

Circular No.11/IRDA/ACTL/IBNR/2005-06

8th June, 2005

To,

All General Insurers and Reinsurer,

Subject: Guidelines on estimation of IBNR Claims provision under General Insurance Business.

Ref: Circular No.08/IRDA/ACTL/IBNR/2005-06 dated 6.5.2005

This circular supersedes the circular dated 6.5.2005 under reference above.

2. IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000 relating to valuation of liabilities for General Insurance Business require that reserve for claim incurred but not reported (IBNR) shall be determined using actuarial principles and also shall be certified by insurer's appointed actuary. In the past, it has been observed that there was no means of knowing whether the certification was supported by adequate data analysis, the methodology followed in the estimation and what factors were taken into account in the estimate of reserves. In the absence of such information it was not possible to assess the appropriateness of the estimation of the reserves for IBNR claims. It has therefore, become necessary to issue suitable guidelines in this respect which shall be followed by the General Insurers and their Appointed Actuary to enable meaningful review of such estimates by the Authority.

3. Application: This circular is applicable to all insurers carrying on general insurance business in India, registered in accordance with section 3 of the Insurance Act, 1938, and who will be required to furnish the statement of IBNR Reserves certified by their appointed actuaries as per Schedule II-B of the Insurance Regulatory and Development Authority (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000.

4. Effective date: This circular should be followed in the estimation of IBNR reserves for the year 2005-06 and thereafter.

5. Description: The Annexure I to this circular describes (1) the mathematical estimation of IBNR Claim Provision; (2) the Report of the Appointed Actuary on estimation of reserves for IBNR Claims; (3) Statements that are required to be furnished to the Authority.

6. Procedure to be followed for furnishing the Appointed Actuary's report on the estimation of reserves for IBNR Claims: Every insurer has to make provision for IBNR Reserves in respect of its various products in different classes of general insurance business. Importance of the provision and considerations involved in this estimation have been described in Chapter 1 of the Annexure I. The stress is on past data of policies and claims, and maintenance of complete and correct data. Using the actuarial techniques, the data has to be analyzed to enable estimation of IBNR reserves. Chapter 2 describes how an appointed actuary has to complete the report. The report is required to be signed by the appointed actuary and countersigned by the principal officer of the insurer. The principal officer is responsible for providing full and accurate data in respect of policies and claims for the purpose stated above to its appointed actuary. Chapter 3 describes how to collate and present the results of the analysis for IBNR claims estimation (this includes IBNER – incurred but not enough reported)

7. All insurers and their appointed actuaries are requested to acknowledge the receipt of this circular, within 15 days from the date of receipt of this circular.

(C S Rao)
Chairman

Annexure I

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Chapter 1

GUIDELINES ON MATHEMATICAL ESTIMATION OF IBNR CLAIMS PROVISION

Introduction

1.1 The purpose of these guidelines is to specify an approach to the determination of IBNR in a logical manner and for compilation of data required for such determination.

1.2 These guidelines are relevant to determination of IBNR provisions for direct insurance and facultative reinsurance accepted business. Estimation of IBNR on treaty accepted and Excess Loss accepted business requires other methods more appropriate to the nature of the portfolio and its claims development pattern. Likewise, estimation of IBNR for specialized business such as crop insurance or credit guarantee insurance will require other methods more appropriate to the nature of business.

1.3 In these guidelines, the term IBNR covers both provisions for claims not reported as well as inadequate provision for reported claims, called IBNER. It is not necessary to establish separate reserves for IBNR and for IBNER so long as the method used will take into account both elements.

1.4 There are several possible methods for determination of the provision for IBNR claims. The method most appropriate in a particular case will depend on the nature of the business and claims development pattern. The method stated in these guidelines is the preferred method and is generally suitable to most sets of data. Where the Appointed Actuary considers the method stated in these guidelines to be not suitable, he should set out the reasons for such conclusion and provide justification for the alternative method proposed to be used, being considered more appropriate. Where the method used is not one of the well-known methods, the Appointed Actuary should also describe the method and the underlying assumptions in that method.

