

**ENHANCED CAPITAL REQUIREMENT CALCULATION
(REPORTING FORMS) INSTRUMENT 2005**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
 - (2) section 150(2) (Actions for damages);
 - (3) section 156 (General supplementary powers); and
 - (4) section 157(1) (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 31 December 2005.

Amendments to the Integrated Prudential sourcebook

- D. The Integrated Prudential sourcebook is amended in accordance with Annex A to this instrument.

Amendments to the Interim Prudential sourcebook for Insurers

- E. The Interim Prudential sourcebook for Insurers is amended in accordance with Annex B to this instrument.

Citation

- F. This instrument may be cited as the Enhanced Capital Requirement Calculation (Reporting Forms) Instrument 2005.

By order of the Board
17 November 2005

Annex A

Amendments to the Integrated Prudential Sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text. In PRU 7.2.79 R some of the entries have been re-ordered; those changes have not been marked.

7.2.79 R Table: Insurance-related Capital Charge Factors

Class of Business	Net Written Premium capital charge factor	Technical provision capital charge factor
[deleted] ...		
<u>Reporting Group: Direct and facultative business</u>		
<u>Direct and facultative accident and health</u>	<u>5.0%</u>	<u>7.5%</u>
<u>Direct and facultative personal lines motor business</u>	<u>10.0%</u>	<u>9.0%</u>
<u>Direct and facultative household and domestic all risks</u>	<u>10.0%</u>	<u>10.0%</u>
<u>Direct and facultative personal lines financial loss</u>	<u>25.0%</u>	<u>14.0%</u>
<u>Direct and facultative commercial motor business</u>	<u>10.0%</u>	<u>9.0%</u>
<u>Direct and facultative commercial lines property</u>	<u>10.0%</u>	<u>10.0%</u>
<u>Direct and facultative commercial lines liability</u>	<u>14.0%</u>	<u>14.0%</u>
<u>Direct and facultative commercial lines financial loss</u>	<u>25.0%</u>	<u>14.0%</u>
<u>Direct and facultative aviation</u>	<u>32.0%</u>	<u>14.0%</u>
<u>Direct and facultative marine</u>	<u>22.0%</u>	<u>17.0%</u>
<u>Direct and facultative goods in transit</u>	<u>12.0%</u>	<u>14.0%</u>
<u>Direct and facultative miscellaneous</u>	<u>25.0%</u>	<u>14.0%</u>
<u>Reporting Group: Non-Proportional Treaty</u>		
Non-proportional accident & health	35.0%	16.0%
Non-proportional motor	10.0%	14.0%
Non-proportional aviation	61.0%	16.0%

Non-proportional marine	38.0%	17.0%
Non-proportional transport	16.0%	15.0%
Non-proportional property non-catastrophe	53.0%	12.0%
Non-proportional property catastrophe	53.0%	12.0%
Non-proportional liability (non-motor)	14.0%	14.0%
Non-proportional pecuniary loss <u>financial lines</u>	39.0%	14.0%
Non-proportional aggregate cover	53.0%	12.0%
Reporting Group: Proportional Treaty		
Proportional assumed accident & health	12.0%	16.0%
Proportional assumed motor	10.0%	12.0%
Proportional aviation	33.0%	16.0%
Proportional marine	22.0%	17.0%
Proportional transport	12.0%	15.0%
Proportional property	23.0%	12.0%
Proportional liability (non-motor)	14.0%	14.0%
Proportional pecuniary loss <u>financial lines</u>	25.0%	14.0%
Proportional aggregate cover	23.0%	12.0%
[deleted] ...		
Reporting Group: Miscellaneous Reinsurance		
Miscellaneous reinsurance accepted business	39.0%	14.0%

Annex B

Amendments to the Interim Prudential sourcebook for Insurers

After IPRU(INS) 9.43G insert the following new Part, which is not underlined:

PART VI

ENHANCED CAPITAL REQUIREMENT

- 9.44 (1) An *insurer* to which *PRU* 2.3.10R applies must, in respect of each *financial year*, report its *enhanced capital requirement* (calculated in accordance with *PRU* 2.3.11R) as at the end of that *financial year*.
- (2) The report must be in the form of ECR1 set out in Appendix 9.10.
- (3) An *insurer* must deposit a printed copy of the report with the FSA within 2 months and 15 days of the *financial year end* unless, in addition to depositing a printed copy, an *insurer* also deposits an electronic copy, then the period for deposit is within 3 months of the *financial year end*.
- (4) The printed copy of the report must be signed by the persons described in *IPRU(INS)* 9.33(1).

