



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY

Consultation Paper | CP30/15

# Solvency II: applying EIOPA's Set 2, System of Governance and ORSA Guidelines

August 2015

Prudential Regulation Authority  
20 Moorgate  
London EC2R 6DA

Prudential Regulation Authority, registered office: 8 Lothbury, London EC2R 7HH.  
Registered in England and Wales No: 07854923



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Responses are requested by 30 September 2015.

**Please address any comments or enquiries to:**

Jack Middleton  
Prudential Regulation Authority  
20 Moorgate  
London  
EC2R 6DA

Email: [CP30\\_15@bankofengland.co.uk](mailto:CP30_15@bankofengland.co.uk)



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## 1 Overview

1.1 This paper consults on a draft supervisory statement setting out the Prudential Regulatory Authority's (PRA's) expectations of firms and its general approach to the following European Insurance and Occupational Pensions Authority's (EIOPA's) Guidelines:

- (i) Set 2 of the Solvency II Implementing Technical Standards (ITS) and Guidelines ('the Guidelines') published on 6 July 2015;
- (ii) on the System of Governance published on 3 February 2015; and
- (iii) on the Own Risk and Solvency Assessment (ORSA) published on 3 February 2015.<sup>1</sup>

1.2 This consultation does not include the PRA's expectations regarding the Guidelines on supervision of branches of third-country insurance undertakings which are the subject of *PRA Consultation Paper 31/15 'Solvency II: third-country insurance and pure reinsurance branches'*, August 2015.

1.3 This consultation is relevant to all UK firms within the scope of Solvency II and to Lloyd's.

1.4 It is the PRA's responsibility to make every effort to comply with EIOPA Guidelines and its intention is to comply with all of the Set 2, System of Governance and ORSA Guidelines. The PRA will be taking full account of the Guidelines in its ongoing supervision of the new Solvency II regulatory framework. The PRA expects firms to comply with all of the Guidelines that apply to them in a proportionate manner, in accordance with the principle set out in the Solvency II Directive.

1.5 The draft supervisory statement provides commentary on the following aspects of the EIOPA Set 2, System of Governance and ORSA Guidelines:

- recognition and valuation of assets and liabilities other than technical provisions;
- methods for determining the market shares for reporting;
- reporting for financial stability purposes;
- reporting and public disclosure; and
- ORSA.

1.6 EIOPA's Preparatory Guidelines on which the PRA set out its expectations in SS4/13<sup>2</sup> are replaced, with effect from 1 January 2016, by the EIOPA Guidelines. SS4/13 will therefore be withdrawn and replaced by the final version of this draft supervisory statement when the Guidelines come into effect.

1.7 Guidelines on the extension of the recovery period in exceptional adverse situations and on the exchange of information on a systematic basis within colleges apply exclusively to

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<sup>1</sup> EIOPA published the Guidelines on System of Governance and ORSA after the rest of the Set 1 Guidelines were issued; these Guidelines were not covered by *PRA Supervisory Statement 22/15, 'Solvency II: applying EIOPA's Set 1 Guidelines to PRA-authorized firms'*, July 2015, hence the need to consider them together with Set 2.

<sup>2</sup> *PRA Supervisory Statement 4/13, 'Solvency II: applying EIOPA's preparatory Guidelines to PRA-authorized firms'*, December 2013; <http://www.bankofengland.co.uk/pr/Pages/publications/solvency2preparatory.aspx>.

supervisory authorities and will be integrated into the PRA's internal processes. They do not form part of this consultation paper.

## 2 Statutory obligations

2.1 In determining general policy, the PRA must, so far as is reasonably practicable, act in a way that advances its general objective to promote the safety and soundness of PRA-<sup>3</sup> authorised firms; and its insurance objective of contributing to securing an appropriate degree of policyholder protection.<sup>4</sup>

2.2 The main objective of Solvency II, as set out in Article 27 of the Solvency II Directive, is the protection of policyholders and beneficiaries. In advancing the prudential strength of the regulatory regime, the Solvency II Directive will also promote the safety and soundness of insurers. This is consistent with the PRA's statutory objectives.

2.3 In establishing its practices and procedures, the PRA must have regard to the Regulatory Principles.<sup>5</sup> One of the Regulatory Principles is that regulators should exercise their functions as transparently as possible. The PRA has followed this principle by publishing this draft supervisory statement in order to provide greater clarity about its supervisory expectations in the context of the new regulatory regime.

## 3 Economic impact

3.1 As the draft statement does not impose additional requirements, relative to the requirements of the Solvency II Directive and the Solvency II Regulations, the PRA expects little additional costs. By clarifying the requirements set out in the Solvency II Directive and the Solvency II Regulations, this draft statement will help ensure consistent compliance across firms and will help realise the benefits set out in the Economic Analysis in CP16/14<sup>6</sup>.

