

Interim Prudential Sourcebook

Insurers

Volume One Rules

THE INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS INSTRUMENT 2001

INTRODUCTION

- 1 The FSA makes the rules and guidance in this instrument on 21 June 2001.
- 2 [deleted]
- 3 This instrument will come into force at the beginning of the day on which section 19 of the *Act* (the general prohibition) comes into force.
- 4 This instrument is to be interpreted in accordance with, and applies subject to, the general provisions contained in the General Provisions Instrument 2001.
- 5 This instrument may be cited as the Interim Prudential Sourcebook for Insurers Instrument 2001.
- 6 This instrument, excluding the provisions in this Introduction, may be cited as the Interim Prudential Sourcebook for Insurers.

By Order of the Board

21 June 2001

**INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS
GUIDANCE**

**THE PURPOSE OF THE PRUDENTIAL RULES FOR INSURERS AND
AN OVERALL DESCRIPTION**

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INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS

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1 Chapter 1: Application Rule

APPLICATION

Insurers

1.1 An insurer must comply with *IPRU (INS)* unless it is –

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| FCA | PRA | (a) | a <i>friendly society</i> ¹ ; or |
| | | (b) | an <i>EEA insurer</i> or an <i>EEA pure reinsurer</i> qualifying for authorisation under Schedules 3 or 4 to the Act; or |
| | | (c) | a <i>Solvency II firm</i> . |

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1. A *non-directive friendly society* must comply with *IPRU(FSOC)*; a *directive friendly society* must comply with *PRA Rulebook: Solvency II firms*; and with Chapters 1, 2 (with the exception of rule 2.3(1)(a) in relation to registered branches), 7 and 8 of *IPRU(FSOC)*.

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3 Chapter 3: Long-Term Insurance Business

PART I: IDENTIFICATION AND APPLICATION OF ASSETS AND LIABILITIES

Allocations to policy holders

Allocation of established surplus

3.3 (1) Where –

FCA

- (a) there is an ‘established surplus’ in which *long-term policy holders* of any category are eligible to participate; and
- (b) an amount has been allocated to *policy holders* of that category in respect of a previously ‘established surplus’ in which *policy holders* of that category were eligible to participate,

an *insurer* must not by virtue of *INSPRU 1.5.27R* transfer or otherwise apply assets representing any part of the surplus mentioned in (a) unless the insurer has –

- (i) allocated to *policy holders* of that category in respect of that surplus an amount not less than the ‘relevant minimum’, or
- (ii) complied with the requirements of (3) and made to those *policy holders* any allocation of which notice is given under (3)(a).

- (2) Subject to (6) and (7), the *relevant minimum* is the amount represented by the formula –

$$\frac{b \times c}{a} - \frac{c}{200}$$

where –

- a* is the last previously ‘established surplus’ in respect of which an amount was allocated to *policy holders* of the category in question;
- b* is the amount so allocated; and
- c* is the surplus referred to in (1)(a).

Requirements where less than the relevant minimum is to be allocated

- (3) The requirements referred to in (1)(ii) are that the *insurer* –

- (a) at least 14 days before publication has given the *FCA* written notice stating that it proposes to make no allocation or an allocation of an amount (specifying it) which is smaller than the ‘relevant minimum’, and a copy of the statement that it proposes to publish in accordance with (b); and

- (b) has published a statement in the London, Edinburgh and Belfast Gazettes and in two national newspapers explaining the allocation it proposes to make to *policy holders* and the reasons for it,

and that a period of not less than 56 days has elapsed since the date, or the last date, on which the *insurer* has published the statement mentioned in (b) as required by that paragraph.

- (4) In this rule, established surplus means an excess of assets representing the whole or a particular part of the *long-term insurance fund* or *funds* over the liabilities, or a particular part of the liabilities, of the *insurer* attributable to that business as shown by an *actuarial investigation*.

Amounts to be treated as allocated to policy holders

- (5) For the purposes of this rule, an amount is allocated to *policy holders* if, and only if –
 - (a) bonus payments are made to them; or
 - (b) reversionary bonuses are declared in their favour or a reduction is made in the premiums payable by them,

and the amount of the allocation is, in a case within (a), the amount of the payments and, in a case within (b), the amount of the liabilities assumed by the insurer in consequence of the declaration or reduction.

Bonus payments in anticipation of established surplus

- (6) For the purposes of this rule, the amount of any bonus payments made in anticipation of an 'established surplus' is treated as an amount allocated in respect of the next 'established surplus' in respect of which an amount is allocated to eligible *policy holders* generally; and for the purposes of (2) the amount of any surplus in respect of which such an allocation is made is treated as increased by the amount of any such payments.

Unappropriated surplus carried forward

- (7) (1) does not authorise the application for purposes other than those mentioned in *INSPRU* 1.5.30R of assets representing any part of the surplus mentioned in (1)(a) which the *insurer* has decided to carry forward unappropriated; and for the purposes of (2) the amount of any surplus is treated as reduced by any part of it which the *insurer* has decided to carry forward unappropriated.

