

### Illustration on Computation of Margins of Solvency for General Insurers

1 A direct insurer writes both Singapore and offshore general insurance business. The following information is extracted from the insurer's statutory returns for the accounting periods ended:

	Singapore Insurance Fund	Offshore Insurance Fund	Company (as a whole)
\$m			
<b>31 Dec 92</b>			
Balance of revenue account	12	3	n.a.
Shareholders' Fund	n.a.	n.a.	50
Contingent Liabilities	-	-	-
<b>31 Dec 91</b>			
Net premiums	20	8	
Loss reserves	18	10	
Required margin of solvency as at 31 Dec 92	<u>10</u>	<u>2</u>	<u>5</u>

2 In the above case, the direct insurer is required to maintain in its Singapore Insurance Fund (SIF) a margin of solvency of at least \$10m as from 31 Dec 92. The required SIF margin of solvency is computed as the highest of the following:

- i) \$5m;
- ii) 50% of net premium income of the SIF in the preceding accounting period (i.e. 1991), which is \$10m; or
- iii) 50% of loss reserves of the SIF as at the end of the preceding accounting period (i.e. 31 Dec 91), which is \$9m.

In addition, the direct insurer is required to maintain in its Offshore Insurance Fund (OIF) a margin of solvency of at least \$2m as from 31 Dec 92.

This is computed as the highest of the following:

- i) \$1m;
- ii) 20% of net premium income of the OIF in the preceding accounting period (i.e. 1991), which is \$1.6m; or
- iii) 20% of loss reserves of the OIF as at the end of the preceding accounting period (i.e. 31 Dec 91), which is \$2m.

The insurer's fund margin of solvency is calculated as the Balance of Revenue Account less any Contingent Liabilities. As at 31 Dec 92, with margins of \$12m and \$3m in the SIF and OIF respectively, the insurer has met the requirement on fund margins of solvency.

3 The required margin of solvency in respect of the company as a whole is \$5m. The margin of solvency is calculated as shareholders' fund (\$50m) less the required fund margins of solvency (\$10m + \$2m) and any contingent liabilities. As at 31 Dec 92, with a margin of solvency of \$38m in respect of the company as a whole, the insurer has complied with the \$5m margin of solvency requirement.