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STATUTORY INSTRUMENTS

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**1996 No. 946**

**INSURANCE**

**The Insurance Companies (Reserves) Regulations 1996**

*Made* - - - - 24th March 1996  
*Laid before Parliament* 28th March 1996  
*Coming into force* - - 23rd December 1996

The Secretary of State, being a Minister designated<sup>(1)</sup> for the purposes of section 2(2) of the European Communities Act 1972<sup>(2)</sup> in relation to the authorisation of the carrying on of insurance business and the regulation of such business and its conduct, in exercise of the powers conferred by that section and by sections 17, 34A, 90, 96(1) and 97 of the Insurance Companies Act 1982<sup>(3)</sup>, hereby makes the following Regulations:—

**PART I**  
**PRELIMINARY**

**Citation, commencement and application**

1.—(1) These Regulations may be cited as the Insurance Companies (Reserves) Regulations 1996 and shall come into force on 23rd December 1996.

(2) These Regulations shall have effect in respect of any financial year of a company ending on or after 23rd December 1996.

**Interpretation**

2.—(1) In these Regulations, unless the context requires otherwise —

“the 1994 Regulations” means the Insurance Companies Regulations 1994<sup>(4)</sup>;

“the 1996 Regulations” means the Insurance Companies (Accounts and Statements) Regulations 1996<sup>(5)</sup>;

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(1) S.I. 1975/427; S.I. 1976/2141.

(2) 1972 c. 68.

(3) 1982 c. 50; section 34A was inserted by the Insurance Companies (Reserves) Act 1995 (c. 29), section 1(1).

(4) S.I. 1994/1516, as amended by S.I. 1994/3133; S.I. 1995/3248; S.I. 1996/942; and S.I. 1996/944.

(5) S.I. 1996/943.

“the Act” means the Insurance Companies Act 1982;

“accounting class” refers to the accounting classes set out in regulation 3(1) (interpretation) of the 1996 Regulations;

“accounted for” means reported pursuant to the 1996 Regulations;

“assessable mutual” means a mutual association—

- (a) where the insurance business carried on by the association is limited to the provision of insurance to its members; and
- (b) whose articles of association, rules or bye laws provide for the calling of additional contributions from members to meet claims;

“business categories corresponding to an accounting class” means the business categories specified in regulation 10(1) of the 1996 Regulations corresponding to the same general business classes;

“business group” means a group comprising descriptions of general business determined in accordance with regulation 6(1) below;

“business group maximum” has the meaning given in Part III of Schedule 1 to these Regulations;

“claim” means a claim against a company under a contract of insurance;

“claims management costs” refers to those claims management costs required by the shareholder accounts rules (note (4) to the profit and loss account format) to be included in claims incurred other than those which, whether or not incurred through the employment of the company’s own staff, are directly attributable to particular claims;

“company” means an insurance company;

“consequential loss risks” means risks falling within general business class 16 comprising risks of the persons insured sustaining loss attributable to interruptions of the carrying on of business carried on by them or to reduction of the scope of business so carried on;

“contract of insurance” includes a contract of reinsurance;

“credit insurance business” means all insurance business falling within general business class 14 that is not reinsurance business;

“direct business” refers to insurance business other than reinsurance business;

“equalisation reserve” means a reserve to be maintained under section 34A of the Act;

“facultative business” refers to facultative reinsurance business;

“financial year” means a period of account;

“general policy” means a policy evidencing a contract the effecting of which constitutes the carrying on of general business of a relevant description;

“gross premiums earned” in respect of a financial year means such proportion of gross premiums written as is attributable to risks borne by the company during that financial year;

“gross premiums written” means the amounts required by Schedule 9A to the Companies Act 1985(6) and Schedule 9A to the Companies (Northern Ireland) Order 1986(7) to be shown in the profit and loss account of an insurance company at general business technical account item I.1.(a);

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(6) 1985 c. 6; Schedule 9A was substituted by S.I. 1993/3246, reg. 4 and amended by S.I. 1994/1516, reg. 85(1); the Insurance Companies (Reserves) Act 1995, section 3(3); and S.I. 1996/189, reg. 14(7).  
(7) S.I. 1986/1032 (N.I.6); Schedule 9A was substituted by S.R. (N.I.) 1994 No. 428, reg. 4 and amended by the Insurance Companies (Reserves) Act 1995, section 3(3).

