



FINANCIAL REGULATOR
Rialtóir Airgeadais

Guidance Note for the
Completion of Non-Life
Insurance Quarterly Returns on
the On-Line Reporting System

Insurance Supervision Department – January 2010

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Introduction

Following the introduction of electronic submission of quarterly returns for all Irish authorised Non-Life Insurance undertakings, the Financial Regulator has prepared this guidance note in order to ensure consistency of submissions.

Filing Dates and Required Forms

Non-Life Quarterly returns should be completed on the [Central Bank's On-Line Reporting System](#) and are required to be submitted electronically within one month of the quarter end date. They are required to be completed by all Non-Life undertakings for each quarter. In the case of companies in run-off, the reporting requirement is to only complete a quarterly return for the quarter that coincides with the company's year-end unless instructed otherwise by the Financial Regulator.

Forms to be submitted

The quarterly returns must consist of the following forms:

- Underwriting Revenue Account (Form 1);
- Asset Analysis (Form 6);
- Balance Sheet (Form 10);
- Profit and Loss Account (Form 11): and
- Statement of the Solvency Margin (Form 14).

All monetary values should be entered in €000's.

GENERAL NOTE

Validations are in place both on-form and between forms to ensure that the data entered is (a) consistent in terms of totals and where the same item is required on / transferred to other forms, and (b) not mismatched / breach of admissibility rules. In this latter instance, companies will be able to "finalise" and "sign-off" the returns however a warning will be first shown outlining the validation error and if not corrected the error will be transmitted to the Financial Regulator as a breach of the admissibility rules.

Underwriting Revenue Account - Form 1

A separate Form 1 is required to be submitted for each of the following applicable Business Types

- Written in Ireland - Irish Risk;
- Written in Ireland - Non-Irish Risk;
- Written Outside Ireland - Branch Establishment (one Form for each branch location); and
- Total Business.

A Total Business form is required to be completed even if companies are only writing business in respect of one of the first three business types. Accordingly, the minimum number of Form 1's to be submitted is two.

Line Items

All lines should be completed on a cumulative basis i.e. the first quarter should show all data in respect of premiums, claims; expenses, movements in equalisation reserves or deferred acquisition costs; and foreign exchange profit/loss for the relevant three month period; the second quarter should show these items for the relevant six month period etc.

Submission of Opening and Closing Provisions

Opening Provisions (line 1) in respect of "Unearned Premium Reserve", "Additional Reserve for unexpired risks" should be the provision as at the start of the financial year in question and should correspond to the closing provision at the end of the previous financial year.

Closing Provision (line 3) in respect of "Unearned Premium Reserve", "Additional Reserve for unexpired risks" should be the provisions as at the end of the quarter in question.

Claims Data (line 8) – Closing Provision in respect of “Outstanding Claims - Reported” and “Outstanding Claims – Not Reported” should be the provisions as at the end of the quarter in question.

Opening Provisions (line 9) in respect of “Outstanding Claims - Reported” and “Outstanding Claims – Not Reported” should be the provisions as at the start of the financial year in question and should correspond to the closing provisions at the end of the previous financial year.

On-Form and Cross-Form Validations

On-form validations are in place to ensure that totals are correctly entered and cross-form validations are in place to ensure the following:

The Net Closing Provision Unearned Premium Reserve figure total is equal to the “Unearned Premium Reserve (Net of Reinsurance)” figure on the Balance Sheet - (Form 10);

The figure for the Total of the Net Closing Provisions for Outstanding Claims (Reported and Not Reported) is equal to the “Outstanding Claims Provision (Net of Reinsurance)” figure on the Balance Sheet - (Form 10); and

The Net “Underwriting Profit/(Loss) (Transferred to P&L A/c)” figure is equal to the Net “Underwriting profit/(loss) Transferred from Underwriting Accounts” figure on the Profit and Loss Account - (Form 11).

