

STATUTORY INSTRUMENTS

1981 No. 1655

INSURANCE

The Lloyd's (Financial Resources) Regulations 1981

Made - - - - - 19th November 1981
Laid before Parliament 1st December 1981
Coming into Operation 1st January 1982

The Secretary of State, in exercise of his powers under section 31(1) of the Insurance Companies Act 1981(a) and section 86 of the Insurance Companies Act 1974(b), hereby makes the following Regulations:—

1. These Regulations may be cited as the Lloyd's (Financial Resources) Regulations 1981 and shall come into operation on 1st January 1982.

2. In the application to the members of Lloyd's taken together of sections 26A, 26B and 26D of the Insurance Companies Act 1974 and of regulations made for the purposes of those sections—

- (a) no valuation regulations shall be applicable, and
- (b) all insurance business carried on by members of Lloyd's shall be regarded as carried on in the United Kingdom unless it is included in a return to a supervisory authority in another country.

3. In arriving at the margin of solvency to be maintained pursuant to sections 26A and 26B of the Insurance Companies Act 1974 by the members of Lloyd's taken together—

- (a) account shall be taken of the assets and liabilities of Lloyd's in addition to the assets and liabilities of the members of Lloyd's taken together, and
- (b) Schedules 1 and 2 to the Insurance Companies Regulations 1981(c) shall be modified in the manner set out in the Schedule to these Regulations.

Reginald Eyre,
Parliamentary Under-Secretary of State,
Department of Trade.

19th November 1981.

(a) 1981 c. 31. (b) 1974 c. 49; section 86 was amended by the Insurance Companies Act 1981 (c. 31), section 33(2); sections 26A, 26B and 26D were inserted by the Insurance Companies Act 1981, section 21. (c) S.I. 1981/1654.

SCHEDULE

MODIFICATIONS OF SCHEDULES 1 AND 2 TO THE INSURANCE COMPANIES
REGULATIONS 1981

1. For the definition of "gross premiums" in paragraph 1 of Schedule 1 to the Insurance Companies Regulations 1981 there shall be substituted the following definition—

" 'net premiums'—

- (a) means premiums after deduction of discounts, refunds and rebates of premium, and
- (b) includes premiums receivable under reinsurance contracts accepted (there being no deduction of premiums for reinsurance ceded);".

2. For paragraph 2 of the said Schedule 1 there shall be substituted the following paragraph—

"2. The net premiums receivable by members of Lloyd's for the last preceding financial year in respect of general business shall be aggregated; and the resulting figure shall be multiplied by a flat-rate percentage determined for that year by the Secretary of State in the light of the most recent statistical data on commissions paid."

3. For the word "aggregate" in paragraph 3 of the said Schedule 1 there shall be substituted the word "amount".

4. Paragraphs 7 to 9 of the said Schedule 1 shall not apply; and in paragraph 15 of the said Schedule 1 the references to paragraph 7 of that Schedule shall be disregarded.

5. Paragraphs 7 to 9 of Schedule 2 to the Insurance Companies Regulations 1981 shall not apply; and in paragraph 10 of the said Schedule 2 the references to paragraph 7 of that Schedule shall be disregarded.

EXPLANATORY NOTE

(This Note is not part of the Regulations.)

Section 31(1) of the Insurance Companies Act 1981 provides that section 26A (margins of solvency), section 26B (failure to maintain minimum margin) and section 26D (form and situation of assets) of the Insurance Companies Act 1974 will apply to Lloyd's subject to any modifications which may be prescribed by regulations and to any determination made by the Secretary of State in accordance with such regulations. These Regulations prescribe modifications in respect of sections 26A, 26B and 26D and (by virtue of paragraph 2 of the Schedule) require the Secretary of State to determine the flat-rate percentage which is to be used as part of the modified process of calculating the margin of solvency for Lloyd's.

The modifications will also affect those provisions of the Insurance Companies Regulations 1981 that are made for the purposes of sections 26A, 26B and 26D. The main provisions affected are regulations 4 to 9 (with their dependent Schedules 1 to 3) and regulations 25 to 27.

The modifications are that regulations 10 to 13 and Parts V and VI of the Insurance Companies Regulations 1981 (which are valuation regulations made under section 78 of the Insurance Companies Act 1974) will not apply, all business will be treated as business carried on in the United Kingdom unless it is included in a return to a foreign supervisor, account will be taken for solvency purposes of the assets and liabilities of Lloyd's and of the members taken together and in the first method for calculating the general business solvency margin (which is set out in Schedule 1 to the Insurance Companies Regulations 1981) gross premiums will be replaced by net premiums.

The determination of the flat-rate percentage by the Secretary of State and the substitution of net premiums for gross premiums implement provisions relating to Lloyd's that are contained in Article 16(5) of Council Directive No. 73/239/EEC (O.J. No. L228, 16.8.73, p.3) on the taking up and pursuit of the business of direct insurance other than life assurance and Article 19(b) of the Council Directive No. 79/267/EEC (O.J. No. L63, 13.3.79, p.1) on the taking up and pursuit of the business of direct life assurance.

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