HMRC - IPT04265 - Long-Term Business: Definition Of

This section offers general guidelines by which to identify long term insurance.

Perhaps the most obvious way of spotting a long-term policy is that only a company authorised to write long-term business may underwrite it. After this, the distinctions between long term and general business are not always clear.

However, there is a distinction in case law between indemnity insurance and contingency insurance.

Indemnity insurance relates to a loss of some description and the insured is indemnified by a reference to the amount of their loss, for example home contents insurance usually contains an element of insurance against theft or burglary.

Under a contract relating to contingency insurance, a loss is not required in order that the insured might benefit under the policy. Instead, the contract is an agreement to pay a specified sum of money when a particular event occurs, whether or not that event actually constitutes a loss to the insured.

A “long term” policy is generally not a contract of indemnity; in that it pays out a sum of money on an event that, although may be inevitable, is uncertain in time. For example:

death (or a given date if death has not first occurred)

marriage

birth.Such policies do not attempt to provide a full indemnity and all that is necessary is for the insured event to occur. However, while general insurance policies are usually indemnity- based, and long-term policies are usually contingency-based, there are some exceptions. For example, a policy which pays out on accidental death is likely to be treated as a contingency contract, even though accidental death-only insurance usually falls under general insurance and is therefore liable to IPT (Permanent Health policies, are excluded from the definition of accidental death policies).

Therefore, it is not always correct to compare the distinction between contingency contracts and indemnity contracts to that between Schedule 1 part I business or part II business (see IPT04100).

Although some policies are described as classes of “long term” business, time limits are only specifically mentioned in two of the seven classes. These are class II, Marriage and Birth (written for a period of more than one year) and class IV, Permanent Health (written for a period of not less than five years, until normal retirement age or without time limit). However, any contract that is covered by Schedule 1 part II of the RAO 2001 may be treated as exempt even if they are cancelled or paid off early. For example, a life insurance contract written to cover a policyholder for one month, or a Permanent Health contract originally written without limit of time but which is terminated after 3 months.

Previous page

Next page