1.5 Every mathematical method of estimation is based on a set of assumptions. So, the validity of the assumptions underlying the method proposed to be used should be fully set out and validated sufficiently to lend credibility to the exercise.

1.6. Calculation of provision for IBNR should be done separately for each year of occurrence and the figures should be aggregated to arrive at the total amount to be provided.

1.7 When the **mathematics** produces a negative value for the estimate of IBNR provision for any year of occurrence, it is incorrect to automatically assume that the company is over-providing. The validity of the underlying assumptions should be re-examined. Other tests of credibility of the results should be applied. The incurred claims ratios derived after the estimation of IBNR should be reviewed in the general background of the ratios for the insurer concerned over the years and also the ratios for other insurers in the market for the same years. There should be a logically identifiable reason to support the findings. It is prudent to ignore negative values of IBNR provision.

Examination and validation of basic data

2.1 Integrity and completeness of data is essential to an acceptable estimation of IBNR provision based on such data. Therefore, an examination of the data should precede the work of estimation of IBNR provision. Although it is the responsibility of the management of the insurer to provide complete and accurate data as required by the appointed Actuary, the Appointed Actuary should apply such checks as practically possible, to ensure the quality and completeness of the data.

2.2 As suggested in the guidance note on collection of data on claims development, it is important to ensure homogeneity of data with regard to nature of business and claims

development pattern. Therefore, data should be examined separately for each of the classes set out in the guidance notes. If data of any class is aggregated with data for another class, care should be taken to see that the two classes are homogeneous in nature. In respect of Motor insurance business, it may be possible to compile data separately by class of vehicle and by scope of cover and by nature of claim. Provided the quantum of data is statistically adequate for projection work, this may be done. In respect of long-term insurance policies, the Appointed Actuary should adopt an appropriate basis to ensure that the earned premium for the year alone is used in the calculations. In respect of insurance plans including cover in more than one sub-class such as Householders' Comprehensive insurance, the system adopted by the insurer for classification of the business and the related premium should be consistently applied to data for all years used in the estimation process.

2.3 The underwriting policy of an insurer has a material effect on the nature of its portfolio and consequently, on the claims development pattern. Therefore, the Appointed Actuary should first examine the changes in underwriting policy over the period of observation and in particular, the changes made in current underwriting policy. The impact of such changes on the claims development pattern and claims ratio should be examined.

2.4 In the above context, the progression of premium over the recent years should be examined. Where the premium income shows significant fluctuation, the reasons for it should be examined. In particular, the impact of the types of risks being underwritten more actively, on the claims development should be taken into account. One of the important underwriting factors is the extent of policy deductible. If the average level of deductible has undergone material change over the recent years, its impact on the claims development should be taken into account.

2.5 In respect of motor insurance business, the composition of the portfolio by type of vehicle is material to the claims development pattern. Where the portfolio has changed materially, over recent years, its impact on the overall claims development should be taken into account unless data is split into several sub-divisions.

2.6 Compilation of data on an underwriting year basis instead of year of occurrence basis may be proposed in some cases. Where this basis is followed the Appointed Actuary should support the reason for change of basis on objective reasons.

Claims handling practices

3.1 A detailed review of the claims handling practices from the following aspects should be made. Where material changes are identified, their impact on the claims development pattern should be taken into account.

3.2 Although the law requires every claim to be recognized on first intimation, the way this is implemented in practice may differ from one company to another. The impact of inadequate provision for claims on claims development will be significant and should be taken into account.

3.3 Besides recognition of claims, the practice followed by the insurer to determine the provision to be made and the mechanism to review such provision as the claim develops are also important factors in claims development. Also, if the insurer has the practice of downsizing the claims provision in cases where there has been no movement in the claim over a certain period, it will be an important factor in claims development.

3.4 Besides studying the practice with regard to recognition, reserving and review of reserve, the claims settlement practice of the insurer should be studied. In particular, the company's practice in speed of processing for settlement, fairness in settlement offers, attitude to litigation, approach to interim payments and effectiveness of recovery action both by sale of salvage and through recoveries from third parties, are all material to the claims development pattern. For example, financial problems can get reflected in slower development of claims paid

and unless interpreted properly, they will lead to significant under-estimation of ultimate claims incurred ratios.

