
STATUTORY INSTRUMENTS

1987 No. 2132

The Friendly Societies (Long Term Insurance Business) Regulations 1987

PART I

PRELIMINARY

Citation and commencement

1. These Regulations may be cited as the Friendly Societies (Long Term Insurance Business) Regulations 1987, and shall come into force on 1st January 1988.

Interpretation—general

2.—(1) In these Regulations, unless the context otherwise requires—

“the 1923 Act” means the Industrial Assurance Act 1923⁽¹⁾;

“the 1974 Act” means the Friendly Societies Act 1974⁽²⁾;

“annual contribution income” means the income of a society from long term business in any year of account without any deduction for reinsurance cessions;

“authorised society” means a society authorised to carry on insurance business under Regulation 5 or 6 below;

“the Central Office” means the Central Office of the Registry of Friendly Societies;

“the Chief Registrar” means the Chief Registrar of Friendly Societies;

“collecting society” has the meaning given in section 1(1A) (Industrial assurance business) of the 1923 Act;

“deposit back arrangement”, in relation to any contract of reinsurance, means an arrangement whereby an amount is deposited by the reinsurer with the cedant;

“direct insurance business” means insurance business that is not reinsurance;

“the guarantee fund” has the meaning given in Regulation 19 below;

“the Industrial Assurance Commissioner” has the meaning given in section 2 (Industrial Assurance Commissioner) of the 1923 Act;

“mathematical reserves” means the provision made by a society to cover liabilities (excluding liabilities which have fallen due and liabilities arising from deposit back arrangements) arising under or in connection with contracts for long term business;

“the minimum guarantee fund” has the meaning given in Regulation 19 below;

“premium” includes a contribution in respect of an insurance benefit and the consideration for the granting of an annuity;

(1) 1923 c. 8.

(2) 1974 c. 46.

“public file” means the file of documents open to inspection by members of the public which is kept in respect of a society by the Central Office or the Assistant Registrar for Scotland;

“Schedule” means Schedule to these Regulations;

“society” means a society which is a friendly society within the meaning of section 7(1)(a) (Societies which may be registered) of the 1974 Act and is registered within the meaning given in section 111(1) (Interpretation) thereof and in the case of a society with branches means the central body and the branches of the society;

“year of account” has the meaning given in section 111(4) of the 1974 Act.

(2) In these Regulations, unless the context otherwise requires—

- (a) “long term business” means direct insurance business of any of the classes specified in Part I of Schedule 1, and supplementary business, and “class” means a class specified in Part I of Schedule 1;
- (b) “supplementary business” means the effecting and carrying out, by a society authorised to carry on long term business of class I, of that part of a contract whose principal object is within any class of long term business, which contains related and subsidiary provisions for insurance business of one or both of the classes specified in Part II of Schedule 1, and supplementary business shall be taken to constitute the carrying on of long term business;
- (c) “ordinary long term business” means long term business other than industrial assurance business;
- (d) “industrial assurance business” has the meaning given in section 1(2) of the 1923 Act.

(3) For the purposes of these Regulations—

- (a) a unit of account is the unit of account known as the ECU and defined in Council Regulation (EEC) No. 3180/78(3) (which changed the value of the unit of account used by the European Monetary Co-operation Fund), and
- (b) the rate of conversion from the ECU to pounds sterling shall as from 31st December of each year be the rate published in the Official Journal of the Communities on the last day of the preceding October for which ECU conversion rates were so published for the currencies of all states that were then Member States.

Application

3. These Regulations shall apply to every society which carries on long term business in the United Kingdom, other than—

- (a) a society whose business is limited to the provision of benefits varying according to the resources available to meet them, each member being required to contribute at an appropriate flat rate; or
- (b) a society whose business is limited to the provision of benefits in the event of death, where the benefit is money paid for the funeral costs for a single death or where the benefits are provided in kind; or
- (c) a society—
 - (i) whose rules contain provisions for calling up additional contributions or reducing its benefits or claiming assistance from other persons who have undertaken to provide it, and
 - (ii) whose annual contribution income (calculated for each year on the basis of the rate of conversion applicable on 31st December in that year by virtue of paragraph 2(3))

(b) above) does not exceed 500,000 units of account for the three consecutive years of account ending on 31st December 1987;
provided that, if the annual contribution income of such a society (calculated in accordance with subparagraph (ii) above) exceeds 500,000 units of account for three consecutive years of account ending on a date subsequent to 31st December 1987, these Regulations shall apply to that society with effect from the first day of the fourth year of account.

PART II

AUTHORISATION

Restrictions on carrying on business

4.—(1) Subject to regulation 5(5) below, no society to which these Regulations apply shall carry on in the United Kingdom any long term business otherwise than pursuant to and in accordance with an authorisation issued by the Chief Registrar under Regulation 5 or 6 below.

(2) Subject to paragraph (3) below, a society authorised pursuant to these Regulations shall not carry on any commercial activities otherwise than in connection with or for the purposes of its long term business.

(3) If such a society was, on 15th March 1979, carrying on—

- (a) insurance business of one or both of the classes specified in Part II of Schedule 1, otherwise than as supplementary business, or
- (b) savings operations,

it may continue to carry on such activities, provided that it manages them in accordance with paragraph (4) below.

(4) The assets representing the fund or funds maintained by the society in respect of its long term business shall be applicable only for the purposes of that business, and shall not be transferred so as to be available for other activities of the society except where the transfer is for the purpose of the insurance business referred to in paragraph 3(a) above and is—

- (a) by way of reimbursement of expenditure borne by other assets in respect of long term business, or
- (b) limited to assets representing the excess of the society's long term business fund or funds over its liabilities attributable to such business.

Authorisation of existing societies

5.—(1) This regulation applies in the case of an existing society, that is to say—

- (a) a society which was carrying on long term business at the date of coming into force of these Regulations and is not exempt from the application of these Regulations at that date by virtue of the provisions of regulation 3 above; or
- (b) a society which—
 - (i) carries on long term business whether commenced before or after the date of coming into force of these Regulations; and
 - (ii) has been exempt from the application of these Regulations by virtue of regulation 3(c)(ii); and
 - (iii) ceases to be so exempt by virtue of the proviso to regulation 3(c)(ii).

(2) Where the annual contribution income of an existing society exceeds 500,000 units of account for three consecutive years of account beginning on or after 1st January 1985, the secretary of the society shall submit to the Chief Registrar a statement to the effect that the society's annual contribution income for each of the said three consecutive years of account exceeded that amount and a statement of the class or classes of long term business which it was carrying on during those years.

(3) The statements referred to in paragraph (2) above shall be certified by the auditor of the society to be true statements and submitted to the Chief Registrar not later than 30th June in the year immediately following the three consecutive years of account referred to in paragraph (2) above; provided that the Chief Registrar may allow a longer period in any case in which he is satisfied that it is right in the circumstances of the society to do so.

(4) Within two months of receipt of the statements referred to in paragraph (2) above, the Chief Registrar shall, if he is satisfied as to the accuracy of those statements, authorise the society to carry on the class or classes of long term business which it was carrying on during the three consecutive years of account mentioned in that paragraph, and cause a certificate of authorisation in respect of the said class or classes to be placed on the public file of the society, and a copy of that certificate to be sent to the secretary of the society.

(5) Regulation 4(1) shall not be taken to prohibit an existing society (other than one which has failed to comply with the requirements to paragraphs (2) and (3) above) from carrying on long term business in the United Kingdom during the period ending on the date on which authorisation under paragraph (4) above (or, as the case may be, refusal to issue that authorisation) takes effect.

Authorisation of new societies

6.—(1) This regulation applies in the case of a new society, that is to say—

- (a) a society registered after the date of coming into force of these Regulations which—
 - (i) includes among its purposes the carrying on of long term business, and
 - (ii) is not, at the date of its registration, exempt from the application of these Regulations by virtue of the provisions of regulation 3 above; or
- (b) a society, previously authorised under these Regulations, whose previous authorisation has been withdrawn pursuant to the provisions of regulation 32 below.

(2) Subject to the provisions of paragraphs (3) and (4) below, the Chief Registrar may authorise a new society to carry on in the United Kingdom such long term business as may be specified in the authorisation.

(3) The Chief Registrar shall not grant an authorisation pursuant to this regulation unless the applicant society submits to him the information, including a scheme of operations, particulars of which are set out in Schedule 2, and he is satisfied on the basis of that information and any other information received by him that the application ought to be granted.

