

**PRUDENTIAL REQUIREMENTS FOR INSURERS
(AMENDMENT NO 4) INSTRUMENT 2009**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138 (General rule-making power);
 - (b) section 150(2) (Actions for damages);
 - (c) section 156 (General supplementary powers);
 - (d) section 157(1) (Guidance); and
 - (e) section 340 (Appointment); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. (1) Subject to (2), this instrument comes into force on 31 December 2009.
 (2) The amendments to Part 2 of Annex C (IPRU(FSOC)) come into force on 31 December 2010.
- D. The amendments to IPRU(FSOC) and IPRU(INS) which relate to FSA returns apply to all FSA returns for financial years ending on or after 31 December 2009.

Amendments to the Handbook

- E. The modules of the FSA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
General Prudential sourcebook (GENPRU)	Annex A
Prudential sourcebook for Insurers (INSPRU)	Annex B
Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))	Annex C
Interim Prudential sourcebook for Insurers (IPRU(INS))	Annex D

Citation

- F. This instrument may be cited as the Prudential Requirements for Insurers (Amendment No 4) Instrument 2009.

By order of the Board
5 November 2009

Annex A

Amendments to the General Prudential sourcebook (GENPRU)

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

Table: Base capital resources requirement for an insurer

2.1.30 R This table belongs to GENPRU 2.1.29R

<i>Firm category</i>		Amount: Currency equivalent of
General insurance business		
Liability insurer (classes 10-15)	Directive mutual	€2.4 <u>2.625</u> million
	Non-directive insurer	€ 300 <u>350,000</u>
	Other (including <i>mixed insurer</i> but excluding <i>pure reinsurer</i> and <i>captive reinsurer</i>)	€ 3.2 <u>3.5</u> million
Other insurer	Directive mutual	€ 1.65 <u>1.725</u> million
	Non-directive insurer (classes 1 to 8, 16 or 18)	€ 225 <u>260,000</u>
	Non-directive insurer (classes 9 or 17)	€ 150 <u>175,000</u>
	Mixed insurer	€ 3.2 <u>3.5</u> million
	Other (excluding <i>pure reinsurer</i> and <i>captive reinsurer</i>)	€ 2.2 <u>2.3</u> million
Long-term insurance business		
Mutual	Directive	€2.4 <u>2.625</u> million
	Non-directive mutual	€ 600 <u>700,000</u>
	Any other insurer (including <i>mixed insurer</i> but excluding <i>pure reinsurer</i> and <i>captive reinsurer</i>)	€ 3.2 <u>3.5</u> million
All business (<i>general insurance business</i> and <i>long-term insurance business</i>)		
Pure reinsurer excluding <i>captive reinsurer</i>		€ 3.2 <u>3.5</u> million

<i>Captive reinsurer</i>	€ 1 <u>1.1</u> million
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Annex B

Amendments to the Prudential sourcebook for Insurers (INSPRU)

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

1.1.45 R The *premiums amount* is:

- (1) 18% of the *gross adjusted premiums amount*; less 2% of the amount, if any, by which the *gross adjusted premiums amount* exceeds €~~53.1~~ 57.5 million; ...

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1.1.47 R The *claims amount* is:

- (1) 26% of the *gross adjusted claims amount*; less 3% of the amount, if any, by which the *gross adjusted claims amount* exceeds €~~37.2~~ 40.3 million; ...

...

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2.1.22 R ...

- (3) The limits referred to in (1) and (2) are the following, expressed as a percentage of the *firm's* business amount:

- (a) for a *counterparty* exposure to an individual, unincorporated body of individuals or the aggregate exposure arising from the *counterparty* exposures to each member of a group of closely related individuals or unincorporated bodies of individuals:

- (i) ¼% for that part of the exposure that arises from ~~*unsecured debt*~~ unsecured debt;

...

...

- (c) for a *counterparty* exposure to a *person*, or the aggregate exposure arising from the *counterparty* exposures to each member of a group of closely related *persons*, who do not fall into the categories of *counterparty* to whom (a) and (b)

apply:

- (i) 1% for that part of the exposure arising from ~~unsecured debt~~ unsecured debt; this limit is increased to 2.5% in the case of an exposure to a *regulated institution*;

...

...

- (7) In (3)(a)(i) and (3)(c)(i) an unsecured debt is any debt in respect of which the conditions in *INSPRU 2.1.35R* or *INSPRU 2.1.36R* and *INSPRU 2.1.37R* are not satisfied or, if satisfied only in relation to part of the debt, that part of the debt which is not covered by collateral or a guarantee, letter of credit or credit derivative in accordance with those *rules*.

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3.1.45 R Except as provided in *INSPRU 3.1.46R*:

- (1) the risk-adjusted yield assumed for the investment or reinvestment of sterling sums (other than sums expected to be received within the next three years) must not exceed the lowest of:

- (a) the higher of:

- (i) the long-term gilt yield; and

- (ii) the greater of:

- (A) the forward gilts yield; and

- (B) the forward rate on sterling interest rate *swaps*, reduced to exclude that part of the rate that represents compensation for credit risk;

where the forward yields and forward rates corresponding to the time when the sums are expected to be received are weighted so as to reflect the investment and reinvestment characteristics of the liabilities covered;

- (b) 3% per annum, increased by two thirds of the excess, if any, of the ~~long-term gilt yield~~ percentage in (a) over 3% per annum; and

- (c) 6.5% per annum; and

- (2) ...