Guidance

9.45 The report required by rule 9.44(1) does not form part of the *insurer's return*.

9.46 Electronic copies may be sent on disk or by e-mail to ecrsubmissions@fsa.gov.uk.

After Appendix 9.9 in Volume 2 insert the following new Appendix, which is not underlined.

APPENDIX 9.10 (rule 9.44 and guidance 9.45)

**ENHANCED CAPITAL REQUIREMENT
(FORM ECR1)**

ECR Calculation - Summary

Form **ECR1**
Sheet 1

Name of insurer

Financial year ended

	£000	Source:
Capital Resources		<i>Form:1 Line:13 Col:1</i>
Minimum Capital Requirement (MCR)		<i>Form:1 Line:34 Col:1</i>

ECR Calculation

Asset Charge		<i>Sheet 2: Asset-related Capital Requirement</i>
Premium Charge - Accident Year Business		<i>Sheet 3: Insurance-related Capital Requirement Accident Year Charge</i>
Technical Provision Charge - Accident Year Business		<i>Sheet 3: Insurance-related Capital Requirement Accident Year Charge</i>
Premium Charge - Underwriting Year Business		<i>Sheet 4: Insurance-related Capital Requirement Underwriting Year Charge</i>
Technical Provision Charge - Underwriting Year Business		<i>Sheet 4: Insurance-related Capital Requirement Underwriting Year Charge</i>
Less Claims Equalisation Reserve		<i>Form:15 Line:14+15 Col:1</i>

ECR	
ICG (if given)	
Capital Resources / ECR	
Capital Resources / ICG (if given)	
ICG / ECR (if given)	

Asset-Related Capital Requirement (Category of assets 1 only)
Form ECR1
Sheet 2

 Name of insurer
 Financial Year ended

Asset item	FSA return source (Form13 Column 1)	Assets (£ 000)	Derivative adjustment (£ 000)	Asset-related capital charge factor	Asset-related capital charge (£ 000) [(1)+(2)] * (4)
		(1)	(2)	(3)	(4)
Land & buildings	L11			7.5%	
Shares in group undertakings excluding participating interests - insurance dependants	L21+23			0.0%	
Shares in group undertakings excluding participating interests - other	L25+27			7.5%	
Debt securities issued by & loans to group undertakings	L22+L24+L26+L28			3.5%	
Participating interests	L29			7.5%	
Debt securities issued by & loans to undertakings in which the insurer has a participating interest	L30			3.5%	
Shares, other variable-yield securities, units in unit trusts and Participation in investment pools	L41+L42+L43+L49			16.0%	
Money market funds				0.0%	
Debt securities and other fixed income securities: approved securities	L45+L47			3.5%	
Debt securities and other fixed income securities: other	L46+L48			3.5%	
Loans secured by mortgages	L50			2.5%	
Other loans	L51+L52+L53			2.5%	
Deposits with approved credit institutions and approved financial institutions	L54+L55			0.0%	
Other financial investments: other	L56+L58+L59			7.5%	
Deposits with ceding undertakings	L57			3.5%	
Reinsurers' share of technical provisions: Provision for unearned premiums	L60			2.5%	
Reinsurers' share of technical provisions: Claims outstanding	L61			2.5%	
Reinsurers' share of technical provisions: Other	L62+63			2.5%	
Debtors arising out of direct insurance operations: policyholders	L71			4.5%	
Debtors arising out of direct insurance operations: intermediaries	L72			3.5%	
Debtors arising out of reinsurance operations	L74+L75			2.5%	
Other debtors	L73+L76+L77+L78+L79			1.5%	
Tangible assets	L80			7.5%	
Cash at bank and in hand	L81+L82			0.0%	
Other Assets	L83			0.0%	
Accrued interest and rent	L84			0.0%	
Deferred acquisition costs	L85			0.0%	
Other prepayments and accrued income	L86			0.0%	
TOTAL	L89+L87-L44				

