

## **Regulatory Summary – UK Insurers**

### **Summary**

The regulatory treatment of AAA Liquidity funds in the UK makes them an attractive asset for insurers. Liquidity funds are:-

- Admissible Assets
- Have a zero capital charge
- And are excluded from limits

AAA Liquidity funds provide a safe and flexible alternative to bank deposits. The AAA rating is the highest rating available to money market funds.

### **Regulatory Treatment**

Both insurance companies and Lloyd's syndicates and agents are covered by the regulations contained in GENPRU (General Prudential Sourcebook) and INSPRU (Prudential Sourcebook for Insurers). The treatment of AAA Liquidity funds is extremely favourable under these regulations.

- They are Admissible Assets under GENPR 2 Annex 7 as they are UCITS schemes
- They have a zero capital charge factor (INSPRU 2.2.16 R) as they are a Money Market Fund as defined in INSPRU 2.2
  - Their primary investment objective is:
    - to maintain the net asset value of the fund constant at par (net of earnings); or
    - to maintain the net asset value of the fund at the value of investors' initial capital plus earnings.
  - They invest exclusively in cash or in short term instruments with characteristics similar to cash or both; and
    - the assets held in the fund do not exceed a weighted average maturity of 60 days;
    - they do not invest in equity or securities with characteristics similar to equity; and
    - on a basis of marking-to-market at least weekly, the value of each unit is not permitted at any point in time to move by more than 50 basis points.
- The exposure is excluded from limits (INSPRU 2.1.33R) as they are UCITS schemes

This means that there is no limit on the amount of an insurer's assets which can be invested in a AAA Liquidity fund and there is no capital charge applied to them.

### **Prime Rate Capital Management**

One Jermyn Street, London SW1Y 4UH Tel: 020 7925 7840 Fax: 020 7925 3284  
Email: [contact@prime-rate.co.uk](mailto:contact@prime-rate.co.uk) Website: [www.prime-rate.co.uk](http://www.prime-rate.co.uk)

## Appendix 1 – Extracts from FSA Handbook

### Admissible asset

(1) (for the purpose of the *rules* in *GENPRU* and *INSPRU* as they apply to *members* of the *Society* of Lloyd's, the *Society* and *managing agents*<sup>1</sup>) an asset that <sup>5, 11</sup>, subject to paragraphs (2) and (3) of *GENPRU 2 Annex 7*,<sup>15</sup> falls into one or more categories in <sup>1</sup>paragraph (1) of *GENPRU 2 Annex 7*<sup>1</sup> as modified by <sup>1</sup>*GENPRU 2.3.34R*.<sup>11</sup>

(2)<sup>5</sup> otherwise:<sup>16</sup>

(a) (in relation to an *insurer* which is not a *pure reinsurer*) an asset that, subject to paragraphs (2) and (3) of *GENPRU 2 Annex 7*,<sup>15</sup> falls into one or more categories in paragraph (1) of *GENPRU 2 Annex 7*<sup>15, 1</sup>; or<sup>16</sup>

(b) (in relation to a *pure reinsurer*) an asset the holding of which is consistent with compliance by the *firm* with *INSPRU 3.1.61A R*.<sup>16</sup>

### GENPRU 2 Annex 7 Admissible assets in insurance

#### R

(1) <sup>1</sup>	(A) <sup>1</sup>	Investments that are, or amounts owed arising from the disposal of:
		(a) <i>debt securities</i> , bonds and other money and capital market instruments;
		(b) loans;
		(c) <i>shares</i> and other variable yield participations;
		(d) <i>units</i> in: <sup>1</sup>
		(i) <sup>1</sup> <i>UCITS schemes</i> ; <sup>1</sup>
		(ii) <sup>1</sup> <i>non-UCITS retail schemes</i> ; <sup>1</sup>
		(iii) <sup>1</sup> <i>recognised schemes</i> ; <sup>1</sup> and
		(iv) <sup>1</sup> any other <i>collective investment scheme</i> where the <i>insurer's</i> investment in the scheme is sufficiently small to be consistent with a prudent overall investment strategy, having regard to the investment policy of the scheme and the information available to the <i>insurer</i> to enable it to monitor the investment risk being taken by the scheme <sup>1</sup>
		(e) land, buildings and immovable property rights;
		(f) an <i>approved derivative</i> or <i>quasi-derivative</i> transaction that satisfies the conditions in <i>INSPRU 3.2.5 R</i> or an <i>approved stock lending transaction</i> <sup>2</sup> that satisfies the conditions in <i>INSPRU 3.2.36 R</i> .
	(B) <sup>1</sup>	Debts and claims
		(a) debts owed by <i>reinsurers</i> , including <i>reinsurers' shares of technical provisions</i> (but excluding amounts recoverable from an <i>ISPV*</i> );
		(b) deposits with and debts owed by ceding <i>undertakings</i> ;
		(c) debts owed by <i>policyholders</i> and intermediaries <sup>2</sup> arising out of direct and <i>reinsurance</i> operations (except where overdue for more than 3 months and other than <i>commission</i> prepaid to agents or intermediaries <sup>2</sup> );
		(d) for <i>general insurance business</i> only, claims arising out of salvage and subrogation;
		(e) for <i>long-term insurance business</i> only, advances secured on, and not exceeding the <i>surrender value</i> of, <i>long-term insurance contracts</i> issued by the

