

# **Interim Prudential Sourcebook**

## **Friendly Societies**

# THE INTERIM PRUDENTIAL SOURCEBOOK FOR FRIENDLY SOCIETIES

## **GUIDANCE: THE PURPOSE OF THE PRUDENTIAL RULES FOR FRIENDLY SOCIETIES AND AN OVERALL DESCRIPTION**

- 1 The prudential rules for a *friendly society* are to be seen in the context of the Principles for Businesses. These are high level obligations applying to all authorised persons and are set out in the High Level Standards part of the *Handbook* (PRIN).
  
- 2 So far as a *friendly society* is concerned, the Principles for Businesses are particularly relevant to its internal systems and controls. Principle 3, for example, requires a firm to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
  
- 3 In addition to the general obligations placed on a *friendly society*, certain staff of all authorised persons which are *approved persons* are subject to a number of high level obligations, see *COCON* and in certain cases *APER*.
  
- 6 Chapter 2 covers compliance and supervision of *registered branches* and *subsidiaries* and jointly controlled bodies.
  
- 7 Chapter 3 focuses on systems and controls. *Friendly societies* should also refer to the provisions on senior management arrangements, systems and controls in the High Level Standards part of the *Handbook* (SYSC) and to Annex 3 of *IPRU(FSOC)*.
  
- 7A *Directive friendly societies* should also refer to the PRA Rulebook: Solvency II firms: Conditions Governing Business and the *Solvency II Regulation* which contain systems and control requirements, and the *FCA* will take these into account.

[4, 5 and 8-11 are not used]

- 12 Chapter 7 contains the definitions used throughout *IPRU(FSOC)* and some general provisions.
- 13 Chapter 8 contains transitional provisions.
- 14 The Appendices are part of the rules.
- 15 *FCA Guidance* is set out in the Annexes and *friendly societies* may also wish to refer to the guidance in *IPRU(INS)* and *INSPRU*.

# INTERIM PRUDENTIAL SOURCEBOOK FOR FRIENDLY SOCIETIES

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# 1 Chapter 1: Application

## APPLICATION

1.1 These rules apply to a *non-directive friendly society* which has permission under the *Act* to effect or carry out *contracts of insurance*.

1.1A The rules in Chapters 1, 2 (with the exception of rule 2.3(1)(a) in relation to registered branches), Chapters 7 and 8 also apply to a *directive friendly society* which has permission under the *Act* to effect or carry out *contracts of insurance*. A *directive friendly society* must also comply with any requirement imposed on it by or under the *Act*, the *1992 Act* or the *1974 Act*.

*Actions for damages*

1.2 Section 138D(2) of the Act does not apply.<sup>1</sup>

<sup>1</sup> A private person therefore has no right of action under this section against a *friendly society* for breach of the prudential rules.

## 2 Chapter 2: Integrity, Skill, Care and Diligence

### LEGAL COMPLIANCE

2.1 A *friendly society* must take reasonable steps to ensure that –

- (a) it does not carry on activities beyond its powers;
- (b) it and its *registered branches* comply with –
  - (i) any requirements of or under the *1992 Act* or the *Act* which relate to the conduct of its *insurance business*, and
  - (ii) any applicable requirement which implemented the *Solvency II Directive* or is otherwise applicable to the insurance activities of the *friendly society*.

### SUPERVISION OF SUBSIDIARIES AND JOINTLY-CONTROLLED BODIES

2.2 (1) A *friendly society* must supervise the activities –

- (a) of any *subsidiary* or of any body of which the *friendly society* has joint control; and
- (b) of any *registered branch* of the *friendly society*;

with due care and diligence, having due regard to the interests of its *policyholders* and without detriment to the conduct of the *friendly society's* activities.

- 2.3 (1) A *friendly society* should ensure that its *subsidiaries, jointly controlled bodies, or registered branches* are –
- (a) directed and managed with prudence, integrity and adequate professional skill; and
  - (b) comply with any applicable requirements of or under the *Act* and the *1992 Act*.
- (2) Contravention of (1) may be relied upon as tending to establish contravention of rule 2.2.

