STATUTORY INSTRUMENTS

2000 No. 1231

INSURANCE

The Insurance Companies (Amendment) Regulations 2000

Made - - - - -	*5th May 2000*
Laid before Parliament	*8th May 2000*
Coming into force - -	*29th May 2000*

The Treasury, in exercise of powers conferred by sections 18, 90, 96(1)(**a**) and 97 of the Insurance Companies Act 1982(**b**) and now vested in them(**c**), hereby make the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Insurance Companies (Amendment) Regulations 2000 and shall come into force on 29th May 2000.

Amendment of the 1994 Regulations

2. The Insurance Companies Regulations 1994(**d**) shall be amended as follows:

(a) in regulation 64 (long term liabilities), the following sub-paragraph shall be added at the end of paragraph (3):

"(f) discretionary charges and deductions, in so far as they do not exceed the reasonable expectations of policy holders.";

(b) in regulation 67 (valuation of future premiums)—

(i) in paragraph (1), after "under which" there shall be inserted:

"the policy holder is eligible to participate in any established surplus and";

(ii) in paragraph (2), for the words "it shall be assumed that" to the end there shall be substituted:

"one of the following assumptions shall be made, namely that—

(a) the change from the time it occurred was provided for in the contract when it was made; or

(b) the terms of the contract are those which apply from the date of the change except that a single premium is payable, at the date of the change, of an amount equal to the liability under the policy immediately before the change, calculated on a basis consistent with this Part and with the premiums actually payable from the date of the change; or

(c) the contract is in two parts, the first of which is for the benefits purchased by the actual premiums payable from the date of the

(**a**) *See* the definition of "prescribed".
(**b**) 1982 c. 50. Section 18 was amended by article 3(1)(a) and (2)(a) of S.I. 1996/2102.
(**c**) S.I. 1997/2781.
(**d**) S.I. 1994/1516. Relevant amending instruments are S.I.s 1995/3248, 1996/942 and 1996/944.

change under the company's scales of premiums at that date, and the second of which is for all other benefits under the policy for which no premiums are payable after that date.";

(iii) in paragraph (3), after "long term contract)" there shall be inserted:

"the policy holder is eligible to participate in any established surplus, and"; and

(iv) after paragraph (4), the following paragraph shall be added:

"(5) In this regulation, "established surplus" has the same meaning as in section 30(4) of the Act.";

(c) in regulation 69 (rates of interest), in paragraph 9(a)—

(i) in paragraph (ii), for "6" in both places where it occurs, there shall be substituted "3", and for "one quarter" there shall be substituted "two thirds";

(ii) in paragraph (iii), for "7.5" there shall be substituted "6.5"; and

(iii) the words "medium coupon" shall be omitted;

(d) the following paragraphs shall be added at the end of regulation 72 (options):

"(3) Where a contract includes an option whereby the policy holder could secure a cash payment, but paragraph (2) above does not apply, the provision for that option shall at all times be such as to ensure that, if the assumptions adopted for the valuation of the contract are fulfilled in practice—

(a) the resulting value (and therefore the provision) is not less than the amount required to provide for the payment which would have to be made if the option were exercised; and

(b) the payment when it falls due is covered from resources arising solely from the contract and from the assets covering the amount of the liability determined at the current valuation.

(4) For the purposes of paragraph (3) above, the amount of a cash payment secured by the exercise of an option shall be assumed to be—

(a) in the case of an accumulating with-profits policy, the lower of—

(i) the amount which would reasonably be expected to be paid if the option were exercised, having regard to the representations of the company; and

(ii) that amount, disregarding all discretionary adjustments; and

(b) in the case of any other policy to which this regulation applies, the amount which would reasonably be expected to be paid if the option were exercised, having regard to the representations of the company, without taking into account any expectations regarding future distributions of profits or the granting of discretionary additions in respect of an established surplus or in anticipation thereof.

(5) In this regulation—

(a) "accumulating with-profits policy" means a with-profits policy which has a readily identifiable current benefit, whether or not this benefit is currently realisable, which is adjusted by an amount explicitly related to the amount of any premium payment and to which additional benefits are added in respect of participation in profits by additions directly related to the current benefit, or a policy which has similar characteristics;

(b) "established surplus" has the same meaning as in section 30(4) of the Act; and

(c) "with-profits policy" has the same meaning as in the Insurance Companies (Accounts and Statements) Regulations 1996(**a**).".

Consequential amendment of the 1996 Regulations

3. In Schedule 4 to the Insurance Companies (Accounts and Statements) Regulations 1996 (abstract of valuation report prepared by the appointed actuary), under the heading "Instructions for completion of Forms 51, 52, 53 and 54", the following paragraph shall be added after paragraph 14:

(**a**) S.I. 1996/943, amended by S.I. 1997/2911.

"14A. Where a net premium method of valuation is not used for contracts reported on Form 51 then, notwithstanding paragraph 14—

(a) columns 7 and 8 shall be left blank;

(b) if the method used does not separately identify suitable values to be entered in columns 9 and 10, the total mathematical reserve shall be entered in columns 9 and 12, and columns 10 and 11 shall be left blank; and

(c) if the method used does separately identify suitable values to be entered in columns 9 and 10, then the entry in column 11 shall be the amount entered in column 10 less the amount reserved for future expenses, so that the amount in column 12 equals the amount in column 9 less the amount in column 11.".

Jim Dowd
Clive Betts
Two of the Lords Commissioners
of Her Majesty's Treasury

5th May 2000

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend Part IX of the Insurance Companies Regulations 1994 ("the 1994 Regulations"), which is concerned with the determination of an insurance company's liabilities, this being relevant to the margin of solvency required to be maintained by an insurance company in accordance with section 32(1) of the Insurance Companies Act 1982.

Regulation 3 amends the 1994 Regulations. Paragraph (1) makes a clarificatory amendment to regulation 64(3). Paragraph (2) makes changes to regulation 67, to permit the use of a gross premium method of valuation where the insured is not eligible to participate in surplus, and to offer alternative methods of valuing premiums where the terms of an insurance contract are changed. Paragraph (3) amends regulation 69(9), with respect to assumptions to be made about the yields of assets, and adjusts a reference to take account of changes to the compilation of the indices referred to. Paragraph (4) amends regulation 72 so as to reflect the change made by paragraph (1) to regulation 64.

Regulation 4 makes a consequential amendment to Schedule 4 to the Insurance Companies (Accounts and Statements) Regulations 1996 (abstract of valuation report prepared by the appointed actuary).

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