International

About CLI Institutional Limited

CLI Institutional Limited ('CLII') is an Isle of Man resident insurance company regulated by the Isle of Man Financial Services Authority. It is a wholly owned subsidiary of Canada Life International Limited and part of the Great West Lifeco group of companies.

It was established in response to market demand for a life insurance company that could offer a more transparent approach to, and clearer assessment of, policyholder risk. Since its formation CLII has continually developed expertise in providing wealth management solutions for UK and international clients alike. It works in close partnership with some of the world's largest investment and tax specialists and continues to receive excellent ratings from specialist independent agencies in relation to financial strength, unit-linked business and commitment to service.

As part of the Great West Lifeco group, CLII is a constituent of the Financial Times Global 500 world's largest companies with combined assets under management of £942bn as at 30 June 2019. CLII has a strong platform for continued growth as a world-class financial services provider. Great West Lifeco and its subsidiaries have received strong ratings from major ratings agencies. The latest ratings are available on the 'About Us' part of our website, **www.canadalifeint.com**.

About the Isle of Man

The Isle of Man is an internally self-governing dependent territory of the British Crown and is not part of the United Kingdom (UK). The UK however has responsibility for the Isle of Man's external affairs on matters such as defence and international relations.

Isle of Man residents exercise their extensive political and legislative independence through their ancient parliament, Tynwald, which is the oldest legislature in continuous existence. Tynwald celebrated 1,000 years of continuous parliament in 1979.

CLII's business

CLII's constitutional documents, regulatory licence and operating procedures place constraints on the types of business CLII can write and to whom CLII can issue life assurance policies. These constraints have been imposed with the policyholder in mind; to ensure CLII's policyholders are protected from certain business risks other insurance companies take, and which policyholders generally have no control over.

CLII can only issue 'linked long-term' or 'unit-linked' life assurance policies. It cannot undertake any other form of insurance business such as with profits, guaranteed or whole of life risk business.
Unit-linked business is where the value of the benefits is determined wholly (bar a nominal amount) by reference to the value of investments owned by the insurance company. This is the least risky type of insurance business for an insurance company to undertake.

For every £1 of benefit under a unit linked policy, CLII will hold £1 of investments on its balance sheet. There is no re-insurance risk as there is no risk to lay off. The only risk for CLII to manage is fraud and this is dealt with through custody arrangements with a number of regulated custodians.

CLII will not issue policies that would be classed as personal portfolio bonds for UK tax purposes. Personal portfolio bonds are not favoured by HMRC and in certain circumstances can create unwelcome balance sheet pressures.

Typically CLII will only issue unit-linked life assurance policies to UK resident individuals, companies, trusts and partnerships. However, in certain circumstances it will also issue unit-linked life assurance policies to non-UK resident companies, trusts or partnerships where they are directly or indirectly owned by, controlled by or otherwise associated with a UK resident person. By restricting the market in which CLII will operate, it is able to manage the jurisdictional risk, in particular the risk of litigation for mis-selling or unauthorised selling of life assurance policies. In the past a number of insurance companies have sold policies into overseas jurisdictions in breach of local regulatory requirements, with disastrous consequences.

Unlike most other international companies selling into the UK marketplace, CLII has just one charging structure for its unit-linked life assurance policies. This is an all-inclusive annual management charge. CLII has decided to not follow the traditional use of multiple charging structures such as a substantial upfront charge or an establishment charge over the first five years together with quarterly administration charges and dealing charges, in favour of a more simplified approach. This has the added benefit of ensuring the business of the company is sustainable in years when new business revenue is reduced. It follows that the risk of insolvency due to lack of revenue is less of an issue for CLII as it is for some offshore insurance companies.

What happens if…

CLII becomes insolvent?
The Isle of Man Insurance Act 2008 states 'the assets in the company's long-term business fund shall be available only for meeting the liabilities of the company attributable to its long-term business'. CLII is authorised to conduct Class 1 long-term business.

Policyholders of CLII policies will be protected by the Isle of Man Life Assurance (Compensation of Policyholders) Regulations 1991 if the company becomes unable to meet its liabilities to them. Should such a situation arise the compensation scheme would meet up to 90% of CLII's liabilities to its policyholders.

another Isle of Man insurance company becomes insolvent?
Should another company become insolvent the Isle of Man Government has, through a duly appointed Scheme Manager under the Isle of Man Life Assurance (Compensation for Policyholders) Regulations 1991, the authority to levy a charge of up to 2% of each Isle of Man insurance company's long-term business fund to meet the compensation being claimed by policyholders of the insolvent company. The purpose of this compensation scheme is to meet up to 90% of the insolvent company's liabilities in the event it cannot meet those liabilities.

an asset linked to the policy becomes insolvent?
The individual assets a policy is linked to are not covered by the Isle of Man Life Assurance (Compensation of Policyholders) Regulations 1991. This legislation only applies when an authorised Isle of Man insurance company becomes insolvent.

The compensation offered for an individual asset depends on the type of asset it is, the jurisdiction the asset is constituted in, whether it is authorised by a regulatory body and whether a relevant compensation scheme is in place. Therefore where there is concern about the level of compensation we would recommend contacting the individual organisation whose investments are being considered.

Some compensation schemes in other jurisdictions have a maximum amount they will pay out to each client. As the asset will be owned by CLII there will only be one holder of an asset although several investors may have policies linked to the asset value. The compensation scheme may only recognise CLII as one investor and therefore any compensation may have to be split across all the relevant CLII policyholders, as would be the case with any life assurance or other company in this situation.

What is the possibility of…

CLII becoming insolvent?
CLII has no with profits fund, no guaranteed book and no risk-based business. CLII's investment business is unit-linked life assurance, all of which is sold into the UK market.

The Isle of Man Financial Services Authority monitors the management and financial strength of such companies. In addition, CLII has low fixed costs in relation to the size of its long-term business fund and new premium income, and operates stringent financial controls.

another Isle of Man insurance company becoming insolvent?
Many Isle of Man insurance companies operate in a variety of different markets, including guaranteed and risk based insurance. The regulators closely monitor the activities and financial strength of these companies, however the inclusions of these areas can put pressure on the long-term business fund. Whilst this is a more remote possibility than in some other jurisdictions it does not remove the pressure these types of business can add.

an asset linked to the policy becoming insolvent?
CLII is not responsible for the selection of the underlying assets and is unable to comment on the suitability and stability of the assets chosen by the policyholders. Assessment of the individual assets should be a matter for discussion between the policyholder and their professional adviser.

This document is based on CLI Institutional Limited's understanding of the applicable Manx law as at August 2019 and is provided solely for general consideration.

canada life International

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