3.5 When studying the above aspects, it should be remembered that any set of practices that have been stable, will be reflected in the claims development pattern. Hence they may not present as much of a problem in estimation as any material changes in practices. The impact of such changes should be evaluated.

3.6 Methods that work on incurred claims are subject to far more uncertainties than methods that rely on progression of paid claims due to the uncertainties of claims estimation and reserving. Hence the Appointed Actuary should invariably work on paid claims data as the core basis of the estimation process. However, the Appointed Actuary may do another calculation using incurred claims as a point of comparison, if he so desires.

3.7 The claims development pattern can be materially affected by the occurrence of unusual events over the period of observation such as:

- Individual large claims;
- Catastrophic events causing a large number of claims;
- Changes in Law affecting the incidence and size of claims; and
- Impact of external factors on the average size of claims.

3.8 When looking at estimation of IBNR on a “net of reinsurance” basis, note should be taken of any changes in reinsurance protections and changes in size of retentions over recent years.

Allowance for trends

4.1 In order to make adequate allowance for trends, the following aspects should be studied:

- (i) Composition of portfolio;
- (ii) External factors such as economic environment, inflation, changes in legal, political or social conditions;
- (iii) Insurer’s underwriting policy; and
- (iv) Insurer’s claims settlement practice.

4.2 A significant indicator of claims experience is the frequency of claims occurrence and the average size per claim paid and per claim outstanding. These should be studied and any variations observed should be looked into.

Preferred method for estimation of IBNR

5.1 Based on data submitted for successive years, the cumulative development of claims picture should be compiled. It can be tabulated as shown in Form IBNR-B-1/2.

5.2 The cumulative claims paid as at the end of 24 months in respect claims relating to events that occurred in the year from 1 April 2002 to 31 March 2003 is the total of claims relating to the “current year” in the statement of claims for the year ending 31 March 2003 and claims paid in the “first preceding year” in the statement of claims for the year ending 31 March 2004; and so on. The cumulative statement is thus built up by putting together information from statements of claims for successive years.

5.3 The cumulative statement of claims development shows the way the claims paid picture develops over time. Assuming that the pattern of claims development will remain stable, it is possible to project to the completely developed claims amount using the progression of “**link ratios**” derived from the available data. The amount of IBNR will be the estimated ultimate claims cost less amounts paid so far and amount provided as outstanding on the date of estimation.

5.4 If there were changes in portfolio or underwriting or claims settlement practices, it may be better to use the latest available year’s link ratios rather than the average ratios.

5.6 The estimation process should not discount the estimated future development of paid claims to the current date nor should it load the claims outstanding specifically to provide for

inflation in the future cost of claims, other than the factor already inherent in the estimation process.

Tests of credibility

6.1 The exercise of estimating the provision for IBNR will not be complete without applying the tests of credibility to the results produced. These include looking at the frequency of claims occurrence, ultimate incurred claims ratios, average cost per claim paid and per claim outstanding etc.

6.2 The ultimate incurred claims ratios for the successive years should be credible as compared to ratios of other insurers in the market and for the same insurer over time. There should be logical explanations for any variations or sharp fluctuations. If the calculations produce progressively reducing ultimate claims ratios, they indicate a deficiency of the mathematical model. It may then be necessary to over-ride the results by alternative methods such as ultimate loss ratio method or Bornhuetter-Ferguson method.

6.3 Since insurers do not normally consciously over-provide for claims and since even with utmost diligence there will be claims that have occurred but have not yet been intimated to the insurer, it is inappropriate to accept any negative values for IBNR produced by the mathematics. To avoid such an error, estimation of IBNR should be made separately for each year of occurrence. Negative values of IBNR for any year should be ignored.

6.4 An essential check on the credibility of the estimation exercise is to see how the claims developed during the preceding twelve months as compared to the projection and estimation made last year. The outstanding claims provision and provision for IBNR made at the last Balance Sheet date should be compared with the aggregate of claims paid during the year, claims provided as outstanding at the end of the year and the provision for IBNR claims produced by the formula.

