INTERIM PRUDENTIAL SOURCEBOOK FOR FRIENDLY SOCIETIES (SOLVENCY I DIRECTIVE) INSTRUMENT 2003

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 (Guidance).

B. The rule-making powers listed above are specified for the purpose of section 153(2) of the Act (Rule-making instruments).

Commencement

C. This instrument comes into force on 1 January 2004 and:

(1) except as provided in (2), applies to friendly societies, in each case for and from the first day of their respective financial years beginning on 1 January 2004 and during that calendar year;

(2) IPRU(FSOC) rules 5.1(5) and 5.2(10) apply to friendly societies for their respective financial years ending on dates between 31 December 2003 and 30 December 2004, inclusive.

Amendment of the Interim Prudential sourcebook for friendly societies

D. IPRU(FSOC) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Interim Prudential Sourcebook for Friendly Societies (Solvency I Directive) Instrument 2003.

By order of the Board
18 September 2003

Annex

Amendments to the Interim Prudential sourcebook for friendly societies

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

4.2 (1) Subject to (2) to ~~(4)~~ (7), the ~~*required*~~ *margin of solvency* must be determined –

(a) with respect to a *friendly society* which carries on *long-term insurance business,* in accordance with Appendix 1; and

(b) with respect to a *friendly society* which carries on *general insurance business*, by taking the greater of:

(i) the higher of the two sums resulting from the application of the method of calculation set out in Part I of Appendix 2, and

(ii) the ~~two sums~~ sum resulting from the application of the ~~two methods~~ method of calculation set out in ~~Parts I~~ ~~and~~ Part II of Appendix 2.

(2) For a *contract of insurance* to which rule 7.6(a) applies, the ~~*required*~~ *margin of solvency* must be determined by taking the aggregate of the results arrived at by applying –

(a) in the case of so much of the contract as is within any *class* of *long-term insurance business*, the appropriate method under Appendix 1 for that *class*; and

(b) in the case of so much of the contract as is within *general insurance business class* 1 or 2, the method of calculation set out in ~~Part I of Appendix 2 (excluding 6, 7 and 8)~~ (1)(b).

(3) Where a *friendly society* carries on *long-term insurance business* and owing to the nature of that business more than one ~~margin of solvency~~ *margin of solvency* is produced in respect of that business by the operation of these rules, the margins in question must be aggregated.

(4) Where a *friendly society* carries on both *long-term insurance business* and *general insurance business* and is accordingly required to maintain separate ~~margins of solvency~~ *margins of solvency* in respect of the two kinds of business-

(a) the provisions in (1) to (3) apply for determining the ~~margin of solvency~~ *margin of solvency* for each kind of business separately; and

(b) assets other than those representing the funds maintained by the *friendly society* in respect of its *long-term insurance business*, if they are not included among the assets covering the liabilities and the *required margin of solvency* relating to the *friendly society*'s *general insurance business*, may be included among the assets taken into account in covering the liabilities and the *required margin of solvency* for the *friendly society*'s *long-term insurance business*.

(5) Subject to (6), in each case in which (1)(b) applies, if the *margin of solvency* under (1)(b) is lower than the *required margin of solvency* of the preceding *financial year*, then the *margin of solvency* must be adjusted so it is at least equal to the *required margin of solvency* of the preceding *financial year* multiplied by the ratio of the amount of the *technical provisions* for *claims* outstanding at the end of the preceding *financial year* and the amount of the *technical provisions* for *claims* outstanding at the beginning of the preceding *financial year*.

(6) For the purpose of (5) -

(a) *technical provisions* must not be discounted, or reduced, to take account of investment income, unless -

(i) they relate to risks in *classes* 1 or 2; or

(ii) they are reduced to reflect the discounting of annuities; and

(b) *technical provisions* must be calculated net of reinsurance; but

(c) the ratio must not be higher than 1.

(7) Where the nature or quality of reinsurance relied on to reduce the *required margin of solvency* changes significantly during the *financial year*, a *friendly society* must notify the *FSA* forthwith of the change.

…

4.4 (1) Subject to (2) ~~and (3)~~ to (5), one-third of the *required margin of solvency* constitutes the guarantee fund. A *friendly society* must ensure that its *margin of solvency* does not fall below the guarantee fund.

(2) In the case of a *friendly society* which is-

(a) an *incorporated friendly society*; or

(b) an (unincorporated) *friendly society*, which is ~~not~~ a ~~*non-*~~*directive friendly society*,

the *guarantee fund* must not be less than an amount (the minimum guarantee fund) arrived at in accordance with rule 4.5 for *long-term insurance business* and rule 4.6 for *general insurance business,* whether the *required margin of solvency* is greater or less than that amount.