(4) Without prejudice to the generality of paragraph (3) above, the applicant society shall demonstrate to the satisfaction of the Chief Registrar that it possesses the minimum guarantee fund.

(5) Where the Chief Registrar grants an authorisation pursuant to this regulation, he shall cause a certificate of authorisation, specifying the class or classes authorised, to be placed on the public file of the society, and a copy of that certificate to be sent to the secretary of the society.

Time for decision on application under regulation 6

7.—(1) Subject to paragraph (2) of this regulation, the Chief Registrar shall decide an application for authorisation under regulation 6 above within six months of receiving the information particulars of which are set out in Schedule 2.

(2) If required to do so by notice in writing by the Chief Registrar, given within six months of receipt of an application, a society seeking authorisation shall furnish to the Chief Registrar such additional information as he may require in order to reach a decision, and in such a case the period of six months referred to in paragraph (1) above shall run from the date of receipt of the additional information.

Scope of authorisation

8.—(1) An authorisation issued by the Chief Registrar under regulation 6 above shall specify the class or classes of insurance business which may be carried on.

(2) An authorisation issued under regulation 5 or 6 above shall cover the whole of a class so specified unless either—

- (a) the society wishes to cover only part of the risks pertaining to the class, or
- (b) the Chief Registrar restricts the authorisation requested for a class to the operations set out in the scheme of operations required under Schedule 2.

(3) A society may not carry on industrial assurance business by virtue of an authorisation under regulation 5 or 6 above unless the authorisation expressly extends to it; and an authorisation to carry on Class I long term business may be restricted to Class I business other than industrial assurance business or to industrial assurance business alone.

(4) An authorisation under regulation 5 or 6 shall be valid for the whole of the United Kingdom unless the society seeks authorisation to carry on business only in a specified part thereof, and the authorisation is limited accordingly.

(5) An authorisation under regulation 5 or 6 shall not be construed so as to extend the description of societies which may be registered under section 7(1)(a) of the 1974 Act or to extend the purposes for which such societies may provide.

Extension of authorisation

9.—(1) A society authorised under regulation 5 or 6 above may seek an extension of its authorisation to another class of business or another part of the United Kingdom by submitting to the Chief Registrar the information specified in Schedule 2 which is relevant to the extension sought, and by demonstrating that it possesses the minimum guarantee fund in accordance with regulation 20(4) below.

(2) If, on the basis of the information submitted to him pursuant to paragraph (1) above and any other information received by him, the Chief Registrar is satisfied that the extension sought ought to be granted, he shall cause a certificate of authorisation in respect of the class or classes of long term business which may be carried on pursuant to both the society's original authorisation and the extension to be placed on the public file of the society and a copy of it to be sent to the secretary of the society.

(3) The provisions of regulation 7 above shall apply in relation to an application for an extension under this regulation in the same way as they apply in relation to an application for authorisation under regulation 6.

Refusal of authorisation

10. Where the Chief Registrar refuses to issue an authorisation for which an application has been made under regulation 5, 6 or 9 above, he shall inform the applicant society in writing of the reasons for his refusal.

PART III

REGULATION OF AUTHORISED SOCIETIES

Solvency Provisions

Annual actuarial investigation

11.—(1) Every authorised society shall, once in every period of twelve months, cause an investigation to be made into its financial condition in respect of its long term insurance business by a qualified actuary appointed by the society.

(2) Where a society has branches, the investigation shall be made into the financial condition of the branches together with the central body.

(3) The actuary's investigation shall include—

- (a) a valuation of the liabilities of the society attributable to its long term business, and
- (b) a determination of any excess over those liabilities of the assets representing the fund or funds maintained by the society in respect of that business, and, where any rights of any long term policy holders to participate in a surplus relate to any particular parts of such a fund, a determination of any excess of assets over liabilities in respect of each of those parts.

(4) For the purposes of the determination required by paragraph (3)(b) above, the value of any assets shall be determined in accordance with Part VI, and the amount of any liabilities shall be determined in accordance with Part VII, of these Regulations.

(5) When such an actuarial investigation has been made a valuation report shall be made to the Chief Registrar, in such form and containing such particulars as the Chief Registrar may prescribe in the exercise of his powers under the 1974 Act as extended by regulation 60 below.

(6) Three copies of the valuation report required by paragraph (5) above shall be sent to the Chief Registrar within six months after the close of the period to which the report relates; but if in any case it is made to appear to the Chief Registrar that the circumstances are such that a longer period than six months should be allowed, the Chief Registrar may extend that period by such period not exceeding three months as he thinks fit.

(7) The provisions of paragraph (6) above (as to the number of copies to be sent to the Chief Registrar, the period allowed for that purpose, and the power of the Chief Registrar to extend that period) shall, notwithstanding the provisions of section 43(1) (Annual return) of the 1974 Act, also apply in relation to the annual returns required from societies by that provision.

Required margin of solvency

12.—(1) The margin of solvency of a society is the excess of the value of its assets over the amount of its liabilities determined in accordance with Part VI and Part VII of these Regulations.

(2) Every authorised society shall maintain a margin of solvency (hereinafter referred to as “the required margin of solvency”) which shall be determined in accordance with the provisions of regulations 13 to 17 below.

Long term classes I and II

13.—(1) For long term business of class I or II the required margin of solvency shall be determined by taking the aggregate of the results arrived at by applying the calculation described in paragraph (2) below (“the first calculation”) and the calculation described in paragraphs (3), (4) and (5) below (“the second calculation”).

- (2) For the first calculation—
- (a) there shall be taken a sum equal to 4 per cent of the mathematical reserves without any deduction for reinsurance cessions;
 - (b) the amount of the mathematical reserves at the end of the last preceding year of account after the deduction of reinsurance cessions shall be expressed as a percentage of the amount of those mathematical reserves before any such deduction; and
 - (c) the sum mentioned in sub-paragraph (a) above shall be multiplied—
 - (i) where the percentage arrived at under sub-paragraph (b) above is greater than 85 per cent, by that greater percentage, and
 - (ii) in any other case, by 85 per cent.
- (3) For the second calculation—
- (a) there shall be taken, subject to paragraphs (4) and (5) below, a sum equal to 0.3 per cent of the capital at risk for contracts on which the capital at risk is not a negative figure;
 - (b) the amount of the capital at risk at the end of the last preceding year of account for contracts on which the capital at risk is not a negative figure, after the deduction of reinsurance cessions, shall be expressed as a percentage of the amount of that capital at risk before any such deduction; and
 - (c) the sum arrived at under sub-paragraph (a) above shall be multiplied—
 - (i) where the percentage arrived at under sub-paragraph (b) above is greater than 50 per cent, by that greater percentage, and
 - (ii) in any other case, by 50 per cent.
- (4) Where a contract provides for benefits payable only on death within a specified period and is valid for a period of not more than three years from the date when the contract was first made, the percentage to be taken for the purposes of paragraph (3)(a) above shall be 0.1 per cent; and where the period of validity from that date is more than three years but not more than five years, the percentage to be so taken shall be 0.15 per cent.
- (5) For the purposes of paragraph (4) above, the period of validity of the contract evidencing a group policy is the period from the date when the premium rates under the contract were last reviewed for which the premium rates are guaranteed.
- (6) For the purposes of the second calculation, the capital at risk is—
- (a) in any case in which an amount is payable in consequence of death other than a case falling within sub-paragraph (b) below, the amount payable on death, and
 - (b) in any case in which the benefit under the contract in question consists of the making, in consequence of death, of the payment of an annuity, payment of a sum by instalments or any other kind of periodic payments, the present value of that benefit,
- less in either case the mathematical reserves in respect of the relevant contracts.
- (7) When the amount of the mathematical reserves referred to in paragraph (2)(a) above, or the amount of the capital at risk referred to in paragraph (3)(a) above, is to be calculated for the purposes of determining the required margin of solvency, the day as on which that amount is calculated shall be the same as that on which the margin of solvency is determined; and the mathematical reserves referred to in paragraph (6) above shall also be calculated as on that day when the capital at risk in question is that referred to in paragraph (3)(a) above, but shall be calculated as at the end of the last preceding year of account when the capital at risk in question is that referred to in paragraph (3) (b) above.

Long term classes III and VII

14.—(1) For long term business of class III or VII the required margin of solvency shall be determined in accordance with paragraphs (2) to (5) below.

(2) In so far as a society bears an investment risk, the first calculation shall be applied.

