

**PRUDENTIAL SOURCEBOOK FOR INSURERS (AMENDMENT)  
INSTRUMENT 2008**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
  - (2) section 150(2) (Actions for damages);
  - (3) section 156 (General supplementary powers); and
  - (4) section 157(1) (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 6 April 2008.

**Amendments to the Handbook**

- D. The Prudential sourcebook for Insurers (INSPRU) is amended in accordance with the Annex to this instrument.

**Citation**

- E. This instrument may be cited as the Prudential Sourcebook for Insurers (Amendment) Instrument 2008.

By order of the Board  
27 March 2008

## Annex

### Amendments to the Prudential sourcebook for Insurers (INSPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

- 3.1.60 G If a *firm* has incurred a *policy* liability which cannot be exactly matched by appropriate assets (for example the Limited Price Index (LPI)), the *firm* should seek to match assets that at least cover the liabilities. For example, an LPI limited to 5% per annum may be matched by an RPI bond or a fixed interest investment matching cash flows increasing at 5% per annum compound. Orders made by the Department for Work and Pensions under section 148 of the Social Security Administration Act 1992, and which are limited to 5% per annum, may also be matched by a fixed interest investment matching cash flows increasing at 5% per annum compound (see also *INSPRU* 3.1.61-AG).
- 3.1.61 G In selecting the appropriate cover, the *firm* should ensure that both credit risk, and the risk that the value or yield in the assets will not, in all circumstances, match fluctuations in the relevant index, are within acceptable limits. *Rules* and *guidance* relating to credit risk are set out in *INSPRU* 2.1.
- 3.1.61-A G Where liabilities are linked to orders made under section 148 of the Social Security Administration Act 1992, *firms* are required by *COBS* 21.3.5R to notify their supervisors before effecting any such business and to explain how the risks associated with this business will be safely managed. This requirement does not apply in respect of liabilities for which a limited revaluation premium has been paid to the Department for Work and Pensions so that the liability for revaluation, while still linked to section 148 orders, is limited to 5%. The risks may be mitigated by holding assets to cover an alternative index which is reasonably expected to at least cover the section 148 order (e.g. RPI plus a margin) over the duration of the link. The *firm's* exposure to an order under section 148 exceeding this index should be appropriately limited by putting a cap on the liabilities linked to the order so that risks are within acceptable limits.
- ...
- 7.1.9 G ...
- 7.1.9A G This section sets out in greater detail the approach to be taken by a *firm* when carrying out the assessment of capital described in the preceding paragraph. This is the assessment referred to as an

individual capital assessment. The rules in GENPRU 1.2 also (see GENPRU 1.2.30R(1)(c)) require a firm to identify and assess risks to its being able to meet its CRR in the future. This is a separate requirement from that to carry out an ICA, and guidance on this requirement is provided in GENPRU 1.2. In particular, firms should note that there is no requirement that the level of capital required as identified by the ICA should be equal to, or exceed, the CRR.

7.1.9B     G     The requirements and guidance in this section are drafted so as to apply to a firm on a solo basis. As noted in GENPRU 1.2.17G, however, in some cases the requirements in GENPRU 1.2 apply on a consolidated basis. In these cases, a firm should read and apply this section making appropriate adjustments to reflect the application of the GENPRU 1.2 requirements on a consolidated basis.

...

7.1.15     R     Where a firm is carrying out an assessment in accordance with GENPRU 1.2 of the adequacy of its overall financial resources to cover the risk in the overall financial adequacy rule, that is, the risk of its being unable to meet its liabilities as they fall due ~~in accordance with GENPRU 1.2,~~ the assessment of the adequacy of the firm's capital resources must:

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