

Insurance Newsletter

Number 01 Year 1999



**Financial Services
Commission**

EMU, the Euro and the Annual Returns - Changes which will affect insurance companies licensed in Gibraltar

Introduction

This Newsletter provides information on two important issues that will affect insurance companies licensed under the Insurance Companies Ordinance 1987 (the "Ordinance"), and especially their managers and auditors.

Economic and Monetary Union: The Euro replaces the ECU

It can hardly have escaped anybody's attention that the final stage of Economic and Monetary Union (EMU) began on 1 January 1999 with the introduction of the Euro, which replaced the European Currency Unit (ECU) at the rate of 1 Euro to 1 ECU, and the commencement of operations by the European Central Bank (ECB). EMU is principally a business issue for insurers, rather than a regulatory one. It will, however, have an impact on insurance supervision in Gibraltar and, accordingly, will affect all insurers licensed here. The main implications will be as follows:

The "Supervisory Euro"

The Euro will replace the ECU for supervisory purposes (e.g. for minimum guarantee fund levels and solvency calculations), but its value for such purposes will be fixed annually by the same method which was previously applied to the ECU and set out in section 4 of the Ordinance.

The sterling value of the ECU and the Euro, for insurance supervisory purposes for the 12 month period beginning 31 December 1998, is 70.5591 pence. This value should be used for calculations relevant to this period in connection with the application of insurance legislation, and is the rate to be applied in calculations carried out as at, and with effect from, 31 December 1998. (The corresponding value of the ECU for the period to 30 December 1998 was 68.2455 pence.)

Reporting

The Euro became the legal currency of 11 EU member states on 1 January 1999. Their existing currencies became sub-divisions of the Euro though they will remain legal tender in their respective member states for up to three years. This means that insurers which report in their returns any risk group or reinsurance category data in the currency of a participating member state will need to report that data in Euros. Legislation to permit Euro zone risk group and reinsurance category data to be reported in old currencies for financial years ending before 31 December 1999 will, therefore, be required.



Legislative changes required

Additional changes to the Gibraltar insurance legislation will be required:

- a. to enable ECB instruments to be treated as admissible assets;
- b. to treat the Euro as a major currency for the purposes of the Insurance Companies (Accounts and Statements) Regulations 1998 which came into effect at the end of last year – see below.

Matching

Some insurers with small amounts of liabilities (i.e. below that matching threshold) in several participating member states may find that, on conversion to the Euro, their aggregate Euro liabilities bring them above the matching threshold and that they need to start matching their Eurozone liabilities with effect from 1 January 1999. Matching is mandatory under the Directives. In considering appropriate investments, regard should be had to the asset quality and suitability requirements of section 64B of the Ordinance.

New Accounts and Statements Regulations

The Insurance Companies (Accounts and Statement) Regulations 1998 (the “1998 Regulations”) came into operation on 31 December 1998 and will apply to the returns of all insurers and reinsurers reporting their business for periods ending on, or after, that date. The 1998 Regulations replace the earlier 1996 Regulations. Their main general effect will be to:

- Provide more relevant information in the returns forms than previously (the 1996 Regulations were based on the UK format which had been in use since 1983. The new regulations are based on the UK format which was introduced there in 1996);
- Enable a better reconciliation between the returns and the information required to be submitted in the statutory accounts prescribed in the Insurance Companies (Accounts Directive) Regulations 1997; and
- Eliminate some information in the returns that was no longer useful for supervisory purposes and an unnecessary burden on insurers.

Insurers will wish to note, in particular, that the 1998 regulations contain an amendment to Schedule 3 of the Ordinance specifying new accounting classes under which insurance business is to be reported.

Interim Arrangements for 1999

As the 1998 Regulations were published only in late December 1998, the Commissioner of Insurance is prepared for annual returns which report insurance business up to and including 31 December 1998 to be submitted under the 1996 Regulations. Insurers wishing to take advantage of this concession should write to the Insurance Supervisor, explaining the reasons why submission under the 1998 Regulations is difficult.

Guidance

Full Guidance Notes on the preparation of annual returns in the light of the new 1998 Regulations have been prepared and will be sent to those responsible for preparing and auditing the returns in the very near future. There will be two sets of Guidance Notes, one for companies reporting general business (Insurance Guidance Note No. 2A) and one for companies reporting long term business (Insurance Guidance Note No. 2B). Together, these will replace the



previous Guidance Note, Insurance Guidance Note 2, entitled "Guidance Notes on the Preparation of Annual Returns" which we issued on 18 December 1996.

Forms available on the FSC Internet

The new 1998 Accounts and Statements Regulations are being made available on the FSC Internet Website (<http://www.gibraltar.gi/fsc>), so insurers will be able to access the forms they require to make their returns. However, should you require copies of the returns in paper form, or on diskette, please contact the Assistant Insurance Supervisor, Norman Ritchie on (350) 40283.

Published by:

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January 1999