



# Onshore investments

## Safeguarding onshore investments

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

### ▶ Clerical Medical

Clerical Medical's onshore policies are issued by Clerical Medical Investment Group Ltd which is part of the Lloyds Banking Group, one of the largest financial service providers in the UK – offering additional strength and security. The group serves over 30 million people and one in three people in the UK bank with us.

### ▶ Clearly defined structure

Each company within the Lloyds Banking Group, including Clerical Medical Investment Group Ltd, is set up as a separate legal entity with its own rights and responsibilities. This means that 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. Therefore, 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 policyholders – the financial security of their product provider and the security of the funds in which their money is invested.

### Security of UK based product providers

UK life insurance companies are required to maintain a minimum long term insurance capital in addition to the reserves – this is the minimum amount of capital that must be kept aside by the company and ensures that it is always able to meet the liabilities of its policyholders:

- 1 Capital of at least 4% of reserves.
- 2 0.3% of total sum assured at risk.

For unit-linked products without guarantees, the first of these is reduced. 4% of non unit-linked liabilities must still be held. The unit-linked liabilities are ring-fenced for policyholders so, for unit-linked products, the long-term insurance capital requirement on unit liabilities is reduced, in many cases to 25% of administration expenses.

Our solvency position is in excess of this minimum requirement.

Where a policyholder invests directly into an OEIC or ISA, this is not classed as long term insurance. The unit-linked liabilities are ring-fenced for policyholders. On top of this there is a capital requirement for HBOS Investment Fund Managers Ltd (HIFML) to hold 25% of the previous year's administration expenses. HIFML are the provider of our ISAs and OEICs.

As well as being safeguarded by these measures, individual policyholders also enjoy the protection of the UK **Financial Services Compensation Scheme (FSCS)**.

- This scheme provides policyholders with compensation in the unlikely event that a UK life insurance company is unable to meet its liabilities. The limit for **long-term insurance (eg pensions and life assurance, including investment bonds)** is 90% of your claim.
- There is **no** upper limit to the amount that may be claimed.
- **All of our life and pensions policies** fall under the long-term insurance contract category. They are not classed as investments under the scheme rules.
- Our ISAs and OEICs are classed as investment business under the scheme rules. The scheme covers 100% of your claim up to a maximum of £50,000.

### *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 may find that the mortality cross subsidy is insufficient to meet its obligations.

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

### **Security of underlying funds**

Most of our unit-linked life and pensions funds invest in OEICs and Unit Trusts. These are covered under the investment part of FSCS, which has different rules to the long-term insurance part. For individual investors, most types of investment business transacted on or after 28 August 1988 are covered. From 1 January 2010, 100% of a claim is covered, up to a maximum of £50,000.

If an investment management firm that manages the underlying assets of a specific fund becomes insolvent, large companies like us would not be able to claim under the investment scheme.

For the avoidance of doubt, the same rules also apply to cash funds – they are not covered under the depositor protection rules.

### **Summary**

- We are a leading provider of life and pensions products, backed by one of the UK's biggest financial services groups.
- Our assets are ring fenced from other companies in the Lloyds Banking Group.
- We have a solvency margin higher than the regulatory minimum.
- Legislation provides some protection to individual policyholders in the unlikely event that we become insolvent.
- Separate rules apply for the protection of the assets held within our funds.

### **More information**

For more detailed information about the Financial Services Compensation Scheme please visit: [www.fscs.org.uk](http://www.fscs.org.uk)

The information in this leaflet reflects our understanding of the regulatory environment as at January 2010.

This item is aimed at financial advisers only. If you reproduce any part of this information to use with retail clients, you must ensure it conforms to the Financial Promotions rules. In addition, if used to advise retail clients, you are subject to the advising and selling rules.

[www.clericalmedical.co.uk](http://www.clericalmedical.co.uk)

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