



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY

Consultation Paper | CP31/15

# Solvency II: third-country insurance and pure reinsurance branches

August 2015

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Responses are requested by 30 September 2015.

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## 1 Overview

1.1 This paper consults on revisions to Supervisory Statement 10/15 ‘Solvency II: third-country branches’<sup>1</sup>, published in March 2015, concerning the Prudential Regulation Authority’s (PRA’s) approach to third-country insurance and reinsurance branches under the Solvency II Directive.

1.2 This consultation paper is relevant to non-EEA insurance undertakings that have a UK branch (third-country branch undertakings) including non-EEA insurance or reinsurance undertakings that have a UK branch that solely carries out reinsurance activities (a third-country pure reinsurance branch).

1.3 In the PRA’s consultation paper of August 2014 (CP16/14)<sup>2</sup>, the PRA explained that its approach to implementing Solvency II for third-country branches would be a two-stage process. The first stage, to transpose the Solvency II Directive provisions into the PRA Rulebook and to introduce a supervisory statement setting out expectations of third-country branch undertakings, has now been completed and is set out in the Policy Statement ‘Solvency II: a new regime for insurers’ of March 2015 (PS2/15)<sup>3</sup>. The second stage is to update and further clarify the PRA’s approach following the publication of the European Insurance and Occupational Pensions Authority (EIOPA) Guidelines related to third-country branches (the EIOPA Branch Guidelines), to which this consultation relates.

1.4 It is the PRA’s intention to comply with the EIOPA Branch Guidelines and to take full account of them in its on-going supervision of the new Solvency II regulatory framework for third-country branch undertakings.

1.5 The EIOPA Branch Guidelines apply only to third-country insurance undertakings which have branches that undertake direct insurance business. However the PRA’s rules for third-country branch undertakings also apply to undertakings which have UK branches that undertake only reinsurance business (a third-country pure reinsurance branch) which is consistent with the approach adopted in CP16/14<sup>4</sup>.

## 2 Main changes

The main changes to the supervisory statement are:

- The expectation that third-country branch undertakings comply with the requirements in the EIOPA Branch Guidelines that are relevant to them and comply with the rules in the PRA Rulebook that apply to third-country branch undertakings in line with the EIOPA Branch Guidelines and that undertakings with pure reinsurance branches also do so as if those guidelines applied to them.
- Details of how the PRA expects third-country branch undertakings to report to the PRA where those EIOPA Branch Guidelines permit the PRA to take a proportionate approach according to the nature, scale and complexity of the branch business.

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<sup>1</sup> PRA Supervisory Statement 10/15, ‘Solvency II: third-country branches’, March 2015; <http://www.bankofengland.co.uk/pru/Pages/publications/ss/2015/ss1015.aspx>

<sup>2</sup> PRA Consultation Paper 16/14, ‘Transposition of Solvency II: Part 3’, August 2014; <http://www.bankofengland.co.uk/pru/Pages/publications/cp/2014/cp1614.aspx>.

<sup>3</sup> PRA Policy Statement 2/15, ‘Solvency II: a new regime for insurers’, March 2015; <http://www.bankofengland.co.uk/pru/Pages/publications/ps/2015/ps215.aspx>.

<sup>4</sup> PRA Consultation Paper 16/14, ‘Transposition of Solvency II: Part 3’, August 2014; <http://www.bankofengland.co.uk/pru/Pages/publications/cp/2014/cp1614.aspx>.

- In particular, third-country branches will be required to use the XBRL format for reporting – further details can be found on the Taxonomy page<sup>5</sup> on the PRA’s website and provide an analysis of the home country winding-up regime.

### **3 Statutory obligations**

3.1 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- authorised firms and its insurance objective of contributing to securing an appropriate degree of policyholder protection.

3.2 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.

### **4 Equality and diversity**

4.1 The PRA has considered the equality and diversity aspects of the content of this consultation, and is satisfied that it does not give rise to equality and diversity implications.

### **5 Cost benefit analysis**

5.1 The draft supervisory statement sets out in more detail the reporting requirements consulted in CP16/14<sup>6</sup>. Whilst the XBRL requirement might lead to some additional cost, the PRA thinks that this will be minimal. In the PRA’s application of proportionality it has also set out limited reporting requirements for UK branches that are less significant.