(3) In so far as—

- (a) a society bears no investment risk, and
- (b) the total expired and unexpired term of the relevant contract exceeds five years, and
- (c) 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 shall be applied, but as if regulation 13(2)(a) above contained a reference to 1 per cent instead of 4 per cent.

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

(5) Where a society covers a death risk, a sum arrived at by applying the second calculation disregarding regulation 13(4) and (5) shall be added to any required margin of solvency, including a required margin of solvency of zero, arrived at under paragraph (2), (3) or (4) above.

Long term classes IV and VI

15. For long term business of class IV or VI the required margin of solvency shall be determined by applying the first calculation.

Long term class V

16. For long term business of class V the required margin of solvency shall be equal to 1 per cent of the assets of the relevant tontine.

Supplementary business

17. For a contract which contains supplementary business, the required margin of solvency shall be determined by taking the aggregate of the results arrived at—

- (a) in the case of so much of the contract as is within a class of long term business, by applying the appropriate method prescribed for that class in regulation 13, 14, 15 or 16 above, and
- (b) in the case of so much of the contract as is supplementary business, by applying the method of calculation set out in Schedule 3.

Aggregation where more than one margin of solvency

18. Where the nature of the society's long term business is such that more than one margin of solvency is produced in respect of that business by the operation of this Part of these Regulations, the margins in question shall be aggregated as regards the society in order to arrive at its required margin of solvency for long term business.

Guarantee fund and minimum guarantee fund

19.—(1) Subject to paragraphs (2) and (3) below, one-third of a required margin of solvency (being, in the case of long term business, the required margin of solvency determined in accordance with the provisions of regulations 13 to 17 above and arrived at, where applicable, in accordance with regulation 18 above) shall constitute the amount (“the guarantee fund”) prescribed for the purposes of regulation 31 below.

(2) The guarantee fund shall not be less than an amount (“the minimum guarantee fund”) arrived at in accordance with regulation 20 below.

(3) Items that are not implicit items within the meaning of regulation 21(3) below must be at least large enough to cover either the minimum guarantee fund or 50 per cent of the guarantee fund, whichever is the greater.

Minimum guarantee fund

20.—(1) In the year of account during which it is first authorised, a society shall maintain a minimum guarantee fund consisting of the amount in column 2 of the table below, which corresponds to its annual contribution income in the last preceding year of account, as shown in column 1 of the table.

Contribution Income (in units of account)	Minimum Guarantee Fund (in units of account)
500,001—1,000,000	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—3,500,000	600,000

(2) Where the amount of the minimum guarantee fund determined under paragraph (1) above is below the full minimum guarantee fund of 600,000 units of account, that amount shall be increased by a tranche of 100,000 units of account in the year following any year of account during which the society’s contribution income has increased by 500,000 units of account until the full minimum guarantee fund has been reached.

(3) Where the amount of a society’s minimum guarantee fund has been increased in accordance with paragraph (2) above, the increased amount shall be maintained thereafter, notwithstanding any later fall in the society’s annual contribution income.

(4) Where a society seeks to be authorised to carry on long term business of a kind additional to that which it is already authorised to carry on, it shall, if it obtains authorisation for the additional business, maintain the full minimum guarantee fund of 600,000 units of account for the whole of its business (that is to say, not only for the additional business carried on but also for the business previously carried on).

Valuation of solvency margins

21.—(1) Where a society has assets equal to or in excess of its liabilities, paragraphs (2) and (3) below shall have effect for determining the extent to which the value of the assets exceeds the amount of liabilities in connection with the required margin of solvency, the guarantee fund and the minimum guarantee fund.

(2) The required margin of solvency shall consist of the assets of the society, including in particular—

- (a) free reserves not corresponding to underwriting liabilities, and
- (b) any carry forward of surplus,

less any intangible items.

(3) The items mentioned in regulations 22 to 24 below (which relate to future surpluses, zillmerising and hidden reserves and shall be known as "implicit items") shall have no value, except with the consent of the Chief Registrar given upon the application of a society. Where the Chief Registrar so consents, any of the implicit items may be valued in accordance with the terms of his consent and the provisions of the said regulations 22 to 24.

Implicit items: future surpluses

22.—(1) The implicit item relating to future surpluses may be valued at not more than 50 per cent of the full amount of future surpluses.

(2) For the purposes of paragraph (1) above, the full amount of future surpluses shall be obtained by multiplying the estimated annual surplus by a factor which shall as nearly as may be represent the average number of years remaining to run on policies, but shall, if it exceeds 10, be reduced to 10.

(3) For the purposes of paragraph (2) above—

- (a) the estimated annual surplus shall be taken to be one-fifth of the surplus made in long term business over a period of five years ("the relevant period") ending on the last day of the most recent year of account during which a valuation for the purposes of regulation 11 has been carried out, substantial items of an exceptional nature being excluded, and
- (b) the average number of years remaining to run on policies shall be calculated—
 - (i) by multiplying the number of years to run on each policy by the actuarial value of the benefits payable under the policy, adding together the products so obtained and dividing the total by the aggregate of the actuarial values of the benefits payable under all the policies, or
 - (ii) by an approximation to this method of calculation suitable to the circumstances of the case, including, where appropriate, an approximation involving the grouping of contracts,

appropriate allowance being made in either case for premature termination of contracts.

Implicit items: zillmerising

23.—(1) Where zillmerising (as defined in paragraph (7) below) is appropriate but either is not practised or is at a rate less than the loading for acquisition costs included in the premium, then, subject to paragraph (6) below, the implicit item relating to zillmerising may be valued at an amount not exceeding the difference between—

- (a) the non-zillmerised or partially zillmerised figure for mathematical reserves maintained by the society concerned, and
- (b) a figure for mathematical reserves (not less than those required by Part VII of these Regulations) zillmerised at a rate equal to the loading for acquisition costs included or allowed for in the premium.

(2) Where zillmerising is not practised, then, subject to paragraph (6) below, the value given by paragraph (1) above (less any amount relating to temporary assurances) shall not exceed 3.5 per cent of the aggregate of the difference between—

- (a) the relevant capital sums for long term business activities, and
- (b) the mathematical reserves (excluding mathematical reserves for temporary assurances).

(3) Where zillmerising is practised but is at a rate less than the loading for acquisition costs, then, subject to paragraph (6) below, the value given by paragraph (1) above (less any amount relating to temporary assurances) together with the difference between the partially zillmerised mathematical reserves and the non-zillmerised mathematical reserves shall not exceed 3.5 per cent of the aggregate of the difference between—

- (a) the relevant capital sums of long term business activities, and
 - (b) the mathematical reserves (excluding mathematical reserves for temporary assurances).
- (4) In paragraphs (2) and (3) above "relevant capital sums" means—
- (a) for whole life assurances, the sum assured,
 - (b) for policies where a sum is payable on maturity (including policies where a sum is also payable on earlier death), the sum payable on maturity,
 - (c) for deferred annuities, the capitalised value of the annuity at the vesting date (or the cash option if it is greater),
 - (d) for capital redemption contracts, the sums payable at the end of the contract period, and
 - (e) for linked long term contracts, notwithstanding sub-paragraphs (a) to (d) above, the lesser of—
 - (i) the amount for the time being payable on death, and
 - (ii) the aggregate of the value for the time being of the units allocated to the contract (or, where entitlement is not denoted by means of units, the value for the time being of any other measure of entitlement under the contract equivalent to units) and the total amount of the premiums remaining to be paid during such part of the term of the contract as is appropriate for zillmerising, or, if such premiums are payable beyond the age of seventy-five, until that age.
- (5) Where, under the contract relating to any such business as is mentioned in paragraph (4) above, the payment of premiums is to stop before the sum assured becomes due, then, notwithstanding the said paragraph (4), "relevant capital sums" in paragraphs (1) to (3) above shall be taken to mean the mathematical reserves appropriate for that contract at the end of the premium-paying term.
- (6) For the purposes of this regulation—
- (a) reserves for vested reversionary bonuses shall not be regarded as mathematical reserves, and
 - (b) the result given by paragraph (1), (2) or (3) above shall be reduced by the amount of any undepreciated acquisition costs brought into account as an asset.
- (7) "Zillmerising" means the method known by that name for modifying the net premium reserve method of valuing a long term policy by increasing the part of the future premiums for which credit is taken so as to allow for initial expenses.

Implicit items: hidden reserves

24. The implicit item relating to hidden reserves, if it consists of hidden reserves resulting from the underestimation of assets and overestimation of liabilities (other than mathematical reserves), may, in so far as the hidden reserves in question are not of an exceptional nature, be given its full value.