(3) In the case of *long-term insurance business*, items that are not *implicit items* must be at least large enough to cover either the *minimum guarantee fund* or 50% of the *guarantee fund*, whichever is the greater.

(4) In the case of *general insurance business*, the unpaid initial fund of a *friendly society* and, in the case of a *friendly society* with variable contributions, any claim which the *friendly society* has against its members by way of a call for supplementary contributions for a *financial year* may not be taken into account in complying with (1).

(5) In the case of *long-term insurance business*, the unpaid initial fund of a *friendly society* and *implicit items* which relate to future profits and *zillmerising* may not be taken into account in complying with (1).

4.5 (1) Subject to (2) to (4) and to rule 4.6(3), the *minimum guarantee fund* for *long-term insurance business* carried on by a *directive friendly society* is 2,250,000 Euro.

~~(1)~~ (2) For a *non-directive incorporated friendly society*, in the *financial year* during which ~~a~~ the *friendly society* first obtains permission under the *Act* ~~(or is authorised under its predecessor legislation)~~ to carry on *long-term insurance business*, the *minimum guarantee fund* is the amount in column 2 of the table, which corresponds to the *friendly society*'s *annual contribution income* in respect of that business in the last preceding *financial year*, as shown in column 1 of the table.

Contribution Income (in Euro)	*Minimum guarantee fund* (in Euro)
1,000,000 or less	100,000
1,000,001 - 1,500,000	200,000
1,500,001 - 2,000,000	300,000
2,000,001 - 2,500,000	400,000
2,500,001 - 3,000,000	500,000
3,000,001 or more	600,000

But where ~~a~~ the *friendly society* had no *annual contribution income* in respect of *long-term insurance business* in the last preceding *financial year* or has not been in existence long enough to have a preceding *financial year*, the *minimum guarantee fund* is 100,000 Euro.

~~(2)~~ (3) In any subsequent *financial year* during which a *non-directive incorporated friendly society* has permission to carry on *long-term insurance business*, the *minimum guarantee fund* is the greater of either -

(a) the amount in column 2 of the table in (1) that corresponds to the *friendly society*'s *annual contribution income* in respect of *long-term insurance business* in the last preceding *financial year*; or

(b) the amount of the *minimum guarantee fund* required to be maintained by the *friendly society* in the last preceding *financial year*~~,~~

~~providing that if the amount referred to in (a) or (b) is the same, the *minimum guarantee fund* is that amount~~.

~~(3)~~ (4) Where a *non-directive incorporated friendly society* obtains permission under the *Act* (or has obtained permission under the *Act* or authorisation under its predecessor legislation) to carry on *long-term insurance business* -

(a) of a *class* additional to that in respect of which it already has permission; or

(b) in a part of the United Kingdom additional to that in respect of which it already has permission,

a *minimum guarantee fund* of 600,000 Euro must be maintained by that *friendly society* for the whole of its *long-term insurance business* (that is to say, not only for the additional business carried on but also for the business previously carried on).

4.6 (1) Subject to (2) and (3), the ~~The~~ *minimum guarantee fund* in respect of *general insurance business* carried on by a *directive friendly society* is ~~225,000~~ 1,500,000 Euro.

(2) For *non-directive incorporated friendly societies*, the *minimum guarantee fund* for *general insurance business* is 225,000 Euro.

(3) Subject to (4) and (5), the base amount in Euro specified in (1) and in Appendix 2 will increase each year, starting on the first review date of 20 September 2003 (and annually after that), by the percentage change in the European index of consumer prices (comprising all EU member states as published by Eurostat) from 20 March 2002 to the relevant review date, rounded up to a multiple of 100,000 Euro.

(4) In any year, if the percentage change since the last increase is less than 5%, then there will be no increase.

(5) The increase will take effect 30 days after the EU Commission has informed the European Parliament and Council of its review and the relevant percentage change.

4.7 (1) Where a *friendly society* has assets equal to or in excess of its liabilities as valued in accordance with the *asset valuation rules* and *liability valuation rules*, then (2) ~~and (3)~~ to (5) have effect for determining the extent to which the value of the assets exceeds the amount of liabilities in connection with the *margin of solvency*, the *required margin of solvency*, the *guarantee fund* and the *minimum guarantee fund*.

(2) In the case of a *friendly society* with variable contributions carrying on ~~of~~ *general insurance business*, any claim which a *friendly society* has against its members by way of a call for supplementary contributions for a *financial year* must be treated as having no value ~~must be treated as having its full value for that *financial year*, but the value must not exceed~~

~~(a) 50% of the difference between the maximum contributions and the contributions called in; or~~

~~(b) 50% of the *required margin of solvency* which would otherwise be required~~.