- 3.1.46 R For the ~~with-profits insurance contracts~~ with-profits insurance contracts of a *realistic basis life firm*, the risk-adjusted yield assumed for the investment or reinvestment of sums denominated in sterling must be no more than ~~rates derived from the forward gilts yield~~ the greater of:
- (1) the forward gilts yield; and
 - (2) the forward rate on sterling interest rate swaps, reduced to exclude that part of the rate that represents compensation for credit risk;
- where the forward yields and forward rates corresponding to the times when the sums are expected to be received are weighted so as to reflect the investment and reinvestment characteristics of the liabilities covered.
- 3.1.47 R The risk-adjusted yield assumed for the investment or reinvestment of ~~non-sterling~~ sums denominated in a currency other than sterling must be at least as prudent as in *INSPRU* 3.1.45R and *INSPRU* 3.1.46R taking into account the yields on government securities denominated in that currency.
- 3.1.47A R For the purpose of *INSPRU* 3.1.47R the yields on the government securities must be reduced to exclude that part of the yield that represents compensation for credit risk unless the following conditions are satisfied in relation to the issuer of those securities:
- (1) a credit rating is available from at least one of the rating agencies listed in *INSPRU* 1.3.93R; and
 - (2) the credit rating description in the first column of Table *INSPRU* 1.3.90R corresponding to the lowest such credit rating is either “exceptional or extremely strong” or “very strong”.

Annex C

Amendments to the Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))

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

Part 1: Comes into force on 31 December 2009

Appendix 2

GENERAL INSURANCE BUSINESS SOLVENCY MARGIN

Part I: the Premiums Basis

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4. ~~Subject to rule 4.6(3), if~~ If the amount arrived at under 3 is more than ~~50~~ 57.5 million Euro, it must be divided into two portions, the former consisting of ~~50~~ 57.5 million Euro and the latter comprising the excess.

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Part II: the Claims Basis

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18. ~~Subject to rule 4.6(3), if~~ If the amount arrived at under 17 is more than ~~35~~ 40.3 million Euro, it must be divided into two portions, the former consisting of ~~35~~ 40.3 million Euro and the latter comprising the excess.

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Appendix 10

Prudential Reporting Forms

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

Period ended 31 December

Reg No	Units £/£000
<input style="width: 50px; height: 20px;" type="text"/>	<input style="width: 50px; height: 20px;" type="text"/>

Name of Fund/Summary			1 Last 12 months of this period	2 Last 12 months of previous period	
Gross premiums receivable	11		<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	
Premium taxes and levies (included in line 11)	12		<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	
Sub-total A (11 – 12)	15		<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	
Division of Sub-total A	Other than health insurance	Up to and including sterling equivalent of 50 57.5M Euro x 18/100	17	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>
		Excess (if any) over 50 57.5M Euro x 16/100	18	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>
	Health insurance	Up to and including sterling equivalent of 50 57.5M Euro x 6/100	19	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>
		Excess (if any) over 50 57.5M Euro x 16/300	20	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>
Sub-total B (17 + 18 + 19 + 20)	21		<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	
Gross premiums earned	22		<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	
Premium taxes and levies (included in line 22)	23		<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	
Sub-total H (22 – 23)	26		<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	
Division of Sub-total H	Other than health insurance	Up to and including sterling equivalent of 50 57.5M Euro x 18/100	28	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>
		Excess (if any) over 50 57.5M Euro x 16/100	29	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>
	Health insurance	Up to and including sterling equivalent of 50 57.5M Euro x 6/100	30	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>
		Excess (if any) over 50 57.5M Euro x 16/300	31	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>
Sub-total I (28 + 29 + 30 + 31)	32		<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	

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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
<input style="width: 80%; height: 20px;" type="text"/>	<input style="width: 80%; height: 20px;" type="text"/>	<input style="width: 80%; height: 20px;" type="text"/>

Name of Fund/Summary

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				
Sub-total F: Conversion of Sub-total E to annual figure (multiply by 12 and divide by the number of months in the reference period)	31				
Division of Sub-total F	Other than health insurance	Up to and including sterling equivalent of 35 40.3M Euro x 26/100 (note 3)	32		
		Excess (if any) over 35 40.3M Euro x 23/100 (note 3)	33		
	Health insurance	Up to and including sterling equivalent of 35 40.3M Euro x 26/300 (note 3)	34		
		Excess (if any) over 35 40.3M Euro x 23/300 (note 3)	35		
Sub-total G (32 to 35)	39				
Second result Sub-total G x Sub-total D / Sub-total C (or, if 0.5 is greater, x 0.5)	41				
Higher of first 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 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.

