

Insurance Regulations (Proposed)

PART V

Determination of liabilities

20.

(2)(a) For the purpose of section 37(1)(b) of the Act, the liabilities in respect of general insurance policies of an insurer shall be not less than the amount of premium liabilities and claim liabilities.

(2)(b) For the purpose of paragraph (2)(a).

"Premium liabilities" means reserves for unexpired risks and includes liabilities for all benefits, claims and expenses, acquisition costs, maintenance costs and policyholders' experience participation to be incurred after the balance sheet date.

"Claim liabilities" means the obligation whether contractual or otherwise, to make future payments in relation to all claims that have been incurred as at balance sheet date and includes reserves for claims reported, incurred but not reported (IBNR) and incurred but not enough reported (IBNER), as well as direct and indirect claims expenses.

(3) The amount of reserves for unexpired risks in respect of general business shall be –

- (a) the sum of unearned premium reserves and premium deficiency reserves;
- (b) subject to sub-paragraphs (c) to (f), the amount of unearned premium reserves shall be calculated on a basis not less accurate than the 1/24th method;
- (c) in the case of direct insurance business relating to cargo policies, the unearned premium reserves, at the election of the insurer, shall be an amount not less than 25% of the premiums for those policies or an amount calculated on a basis not less accurate than the 1/24th method;

- (d) in the case of reinsurance business, the unearned premium reserves, at the election of the insurer, shall be an amount not less than 25% of the premiums in the case of the marine and aviation policies or 40% of the premiums in other cases or an amount calculated on a basis not less accurate than the 1/24th method;
 - (e) unearned premium reserves should be computed gross of commissions. However, where the 1/24th method or some other more accurate method is used, the premium base may be reduced by:
 - (i) the actual commissions payable, up to a maximum of 20% of premiums; or
 - (ii) commissions at an assumed rate of 20% of premiums; and
 - (f) where a deduction for payments in respect of reinsurances or retrocessions is made against a reinsurer's deposit, such deposit need only be equivalent to the reserve calculated in accordance with sub-paragraph (e) above.
- (4) For the purposes of paragraph (3)

"Premium deficiency reserves" means the expected loss on unexpired policies after taking into consideration all benefits, claims, claims adjustment expenses, acquisition cost, maintenance expenses, and policyholders experience participation.

Determination of liabilities of general insurance policies

20A (1) The valuation of insurance policy liabilities of each line of business must comprise:

- (a) a best estimate of the premium liabilities;
 - (b) a best estimate of claim liabilities; and
- (2) For the purpose of sub-paragraph (a) and (b), the values for each line of business have to be determined. Notwithstanding paragraph (1) above, there shall in addition be provided for each insurance fund established under this Act, a provision for adverse deviations that relate to the inherent uncertainty in each of the best estimate value computed based on 75 per cent level of sufficiency.
- (3) The premium liabilities and claim liabilities shall be valued on both gross basis and net of reinsurance. The actuary has to take into account the

collectibility of reinsurance recoveries and the presence of non-reinsurance recoveries such as salvage and subrogation.

(4) The value of premium liabilities and claim liabilities shall be assessed and reported for each line of business prescribed under Form 7 of First Schedule of Insurance (Accounts and Statements) Regulations or as specified by the Authority.