Eligibility to participate in an established surplus

- (8) For the purposes of (1), *policy holders* are taken to be eligible to participate in an 'established surplus' in any case where they would be eligible to participate in a later 'established surplus' representing it if it were carried forward unappropriated.

Restriction on transactions with connected persons

Arrangements to avoid unfairness between separate insurance funds

- 3.5 (1) An *insurer* which carries on *long-term insurance business* in the UK must have adequate arrangements for securing that transactions affecting assets of the *insurer* (other than transactions outside its control) do not operate unfairly between the *long-term insurance fund* or *funds* and the other assets of the *insurer* or, in a case where the *insurer* has more than one 'identified fund', between those funds.
- FCA
- (2) In this rule, identified fund means assets representing the *insurer's* receipts from a particular part of its *long-term insurance business* which can be identified as such by virtue of accounting or other records maintained by the *insurer*.

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8 Chapter 8: Non-UK Insurers

PART III: RULES APPLICABLE TO BRANCHES

8.3 **An *insurer* which has its head office outside the United Kingdom (other than a *pure reinsurer* which has a Treaty right under Schedule 4 to the *Act*, or a *Swiss general insurer*) must appoint and maintain the appointment of a chief executive (who alone or jointly with one or more others, is responsible for the conduct of its business through an establishment in the United Kingdom).**

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9 Chapter 9: Financial Reporting

11 Chapter 11: Definitions

PART I: DEFINITIONS

11.1 For the purposes of *IPRU (INS)*, the term or phrase in the first column has the meaning given to it in the second column unless the context otherwise requires.

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| Term or phrase | Definition |
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| <i>1981 Regulations</i> | Insurance Companies Regulations 1981 (S.I. 1981 No. 1654) |
| <i>1982 Act</i> | Insurance Companies Act 1982 |
| <i>1983 Regulations</i> | Insurance Companies Regulations 1983 (S.I. 1983 No. 1811) |
| <i>1986 Order</i> | Companies (Northern Ireland) Order 1986 |
| <i>1994 Regulations</i> | Insurance Companies Regulations 1994 (S.I. 1994 No.1516) |
| <i>1996 Regulations</i> | Insurance Companies (Accounts and Statements) Regulations (S.I. 1996 No. 943) |

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| <i>accounted for</i> | reported pursuant to the <i>Accounts and Statements Rules</i> |
| <i>Accounts and Statements Rules</i> | rules 9.1 to 9.36E and rule 9.39 of Chapter 9 |
| <i>actuarial investigation</i> | an investigation to which rule 9.4 applies |
| <i>admissible asset</i> | an asset that falls into one or more categories in <i>GENPRU 2 Annex 7R</i> |
| <i>annuities on human life</i> | does not include superannuation allowances and annuities payable out of any fund applicable solely to the relief and maintenance of persons engaged, or who have been engaged, in any particular profession, trade or employment, or of the dependants of such persons |
| <i>approved investment firm</i> | an investment firm as defined in the <i>Investment Services Directive</i> |
| <i>associate</i> | has the meaning given in rule 11.2 |
| <i>available assets</i> | the excess of an <i>insurer's</i> assets (other than <i>implicit items</i>) over its liabilities, in each case valued in accordance with <i>GENPRU 1.3, INSPRU 2.1 and INSPRU 1</i> |

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| <i>balancing category</i> | an <i>FSA general insurance business reporting category</i> to |
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| | which any of the <i>category numbers</i> 409 or 709 has been allocated in column 1 of Annex 11.3 |
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| <i>category number</i> | the category number for the <i>FSA return general insurance business reporting categories</i> listed in column 1 of Annex 11.3 |
| <i>cede and cession</i> | in relation to <i>reinsurance</i> , include retrocede and retrocession |
| <i>claim</i> | a <i>claim</i> against an <i>insurer</i> under a <i>contract of insurance</i> |
| <i>claims-made policy</i> | a contract of liability insurance which provides that no liability is incurred by the <i>insurer</i> in respect of an incident unless – (a) the incident is notified to the <i>insurer</i> (or its agent or representative); and (b) such notification is received by the <i>insurer</i> (or its agent or representative) before the end of a specified period which is no longer than three years following the final date for which cover is provided under the contract |
| <i>claims management costs</i> | refers to those claims management costs required by the <i>insurance accounts rules</i> (note (4) to the profit and loss account format) to be included in <i>claims</i> incurred other than those which, whether or not incurred through the employment of the <i>insurer's</i> own staff, are directly attributable to particular <i>claims</i> |
| <i>class</i> | a class of <i>long-term insurance business</i> , listed in Annex 11.1 or a class of <i>general insurance business</i> listed in Annex 11.2 |
| <i>collecting book</i> | includes any book or document held by a <i>collector</i> in which payments of premiums are recorded |
| <i>collector</i> | includes every person, howsoever remunerated, who, by himself or by any deputy or substitute, makes house to house visits for the purpose of receiving premiums payable on <i>policies</i> of insurance on human life, or holds any interest in a <i>collecting book</i> , and includes such a deputy or substitute |
| <i>combined category</i> | an <i>FSA general insurance business reporting category</i> to which any of the <i>category numbers</i> 001, 002, 003, 110, 120, 180, 220, 260, 270, 280, 330, 340, 500 or 600 has been allocated in column 1 of Annex 11.3 |
| <i>commitment</i> | a commitment represented by <i>insurance business</i> of any of the <i>classes</i> of <i>long-term insurance business</i> |
| <i>company</i> | (a) for the purposes of the <i>Accounts and Statements Rules</i> means an <i>insurance undertaking</i> ; and |