(3) The items which relate to future surpluses, *zillmerising* and hidden reserves (referred to as implicit items) must be treated as having no value. A *friendly society* which applies for a waiver of this rule under section 148 of the *Act* with respect to future profits must submit with the application for waiver:

(a) an actuarial report substantiating the likelihood of the emergence of the future profits in the future; and

(b) a plan as to how it intends to comply with the future limits on, and termination of use of, implicit items for future profits required by the Life Directive (2002/83/EC).

(4) The unpaid initial fund of a *friendly society* must be treated as having no value.

(5) Subject to (6), in the case of a *friendly society* which discounts or reduces its *technical provisions* for *claims* outstanding to take account of investment income as permitted by article 60(1)(g) of the *Insurance Accounts Directive*, the *margin of solvency* must be reduced by the difference between: -

(a) the undiscounted *technical provisions* for *claims* outstanding or the *technical provisions* for *claims* outstanding before deductions; and

(b) the discounted *technical provisions* for *claims* outstanding or the *technical* provisions for *claims* outstanding after deductions.

For these purposes, *technical provisions* must be calculated net of *reinsurance*.

(6) (5) does not apply to risks in *classes* 1 or 2 or in respect of the discounting of annuities.

~~(4)~~ (7) For the purposes of the rules in Chapter 4 and the definition of *non-directive friendly society*, the exchange rate from the Euro to the pound sterling for each year beginning on 31 December is the rate applicable on the last day of the preceding October for which the exchange rates for the currencies of all the European Union member states were published in the Official Journal of the European Communities.

…

5.1 …

(5) A *friendly society* that submits an FSC1 return in respect of the *financial year* ending on 31 December 2003 must also send to its normal supervisory contact at the *FSA*, by 30 June 2004, Form 60 and associated Forms 11 and 12 as amended by the Interim Prudential Sourcebook for Friendly Societies (Solvency I Directive) Instrument 2003.

…

5.2 …

(10) A *friendly society* that submits an FSC3 return in respect of the *financial year* ending on 31 December 2003 must also send to its normal supervisory contact at the *FSA*, by 30 June 2004: -

(a) Forms 11 and 12 as amended by the Interim Prudential Sourcebook for Friendly Societies (Solvency I Directive) Instrument 2003; and

(b) the amounts at line 12 of amended Form 15 and line 61 of amended Form 13, if these lines contain amounts different from the amounts at the same lines of the un-amended forms.

…

5.9 The valuation abstract must consist of Forms 46 to 49, 51 to 58, 60, 11, 12 and 61A (as appropriate) prepared in accordance with the instructions in Appendix 9.

…

7.1 …

gross premiums earned in respect of a *financial year*	means such proportion of *gross premiums receivable* as is attributable to risk borne by the *friendly society* during that *financial year*;
margin of solvency	has the meaning given in rule 4.1(4);
non-directive friendly society	means: (1) a *friendly society* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of the members are determined on a flat-rate basis; (2) a *friendly society* whose *long-term insurance business* is restricted to the provision of benefits for employed and self-employed persons belonging to an undertaking or group of undertakings, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the *commitments* arising from such operations are fully covered at all times by *mathematical reserves*); (3) a *friendly society* which undertakes to provide benefits solely in the event of death where the

	amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind; (4) a *mutual* (carrying on *long-term insurance business*) – (a) whose articles of association contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other persons who have undertaken to provide it; and (b) whose annual *gross premium* income (other than from contracts of ~~*reinsurance*~~ reinsurance) has not exceeded ~~500,000~~ 5 million Euro for each of the three preceding *financial years*; (5) a *friendly society* (carrying on *general insurance business*) whose – (a) registered rules contain provisions for calling up additional contributions from members or reducing their benefits; (b) *gross premium* income (other than from contracts of ~~*reinsurance*~~ reinsurance) for the preceding *financial year* did not exceed ~~1,000,000~~ 5 million Euro; and (c) members provided at least half of that *gross premium* income; (6) a *friendly society* whose liabilities in respect of *general insurance contracts* are fully reinsured with or guaranteed by other mutuals (including *friendly societies*), and whose *insurance business* is limited to that described in paragraphs (1) to (6);
required margin of solvency	~~has the meaning given in~~ means the *margin of solvency* required by rule 4.1(1);

Appendix 1
Long-term insurance business: margin of solvency

…

2. …

(3) In so far as -

(a) a *friendly society* bears no investment risk; and

~~(b) the total expired and unexpired term of the relevant contract exceeds five years; and~~

~~(c)~~(b) the allocation to cover *management expenses* in the relevant contract has a fixed upper limit which is effective as a limit for a period exceeding five years,

the first calculation must be applied, but as if 1(2)(a) contained a reference to 1% instead of 4%.

