

**INSURANCE BUSINESS CONTROL REGULATIONS (WAYS
OF CALCULATING ALLOCATIONS FOR FUTURE CLAIMS
IN NON LIFE INSURANCE)
5745-1984**

By my authority under sections 36(a)(4), 46 and 112 of the Insurance Business (Control) Law 5741-1981 (hereafter: the Law), I make these regulations:

CHAPTER ONE: DEFINITIONS

Definitions

1. In these regulations:
 - "**Marine hull insurance**" - including third party liability;
 - "**Aircraft insurance**" - including third party liability;
 - "**Third party liability insurance**" - insurance against liability to third parties, other than professional liability insurance and product liability insurance;
 - "**Insurance of investment by dwelling buyers**" - insurance according to the requirements of the Sale (Apartments) (Assurance of Investment) Law 5735-1974;
 - "**Product liability insurance**" - insurance against liability under the Defective Products (Liability) Law 5740-1980;
 - "**Compulsory vehicle insurance**" insurance in accordance with the requirements of the Motor Vehicle Insurance Ordinance (New Version) 5730-1970;
 - "**Facultative reinsurance**" - reinsurance not within the framework of a general reinsurance contract, relating to cover of a risk defined in advance;
 - "**Insurance payments**" - premiums and fees;
 - "**Fees**" - registration fees, policy fees and levies;
 - "**total expenses**" - claims paid and expenses for their settlement, commissions and administration, including value added tax on them, managerial expenses and overhead;
 - "**Expenses on retention**" - total expenses, less amounts received from reinsurer;
 - "**Total income**" - insurance payments, including portfolio premiums and portfolio claims;

"Income from retention" - total income, less amounts transferred to reinsurers;

"Index" - the Consumer Price Index published by the Central Bureau of Statistics;

"Known index" -

- (1) in respect of a specific month - the index last published before the end of that month;
- (2) in respect of any other specific date - the index last published before that date;

"Allocation for claims of which the insurer has not yet received a report" - allocations for damage of which the insurer did not yet receive a report or received only a partial report, and for the expenses of settling the claims;

"Amounts transferred to reinsurers" - premiums, portfolio premiums and portfolio claims that were transferred to reinsurers;

"Amounts received from reinsurers" - claims and commissions, including profit fees and handling fees, received from reinsurers;

"Report year" - the year to which the financial report relates;

"Direct business" - business obtained from insured persons according to the insurer's policies, including the insurer's share of joint business according to policies signed by all participating insurers;

"Assumed business" - business received directly or through brokers, from other insurers in Israel or abroad under a reinsurance agreement;

"Reserve" - allocation for risks that have not yet lapsed or the cumulative excess of income over expenses, less the allocation for pending claims, or both, as the case may be;

"Premium in the report year" -

- (1) in respect of direct business - the total premium from the writing of the insurance, exclusive of portfolio premiums and of premiums received in advance for future years;
- (2) in respect of assumed business - the total of premiums on the insurer's books in his reports for the last four quarters before the annual report date, exclusive of portfolio premiums;

"Portfolio premiums" and **"Portfolio claims"** - portfolio premiums and portfolio claims which the insurer paid to other insurers or received from other insurers for insurance liabilities transferred to them or received from them;

"Representative exchange rate" - as published by the Bank of Israel;

"Average representative exchange rate" - the sum of all representative exchange rates published in that month, divided by the number of exchange rates published;

"Future claims" - reserves and allocations for pending claims, including allocations for claims of which the insurer has not yet received reports;

"Financial report" - the financial report submitted under Insurance Business (Control) Regulations (Particulars of Financial Report) 5746-1986 (hereafter: particulars of report regulations).

CHAPTER TWO: GENERAL PROVISIONS

Calculation of total reserve

2. An insurer shall, under these regulations, calculate - separately for each line or category of insurance as specified in these regulations - a reserve for the retention and a reserve for reinsurance; the total reserve shall be calculated as the sum of the reserve for the retention and of the reserve for reinsurance.