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| | (b) otherwise, includes any <i>body corporate</i> |
| <i>connected</i> | <p>a <i>body corporate</i> “A” and another <i>body corporate</i> “B” are connected with each other if:</p> <p>(a) B is a <i>related undertaking</i> of A;</p> <p>(b) B is a <i>participating undertaking</i> in A; or</p> <p>(c) B is a <i>related undertaking</i> of a <i>participating undertaking</i> in A</p> <p>a <i>body corporate</i> “C” and a natural person “D” are connected if D holds a <i>participation</i> in:</p> <p>(d) C or any of its <i>related undertakings</i>;</p> <p>(e) a <i>participating undertaking</i> in C; or</p> <p>(f) a <i>related undertaking</i> of a <i>participating undertaking</i> in A</p> |
| <i>connected company</i> | <p>of any <i>company</i> means –</p> <p>(a) that <i>company’s holding company</i>;</p> <p>(b) a <i>subsidiary</i> of that <i>company</i>; or</p> <p>(c) a <i>subsidiary</i> of the <i>holding company</i> of that <i>company</i></p> |
| <i>connected-party transaction</i> | the transfer of assets or liabilities or the performance of services by, to or for a <i>connected</i> person irrespective of whether or not a price is charged |
| <i>consequential loss risk</i> | risk falling within <i>general insurance business class 16</i> comprising risks of the persons insured sustaining loss attributable to interruptions of the carrying on of business carried on by them or to reduction of the scope of business so carried on |
| <i>controller</i> | has the meaning given in rule 11.2 |
| <i>counterparty</i> | <p>in relation to an <i>insurer</i> –</p> <p>(a) any one individual;</p> <p>(b) any one unincorporated body of persons;</p> <p>(c) any one <i>company</i> not being a member of a <i>group</i>;</p> <p>(d) any <i>group</i> of <i>companies</i> excluding any <i>companies</i> within the <i>group</i> which are <i>subsidiary undertakings</i> of the <i>insurer</i>; or</p> <p>(e) any government of a State together with all the public bodies, local authorities or nationalised industries of that State,</p> <p>in which the <i>insurer</i> has made investments or against whom it has rights whether in pursuance of a contract</p> |

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| | entered into by the <i>insurer</i> or otherwise |
| <i>credit default swap</i> | a <i>swap</i> contract in which a buyer makes a series of payments to a seller and, in exchange, receives the right to a payment if a credit instrument issued by a named borrower (the reference entity) goes into default or on the occurrence of a specified credit event, for example bankruptcy or restructuring of the reference entity, during the currency of the contract |

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| <i>debt</i> | includes an obligation to pay a sum of money under a negotiable instrument |
| <i>dependant</i> | a dependant for a <i>firm</i> is any <i>subsidiary undertaking</i> of the <i>firm</i> that is valued in accordance with GENPRU 1.3.47R |
| <i>derivative contract</i> | has the meaning given to <i>derivative</i> in the <i>Glossary</i> |
| <i>direct and facultative</i> | <i>direct insurance business</i> and inwards facultative <i>reinsurance business</i> |
| <i>direct insurance business</i> | <i>insurance business</i> other than <i>reinsurance business</i> |
| <i>discounting</i> | refers to discounting or deductions to take account of investment income within the meaning of paragraph 48 of the <i>insurance accounts rules</i> |

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| <i>equivalent securities</i> | <i>securities</i> issued by the same <i>issuer</i> being of an identical type and having the same nominal value, description and amount |
| <i>established surplus</i> | has the same meaning as in rule 3.3(4) |
| <i>exemption category</i> | an <i>FSA general insurance business reporting category</i> to which the <i>category numbers</i> 114(p) or 710(p) have been allocated in column 1 of Annex 11.3 |
| <i>experience account</i> | <p>an account (whether real or notional) established under a <i>contract of insurance</i> where:</p> <p>(a) <i>premiums</i> payable or paid, or amounts related to <i>premiums</i> payable or paid, under the contract are credited to the account;</p> <p>(b) <i>claims</i> payable or paid or incurred, or amounts related to <i>claims</i> payable or paid or incurred, under the contract are deducted from the account; and</p> <p>(c) either:</p> <p>(i) some part of the amount held in the account is paid out on expiry or termination of the contract in accordance with rights specified in the contract; or</p> |