Matching and localisation

Matching

25.—(1) Where the liabilities of an authorised society in any particular currency exceed 5 per cent of the society's total liabilities, then subject to paragraphs (2) and (3) below, the society shall hold sufficient assets expressed in or capable of being realised without exchange risk into that currency to cover at least 80 per cent of the society's liabilities in that currency.

(2) In so far as the liabilities for property linked benefits are covered by assets which determine the benefits payable under a linked long term contract, paragraph (1) above shall not apply.

(3) In so far as the liabilities for property linked benefits are determined by reference to assets expressed in or capable of being realised without exchange risk into a currency other than the currency in which the society's obligations to its member are expressed, those liabilities shall for the purposes of paragraph (1) be deemed to be liabilities in the first-mentioned currency.

(4) For the purposes of paragraphs (1) and (3) above, an asset is capable of being realised without exchange risk into a currency if it is reasonably capable of being realised into that currency without risk that changes in exchange rates would reduce the cover of liabilities in that currency.

(5) In this regulation—

“assets”, except in the case of assets of the kind referred to in regulation 26 below, means assets valued in accordance with Part VI of these Regulations;

“liabilities” means provision by a society to cover liabilities arising under or in connection with contracts of insurance (not being liabilities relating to insurance business excluded by regulation 27 below).

“property linked benefits” has the meaning given by regulation 34(1) below.

Localisation

26.—(1) Assets held pursuant to regulation 25 above shall be held—

- (a) if they cover liabilities in sterling, in the United Kingdom;
- (b) if they cover liabilities in any other currency, in the United Kingdom or in the country of that currency.

(2) For the purposes of applying paragraph (1) above to tangible assets and assets consisting of a claim against a debtor or a listed or unlisted investment, the following provisions shall have effect—

- (a) a tangible asset shall be regarded as held in the place where it is situated;
- (b) an asset consisting of a claim against a debtor shall be regarded as held in any place where it can be enforced by legal action;
- (c) an asset consisting of a listed investment shall be regarded as held in any place where—
 - (i) there is a recognised United Kingdom stock exchange or a stock exchange of repute outside the United Kingdom where it is listed, or
 - (ii) there is a securities market outside the United Kingdom, being a market of repute in which prices of all securities in which there are dealings are publicly listed and which is supervised by a public body, where it is dealt in;
- (d) an asset consisting of an unlisted investment issued by an incorporated company shall be regarded as held in the place where the head office of that company is situated.

Exclusion

27. Nothing in regulation 25 or 26 shall apply to insurance business carried on outside the United Kingdom.

Partial transfers

Transfer of part of long term business

28.—(1) Subject to the following provisions of this regulation, an authorised society (“the transferor”) may transfer part of its long term business to another authorised society (“the transferee”).

(2) The proposed transfer shall be approved by special resolution, within the meaning of section 86 (Meaning and registration of special resolutions) of the 1974 Act, in respect of both the transferor and the transferee.

(3) In respect of the transferor, at the general meeting at which the special resolution was passed, the proposed transfer shall further be approved by a resolution passed by not less than three-quarters of those members to whose contracts with, or benefits due from, the society the transfer relates, who either vote in person or by proxy at the meeting.

(4) The transferor shall give information relating to the terms of the proposed transfer to its members—

(a) by sending to each member, not less than fourteen days before the date of the general meeting at which the special resolution for the transfer is to be proposed, a notice in terms to be approved by the Chief Registrar; or

(b) if the Chief Registrar so allows in the case of all or any of the members of the society, by placing an advertisement, in terms approved for the purpose by him, in such newspaper or newspapers, and at such time or times, as he may specify.

(5) The transferee shall produce to the Chief Registrar a statement by a qualified actuary that the transferee will possess the margin of solvency required by law after the proposed transfer has taken place.

(6) A transfer of business under the provisions of the Regulation shall not prejudice any right of a creditor of the transferor or the transferee.

(7) A partial transfer under this regulation shall be deemed to be a transfer under section 82 (Amalgamation and transfer of engagements) of the 1974 Act for the purposes of the Chief Registrar's powers under that provision and of the Industrial Assurance Commissioner's powers under section 36 (Transfers from one society or company to another) of the 1923 Act.

Investment

Investments of authorised societies

29. Section 46 (Investment of funds) of the 1974 Act shall, from the date on which a society is authorised under regulation 5 or 6 above, have effect in relation to that society as though the words in subsection (1) from “or any part thereof” to the end of that subsection were deleted.

PART IV

SAFEGUARD MEASURES

Restoration plan

30.—(1) If an authorised society fails to maintain the margin of solvency required pursuant to regulation 12 above, the society shall at the request of the Chief Registrar submit to him a plan for the restoration of a sound financial position, and shall propose modifications to the plan if he considers it inadequate as originally submitted.

(2) The society shall give effect to the plan in the form in which it is approved by the Chief Registrar, within such period as he may allow.

Short-term Financial Scheme

31.—(1) If the margin of solvency of an authorised society falls below the amount of the guarantee fund prescribed in regulation 19 above, or the requirements of paragraph (3) of that regulation cease to be satisfied, the society shall at the request of the Chief Registrar submit to him a short-term financial scheme, and shall propose modifications to the scheme if the Chief Registrar considers it inadequate as originally submitted.

(2) The society shall give effect to the scheme in the form in which it is approved by the Chief Registrar, within such period as he may allow.

(3) Until such time as the society has given effect to the scheme, the Chief Registrar may restrict or prohibit the free disposal of its assets by issuing directions to the society for that purpose.

PART V

WITHDRAWAL OF AUTHORISATION

Withdrawal of authorisation in respect of new business

32.—(1) The Chief Registrar may, at the request of an authorised society or on any of the grounds set out in paragraph (2) below, direct that the society shall cease to be authorised to enter into any new contracts of insurance, or into new contracts of any description specified in the direction; provided that a direction under this regulation shall not prevent a society from effecting a contract of insurance in pursuance of a term of a subsisting contract of insurance.

(2) The grounds referred to in paragraph (1) above are—

- (a) that the society has failed in its obligations under the provisions of the 1923 Act, the 1974 Act or these Regulations;
- (b) that there exists a ground which would preclude the issue of an authorisation to the society under regulation 6;
- (c) that the society has failed to give effect within the time allowed to a restoration plan under regulation 30 or a short term financial scheme under regulation 31 above.

(3) A direction under this regulation may not be revoked or varied, but, if the Chief Registrar subsequently issues to the society an authorisation to carry on long term business of a class to which the direction relates, the direction shall cease to have effect in relation to business of that class.

Procedure on Withdrawal

33.—(1) Before issuing a direction under regulation 32, otherwise than at the request of the society concerned, the Chief Registrar shall serve on the society a notice in writing stating—

- (a) that he is considering giving a direction, indicating the relevant ground with particulars of the material facts; and
- (b) that the society may, within the period of one month from the date of service of the notice, make written representations to the Chief Registrar, and, if the society so requests, oral representations to the Chief Registrar or such other person as he may appoint for the purpose.

(2) When giving a direction under regulation 32, the Chief Registrar shall give notice in writing to the society concerned of his reasons for giving the direction.

(3) After giving a direction under regulation 32, the Chief Registrar shall publish notice of it in the London, Edinburgh and Belfast Gazettes and in such other ways as appear to him expedient for notifying the public.

PART VI

VALUATION OF ASSETS

Interpretation: Part VI

34.—(1) In this Part of these Regulations, unless the context otherwise requires—
“approved financial institution” means any of the following—

- (a) the Bank of England,
- (b) the National Savings Bank,
- (c) a recognised bank or licenced deposit-taking institution within the meaning of the Banking Act 1979⁽⁴⁾ until the date on which section 3 of the Banking Act 1987⁽⁵⁾ comes into force, and an institution authorised, or deemed to be authorised, under that Act on and after that date,
- (d) the European Atomic Energy Community,
the European Coal and Steel Community,
the European Economic Community,
the European Investment Bank,
the International Bank for Reconstruction and Development,
the International Finance Corporation,
the International Monetary Fund,
the African Development Bank,
the Asian Development Bank,
the Caribbean Development Bank, and
the Inter-American Development Bank,
- (e) a building society;

“approved securities” means any of the following—

- (a) securities issued by Her Majesty’s Government in the United Kingdom or the Government of Northern Ireland, being securities registered in the United Kingdom, Treasury Bills, Tax Reserve Certificates or Certificates of Tax Deposit;
- (b) securities the repayment of the principal of which, or the payment of interest on which, is guaranteed by Her Majesty’s Government in the United Kingdom or the Government of Northern Ireland;
- (c) fixed interest securities issued in the United Kingdom by any public authority or nationalised industry or undertaking in the United Kingdom;
- (d) debentures issued by the Agricultural Mortgage Corporation Limited or the Scottish Agricultural Securities Corporation Limited;
- (e) loans to any authority to which this paragraph applies charged on the revenues of the authority or on a fund into which such revenues are payable, any fixed interest securities issued in the United Kingdom by any such authority for the purpose of borrowing money so charged, and deposits with any such authority by way of temporary loan made on the giving of a receipt for the loan by the treasurer or any other similar officer of the authority

⁽⁴⁾ 1979 c. 37.