Adjustment of amounts

- 2A. All the amounts in these regulations shall be calculated and adjusted in accordance with the provisions of the Particulars of Report Regulations.
3. Repealed

Calculation of excess of income over expenses

4. The excess of income over expenses shall be calculated for each branch of insurance, as specified below:
 - (1) excess of income over expenses for the retention - the difference between income for the retention and the expenses for the retention during the report year, plus the excess of income over expenses for the retention in the preceding report year, and plus income from their investment in the report year; however, in the first underwriting year the deduction for commission and administrative expenses - including value added tax on them, managerial expenses and overhead - shall not exceed 80% of the rates specified in Schedules One and Two, and in the following accounting years, in which a reserve for that underwriting year is calculated under these regulations, the cumulative deduction shall not exceed the rates specified in Schedules One and Two; if an insurer has expenses lower than those specified in this paragraph, then he shall deduct the expenses actually incurred;
 - (2) excess of income over expenses in respect of reinsurance - the difference between the amounts transferred to reinsurers and the

amounts received from reinsurers during the report year, plus any excess of income over expenses in respect of reinsurance in the preceding report year, and plus income from their investment in the report year;

- (3) income from investments, as stated in paragraphs (1) and (2), shall be calculated according to the real yield, but not less than 30% real per year.

5. Repealed

Closing business account

6. In respect of assumed business, an insurer may -
 - (1) close a business account before the times stated in these regulations, if the reinsured company closed the account conclusively;
 - (2) close a business account later than the times stated in these regulations, if data needed for its closure are missing.

Keeping accounts for statistical purposes

7. An insurer shall keep business accounts for statistical purposes - by underwriting year, by insurance branches and by groups of insurance contracts - even after the business accounts have been closed.

Notes to the report

8. Notes to the report shall state that the reserve was calculated according to these regulations.

Increasing the insurance reserve

9.
 - (a) The reserve for business that stems from abroad shall be calculated at rates higher than those provided in these regulations, if the laws of the State in which the business was obtained so require, and a suitable note thereon shall appear in the financial report.
 - (b) When preparing a financial report, an insurer shall weigh whether the reserve calculated under Chapters Three and Four below suffices to cover future claims; if an insurer believes - on the strength of information in his possession - that the reserve should be increased, then he shall so inform the Commissioner; if the Commissioner approves the matter, then the insurer shall increase the reserve, and the amount of increase shall be stated in the notes to the financial reports.
 - (c)
 - (1) If, during the report year, claims paid and the cost of settling them in the comprehensive insurance of homes and business premises branch exceeded 65% of the insurance payments recorded as earned income in the report year, then the insurer shall increase the reserve at the rate, by which the paid claims and the costs of settling them exceeded the stated rate;
 - (2) if an insurer proved that it is not justified to increase the reserve as aforesaid, then the Commissioner may permit him not to increase the reserve, or to increase it at a lower rate, on conditions which he shall set;

In this subregulation, "insurance payments recorded as earned income" - insurance payments for the report year, plus the insurance reserve at the beginning of the report year, less the reserve at the end of the year.

Calculation of reserve from premiums paid for non-proportional insurance

10. In respect of insurance by the proportional method, no reserve shall be calculated for the premium paid to a reinsurer for coverage by the non-proportional method, unless the cover is provided by insurance year and not by report year.

Calculation of fees for reinsurance and joint insurance

- 10A. In respect of reinsurance and joint insurance from business that originates in Israel, the reinsured and the reinsurer shall include - for purposes of calculating the reserves, irrespective of whether the calculation is based on excess income over expenditure or on the minimum reserve, as the case may be - the portion of fees collected from the insured according to the proportional share of each in the premium; when the insurer does not have data on the amount of fees collected, then the Commissioner may prescribe the fees to be added to the premium in each branch of insurance.

Time for closing an account

11. Wherever these regulations provide that the insurer must calculate a reserve during a certain number of years, then the account shall be closed during the year thereafter.

Calculation of reserve for facultative reinsurance

12. The reserve for facultative reinsurance business shall be calculated as provided in these regulations for direct business.

