



Intra-group reinsurance of MA business

The PRA considers that, regardless of whether the insurer and reinsurer are within the same group, Solvency II requires that the ceding entity's balance sheet must be valued independently of the reinsurer and similarly, the reinsurer's balance sheet must be valued independently of the cedant. In particular, the cedant should not take credit for any matching adjustment (MA) benefit available to the reinsurer.

In the case where an insurer has reinsured part of an insurance portfolio for which it has obtained approval to use the MA, then that approval relates only to the valuation of technical provisions of that insurer and does not automatically extend to any reinsuring entity that it cedes risks to. The PRA considers that the reinsuring entity can only take credit for any MA benefit where it demonstrates that it has met all the MA requirements. Firms will therefore need to apply for MA approval for the reinsuring entity in these cases.

In the group solvency calculation, in the case of intra-group reinsurance, any MA benefit received by the cedant on its retained risks will be preserved. Article 339(2) of the Delegated Act states that the consolidated group best estimate liabilities are the sum of the best estimate of the participating (re)insurance undertakings but in relation to intra-group reinsurance contracts the best estimate of the reinsurer shall not include the cash-flows arising from the obligations of the intra-group reinsurance contracts. On the basis of Article 230 of the Solvency II Directive, the PRA interprets Article 339 as allowing a further adjustment to the group consolidated best estimate liabilities to reflect the value of the reinsurer's MA benefits that would otherwise be lost. As a result any MA benefit received by the reinsurer on its own retained risks should also be preserved in the group solvency calculation.

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