“the last financial year” means the financial year which last ended before the date on which accounts and statements of the company relating to that financial year are required to be deposited with the Secretary of State pursuant to section 22 of the Act;

“maximum reserve” means the aggregate value of the business group maxima as calculated in accordance with Part III of Schedule 1 to these Regulations;

“net claims incurred” in respect of a financial year means claims arising from incidents occurring during that financial year (including direct claims handling expenses), net of reinsurance and other recoveries but excluding claims management costs;

“net claims paid” in respect of a financial year means claims paid during that financial year (including direct claims handling expenses), net of reinsurance and other recoveries but excluding claims management costs, regardless of whether incidents giving rise to such claims occurred during that financial year or any prior financial year;

“net operating expenses” means the net amount paid in a financial year in respect of commissions, other acquisition expenses, administrative expenses, reinsurers' commissions and profit participations;

“net premiums earned” and “net premiums written” mean, respectively, gross premiums earned, net of reinsurance premiums earned and gross premiums written, net of reinsurance premiums payable under reinsurance ceded;

“nuclear installation” means any installation prescribed by the Nuclear Installations Regulations 1971<sup>(8)</sup>;

“nuclear matter” and “nuclear reactor” have the same meanings as in the Nuclear Installations Act 1965<sup>(9)</sup>;

“nuclear risks” means risks falling within any class of general business and arising in connection with the construction or use of any nuclear reactor or nuclear installation or the carriage of any nuclear matter;

“Part II business” and “Part III business” mean, respectively, business to which Part II and Part III of these Regulations applies;

“Part II company” and “Part III company” mean, respectively, a company to which Part II and Part III of these Regulations applies;

“proportional reinsurance treaty” means a reinsurance treaty under which in return for a proportion of the premium a pre-determined proportion of each claim payment by the cedant under policies subject to the treaty is recoverable from the reinsurer; and “non-proportional reinsurance treaty” shall be construed accordingly;

“reinsurance” and “reinsurer” include retrocession and retrocessionaire respectively;

“reinsurance recoveries” means amounts in respect of claims receivable by a company from a reinsurer under a contract of reinsurance;

“the shareholder accounts rules” means the rules contained in Schedule 9A to the Companies Act 1985 and Schedule 9A to the Companies (Northern Ireland) Order 1986 for the preparation of accounts by insurance companies;

“technical provisions” means the items required by Schedule 9A to the Companies Act 1985 and Schedule 9A to the Companies (Northern Ireland) Order 1986 to be shown in the balance sheet of an insurance company at liabilities items C.1 to 6; and

“unit of account” means the unit of account known as the ECU.

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<sup>(8)</sup> S.I. 1971/1381.

<sup>(9)</sup> 1965 c. 57.

(2) For the purposes of these Regulations, business is accounted for on an accident year basis in respect of a financial year if, in the accounts and statements required to be deposited with the Secretary of State pursuant to section 22 of the Act, it is accounted for using Forms 21, 22 and 23 prescribed by the 1996 Regulations, and business is accounted for on an underwriting year basis if it is accounted for using Forms 24 and 25 prescribed by those Regulations.

(3) In these Regulations, references to a numbered class of general business are references to the class so numbered in Part I of Schedule 2 to the Act.

### Scope

3.—(1) Part II of these Regulations makes provision for the purposes of section 34A of the Act (general business: equalisation reserve) in relation to business other than credit insurance business; and Part III makes provision for the purposes of that section in relation to credit insurance business.

(2) In relation to Part II—

- (a) any business to which that Part applies is hereby prescribed for the purposes of section 34A(1) as a description of general business; and
- (b) for the purposes of section 34A(3) (companies to which section 34A does not apply), there is hereby prescribed any company which is an assessable mutual.

(3) In relation to Part III—

- (a) any business to which that Part applies is hereby prescribed for the purposes of section 34A(1) as a description of general business; and
- (b) for the purposes of section 34A(3) there is hereby prescribed any company other than—
  - (i) a UK company; and
  - (ii) a non-EC company.

## 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)<sup>(10)</sup>, 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 (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.

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

(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—

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

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.

## PART III

### Application: Part III

- 11.**—(1) This Part of these Regulations applies to—
- (a) every UK company which carries on credit insurance business; and
  - (b) every non-EC company which carries on credit insurance business in the United Kingdom.
- (2) This Part of these Regulations applies to credit insurance business.
- (3) This Part of these Regulations does not apply—
- (a) in the case of a UK company, where the net premiums written in any financial year in respect of its credit insurance business are less than 4 per cent. of the total net premiums written by it in that financial year and less than 2,500,000 units of account; or
  - (b) in the case of a non-EC company, where the net premiums written in any financial year in respect of its credit insurance business carried on through a branch in the United Kingdom are less than 4 per cent. of the total net premiums written by it in that financial year in respect of business carried on through that branch and less than 2,500,000 units of account.