### 3 Chapter 3: Management and Control

#### ACCOUNTING RECORDS AND SYSTEMS OF CONTROL

- 3.1 (1) Every *friendly society* must and must procure that every *registered branch* –
- (a) keep (or keeps) adequate accounting records; and
  - (b) establish and maintain (or establishes and maintains) adequate systems of control of its business and records and of inspection and report.
- (2) The accounting records must be sufficient to –
- (a) comply with the requirements of section 68 of the *1992 Act*; and
  - (b) enable the *friendly society* acting through the *committee* properly to discharge the duties imposed on it and them by or under the *1974 Act*,
- as the case may be.
- (3) The systems of control which are to be established and maintained by a *friendly society* or a *registered branch* are systems for the control of the conduct of their activities in accordance with the *Act* and the *1992 Act* and the decisions of the *committee*, and for the control of the accounting and other records of its activities.
- (4) The system of inspection and report which is to be established and maintained by a *friendly society* or *registered branch* is a system of inspection on behalf of and report to the *committee* on the operation of the systems of control required by (1)(b).
- (5) The systems of control and of inspection and report must be adequate to enable the *committee* properly to discharge the duties imposed on it by or under the *Act*, the *1992 Act* or the *1974 Act* and the functions of direction of the affairs of the *friendly society* or *registered branch*. No such system of control will be treated as adequate unless there is kept available to the *committee* a detailed statement in writing of the system as in operation for the time being.
- (6) Without prejudice to the generality of (5), the systems of control and of inspection and report must be such as to secure that the activities of the *friendly society* or *registered branch* are so conducted and its records so kept that –
- (a) the information necessary to enable the *committee* to discharge its duties and functions is sufficiently accurate, and is available with sufficient regularity or at need and with sufficient promptness, for those purposes; and

- (b) the information regularly obtained by or furnished to the *FCA* under or for the purposes of this *Act* or the *1992 Act* is sufficiently accurate for the purpose for which it is obtained or furnished and is furnished at the regularity required by or under the *Act* or the *1992 Act*<sup>2</sup>.
- (7) Every *non-directive friendly society* must within the period of 6 months beginning with the end of each *financial year* make and send to the *appropriate regulator* a statement of their opinion whether the requirements of this rule have been complied with in respect of that year by the *friendly society* and the statement must be signed by the chairman on behalf of the *committee* and by the chief executive.<sup>3</sup>

<sup>3</sup>See SUP 16.3.6 to 16.3.10R for rules on the submission of periodic reports.

## 4 Chapter 4: Financial Prudence

### II. ADEQUACY OF ASSETS

4.11 The rules in this chapter do not apply to *registered friendly societies*.

4.12 (1) A friendly society must secure-

- (a) that its liabilities under *contracts of insurance*, other than liabilities in respect of *linked benefits*, are covered by assets of appropriate safety, yield and marketability having regard to the *classes* of business carried on; and
- (b) without prejudice to the generality of (a), that its investments are appropriately diversified and adequately spread and that excessive reliance is not placed on investments of any particular category or description.

(2) A *friendly society* which has entered into a *linked long-term contract* must secure that, as far as practicable, its liabilities under the contract in respect of *linked benefits* are covered as follows-

- (a) if those benefits are linked to the value of units in an undertaking for collective investments in transferable *securities* or to the value of assets contained in an internal fund, by those units or assets;
- (b) if those benefits are linked to a share index or other reference value not mentioned in (a), by units which represent that reference value, or by assets of appropriate safety, yield and marketability which correspond, as nearly as may be, to the assets on which that reference value is based.

(3) A *friendly society* which has entered into a *linked long-term contract* must also secure that its liabilities under the contract in respect of *linked benefits* which are not covered by contracts of reinsurance are covered by assets of a description contained in *COBS 21.3.1R*.

(4) In (3), "*linked long-term contract*" does not include a *pension fund management contract* unless it is combined with a *contract of insurance* covering either conservation of capital or payment of a minimum interest.

### V. SEPARATION BETWEEN LONG-TERM INSURANCE BUSINESS ASSETS AND OTHER ASSETS

- 4.20**      **A *friendly society* which has permission to carry on *long-term insurance business* must –**
- (a)**      **secure that the assets representing the funds maintained by the *friendly society* in respect of its *long-term insurance business* are only applicable for the purposes of that business; and**
  - (b)**      **ensure that adequate arrangements are in force for securing that transactions affecting the assets of the *friendly society* (other than transactions outside its control) do not operate unfairly between the assets representing the funds maintained by the *friendly society* in respect of its *long-term insurance business* and the other assets of the *friendly society*.**

## 7 Chapter 7: Definitions

### PART II – GENERAL PROVISIONS

**7.2** A word or phrase which is printed in italics is used in the defined sense. If a defined term does not appear in 7.2A, the definition appearing in the main Handbook *Glossary* applies.

