

SCHEDULE 3

Rule 7(3)

Rules for valuing life policies and deferred annuity policies which are linked policies

1.—(1) Subject to sub-paragraph (2) the value of the policy shall be the aggregate of the value of the linked liabilities (calculated in accordance with paragraphs 2 or 4) and the value of other than linked liabilities (calculated in accordance with paragraph 5) except where that aggregate is a negative amount in which case the policy shall have no value.

(2) Where the terms of the policy include a right whereby the policy holder can secure a guaranteed cash payment within the period of 12 months beginning with the liquidation date then, if the amount which in the opinion of the liquidator is necessary to be provided at that date to cover any liabilities which will accrue when that option is exercised (on the assumption that it will be exercised) is greater than the value determined under sub-paragraph (1), the value of the policy shall be that greater amount.

2.—(1) Where the linked liabilities are expressed in terms of units the value of those liabilities shall, subject to paragraph 3, be the amount arrived at by taking the product of the number of units of each class of units allocated to the policy on the liquidation date and the value of each such unit on that date and then adding those products.

(2) For the purposes of sub-paragraph (1)—

- (a) where under the terms of the policy the value of a unit at any time falls to be determined by reference to the value at that time of the assets of a particular fund maintained by the company in relation to that and other policies, the value of a unit on the liquidation date shall be determined by reference to the net realisable value of the assets credited to that fund on that date (after taking account of disposal costs, any tax liabilities resulting from the disposal of assets insofar as they have not already been provided for by the company and any other amounts which under the terms of those policies are chargeable to the fund), and
- (b) in any other case, the value of a unit on the liquidation date shall be the value which would have been ascribed to each unit credited to the policy holder, after any deductions which may be made under the terms of the policy, for the purpose of determining the benefits payable under the policy on the liquidation date had the policy matured on that date.

3.—(1) This paragraph applies where—

- (a) paragraph 2(2)(a) applies and the company has a right under the terms of the policy either to make periodic withdrawals from the fund referred to in that paragraph or to retain any part of the income accruing in respect of the assets of that fund,
- (b) paragraph 2(2)(b) applies and the company has a right under the terms of the policy to receive the whole or any part of any distributions made in respect of the units referred to in that paragraph, or
- (c) paragraph 2(2)(a) or paragraph 2(2)(b) applies and the company has a right under the terms of the policy to make periodic cancellations of a proportion of the number of units credited to the policy.

(2) Where this paragraph applies, the value of the linked liabilities calculated in accordance with paragraph 2(1), shall be reduced by an amount calculated in accordance with sub-paragraph (3).

(3) The amount referred to in sub-paragraph (2) is—

- (a) where this paragraph applies by virtue of head (a) or (b) of sub-paragraph (1), the value as at the liquidation date, calculated on actuarial principles, of the future income of the

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- company in respect of the units in question arising from the rights referred to in head (a) or (b) of sub-paragraph (1) as the case may be, or
- (b) where this paragraph applies by virtue of head (c) of sub-paragraph (1), the value as at the liquidation date, calculated on actuarial principles, of the liabilities of the company in respect of the units which fall to be cancelled in the future under the right referred to in head (c) of sub-paragraph (1).
- (4) In calculating any amount in accordance with sub-paragraph (3) there shall be disregarded—
- (a) such part of the rights referred to in the relevant head of sub-paragraph (1) which in the opinion of the liquidator constitutes appropriate provision for future expenses and mortality risks, and
 - (b) such part of those rights (if any) which the High Court considers to constitute appropriate provision for any right or expectation of the policy holder to receive benefits additional to the benefits guaranteed under the terms of the policy.
- (5) In determining the amount referred to in sub-paragraph (2)—
- (a) interest shall be assumed at such rate or rates as the High Court may direct, and
 - (b) where relevant, the rates of mortality and the rates of disability to be employed shall be such rates as the Court considers appropriate after taking into account:
 - (i) relevant published tables of rates of mortality and rates of disability, and
 - (ii) the rates of mortality and the rates of disability experienced in connection with similar policies issued by the company.
4. Where the linked liabilities are not expressed in terms of units the value of those liabilities shall be the value (subject to adjustment for any amounts which would have been deducted for taxation) which would have been ascribed to those liabilities had the policy matured on the liquidation date.
- 5.—(1) The value of any liabilities other than linked liabilities including reserves for future expenses, options and guarantees shall be determined on actuarial principles and appropriate assumptions in regard to all relevant factors including the assumption of such rate or rates of interest, mortality and disability as the High Court may direct.
- (2) In valuing liabilities under this paragraph credit shall be taken for those parts of future premiums which do not fall to be applied in the allocation of further units to the policy and for any rights of the company which have been disregarded under paragraph 3(4)(a) in valuing the linked liabilities.