### Equalisation reserve: Part III

**12.** A Part III company shall maintain an equalisation reserve in respect of credit insurance business carried on by the company in accordance with Schedule 2 to these Regulations.

## PART IV

### MISCELLANEOUS AND SUPPLEMENTAL

#### Consequential amendment

**13.** For paragraph 50(11) of Schedule 9A to each of the Companies Act 1985 and the Companies (Northern Ireland) Order 1986 (form and content of accounts of insurance companies and groups) substitute—

“Equalisation reserves

**50.** The amount of any reserve maintained under section 34A of the Insurance Companies Act 1982 shall be determined in accordance with regulations made under that section.”

**14.** Regulations 76 to 78 of, and Schedule 14 to, the 1994 Regulations are hereby revoked.

Department of Trade and Industry  
24th March 1996

*Anthony Nelson*  
Minister for Trade,



## SCHEDULE 1

Regulation 7

### METHODS OF CALCULATING THE EQUALISATION RESERVE

#### PART I

##### Methods of calculating transfers in

1. Amounts to be transferred to the equalisation reserve at the end of a financial year shall be calculated in accordance with paragraphs 2 to 3 below.

2. For business falling within a business group, the amount to be transferred to the equalisation reserve shall be the percentage specified in the table contained in paragraph 3 below of net premiums written in that financial year including adjustments in respect of all previous financial years in respect of that business.

3. The table referred to in paragraph 2 above is as follows.

<i>Business group</i>	<i>Percentage of net premiums written</i>
A	3%
B	3%
C	6%
D	75%
E	11%

#### PART II

##### Methods of calculating transfers out

4. Amounts to be transferred from the equalisation reserve at the end of a financial year shall be calculated in accordance with paragraphs 5 to 10 below.

5. For business falling within a business group which is accounted for on an accident year basis, the company shall determine the amount (the “abnormal loss”), if any, by which, taking into account any adjustments in respect of previous years' underwriting, net claims incurred in that financial year in respect of that business exceed the percentage specified in the table contained in paragraph 8 below of net premiums earned in that financial year in respect of that business.

6. For business falling within a business group which is accounted for on an underwriting year basis, the company shall determine the amount (the “abnormal loss”), if any, by which net claims paid plus the increase (or less the decrease) in the net technical provisions (exclusive of any change in claims handling expenses and any equalisation reserve) in that financial year plus adjustments in respect of all previous financial years in respect of that business exceed the percentage specified in the table contained in paragraph 8 below of net premiums written in that financial year plus adjustments in respect of all previous financial years in respect of that business.

7. For the purposes of paragraphs 5 and 6 above, if net premiums earned or net premiums written, as the case may be, in respect of any business in any financial year are negative, their value shall be deemed to be zero for the purposes of calculating the abnormal loss in respect of that business.

8. The table referred to in paragraphs 5 and 6 above is as follows.

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<i>Business group</i>	<i>Percentage of net premiums earned/written</i>
A	72.5%
B	72.5%
C	95%
D	25%
E	100%

9. The abnormal loss for each business group accounted for on an accident year basis and business group accounted for on an underwriting year basis shall be aggregated and shall, subject to paragraph 10 below, be the amount to be transferred from the equalisation reserve.

10. If the abnormal loss in respect of any business group pursuant to paragraph 9 above exceeds the relevant business group maximum at that date, the loss to be aggregated in respect of that business group shall be the business group maximum.

### PART III

#### Method of calculating business group maximum

11. The maximum reserve applicable to a business group (the “business group maximum”) at the end of a financial year shall be calculated in accordance with paragraph 12 below.

12.—(1) The business group maximum at the end of a financial year shall be the percentage specified in the following table of average net premiums written in respect of that business group —

<i>Business group</i>	<i>Percentage of average net premiums written</i>
A	20%
B	20%
C	40%
D	600%
E	75%

(2) For the purposes of sub-paragraph (1) above, the “average net premiums written” in respect of a business group means —

- (a) in the case of a company which has carried on business falling within that business group for no less than five financial years, the average amount of net premiums written in respect of that business in a financial year, calculated on the basis of the last financial year and the previous four financial years;
- (b) in the case of a company which has carried on business falling within that business group for less than five financial years, the average amount of net premiums written in respect of that business in a financial year, calculated on the basis of the last 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—

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

where—

*NPW* means net premiums written in the financial year concerned; and  
*d* means the number of days falling in that financial year.

