



# Offshore investments

## Safeguarding offshore investments

In today's uncertain economic climate, it's only natural that investors want to know what measures are in place to protect their investments, should something unforeseen happen. With an offshore investment, it's important to understand the regulatory environment and the protection that it provides.

### ▶ **CMI Insurance Company Limited**

Clerical Medical's offshore products are issued by CMI Insurance Company Limited (CMI), a limited company based on the Isle of Man. CMI is Clerical Medical's specialist offshore life company which is part of the Lloyds Banking Group, one of the biggest financial service providers in the UK – offering additional strength and security. The group serves over 30 million people and one in three people bank with us.

### ▶ **Clearly defined structure**

Each company within the Lloyds Banking Group, including CMI, is set up as a separate legal entity with its own rights and responsibilities. This means the assets of each company within the Lloyds Banking Group are ring-fenced from those of other companies within the Group in accordance with company law. So, each part of the Group will not be liable for any debts of another. The only exception would be if a particular part of the Group had provided a specific guarantee against another's obligations. This does not apply to us.

### ▶ **Policyholder protection**

There are two major concerns for all investors – the financial security of their product provider and the security of the assets in which their money is ultimately invested.

### **Security of Isle of Man (IoM) based product providers**

Under the IoM Insurance Act 2008, an authorised insurer of long-term business is required to keep its accounts in respect of the long-term business separate from any accounts kept in respect of any other business. All receipts (including money received in premiums) must be held within a special fund, which is often referred to as the long-term business fund. The assets of the long-term business fund are used to meet the future policy claims, or liabilities, of the long-term policies issued, together with those liabilities which have already fallen due for payment.

The assets of the long-term business fund shall be applicable only for the purposes of long-term business. Assets can only be transferred out of the long-term business fund if they exceed the certified value of the liabilities – and then only with the authority of a resolution of the directors of the company and the written consent of the actuary of the company. Each year the appointed actuary certifies, within the financial statements of the company, that in their opinion at the balance sheet date, the aggregate amount of liabilities in respect of long-term business does not exceed the amount stated in the balance sheet as representing the long-term business fund.

### Solvency

By law, every insurance company based on the IoM has to maintain a minimum solvency margin of 0.25% of its total assets. This is the minimum amount of capital that must be kept aside by the company and ensures that it always has sufficient liquidity to meet the liabilities of its policyholders. In other words, for every £10,000 worth of liabilities, we must hold assets of at least £10,025.

Our current solvency position is in excess of this minimum requirement.

In addition, individual policyholders also enjoy the protection of the **Isle of Man Life Assurance (Compensation of Policyholders) Regulations 1991**.

This scheme provides investors with compensation in the unlikely event that an IoM life assurance company is unable to meet its liabilities. So, if we were to become insolvent, investors could claim under the scheme and receive up to 90% of the liability due to them.

### Why might an insurance company become insolvent?

One way that an insurance company might find itself unable to meet its liabilities is by writing guaranteed business such as annuities. If a large number of annuitants were to exceed their life expectancy, a company could find itself making income payments long after the client's initial investment has been used up. **We do not write guaranteed annuity business.**

Another reason why an insurance company may find itself unable to meet its liabilities is from guaranteed insurance business. **Again we do not write this type of business.**

For more information, please visit [www.gov.im/lib/docs/ipa/qa.pdf](http://www.gov.im/lib/docs/ipa/qa.pdf).

### Security of underlying assets

**The Isle of Man Life Assurance (Compensation of Policyholders) Regulations don't apply if a fund manager or deposit taking institution chosen by an investor or adviser, becomes insolvent.**

In this situation, any right to compensation will be determined by whether the investor compensation scheme operating in the jurisdiction where the assets are based includes institutional investors like us.

### Security of cash deposits

Cash deposits placed with banks licensed in the IoM are covered by the **Isle of Man Compensation of Depositors Regulations 2008**.

This legislation pays compensation in the event that an IoM banking institution should become insolvent. All IoM licensed banks must be members of this scheme unless they don't accept retail deposits, in which case they can apply for an exemption.

The scheme covers individual depositors up to a maximum of £50,000. Non-individual depositors, including charities and businesses are covered up to a maximum of £20,000.