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| | (ii) the amount held in the account affects the amount payable under the contract. |
| <i>external insurer</i> | an <i>insurer</i> whose head office is outside the United Kingdom, other than an <i>EEA-insurer</i> , a <i>Swiss general insurer</i> or an <i>UK- or EEA-deposit insurer</i> . |

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| <i>facultative business</i> | facultative <i>reinsurance</i> business |
| <i>financial year</i> | each period at the end of which the balance of the accounts of the <i>insurer</i> is struck or, if no such balance is struck, the calendar year |
| <i>financial year in question</i> | the <i>financial year</i> which last ended before the date on which accounts and statements (as specified in the <i>Accounts and Statements Rules</i>) of the <i>insurer</i> relating to that <i>financial year</i> are required to be deposited with the <i>FSA</i> pursuant to rule 9.6, and the preceding financial year and previous financial years are construed accordingly |
| <i>FSA general insurance business reporting category</i> | a category of <i>general insurance business</i> that consists of the effecting or carrying out of <i>contracts of general insurance</i> falling within the description in column 2 of Annex 11.3 |

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| <i>group</i> | has the meaning given in section 262 of the Companies Act 1985 where applicable, otherwise section 474(1) of the Companies Act 2006 |
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| <i>home foreign business</i> | <i>general insurance business</i> carried on in the United Kingdom primarily relating to risks situated outside the United Kingdom, but excluding <i>insurance business</i> in <i>category numbers</i> 330, 340, 350, 500, 600 and 700 and <i>insurance business</i> where the risk commences in the United Kingdom |
| <i>hybrid security</i> | a <i>debt security</i> , other than an <i>approved security</i> , the terms of which provide or have the effect that the holder does not or would not have an unconditional entitlement to payment of interest and repayment of capital in full within 75 years of the <i>relevant date</i> |

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| <i>incepted</i> | refers to the time when the liability to risk of an <i>insurer</i> under a <i>contract of insurance</i> commenced and, for this purpose, a contract providing continuous cover is deemed to commence on each anniversary date of the contract, and incepting and inception are construed accordingly |
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| <i>index linked contract</i> | a <i>linked long-term contract of insurance</i> conferring <i>index linked benefits</i> |
| <i>industrial assurance business</i> | <p>the business of effecting <i>contracts of insurance</i> on human life, premiums in respect of which are received by means of <i>collectors</i>;</p> <p>But such <i>insurance business</i> does not include –</p> <p>(a) <i>contracts of insurance</i>, the premiums in respect of which are payable at intervals of two months or more;</p> <p>(b) <i>contracts of insurance</i>, effected whether before or after the passing of the Industrial Assurance Act 1923 by a society or company established before the date of the passing of that Act which at that date had no <i>contracts of insurance</i> outstanding the premiums on which were payable at intervals of less than one month so long as the society or company continues not to effect any such contracts;</p> <p>(c) <i>contracts of insurance</i> effected before the passing of the Industrial Assurance Act 1923, premiums in respect of which are payable at intervals of one month or more, and which have up to the passing of that Act been treated as part of the business transacted by a branch other than the industrial branch of the society or company; or</p> <p>(d) <i>contracts of insurance</i> for £25 or more effected after the passing of the Industrial Assurance Act 1923, premiums in respect of which are payable at intervals of one month or more, and which are treated as part of the business transacted by a branch other than the industrial branch of the society or company, in cases where the relevant authority certified prior to 1 December 2001 under section 1(2)(d) of that Act that the terms and conditions of such contracts are on the whole not less favourable to the <i>policy holders</i> than those imposed by that Act</p> |
| <i>initial margin</i> | in respect of a <i>derivative</i> or <i>quasi-derivative</i> , means assets which, before or at the time the contract is entered into, are transferred by the <i>insurer</i> subject to a condition that such assets (or where the assets transferred are <i>securities, equivalent securities</i>) will be returned to the <i>insurer</i> on completion of that contract |
| <i>insurance liabilities</i> | amounts calculated in accordance with GENPRU 1.3 (Valuation) in respect of those items shown at C and D under the heading 'Liabilities' set out in paragraph 9 of the <i>insurance accounts rules</i> |
| <i>internal linked fund</i> | an account to which an <i>insurer</i> appropriates certain <i>linked assets</i> and which may be sub-divided into units the value of each of which is determined by the <i>insurer</i> by reference to |

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| | the value of those <i>linked assets</i> |
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| <i>linked assets</i> | in relation to an <i>insurer, long-term insurance business assets</i> of the <i>insurer</i> which are, for the time being, identified in the records of the <i>insurer</i> as being assets by reference to the value of which <i>property linked benefits</i> are to be determined, and non-linked assets is construed accordingly |
| <i>long-term policy holder</i> | a <i>policy holder</i> in respect of a <i>policy</i> the effecting of which by the <i>insurer</i> constituted the carrying on of <i>long-term insurance business</i> |