Insurance-Related Capital Charge - Accident Year Business

Name of insurer
Financial Year ended

FSA Combined Category or Risk Category	Net Written Premium (£ 000)		Net claims outstanding carried forward (£ 000)		Net unearned premium and unexpired risks less deferred acquisition costs (£ 000)		Net Written Premium capital charge factor	Net technical provision capital charge factor	Net Written Premium capital charge (1) * (4)	Net Technical provision capital charge [(2)+(3)] * (5)					
	FSA return source	1	FSA return source	2	FSA return source	3	4	5	6	7					
Direct and facultative business															
110: Total primary (direct) and facultative accident and health	1						5.0%	7.5%							
120: Total primary (direct) and facultative personal lines motor business	2						10.0%	9.0%							
160: Primary (direct) and facultative household and domestic all risks	3						10.0%	10.0%							
180: Total primary (direct) and facultative personal lines financial loss business	4	Form 21. Lines(12 +13+14+15). Columns (5+6)	Form22. Lines(13 +14+17+18). Column3	Form21. Line19. Column6 + Form 22. Line(19-29). Column3			25.0%	14.0%							
220: Total primary (direct) and facultative commercial motor business	5						10.0%	9.0%							
260: Total primary (direct) and facultative commercial lines property business	6						10.0%	10.0%							
270: Total primary (direct) and facultative commercial lines liability business	7						14.0%	14.0%							
280: Total primary (direct) and facultative commercial lines financial loss business	8						25.0%	14.0%							
330: Total primary (direct) and facultative aviation business	9						32.0%	14.0%							
340: Total primary (direct) and facultative marine business	10						22.0%	17.0%							
350: Primary (direct) and facultative goods in transit	11						12.0%	14.0%							
400: Miscellaneous primary (direct) and facultative business	12						25.0%	14.0%							
002: Total Primary (Direct) and Facultative Business (sum of lines 1 to 12)	13														
Treaty reinsurance business															
510: Non-proportional accident and health	14						N/A	N/A	N/A			35.0%	16.0%		
520: Non-proportional motor	15											10.0%	14.0%		
530: Non-proportional aviation	16	61.0%	16.0%												
540: Non-proportional marine	17	38.0%	17.0%												
550: Non-proportional transport	18	16.0%	15.0%												
560: Non-proportional property	19	53.0%	12.0%												
570: Non-proportional liability (non-motor)	20	14.0%	14.0%												
580: Non-proportional financial lines	21	39.0%	14.0%												
590: Non-proportional aggregate cover	22	53.0%	12.0%												
500: Total Non-Proportional Reinsurance Treaty Business accepted (sum of lines 14 to 22)	23	F21L(12+13+14+15)C(5+6)	F22L(13+14+17+18)C3	F21L19C6+F22L(19-29)C3											
610: Proportional accident and health	24	N/A	N/A	N/A			12.0%	16.0%							
620: Proportional motor	25						10.0%	12.0%							
630: Proportional aviation	26						33.0%	16.0%							
640: Proportional marine	27						22.0%	17.0%							
650: Proportional transport	28						12.0%	15.0%							
660: Proportional property	29						23.0%	12.0%							
670: Proportional liability (non-motor)	30						14.0%	14.0%							
680: Proportional financial lines	31						25.0%	14.0%							
690: Proportional aggregate cover	32						23.0%	12.0%							
600: Total Proportional Reinsurance Treaty Business accepted (sum of lines 24 to 32)	33						F21L(12+13+14+15)C(5+6)	F22L(13+14+17+18)C3	F21L19C6+F22L(19-29)C3						
700: Miscellaneous treaty reinsurance business accepted	34	N/A	N/A	N/A			39.0%	14.0%							
003: Total Treaty Reinsurance Business (sum of lines 14 to 22, 24 to 32 and 34)	35	F21L(12+13+14+15)C(5+6)	F22L(13+14+17+18)C3	F21L19C6+F22L(19-29)C3											
001: Total Business (sum of lines 1 to 12, 14 to 22, 24 to 32 and 34)	36	F21L(12+13+14+15)C(5+6)	F22L(13+14+17+18)C3	F21L19C6+F22L(19-29)C3											

