

Time

Rules setting maximum of equalization provision for insurance companies other than life insurance companies

Article 1

1. Insurance companies having authorisation in direct insurance or reinsurance according to art. 22 of the act of insurance activity no. 60/1994 [corresponding to the annex of directive 73/239/EEC] and setting up annual accounts according to government regulation no. 613/1996 on annual accounts and consolidated accounts of insurance companies other than life insurance companies [corresponding to the non-life provisions of directive 91/674/EEC] can set up equalization provision in accordance with that regulation and these rules.
2. The equalization provision is the part of the technical provisions corresponding to obligations of the insurance company due to fluctuations in claims experience from year to year and incertitude in estimating the claims outstanding.
3. The total equalization provision is the sum of the equalization provision for each individual insurance class listed in the first two paragraphs of art 77 of the government regulation no. 613/1996 [a refinement of the classification of art. 63 of directive 91/674/EEC]. For each individual class the equalization provision may not exceed the limit computed by the method of article 2.

Article 2

1. The maximum of equalization provision, **H**, at the end of a financial year in each insurance class is computed by the following method:

$$H = a \times B + b \times T$$

where **B** is the gross premiums written within the financial year in the relevant insurance class according to the profit and loss account, and **T** is the gross amount of claims outstanding at the end of the financial year in the relevant insurance class according to the balance sheet, and **a** and **b** are the coefficients listed in paragraph 2, multiplying premiums written and claims outstanding.

2. The following coefficients shall be used to compute the maximum allowed equalization provision according to paragraph 1:

Classes of insurance:		Coefficients:	
		a	b
1.	Fire and other damage to property	0,16	0,21
1.a	Natural cat., cf. art. 4. of act no. 55/1992	20,00	0,00
2.	Marine and aviation	0,25	0,26
3.	Transport	0,36	0,45
4.	Motor liability and driver's accident	0,12	0,13
5.	Motor hull	0,08	0,13
6.	Third party liability	0,23	0,31
7.	Credit and suretyship	0,69	0,95
8.	Accident and health	0,29	0,17
9.	Legal expenses	0,16	0,21
10.	Assistance	0,16	0,21
11.	International reinsurance	0,69	0,95

In domestic reinsurance the coefficients for the corresponding class of direct insurance shall be used as listed in points 1-10. Reinsurance of life insurance shall be regarded as reinsurance of accident and health insurance.

3. In spite of the provisions of paragraph 1, the total equalization provision of a non-life insurance company can reach the higher limit of 25 million kronur or three times the risk retained in any single claim, provided that the risk retained is not more than 8% of the real solvency of the company. The company may choose the insurance class to which it allocates an increase in the maximum according to this paragraph.

4. The Financial Supervisory Authority [the competent authority in Iceland] can grant an exemption from the maximum if the claims experience of a company in an insurance class or classes is highly irregular or the activity limited in such a way that the maximum is not considered to give sufficient possibility for equalization. In these cases, the insurance company shall apply for the exemption with supporting evidence.

Article 3

1. An insurance company planning to set aside an equalization provision shall fix internal rules for computing the provision complying with paragraph 2 of article 54 of government regulation no. 613/1996 on annual accounts and consolidated accounts of insurance companies other than life insurance companies [The equalization provision shall be computed on the basis of the claims experience of the company over an extended period in individual insurance classes or groups of classes and according to general statistical rules fixed beforehand]. These rules shall be sent to the Financial Supervisory Authority.

Article 4

1. These rules are issued according to paragraph 3 of article 54 of government regulation no. 613/1996 on annual accounts and consolidated accounts of insurance companies other than life insurance companies and shall be applied for the first time for the financial year 1998. Rules no. 154 of 21 February 1997 are suppressed.

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