5.2 The PRA has also considered the fact that the analysis of how the assets of the third-country branch undertakings would be distributed upon a winding up may take some time and cost to obtain. Where appropriate, the PRA will rely on relevant information obtained from other institutions, including information collected by EIOPA, and supervisors will take a proportionate approach to the reporting of branch assets on the appropriate basis whilst this information is being obtained and assessed.

5.3 The proposed amendment will ensure that the PRA has the necessary information to effectively monitor third-country branches and to protect policyholders in the event of winding-up.

### **6 Responses and next steps**

6.1 This consultation closes on 30 September 2015. The PRA invites feedback on the proposals set out in this consultation. Responses should be sent to CP31\_15@bankofengland.co.uk

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<sup>5</sup> *Bank of England manual*, ‘Bank of England Solvency II XBRL filing manual: For Solvency II XBRL filings to the Bank of England v1.0’, May 2015; <http://www.bankofengland.co.uk/pr/Pages/solvency2/taxonomy.aspx>.

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



## Appendix

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- 1 Draft supervisory statement Solvency II: third-country insurance and pure reinsurance branches**

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## 1 Introduction

1.1 This draft supervisory statement is addressed to non-EEA insurance undertakings that have a UK branch (third-country branch undertakings). This includes non-EEA insurance undertakings that have a UK branch that solely carries out reinsurance activities (a third-country pure reinsurance branch). It should be read alongside the Third-Country Branches Part of the Prudential Regulation Authority (PRA) Rulebook, any other rules in the PRA Rulebook that apply to third-country branch undertakings, the relevant European legislation, the European Insurance and Occupational Pension Authority's (EIOPA) third-country branches Guidelines (herein referred to as "the EIOPA Branch Guidelines") and the relevant provisions of the Financial Services and Markets Act 2000 (FSMA). It sets out the PRA's expectations of third-country branch undertakings.

1.2 This statement does not apply to Swiss General Insurers, as defined in the PRA Rulebook, to which different requirements apply pursuant to the Swiss Treaty Agreement (No. 91/370/EEC).

1.3 This draft statement expands on the PRA's general approach to supervision as set out in its insurance approach document.<sup>1</sup> By clearly and consistently explaining its expectations of firms in relation 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 contributing to securing an appropriate degree of protection for policyholders. The PRA has considered matters to which it is required to have regard and considers this statement to be compatible with the Regulatory Principles and relevant provisions of the Legislative and Regulatory Reform Act 2006. This statement is not expected to have any direct or indirect discriminatory impact under existing UK law. The PRA does not consider that this draft supervisory statement would have any different impact on mutuals.

## 2 Compliance with the Guidelines

2.1 The PRA expects third-country branch undertakings to comply with the EIOPA Branch Guidelines that are relevant to them and to comply with the rules in the PRA Rulebook that apply to third-country branch undertakings in light of the EIOPA Branch guidelines.

2.2 The PRA also expects third-country undertakings that have a third-country pure reinsurance branch to comply with the EIOPA Branch Guidelines that are relevant to them and to comply with the rules in the PRA Rulebook that apply to them in light of the EIOPA Branch Guidelines as if the scope of those Guidelines extended to them.

## 3 Important aspects of the EIOPA Branch Guidelines

3.1 The EIOPA Branch Guidelines require national supervisory authorities to exercise proportionate supervision methods to protect policyholders of a branch of a third-country insurance undertaking and list the methods that they are expected to use. Authorities are expected to assess the financial soundness (Guidelines 17 to 26) of the undertaking as a whole (see 'worldwide financial resources' below) and of the branch and ensure that the branch policyholders enjoy the same level of protection as those policyholders of an insurance undertaking situated in the EU.

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<sup>1</sup> PRA's approach to insurance supervision:  
[www.bankofengland.co.uk/publications/Documents/prapproach/insuranceappr1406.pdf](http://www.bankofengland.co.uk/publications/Documents/prapproach/insuranceappr1406.pdf)

3.2 The Guidelines provide, in the event of a winding up, that either all of the undertaking's assets should be available to pay policyholders in priority to other creditors without distinguishing between policyholders based on location, or that only those assets exclusively available to pay the claims of branch policyholders may be included in the calculation of branch assets (Guidelines 6 and 25).

3.3 The PRA is required to obtain an analysis of the winding up regime that would apply in order to understand the priority given to policyholders of the branch and how the assets of the third-country undertaking would be distributed to those policyholders (Guideline 4). The PRA expects third-country branch undertakings to provide such an analysis taking account of how that regime would apply to its circumstances. Alternatively, the PRA may have access to other relevant analyses provided by other institutions or through EIOPA and may be able to rely on these.