⁽⁵⁾ 1987 c. 22.

and on the giving of an undertaking by the authority that, if requested to charge the loan as aforesaid, it will either comply with the request or repay the loan:

The authorities to which this paragraph applies are—

- (i) any local authority in the United Kingdom;
- (ii) any authority all the members of which are appointed or elected by one or more local authorities in the United Kingdom;
- (iii) any authority the majority of the members of which are appointed or elected by one or more local authorities in the United Kingdom, being an authority which by virtue of any enactment has power to issue a precept to a local authority in England and Wales, or a requisition to a local authority in Scotland, or to the expenses of which, by virtue of any enactment, a local authority in the United Kingdom is or can be required to contribute;
- (iv) the Receiver for the Metropolitan Police District or a combined police authority (within the meaning of the Police Act 1964⁽⁶⁾);
- (v) any water authority established under the Water Act 1973⁽⁷⁾ and any water authority as defined in section 148 of the Local Government (Scotland) Act 1973⁽⁸⁾;
- (vi) a residuary body within the meaning of section 105(1) of the Local Government Act 1985⁽⁹⁾
- (vii) a passenger transport executive within the meaning of section 9(1) of the Transport Act 1968⁽¹⁰⁾;
- (f) any loan to, or deposit with, an approved financial institution; and
- (g) any securities issued or guaranteed by, and any deposits of cash with, any government, public or local authority or nationalised industry or undertaking outside the United Kingdom;

“asset” includes part of an asset;

“building society” means a building society within the meaning of the Building Societies Act 1986⁽¹¹⁾;

“company” includes any body corporate;

“computer equipment” means the electro-mechanical and electronic units which make up a computer configuration;

“debenture” includes debenture stock and bonds, whether constituting a charge on assets or not, and loan stock or notes;

“debenture option” means a right exercisable within a specified period, at the option of the holder of the right, to acquire or dispose of any debenture at a specified price;

“debt” includes an obligation to pay a sum of money under a negotiable instrument;

“enactment” includes an enactment of the Parliament of Northern Ireland;

“equity share” means a share of equity share capital;

“equity share capital”, in relation to a company, means its issued share capital excluding any part thereof which, neither as respects dividends nor as respects capital, carries any right to participate beyond a specified amount in a distribution;

(6) 1964 c. 48.

(7) 1973 c. 37.

(8) 1973 c. 65.

(9) 1985 c. 51.

(10) 1968 c. 73.

(11) 1986 c. 53.

“fixed interest securities” means securities which under their terms of issue provide for fixed amounts of interest;

“industrial and provident society” means any society registered (or deemed to be registered) under the Industrial and Provident Societies Act 1965⁽¹²⁾ or the Industrial and Provident Societies Act (Northern Ireland) 1969⁽¹³⁾;

“insurance liabilities” means, in relation to a society any debt due from, or other liabilities of the society, under any contract of insurance to which it is party;

“intermediary” means a person who in the course of any business or profession invites other persons to make offers or proposals or to take other steps with a view to entering into contracts of insurance with a society, other than a person who only publishes such invitations on behalf of, or to the order of, some other person;

“linked assets” means, in relation to a society, long term business assets of the society which are, for the time being, identified in the records of the society as being assets by reference to the value of which property linked benefits are to be determined;

“listed” means, in relation to an investment—

- (a) that there has been granted and not withdrawn a listing in respect of that investment on a stock exchange within the meaning of the Companies Act 1985⁽¹⁴⁾ or the Companies (Northern Ireland) Order 1986⁽¹⁵⁾; or
- (b) that there has been granted and not withdrawn such a listing on any stock exchange of repute outside the United Kingdom; or
- (c) that dealings in that investment are effected in a securities market of repute outside the United Kingdom being a market in which prices of all securities in which there are dealings are publicly listed and which are supervised by a public body;

and “unlisted” shall be construed accordingly;

“local authority” in relation to the United Kingdom means any of the following authorities—

- (a) in England and Wales, a local authority within the meaning of the Local Government Act 1986⁽¹⁶⁾;
- (b) in Scotland, a local authority within the meaning of the Local Government (Scotland) Act 1973⁽¹⁷⁾;
- (c) in Northern Ireland, any district council;

“long term business assets” and “long term business liabilities” mean respectively assets of a society which are, for the time being, identified as representing the long term fund or funds maintained by the society in respect of its long term business and liabilities of the society which are attributable to its long term business;

“middle market quotation” means—

- (a) in relation to an investment for which one price is quoted in the official list published for the relevant market, the average of the two prices so quoted for the relevant date or, if no official list has been published for that day, for the most recent day prior to that day for which the official list has been published; and
- (b) in relation to an investment for which one price is quoted in the official list published for the relevant market, the price so quoted for the relevant date or, if no official list has been

(12) 1965 c. 12.

(13) 1969 c. 24 (N.I.).

(14) 1985 c. 6.

(15) S.I.1986/1032 (N.I. 6).

(16) 1986 c. 10.

(17) 1973 c. 65.

published for that day, for the most recent day prior to that day for which the official list has been published; and

- (c) in any other case, the nearest equivalent to the average referred to in paragraph (a) above which is published or can be reasonably ascertained from the information which is published;

“price earnings ratio” means the price earnings ratio (net) estimated in respect of the Industrial Group index of the Financial Times Actuaries Share Indices jointly compiled by the Financial Times, the Institute of Actuaries and the Faculty of Actuaries;

“proper valuation” means, in relation to land, a valuation made by a qualified valuer no more than three years before the relevant date which determined the amount which would be realised at the time of the valuation on an open market sale of the land free from any mortgage or charge;

“property linked benefits” means benefits—

- (a) provided for under any contract the effecting of which constitutes the carrying on of ordinary long term insurance business; and
- (b) determined by reference to the value of property of any description (whether specified in the contract or not);

“qualified valuer”, in relation to any particular type of land in any particular area, means—

- (a) a person who is a fellow or professional associate of the Royal Institution of Chartered Surveyors or a fellow or associate of the Incorporated Society of Valuers and Auctioneers or a fellow or associate of the Rating and Valuation Association and either—
- (i) has knowledge of and experience in the valuation of that particular type of land in that particular area, or
- (ii) has knowledge of and experience in the valuation of land and has taken advice from a valuer who he is satisfied has knowledge of and experience in the valuation of that particular type of land in that particular area, or
- (b) a person who conforms with paragraph (a)(i) or (ii) above and immediately before 15th June 1981 was recognised as a qualified valuer by virtue of an approval by the Secretary of State under the Insurance Companies (Valuation of Assets) Regulations 1976⁽¹⁸⁾ (and for these purposes an approval given under the Insurance Companies (Valuation of Assets) Regulations 1974⁽¹⁹⁾ shall be deemed to have been given under the said Regulations of 1976);

“relevant date” means, in relation to the valuation of any asset for any purpose for which this Part of these Regulations applies, the date when the asset falls to be valued for that purpose;

“securities” includes shares, debentures, Treasury Bills, Tax Reserve Certificates and Certificates of Tax Deposit;

“share” includes stock;

“share option” means a right exercisable within a specified period, at the option of the holder of the right, to acquire or dispose of any share at a specified price;

“traded option” means a share or debenture option in respect of which permission to deal has been granted on the traded option market of a recognised stock exchange within the meaning of the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 or a stock or options exchange of repute outside the United Kingdom;

“Treasury Bills” includes bills issued by Her Majesty’s Government in the United Kingdom and Northern Ireland Treasury Bills.

⁽¹⁸⁾ S.I. 1976/87; the relevant amending instrument was S.I. 1981/725; both instruments were revoked by S.I. 1981/1654.

⁽¹⁹⁾ S.I. 1974/2203, revoked by S.I. 1976/87.