Asset Analysis - Form 6

The data on the Asset Analysis form should be the assets at the end of the quarter in question.

On-Form and Cross-Form Validations

On-form validations are in place to ensure that totals are correctly entered and cross-form validations are in place to ensure the following:

Column 1 is the "Book Value" of the individual asset types. The Total amount in this column must be equal to the total assets figure on the Balance Sheet (Form 10).

Column 2 should reflect the valuation of the individual asset types in accordance with the "Valuation of Assets" rules as outlined in Annex III of the European Communities (Non-Life Insurance) Framework Regulations, 1994 (S.I. 359 of 1994). Any difference between the total figures in Column 2 and Column 1 must be included in the "Free Reserves" cell on the Statement of the Solvency Margin form (Form 14). Where the Column 2 total is less than the Column 1 total a negative figure should appear in the "Free Reserves" cell.

Column 3 should reflect the value of the individual asset types in accordance with the admissibility rules for meeting Technical Reserves in accordance with Part 1, Schedule 2 of the European Communities (Non-Life Insurance) Framework Regulations, 1994 (S.I. 359 of 1994). The Total amount in this column must equal the Net Technical Reserves figure at the end of the Form, which in turn must be equal to the total Net Technical Reserves on Form 10. The relevant percentage in each of these items cannot exceed the limits outlined in the Schedule.

Please note that in order to indentify, Inter Company Loans and Corporate Bonds separate lines have been included at "Other-Specify", line 22 where these items should be included. Corporate Bonds are sub divided into those that are listed and unlisted and in the case of unlisted whether they are secured or unsecured.

It should be noted when applying the admissibility rules for use of these assets for Technical Reserves purposes that

- a) The maximum percentage of the Net Technical Reserves total which the aggregate of "Listed Shares" and "Corporate Bonds - Listed" together must not exceed 30%;
- b) The maximum percentage of the Net Technical Reserves total which the aggregate of "Corporate Bonds Unlisted - Secured" and "Secured Debts" together must not exceed 15%; and
- c) The maximum percentage of the Net Technical Reserves total which the aggregate of "Corporate Bonds Unlisted - Unsecured" and "Unsecured Debts" together must not exceed 5%.

A validation has been incorporated into the form checking that the "Total" in Column 3 equals the Net Technical Reserves on Form 1 and as shown at the end of the Form 6 and similarly if the relevant percentages in Column 3 do not total 100% due to a insufficient amount of the appropriate assets under the admissibility rules. In this instance, companies will be able to "finalise" and "sign-off" the returns however a warning will be first shown outlining the validation error and if not corrected the error will be transmitted to the Financial Regulator as a breach of the admissibility rules. Details surrounding the breach should be included in the "Notes to Forms" section on the form.

Note: Net Technical Reserves amount referred to above, include Equalisation Reserves, and any additional reserves (commonly referred to as "penalty technical reserves") required under Section 13.3 of the European Communities (Non-Life Insurance) Framework Regulations, 1994 (S.I. 359 of 1994).

Balance Sheet - Form 10

This form should reflect the Balance Sheet of the company as at the end date of the quarter in question.

On-Form and Cross-Form Validations

On-form validations are in place to ensure that totals are correctly entered and cross-form validations are in place to ensure the following:

The total of the "General Reserve"; "Exchange Reserve", "Share Premium Account" and "Capital Reserve" must equal the "Statutory Reserves" figure on the Statement of the Solvency Margin - (Form 14);

The "Profit and Loss Account" must equal the "Profits retained" on the Profit and Loss Account - (Form 11);

The total of "Technical Reserves" must equal the "Net Technical Reserves on Total Business" on the Asset Analysis - (Form 6);

The "Unearned Premium Reserve (Net of Reinsurance)" must equal the Net "Unearned Premium Reserve" on the Underwriting Revenue Account in respect of Total Business - (Form 1);

The "Outstanding Claims Provision (Net of Reinsurance)" figure must equal the total of the Net Closing Provision for Outstanding Claims, (Reported and Not Reported) on the Underwriting Revenue Account in respect of "Total Business" - (Form 1); and

The "Total Assets" figure must equal the figure for Total "Book Value" of assets in Column 1 of the Asset Analysis - (Form 6).

