SCHEDULE 2

Regulation 12

METHOD OF CALCULATING THE EQUALISATION RESERVE FOR CREDIT INSURANCE BUSINESS

1. The company shall maintain a credit insurance equalisation reserve to which shall be charged, at the end of each financial year, any technical deficit arising in respect of credit insurance business during that financial year.

2.—(1) Subject to sub-paragraphs (2) and (4) below, such reserve shall at the end of each financial year receive 75 per cent. of any technical surplus arising in respect of credit insurance business, subject to a limit of 12 per cent. of net premiums written during that financial year until the reserve has reached 150 per cent. of the highest annual amount of net premiums written during the previous five financial years.

(2) Any company which was required, pursuant to regulations 76 to 78 of, and Schedule 14 to, the 1994 Regulations, to maintain a reserve in respect of credit insurance business shall, at the end of the first financial year to which these Regulations apply, transfer the amount of such reserve brought forward from the previous financial year to the credit insurance equalisation reserve.

3. For the purposes of this Schedule, technical surplus or technical deficit in respect of credit insurance business for a financial year means—

(a) for business which is accounted for on an accident year basis, the amount by which the aggregate of net premiums earned and other technical income exceeds, or falls short of, the aggregate of net claims incurred, claims management costs and any technical charges; and

(b) for business which is accounted for on an underwriting year basis, the amount by which the aggregate of net premiums written and other technical income exceeds, or falls short of, net claims paid plus the increase (or less the decrease) in the net technical provisions (exclusive of any change in the credit insurance equalisation reserve) and net operating expenses.

4. In determining any technical surplus referred to in paragraph 2(1) above the calculation shall be made before tax and before any transfer to or from the credit insurance equalisation reserve. Investment income shall not be included in these calculations.