



Investor protection on 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. This is especially important should something unforeseen happen, for example, the product provider they are invested with becoming insolvent. With an offshore investment, it's important to understand the regulatory environment and the protection that it provides.

CMI Insurance Company Limited

Scottish Widows' offshore products are provided by CMI Insurance Company Limited (CMI), a limited company based on the Isle of Man. Both CMI and Scottish Widows are part of the Lloyds Banking Group, one of the biggest financial service providers in the UK. The group serves over 30 million people and one in three people in the UK bank with it.

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 CMI.

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 that the aggregate liabilities for long-term business don't exceed the long-term business fund stated in the balance sheet. This is certified within the financial statements of the company, at the balance sheet date.

Solvency

By law, every insurance company based on the IoM has to maintain a minimum solvency margin of 0.25% of its total liabilities. This is the minimum amount of capital that must be kept aside by the company to meet the liabilities to its policyholders.

CMI's 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 event that an IoM life assurance company is unable to meet its liabilities. So, if CMI 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 for much longer than it had originally expected. **CMI does 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 CMI doesn't write this type of business.**

For more information, please visit 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, or by CMI for its pooled cash account monies, 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 CMI.

Security of cash deposits

Cash deposits placed with banks licensed in the IoM are covered by the **Isle of Man Depositors' Compensation Scheme Regulations 2010.**

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, CMI is the depositor and can claim under this scheme. However, CMI can only make one claim, of up to a maximum of £20,000, on all its deposits held at an individual bank and this amount would have to be spread proportionately across all CMI policyholders who hold products invested with that particular deposit taker. This may mean in practice that individual policyholders receive very little benefit.

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 CMI won't be able to claim compensation under the Isle of Man Depositors' Compensation Scheme Regulations 2010. In this case, CMI 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 CMI.

For more information on deposits into Irish banks, please visit 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.

CMI does 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 CMI.**

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 a long-established offshore insurance and investment centre, and is one of the largest 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 a good reputation for investor protection and security, enforced by the Isle of Man Government Insurance and Pensions Authority (IPA) and the Financial Supervision Commission (FSC).

More information

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

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

All information is correct as at August 2011. Please note that the details of compensation schemes may change over time.

Summary

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

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As part of the Lloyds Banking Group, Scottish Widows is proud to be an Official Provider of the London 2012 Olympic and Paralympic Games.

Scottish Widows is a trading name of CMI Insurance Company Limited.

Issued by CMI Insurance Company Limited, registered in Isle of Man number 33520. Registered office in the Isle of Man at Clerical Medical House, Victoria Road, Douglas, Isle of Man IM99 1LT. Authorised by the Isle of Man Insurance and Pensions Authority.

Approved by Clerical Medical Financial Services Limited, registered in England number 2114901. Registered office in the United Kingdom at 33 Old Broad Street, London EC2N 1HZ, England. Authorised and regulated by the Financial Services Authority. Our FSA register number is 142779.

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