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| <i>management expenses</i> | in relation to <i>long-term insurance business</i> , means all expenses, other than commission, incurred in the administration of an <i>insurer</i> or its business |
| <i>marine mutual</i> | an <i>insurer</i> - (a) whose <i>insurance business</i> is restricted to the insurance of its members or their <i>associates</i> against loss, damage or liability arising out of marine adventures (including losses on inland waters or any risk incidental to any sea voyage); and (b) whose articles of association, rules or bye laws provide for the calling of additional contributions from, or the reduction of benefits to, the majority of its members, in either case without limit, in order to ensure that the <i>insurer</i> has sufficient financial resources to meet any valid <i>claims</i> as they fall due |
| <i>material connected-party transaction</i> | a <i>connected-party transaction</i> for which (together with any similar transactions): (a) the price actually paid or received for the transfer of assets or liabilities or the performance of services; or (b) the price which would have been paid or received had that transaction been negotiated at arm's length between unconnected parties, exceeds: (c) in the case of an <i>insurer</i> that carries on <i>long-term insurance business</i> but not <i>general insurance business</i> , 5% of the <i>insurer's</i> liabilities arising from its <i>long-term insurance business</i> , excluding <i>property-linked liabilities</i> and net of <i>reinsurance ceded</i> ; or (d) in the case of an <i>insurer</i> that carries on <i>general insurance business</i> , but not <i>long-term insurance business</i> , the sum of Euro 20,000 |

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| | <p>and 5% of the <i>insurer's</i> liabilities arising from its <i>general insurance business</i>, net of <i>reinsurance ceded</i>; or</p> <p>(e) in the case of an <i>insurer</i> that carries on both types of business either –</p> <p>(i) 5% of the <i>insurer's</i> liabilities arising from its <i>long-term insurance business</i>, excluding <i>property-linked liabilities</i>, net of <i>reinsurance ceded</i> where the transaction is in connection with the <i>insurer's long-term insurance business</i>, or</p> <p>(ii) in other cases, the sum of Euro 20,000 and 5% of the <i>insurer's</i> liabilities arising from <i>general insurance business</i> net of <i>reinsurance ceded</i></p> |
| <i>miscellaneous category</i> | an <i>FSA general insurance business reporting category</i> to which the <i>category numbers</i> 400 or 700 have been allocated in column 1 of Annex 11.3 |
| <i>mortgage</i> | in relation to Scotland, means a heritable security within the meaning of section 9(8) of the Conveyancing and Feudal Reform (Scotland) Act 1970 |

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| <i>non-linked assets</i> | see <i>linked assets</i> |
| <i>non-profit policy</i> | see <i>with-profits policy</i> |
| <i>non-proportional reinsurance treaty</i> | see <i>proportional reinsurance treaty</i> |

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| <i>ordinary long-term insurance business</i> | <i>long-term insurance business</i> which is not <i>industrial assurance business</i> |
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| <i>preceding financial year</i> | see <i>financial year in question</i> |
| <i>previous financial years</i> | see <i>financial year in question</i> |
| <i>Product code</i> | has the meaning given in paragraph 3 of the Instructions for completion of Form 47 in Appendix 9.3 |
| <i>profit and loss account</i> | in relation to an <i>insurer</i> not trading for profit, an income and expenditure account |
| <i>property linked benefits</i> | benefits other than <i>index linked benefits</i> provided for under a <i>linked long-term contract of insurance</i> |
| <i>property linked liabilities</i> | <i>insurance liabilities</i> in respect of <i>property linked benefits</i> |

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| <i>proportional reinsurance treaty</i> | <p>(a) a <i>reinsurance</i> treaty under which a predetermined proportion of each <i>claim</i> payment by the <i>cedant</i> under <i>policies</i> subject to the treaty is recoverable from the <i>reinsurer</i>, and</p> <p>(b) for the purposes of the <i>Accounts and Statements Rules</i>, a <i>reinsurance</i> treaty under which in return for a proportion of the premium a pre-determined proportion of each <i>claim</i> payment by the <i>cedant</i> under <i>policies</i> subject to the treaty is recoverable from the <i>reinsurer</i>, and</p> <p>non-proportional reinsurance treaty is construed accordingly</p> |
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| <i>readily realisable</i> | <p>in relation to an investment:</p> <p>(a) an investment which, had negotiations for the assignment or transfer of the investment commenced not more than seven working days before the <i>relevant date</i>, it is reasonable to assume could have been assigned or transferred on the <i>relevant date</i> for an amount not less than 97.5% of the <i>market value</i> to a person other than the <i>issuer</i> or an <i>associate</i> or <i>associated company</i> of the <i>issuer</i> or of the <i>insurer</i>; or</p> <p>(b) a <i>listed</i> investment with respect to which (a) does not apply by reason only that –</p> <p>(i) the listing of the investment has been temporarily suspended following receipt of price sensitive information received by the stock exchange on which the investment is <i>listed</i> or the <i>regulated market</i> on which facilities for dealing have been granted, or</p> <p>(ii) the extent of the holding would prevent an orderly disposal of the investment for an amount equal to or greater than 97.5% of <i>market value</i></p> |
| <i>receivable</i> | in relation to an <i>insurer</i> , a <i>financial year</i> and a premium, means due to the <i>insurer</i> whether or not the premium is received during that <i>financial year</i> |
| <i>reinsurance recoveries</i> | amounts in respect of <i>claims</i> receivable by an <i>insurer</i> from a <i>reinsurer</i> under a contract of <i>reinsurance</i> |
| <i>related company</i> | <p>in relation to an <i>insurer</i> –</p> <p>(a) a <i>subsidiary undertaking</i> of the <i>insurer</i>;</p> <p>(b) a company of which the <i>insurer</i> is a <i>subsidiary undertaking</i>; or</p> |