**7.2A** The list of defined terms referred to in 7.2 is set out below:

|                                     |   |
|-------------------------------------|---|
| <i>debt security</i>                | includes bonds, notes, debentures and debenture stock.  |
| <i>long term insurance business</i> | means <i>insurance business</i> of any of the <i>classes</i> of long-term insurance specified in Part III of chapter 7.   |
| <i>security</i>                     | includes <i>shares</i> , <i>debt securities</i> , Treasury Bills, Tax Reserve Certificates and Certificates of Tax Deposit.   |
| <i>share</i>                        | has the meaning given in section 1161(2) of the Companies Act 2006.   |
| <i>1974 Act</i>                     | the Friendly Societies Act 1974.  |
| <i>1992 Act</i>                     | the Friendly Societies Act 1992.  |
| <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>ancillary risk</i>               | in relation to a <i>friendly society</i> with permission under the <i>Act</i> to insure a principal risk belonging to one <i>class</i> of <i>general insurance business</i> , means a risk included in another such <i>class</i> which is – (a) connected with the principal risk; (b) concerned with the object which is covered against the principal risk; and (c) the subject of the same contract insuring the principal risk. |
| <i>class</i>                        | means in relation to <i>insurance business</i> , means a class of <i>long-term insurance business</i> or a class of <i>general insurance business</i> listed in Part III of chapter 7 of <i>IPRU FSOC</i> .   |
| <i>committee</i>                    | means the committee of management or other directing body of a <i>friendly society</i> or <i>registered branch</i> .  |
| <i>financial year</i>               | means the period of 12 months ending with 31 December and the initial <i>financial year</i> of a <i>friendly society</i> must be such period as expires at the end of the calendar year in which it is registered under the <i>1974</i>   |

|   |  |
|---|--|
|   | <i>Act</i> or incorporated under the <i>1992 Act</i> and the final <i>financial year</i> of the <i>friendly society</i> must be such shorter period than 12 months as expires on the date as at which the <i>friendly society</i> makes up its final accounts.   |
| <i>linked benefits</i>                  | in relation to a <i>linked long-term contract</i> , means benefits payable to the <i>policyholder</i> which are determined by reference to the value of or the income from property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).   |
| <i>linked long term contract</i>        | means a <i>contract of insurance</i> , the effecting of which constitutes the carrying on of <i>long-term insurance business</i> , and under which <i>linked benefits</i> are payable.   |
| <i>pension fund management contract</i> | means a contract to manage the investments of pension funds (other than funds solely for the benefit of the officers or employees of the person effecting or carrying out the contract and their dependants or, in the case of a company (which includes a body corporate), partly for the benefit of officers or employees and their dependants of its <i>subsidiary</i> or holding company or a <i>subsidiary</i> of its holding company). |
| <i>jointly controlled body</i>          | is to be construed in accordance with section 13 of the <i>1992 Act</i> .  |
| <i>registered branch</i>                | means a branch of a <i>registered friendly society</i> which is separately registered within the meaning of the <i>1974 Act</i> .  |
| <i>subsidiary</i>                       | is construed in accordance with section 13 of the <i>1992 Act</i> .  |

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

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

**7.5** In *IPRU (FSOC)*, the cross referencing within Forms follows the sequence “Form.Line.Column”.

*Subsidiary and ancillary provisions*

**7.6** For the purposes of *IPRU (FSOC)*:

- (a) a contract of insurance is to be treated as falling within a class of long-term insurance business notwithstanding the fact that it contains supplementary provisions falling within *class 1 (accident)* or *class 2 (sickness)* if:**
  - (i) its principal object is that of a contract falling within a *class of long-term insurance business*, and**

- (ii) it is effected or carried out by a *friendly society* which has permission to effect or carry out contracts falling within *class I* (life and annuity); and
- (b) a *contract of insurance* whose principal risk falls within any of *classes 1, 2 or 16* is to be treated as falling within that *class* and no other, notwithstanding the fact that it also covers *ancillary risks*.

### PART III – CLASSES OF LONG-TERM INSURANCE BUSINESS

| Number | Description             | Nature of business  |
|--------|-------------------------|---|
| 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 <i>class III</i> .   |
| 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   |
| 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 –<br>(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<br>(b) either are not expressed to be terminable by the <i>friendly society</i> , 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 –<br>(a) <i>pension fund management contracts</i> ; or<br>(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. |
|--|--|--------------------------------|

**CLASSES OF GENERAL INSURANCE BUSINESS**

## 8 Chapter 8: Transitional provisions

### GUIDANCE

GEN (the part of the *Handbook* in High Level Standards which has the title General Provisions) contains some technical transitional provisions that apply throughout the *Handbook* and which are designed to ensure a smooth transition at commencement of the *Act*. These include transitional provisions relevant to record keeping and notification rules.

*SUP* contains transitional provisions which carry forward written concessions relating to pre-commencement provisions.