6.5 Most estimation methods produce less reliable results for the most recent years. Hence the results for the more recent years have to be revised based on the Actuary's knowledge of the business, the company's portfolio and claims settlement practices and the claims ratios of other insurers in the market.

Chapter 2
REPORT OF THE APPOINTED ACTUARY ON THE ESTIMATION
OF RESERVE FOR IBNR CLAIMS AS AT 31 MARCH

Name of insurer:

Name of Appointed Actuary:

Class of business:

Section I – The insurer and its business:

- 1.1 How active is the insurer in that class of business? Has the growth of premium income been steady and reasonable? Fluctuations in growth rates or high or low growth rates may be indicative of a change in the composition of business or changes in underwriting policy.
- 1.2 What is the underwriting policy of the insurer in respect of:
 - i. Selection of risks
 - ii. Rates and deductibles
 - iii. Delegation of underwriting authority.
- 1.3 Has the underwriting policy remained stable over the last six years? Have there been any changes in key underwriting personnel and how would that have impacted on the underwriting policy of the insurer?
- 1.4 What has been the claims processing and settlement policy of the insurer in the matter of:
 - i. First recognition of claim;
 - ii. Provision for a claim where no information or inadequate information on facts is available;
 - iii. Periodicity of review of the provision for a claim;
 - iv. Negotiation of bodily injury claims relating to motor accidents;
 - v. Processing and settlement of claims; and
 - vi. Pursuit of recovery or sale of salvage.
- 1.5 Has the claims processing and settlement policy remained the same over the past six years? Have there been any changes in key claims personnel and how would that have impacted on the claims settlement practice of the insurer? If so, comment on how the impact of these changes have been taken into account?
- 1.6 Has the insurer passed through cash flow or financial problems over the observation period? If so, has it affected the insurer's underwriting or claims settlement practices? Was there a significant slowing down in claims settlements?
- 1.7 Were the observed claims data affected by catastrophic events such as earthquake, flood, windstorm, individual large claims etc.? Were there significant changes in the business environment such as a severe economic recession that would have affected the business experience? If so, how have they affected the observed claims figures?

- 1.8 Was there any change in the general business and insurance industry conditions in matters such as legislative environment, competition, consumerism, levels of court awards etc.? If so, the impact of these changes should be commented upon.

Section II – The data

- 2.1 If the data is not separately compiled for each class of general insurance business as required by the guidance notes, then please comment on the reasons for variation.
- 2.2 Please comment on the source of data and steps taken to ensure that the data is consistent, reliable, complete and tallies with the audited accounts.
- 2.3 Please comment on the observed trends in the growth of premiums, frequency of loss occurrence, average cost per claim paid and per claim outstanding, speed of emergence of claims and speed of settlement. Please also state how these have been taken into account in the selection of the process of estimation.
- 2.4 Did any individually large claims affect the claims development figures? If so, how are they taken note of in the estimation process?
- 2.5 Is the estimation of IBNR done on a “net of reinsurance” basis? If not, describe the process followed to determine the amount to be provided net of reinsurance. Was there any material change in the reinsurance programme? If so, describe the manner in which it was allowed for in the estimation process. If data on net of reinsurance basis is not readily available, it is open to the actuary to work on the IBNR estimate on a gross basis and work on the estimate of IBNR for the share of reinsurance ceded, if that is more easily possible.

Section III – The method

- 3.1 Please describe the method used for estimation of IBNR. If the method used now is different from the method used previously, please state the reason for change.
- 3.2 Please state the assumptions underlying the method and to what extent the validity of the assumptions was verified.
- 3.3 Where the method used is not commonly understood, please explain the methodology and provide adequate working sheets to understand the calculations and results.
- 3.4 Please cross-check the result using another method, preferably, the chain-ladder method and comment on the outcome. However, if the Appointed Actuary chooses to use the chain-ladder method for estimation, then he may check on the estimate using any other method considered by him to be suitable for the purpose.

Section IV – Evaluation of the results

- 4.1 Please describe the tests of logic applied to the results and the results of the tests.
- 4.2 How do the figures of outstanding claims as per the estimation process compare with the actual provisions? If the calculated estimates are lower than the actual provisions, please advise the further tests applied to evaluate the validity of the results.