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| | (c) a <i>subsidiary undertaking</i> of a company of which the <i>insurer</i> is a <i>subsidiary undertaking</i> |
| <i>relevant company</i> | an <i>insurer</i> whose <i>insurance business</i> is restricted to <i>reinsurance</i> of the <i>marine mutual</i> on terms that provide that the <i>marine mutual</i> can cancel the <i>reinsurance</i> arrangements at any time and can require the <i>insurer</i> immediately to transfer its assets and liabilities to the <i>marine mutual</i> |
| <i>relevant date</i> | in relation to the valuation of any asset or liability, the date at which the value of the asset or liability falls to be determined for the purposes of reporting under the <i>Accounts and Statements Rules</i> |
| <i>required category</i> | in relation to a Form in the <i>return</i> , a category of <i>general insurance business</i> set out in column 2 of the Table in Paragraph 2B of Appendix 9.2 that – (a) is, or is included in, an <i>FSA general insurance business reporting category</i> for which the Table in Paragraph 2A of Appendix 9.2 contains a tick in the row for that <i>FSA general insurance business reporting category</i> and in the column for that Form; and (b) either: (i) meets the reporting criteria specified in the entry in column 3 of that Table that corresponds to the entry in column 2 for that the category of <i>general insurance business</i> and the entry in column 1 for that Form, or (ii) is required for that Form under rule 9.20. |
| <i>return</i> | the documents required (taken together) to be deposited under rule 9.6(1) |
| <i>risk category</i> | any <i>FSA general insurance business reporting category</i> that is not a <i>combined category</i> , or <i>balancing category</i> or <i>exemption category</i> |

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| <i>secured debt</i> | a debt fully secured on: (a) assets whose value at least equals the amount of debt; or (b) a letter of credit or guarantee from an <i>approved counterparty</i> . |
| <i>securities</i> | includes <i>shares</i> , <i>debt securities</i> , <i>Treasury Bills</i> , Tax Reserve Certificates and Certificates of Tax Deposit |

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| <i>share</i> | has the meaning given in section 1161(2) of the Companies Act 2006 |
| <i>Statistical Rules</i> | rules 9.37 to 9.38 |
| <i>Stock Exchange</i> | London Stock Exchange plc |
| <i>subsidiary undertaking</i> | has the meaning given in section 1162 of the Companies Act 2006 |
| <i>swaption</i> | an <i>option</i> granting its owner the right but not the obligation to enter into an underlying <i>swap</i> |

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| <i>technical provisions</i> | the items required by the <i>insurance accounts rules</i> to be shown in the balance sheet of an <i>insurer</i> at liabilities items C.1 to 6 |
| <i>total capital resources</i> | the sum calculated at stage O of the calculation in GENPRU 2 Annex 1R |
| <i>total return swap</i> | a financial contract which transfers both the credit risk and market risk of an underlying asset |
| <i>Treasury Bills</i> | includes bills issued by Her Majesty's Government in the United Kingdom and Northern Ireland Treasury Bills |

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| <i>unlisted</i> | see <i>listed</i> |
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| <i>variable interest securities</i> | <i>securities</i> which under their terms of issue provide for variable amounts of interest |
| <i>variation margin</i> | <p>(a) in respect of a <i>derivative contract</i>, or a <i>quasi-derivative contract</i>, assets (other than assets transferred by way of <i>initial margin</i>) which, at the <i>relevant date</i>, have been transferred by, to, or for the benefit of the <i>insurer</i> in pursuance of a condition in that contract or a related contract; and</p> <p>(b) in respect of an asset having the effect of a <i>derivative contract</i>, assets which, at the relevant date, have been transferred by, to, or for the benefit of, the <i>insurer</i> in pursuance of a contractual right conferred, or obligation imposed, by the holding of the asset having the effect of a <i>derivative contract</i></p> |

