

## **Proposed Equalisation Reserves Systems**

### ***Background***

The ABI / Inland Revenue / DTI / GAD Joint Working Party have been working together to design two systems that have been put to the ABI membership. The systems are summarised as follows:

#### **"Claims Ratio" system**

<b>transfers in</b>	based on percentage of premiums, and not dependent on the class of business having achieved a profit. The percentage varies by class of business.
<b>transfers out</b>	based on claims ratio. The "trigger" ratio varies by class of business
<b>Limit</b>	based on percentage of net booked premium, the percentage varying by class of business.

#### **"Claim Event" system**

<b>transfers in</b>	based on percentage of premiums, and not dependent on the class of business having achieved a profit. The percentage varies by class of business.
<b>transfers out</b>	based on a threshold, above which claims would be taken from the CER. The threshold is 4.5% of net earned premium.
<b>Limit</b>	based on percentage of premiums, the percentage varying by class of business.

The classes of business which will be subject to the rules are

- Property
- Non Proportional Reinsurance
- Marine
- Aviation

- Pecuniary Loss (Consequential Loss and Mortgage Indemnity)
- Proportional Reinsurance (Property, Consequential Loss Mortgage Indemnity and Marine and Aviation)
- Nuclear risks

The systems have been designed after looking at the criteria set by the interested parties and are the best for those requirements. ABI members are considering the two options and are commenting to the ABI.

***What happens next?***

The original timescale was to aim for details to be given in the November 1994 budget statement. This is unlikely to be achieved as there will be a further round of consultation and so the aim is now for November 1995.

The ABI proposals are at present being discussed with members and once their views are known a further consultation will take place with interested parties.