

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**

[deleted text]

INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS

CONTENTS

Volume One: Rules

Guidance: [deleted]

Chapter 1 Application rule

Chapter 2 [deleted]

Chapter 3 Long-term insurance business

Part I Identification and application of assets and liabilities

Part II [deleted]

Chapter 4 [deleted]

Chapter 5 [deleted]

Chapter 6 [deleted]

Chapter 7 [deleted]

Chapter 8 Non-UK insurers

Part I [deleted]

Part II [deleted]

Part III [deleted]

Chapter 9 Financial reporting

Part I Accounts and statements

Part II Accounts and statements for a marine mutual

Part III Statistical rules

Part IV Material connected-party transactions

Part V Group Capital Adequacy

Part VII Lloyd's of London

Chapter 9	Financial reporting
Part I	Accounts and statements
Part II	Accounts and statements for a marine mutual
Part III	Statistical rules
Part IV	Material connected-party transactions
Part V	Group Capital Adequacy
Part VI	Enhanced Capital Requirement
Part VII	Lloyd's of London
Chapter 10	[deleted]
Chapter 11	Definitions
	[deleted]

Chapter 12 **Transitional arrangements**

Volume 2: Appendices to the Rules

Appendix 2.1	[deleted]
Appendix 2.2	[deleted]
Appendix 2.3	[deleted]
Appendix 3.1	[deleted]
Appendix 3.2	[deleted]
Appendix 4.1	[deleted]
Appendix 4.2	[deleted]
Appendix 5.1	[deleted]
Appendix 6.1	[deleted]
Appendix 6.2	[deleted]
Appendix 9.1	Balance sheet and profit and loss account (Forms 1 to 3 and 10 to 19) (rules 9.12 and 9.13)
Appendix 9.2	General insurance business: revenue account and additional information (Forms 20A and 20 to 39) (rules 9.14 to 9.22)
Appendix 9.3	Long-term insurance business: revenue account and additional information (Forms 40 to 60) (rules 9.14 and 9.23)
Appendix 9.4	Abstract of valuation report (rules 9.4 and 9.31)
Appendix 9.4A	Abstract of valuation report for realistic valuation (rule 9.31(b))
Appendix 9.5	General insurance business: additional information on business ceded (rule 9.32)
Appendix 9.6	Certificates by directors and reports of the auditor (rules 9.34 and 9.35)
Appendix 9.7	Insurance statistics: other EEA states (Forms 91 to 94) (rule 9.37)
Appendix 9.8	Marine mutuals: items to be disregarded, directors' certificates and auditors reports (rule 9.36A)
Appendix 9.9	Group Capital Adequacy (rule 9.40 to rule 9.42 and guidance 9.43)
Appendix 9.10	Enhanced Capital Requirement (Form ECR1) (rule 9.44 and guidance 9.45)
Appendix 9.11	Reporting forms

- Appendix 9.12 Certificate by the Council (rule 9.58 (1)(a))**
- Appendix 9.13 Statement by the Lloyd's actuary (rule IPRU(INS) 9.58 (1)(b)) Appendix 9.14**
- Appendix 9.14 Certificate by syndicate actuary (rule IPRU(INS) 9.58 (1))**
- Appendix 9.15 Auditor's report (rule IPRU(INS) 9.58 (3))**
- Appendix 9.16 Accounting classes (rule IPRU(INS) 9.49 (1)(b))**
- Appendix 9.17 Accounting Records**
- Appendix 9 18 Auditors' Report**

Volume 3: Guidance

FSA Guidance Notes

Guidance Note P.1 [deleted]

Guidance Note P.2 [deleted]

Guidance Note P.3 [deleted]

Guidance Note 2.1 [deleted]

Guidance Note 2.2 [deleted]

Guidance Note 2.3 [deleted]

Guidance Note 4.1 [deleted]

Guidance Note 4.2 [deleted]

Guidance Note 4.3 [deleted]

Guidance Note 4.4 [deleted]

Guidance Note 5.1 [deleted]

Guidance Note 9.1 [deleted]

Guidance Note 9.2 [deleted]

Guidance Note 10.1 [deleted]

Guidance: FSA 'Dear Director' Letters

DD1 [deleted]

Other Material: 'Dear Appointed Actuary' Letters

DAA8 [deleted]

DAA9 [deleted]

DAA11 [deleted]

DAA13 [deleted]

DAA14 [deleted]

DAA15 [deleted]

1 Chapter 1: Application Rule

CONTENTS

Application

1.1 Insurers

1.2 The Society of Lloyd's

1 Chapter 1: Application Rule

APPLICATION

Insurers

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

FCA **PRA**

(a) a *friendly society*¹; or

(b) an *EEA insurer* or an *EEA pure reinsurer* qualifying for authorisation under Schedules 3 or 4 to the Act.

The Society of Lloyd's

1.2 No provisions of *IPRU (INS)* apply to the *Society of Lloyd's*, or *members of the Society of Lloyd's* except rules 9.37 and 9.38, and Part VII of Chapter 9.

FCA **PRA**

1. A *non-directive friendly society* must comply with *IPRU(FSOC)*; a *directive friendly society* must comply with *GENPRU* and *INSPRU*; with Chapters 1, 2 and 3, 4 (rules 4.20 to 4.23 only), 5 (rule 5.1A only) 7, 8 and Appendix 3 of *IPRU(FSOC)*. Rule 5.1A of *IPRU(FSOC)* effectively applies most of Chapter 9 of *IPRU(INS)* to *directive friendly societies*, notwithstanding *IPRU(INS)* 1.1(a)

3 Chapter 3: Long-Term Insurance Business

CONTENTS

Part I – Identification and Application of Assets and Liabilities

3.3 Allocations to policy holders

3.5 Arrangements to avoid unfairness between separate insurance funds

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 *policy holders* of any category are eligible to participate, where the effecting of those *policies* by the *insurer* constituted the carrying on of *long-term insurance business*; 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*.

8 Chapter 8: Non-UK Insurers

CONTENTS

Part III – Rules applicable to branches

8.3

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).**

FCA	PRA
-----	-----

9 Chapter 9: Financial Reporting

PART VII

LLOYD'S OF LONDON

Application

9.47 PART VII of *IPRU(INS)* chapter 9 applies to the *Society* and to *managing agents*.

FCA PRA

Information about the capacity transfer market

9.62 (1) The *Society* must give the *FCA* a report as at the end of each calendar quarter in which any capacity is transferred.

FCA

(2) The report referred to in (1) must reach the *FCA* within one month of the end of the relevant calendar quarter and must include information on:

- (a) the total capacity in *syndicates* transferred during the quarter, analysed by *syndicate* and method of transfer;
- (b) the number, and nature, of all investigations by the *Society* into conduct in the *capacity transfer market* undertaken or continued during the quarter; and
- (c) the number, and nature, of all complaints received during the quarter about the operation of the *capacity transfer market*.

PART II: GROUPS OF CLASSES OF GENERAL INSURANCE BUSINESS

FCA | PRA

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>