(4) In so far as -

(a) a *friendly society* bears no investment risk; and

(b) the allocation to cover *management expenses* in the relevant contract does not have a fixed upper limit which is effective as a limit for a period exceeding five years,

the *margin of solvency* is an amount equivalent to 25% of the preceding *financial year's* net administrative expenses pertaining to such business.

~~(4) If neither (2) nor (3) applies, then, subject to (5), the *required margin of solvency* is zero.~~

(5) Where a *friendly society* covers a death risk, a sum arrived at by applying the second calculation (disregarding 1(4) and (5)) must be added to the ~~margin of solvency~~ *margin of solvency*, including a ~~*required*~~ *margin of solvency* of zero, arrived at under (2), (3) or (4).

3. (1) For *long-term insurance business* of *class* IV ~~or VI~~, the ~~margin of solvency~~ *margin of solvency* must be determined by applying the first calculation plus the sum arrived at by applying rule 4.2(1)(b) as though it were *general insurance business* of *class* 2.

(2) For *long-term insurance business* of *class* VI, the ~~margin of solvency~~ *margin of solvency* must be determined by applying the first calculation.

(3) If both (1) and rule 4.2(2)(b) apply, a single combined *margin of solvency* must be calculated under rule 4.2(1)(b) in respect of the *class* IV business and subsidiary provisions in *classes* 1 and 2.

Appendix 2

General insurance business solvency margin

Part I: the Premiums Basis

1. The *gross premiums receivable* (or contributions, as the case may be) in respect of the *friendly society's* entire *general insurance business* for the last preceding *financial year* must be aggregated and the method of calculation set out in 2 to 14 applied.

1A. The *gross premiums earned* (or contributions, as the case may be) in respect of the *friendly society's* entire *general insurance business* for the last preceding *financial year* must be aggregated and the method of calculation set out in 2 to 14 applied.

2. From each of the aggregates arrived at under 1 and 1A there must be deducted -

(a) any taxes included in the *premiums* ~~mentioned in 1~~; and

(b) any levies that are related to *premiums* and are recorded in the *friendly society's* books as payable in the last preceding *financial year* in respect of *general insurance business*.

3. The amount arrived at under 2 must be multiplied by 12 and divided by the number of months in the *financial year*.

4. Subject to rule 4.6(3), if ~~If~~ the amount arrived at under 3 is more than ~~10~~ 50 million Euro, it must be divided into two portions, the former consisting of ~~10~~ 50 million Euro and the latter comprising the excess.

5. Where there has been a division into two portions pursuant to 4, there must be calculated and added together 18% and 16% of the two portions respectively; and where there has been no such division, there must be calculated 18% of the amount arrived at under 3.

6. In the case of *general insurance business* consisting of health insurance based on actuarial principles, 5 applies with the substitution of 6% for 18% and 5 and one-third % for 16%, but only if all the necessary conditions are satisfied.

7. For the purposes of 6, the necessary conditions are as follows -

(a) the *gross premiums* ~~*receivable*~~ paid are calculated on the basis of sickness tables appropriate to the *insurance business*;

(b) the reserves include provision for increasing age or, in the case of *class* IV, either the reserves include provision for increasing age, or the business is conducted on a group basis;

(c) an additional *premium* is collected in order to set up a safety margin of an appropriate amount;

(d) ~~it is not possible for the *friendly society* to cancel~~ the contract does not allow the *friendly society* to cancel the contract after the end of the third year of the contract; and

(e) the contract provides for the possibility of increasing *premiums* or reducing payments during its currency.

8. Where 6 applies to a *friendly society* whose *general insurance business* consists partly of health insurance based on actuarial principles and partly of other business, the procedure provided in 1 to 6 must operate separately for each part of the *general insurance business*, so as to produce a sum under 6 for the health insurance and a sum under 5 for the other business.

9. (1) If the provision for *claims* outstanding at the end of the last preceding *financial year* exceeds the provision for *claims* outstanding at the beginning of ~~that year~~ the *financial year* two years prior to the last preceding *financial year*, then the amount of the excess must be added to the amount of *claims* paid in the ~~last preceding *financial year*~~ 3 year period.

(2) If the provision for *claims* outstanding at the beginning of the ~~*last preceding*~~ *financial year* two years prior to the *financial year in question* exceeds the provision for *claims* outstanding at the end of ~~that year~~ the *financial year in question*, then the amount of the excess must be deducted from the amount of *claims* paid in the ~~*last preceding financial year*~~ 3 year period.

10. (1) For the purposes of 9, the "amount of *claims* paid", in relation to a *friendly society* and a *financial year*, is the amount that is recorded in the *friendly society's* books as at the end of the *financial year* as paid by it (whether or not payment has been effected in that year) in full or partial settlement of -

(a) the *claims* described in (2); and

(b) the expenses described in (3),

less any *recoverable* amounts within the meaning of (4).