			<i>insurer</i> ;
		(f)	tax recoveries;
		(g)	claims against <i>compensation funds</i> .
	(C) <sup>1</sup>	Other assets	
		(a)	tangible fixed assets, other than land and buildings;
		(b)	cash at <i>bank</i> and in hand, <i>deposits</i> with <i>credit institutions</i> and any other bodies authorised to receive <i>deposits</i> ;
		(c)	for <i>general insurance business</i> only, <i>deferred acquisition costs</i> ;
		(d)	accrued interest and rent, other accrued income and prepayments;
		(e)	for <i>long-term insurance business</i> only, reversionary interests.
		*	An <i>insurer</i> <sup>1</sup> may treat amounts recoverable from an <i>ISPV</i> as an <i>admissible asset</i> if it obtains a <i>capital resources</i> under section 148 of the <i>Act</i> . The conditions that will need to be met, in addition to the statutory tests under section 148(4) of the <i>Act</i> , before the <i>FSA</i> will consider granting such a <i>capital resources</i> are set out in <a href="#">INSPRU 1.6.13 G</a> to <a href="#">INSPRU 1.6.18 G</a> .
(2) <sup>1</sup>	Subject to (3), where an asset would, but for this paragraph, be capable of falling into paragraph (1)(A)(d) above and one or more other categories in paragraph (1) above, that asset is only capable of falling into paragraph (1)(A)(d).		
(3) <sup>1</sup>	Where an asset would, but for this paragraph, be capable of falling into paragraph (1)(A)(f) above and one or more other categories in paragraph (1) above, that asset is only capable of falling into paragraph (1)(A)(f).		

### INSPRU 2.2.1 **R**

#### Application

---

INSPRU 2.2 applies to an *insurer* unless it is:

- (1) a *non-directive friendly society*; or
- (2) a *Swiss general insurer*; or
- (3) an *EEA-deposit insurer*; or
- (4) an *incoming EEA firm*; or
- (5) an *incoming Treaty firm*.

### INSPRU 2.2.2 **G**

The scope of application of [INSPRU 2.2](#) is not restricted to *firms* that are subject to the relevant EC directives.

### INSPRU 2.2.3 **R**

[INSPRU 2.2](#) applies to a *firm* only in relation to its *general insurance business*.

### INSPRU 2.2.4 **G**

The adequacy of a *firm's* financial resources needs to be assessed in relation to all the activities of the *firm* and the risks to which they give rise.

**INSPRU 2.2.10 R**

**Calculation of asset-related capital requirement**

A *firm* must calculate its *asset-related capital requirement* in accordance with [INSPRU 2.2.11 R](#).

**INSPRU 2.2.11 R**

- (1) The value of each of the *firm's* assets of a kind listed in the table in [INSPRU 2.2.16 R](#) must be multiplied by the corresponding capital charge factor.
- (2) If any amount which is to be multiplied by a capital charge factor is a negative amount, that amount shall be treated as zero.
- (3) No account shall be taken of:
  - (a) the value of any asset which is not an *admissible asset*;
  - (b) the amount (if any) by which the value of any assets exceeds the limits on exposures to a type of asset or *counterparty* as set out in [INSPRU 2.1.22 R](#).
- (4) Where a *firm* has entered into a *derivative*, then for the purposes of applying the appropriate capital charge factor as set out in [INSPRU 2.2.16 R](#), it must treat the value of the *derivative* and the value of the asset associated with the *derivative* as a single asset of a type and value which most closely reflects the economic risk to the *firm* of the combined rights and obligations associated with the *derivative* and the asset associated with the *derivative*.
- (5) The amounts resulting from multiplying each of the asset items referred to in (1) by the corresponding capital charge factor must be aggregated.
- (6) The *asset-related capital requirement* is the amount resulting from the aggregation in (5).

**INSPRU 2.2.16 R**

Table: Asset-related capital charge factors

Asset item			ECR asset-related capital charge factor
Investments	Land and Buildings		7.5%
	Investments in group undertakings and participating interests	Shares in group undertakings excluding participating interests	0%
		Other	7.5%
		Debt securities issued by, and loans to, group undertakings	3.5%
		Participating interests	7.5%
		Debt securities issued by, and loans to, undertakings in which the insurer has a participating interest	3.5%