3.4 The EIOPA Branch Guidelines set out in Guidelines 37 to 50 the regular information that the PRA is expected to obtain from third-country insurance undertakings. This includes the supervisory report, the own risk and solvency assessment (ORSA) report in respect of branch operations, and the relevant quantitative templates in electronic form. The PRA is required to consider what quantitative reporting would be proportionate to the nature, scale and complexity of the risks inherent in the business of the branch and the PRA's approach is set out in section 6 of this supervisory statement.

## **4 Worldwide financial resources**

4.1 A third-country branch undertaking must maintain adequate worldwide financial resources and assess the adequacy of these resources. The PRA will consider the undertaking's compliance with the prudential regime under which it is supervised in its home country.

4.2 The PRA expects the third-country branch undertaking to provide the PRA with sufficient information so that the PRA may form an opinion on the adequacy of the worldwide financial resources of the undertaking.

4.3 Where the PRA assesses the home country regime to be broadly equivalent to the regime applied by the PRA to (re)insurers whose head office is in the United Kingdom, then compliance with the financial resources requirements of that prudential regime may be relied on by the third-country branch undertaking as tending to establish compliance with the PRA's worldwide financial resources rule. Contravention of financial resources requirements of that prudential regime may be relied on as tending to establish contravention of the PRA's worldwide financial resources rule.

4.4 Where that prudential regime is not broadly equivalent to the regime applied by the PRA to (re)insurers whose head office is in the United Kingdom, then the PRA will assess the adequacy of financial resources using the methods and techniques applicable to (re)insurers whose head office is in the United Kingdom.

## **5 Scheme of operations**

5.1 The PRA will ask for a scheme of operations that sets out all the information required under Third Country Branches Rule 5.1 as part of the application process for any third-country branch undertaking applying for a grant or variation of permission.

## 6 Annual, quarterly and Day 1 reporting requirements

6.1 In meeting the reporting requirements for third-country branch undertakings as set out in Third Country Branches Rule 9.1 the PRA expects third-country branch undertakings to use the reporting templates set out in the EIOPA Branch Guidelines. The Guidelines allow the PRA to decide which quarterly or annual quantitative reporting templates (QRTs) should be submitted by each third-country branch undertaking. All third-country branch undertakings are required to submit the 'Day 1' reporting QRTs (those covered under Guideline 58 of the EIOPA Branch Guidelines relating to the financial year starting on, or after, 1 January 2016 but before 1 July 2016).

6.2 Third-country branch undertakings should contact their usual supervisory contact to confirm which templates the PRA expects the undertaking to submit. The PRA's expectation is that reporting will fall into one of three groups:

- Group 1 - branches designated by the PRA as Category one, two or three undertakings;
- Group 2 - branches designated by the PRA as Category four or five undertakings; and
- Group 3 - branches that are pure reinsurance branches.

6.3 Full reporting is expected for branches allocated to group 1 and limited reporting from branches allocated to groups 2 and 3. All branches are expected to report minimum capital requirement (MCR) templates S.28.01.01 and S.28.02.01 on a quarterly basis.

6.4 The templates to be submitted for each of these three reporting groups are set out in table 1.

6.5 The Day 1 QRTs should be submitted no later than 20 weeks after the 1 January 2016 or later reference date if applicable (as set out in Guideline 58 of the EIOPA Branch Guidelines).

6.6 The PRA expects branches to use the XBRL format for the submission of the Day 1, quarterly and annual reporting QRTs.

6.7 The branch assets which may be included in the branch reporting templates depends upon the analysis of how branch assets would be distributed in a winding up. This is relevant where the winding up regime applicable to the third-country branch undertaking does not deliver the protection to branch policyholders that Solvency II requires. The analysis required to assess this may take some time to procure. Third-country branch undertakings should agree with the PRA through their normal supervisory contact a reasonable time for this to be obtained and the basis on which branch assets are reported while that analysis is being assessed.

6.8 The PRA expects third-country branch undertakings to agree with their supervisor the narrative reporting requirements as regards the whole undertaking's solvency (such as copies of the third-country regulatory reporting information submitted to the supervisory authority in the third-country ) as part of the regular supervisory reporting and the ORSA with regard to the branch operations.