3.2 Ensuring consistent compliance across firms would also help facilitate effective competition.

## 4 Next steps

4.1 This consultation closes on 30 September 2015. The PRA invites feedback on the proposals set out in this consultation. Responses should be sent to CP30\_15@bankofengland.co.uk

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<sup>3</sup> See s.2B(1) and s.2B(2) Financial Services and Markets Act 2000 (FSMA): [www.legislation.gov.uk/ukpga/2000/8/pdfs/ukpga\\_20000008\\_en.pdf](http://www.legislation.gov.uk/ukpga/2000/8/pdfs/ukpga_20000008_en.pdf).

<sup>4</sup> See s.2C FSMA.

<sup>5</sup> See s.2H and s.3B FSMA.

<sup>6</sup> *PRA Consultation Paper 16/14*, 'Transposition of Solvency II: Part 3', August 2014; <http://www.bankofengland.co.uk/pr/Documents/publications/cp/2014/cp1614.pdf>.

## Appendix

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- 1 Draft supervisory statement Solvency II: applying EIOPA's Set 2, System of Governance and ORSA Guidelines**

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## 1 Introduction

1.1 This draft supervisory statement is addressed to all UK firms that fall within the scope of Solvency II, and to Lloyd's. It sets out the Prudential Regulatory Authority's (PRA's) expectations of firms and its general approach to the following European Insurance and Occupational Pensions Authority's (EIOPA's) Guidelines:

- (i) Set 2 of the Solvency II Implementing Technical Standards (ITS) and Guidelines ('the Guidelines') published on 6 July 2015;
- (ii) on the System of Governance published on 3 February 2015; and
- (iii) on the Own Risk and Solvency Assessment (ORSA) published on 3 February 2015.<sup>1</sup>

1.2 Guidelines on supervision of branches of third-country insurance undertakings is covered in a separate draft supervisory statement included in *PRA Consultation Paper 31/15 'Solvency II: third-country insurance and pure reinsurance branches'*, August 2015.

1.3 This draft supervisory statement expands on the PRA's general approach set out in its approach to insurance supervision<sup>2</sup>. By clearly and consistently explaining its expectations of firms with respect to the particular areas addressed, the PRA seeks to advance its statutory objectives of ensuring the safety and soundness of the firms it regulates, and of securing an appropriate degree of protection for policyholders. The PRA has considered matters to which it is required to have regard, and it considers that this statement is compatible with the Regulatory Principles<sup>3</sup> and relevant provisions of the Legislative and Regulatory Reform Act 2006.<sup>4</sup> The PRA may not act in an unlawfully discriminatory manner. It is required, under the Equalities Act 2010, to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.<sup>5</sup>

1.4 The PRA does not expect that this draft supervisory statement would have any significant differential impact on mutuals, taking into account their proportionate application.

1.5 The PRA has consulted with the Financial Conduct Authority (FCA) on this draft supervisory statement.

## 2 Compliance with the Guidelines

2.1 It is the PRA's responsibility to make every effort to comply with EIOPA Guidelines and its intention is to comply with all of the Set 2, the System of Governance and the ORSA Guidelines. The PRA will take full account of the Guidelines in its ongoing supervision of the Solvency II regulatory framework.

2.2 The PRA expects firms to comply with all of the Set 2, System of Governance and ORSA Guidelines that apply to them, in a proportionate manner.

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<sup>1</sup> EIOPA published the Guidelines on System of Governance and ORSA after the rest of the Set 1 Guidelines were issued; these Guidelines were not covered by *PRA Supervisory Statement 22/15*, 'Solvency II: applying EIOPA's Set 1 Guidelines to PRA- authorised firms', July 2015, hence the need to consider them together with Set 2.

<sup>2</sup> PRA's approach to insurance supervision:  
[www.bankofengland.co.uk/publications/Documents/praapproach/insuranceappr1406.pdf](http://www.bankofengland.co.uk/publications/Documents/praapproach/insuranceappr1406.pdf).

<sup>3</sup> See s.2H and s.3B of the Financial Services and Markets Act 2000 (FSMA):  
[www.legislation.gov.uk/ukpga/2000/8/pdfs/ukpga\\_20000008\\_en.pdf](http://www.legislation.gov.uk/ukpga/2000/8/pdfs/ukpga_20000008_en.pdf).

<sup>4</sup> Legislative and Regulatory Act 2006: [www.legislation.gov.uk/ukpga/2006/51/contents](http://www.legislation.gov.uk/ukpga/2006/51/contents).

<sup>5</sup> Equality Act 2010, section 149(1).