Profit and Loss Account – Form 11

This form should reflect the Profit and Loss account of the company as at the end date of the quarter in question.

On-Form and Cross-Form Validations

On-form validations are in place to ensure that totals are correctly entered and cross-form validations are in place to ensure the following:

The “Net Underwriting Profit/(loss) Transferred from Underwriting Accounts” must equal the “Net Underwriting Profit/(loss) Transferred to the Profit and Loss A/C” Account” figure on the Underwriting Revenue Account in respect of Total Business - (Form 1);

The “Profits Retained” must equal the “Profit and Loss account” figure on the Balance Sheet - (Form 10);

The “Opening Retained Profits” figure is equal to the “Balance carried forward from previous years” figure on the Statement of the Solvency Margin - (Form 14); and

The “Profits Retained for Year” figure must equal the “Non-allocated profits in respect of the last financial period after appropriation of the balance on the profit and loss account” figure on the Statement of the Solvency Margin - (Form 14).

Statement of the Solvency Margin - Form 14

A number of changes have been made to this form and the current version reflects revision as a result of the Solvency I Directive and the indexation of the premium and claims basis for the calculation of the First and Second Results.

Additional lines have been included to facilitate calculation of the Solvency Margin in accordance with a revised method in the Solvency I Directive as transposed into Irish legislation in the European Communities (Non-Life Insurance) Framework (Amendment) Regulations 2009 (S.I. 25 of 2009) and to indicate the Minimum Guarantee Fund ("MGF") applicable.

General Rule for the Calculation of the solvency results

The **First Result** should be calculated using the higher of the following

- The Gross Written Premium for a rolling 12 month basis ending on the last date of the quarter concerned;
- The Gross Earned Premium for a rolling 12 month basis ending on the last date of the quarter concerned;
- The projected Gross Written Premium for the financial year in question; and
- The projected Gross Earned Premium for the financial year in question.

The **Second Result** should be calculated using a rolling 36 month basis ending on the last date of the quarter concerned, the result will use the annual average i.e. divide by three. In cases where companies have not been in existence for 36 months, they should use the claims data for the period since commencement of operation and the annual average should be calculated accordingly, i.e. a company using 18 month data should divide by 1.5; a company using 24 month data should divide by 2, etc.

The only exception to this is in the case of companies who substantially underwrite only one or more of the risks of credit, storm, hail, or frost. In this instance the second result should be calculated using a rolling 84 month basis ending on the last date of the quarter concerned, the result will use the annual average i.e. divide by seven or as indicated above if it has not been in existence for 84 months, they should use the claims data for the period since commencement of operation and the annual average should be calculated accordingly, i.e. a company using 18 month data should divide by 1.5; a company using 24 month data should divide by 2; a company using 48 month data should divide by 4 etc.

General comments

In cases where an Inter-company loan (made in accordance with Article 15 of the European Communities (Non-Life Insurance) Framework Regulations, 1994) is in existence the amount outstanding on the loan **should not be** excluded in Form 14 from the available assets to meet the required Solvency Margin / MGF.

Premium or Claims data in respect of any business written in Non-Life Insurance Classes 11 (Aircraft Liability), 12 (Liability for Ships) and 13 (General Liability) should be subject to a 50% uplift, which should be recorded in the appropriate cells.

The "Reserve for outstanding claims, including acceptances, established at the end of the reference period" should be the total of the Gross "Closing Provision for Outstanding Claims", (Reported and Not Reported) on the Underwriting Revenue Account in respect of Total Business - (Form 1).

