



**The Actuarial Profession**

making financial sense of the future

consultation response

# **CP 07/07 Permitted Links for Long Term Insurance Business**

**6 July 2007**

This response has been prepared by the Life Board of the UK Actuarial Profession.

We apologise for the delay in responding to your consultation paper on *Permitted Links for Long Term Insurance Business (CP 07/07)*. While being generally supportive of the changes you are proposing, we would like to make a few comments:

1. The proposed rules seem to prevent annuities and other benefits being linked to indices such as National Average Earnings, the Consumer Prices Index and possibly to LIBOR, bank base rates and other interest rate “indices”, which we would have thought should be possible as there would not seem to be any significant risk of consumer disadvantage. To allow linking to such indices by way of waivers would appear to be an unnecessary use of the FSA’s waiver process. Any concerns about the impact on solvency as a result of linking to such indices should be covered within the capital and matching rules.
2. There would appear to remain the possibility of a conflict between the requirements for prudence and for treating policyholders fairly in relation to tax recoveries. Companies should not systematically over or under credit tax assets to linked funds. However, there is also a need to ensure that what would be good practice from a treating customers fairly perspective does not have negative consequences on companies' solvency or financial results as a result of accounting or solvency regulations. We consider that further guidance would be useful in this area.
3. Life funds will be permitted to invest in UCITS3 funds which may have much greater freedom regarding investment in derivatives. This may be considered as a means of bypassing the FSA’s permitted links rules in INSPRU 3.2. However, we understand that your scope for harmonising the rules is constrained by EU directives in which case there may not be an alternative. It would be worth clarifying if this is the case.
4. It would be useful if you could provide a rationale for moving the permitted links rules from the Interim Prudential Sourcebook to the Conduct of Business rules and explain what the implications of this move are, including any impact on the geographical scope of the permitted links rules.