

Separate Management of Long Term Business and General Business

1. Introduction

1.1 This Chapter lays down the provisions regulating the separate management of long term business and general business pursuant to article 9 of the Act and applies to:

(a) an insurance undertaking authorised to carry on long term business desirous of applying for authorisation to carry on, simultaneously with the long term business, general business restricted to classes 1 and 2 of Part I of the Third Schedule to the Act and, on continuing basis, an insurance undertaking authorised as aforesaid;

(b) an insurance undertaking authorised to carry on general business restricted to classes 1 and 2 of Part I of the Third Schedule to the Act desirous of applying for authorisation to carry on, simultaneously with the general business, long term business and, on continuing basis, an insurance undertaking authorised as aforesaid;

(c) an insurance undertaking authorised solely to carry on general business of insurance and which has been granted authorisation to carry on long term business restricted to reinsurance;

(d) on a continuing basis, an insurance undertaking (other than an authorised reinsurance undertaking) authorised to carry on simultaneously both long term business and general business by virtue of article 9(3) of the Act,

(the “insurance undertaking”).

2 Simultaneous carrying on of long term business and general business

2.1 Where, by virtue of article 9 of the Act, an insurance undertaking is lawfully simultaneously carrying on both long term business and general business, the insurance undertaking may continue to do so provided that each kind of business is managed separately in accordance with the requirements of paragraphs 3.1 and 4.1 of this Chapter.

3. Separate management of long term business and general business

- 3.1 With respect to the separate management of long term business and general business required by an insurance undertaking under article 9(4) of the Act, such undertaking shall organise the separate management of both kinds of business in such a way that the long term business and general business are distinct in order that the respective interests of long term business policyholders and general business policyholders are not prejudiced and, in particular, that profits deriving from long term business shall benefit, long term business policyholders as if the insurance undertaking only pursues long term business.
- 3.2 Notwithstanding the provisions of articles 15 and 17 of the Act, the insurance undertaking concerned shall calculate:
- (a) a notional long term Minimum Capital Requirement with respect to its long term business of insurance or reinsurance, calculated as if the insurance undertaking concerned only carries on that business, on the basis of the separate accounts referred to in paragraphs 4.1 to 4.3; and
 - (b) a notional general Minimum Capital Requirement with respect to their general business of insurance or reinsurance business, calculated as if the insurance undertaking concerned only carries on that business, on the basis of the separate accounts referred to in paragraph 4.1 to 4.3.
- 3.3 As a minimum, an insurance undertaking authorised to carry on simultaneously both long term business and general business shall cover the following by an equivalent amount of eligible basic own-fund items:
- (a) the notional long term Minimum Capital Requirement, in respect of the long term business;
 - (b) the notional general Minimum Capital Requirement, in respect of general business.
- 3.4 The minimum financial obligations referred to in paragraph 3.3 in respect of long term business and general business, shall not be borne by the other kind of business.

- 3.5 As long as the minimum financial obligations are fulfilled under the conditions laid down in paragraphs 3.3 and 3.4, and, provided the competent authority is informed in advance, in writing, the insurance undertaking may use to cover the Solvency Capital Requirement, referred to in article 15 of the Act, the explicit eligible own-fund items which are still available for one or the other kind of business of insurance.
- 3.6 The competent authority shall analyse the results of each of the two kinds of business so as to ensure that the requirements of paragraphs 3.1 to 3.5 are fulfilled.
- 3.7 If the amount of eligible basic own-fund items with respect to any one kind of business is insufficient to cover the minimum financial obligations referred to in paragraph 3.3, the competent authority shall apply to the deficient business the measures provided for under the Act, regulations and Insurance Rules issued thereunder, whatever the results in the other business.
- 3.8 By way of derogation from the provisions of paragraph 3.4, those measures may involve the authorisation of a transfer of explicit eligible basic own-fund items from one kind of business to the other.

4. Accounts of the Authorised Insurance Undertaking

- 4.1 The accounts of the insurance undertaking shall be drawn up in such a manner as to show the sources of the results of each of the two kinds of business, long term business and general business separately. To this end, all income, in particular premiums, payments by reinsurers and investment income and expenditure in particular insurance settlements, additions to technical provisions, reinsurance premiums, operating expenses in respect of business of insurance shall be broken down according to origin. Items common to both kinds of business shall be entered in the accounts in accordance with methods of apportionment acceptable to the competent authority.
- 4.2 The insurance undertaking shall, on the basis of the accounts, prepare a statement clearly identifying the eligible basic own-fund items covering each notional Minimum Capital Requirement as referred to in paragraph 3.2, are clearly identified in accordance with paragraph 4.24 of the Chapter on Solvency II – Pillar 1 Requirements.

- 4.3 Where an insurance undertaking carrying on general business of insurance has financial, commercial or administrative links with an authorised insurance undertaking carrying on long term business of insurance, the competent authority shall ensure that the accounts of the undertakings concerned are not distorted by agreements between those undertakings or by any arrangement which could affect the apportionment of expenses and income.

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