PRUDENTIAL REQUIREMENTS FOR INSURERS (AMENDMENT NO 5) INSTRUMENT 2010

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 October 2010.

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 Requirements for Insurers (Amendment No 5) Instrument 2010.

By order of the Board
23 September 2010

Annex

Amendments to the Prudential sourcebook for Insurers (INSPRU)

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

Reinsurance

...

1.2.79 R A *firm* must value *reinsurance* cash flows using methods and assumptions which are at least as prudent as the methods and assumptions used to value the underlying *contracts of insurance* which have been reinsured. In particular:

(1) ...

(2) *reinsurance* cash outflows ~~that are unambiguously linked to the emergence as surplus of margins included in the valuation of existing *contracts of insurance* or to the exercise by a *reinsurer* of its rights under a termination clause need not be valued (see *INSPRU* 1.2.85R); and~~ need not be valued provided that:

(a) they are unambiguously linked to the emergence as surplus of margins included in the valuation of existing *contracts of insurance* or to the exercise by a *reinsurer* of its rights under a termination clause (see *INSPRU* 1.2.85R); and

(b) the conditions in INSPRU 1.2.79AR are satisfied;

(3) ...

1.2.79A R The conditions referred to in *INSPRU* 1.2.79R(2)(b) are that:

(1) the *reinsurance* is not connected with any other transaction, which, when taken together with the *reinsurance*, could result in the requirements set out in *INSPRU* 1.2.79R(2) no longer being satisfied or in the risk transferred under the *reinsurance* being undermined; and

(2) the present value of the future *reinsurance* cash outflows that may be disregarded under *INSPRU* 1.2.79R(2) must not at any time exceed the value of the aggregate net cash inflows that have already been received by the *firm* under the contract of *reinsurance* accumulated at an assumed rate of LIBOR + 6% per annum.

1.2.79B G Examples of connected transactions that could have the effect described in *INSPRU* 1.2.79AR(1) might include a *deposit*, loan, *repo*, or *stock lending* transaction between the *firm* and the *reinsurer*, or between the *firm* and an undertaking that is closely related to the *reinsurer*. For these purposes, the expression ‘closely related’ shall have the meaning set out in *INSPRU* 2.1.40R.

…

Transitional Provisions

…

After INSPRU TP 6 insert the following new transitional provisions. The new text is not underlined.

7 Mathematical reserves

Application

7.1 R *INSPRU* TP 7 applies to an *insurer* to which *INSPRU* 1.2 applies.

Duration of transitional

7.2 R *INSPRU* TP 7 applies until the relevant *rule* is revoked.

7.3 R *INSPRU* 1.2.79AR does not apply in respect of *reinsurance* and analogous non-*reinsurance* financing agreements entered into and the terms of which came into effect before 10 December 2009, provided that immediately before 6 October 2010 the *firm* had the benefit of *INSPRU* 1.2.79R(2) in relation to those *reinsurance* or analogous non-*reinsurance* financing agreements.