Part 2: Comes into force on 31 December 2010**Minimum guarantee fund: long-term insurance business**

- 4.5 (1) [deleted]
- (2) For a *non-directive incorporated friendly society*, in the *financial year* during which the *friendly society* first obtains permission under the *Act* 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)	<i>Minimum guarantee fund</i> (in Euro)
1,000,000 or less	100 <u>115,000</u>
1,000,001 – 1,500,000	200 <u>230,000</u>
1,500,001 – 2,000,000	300 <u>350,000</u>
2,000,001 – 2,500,000	400 <u>460,000</u>
2,500,001 – 3,000,000	500 <u>580,000</u>
3,000,001 or more	600 <u>700,000</u>

But where 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~~ 115,000 Euro.

- (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~~ 700,000 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).

Minimum guarantee fund: general insurance business

4.6 (1) [deleted]

(2) For *non-directive incorporated friendly societies*, the *minimum guarantee fund* for *general insurance business* is ~~225~~ 260,000 Euro.

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Annex D

Amendments to the Interim Prudential sourcebook for Insurers (IPRU(INS))

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

Chapter 9

FINANCIAL REPORTING

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PART V

GROUP CAPITAL ADEQUACY

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9.42D (1) An *insurer* must provide the following information from the report prepared in accordance with *SUP* ~~16.7.83R~~ 16.12.33R in respect of the *financial year in question* of the *financial conglomerate* identified at Stage C of the decision tree in rule 9.42C:

...

...

APPENDIX 9.1 (rules 9.12 and 9.13)

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT (FORMS 1 TO 3 AND 10 TO 19)

...

continued

Calculation of general insurance capital requirement– premiums amount and brought forward amount

Form 11

Name of insurer

Global business / UK branch business / EEA branch business

Financial year ended

General/long-term insurance business

R11	Company registration number	GL/UK/CM	day	month	year	units	£000

Gross premiums written	11		
Premium taxes and levies (included in line 11)	12		
Premiums written net of taxes and levies (11-12)	13		
Premiums for classes 11, 12 or 13 (included in line 13)	14		
Premiums for "actuarial health insurance" (included in line 13)	15		
Sub-total A (13 + ½ 14 - ²/₃ 15)	16		
Gross premiums earned	21		
Premium taxes and levies (included in line 21)	22		
Premiums earned net of taxes and levies (21-22)	23		
Premiums for classes 11, 12 or 13 (included in line 23)	24		
Premiums for "actuarial health insurance" (included in line 23)	25		
Sub-total H (23 + ½ 24 - ²/₃ 25)	26		
Sub-total I (higher of sub-total A and sub-total H)	30		
Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure	31		
Division of gross adjusted premiums amount: x 0.18	32		
sub-total I (or adjusted sub-total I if appropriate) Excess (if any) over 53.4 57.5M EURO x 0.02	33		
Sub-total J (32-33)	34		
Claims paid in period of 3 financial years	41		
Claims outstanding carried forward at the end of the 3 year period For insurance business accounted for on an underwriting year basis	42		
Claims outstanding brought forward at the beginning of the 3 year period For insurance business accounted for on an accident year basis	43		
Claims outstanding brought forward at the beginning of the 3 year period For insurance business accounted for on an underwriting year basis	44		
Claims outstanding brought forward at the beginning of the 3 year period For insurance business accounted for on an accident year basis	45		
Sub-total C (41+42+43-44-45)	46		
Amounts recoverable from reinsurers in respect of claims included in Sub-total C	47		
Sub-total D (46-47)	48		
Reinsurance ratio (Sub-total D / sub-total C or, if more, 0.50 or, if less, 1.00)	49		
Premiums amount (Sub-total J x reinsurance ratio)	50		
Provision for claims outstanding (before discounting and net of reinsurance)	51		
Provision for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero.	52		
Brought forward amount (See instruction 4)	53		
Greater of lines 50 and 53	54		

Calculation of general insurance capital requirement– claims amount and result

Form 12

Name of insurer
 Global business / UK branch business / EEA branch business
 Financial year ended
 General/long-term insurance business

		Company registration number	GL/UK/CM	day	month	year	units
R12							£000
				This financial year		Previous year	
				1		2	
Reference period (No. of months) See <i>INSPRU</i> 1.1.63R				11			
Claims paid in reference period				21			
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis			22			
	For insurance business accounted for on an accident year basis			23			
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis			24			
	For insurance business accounted for on an accident year basis			25			
Claims incurred in reference period (21+22+23-24-25)				26			
Claims incurred for classes 11, 12 or 13 (included in 26)				27			
Claims incurred for "actuarial health insurance" (included in 26)				28			
Sub-total E (26 + ½ 27 - ²/₃ 28)				29			
Sub-total F – Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)				31			
Division of sub-total F (gross adjusted claims amount)	x 0.26			32			
	Excess (if any) over 37.2 40.3M EURO x 0.03			33			
Sub-total G (32 - 33)				39			
Claims amount Sub-total G x reinsurance ratio (11.49)				41			
Higher of premiums amount and brought forward amount (11.54)				42			
General insurance capital requirement (higher of lines 41 and 42)				43			