As the legal and beneficial owner of any cash and/or assets held within its products, we are the depositor and can claim under this scheme. However, we can only make one claim, of up to a maximum of £20,000, on all our deposits held at an individual bank and this amount would have to be spread proportionately across all policyholders invested in that particular deposit taker.

If deposits are placed with a bank which isn't licensed under the Isle of Man Banking Act, (for example banks based in the UK, Ireland, Jersey, Guernsey, Europe etc) and that bank should become insolvent, then we won't be able to claim compensation under the Isle of Man Banking Business (Compensation of Depositors) Scheme. In this case, we would seek compensation under any equivalent compensation scheme in the bank's home country.

For banks based in the UK the **UK Financial Services Compensation Scheme (FSCS)** currently provides protection to individuals of up to £50,000. However, unfortunately, this legislation doesn't apply to deposits on behalf of IoM based institutional investors like us.

On 24 October 2008, the Irish Government introduced legislation which safeguards deposits in certain specified Irish banks and their subsidiaries. This legislation was extended by the introduction of the 'ELG Scheme' on 9 December 2009. For more information, please visit [www.finance.gov.ie](http://www.finance.gov.ie).

Any offshore investor who is looking to place a significant part of their investment on deposit should consider carefully the financial strength/solvency of the banks that they are using. In addition they should look to reduce their risk by spreading their deposits across several deposit takers from groups with different banking licences. Within the Lloyds Banking Group, a number of separate banking licences are held. Further information regarding the banking licences held is available on request.

### Security of cash accounts

Cash held within the cash account is deposited with one or more banks, each of which has a Standard and Poor's credit rating equal to at least A.

**We do not accept any liability for the loss in value of a bond because of the failure by a bank to return cash in the cash account linked to it.**

### Security of other assets

Most types of UK based investment business (including OEICs and Unit Trusts) are covered by the FSCS. Individual investors may be entitled to compensation from the FSCS if the product provider cannot meet their obligations. This depends on the type of business and the circumstances of the claim. Most types of investment business are covered for 100% of the first £50,000 of any claim.

**This legislation protects individual investors and certain small businesses, so doesn't apply to investments placed by institutional investors like us.**

Non-UK investment business is not covered by the FSCS and separate compensation schemes may apply.

## The Isle of Man

The Isle of Man (IoM) is one of the largest and long established offshore insurance and investment centres in the world. It is home to the offshore operations of many of the UK's leading insurance companies.

The IoM was the first jurisdiction to gain Designated Territory status. This Status is only given to territories with a regulatory environment that is equal to (or better than) that available in the UK.

The IoM has an outstanding reputation for investor protection and security, enforced by the Isle of Man Government Insurance and Pensions Authority (IPA) and the Financial Supervision Commission (FSC).

### Summary

- The IoM is a well-established and well-respected financial centre with a regulatory environment which is at least as good as the UK.
- We are a leading offshore provider, and a part of one of the UK's biggest financial service providers.
- Our assets are ring fenced from other companies in the Lloyds Banking Group.
- We have a solvency margin higher than the regulatory minimum.
- Legislation exists to protect individual policyholders in the event that we (or any other IoM based financial services company) become insolvent.
- Underlying assets are not covered by IoM Compensation of Policyholders legislation.

### More information

For more detailed information about the various compensation schemes, please visit:

- Financial Supervision Commission – [www.gov.im/fsc](http://www.gov.im/fsc)
- Insurance & Pensions Authority – [www.gov.im/ipa](http://www.gov.im/ipa)
- Financial Services Compensation Scheme – [www.fscs.org.uk](http://www.fscs.org.uk)
- Irish Department of Finance – [www.finance.gov.ie](http://www.finance.gov.ie)

All information is correct as at April 2010.

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**[www.offshore.clericalmedical.com](http://www.offshore.clericalmedical.com)**

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Financial Services Authority rules are made under the Financial Services and Markets Act 2000 for the protection of investors and apply to investment business conducted in or from the UK. Holders of policies issued by the company will not be protected by the Financial Services Compensation Scheme if the company becomes unable to meet its liabilities to them. CMI Insurance Company Limited is supervised by the Regulatory Authorities in the Isle of Man and its policyholders receive the protection of the Life Assurance (Compensation of Policyholders) Regulations 1991.