(2) The *claims* mentioned in (1) are *claims* including *claims* relating to business accounted for over a longer period than a *financial year*.

(3) The expenses mentioned in (1) are expenses (such as, for example, legal or medical costs) which are incurred by the *friendly society*, whether through the employment of its own staff or otherwise, and are directly attributable to the settlement of individual *claims*, whether or not the individual *claims* in question are those mentioned in (1).

(4) *Recoverable* amounts for the purposes of (1) are amounts *recoverable* by the *friendly society*, in respect of the *claims* mentioned in (1) or other *claims*, including amounts *recoverable* from third parties and amounts *recoverable* from other *insurance undertakings* but excluding amounts *recoverable* in respect of reinsurance ceded by the *friendly society*.

11. (1) For the purposes of 9, the "provisions for *claims* outstanding", in relation to a *friendly society* and a *financial year*, is the amount set aside by the *friendly society* as at the beginning or end of the *financial year* as being an amount likely to be sufficient to meet -

(a) the *claims* described in (2); and

(b) the expenses described in (3),

less any *recoverable* amounts within the meaning of (4).

(2) The *claims* mentioned in (1) are *claims* in respect of incidents occurring -

(a) in the case of an amount set aside as at the beginning of the *financial year*, before the beginning of that year; and

(b) in the case of an amount set aside as at the end of the *financial year*, before the end of that year,

being *claims* which have not been treated as *claims* paid including *claims* relating to business accounted for over a longer period than a *financial year*, *claims* the amounts of which have not been determined and *claims* arising out of incidents that have not been notified to the *friendly society*.

(3) The expenses mentioned in (1) are expenses (such as, for example, legal or medical costs) which are likely to be incurred by the *friendly society*, whether through the employment of its own staff or otherwise and are directly attributable to the settlement of individual *claims*, whether or not the individual *claims* in question are those mentioned in (1).

(4) ~~'Recoverable amounts'~~ *Recoverable* amounts for the purposes of (1) are amounts estimated by the *friendly society* to be *recoverable* by it in respect of the *claims* mentioned in (1), including amounts *recoverable* from third parties and amounts *recoverable* from other *insurance undertakings* but excluding amounts *recoverable* in respect of reinsurance ceded by the *friendly society*.

12. From the amount determined under 9(1) or (2) there must be deducted the total sum *recoverable* in respect of that amount under reinsurance contracts ceded during the relevant period.

13. The amount determined under 12 must be expressed as a percentage of the amount determined under 9(1) or (2).

14. The sum arrived at under 5 or 6 or the aggregate of the sums arrived at under 5 and 6, as the case may be, must be multiplied -

(a) where the percentage arrived at under 13 is greater than 50% but not greater than 100%, by the percentage so arrived at;

(b) where the percentage so arrived at is greater than 100%, by 100%; and

(c) in any other case, by 50%.

Part II: the Claims Basis

15. If a *friendly society* has not been in existence long enough to acquire a *reference period*, this Part II does not apply to the *friendly society*, and Part I must be applied.

16. (1) If the provision for *claims* outstanding at the end of the *reference period* exceeds the provision for *claims* outstanding at the beginning of the *reference period*, the amount of the excess must be added to the amount of *claims* paid in the *reference period*.

(2) If the provision for *claims* outstanding at the beginning of the *reference period* exceeds the provision for *claims* outstanding at the end of the *reference period*, the amount of the excess must be deducted from the amount of *claims* paid in the *reference period*.

(3) For the purposes of this paragraph, the expressions "amount of *claims* paid" and "provision for *claims* outstanding" have, in relation to a *reference period*, the same meaning as they have in 9 in relation to a *financial year*.

17. The aggregate obtained under 16(1) or (2) must be divided by the number of months in the *reference period* and multiplied by twelve.

18 Subject to rule 4.6(3), if ~~If~~ the amount arrived at under 17 is more than ~~7~~ 35 million Euro, it must be divided into two portions, the former consisting of ~~7~~ 35 million Euro and the latter comprising the excess.

19. Where there has been a division into two portions pursuant to 18, there must be calculated and added together 26% and 23% of the two portions respectively; and where there has been no such division, there must be calculated 26% of the amount arrived at under 17.

20. In the case of *general insurance business* consisting of health insurance based on actuarial principles, 19 applies with the substitution of "8 2/3%" for "26%" and "7 2/3%" for "23%", but only if all the necessary conditions are satisfied.

21. The necessary conditions for the purposes of 20 are the same as those set out in 7.

22. In a case of the kind mentioned in 8, that paragraph applies (with the necessary modifications) so as to produce separate sums under 19 and 20.

