



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS LIMITED

SOLVENCY EVALUATION AND
METHODS OF CALCULATING
RETENTION



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

REGULATION OF INSURANCE INDUSTRY

- Insurance Law & Supervision
- Price and Product Regulation
- Minimum Capital Requirement
- Solvency Control
- Special Reserving Regulations
- Guarantee Funds
- Compulsory Classes/ Separation of Life Business
- Protection of Local Market/ Market Access



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

SOLVENCY CONTROL

- Technical Reserves Control
 - Unearned Premium
 - O/S losses including IBNR
- Solvency Margin

Defined as:

Liability taken on by an insurer measured by premium income in relation to free assets or capital (freely available assets which are surplus to other commitments)

- Control and Valuation of Assets



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

SOLVENCY MARGIN (NON-LIFE)

EU DIRECTIVES

THE REQUIRED SOLVENCY MARGIN IS GREATER THAN:

- Premium Basis

18% of First ECU 10 mio premium and 16% of the balance reduced by an allowance for reinsurance up to maximum 50%

- Claim Basis (3 years gross claim average)

26% of the first ECU 7 mio and 23% of reminder reduced by an allowance for reinsurance up to maximum 50%

- Minimum Garanty Fund

Varies between ECU 200,000 and ECU 400,000 depending on class

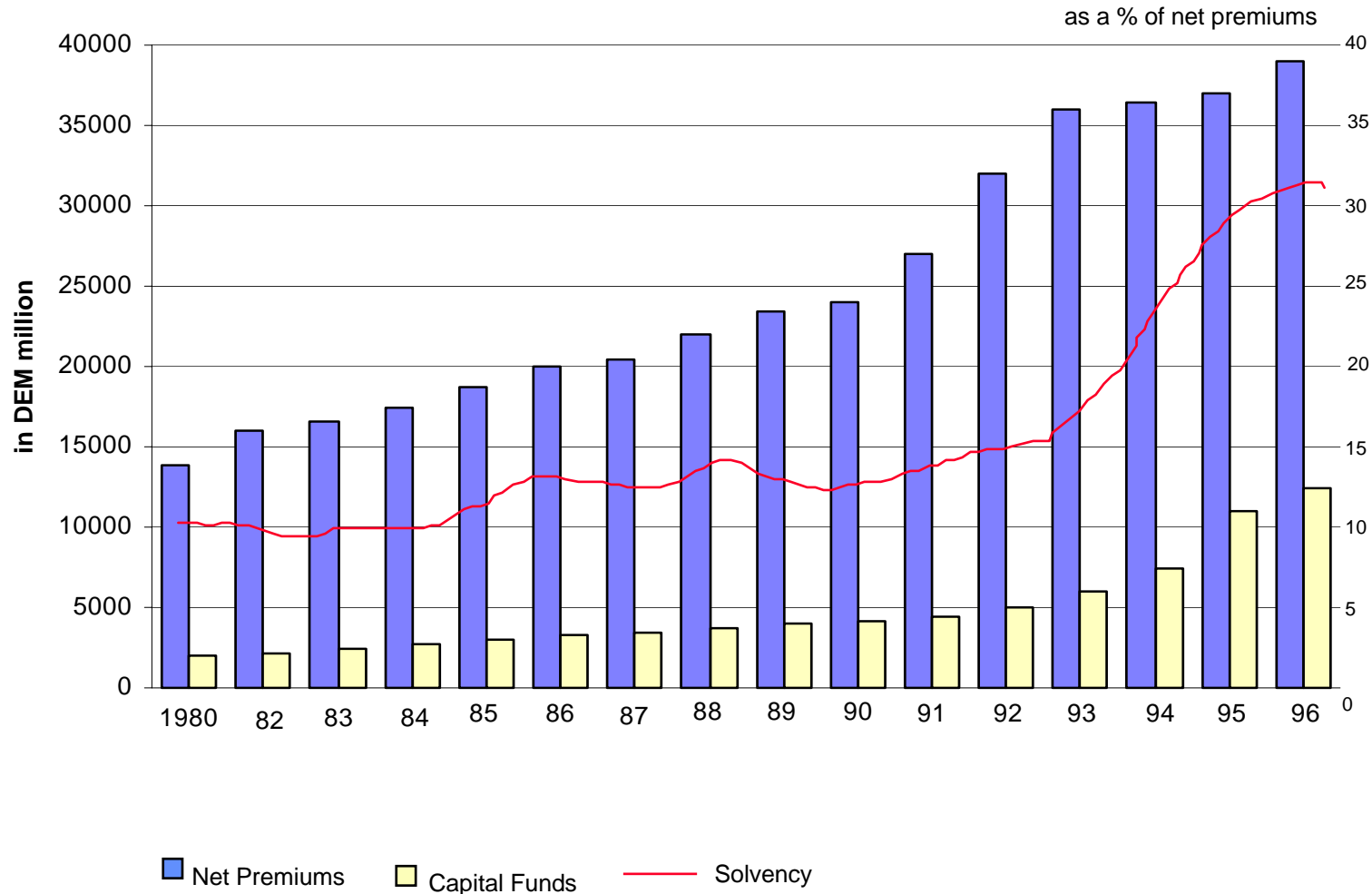


ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS LIMITED

CENTRAL & EASTERN EUROPE

Solvency of German reinsurers



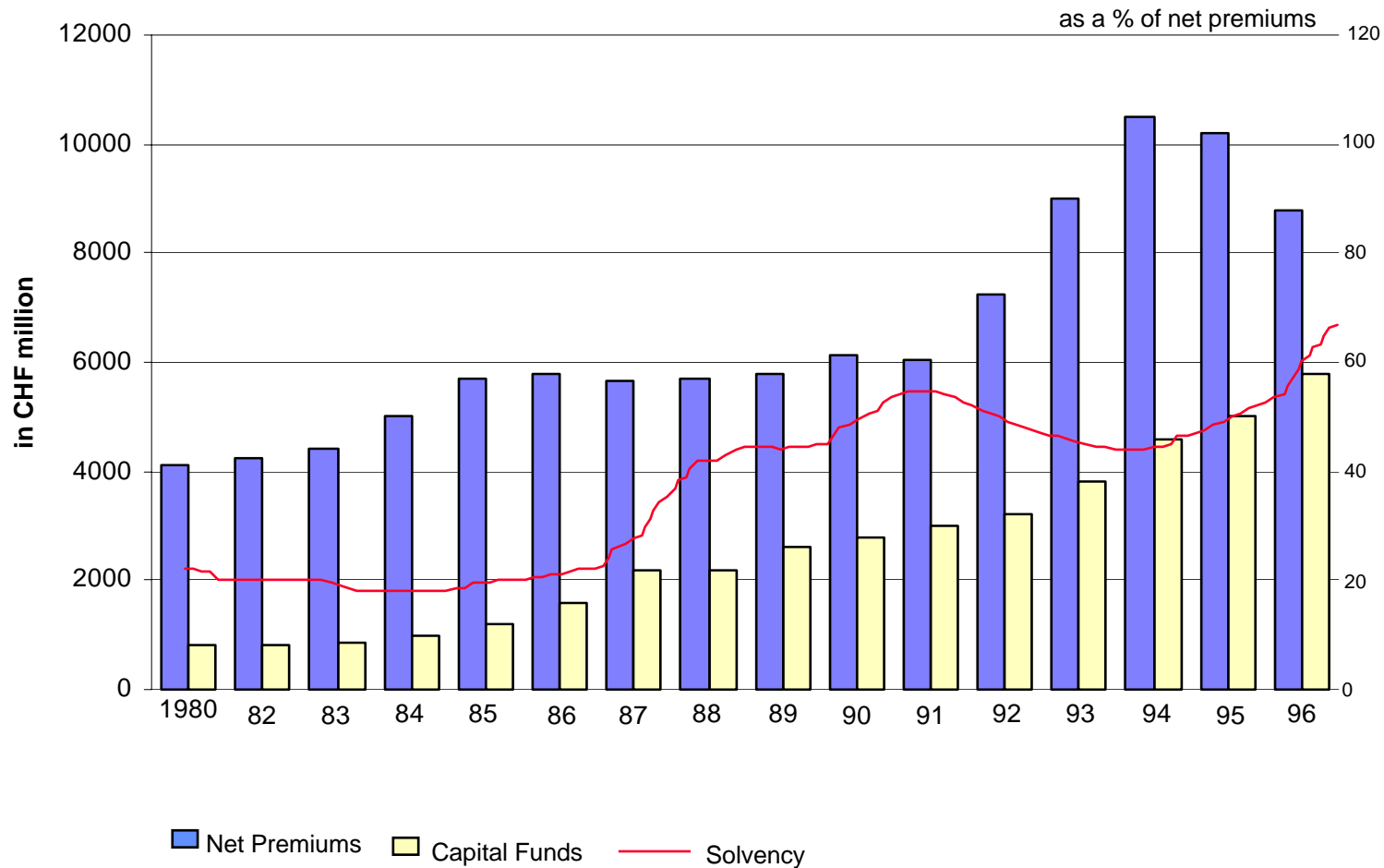


ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS LIMITED

CENTRAL & EASTERN EUROPE

Premiums and capital funds of Swiss reinsurers



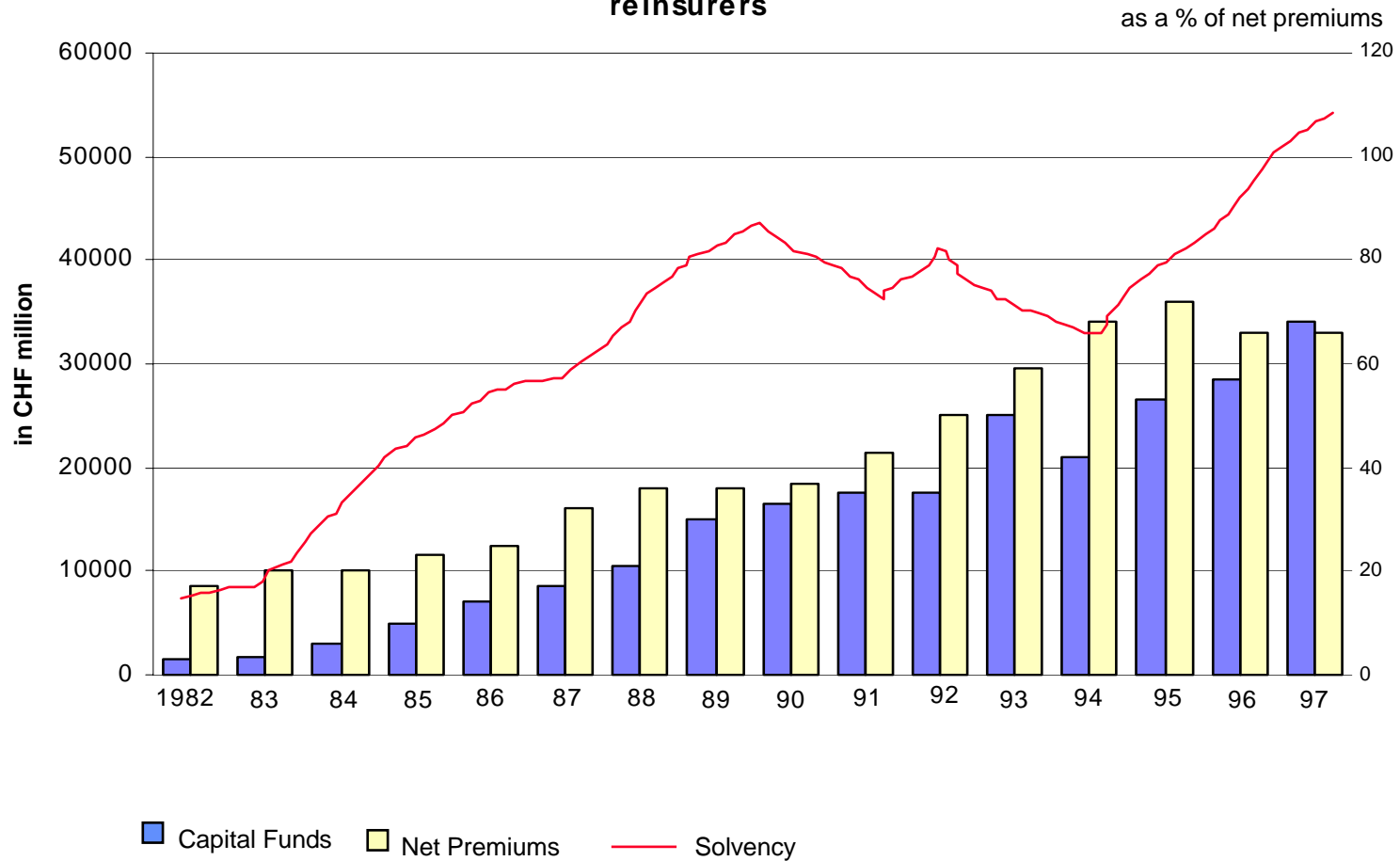


ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS LIMITED

CENTRAL & EASTERN EUROPE

Capital funds, net premiums and solvency of French reinsurers





ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

RETENTION

Defined as:

The limit of an insurer's net retained liability expressed either as a monetary amount and/ or as percentage share in a class of business after reinsurance ceded



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

FIXING OF RETENTION

Factors That Influence Retention:

- Capital & Free Reserves (Free Assets)
- Premium Income
- Size, Type & Spread of Risks (Exposure)
- Fluctuation in Frequency & Size of Losses
- Type & Cost of Reinsurance Available
- Corporate Strategy



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

METHODS OF CALCULATING RETENTION

- A) Retention to Premium Income
- B) Retention to Capital
- C) Retention to Exposure



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

A) RETENTION TO PREMIUM INCOME

0.5 - 1.5 % of premium income for class

(method usually used for less volatile risks -
casualty & motor)