Insurance-Related Capital Charge - Underwriting Year Business

Name of insurer
Financial Year ended

FSA Combined Category or Risk Category	Net Written Premium (£ 000)		Net claims outstanding carried forward (£ 000)		Net unearned premium and unexpired risks less deferred acquisition costs (£ 000)		Net Written Premium capital charge factor	Net technical provision capital charge factor	Net Written Premium capital charge (1) * (4)	Net Technical provision capital charge [(2)+(3)] * (5)
	FSA return source	1	FSA return source	2	FSA return source	3	4	5	6	7
Direct and facultative business										
110: Total primary (direct) and facultative accident and health	1						5.0%	7.5%		
120: Total primary (direct) and facultative personal lines motor business	2						10.0%	9.0%		
160: Primary (direct) and facultative household and domestic all risks	3						10.0%	10.0%		
180: Total primary (direct) and facultative personal lines financial loss business	4						25.0%	14.0%		
220: Total primary (direct) and facultative commercial motor business	5						10.0%	9.0%		
260: Total primary (direct) and facultative commercial lines property business	6	Form24. Line19. Column99		Form25. Lines(11-12+13-14+15). Column99		Form25. Lines(22+23-24). Column99	10.0%	10.0%		
270: Total primary (direct) and facultative commercial lines liability business	7						14.0%	14.0%		
280: Total primary (direct) and facultative commercial lines financial loss business	8						25.0%	14.0%		
330: Total primary (direct) and facultative aviation business	9						32.0%	14.0%		
340: Total primary (direct) and facultative marine business	10						22.0%	17.0%		
350: Primary (direct) and facultative goods in transit	11						12.0%	14.0%		
400: Miscellaneous primary (direct) and facultative business	12						25.0%	14.0%		
002: Total Primary (Direct) and Facultative Business (sum of lines 1 to 12)	13									
Treaty reinsurance business										
510: Non-proportional accident and health	14						35.0%	16.0%		
520: Non-proportional motor	15						10.0%	14.0%		
530: Non-proportional aviation	16						61.0%	16.0%		
540: Non-proportional marine	17	Form28. Line19. Column99		Form29. Lines(11-12+13-14+15). Column99		Form29. Lines(22+23-24). Column99	38.0%	17.0%		
550: Non-proportional transport	18						16.0%	15.0%		
560: Non-proportional property	19						53.0%	12.0%		
570: Non-proportional liability (non-motor)	20						14.0%	14.0%		
580: Non-proportional financial lines	21						39.0%	14.0%		
590: Non-proportional aggregate cover	22						53.0%	12.0%		
500: Total Non-Proportional Reinsurance Treaty Business accepted (sum of lines 14 to 22)	23	F24L19C99		F25L(11-12+13-14+15)C99		F25L(22+23-24)C99				
610: Proportional accident and health	24						12.0%	16.0%		
620: Proportional motor	25						10.0%	12.0%		
630: Proportional aviation	26						33.0%	16.0%		
640: Proportional marine	27	Form28. Line19. Column99		Form29. Line(11-12+13-14+15). Column99		Form29. Lines(22+23-24). Column99	22.0%	17.0%		
650: Proportional transport	28						12.0%	15.0%		
660: Proportional property	29						23.0%	12.0%		
670: Proportional liability (non-motor)	30						14.0%	14.0%		
680: Proportional financial lines	31						25.0%	14.0%		
690: Proportional aggregate cover	32						23.0%	12.0%		
600: Total Proportional Reinsurance Treaty Business accepted (sum of lines 24 to 32)	33	F24L19C99		F25L(11-12+13-14+15)C99		F25L(22+23-24)C99				
700: Miscellaneous treaty reinsurance business accepted	34	F28L19C99		F29L(11-12+13-14+15)C99		F29L(22+23-24)	39.0%	14.0%		
003: Total Treaty Reinsurance Business (sum of lines 14 to 22, 24 to 32 and 34)	35	F24L19C99		F25L(11-12+13-14+15)C99		F25L(22+23-24)C99				
001: Total Business (sum of lines 1 to 12, 14 to 22, 24 to 32 and 34)	36	F24L19C99		F25L(11-12+13-14+15)C99		F25L(22+23-24)C99				