23. The sum arrived at under 19 or 20 or the aggregate of the sums arrived at under 19 or 20, as the case may be, must be multiplied by the same percentage as is applicable for the purposes of 14.

Appendix 9

Abstract of actuarial investigation

…

Forms 60 ~~and 61~~, 11 and 12

24. (1) A statement of the *required minimum margin* for *long-term insurance business* in Form 60 and of the required *margin of solvency* for *Class* IV business and the subsidiary provisions in Forms 11 and 12, in accordance with instruction 8 for completion of Form 60 ~~61~~.

(2) If the gross annual office *premiums* for *Class* IV business and the subsidiary provisions in force on the *valuation date* do not exceed 1% of the gross annual office *premiums* in force on that date for all *long-term insurance business*, Forms ~~61~~ 11 and 12 need not be completed provided it can be stated that the entry in line 51 of Form 60 exceeds the amount that would be obtained if Forms ~~61~~ 11 and 12 were to be completed. In this circumstance, the method of estimating the entry in line 51 of Form 60, together with a statement of the gross annual office *premiums* in force at the *valuation date* in respect of for *Class* IV business and the subsidiary provisions, must be given. When completing Forms 11 and 12, the accounting conventions appropriate for *general insurance business* should be followed, but reasonable approximations may be used if they are unlikely to result in an underestimate of the *required margin of solvency*.

Appendix 10 (Prudential Reporting Forms) is amended as follows:-

Prudential Reporting Forms

In Appendix 10 (Prudential reporting forms), FSC 1 – Form 60 is amended and Form 61 is deleted and FSC 3 – Form 11 is replaced and Form12 is amended as follows:

FSC 1 – FORM 60 (Sheet 1)

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Required minimum margin

Name of Society

Reg No

Units

£/£000

Period ended 31 December

Class			Classes I & II	Class III business with relevant factor of				<u>Class IV</u>	<u>Class VI</u>	Class VII business with relevant factor of				Unallocated additional mathematical reserves with relevant factor of		Total for all classes	
Relevant factor (Note 1)			4% 1	4% 2	1% 3	~~NIL~~ <u>Expense related</u> 4	Total 5	4% <u>6</u>	4% <u>6A</u>	4% 7	1% 8	~~NIL~~ <u>Expense related</u> 9	Total 10	4% 11	1% 12	This year 13	Previous year 14
Mathematical reserves before deduction for reinsurance: (Note 5)	Reserves before distribution of surplus	11															
	Reserves for bonus allocated to policyholders	12															
	Reserves after distribution of surplus	13															
Mathematical reserves after deduction for reinsurance: (Note 5)	Reserves before distribution of surplus	14															
	Reserves for bonus allocated to policyholders	15															
	Reserves after distribution of surplus	16															
Ratio of 16 to 13, or 0.85 if greater		17															
Required margin of solvency – first result – (Note 2)		19															
<u>Required margin of solvency based on administrative expenses (note 7)</u>		<u>20</u>															
Non negative capital at risk before reinsurance: (Note 3)	Temporary assurances with required margin of solvency of .001	21															
	Temporary assurances with required margin of solvency of .0015	22															
	All other contracts with required margin of solvency of .003	23															
Total for (21 to 23)		29															

FSC 1 – FORM 60 (Sheet 2)

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Required minimum margin

Name of Society

	Reg No	Units £/£000
Period ended 31 December		

Class		Classes I & II	Class III business with relevant factor of				Class IV	Class VI	Class VII business with relevant factor of				Unallocated additional mathematical reserves with relevant factor of		Total for all classes	
Relevant factor (Note 1)		4% 1	4% 2	1% 3	~~NIL~~ Expense related 4	Total 5	4% 6	4% 6A	4% 7	1% 8	~~NIL~~ Expense related 9	Total 10	4% 11	1% 12	This year 13	Previous year 14
Non negative capital at risk after reinsurance (all contracts) (Note 3)	31															
Ratio of line 31 to line 29, or 0.50 if greater	32															
Required margin of solvency second result (Note 4)	39															
Sum of first and second results = (19 + 20 + 39)	49															
Required margin of solvency for subsidiary provisions and the additional margin for class IV business (Notes 6 and 8)	51															
Total required margin of solvency for long term business = 49 + 51	59															
Minimum guarantee fund	61															
Required minimum margin (greater of 59 and 61)	69															

