together with the aggregate value of transfers to be made to the equalisation reserve, less the aggregate value of transfers to be made from the equalisation reserve, exceeds the maximum reserve calculated in accordance with Part III of Schedule 1 to these Regulations, the company shall transfer such an amount as is necessary to make the equalisation reserve equal to the maximum reserve.

Transfers of business by insurance company

8.—(1) If a Part II company transfers to another body all its rights and obligations under any general policies (whether by novation or pursuant to a transfer approved by the Secretary of State under Schedule 2C to the Act)(1), Schedule 1 to these Regulations shall apply to that company at the end of the financial year in which such transfer takes place with the following modifications.

(2) For the purposes of calculating amounts to be transferred to the equalisation reserve (pursuant to Part I of Schedule 1 below) and the business group maxima applicable to the company’s business

(1) Schedule 2C was inserted by [S.I. 1994/1696](#), reg. 28 and amended by [S.I. 1994/3132](#), reg. 7.

(pursuant to Part III of that Schedule), net premiums written in respect of policies which were the subject of the transfer shall be excluded.

(3) If all the company's rights and obligations under all general policies falling within a business group have been transferred, the business group maximum for that business group shall be zero.

Transfers of business to insurance company

9.—(1) If a Part II company acquires from another body (the“transferor”) all the transferor's rights and obligations under any general policies (whether by novation or pursuant to a transfer approved by the Secretary of State under Schedule 2C to the Act), Schedule 1 to these Regulations shall apply to that company at the end of the financial year in which such acquisition takes place with the following modifications.

(2) Where consideration payable in respect of the acquisition is accounted for by the company as an adjustment to premiums—

- (a) for the purposes of calculating amounts to be transferred to the equalisation reserve (pursuant to Part I of Schedule 1 below) and the business group maxima applicable to the company's business (pursuant to Part III of that Schedule), net premiums earned or net premiums written, as the case may require, shall be adjusted by any amounts in respect of such consideration; and
- (b) for the purposes of calculating amounts to be transferred from the equalisation reserve (pursuant to Part II of Schedule 1 below), net premiums earned or net premiums written, as the case may require, shall include any amounts in respect of such consideration.

(3) Where consideration payable in respect of the acquisition is accounted for by the company as an adjustment to claims—

- (a) for the purposes of calculating amounts to be transferred from the equalisation reserve (pursuant to Part II of Schedule 1 below), net premiums earned or net premiums written, as the case may require, shall be such amount as would have been calculated had such consideration been accounted for by the company as an adjustment to premiums; and
- (b) for the purposes of calculating amounts to be transferred from the equalisation reserve (pursuant to Part II of Schedule 1 below), net claims incurred or net claims paid, as the case may require, shall be calculated as if such adjustment had not been made.

(4) For the purposes of paragraphs (2) and (3) above, consideration payable in respect of the acquisition shall be apportioned between business groups (and within each business group between business accounted for on an accident year basis and business accounted for on an underwriting year basis) according to the business groups within which the general policies which are the subject of the acquisition fall.

(5) For the avoidance of doubt, an adjustment to premiums or claims for the purposes of paragraphs (2) and (3) above may, in either case, be by way of addition or deduction, as appropriate.

(6) In any financial year following that of the acquisition, Schedule 1 to these Regulations shall apply with the following modifications.

(7) Where any consideration payable in respect of the acquisition was accounted for by the company as an adjustment to premiums, for the purposes of calculating amounts to be transferred from the equalisation reserve pursuant to Part II of Schedule 1 below, net premiums earned shall include an appropriate amount in respect of the consideration for the transfer.

(8) Where consideration payable in respect of the acquisition was accounted for by the company as an adjustment to claims, for the purposes of calculating amounts to be transferred from the equalisation reserve pursuant to Part II of Schedule 1 below, net premiums earned shall be taken to be such amount as would have been calculated had the consideration been accounted for by the company as an adjustment to premiums.

Transfers from equalisation reserve where net premiums written fall below specified limits

10.—(1) This regulation applies to a Part II company where—

- (a) the company has carried on Part II business for no less than five financial years and net premiums written in respect of all that business in two or more of the four financial years preceding the last financial year are less than the amounts specified in regulation 5 (2)(a) (i) or (ii) above, as the case may be; or
- (b) the company has carried on Part II business for less than five financial years and the average net premiums written in respect of all that business in those years is less than the amounts specified in regulation 5 (2)(a)(i) or (ii) above, as the case may be; and
- (c) the company has an equalisation reserve to be brought forward from the financial year preceding the last financial year; and
- (d) net premiums written in the last financial year in respect of Part II business are less than the amounts specified in regulation 5 (2)(a)(i) or (ii) above, as the case may be.

(2) In this regulation “average net premiums written” means the average amount of net premiums written in respect of that business in a 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—

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

where—

NPW means net premiums written in the financial year concerned; and

d means the number of days falling in that financial year.

(4) A company to which this regulation applies shall, at the end of the financial year, make a transfer from the equalisation reserve of such an amount as is necessary to reduce the equalisation reserve to zero.