CHAPTER THREE: BUSINESS THAT ORIGINATES IN ISRAEL

Article One: Direct Business

Employers' liability, third party liability, marine hull, aircraft and compulsory vehicle insurance

13. In employers' liability insurance, third party liability insurance, professional liability insurance, product liability insurance, marine hull insurance, aircraft insurance and compulsory vehicle insurance, the reserve shall be calculated during the three years from the beginning of the underwriting year, in the cumulative amount of the excess of income over expenses, less allocations for pending claims, including allocations for claims which have not yet been reported to the insurer, in respect of each underwriting year separately.
14. Repealed

Insurance of investment of dwelling purchasers

15. In insurance of the investment of dwelling purchasers the reserve shall be calculated according to the provisions of regulation 13, but the excess shall be calculated during five years from the beginning of the underwriting year.

Foreign trade risks insurance

16. In foreign trade risks insurance the reserve shall be calculated according to the provisions of regulation 13, but the excess shall be calculated during four years from the beginning of the underwriting year.

Property insurance of motor vehicles

17. In motor vehicle property insurance the reserve shall be calculated on the basis of the stock of policies in force, according to the cost experience of claims, as specified in Schedule Three, but the reserve shall not be less than a reserve calculated under section 18.

Personal accident, health, hospitalization, comprehensive dwellings and business premises, glass, loss of property, agricultural and engineering insurance

18. (a) In personal accident insurance, health and hospitalization insurance, comprehensive insurance of dwellings and business premises including insurance of glass, insurance against loss of property, agricultural insurance and engineering insurance, and in other lines and categories of insurance not specified in regulations 13 to 16 and 18A, the reserve shall be calculated on the basis of the premium from the writing of the insurance, as follows:
- (1) as described in the Schedule One - when the insurance under the policies begins on the first of the month;
 - (2) as described in the Schedule Two - when the insurance under the policies begins in the course of the month;
- (b) An insurer may calculate the insurance reserve in an amount based on the premium in proportion to the number of days of insurance after the report period, less expenses at the rates specified in Schedules One and Two; however, he must not change the method of calculation without the Commissioner's prior approval.
- (c) Repealed

Insurance of freight in transit

- 18A In insurance of freight in transit the reserve shall be calculated on the basis of insurance payments from the beginning of insurance in each of the last six months of the report year, as specified in Schedules One and Two.

Short term insurance

19. In health and hospitalization insurance for a period of not more than three months, and in insurance of travel abroad the reserve shall be calculated at the rate of $\frac{23}{24}$ of the insurance payments from the writing of the

insurance in the last month of the report year, less 35% of the resulting amount.

Calculation of insurance reserves in catastrophe insurance in agriculture

19A. If an insurer only insures against catastrophes in agriculture, then it shall calculate insurance reserves in an amount not less than the amount calculated under paragraph (1), and not more than the amount calculated under paragraph (2):

- (1) adjusted insurance payments separately for each agricultural crop category, before deduction of the reinsurer's share, that relate to the period from the report date to the end of the insurance contract, plus adjusted insurance payments of the retention in the report year, plus adjusted insurance payments in the report year in the amount of the insured persons' participation in the levels of risk covered by reinsurance;
- (2) five times the total adjusted insurance payments during the report year;

insurance payments shall be adjusted for purposes of this regulation - in respect of index linked insurance - at the rate of increase of the index known at the beginning of each insurance contract to the index known on the report date; and in respect of foreign currency linked or foreign currency denominated insurance - at the rate of increase of the representative exchange rate from the writing of the insurance contract to the report date.

Minimum reserve

20. Notwithstanding the provisions of regulations 13 to 16, in the first of the underwriting years the insurance reserve shall not be -

- (1) in respect of employers liability insurance, third party liability insurance, professional liability insurance, product liability insurance and compulsory vehicle insurance - less than the amount calculated as stated in regulation 18;
- (2) in respect of marine hull insurance, aircraft insurance, insurance of the investment of dwelling purchasers and foreign trade risks insurance - less an 50% of the insurance payments in the report year.