Application: Part VI

35.—(1) Subject to paragraph (2) below, this Part of these Regulations applies with respect to the determination of the value of assets of societies for the purposes of the annual valuation report.

(2) Where a society has entered into any contracts providing for the payment of property linked benefits, Regulations 36 to 44 of these Regulations shall not apply, and the value of any linked asset by reference to the value of which those benefits are to be determined shall be the value of that asset as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate for insurance business.

(3) Any asset to which this Part of these Regulations applies (other than cash) for the valuation of which no provision is made in this Part of these Regulations shall be left out of account for the purposes specified in paragraph (1) above.

(4) Where in accordance with this Part of these Regulations the value of any asset is to be not greater than any specified amount and, in all the circumstances of the case, it appears that the asset is of a lesser value than that amount, such lesser value shall be the value of the asset.

(5) Notwithstanding paragraph (1) above (but subject to the conditions set out in paragraph (6) below), a society may elect to assign to any of its assets the value given to the asset in question in the books or other records of the society.

(6) The conditions referred to in paragraph (5) above are—

- (a) that the election shall not enable the society to bring into account any asset for the valuation of which no provision is made in this Part of these Regulations;
- (b) that the value assigned to the aggregate of the assets shall not be higher than the aggregate of the value of those assets as determined in accordance with regulations 36 to 44 of these Regulations.

Debts and other rights

36.—(1) The value of any debt due, or to become due, to a society, other than a debt to which paragraph (2), (3) or (4) of this regulation or regulation 41 or 44 below applies, shall be—

- (a) in the case of any such debt which is due, or will become due, within twelve months of the relevant date (including any debt which would become due within that period if the society were to exercise any right to which it is entitled to require payment of the same), the amount which can reasonably be expected to be recovered in respect of that debt (due account being taken of any security being held in respect thereof); and
- (b) in the case of any other such debt, the amount which would reasonably be paid by way of consideration for an immediate assignment of the debt together with the benefit of any security held in respect thereof.

Provided that in determining the amounts referred to in subparagraphs (a) and (b) above, no account shall be taken of any letter of credit.

(2) The value of any debt due, or to become due, to the society which is secured on a policy of insurance issued by the society and which (together with any other debt secured on that policy) does not exceed the amount payable on a surrender of that policy at the relevant date shall be the amount of that debt.

(3) Any debt due or to become due to the society—

- (a) from an intermediary in respect of money advanced on account of commission to which that intermediary is not absolutely entitled at the relevant date, or
- (b) under a letter of credit,

shall be left out of account for the purposes for which this Part of these Regulations applies.

(4) The value of any debt due to, or other rights of, the society, under any contract of reinsurance to which the society is a party shall be the amount which can reasonably be expected to be recovered in respect of that debt or right.

Land

37. The value of any land of a society (other than land held by the society as security for a debt or to which regulation 42 below applies) shall be not greater than the amount which (after deduction of the reasonable expenses of sale) would be realised if the land were sold at a price equal to the most recent proper valuation of that land which has been provided to the society and any such land of which there is no proper valuation shall be left out of account for the purposes for which this Part of these Regulations applies.

Equipment

38.—(1) The value of any computer equipment of a society—

- (a) in the year of account of the society in which it is purchased, shall not be greater than three-quarters of the cost thereof to the society;
- (b) in the first year of account thereafter, shall not be greater than one-half of that cost;
- (c) in the second year of account thereafter, shall be not greater than one-quarter of that cost; and
- (d) in any subsequent year of account, shall be left out of account for the purposes for which this Part of these Regulations applies.

(2) The value of any office machinery (other than computer equipment), furniture, motor vehicle and other equipment of a society, shall be, in the year of account of the society in which it is purchased, not greater than one-half of the cost thereof and shall be, in any subsequent year of account, left out of account for the purposes for which this Part of these Regulations applies.

Unlisted securities

39.—(1) The value of any unlisted security which is dealt in on a recognised stock exchange within the meaning of the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 or on a stock exchange of repute outside the United Kingdom shall be an amount not greater than the middle market quotation.

(2) The value of any unlisted equity share, other than a share to which paragraph (1) above applies, shall not be greater than—

- (a) where the company in which the share is held has been carrying on business for more than three financial years, the multiple of the price earnings ratio for the relevant date (or, if no price earnings ratio has been published for that date, for the most recent date prior to that date for which a price earnings ratio has been published) and the proportionate amount attributable to that share of the average amount of the profits of the company for the last three financial years; and
- (b) where the company has been carrying on business for less than three but more than one financial year, the multiple of such price earnings ratio and the proportionate amount attributable to that share of the average amount of the profits of the company for its two financial years or the profits of the company in its only financial year (as the case may be).

(3) For the purposes of this regulation, the average amount of the profits of a company for any specified years shall be the amount represented by the formula—

$$\frac{P-L}{Y}$$

where—

- (a) P is the aggregate amount of the profits of the company after provision for taxation in each of the specified years,
- (b) L is the aggregate amount of any losses made by the company after provision for taxation in any of the specified years in which there were no profits, and
- (c) Y is the number of years specified,

no account being taken of any profit or loss brought forward from any year preceding the specified years.

(4) In this regulation, the proportionate amount attributable to any share of the average amount of any profits of the company in which the share is held for any specified years shall be the amount which could reasonably be expected to be received in respect of that share if the average amount or the amount (as the case may be) of the profits in question were available for distribution by the company among its shareholders.

(5) Where the value of any share would otherwise be determined in accordance with the provisions of paragraph (2) above but cannot be so determined because the amount of the profits of, or the amount of losses incurred by, the company in the last financial year cannot be reasonably ascertained, then the value of that share shall be determined—

- (a) in the case of a company which has been carrying on business for not less than four financial years, by reference to the average amount of the profits of the company for the three financial years preceding the last financial year; and
- (b) in the case of a company which has been carrying on business for less than four years but more than two financial years, by reference to the average amount or the amount (as the case may be) of the profits of the company in any specified years other than the last financial year.

(6) Any share to be valued in accordance with paragraphs (2) to (5) above shall be left out of account for the purposes for which this Part of these Regulations applies if—

- (a) no amount is attributable thereto in accordance with paragraph (2) above;
- (b) the company in which the share is held has been carrying on business for less than one financial year; or
- (c) the value of the share cannot be ascertained in accordance with paragraphs (2) to (5) above because the amount of the profits of, or the amount of the losses incurred by, the company in any of the specified years cannot reasonably be ascertained and no provision is made for its valuation in paragraph (5) above.

(7) The value of any unlisted share other than one to which paragraph (1) or (2) above applies shall be the amount which would reasonably be paid by way of consideration for an immediate transfer of that share.

Unit trusts

40. The value of any holding of units, or other beneficial interest, under a unit trust scheme authorised for the purposes of the Prevention of Fraud (Investments) Act 1958⁽²⁰⁾ or the Prevention of Fraud (Investments) Act (Northern Ireland) 1940⁽²¹⁾ shall be the price at which the managers under the unit trust scheme would purchase the holding of units or other beneficial interest if required to do so.

⁽²⁰⁾ 1958 c. 45.

⁽²¹⁾ 1940 c. 9 (N.I.).

Listed Investments

41.—(1) The value of any listed debenture, and of any listed share which is not a share in any body specified in regulation 43(2)(a) below, shall be the middle market quotation.

(2) Where the listing of any listed debenture or listed share, the value of which falls to be determined in accordance with this regulation, was suspended at a relevant date, then for the purpose or purposes for which that date was the relevant date—

- (a) if that suspension was in force for a period in excess of ten days, that debenture or share shall be left out of account, and
- (b) if that suspension was in force for a period not exceeding ten days, the value of that debenture or share shall be the lower of—
 - (i) the middle market quotation on the day before the day the suspension came into force, and
 - (ii) the middle market quotation on the day after the day the suspension was terminated.

(3) For the purposes of paragraph (2) above, a day which is a Saturday or a Sunday or a bank holiday in any part of the United Kingdom shall be disregarded.

Life interests, reversionary interests etc

42. The value of any asset consisting of an interest in property which—

- (a) is determinable upon the death of any person or upon the happening of some other future event or at some future time or is a remainder, reversionary interest, right of fee subject to a life interest or other future interest, whether vested or contingent, and
- (b) is not a lease or a reversionary interest expectant upon the determination of a lease,

shall be the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.

Other assets

43.—(1) The value of any approved securities shall be—

- (a) in the case of listed securities, the middle market quotation;
- (b) in the case of securities which are not transferable, the amount payable on a surrender or redemption of such securities at the relevant date; and
- (c) in any other case, the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.