NOTES

1. The appropriate factor specified in rule 1(2)(a) and 2(3) and (4) of Appendix 1.
2. Line 19 equals line 13 x Line 17 x relevant factor.
3. Capital at risk must be shown after distribution of surplus.
4. Line 39 equals line 32 x [line 21 x .001 + line 22 x .0015 + line 23 x .003] for Classes I and II or line 32 x line 29 x 0.003 for classes III and VII.
5. Any additional mathematical reserves shown at line 63 to Form 14 must be included in this Form (applied to all relevant classes)
6. For Class V business, the amount of the required margin of solvency must be stated in a note to the form and must be included in line 51
7. For class III and VII business, the entry at line 20 is 25% of the financial year's net administrative expenses pertaining to business for which the friendly society bears no investment risk and the allocation to cover management expenses is not fixed for a period exceeding five years. (Appendix 1 para 2(4)).
8. For class IV business and subsidiary provisions taken together, Forms 11 and 12 in Appendix 10 must be completed and appended to Form 60 (unless the Forms would be blank or paragraph 24(2) of Appendix 9 permits the friendly society not to complete the Forms). Lines 44 and 49 of Form 12 should be left blank. For the purposes of these Forms "health insurance" is health insurance based on actuarial principles that meets the conditions set out in paragraph 7 of Appendix 2. The entry at line 51 of Form 60 must equal the entry at 51.43 of Form 12 plus the amount to be included for class V business (see note 6).

FSC 3 – FORM 11 (Sheet 1)

Returns under the Friendly Societies Prudential Rules
General insurance business: Calculation of required margin of solvency – first method

Name of Society

	Reg No	Units £/£000

Period ended 31 December

Name of Fund/Summary

				1 Last 12 months of this period	**2** Last 12 months of previous period
Gross premiums receivable			11		
Premium taxes and levies (included in line 11)			12		
Sub-total A (11 – 12)			15		
Division of Sub-total A	Other than health insurance	Up to and including sterling equivalent of 50M Euro x 18/100	17		
		Excess (if any) over 50M Euro x 16/100	18		
	Health insurance	Up to and including sterling equivalent of 50M Euro x 6/100	19		
		Excess (if any) over 50M Euro x 16/300	20		
Sub-total B (17 + 18 + 19 + 20)			21		
Gross premiums earned			22		
Premium taxes and levies (included in line 22)			23		
Sub-total H (22 – 23)			26		
Division of Sub-total H	Other than health insurance	Up to and including sterling equivalent of 50M Euro x 18/100	28		
		Excess (if any) over 50M Euro x 16/100	29		
	Health insurance	Up to and including sterling equivalent of 50M Euro x 6/100	30		
		Excess (if any) over 50M Euro x 16/300	31		
Sub-total I (28 + 29 + 30 + 31)			32		

FSC 3 – FORM 11 (Sheet 2)

Returns under the Friendly Societies Prudential Rules
General insurance business: Calculation of required margin of solvency – first method

Name of Society

	Reg No	Units £/£000
Period ended 31 December		

Name of Fund/Summary

		1 Last 12 months of this period	2 Last 12 months of previous period
Sub-total J (greater of sub-total B and sub-total I)	40		
Claims paid in 3 year period	41		
Claims outstanding carried forward at the end of the period	43		
Claims outstanding brought forward at the beginning of the period	45		
Sub-total C (41 + 43 – 45)	46		
Amounts recoverable from reinsurers in respect of claims included in Sub-total C	47		
Sub-total D (46 – 47)	48		
First result Sub-total J x $\frac{\text{Sub-total D}}{\text{Sub-total C}}$ (or, if 0.5 is greater, x 0.5)	49		
Provisions for claims outstanding (before discounting and net of reinsurance)	50		
Brought forward amount (12.43.2 x 50.1 / 50.2 or, if less, 12.43.2)	51		
Greater of lines 49 and 51	52		

NOTES

1. Entries in column 2, lines 17-20 and 28-31 must be the corresponding entries in column 1 of the Form for the previous year, even if the amount of Euro in the description of the line has changed.
2. 51.2 must be 11.51.2 from the previous year's return.

FSC 3 – FORM 12

Returns under the Friendly Societies Prudential Rules
General insurance business: Calculation of required margin of solvency – second method, and statement of required minimum margin

Name of Society

Period ended 31 December

	Reg No	Units £/£000

Name of Fund/Summary

			Line	**1** Last 12 months of this period	**2** Last 12 months of the previous period
Reference period (means the three last preceding financial years) (Note 1)			11		
Claims paid in reference period			21		
Claims outstanding carried forward at the end of the period			23		
Claims outstanding brought forward at the beginning of the period			25		
Sub-total E (21 + 23 – 25)			29		
Division of Sub-total A	Other than health insurance	Up to and including sterling equivalent of ~~7M~~ 35MEuro x 26/100 (note 3)	32		
		Excess (if any) over ~~7M~~ 35M Euro x 23/100 (note 3)	33		
	Health insurance	Up to and including sterling equivalent of ~~7M~~ 35M Euro x 26/300 (note 3)	34		
		Excess (if any) over ~~7M~~ 35M Euro x 23/300 (note 3)	35		
Sub-total F (32 to 35)			39		
Second result Sub-total F x $\frac{\text{Sub-total D}}{\text{Sub-total C}}$ (or, if 0.5 is greater, x 0.5)			41		
Higher of f~~F~~irst result and brought forward amount (Note 2)			42		
Required margin of solvency (the higher of lines 41 and 42)			43		
Minimum guarantee fund			44		
Required minimum margin (the higher of lines 43 and 44)			49		