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| <i>with-profits fund</i> | for the purposes of the <i>Accounts and Statements Rules</i> – <p>(a) a <i>long-term insurance fund</i> (or that part of such a fund) in which <i>policy holders</i> are eligible to</p> |
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| | <p>participate in any <i>established surplus</i>; and</p> <p>(b) where it is an <i>insurer's</i> usual practice to restrict <i>policy holders'</i> participation in any <i>established surplus</i> to that arising from only a part of the fund (or part fund) falling within (a), that part (or that part of the part fund)</p> |
| <i>with-profits policy</i> | <p>a contract falling within a <i>class of long-term insurance business</i> which is eligible to participate in any part of any <i>established surplus</i>, and</p> <p>non-profit policy is construed accordingly</p> |

PART 2: GENERAL PROVISIONS

Powers under which the rules are made

11.3 The rules and guidance in the *IPRU (INS)* are made under the following sections of the *Act* –

FCA | PRA

- (a) section 138 (general rule making power);
- (b) section 141 (insurance business rules);
- (c) section 150(2) (actions for damages);
- (d) section 156 (general supplementary powers);
- (e) section 157 (guidance); and
- (f) section 340 (appointment of auditors and actuaries).

Actions for damages

11.4 Section 138D(2) of the *Act* does not apply to a contravention of the rules in the *IPRU (INS)*.

FCA | PRA

Use of definitions

11.5 A word or phrase which is printed in italics is used in the defined sense. If a defined term does not appear in the *IPRU(INS)* glossary listed in part 1 of Chapter 11, the definition appearing in the main Handbook *Glossary* applies.

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11.6 Unless the context otherwise requires, a word or phrase which is defined in a related enactment bears the same meaning as in that enactment.

FCA | PRA

11.7 Unless the context otherwise requires, a word which is related to a defined word is construed by reference to the defined word.

FCA | PRA

Annex 11.1: Classes of Long-Term Insurance Business

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| FCA | PRA |
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| Number | Description | Nature of business |
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| I | Life and annuity | Effecting or carrying out <i>contracts of insurance</i> on human life or contracts to pay <i>annuities on human life</i> , but excluding (in each case) contracts within class III. |
| II | Marriage and birth | Marriage or the formation of a civil partnership and birth: Effecting or carrying out <i>contracts of insurance</i> to provide a sum on marriage or the formation of a civil partnership or on the birth of a child, being contracts expressed to be in effect for a period of more than one year. |
| III | Linked long term | Effecting or carrying out <i>contracts of insurance</i> on human life or contracts to pay <i>annuities on human life</i> where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contracts) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified). |
| IV | Permanent health | Effecting or carrying out <i>contracts of insurance</i> providing specified benefits against risks of persons becoming incapacitated in consequence of sustaining injury as a result of an accident or of an accident of a specified class or of sickness or infirmity, being contracts that – (a) are expressed to be in effect for a period of not less than five years, or until the normal retirement age for the persons concerned, or without limit of time; and (b) either are not expressed to be terminable by the insurer, or are expressed to be so terminable only in special circumstances mentioned in the contract. |
| V | Tontines | Effecting or carrying out tontines. |
| VI | Capital redemption | Effecting or carrying out capital redemption contracts. |
| VII | Pension fund management | Effecting or carrying out – (a) <i>pension fund management contracts</i> ; or (b) contracts of the kind mentioned in (a) that are combined with <i>contracts of insurance</i> covering either conservation of capital or payment of a minimum interest. |
| VIII | Collective insurance etc | Effecting or carrying out contracts of a kind referred to in article 2(3)(b)(v) of the <i>Solvency II Directive</i> . |
| IX | Social insurance | Effecting or carrying out contracts of a kind referred to in article 2(3)(c) of the <i>Solvency II Directive</i> . |