Section V

5. Comment on calculated incurred claims ratios for the insurer over the years and also as compared to other insurers in the market. In particular, please comment whether the claims ratios for the more recent years are logical. If not, please state how the estimation process was modified to achieve more credible results.

Attachments

6. The data collected from the database of the insurer, the compiled cumulative figures, the calculation sheets and the final results should be attached to the report.

Certification

7.1 The Appointed Actuary should not put forward or certify any figures, which lack credibility, with serious reservations.

7.2 The Appointed Actuary should certify that he has checked the data to the best of his ability and is satisfied that they are consistent, reliable and complete and that the assumptions underlying the method used for estimation of IBNR are valid.

7.3 The report should be signed with date by the Appointed Actuary. The Appointed Actuary should also secure a certificate from the Principal Officer as under and attach it to his report:

Certification

I certify that full and accurate particulars of every policy and claim have been furnished to the appointed actuary: (name) for the purpose of the determination of IBNR Reserves as on the 31st day of March of -----.(date of investigation).

Name of insurer:

Name of Principal Officer:

Signature of Principal Officer:

Place:

Date:

Chapter 3
Statement of Claims Development during the year ending 31 March_____.
Form IBNR-A

Name of Insurer:

Name of Appointed Actuary:

Class of Business:

(All Amounts in Rupees in thousands)

Year of occurrence of loss	Provision at the beginning of year			Part payments on claims during the year		Payments on claims finally settled during the year		Claims provided for the first time or reopened during the year		Claims closed without payment during the year		Provision at the en year	
	Outstanding claims		IBNR			Number	Amount	Number	Amount	Number	Amount	Number	Amount
	Number	Amount	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Amount	Number
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Current year													
2. First preceding year													
3. Second preceding year													
4. Third preceding year													
5. Fourth preceding year													
6. Fifth and earlier preceding Year													

7. TOTAL ALL
YEARS

Signature of Appointed Actuary:

Place:

Date:

Countersigned by Principal Officer

Cumulative Statement of Claims Development (By Amounts) As At 31 March_____.

Form IBNR-B-1

Name of Insurer:

Name of Appointed Actuary:

Class of Business:

(All Amounts in Rupees in thousands)

Year of occurrence	Earned Premium	Cumulative Claims Paid as at end of number of months as at Date of statement					Outstanding claims as at date of statement	Incurred claims	
		12 months	24 months	36 months	48 months	60 months		Amount	Ratio
		3	4	5	6	7		9	10
1	2						8		
Current year									
First preceding year									
Second preceding year									
Third preceding year									
Fourth preceding year									
Fifth preceding year									
Signature of Appointed Actuary:									

Countersigned by Principal Officer

Place:

Date:

Cumulative Statement of Claims Development (By Number)As At 31 March_____.

Form IBNR-B-2

Name of Insurer:

Name of Appointed Actuary:

Class of Business:

Year of occurrence	Number of policy years exposed	Cumulative number of Claims Paid as at end of number of months as at Date of statement					Outstanding number of claims as at date of statement	Incurred claims- Number	
		12	24	36	48	60		Number of	Frequency
		months	months	months	months	months		claims	of claims
1	2	3	4	5	6	7	8	9	10
Current year									
First preceding year									
Second preceding year									
Third preceding year									
Fourth preceding year									
Fifth preceding year									

Signature of Appointed Actuary:

Countersigned by Principal Officer

Place:

Date:

Chapter 4

Instructions for filling up the Statement of Claims Development

(To Forms: IBNR-A; IBNR-B-1; and IBNR-B-2)

General

Form IBNR-A

These Statements should be submitted for the year ending 31 March 2005 and annually thereafter. It is possible that all the information required by this form cannot be readily extracted from the system as set up at present. In that case, the insurer may submit the information in the best manner possible to meet the requirement. However, effective from the year ending 31 March 2006, all the information required by these forms should be furnished in a proper manner. Insurers are advised to make necessary modifications to their software to enable them to do this in a seamless manner.