Allocation for claims which have not yet been reported to the insurer

21. For claims that have not yet been reported to an insurer shall make an allocation him according to past experience, on the basis of claims paid plus claims pending; however, in the first of the underwriting years the stated allocation may be calculated on the basis of insurance payments in the report year, if as yet no claims have been recorded, or if the recorded claims are for insignificant amounts.

Test of reserve allocations for pending claims

21A. When he submits the annual financial report, the insurer shall submit to the Commissioner a report in which he examines whether the allocation for pending claims in the year before the report year, including the allocation for claims which had not yet been reported to him, sufficed to cover the

payments in the report year, plus the allocations as of the report date for losses that occurred in years before the report year; the examination shall be made out for each branch and each accident year, for the whole amount and for the retention.

Article Two: Assumed Business

Proportional insurance

22. The reserve for proportional insurance, other than marine hull insurance and aircraft insurance, shall be calculated as stated in Article One.

Non-proportional insurance

23. The reserve for non-proportional insurance shall be calculated during the three years from the beginning of the underwriting year, in a cumulative amount of the excess of income over expense, less allocations for pending claims, including allocations for claims which had not yet been reported to it, for each underwriting year separately.

Marine hull and aircraft insurance

24. The reserve for marine hull and aircraft insurance shall be calculated as stated in Chapter Four, Article Two.

CHAPTER FOUR: BUSINESS THAT ORIGINATES ABROAD

Article One: Direct Business

Calculation of reserve

25. The reserve for direct business shall be calculated as stated in Chapter Three, Article One.

Article Two: Assumed Business

Calculation according to insurance branches and groups of insurance contracts

26. The reserve for assumed business shall be calculated according to branches of insurance and groups of insurance contracts by underwriting years.

Ceded portfolio

27. In respect of groups of contracts for underwriting years that were closed by ceded portfolio of both premiums and claims (clean cut), no allocation shall be made to reserves.

Employers' liability, third party liability, product liability, marine hull, aircraft and motor vehicle insurance

28. In groups of insurance contracts for employers' liability insurance, third party liability insurance including professional liability, product liability insurance, marine hull insurance, aircraft insurance, compulsory vehicle insurance and motor vehicle property insurance (insured vehicle and third party), the reserve shall be calculated as stated in regulation 13; the calculation shall be made for four years for business received by the proportional method, and for five years for business received by the non-proportional method.

Other branches by the proportional method

29. In respect of groups of insurance contracts in branches not enumerated in regulation 28 and received by the proportional method, the reserve shall be calculated as follows:

- (1) at the rate of 40% of the premium in the report year (before deduction of commissions paid) for underwriting years that have not yet been closed, exclusive of premiums charged to a ceded portfolio, when complete reports have been received about pending claims;
- (2) in the amount of the cumulative excess of income over expenses, as stated in regulation 13, when complete reports about pending claims have not been received.

Other branches by the non-proportional method

30. In respect of groups of insurance contracts not enumerated in regulation 28 and received by the non-proportional method, the reserve shall be calculated as stated in regulation 13.

Minimum reserve

31. Notwithstanding the provisions of regulations 28, 29 and 30, the reserve for each branch and type of insurance, by underwriting years, shall not be less than 40% of the premium in the report year in that branch and type of insurance, by underwriting years.

Allocation for claims when no report was received from the reinsured or the managing company

32. An insurer shall make an allocation for claims, in respect of which he has not yet received reports from the reinsured or the managing company, as follows:

- (1) if the reinsured or the managing company has not reported pending claims, then the insurer shall allocate 10% of the premium accrued by the report date;
- (2) if the reinsured or the managing company reported pending claims, and made no allocation for claims which it has not yet reported, then the insurer shall allocate for those claims 10% of the known pending claims.

Calculation of future allocations in semi-annual report

32A. Allocations for future claims in semi-annual financial reports shall be calculated as prescribed for the annual financial report, with the following changes:

- (a) in all instances, "report year" is replaced by "report period";
- (b) the calculation under regulation 18 shall be on the basis of the premium from the writing of insurance during the twelve months before the financial report date;
- (c) accounts for underwriting years may be closed only in the instances enumerated in regulation 6(1);
- (d) in respect of insurance by the proportional method the reserve should be calculated from the premium paid to reinsurers for cover by the non-proportional method, in the amount that exceeds the premium that relates to the financial report period.