NOTES

1. If the society has not been in existence long enough to acquire a reference period, this must be stated and lines 11 to 41 ignored.
2. The entry at line 42 must be equal to the entry at line 52~~41~~ on Form 11
3. Entries in column 2, lines 32-35 must be the corresponding entries in column 1 of the Form for the previous year, even if the amount of Euro in the description of the line has changed.

Form 13 in FSC3 is amended by adding the following note:

4. If the amount shown at line 12 of Form 15 has had to be increased because of restrictions on discounting (see note 2 to Form 15), the reinsurers' share shown at line 61 must be adjusted to be consistent with the amount shown in Form 15.

Form 15 is amended by adding the following note:

2. The amount shown in line 12 may only be discounted or reduced to take account of investment income for class 1 or 2 business:

(a) for class 1 or 2 business; or

(b) in respect of annuities.

So, if the technical provisions for claims outstanding for other business are discounted or reduced to take account of investment income, then they must be increased by the difference between the undiscounted and discounted provisions. In this case, the amount of the increase must be shown in a supplementary note to this form, together with the corresponding increase in the reinsurers' share shown in line 9-61 of Form 13.

Annex 4
Guidance on margins of solvency and the guarantee fund

…

4B. Guidance Note 2.1 in *IPRU(INS)* (Hybrid capital: Admissibility for solvency) applies to *friendly societies* applying for a waiver of rules 4.7(2) or (4) of *IPRU(FSOC)* under section 148 of the *Act* (Modification or waiver of rules).

…

9. In addition to these modifications, the *FSA* has power under section 148 of the *Act* to direct that certain requirements do not apply to any particular *friendly society*, and there may be circumstances where the *minimum guarantee fund* may be varied in the case of certain *non-directive incorporated friendly societies*. In addition, the increases to the *minimum guarantee fund* required by virtue of the Solvency I Directives (2002/12/EC and 2002/13/EC of 5 March 2002) from 1 January 2004 have not been applied to *non-directive incorporated friendly societies*.

…

Life Directive Friendly Societies

11.2 (1) These would include any *friendly society* which carries on *long-term insurance business* where:

(a) its rules do not contain provision for calling up additional contributions, for reducing benefits or for claiming assistance from other persons who have undertaken to provide it; or

(b) its *annual contribution income* from *long-term insurance business* exceeded ~~500,000~~ 5 million Euro for 3 consecutive years.

(2) Valuation is made annually and the rules in chapter 4 and rule 5.1 apply.

Non-life Directive Friendly Societies

11.3 (1) Similarly, these would include any *friendly society* which carries on *general insurance business* where:

(a) its rules do not contain provision for calling up additional contributions or for reducing benefits; or

(b) its *annual contribution income* from *general insurance business* in any previous year exceeded ~~1,000,000~~ 5 million Euro.

(2) Valuation is made triennially and rules in chapter 4 (other than rules 4.5 – *minimum guarantee fund* and rule 4.12 – adequacy of *premiums*) and rule 5.2 apply.

Non-Directive Incorporated Friendly Societies ~~other than those included above~~

11.4 Long-term ~~B~~business

(1) These may fall outside the EC requirements but fall within the scope of rule 5.1 and are required to be valued annually. The *required margin of solvency* is set out in rules 4.1 to ~~4.10~~ 4.7. New *friendly societies* should have ~~margins of solvency~~ *margins of solvency* at least equal to the appropriate *minimum guarantee fund*. Rule 4.5 specifies a *minimum guarantee fund* with a threshold of 100,000 Euro increasing in steps. This may be varied by the exercise of the *FSA's* power under section 148 of the *Act*.

(2) Accordingly, a *non-directive incorporated friendly society* carrying on *long-term insurance business* will be expected to meet the solvency margin requirement immediately following incorporation. However, a valuation at that date is not necessarily required unless that date would otherwise be a normal *valuation date*.

~~**Non-directive incorporated Friendly Societies carrying on** g~~General insurance business

11.5 Similar considerations will apply in the case of *non-directive incorporated friendly societies* carrying on *general insurance business*. The *minimum guarantee fund* is 225,000 Euro. These societies are required to be valued triennially.