The totals of columns 3, 4, 6+8, 14 and 15 should tally with the audited accounts figures. This reconciliation is essential to ensure proper determination of IBNR provisions.

“Reporting year” means the year in respect of which the statement is prepared. Thus, the reporting year for the statement of claims development during the year ending 31 March 2005 will be the year 1 April 2004 to 31 March 2005.

It is possible that the same event in respect of the same insured gives rise to several claims. In such cases, each of these claims should be individually recognised. However, where the system treats all claims arising out of one event in respect one insured as a single claim, the same basis should consistently be followed over the period of observation. The basis used for counting the number of claims should be uniformly applied over the entire statement.

Separate statements shall be prepared for each class of business for which separate data are required as per Accounting Regulations, namely, Fire, Marine Cargo, Marine other than Cargo, Motor, Workmen’s Compensation / Employers’ Liability, Public / Products Liability, Engineering, Aviation, Personal Accident, Health insurance and Others. Since Motor Liability claims have a significantly different development pattern as compared to Motor Property Damage claims, data in respect of Motor business should be provided separately for Motor Property Damage and for Motor Liability business. If data in respect of any of these classes is too small to be statistically sufficient for analysis, the calculation of IBNR may be done by combining the data with a class presenting a similar claims development pattern but the data must be provided separately.

Where the insurer has sufficient quantum of information under further sub-division of data for Motor business, the insurer may collect information separately for Motor Cycles, Private Cars, Buses, Goods Vehicles, Special Purpose Vehicles such as Earth-moving Equipments, Cranes, Dumpers, Mechanical Shovels etc., and Other vehicles such as Taxis, Motor Trade Risk etc. Care should be exercised that the break up of data in the above manner does not make the data too small to be reliable as a basis of projection.

While it is open to an insurer to calculate the provisions for IBNR separately for direct business and reinsurance accepted business and reinsurance ceded business, it is sufficient for the requirements of IRDA to calculate the provision for IBNR on business net of reinsurance.

With reference to column numbers of the statement at Form IBNR-A

Column 1: Claims data should be classified according to year of occurrence of the loss. Thus, in the statement for the year ending 31 March 2005:

Current year refers to claims relating to events that occurred during the year ending 31 March 2005.

First preceding year refers to claims relating to events that occurred during the year 1 April 2003 to 31 March 2004.

Second preceding year refers to claims relating to events that occurred during the year 1 April 2002 to 31 March 2003.

Third preceding year refers to claims relating to events that occurred during the year 1 April 2001 to 31 March 2002.

Fourth preceding year refers to claims relating to events that occurred during the year 1 April 2000 to 31 March 2001.

Fifth and earlier preceding years refers to claims relating to events that occurred before 1 April 2000.

Columns 2 to 4:

Number - Column 2 relates to the number of claims provided for as outstanding at the beginning of the reporting year. Thus, in the statement for the year ending 31 March 2005, the number of claims outstanding as at 1 April 2004 will be shown in this column, duly split according to the year of occurrence of the event giving rise to the claim. In this connection, please also see para 4 of general comments above. These figures should be the same as shown in the statement for the year ended 31 March 2004 as at the end of that year, except that the references to the year of occurrence will move by one year.

Amount – Column 3 refers to the amounts provided for the claims included in column 2, also split according to the year of occurrence of the event giving rise to the claim.

IBNR amount – Column 4 refers to the amount provided as a provision for IBNR claims. If the insurer has calculated the provision for IBNR claims on an omnibus basis, then it should show the entire provision against the row for “Current year”. However, insurers are advised that it is more appropriate to calculate the provision for IBNR claims separately by year of occurrence of the event giving rise to the claim and insurers who are not already doing so, should change their method of estimation to conform to this requirement.

Columns 5 and 6:

Claims where part payments were made during the reporting year but the claims are not yet fully settled should be shown in this column.

Number – column 5 can represent either the number of claims in respect of which, one or more payments were made during the year. However, where this is not possible, due to limitation of software, it may represent the number of payments regardless of the number of claims concerned. However, in either case, the basis of reporting should be consistently applied in the entire statement and in successive returns. Insurers should take up suitable modifications to software to enable the number of claims to be reported.