6.9 Third-country branches should refer to Supervisory Statement 25/15- Solvency II: Reporting and public disclosure - options provided to supervisory authorities. SS25/15<sup>2</sup> specifies the PRA's approach where discretion is given to supervisory authorities in the instructions accompanying the QRTs. The supervisory statement sets out the PRA's expectations in the following areas that are relevant to branches:

- Accident or underwriting year reporting for templates, where this is relevant (section 4);
- Claim size bands for reporting loss distribution risk profile (section 5);
- Sum insured bands for reporting non-life distribution of underwriting risks by sum insured (section 6);
- Lines of business to be reported for the reporting non-life distribution of underwriting risks by sum insured (section 7);
- Reporting of annuities stemming from non-life obligations by currency (section 8); and
- Development of the distribution of reported but not settled (RBNS) claims - reporting of numbers of claims (section 9).

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**Table 1 Reporting templates**

Reporting group	Day 1- transitional information requirements	Quarterly reporting Quarters 1 and 3	Quarterly reporting Quarters 2 and 4	Annual reporting
<b>Full reporting – Group 1</b>	All QRTs as set out in the EIOPA Branch guidelines	All QRTs as set out in the EIOPA Branch Guidelines	All QRTs as set out in the EIOPA Branch Guidelines	All QRTs as set out in the EIOPA Branch Guidelines

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<sup>2</sup> PRA Supervisory Statement 25/15, 'Solvency II: reporting and public disclosure – options provided to supervisory authorities', August 2015; <http://www.bankofengland.co.uk/pru/Pages/publications/cp/2015/cp2515.aspx>.

Reporting group	Day 1- transitional information requirements	Quarterly reporting Quarters 1 and 3	Quarterly reporting Quarters 2 and 4	Annual reporting
<b>Limited reporting – Group 2</b>	All QRTs as set out in the EIOPA Branch Guidelines	S.01.01.08 S.01.02.07 S.28.01.01 S.28.02.01	S.01.01.08 S.01.02.07 S.02.01.08 S.23.01.07 S.28.01.01 S.28.02.01	S.01.01.07 S.01.02.07 S.01.03.01 S.02.01.07 S.02.02.01 S.02.03.07 S.03.01.01 S.03.02.01 S.03.03.01 S.05.01.01 S.06.02.07 S.09.01.01 S.12.01.01 S.14.01.01 S.16.01.01 S.17.01.01 S.22.01.01 S.22.05.01 S.23.01.07 S.23.03.07 S.25.01.01 S.25.02.01 S.25.03.01 S.28.01.01 S.28.02.01 S.31.01.01 SR.01.01.01 SR.12.01.01 SR.17.01.01 SR.25.01.01
<b>Limited reporting – Group 3</b>	All QRTs as set out in the EIOPA Branch Guidelines	S.01.01.08 S.01.02.07 S.28.01.01 S.28.02.01	S.01.01.08 S.01.02.07 S.28.01.01 S.28.02.01	S.01.01.07 S.01.02.07 S.01.03.01 S.02.01.07 S.02.02.01 S.02.03.07 S.03.01.01 S.03.02.01 S.03.03.01 S.05.01.01 S.06.02.07 S.09.01.01 S.12.01.01 S.14.01.01 S.17.01.01 S.22.01.01 S.22.05.01 S.23.01.07 S.23.03.07 S.25.01.01 S.25.02.01 S.25.03.01 S.28.01.01 S.28.02.01 S.31.01.01 SR.01.01.01 SR.12.01.01 SR.17.01.01 SR.25.01.01

## **7 Third-country branches as composites**

7.1 The PRA will not grant or vary permission if that would allow a newly established third-country insurance branch or an existing third-country insurance branch engaging solely in general insurance business or solely in long-term insurance business, to engage in both general insurance business and long-term insurance business. This does not apply to a third-country pure reinsurance branch.

7.2 The PRA will not grant permission to allow a third-country branch undertaking that pursues both general insurance business and long-term insurance business in its home jurisdiction to establish a branch in the United Kingdom if that branch will engage in long-term business.

## **8 Application of other supervisory statements to third-country branch undertakings**

8.1 Other supervisory statements apply to third-country branch undertakings with any necessary modifications, and insofar as relevant to rules referred to in the Third-Country Branches Part (or any other rules that apply to third-country branch undertakings).