The "Reserve for outstanding claims, including acceptances, established at the beginning of the reference period" should correspond to the total of the Gross "Opening Provision for Outstanding Claims", (Reported and Not Reported) on the Underwriting Revenue Account in respect of Total Business - (Form 1), for the date corresponding to 36 months before the end of the quarter in question.

The "Net Incurred Claims (a) as a percentage of Gross Incurred Claims (b)" ratio used to take into consideration Reinsurance arrangements should use data for a rolling 36 month period. In cases where companies have not been in existence for 36 months, they should use the claims data for the period since commencement of operation. It will allow entry for two decimal places. When the actual calculation is less than 50%, the cell will default to 50%.

On-Form and Cross-Form Validations

On-form validations are in place to ensure that totals are correctly entered and cross-form validations are in place to ensure the following:

The "Statutory Reserves" figure should equal the total of the "General Reserve", "Exchange reserve", "Share premium Account" and "Capital Reserve" figures on the Balance Sheet - (Form 10);

The difference between the "Book Value" total in Column 1 and the "Valuation per Valuation of Asset Rules" total in Column 2 on Form 6 (Asset Analysis) should be included as the "Free Reserves" figure on the Statement of the Solvency Margin - (Form 14). Where the Column 2 total is less than the Column 1 total a negative figure should appear in the "Free Reserves" cell.

The "Balance carried forward from previous years" figure must equal the "Opening Retained Profits" figure on the Profit and Loss Account - (Form 11); and

The "Non-allocated profits in respect of the last financial period after appropriation of the balance on the profit and loss account" figure must equal the "Profits Retained for Year" figure on the Profit and Loss Account - (Form 11).

Adjusted Required Solvency Margin

Solvency I Directive, Article 16 (a) 5, states "if the required solvency margin as calculated in paragraphs 2, 3, and 4¹ is lower than the required solvency of the year before, the required solvency margin shall be at least equal to the required solvency margin of the year before multiplied by the ratio of the amount of technical provisions for claims outstanding at the end of the last financial year and the amount of the technical provisions for claims outstanding at the beginning of the last financial year. In these calculations technical provisions shall be calculated net of reinsurance but the ratio may in no case be higher than 1."

This has been transposed into Irish legislation in the European Communities (Non-Life Insurance) Framework (Amendment) Regulations 2009 (S.I. 25 of 2009). There has been some confusion in how this should be calculated and this has led to the inclusion of the following as part of Form 14.

As it will appear on Form14

Preceding Year's Required Solvency Margin (not MGF)	0	
Net Claims Provisions outstanding at beginning of current reporting year	0	
Net Claims Provisions outstanding at end of current reporting year / quarter	0	
Ratio of closing to opening Net Claims Provisions	X	
Adjusted Required Solvency Margin		Y
Amount of margin to be established (the higher of first or second result and adjusted margin)		

In completing this for the Quarterly returns, the applicable Preceding Year's Required Solvency Margin (not MGF) should be included; the next cell should indicate the Net Claims Provisions outstanding at beginning of current reporting year followed by; Net Claims Provisions outstanding at end of current reporting year / quarter. The ratio of closing to opening provisions is calculated and cannot exceed 1.

¹ The higher of the premiums or claims result.

This is then applied to the Preceding Year's Required Solvency Margin and if this figure is higher than the First or Second Result figure it then becomes the Adjusted Required Solvency Margin to be maintained.

Note: Having reviewing the Directive closely in the formulation of these notes the Financial Regulator's interpretation is that the applicable Preceding Year's Required Solvency Margin is the higher of the calculated Margin or the "Adjusted Required Solvency Margin" applied for the preceding year in question.

Examples

The Solvency Result for 2008 as calculated produced a First Result of €10 million and Second Result of €9 million. The Preceding Year's Required Solvency Margin for 2009 is therefore €10 million.