Asset item			ECR asset-related capital charge factor
Other financial investments	Shares and other variable-yield securities and units in unit trusts		16.0%
	Money market funds		0%
	Debt securities and other fixed income securities	Approved securities	3.5%
		Other	3.5%
	Participation in investment pools		16.0%
	Loans secured by mortgages		2.5%
	Other loans		2.5%
	Deposits with approved credit institutions and approved financial institutions		0%
	Other		7.5%
	Deposits with ceding undertakings		3.5%
Reinsurers' share of technical provisions	Provision for unearned premium		2.5%
	Claims outstanding		2.5%
	Other		2.5%
Debtors	Debtors arising out of direct insurance operations	Policyholders	4.5%
		Intermediaries	3.5%
	Debtors arising out of reinsurance operations		2.5%
	Other debtors		1.5%
	Called up share capital not paid		0%
Other Assets	Tangible assets		7.5%
	Cash at bank and in hand		0%
	Other		0%
Prepayments and accrued income	Accrued interest and rent		0%
	Deferred acquisition costs		0%
	Other prepayments and accrued income		0%

(1) The asset-related capital charge factor for money market funds set out in the Table [INSPRU 2.2.16 R](#) must be applied to exposures to funds that meet the definition in (2).

(2) In [INSPRU 2.2](#) an investment in a money market fund means a participation in a *collective investment scheme* which satisfies the following conditions:

© Copyright Prime Rate Capital Management LLP. All rights reserved.

Prime Rate Capital Management LLP is authorised and regulated by the Financial Services Authority.

(a) the primary investment objective of the *collective investment scheme* is:

(i) to maintain the net asset value of the *collective investment scheme* constant at par (net of earnings); or

(ii) to maintain the net asset value of the *collective investment scheme* at the value of investors' initial capital plus earnings;

(b) in order to pursue its primary investment objective the *collective investment scheme* invests exclusively in cash or in short term instruments with characteristics similar to cash or both; and

(c) the *collective investment scheme* undertakes to abide by the following conditions:

(i) not to allow the assets held in the *collective investment scheme* to exceed a weighted average maturity of 60 days;

(ii) not to invest in equity or securities with characteristics similar to equity; and

(iii) on a basis of marking-to-market at least weekly, not to permit the value of each *collective investment scheme* unit at any point in time to move by more than 50 basis points (0.5% of total *collective investment scheme* value).

### INSPRU 2.1.33 **R**

#### Exposures excluded from limits

In [INSPRU 2.1.20 R](#) and [INSPRU 2.1.22 R](#), references to a *counterparty* exposure or an asset exposure do not include such an exposure arising from:

- (1) [deleted]
- (2) *premium* debts;
- (3) advances secured on, and not exceeding the *surrender value* of, *long-term insurance contracts* of the *firm*;
- (4) rights of salvage or subrogation;
- (5) *deferred acquisition costs*;
- (6) assets held to cover *index-linked liabilities* or *property-linked liabilities*, except that where the *linked long-term contract of insurance* in question includes a guarantee of investment performance or some other guaranteed benefit, [INSPRU 2.1.20 R](#) and [INSPRU 2.1.22 R](#) will nevertheless apply to assets held to cover that guaranteed element;
- (7) *moneys* due from, or guaranteed by, a *Zone A country*;
- (8) an *approved security*;
- (9) a holding in a *collective investment scheme* falling within the *UCITS Directive*.

## INSPRU 2.2.17 **R**

### Application of INSPRU 2.2 to Lloyd's

---

INSPRU 2.2 applies to *managing agents* and to the *Society* in accordance with:

- (1) for *managing agents*, INSPRU 8.1.4 R; and
- (2) for the *Society*, INSPRU 8.1.2 R

## INSPRU 2.2.18 **R**

This chapter applies to the *Society* for each *member*, including the capital charge relating to *central assets*, to the extent that those assets are held to support a particular *member*.

## INSPRU 8.1.2 **R**

If a provision in *INSPRU* or *GENPRU* applies to the *Society* "in accordance with" this *rule*, the *Society* must:

- (1) manage each *member's funds at Lloyd's*;
- (2) manage its *central assets*; and
- (3) supervise the *insurance business* carried on by each *member* at Lloyd's;

so as to achieve in relation to those assets and that *insurance business* the same effect as the relevant *INSPRU* or *GENPRU* provision would have (that is, conforming with the requirements of any *rule* and taking appropriate account of any applicable *guidance*), when applied to a *firm* or to the *insurance business* of a *firm*.

## INSPRU 8.1.3 **G**

The *Society* is subject to *INSPRU* and *GENPRU rules* in respect of the *insurance business* of each Lloyd's *member*. These include *rules* in respect of:

- (1) the calculation of the *capital resources requirements* for each *member*;
- (2) the financial resources it manages on behalf of *members*; and
- (3) the *Society's* own financial resources.

## INSPRU 8.1.4 **R**

If a provision in *INSPRU* or *GENPRU* applies to a *managing agents* "in accordance with" this *rule*, the *managing agent* must, in relation to each *syndicate* managed by it and for each *syndicate* year, manage:

- (1) the *syndicate assets*; and
- (2) the *insurance business* carried on by the *members* of the *syndicate* through that *syndicate*;

so as to achieve in relation to those assets and that *insurance business* the same effect as the relevant *INSPRU* or *GENPRU* provision would have (that is, conforming with the requirements of any *rule* and taking appropriate account of any applicable *guidance*) when applied to a *firm* or to the *insurance business* of a *firm*.