2.3 This draft supervisory statement also provides further commentary on certain Guidelines where the PRA considers that this is useful for firms. Those Guidelines on which further commentary is provided are:

- recognition and valuation of assets and liabilities other than technical provisions;
- methods for determining the market shares for reporting;
- reporting for financial stability purposes;
- reporting and public disclosure; and
- ORSA.

### **3 Recognition and valuation of assets and liabilities other than technical provisions**

3.1 The PRA expects firms to comply with each of the Guidelines in all cases unless they intend to take advantage of the derogation in Article 9 (4) of the Commission Delegated Regulation (EU) 2015/35 ('the Delegated Regulation').

3.2 This derogation lays down criteria which, if met, allow a firm to recognise and value an asset or liability based on the valuation method it uses in preparing its annual or consolidated financial statements.

3.3 Where firms intend to take advantage of the Article 9 (4) derogation, they should still apply Guidelines 1, 2, 4, 5 and 8 to 11. They should also refer to SS38/15<sup>6</sup> in which the PRA set out its conclusions as to which financial reporting standards (FRS) are consistent with Article 75 of the Solvency II Directive and therefore within the possible scope of the derogation.

### **4 Methods for determining the market share for reporting**

4.1 The Guidelines set out the approach by which NCAs are to calculate these market shares.

4.2 In Supervisory Statement 11/15<sup>7</sup>, the PRA indicated that firms designated as either category 4 or 5 by the PRA, whether solo or part of a group, may meet the requirements of exemption from quarterly reporting. As indicated in Rule 2.2 (1) in the Reporting Part of the PRA Rulebook, this exemption, granted by waiver, is only available to firms that cumulatively represent less than 20% of a Member State's life and non-life insurance and reinsurance market shares respectively.

4.3 Firms should be aware that their eligibility for the exemption from quarterly reporting may change due to the re-categorisation of firms or recalculation of market shares in accordance with these Guidelines by the PRA. Should the PRA decide that a firm granted an exemption no longer meets the relevant statutory tests and the PRA Rule requirements, or determine that a firm becomes ineligible due to the re-categorisation of firms or recalculation of market shares,

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<sup>6</sup> PRA Supervisory Statement 38/15, 'Solvency II: consistency of UK general accepted accounting principles', August 2015; <http://www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss3815.aspx>.

<sup>7</sup> PRA Supervisory Statement 11/15, 'Solvency II: regulatory reporting and exemptions', March 2015; <http://www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss1115.aspx>.

it will notify the firm that its waiver will expire and provide the firm a reasonable timeframe in which to start submitting the full quarterly reporting.

## 5 Reporting for financial stability purposes

5.1 Guideline 2 defines the criteria to identify the firms that need to report for financial stability purposes. For paragraphs 1.18a and 1.18b, the PRA has determined that firms should report for financial stability reporting purposes, where their total assets or the equivalent in the national currency in the Solvency II balance sheet are equal to or more than €11 billion in total assets as at 30 June 2015. The PRA will advise those firms in-scope for financial stability reporting of this fact in due course.

5.2 Guidelines 4 and 5 relate to Regulation (EU) No. 1094/2010 ('the EIOPA Regulation'). In particular they provide guidance on how NCAs should collect data in accordance with Article 35 of the EIOPA Regulation.

## 6 Reporting and public disclosure

6.1 In accordance with the requirement of the PRA Rulebook, Composites 4.5, composite firms are required to prepare a statement on the basis of the accounts referred to in Composites 3.2 identifying the eligible own funds covering the notional MCRs of the life and non-life parts of the business. As the template Own Funds (S.23.01.01) does not provide space for composite firms to report eligible own funds separately for life and non-life business, the PRA expects composite firms to submit such statements, on an annual basis, within Section E Capital Management of the Regular Supervisory Report, as described in Annex XX of the Delegated Regulation.

## 7 Own Risk and Solvency Assessment (ORSA)

7.1 By 1 January 2016, firms will have had two years' experience of producing ORSAs. Therefore, the PRA expects that by that point, firms will be familiar with the concept of assessing risks on a forward-looking basis, covering business plan and strategy timelines, and reflecting the specific risk profile and governance mechanisms of each entity or group.

7.2 The PRA has provided general feedback to all firms on lessons learned from the first set of ORSAs. In addition, in SS26/15 the PRA has set out its expectations for non-life firms regarding the option of demonstrating that their risks have been projected to the ultimate time horizon.<sup>8</sup> Firms should ensure that they capture own capital needs and reflect business risk profiles over both the short-term and the long-term.

7.3 As part of its supervisory process, the PRA will continue to review ORSA reports on a risk-based and proportionate basis.

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<sup>8</sup> PRA Supervisory Statement 26/15, 'Solvency II: ORSA and the ultimate time horizon', June 2015; <http://www.bankofengland.co.uk/prs/Pages/publications/ss/2015/ss2615.aspx>.