



GENERAL INSURANCE MEDIATION BUSINESS

SOLVENCY CALCULATIONS FORM - GUIDANCE NOTES

Introduction

This document refers to part 3 of the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005 (the "Order") and imposes on the registration of persons involved in General Insurance Mediation Business ("GIMB") various conditions relating to solvency.

The attached form, which is supplied in Excel spreadsheet format, is intended to assist with the calculation of the margins of solvency as required under Articles 13 and 14, to record such calculations and to provide confirmation of the calculations to the Commission when required (i.e. the calculation will be required with any application to renew a registration).

Calculation 1. In respect of the insurance broking account, this must be performed at least once a month

Calculation 2. In respect of the business, this must be performed quarterly and at the end of each accounting period. In addition, calculation 2. must be performed within 30 days of the quarter or the accounting period end.

In both calculations, the most recent figures available must be used and these should be taken from monthly management accounts, or from ledger printouts from an accounting system that can support the figures used.

Solvency Calculation 1.

Insurance broking account in accordance with article 14(1)

The first calculation is used to determine that a registered person has the required margin of solvency in relation to the person's insurance broking accounts in accordance with Article 13(1) of the Order and that the calculation is performed at least once each month in accordance with Article 14(1) of the Order.

The figures required for this calculation should be available from the registered person's management accounts or from ledger printouts from an accounting system that can support the figures used. All figures used in this calculation need to be supported by a ledger print from the accounting records.

The first figure required is the insurance broking account ledger balance, which should already have been reconciled in accordance with Article 11 of the Financial Services (General Insurance Mediation Business (Client Assets Order)) (Jersey) Order

2005. This figure must be dated in the section alongside it in the spreadsheet because this verifies the date of the reconciliation rather than the date that the person is performing the actual calculation.

The debtor and creditor balances are then required as itemised on the solvency calculation templates.

Provided the net balance is not a negative figure then the registered person has the required margin of solvency. If, however, the net balance is a negative figure then the margin of solvency test has failed and the registered person must, as a condition of registration, notify the Commission immediately under Article 15 of the Order.

Date, signature and printed name of person calculating margin

The person performing the calculation must complete this section and ensure that their name is printed as well as providing a signature and date. This assists with verification purposes should any query arise from the calculation.

Solvency Calculation 2.

Registered person in accordance with article 14(2)

The second calculation is used to determine that a registered person, in accordance with Article 13(2), has the required margin of solvency in that the approved assets exceed the liabilities by at least £10,000, or 5% of the person's net brokerage income on that day, whichever is the greater.

Accounting Period End (Quarter)

- (a) The registered person is required to perform the calculation as at the last day of "each accounting period" (usually one year).
- (b) In addition to the above calculation, the registered person is required to perform the calculation as at the last day of "each quarter of the accounting period".

As an example, if a registered person has an accounting period ending 31 December annually then they must use the figures available on the last day of:

31 March, 30 June, 30 September and 31 December

In accordance with Article 14(3), the calculation "shall be made within 30 days after the last day of the "accounting period" or for "each quarter of the accounting period".

Using the above example, the timetable for the calculation would be:

| Last day of the Accounting Period, or quarter of the Accounting Period: | The calculation using the figures in the column on the left are to be performed no later than: |
|--|---|
| 31 March (quarter) | 30 April |
| 30 June (quarter) | 30 July |
| 30 September (quarter) | 30 October |
| 31 December (accounting end) | 30 January |

Approved Assets in accordance with Article 12

The figures required for the following balances can be extracted from the registered persons' management accounts and form the "approved assets" that must be included in the calculation in the column of the spreadsheet, headed "Balance Sheet Values".

If the registered person carries on business other the general insurance mediation and is therefore authorised to carry on that business under another relevant law, then for the purposes of this calculation, those figures relative to the other business need to be deducted from the balances in a) – i) above. Once the figures for other business activities are inserted into the column headed "Required for non GIMB Solvency, the spreadsheet automatically calculates the figures for "approved assets" that are available for the GIMB Solvency calculation.

Other Non Approved Assets on Balance Sheet

This section may be used to record other assets of the registered person that are not approved under the Order, such as debts due from directors or related party transactions.

Total Assets

This figure is automatically calculated and is the result of total approved and non approved assets less.

Total Liabilities

The total liabilities figure can be extracted from the balance sheet in the registered person's management accounts. A deduction is also required for non GIMB liabilities.

Net Free Assets

This figure is automatically calculated and is the result of total assets less total liabilities.

Net brokerage income in accordance with Article 13(3)

Article 13(3) states that a person's net brokerage income on a particular day is the net brokerage income calculated in respect of the 12 month period immediately before the day. As an example, if the date used for the calculation is 31st March 2006 then the figure for net brokerage income will be the total amount for the period 1st April 2005 to 31st March 2006. The amount of net brokerage income for the 12 month period must also exclude any income in relation to non GIMB activities.

Required minimum margin of solvency in accordance with Article 13(2) 5% of net brokerage income or £10,000.00 whichever is the greater

The spreadsheet automatically calculates the test to determine if the net assets exceed the amount by at least 5% or £10,000 of the registered person's net brokerage income, whichever is the greater, as at the date used in the calculation.

Excess/ (Shortfall) against minimum margin of solvency

Provided the excess is not a negative figure then the registered person has the required margin of solvency. If, however, there is a shortfall then the margin of solvency test has failed and the registered person must notify the Commission immediately under Article 15 of the Order.

Date, signature and printed name of person calculating margin

The person performing the calculation should complete this section and ensure that their name is printed as well as providing a signature and date. This assists with verification purposes should any query arise from the calculation.

Disclaimer

The solvency calculation template is provided for guidance only and the Commission accepts no responsibility for its relevance to your business, or the results produced when using your own data. Whilst every effort has been made to test the construction of the template and its robustness, the Commission accepts no responsibility for the results when used by registered persons.