Scenario 1

In calculating the second quarter figures for 2009, the First Result (based on a rolling 12 month period, the higher of GWP and GEP) is €9 million and the Second Result (based on a rolling 36 or 84 month period as applicable) is €8 million. The claims provisions at the start of the year were €100 million and at the end of the quarter were €110 million, the ratio is 1.1, but is capped at 1. As the higher calculated result of €9 million is less than the Preceding Year's Required Solvency Margin of €10 million and the ratio will not reduce it, then the adjusted Required Solvency Margin is €10 million.

As it will appear on Form14

Preceding Year's Required Solvency Margin (not MGF)	10,000	
Net Claims Provisions outstanding at beginning of current reporting year	100,000	
Net Claims Provisions outstanding at end of current reporting year / quarter	110,000	
Ratio of closing to opening Net Claims Provisions	1.00	
Adjusted Required Solvency Margin		10,000
Amount of margin to be established (the higher of first or second result and adjusted margin)		10,000

When calculating the third quarter figures for 2009, the First Result (based on a rolling 12 month period, the higher of GWP and GEP) is €8 million and the Second Result (based on a rolling 36 or 84 month period as applicable) is €9 million.

The claims provisions at the start of the year was €100 million and at the end of the quarter was €95 million, the ratio is therefore 0.95. As the higher calculated result of €9 million is less than the Preceding Year's Required Solvency Margin of €10 million and the ratio is less than 1, then the adjusted Required Solvency Margin is €10 million multiplied by 0.95 and is now €9.5 million.

As it will appear on Form14

Preceding Year's Required Solvency Margin (not MGF)	10,000	
Net Claims Provisions outstanding at beginning of current reporting year	100,000	
Net Claims Provisions outstanding at end of current reporting year / quarter	95,000	
Ratio of closing to opening Net Claims Provisions	0.95	
Adjusted Required Solvency Margin		9,500
Amount of margin to be established (the higher of first or second result and adjusted margin)		9,500

Scenario 2

When calculating the second quarter figures for 2009, the First Result (based on a rolling 12 month period, the higher of GWP and GEP) is €8 million and the Second Result (based on a rolling 36 or 84 month period as applicable) is €9 million. The claims provisions at the start of the year were €100 million and at the end of the quarter was €95 million, the ratio is therefore 0.95. As the higher calculated result of €9 million is less than the Preceding Year's Required Solvency Margin of €10 million and the ratio is less than 1, then the adjusted Required Solvency Margin is €10 million multiplied by 0.95 and is now €9.5 million.

As it will appear on Form14

Preceding Year's Required Solvency Margin (not MGF)	10,000	
Net Claims Provisions outstanding at beginning of current reporting year	100,000	
Net Claims Provisions outstanding at end of current reporting year / quarter	95,000	
Ratio of closing to opening Net Claims Provisions	0.95	
Adjusted Required Solvency Margin		9,500
Amount of margin to be established (the higher of first or second result and adjusted margin)		9,500

In calculating the third quarter figures for 2009, the First Result (based on a rolling 12 month period, the higher of GWP and GEP) is €9 million and the Second Result (based on a rolling 36 or 84 month period as applicable) is €8 million. The claims provisions at the start of the year was €100 million and at the end of the quarter was €110 million, the ratio is therefore 1.10 but capped at 1. As the higher calculated result of €9 million is less than the Preceding Year's Required Solvency Margin of €10 million and the ratio therefore will not reduce it, then the adjusted Required Solvency Margin is €10 million.

As it will appear on Form14

Preceding Year's Required Solvency Margin (not MGF)	10,000	
Net Claims Provisions outstanding at beginning of current reporting year	100,000	
Net Claims Provisions outstanding at end of current reporting year / quarter	110,000	
Ratio of closing to opening Net Claims Provisions	1.00	
Adjusted Required Solvency Margin		10,000
Amount of margin to be established (the higher of first or second result and adjusted margin)		10,000

Scenario 3

When calculating the second quarter figures for 2009, the First Result (based on a rolling 12 month period, the higher of GWP and GEP) is €8 million and the Second Result (based on a rolling 36 or 84 month period as applicable) is €9 million.