(2) The value of—

- (a) shares in any building society or industrial and provident society, and
- (b) share options and debenture options, not being traded options,

shall be the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.

(3) The value of traded options shall be the middle market quotation.

Assets to be taken into account only to a specified extent

44.—(1) Assets of a society of any of the descriptions specified in Schedule 4 shall be taken into account only to the extent that the value of those assets does not exceed—

- (a) for all assets of a description specified in Part I of Schedule 4 an amount equal to the percentage of the long term business amount specified in Schedule 4 for assets of that description;
- (b) for all assets of the description specified in Part II of Schedule 4, an amount equal to the percentage so specified of the net premium income of the society in respect of long term business for the twelve months preceding the relevant date.

(2) In this regulation—

“long term business amount” means the aggregate of the society’s long term business liabilities and whichever is the greater of—

- (a) one-sixth of the margin of solvency which the society is required to maintain and
- (b) 600,000 units of account

less the amount of the deduction specified in paragraph (3) below;

“the net premium income” of a society for any specified period means the gross amounts first recorded in the society’s books during that period as paid or due to the society by way of premiums, less any rebates, refunds and commission so recorded during that period as allowed or paid on those gross amounts or any such gross amounts so recorded in any previous period.

(3) The deduction to be made in determining the long term business amount in accordance with paragraph (2) above shall be the aggregate of the following—

- (a) the value of the debts due or to become due to and other rights of the society under contracts of reinsurance ceded by it (but excluding any rights of recovery in respect of insurance liabilities already discharged by the society) which are long term business assets of the society, and
- (b) the amount of any liabilities of the society in respect of property linked benefits.

(4) For the purposes of this regulation, the amount of the liabilities of a society shall be determined in accordance with Part VII of these Regulations.

(5) This regulation shall not apply to any approved securities or to any interest accrued thereon.

PART VII

DETERMINATION OF LIABILITIES

Interpretation: Part VII

45. In this Part of these Regulations—

“long term liabilities” means liabilities of a society arising under or in connection with contracts for long term business including liabilities arising from deposit back arrangements;

“the valuation date”, in relation to an actuarial investigation, means the date to which the investigation relates.

Application: Part VII

46. This Part of these Regulations applies with respect to the determination of the amount of liabilities of societies for the purposes of these Regulations.

General

47.—(1) Subject to this Part of these Regulations, the amount of liabilities of a society in respect of its insurance business and other lawful activities shall be determined in accordance with generally

accepted accounting concepts, bases and policies or other generally accepted methods appropriate for insurance business.

(2) In determining under paragraph (1) above the amount of liabilities of a society, all contingent and prospective liabilities shall be taken into account.

Long term liabilities

48. The determination of the amount of long term liabilities (other than liabilities which have fallen due for payment before the valuation date) shall be made on actuarial principles and shall make proper provision for all liabilities on prudent assumptions in regard to the relevant factors; and the amount of the liability for each category of contract shall not be less than the amount calculated in accordance with regulations 49 to 58 below in so far as they are applicable.

Nature and determination of assets

49. The determination of the amount of long term liabilities shall take into account the nature and terms of the assets representing the long term fund and the value placed upon them and shall include appropriate provision against the effects of possible future changes in the value of the assets on their adequacy to meet the liabilities.

Avoidance of future valuation strain

50. The amount of the liability determined in respect of a group of contracts shall not be less than such amount as, if the assumptions adopted for the valuation were to remain unaltered and were fulfilled in practice, would enable liabilities similarly determined at all times in the future to be covered from resources arising solely from the contracts and the assets covering the amount of the liability determined at the current valuation.

Valuation of future premiums

51.—(1) Subject to paragraph (4) below, where further specified premiums are payable by the policy holder under a contract under which benefits (other than benefits arising from a distribution of surplus) are determined from the outset in relation to the total premiums payable thereunder, then, subject to regulation 52 below—

- (a) where the premiums under the contract are at a uniform rate throughout the period for which they are payable, the premiums to be valued shall not be greater than such level premiums as, if payable for the same period as the actual premiums under the contract and calculated according to the rates of interest and rates of mortality or disability which are to be employed in calculating the liability under the contract, would have been sufficient at the outset to provide for the benefits under the contract according to the contingencies upon which they are payable, exclusive of any additions for profits, expenses or other charges;
- (b) where the premiums under the contract are not at a uniform rate throughout the period for which they are payable, the premiums to be valued shall not be greater than such premiums as would be determined on the principles set out in sub-paragraph (a) above modified as appropriate to take account of the variations in the premiums payable by the policy holder in each year;

save that a premium to be valued shall in no year be greater than the amount of the premium payable by the policy holder.

(2) Where the terms of the contract have changed since the contract was first made (the terms of the contract being taken to change for the purposes of this paragraph if the change is indicated in an endorsement on the policy but not if a new policy is issued), then, for the purposes of paragraph (1)

above it shall be assumed that those changes from the time they occurred were provided for in the contract at the time it was made.

- (3) Subject to paragraph (4) below, where under a contract—
 - (a) each premium paid increases the benefits (other than benefits arising from a distribution of surplus) provided under the contract, or
 - (b) the amount of a premium payable in future is not determinable until it comes to be paid, future premiums and the corresponding liability may be left out of account so long as adequate provision is made against any risk that the increase in the liabilities of the society resulting from the payment of future premiums might exceed the amount of the premiums.
- (4) The provisions of this regulation do not apply to a contract which is a linked long term contract, a permanent health contract, or a contract whose principal object is permanent health insurance but which contains related and subsidiary provisions for life or birth insurance business.

Acquisition expenses

52.—(1) In order to take account of acquisition expenses, the maximum annual premium to be valued under regulation 51 above may (subject to paragraph (2) below) be increased by an amount not greater than the equivalent, taken over the whole period of premium payments and calculated according to the rates of interest and rate of mortality or disability employed in valuing the contract, of 3.5 per cent (or the defined percentage, if it is lower than 3.5 per cent) of the relevant capital sum under the contract.

(2) For the purposes of paragraph (1) above “the defined percentage” is the percentage arrived at by taking (for all contracts of the same type as the contract in question for which an adjustment is made) the average of the percentages of the relevant capital sum under each such contract that represent the acquisition costs for which, after allowing for the effects of taxation, allowance is made in the premiums.

(3) The increase permitted by paragraph (1) above shall be subject to the limitation that the amount of a future premium valued shall not in any event be greater than the amount of the premium actually payable by the policy holder.

- (4) For the purposes of this regulation—
 - (a) for contracts other than temporary assurances, the relevant capital sum under a contract shall be arrived at in accordance with regulation 23(4) above, and
 - (b) for temporary assurances, the relevant capital sum shall be the sum assured on the valuation date.

Rates of interest

53.—(1) In determining the rates of interest to be used in calculating the present value of future payments by or to a society, regard shall be had to the yields on the existing assets attributed to the long term business and, to the extent appropriate, to the yield which it is expected will be obtained on sums to be invested in the future.

(2) For the purposes of paragraph (1) above, the assumed yield on an asset attributed to the long term business, before any adjustment to take account of the effect of taxation, shall not exceed the yield on that asset calculated in accordance with paragraphs (3) to (6) below, reduced by 7.5 per cent of that yield.

- (3) For the purpose of calculating the yield on an asset—
 - (a) the asset shall be valued in accordance with Part VI of these Regulations, excluding any provision under which assets may be taken at lower book values for the purposes of the annual solvency report; and

(b) where a particular asset is required to be taken into account only to a specified extent by the operation of regulation 44 above, the future income to be taken into account (whether interest, dividends or repayments of capital) shall be correspondingly reduced.

(4) For fixed interest investments (that is to say, investments which are fixed interest securities as defined in regulation 34(1) above) the yield on an asset, subject to paragraph (6) below, shall be that annual rate of interest which, if used to calculate the present value of future payments of interest before the deduction of tax and the present value of repayments of capital, would result in the sum of those amounts being equal to the value of the asset.

(5) For variable interest investments (that is to say, investments which are not fixed interest securities as defined in regulation 34(1) above) the yield on an asset, subject to paragraph (6) below, shall be the ratio to the value of the asset of the income before deduction of tax which would be received in the period of twelve months following the valuation date on the assumption that the assets will be held throughout that period and that the factors which affect income will remain unchanged, so however that account shall be taken of any changes in those factors known to have occurred by the valuation date and in particular, without prejudice to the generality of the foregoing, of—

- (a) any known changes in the rental income from property or in dividends on equity shares,
- (b) any forecast changes in dividends which have been publicly announced by the valuation date,
- (c) the effect of any alterations in capital structure, and
- (d) the value (at the most recent date for which it is known at the valuation date) of any determinant of the amount of any future interest payment, the said value being deemed to remain unaltered for all subsequent dates.