### **Method of calculating the maximum reserve**

**13.** The maximum reserve at the end of a financial year shall be the aggregate value of the business group maxima as calculated in accordance with paragraph 12 above.

## 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.

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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

The Insurance Companies Act 1982 (“the Act”) contains provision for the regulation of insurance companies. The Act has been amended, inter alia, by the Insurance Companies (Reserves) Act 1995 which inserted a new section 34A into the Act. Section 34A enables the Secretary of State to make regulations requiring insurance companies carrying on general business of a prescribed description to maintain an equalisation reserve for the purpose of providing against above average fluctuations in claims in respect of general business of that description.

The Insurance Companies (Reserves) Regulations 1996, which come into force on 23rd December 1996, are made primarily under section 34A of the Act. The amendment of paragraph 50 of Schedule 9A to the Companies Act 1985 and the Companies (Northern Ireland) Order 1986 is made under section 2(2) of the European Communities Act 1972 (“the 1972 Act”), as is the revocation of Part X of, and Schedule 14 to, the Insurance Companies Regulations 1994 (S.I. 1994/1516) (“the 1994 Regulations”). The 1994 Regulations consolidated in part the Insurance Companies (Credit Insurance) Regulations 1990 (S.I. 1990/1181) (“the 1990 Regulations”) made under section 2(2) of the 1972 Act pursuant to Council Directive 87/343/EEC (O.J. No. L185, 4.7.87, p.72) which amended, as regards credit insurance and suretyship insurance, Council Directive 73/239/EEC (O.J. No. L228, 16.8.73, p.3). The 1990 Regulations imposed a general obligation on insurers carrying on credit insurance business to establish an equalisation reserve in accordance with one of four specified methods which they could select.

**Part I** contains citation, commencement, application and interpretation provisions (regulations 1 and 2). Regulation 3 defines the scope of the Regulations and specifies, by reference to Parts II and III, the businesses which are prescribed for the purposes of section 34A.

**Part II** applies in respect of prescribed business other than credit insurance business. Regulation 4 sets out the companies covered and the general business falling within Part II. Regulation 5 imposes a general obligation on companies covered by Part II to maintain equalisation reserves. Companies whose business falls under the specified threshold and certain foreign business are exempted from this obligation. Regulation 6 requires companies to classify their prescribed business by reference to groups and accounting bases. Regulations 7(1) and (2) require companies to make transfers to or transfers from the equalisation reserve at the end of a financial year in accordance with the provisions of Schedule 1 to the Regulations. Parts I and II of Schedule 1 prescribe the calculation of the aggregate value of transfers to and transfers from the equalisation reserve respectively, while Part III prescribes the calculation of the maximum reserve. Regulations 7(3), (4) and (5) prescribe the method of calculation of the transfer to or transfer from the equalisation reserve, if any, ensuring that any transfer out does not exceed the size of any equalisation reserve brought forward from the previous financial year, and that the equalisation reserve does not exceed the maximum reserve permitted under these Regulations.

Regulations 8 and 9 prescribe how the Regulations shall be applied when a business has either been transferred or acquired by a company, in both cases whether by novation or under the provisions of Schedule 2C to the Act. Companies are required to take no account of such business in calculating the net premiums written for the year or in calculating the maximum reserve. Companies are required to adjust their calculation of the amounts to be transferred to or from the equalisation reserve in accordance with these Regulations. Regulation 10 specifies the circumstances in which a company whose net premiums written fall in amount below specified limits is required to transfer out the full amount of its equalisation reserve brought forward from the previous financial year.

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**Part III** applies in relation to credit insurance business. Regulation 11 sets out the companies covered by Part III. Companies whose credit insurance business falls under the specified threshold are exempted. Regulation 12 requires a company to which Part III applies to maintain an equalisation reserve in accordance with Schedule 2 to the Regulations. Schedule 2 prescribes rules for transfers to and transfers from the credit insurance equalisation reserve and for its maximum size.

In **Part IV** regulation 13 amends the reference in paragraph 50 of Schedule 9A to the Companies Act 1985 and the Companies (Northern Ireland) Order 1986 to take account of the revocation of Part X of, and Schedule 14 to, the 1994 Regulations (regulation 14).

A compliance cost assessment is available, copies of which have been placed in the libraries of both Houses of Parliament. Copies are also available from the Insurance Division of the Department of Trade and Industry, Room 5.A.43, 1 Victoria Street, London, SW1H 0ET.