CHAPTER FIVE: APPLICABILITY, EFFECT AND TRANSITIONAL PROVISIONS

Applicability

33. These regulations shall apply to all branches of insurance, other than life insurance within its meaning in the Insurance Business (Control) Regulations (Branches of Insurance) 5740-1979.

Effect

34. These regulations shall be in effect beginning with the financial report made by insurers as of December 31, 1985, and in respect of insurers whose financial report years do not end on December 31 - beginning with the first financial report made after the said date.

Notes to the report

35. The notes to the report for 1985 shall state the changes in calculating the reserve, and the difference in the reserve due to application of the rules prescribed in these regulations shall be stated.

Cancellation of notice

36. The notice about the determination of ways of calculating reserves for future claims in non life insurance in the insurer's annual financial report is repealed.

SCHEDULE ONE
(Regulation 18(a))

- (a) Calculation of the reserve on a monthly basis, the insurance having been written on the first of the month, by the 1/12 method.
- (1) for an insurer, whose financial report year begins in January, the reserve shall be equal to the sum of all the following, less expenses - by branches of insurance - at the rates specified in paragraph (2)
- (a) 0/12 of the insurance payments in January
 - (b) 1/12 of the insurance payments in February
 - (c) 2/12 of the insurance payments in March
 - (d) 3/12 of the insurance payments in April
 - (e) 4/12 of the insurance payments in May
 - (f) 5/12 of the insurance payments in June
 - (g) 6/12 of the insurance payments in July
 - (h) 7/12 of the insurance payments in August
 - (i) 8/12 of the insurance payments in September
 - (j) 9/12 of the insurance payments in October
 - (k) 10/12 of the insurance payments in November
 - (l) 11/12 of the insurance payments in December

(2)

| Branch of insurance | The report date being | | | |
|---|-----------------------|---------------------------|---------------------------|---------------------------|
| | Dec. 31, 1988 | June 30 and Dec. 31, 1989 | June 30 and Dec. 31, 1990 | June 30 and Dec. 31, 1991 |
| comprehensive dwellings and business premises: | 43% | 43% | 43% | 43% |
| motor vehicle property (insured vehicle & third party): | 38% | 35% | 32% | 30% |
| vehicle (compulsory): | 14% | 14% | 14% | 14% |
| other liability branches: | 30% | 30% | 30% | 30% |
| other insurance branches: | 35% | 35% | 35% | 35% |

| Branch of insurance | The report date being | | |
|---|------------------------------|------------------------------|--|
| | June 30 and Dec. 31, 1994 | June 30 and Dec. 31, 1995 | June 30 and Dec. 31, 1996 and thereafter |
| loss of property: comprehensive for dwellings and business premises: motor vehicle - property (insured vehicle & third party): | 30% | 30% | 30% |
| vehicle (compulsory): | 10% | 10% | 10% |
| other liability branches: other insurance branches: | 30% | 30% | 30% |
| | 35% | 35% | 35% |

- (3) for an insurer whose financial report year begins in any other month, the reserve shall be calculated as stated in paragraph (1), but "January" shall be replaced by "first month of the report year", and the rest changed accordingly.

SCHEDULE TWO

(Regulation 18(a)(2))

Calculation of reserve on a monthly basis by the 1/24 method

Calculation of reserve on a monthly basis, insurance written
on the first of the month, by the 1/24 method.