(6) In calculating the yield on an asset under this regulation—

- (a) if the asset does not consist of equity shares or land—
 - (i) an adjustment shall be made to exclude that part of the yield estimated to represent compensation for the risk that the income from the asset might not be maintained or that capital repayments might not be received as they fall due, and
 - (ii) in making that adjustment, regard shall be had wherever possible to the yields on risk-free investments of a similar term in the same currency;
- (b) for assets which are equity shares or land, adjustments to yields shall be made as appropriate to exclude that part, if any, of the total yield from those assets, taken together, that is needed to compensate for the risk that the aggregate income from those assets taking one year with another might not be maintained, so however that the yield assumed on an asset shall not be greater than that on British Government 2½% Consolidated Stock on the valuation date.

(7) To the extent that it is necessary to make an assumption about the yields which will be obtained on sums to be invested in future, the yield assumed on any investment to be made more than three years after the valuation date shall not exceed 7.2 per cent per annum before any adjustment to take account of the effect of taxation.

(8) In no case shall a rate of interest determined for the purposes of paragraph (1) above exceed the adjusted overall yield on assets calculated as the weighted average of the reduced yields on the individual assets arrived at under paragraph (2) above; and when that weighted average is calculated—

- (a) the weight given to each investment shall be its value as an asset determined in accordance with Part VI of these Regulations, excluding any provision under which assets may be taken at lower book values for the purposes of the annual solvency report, and
- (b) except in relation to the rate of interest used in valuing payments of property linked benefits (as defined in regulation 34(1) above), both the yield and the value of any linked assets (as so defined) shall be omitted from the calculation.

(9) For the purpose of determining the rates of interest to be used in valuing a particular category of contracts the assets may, where appropriate, be notionally apportioned between different categories of contracts and in such cases the limit under paragraph (8) above shall be applied on the basis of the overall yield on the assets apportioned to the contracts in question.

Rates of mortality and disability

54. The amount of the liability in respect of any category of contract shall, where relevant, be determined on the basis of appropriate rates of mortality and disability that take into account—

- (a) relevant published tables of rates of mortality and disability, and
- (b) the rates of mortality and disability experienced in connection with any similar contracts issued by the society in the past.

Expenses

55.—(1) Provision shall be made for meeting the expenses likely to be incurred in future in fulfilling the existing contracts, taking account of the effect of taxation as appropriate, but credit may be taken to the extent appropriate for the fractions of future premiums left out of account pursuant to regulation 51(1) above.

(2) The provision mentioned in paragraph (1) above shall have regard to, among other things, the society's actual expenses in the last twelve months before the valuation date and the contingency that the society may cease to transact new business.

Options

56.—(1) Provision shall be made to cover any increase in liabilities caused by policy holders exercising options under their contracts.

(2) Where a contract includes an option whereby the policy holder could secure a guaranteed cash payment within twelve months following the valuation date, the provision for that option shall be such as to ensure that the value placed on the contract is not less than the amount required to provide for the payments that would have to be made if the option were exercised.

Contracts not to be treated as assets

57. No contract for long term business shall be treated as an asset.

No credit for profits from voluntary discontinuance

58. Allowance shall not be made in the valuation for the voluntary discontinuance of any contract if the amount of the liability so determined would thereby be reduced.

PART VIII

MISCELLANEOUS AND GENERAL

Information

59.—(1) If the Chief Registrar, for the purpose of considering whether to grant or revoke the authorisation of a society, or of monitoring its continued entitlement to authorisation, requires information, on a periodic basis or otherwise, he may serve on any person being an officer or member

of the society who appears to him likely to be able to furnish such information a notice requiring him to—

- (a) make a return to the Chief Registrar, within a period or at a time specified in the notice, of such information as is so specified;
- (b) produce such documents or other material as are specified in the notice at a time or place so specified and to permit a person nominated by the Chief Registrar for the purpose to take copies of the documents or other material at that time and place;

provided that such a notice may not require any person to produce a privileged communication, or to furnish information contained in such a communication, made by or to a barrister, advocate or solicitor in his capacity as such.

(2) Where any person claims a lien on any documents or other material which he is required to produce under paragraph (1) above, the production shall be without prejudice to the lien.

Valuations, returns and fees

60.—(1) The powers conferred on the Chief Registrar by sections 41(1) (Valuations) and 43(6) (Annual return) of the 1974 Act to prescribe the form and particulars of valuations and annual returns shall extend to the prescribing of the form and particulars of valuation and returns required for the purposes of these Regulations.

(2) Section 104 (Fees) of the 1974 Act shall be amended by the insertion, at the end of subsection (1), of the words: “or the Friendly Societies (Long Term Insurance Business) Regulations 1987”.

Penalties

61.—(1) If a society contravenes the restrictions imposed by regulation 4 above, then—

- (a) the society shall be guilty of an offence and liable on conviction on indictment or on summary conviction to a fine which, on summary conviction shall not exceed the statutory maximum; and
- (b) every officer of the society who is in default shall be guilty of an offence and liable:—
 - (i) on summary conviction to a fine not exceeding £2,000; or
 - (ii) on conviction on indictment to imprisonment for a term not exceeding two years or to a fine or both.

(2) Any person who—

- (a) in connection with an application for authorisation under regulation 6 above; or
- (b) in purporting to furnish information required by the Chief Registrar for the purposes of these Regulations, furnishes information which he knows to be false or misleading in a material particular or recklessly furnishes information which is false or misleading in a material particular, shall be guilty of an offence.

(3) A person guilty of an offence under paragraph (2) above shall be liable—

- (a) on summary conviction to a fine not exceeding £2,000; or
- (b) on conviction on indictment to imprisonment for a term not exceeding two years or to a fine or both.

Power to modify requirements in relation to particular societies

62.—(1) The Chief Registrar may, on the application or with the consent of an authorised society, direct that all or any of the provisions specified in paragraph (4) of this regulation shall not apply to the society or shall apply to it with such modifications as the Chief Registrar may specify.

(2) Where the Chief Registrar makes a direction under this regulation, he may make it subject to conditions.

(3) the Chief Registrar may withdraw a direction under this regulation at any time; and he may vary any such direction on the application or with the consent of the society to which it relates.

(4) The provisions to which this regulation applies are—

- (a) Regulation 11, in any case in which the Chief Registrar is satisfied on the basis of information made available to him by the society that it possesses its required margin of solvency;
- (b) Regulations 34 to 58, in any case in which the Chief Registrar is satisfied that a provision contained in those Regulations is impracticable or unduly onerous or otherwise inappropriate in the circumstances of a society;
- (c) Regulation 12, in the case of a society to which the Chief Registrar has issued a direction pursuant to regulation 32(1).

Deposits

63. On the application of an authorised society to which section 7 (Deposits by collecting societies) of the 1923 Act applies, the Chief Registrar shall direct that section 7 shall cease to apply to the applicant society which shall thereupon become entitled to repayment of any sum deposited by it with the Accountant General of the Supreme Court pursuant to the provisions of the said section 7.

Exercise of the Chief Registrar's functions

64.—(1) If the Chief Registrar intends to be absent from the country, or will otherwise be unable to exercise his functions under these Regulations, he may appoint an Assistant Registrar of friendly societies to exercise those functions during the period when he will be unable to do so.

(2) If the Chief Registrar is incapacitated from exercising those functions, the Treasury may appoint a deputy to exercise them during the period of his incapacity.

Amendment of rules

65.—(1) Notwithstanding anything contained in the rules of a society or in the 1974 Act, the committee of management or other directing body of a society which has been authorised under these Regulations may, by resolution passed before 31st December 1988, agree upon any amendments to its rules required for conformity with any provision of these Regulations and shall send two copies of its resolution to the Central Office within 21 days of its having been passed.

(2) The Central Office, on being satisfied that the amended rules are in conformity with the 1974 Act and these Regulations, shall register one copy of the amended rules and place it on the public file of the society and shall return the other copy to the society with an acknowledgement of its registration.

(3) The amendments to the society's rules shall take effect on the date on which they are registered.

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

10th December 1987

J. M. Bridgeman
Chief Registrar of Friendly Societies