Instructions for completion of Form ECR1

1. The amounts entered in the cells in column 1 of sheet 2 and columns 1, 2 and 3 of sheets 3 and 4 must reconcile to the 'FSA return source' column, shown alongside that cell, except where:
 - (a) no FSA return source is shown e.g. sheet 3, lines 14 to 22, columns 1 and 3;
 - (b) in the case of sheets 3 and 4 column 1, the *return* for the *financial year* ended, shown on sheet 1, is for a non 12 month period; or
 - (c) in the case of a cell in sheet 3 or 4, the Form referred to in the 'FSA return source' column, was not prepared for the relevant *combined category* or *risk category* in that *return*.

Where the latter exception applies, the amount entered in that cell must be the amount that would have been reported in that *return* at the 'FSA return source' had the *insurer* prepared that Form for that *combined category* or *risk category*

ECR Calculation – Summary (Sheet 1)

2. The amount shown on the ICG line must be the most recent Individual Capital Guidance (ICG) amount given by the FSA. The ICG will usually be based on a percentage of the ECR. In this case the percentage should be applied to the current ECR to obtain the ICG amount. If no ICG has been given, enter "N/A".

Asset-related Capital Requirement Sheet (Sheet 2)

3. The amounts shown in column 1 must be the value, in accordance with *PRU* 1.3, of the listed asset items as at the *financial year* ended date shown on sheet 1.
4. In column 2, derivative adjustments, where a *firm* has entered into a *derivative* then, for the purposes of applying the appropriate capital charge factor as set out in *PRU* 3.3.16R, it must treat the value of the *derivative* and the value of the asset associated with the *derivative* as a single asset of a type and value which most closely reflects the economic risk to the *firm* of the combined rights and obligations associated with the *derivative* and the asset associated with the *derivative* (*PRU* 3.3.11R(4)).
5. Include money market funds as defined in *PRU* 3.3.14R in the line for the asset item "Money market funds".
6. The amount shown under the columns for "Assets" and "Derivative adjustment" for the asset item "Shares, other variable-yield securities, units in unit trusts and Participation in investment pools" should be after deductions of amounts held in money market funds included in **Form 13** at column 1 lines 41, 42, 43 or 49 of the *return* or the *financial year in question*.
7. The sum of the amounts shown in the "Asset" column for the asset items "Shares, other variable-yield securities, units in unit trusts and Participation in investment pools" and "Money market funds" should be equal to the sum of lines 41, 42, 43 and 49 at column of **Form 13** of the *return* for the *financial year in question*.

Insurance-related Capital Requirement - Accident and Underwriting Year Accounted Business (Sheets 3-4)

8. Amounts shown in the "Net Written Premium" column must be *net written premiums* before any deduction for commissions in the twelve months preceding the financial year ended date shown on sheet 1.
9. Amounts shown in the "Net claims outstanding carried forward" column must be net of reinsurance and comprise: outstanding claims, provisions for incurred but not reported (IBNR) claims, provisions for incurred but not enough reported (IBNER) claims and related claims management costs as at the financial year ended date shown on sheet 1.
10. Amounts shown in the "Net unearned premium and unexpired risks net of deferred acquisition costs" column must be net of reinsurance and comprise provision for unexpired risk and unearned premium less deferred acquisition costs as at the financial year ended date shown on sheet 1.
11. The amount derived in the "Net technical provision capital charge" column is the net technical provision capital charge factor multiplied by the sum of the net claims outstanding carried forward and the net unearned premium less deferred acquisition costs.