

# No. 5 2006/2007 - Class 1 Policy Year Balances and Future Funding Requirements

September 2006

Dear Sirs

## **CLASS 1 POLICY YEAR BALANCES AND FUTURE FUNDING REQUIREMENTS**

### **Class 1 Policy Year Balances**

At their meeting on 20 September 2006, the Board reviewed the latest policy year balances as at August 2006 for Class 1.

The Board noted that since February 2006 there has been little change in incurred claims costs for any policy year. As a result claims projections for all closed and open policy years remain unchanged from the position at February 2006 and are as reflected in the latest Report and Accounts.

### **Future funding requirements and “Solvency 2”**

However, the Board, as indicated in Notice to Members No. 04 2006/2007 dated May 2006, have since May conducted a detailed review of the Club’s long-term future funding requirements. The Board is determined to ensure that the Club will be fully compliant by 2010 with new capital and regulatory requirements which will be imposed under “Solvency 2”.

The Board has decided that it is appropriate to address these requirements in the two or three years which remain before they apply. The Board is concerned in particular that, as likely long-term claims trends are not positive and nor are prospects for investment income, it is unlikely that there will be a sufficient increase in the current free reserves of around \$133 million to the level required in 2010 unless certain measures are taken now.

As an interim measure the Board also decided not to make further allocations of investment income while the initial steps to meet future funding requirements are taken. Accordingly the Board has decided that for the open policy years 2004 and 2005 the projected shortfall for each year shall be covered by additional calls of 15% on each year, in place of the releases originally set. The same measure will also apply to 2006 although it is of course too early to predict any final outcome for the year itself. These calls in aggregate are calculated to increase the level of the Club’s overall free reserves by more than \$65 million at February 2007. In addition, for 2006, the Board has decided to make specific further provision for future capital requirements, the details of which are set out below.

The Board’s decisions in relation to each policy year are as follows:

#### **2004/2005**

The original 15% release shall be called as a 15% additional call to be payable by 20 January 2007. A further 5% release is set for the policy year to protect against unforeseen contingencies for 2004 until the year is closed in May 2007.

#### **2005/2006**

The original 15% release shall be called as a 15% additional call to be payable by 20 January 2007. A further 10% release is set for the policy year to protect against unforeseen contingencies for 2005 until the year is closed.

## **2006/2007**

The original 15% release shall be called as a 15% additional call to be payable together with the original additional call of 20% by 20 August 2007, so that on the basis of current projections there will be no underwriting deficit for the year.

So far as future capital requirements are concerned, the Board has also decided that a further call for the 2006 policy year of 35% be made in order to provide the necessary increase in the Club's reserves. However, the Board has decided not to make this call payable at this stage. Periodic reviews of the overall financial position in the run up to 2010 and particularly future underwriting results may make all or part of the call unnecessary. Accordingly the Board has set a release for the year of 50% which reflects both the amount of the required call and a 15% margin to protect against unforeseen contingencies for the 2006 year itself until it is closed.

Please do not hesitate to refer any queries to the Managers in the usual way.

Yours faithfully

For: **West of England Insurance Services (Luxembourg) S.A.**(As Managers)

**P E Spendlove**

Managing Director