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

B) RETENTION TO CAPITAL

0.5 - 5 % of allocated free capital

- per risk retention 0.5 - 2%
- per event retention up to 5%

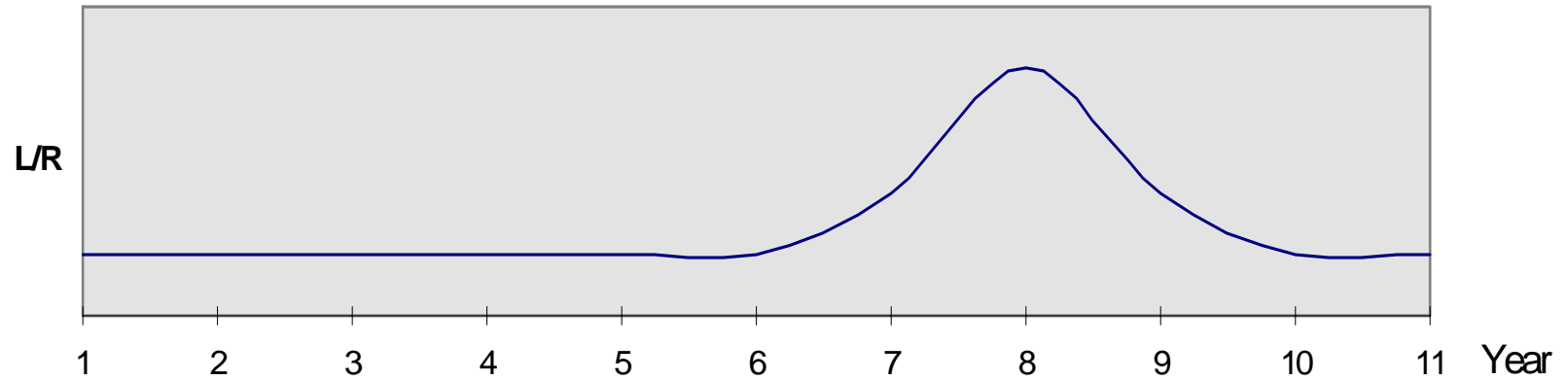


ESTABLISHED 1797

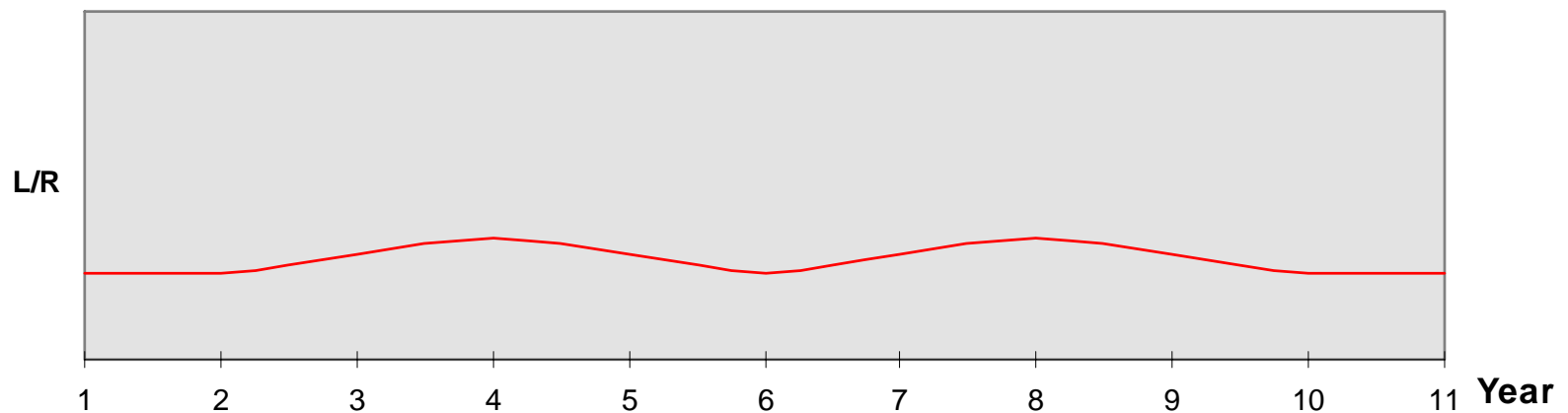
HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

Volatile Risks



Non Volatile Risks





ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

CAPITAL RATIO

- EU Minimum overall requirement (6.25 : 1)
- Volatile Risk
 - Natural Catastrophe (0.75 : 1)
 - Space (0.50 : 1)
- Non Volatile
 - Motor, PA, Health (5 : 1)
- Half Way
 - Property Simple (3 : 1)
 - Property Industrial (2 : 1)



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

EXAMPLE

A) Motor Portfolio Retained P.I. = DEM 20,000,000

Retention 0.5 - 1.5% = DEM 100,000 - 300,000

B) Motor Portfolio P.I. = DEM 20,000,000

(Non Volatile; Capital Ratio = 5 : 1)

I.E. Allocated Capital = DEM 4,000,000

Retention up to 5% = up to DEM 200,000

Fire Industrial Portfolio retained P.I. = DEM 20,000,000

Allocated Capital = DEM 10,000,000

Per Risk Retention (0.5 - 2) = DEM 50,000 - 200,000

Per Event (5%) = DEM 500,000



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

C) RETENTION TO EXPOSURE

- Up to 5% of exposed value/ PML for Catastrophe
- Up to 10% of maximum line any one risk for property/
engineering/hull/ cargo



ESTABLISHED 1797

HARRIS & DIXON INSURANCE BROKERS
LIMITED

CENTRAL & EASTERN EUROPE

STANDARD AND POORS TEST

- Retained Premium - Shareholders Funds: not more than 330%
- Retained Premium should not increase/ decrease from one year to the next by more than 25%
- Retained Premium should be no less than 50% of Gross Premium
- Technical reserves should be more than equalised by liquid assets
- Underwriting profit over 2 year period needs to exceed 25% of investment income of the same period
- Profit should certainly exceed 5% of Shareholders' funds
- Technical reserves plus Shareholders' funds should exceed 150% of retained premiums
- Technical reserves alone should no exceed 350% of Shareholders' funds