- (1) for an insurer, whose financial report year begins in January, the reserve shall be equal to the sum of all the following, less expenses - by branches of insurance - at the rates specified in paragraph (2)
- (a) 1/24 of the insurance payments in January
 - (b) 3/24 of the insurance payments in February
 - (c) 5/24 of the insurance payments in March
 - (d) 7/24 of the insurance payments in April
 - (e) 9/24 of the insurance payments in May
 - (f) 11/24 of the insurance payments in June
 - (g) 13/24 of the insurance payments in July
 - (h) 15/24 of the insurance payments in August
 - (i) 17/24 of the insurance payments in September
 - (j) 19/24 of the insurance payments in October
 - (k) 21/24 of the insurance payments in November
 - (l) 23/24 of the insurance payments in December

| | | | | | |
|--|-----|-----------------------|------------------------------|------------------------------|------------------------------|
| (2) | | The report date being | | | |
| Branch of insurance | | Dec. 31, 1988 | June 30 and Dec. 31, 1989 | June 30 and Dec. 31, 1990 | June 30 and Dec. 31, 1991 |
| comprehensive dwellings and business premises | 43% | 43% | 43% | 43% | |
| motor vehicle property (insured vehicle & third party) | 38% | 35% | 32% | 30% | |
| vehicle (compulsory) | 14% | 14% | 14% | 14% | |
| other liability branches | 30% | 30% | 30% | 30% | |
| other insurance branches | 35% | 35% | 35% | 35% | |

(3) for an insurer, whose financial report year begins in any other month, the reserve shall be calculated as stated in paragraph (1), but "January" shall be replaced by "first month of the report year", and so forth.

Second table missing

SCHEDULE THREE

(Regulation 17)

(Calculation of Reserve for Motor Vehicle Property Insurance)

1. (a) The reserve for motor vehicle property insurance shall be calculated by the following formula:

$$R = C \times D$$

when:

C = average claim per policy

D = number of policies in force; in this Schedule, "number of policies in force" shall be calculated without cancelled policies or policies in the process of cancellation, and in cases of collective vehicle fleet insurance a separate policy shall be taken into account for each vehicle.

(b) The average claim per policy during the twelve months before the calculation of the reserve (C) shall be calculated by the formula:

$$C = B/A$$

when:

B = total of claim payments in preceding twelve months

A = average monthly number of policies.

(c) The total of claim payments in the preceding twelve months (B) shall be calculated as follows:

(1) the total amount of claims paid (hereafter: monthly amount of claims) shall be calculated and presented separately for each of

the twelve months that preceded the reserve day of the calculation;

- (2) index linkage differentials - at the rate of change between the index known on the reserve calculation day and the index known in the month for which the monthly amount of claims is calculated - shall be added to each monthly amount of claims stated in paragraph (a) (hereafter: indexed monthly amount of claims);
 - (3) the total of all indexed monthly amounts of claims for the twelve months that preceded the reserve calculation day shall be calculated, and 2% shall be added to it for claim settlement overheads.
- (d) The average monthly number of policies for the preceding twelve months (A) shall be calculated as follows:
- (1) the number of policies in force at the end of each month shall be calculated and presented separately for each of the twelve months that preceded the reserve calculation day;
 - (2) the number of policies in force in each of the preceding twelve months as stated in paragraph (1) shall be added up and divided by twelve.
- (e) The number of policies in force (D) shall be calculated as follows:
- (1) the number of days to the expiration date of each policy in force on the reserve calculation day shall be counted (hereafter: days of exposure);
 - (2) the total number of days of exposure for all policies, as said in paragraph (1), shall be divided by 365.

2. (a) An insurer may calculate separately a reserve against reinsurance (S), and he may deduct it from the reserve calculated under section 1 (R); for this purpose, "reinsurance" - proportional insurance only.
- (b) The reserve against reinsurance (S) shall be calculated by the following formula:

$$S = E \times C$$

when

- C = average claim per policy, calculated as said in paragraph 1(b);
- E = number of policies in force with reinsurance cover

- (c) The number of policies in force with reinsurance cover (E) shall be calculated as follows:
- (1) the proportion of reinsurance cover under the reinsurance agreement in effect for the year in which the policy was underwritten year shall be shown for each policy of the policies in force (D), as stated in section 1(e);
 - (2) the number of days of exposure of each policy in force as aforesaid shall be multiplied by the proportion of reinsurance stated in paragraph (1);
 - (3) the total number of days of exposure calculated under paragraphs (1) and (2) shall be divided by 365.

December 5, 1984

Yitzhak Modai
Minister of Finance