The claims provisions at the start of the year was €100 million and at the end of the quarter was €95 million, the ratio is therefore 0.95. As the higher calculated result of €9 million is less than the Preceding Year's Required Solvency Margin of €10 million and the ratio is less than 1, then the adjusted Required Solvency Margin is €10 million multiplied by 0.95 and is now €9.5 million

As it will appear on Form14

Preceding Year's Required Solvency Margin (not MGF)	10,000	
Net Claims Provisions outstanding at beginning of current reporting year	100,000	
Net Claims Provisions outstanding at end of current reporting year / quarter	95,000	
Ratio of closing to opening Net Claims Provisions	0.95	
Adjusted Required Solvency Margin		9,500
Amount of margin to be established (the higher of first or second result and adjusted margin)		9,500

In calculating the third quarter figures for 2009, the First Result (based on a rolling 12 month period, the higher of GWP and GEP) is €10.2 million and the Second Result (based on a rolling 36 or 84 month period as applicable) is €8 million. The claims provisions at the start of the year was €100 million and at the end of the quarter was €110 million, the ratio is therefore 110% but capped at 100%. As the higher calculated result of €10.2 million is greater than the Preceding Year's Required Solvency Margin of €10 million, then the adjusted Required Solvency Margin is €10 million and does not apply and the higher calculated result of €10.2 million is the required margin.

As it will appear on Form14

Preceding Year's Required Solvency Margin (not MGF)	10,000	
Net Claims Provisions outstanding at beginning of current reporting year	100,000	
Net Claims Provisions outstanding at end of current reporting year / quarter	110,000	
Ratio of closing to opening Net Claims Provisions	1.00	
Adjusted Required Solvency Margin		10,000
Amount of margin to be established (the higher of first or second result and adjusted margin)		10,200

Inclusion of Minimum Guarantee Fund (“MGF”) figure on Form 14

To facilitate the transmission of the applicable MGF figures to our system, two additional lines have been added to the Form 14 (see below).


As it will appear on Form14

Is the Company Authorised to write business in Classes 10, 11, 12, 13, 14 or 15 (Choose Yes or No from Drop down list)	
MGF	

In completing this, a company who is authorised to write business in **any of or all** of Non-Life Classes 10, 11, 12, 13, 14 or 15 should respond with “Yes” to the first line and the second line should read 3,500 to reflect the MGF requirement of €3,500,000 which came into effect from 31st December 2009. In cases where a company is not authorised for any of Non-Life Classes 10, 11, 12, 13, 14 or 15, then the response should be “No” and the second line should read 2,300 to reflect the current applicable MGF figure of €2,300,000.

These changes to the MGF arise as a result of the annual review of the MGF, Premium Index and Claims Index for Non-Life undertakings that took place in 2008, in accordance with Article 1 (5) of Non-Life Directive 2002/13/EC. The review in question showed that the cumulative increase in the European index of consumer prices, in the review period, was above the 5% threshold and, therefore, an adaptation was required.

This adaptation is provided for in Annex II paragraph 10 of Part A and paragraph 1 (2) (c) of Part B of the European Communities (Non-Life Insurance) Framework Regulations, 1994 (S.I. 359 of 1994), as amended by European Communities (Non-Life Insurance) Framework (Amendment) Regulations, 2004 (S.I. 728 of 2004). Following agreement between EU Member States, the adaptations were to be implemented prior to 1st January 2010. Therefore, in Ireland, the adaptations came into effect for all undertakings on 31st December 2009, and apply to all Annual and Quarterly Returns for reporting periods ending on or after that date.



Details of this change were communicated to companies in June 2009 and were published [here](#) on our website.

A further review took place in 2009, but it indicated that the increase in the consumer price index since the last adaptation does not exceed 5%. As a consequence no further adaptation of the MGF, premium and claims index figures was required.



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