Annex 11.2: Classes, and Groups of Classes, of General Insurance Business

PART I: CLASSES OF GENERAL INSURANCE BUSINESS

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| FCA | PRA |
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| Number | Description | Nature of business |
|--------|-------------------------|---|
| 1 | Accident | <p>Effecting or carrying out <i>contracts of insurance</i> providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of both) against risks of the person insured or, in the case of a contract made by virtue of section 140, 140A or 140B of the Local Government Act 1972, a person for whose benefit the contract is made –</p> <p>(a) sustaining injury as the result of an accident or of an accident of a specified class, or</p> <p>(b) dying as the result of an accident or of an accident of a specified class, or</p> <p>(c) becoming incapacitated in consequence of disease or of disease of a specified class,</p> <p>inclusive of contracts relating to industrial injury and occupational disease but exclusive of contracts falling within <i>class 2</i> or within <i>class IV</i> in Annex 11.1.</p> |
| 2 | Sickness | <p>Effecting or carrying out <i>contracts of insurance</i> providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of the two) against risks of loss to the persons insured attributable to sickness or infirmity, but exclusive of contracts falling within <i>class IV</i> in Annex 11.1.</p> |
| 3 | Land vehicles | <p>Effecting or carrying out <i>contracts of insurance</i> against loss of or damage to vehicles used on land, including motor vehicles but excluding railway rolling stock.</p> |
| 4 | Railway rolling stock | <p>Effecting or carrying out <i>contracts of insurance</i> against loss of or damage to railway rolling stock.</p> |
| 5 | Aircraft | <p>Effecting or carrying out <i>contracts of insurance</i> upon aircraft or upon the machinery, tackle, furniture or equipment of aircraft.</p> |
| 6 | Ships | <p>Effecting or carrying out <i>contracts of insurance</i> upon vessels used on the sea or on inland water, or upon the machinery, tackle, furniture or equipment of such vessels.</p> |
| 7 | Goods in transit | <p>Effecting or carrying out <i>contracts of insurance</i> against loss of or damage to merchandise, baggage and all other goods in transit, irrespective of the form of transport.</p> |
| 8 | Fire and natural forces | <p>Effecting or carrying out <i>contracts of insurance</i> against loss of or damage to property (other than property to which <i>classes 3 to 7</i></p> |

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| | | above relate) due to fire, explosion, storm, natural forces other than storm, nuclear energy or land subsidence. |
| 9 | Damage to property | Effecting or carrying out <i>contracts of insurance</i> against loss of or damage to property (other than property to which <i>classes 3 to 7</i> above relate) due to hail or frost or to any event (such as theft) other than those mentioned in <i>class 8</i> above. |
| 10 | Motor vehicle liability | Effecting or carrying out <i>contracts of insurance</i> against damage arising out of or in connection with the use of motor vehicles on land including third-party risks and carrier's liability. |
| 11 | Aircraft liability | Effecting or carrying out <i>contracts of insurance</i> against damage arising out of or in connection with the use of aircraft, including third-party risks and carrier's liability. |
| 12 | Liability for ships | Effecting or carrying out <i>contracts of insurance</i> against damage arising out of or in connection with the use of vessels on the sea or on inland water, including third-party risks and carrier's liability. |
| 13 | General liability | Effecting or carrying out <i>contracts of insurance</i> against risks of the persons insured incurring liabilities to third parties, the risks in question not being risks to which <i>class 10, 11 or 12</i> above relates. |
| 14 | Credit | Effecting or carrying out <i>contracts of insurance</i> against risks of loss to the persons insured arising from the insolvency of debtors of theirs or from the failure (otherwise than through insolvency) of debtors of theirs to pay their debts when due. |
| 15 | Suretyship | Effecting or carrying out— (a) <i>contracts of insurance</i> against risks of loss to the persons insured arising from their having to perform contracts of guarantee entered into by them; (b) contracts for fidelity bonds, performance bonds, administration bonds, bail bonds or customs bonds or similar contracts of guarantee. |
| 16 | Miscellaneous financial loss | Effecting or carrying out <i>contracts of insurance</i> against any of the following risks, namely – (a) risks of loss to the persons insured attributable to interruptions of the carrying on of business carried on by them or to reduction of the scope of business so carried on; (b) risks of loss to the persons insured attributable to their incurring unforeseen expense (other than loss such as is covered by contracts falling within <i>class 18</i>); (c) risks neither falling within (a) or (b) nor being of a kind such that the carrying on of the business of effecting or carrying out <i>contracts of insurance</i> against them constitutes the carrying on of <i>insurance business</i> of some other class. |
| 17 | Legal expenses | Effecting or carrying out <i>contracts of insurance</i> against risks of loss to the persons insured attributable to their incurring legal expenses (including costs of litigation). |

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| 18 | Assistance | Effecting or carrying out <i>contracts of insurance</i> providing either or both of the following benefits, namely – (a) assistance (whether in cash or in kind) for persons who get into difficulties while travelling, while away from home or while away from their permanent residence, or (b) assistance (whether in cash or in kind) for persons who get into difficulties otherwise than as mentioned in paragraph (a) above. |
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PART II: GROUPS OF CLASSES OF GENERAL INSURANCE BUSINESS

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| Number | Description | Nature of business |
|--------|-----------------------------------|---|
| 1 | Accident and health | <i>Classes 1 and 2.</i> |
| 2 | Motor | <i>Class 1 (to the extent that the relevant risks are risks of the person insured sustaining injury, or dying, as the result of travelling as a passenger) and classes 3, 7 and 10.</i> |
| 3 | Marine and transport | <i>Class 1 (to the said extent) and classes 4, 6, 7 and 12.</i> |
| 4 | Aviation | <i>Class 1 (to the said extent) and classes 5, 7 and 11.</i> |
| 5 | Fire and other damage to property | <i>Classes 8 and 9.</i> |
| 6 | Liability | <i>Classes 10, 11, 12 and 13.</i> |
| 7 | Credit and suretyship | <i>Classes 14 and 15.</i> |
| 8 | General | <i>All classes.</i> |