Amount – column 6 represents the amounts paid in respect of such claims and the direct expenses debitable as claims paid in accordance with accounting standards, such as surveyor’s fees or legal fees.

Columns 7 and 8:

Claims which were finally settled during the reporting year, with no further payments either as claims or direct claims related expenses remaining outstanding, should be shown in this column. Even if several payments were made during the year, if the claim was fully settled by the end of the reporting year, all payments made in respect of such claims during the reporting year, will be shown in these columns.

Number – Column 7 can represent either the number of claims in respect of which, one or more payments were made during the year or it may represent the number of payments regardless of the number of claims concerned. However, the comments in respect of column 5 are also applicable here.

Amount – Column 8 represents the amounts paid in respect of such claims and the direct expenses debitable as claims paid in accordance with accounting standards, such as surveyor's fees or legal fees.

Columns 9 and 10:

Claims which were recognised and provided for during the reporting year for the first time, should be shown here, according to the year in which the event giving rise to the claim occurred.

Number – Column 9 relates to the number of claims that were recognised and provided for the first time during the reporting year. In this connection, please also see comments in para 4 of general comments above.

Amount – Column 10 represents the amount provided for such claims initially at the time of recognition of the claim during the reporting year. The amount of provision to be shown here will be the amount provided when the claim was first recognised. Even if the provision was revised during the year one or more times, the amount to be shown here will be the amount provided initially when the claim was recognised.

Columns 11 and 12:

Claims that were shown as outstanding at the beginning of the reporting year or were provided for the first time during the year, and were closed during the year without having made any payments during the year, will be shown here.

Number – Column 11 relates to the number of claims that were closed without any payments having been made during the reporting year.

Amount – Column 12 represents the amount that was provided as at the beginning of the reporting year (or on the date the claim was first recognised in respect of the claims recognised during the reporting year), which was written back on closure of the claim.

Columns 13 and 14:

Claims that were outstanding as at the end of the reporting year, duly classified by the year of occurrence of the event giving rise to the claim, should be shown in these columns.

Number – Column 13 relates to the number of claims provided for as outstanding at the end of the reporting year. Thus, in the statement for the year ending 31 March 2005, the number of claims outstanding as at 31 March 2005 will be shown in this column, duly split according to the year of occurrence of the event giving rise to the claim.

Amount – Column 14 refers to the amounts provided for the claims included in column 13, also split according to the year of occurrence of the event giving rise to the claim.

Column 15 – IBNR should show the estimation of provision for IBNR claims as at the end of the reporting period.

Columns 16 and 17

Information on number of policies and premiums is collected here to examine both the claims ratios and claims frequency for the class of business being studied.

Number - Column 16 will show the number of policies issued in respect of the written business for the year concerned. For example, in the statement for the year ending 31 March 2005, the figure appearing here in respect of the second preceding year will be the number of policies of that class issued during the year 1 April 2002 to 31 March 2003 and so on.

Amount – Column 17 shows the amount of premium written during the year concerned, net of reinsurance cessions.

Normally, information in columns 16 and 17 will not change in respect of the same accounting year in subsequent returns.

Where the volume of long-term policies is significant in a portfolio, the Appointed Actuary should take it into account in computing the “earned premiums” and “policy years exposed” for Tables IBNR B-1 and B-2.

Cumulative Claims Data Forms at Forms IBNR-B-1; IBNR-B-2.

Information in this statement will be compiled by aggregation of figures of claims paid shown in Claims Data Form (Form IBNR-A) for successive years. Information on number of claims will likewise be compiled as shown in Form IBNR-B-1.

In the statement as at 31 March 2005:

Claims paid as at 12 months for current year will be the claims paid during the year 1 April 2004 to 31 March 2005 in respect of events that occurred during the year 1 April 2004 to 31 March 2005;

Claims paid as at 12 months for the first preceding year will be the claims paid during the year 1 April 2003 to 31 March 2004 and as at 24 months it will be the claims paid during the period of two years from 1 April 2003 to 31 March 2005, in respect of events that occurred during the year 1 April 2003 to 31 March 2004;

And so on.