

Bank of England PRA

Appendix 16: Draft amendments to SS9/15 – Solvency II: Group Supervision

Consultation paper | CP 12/23

June 2023

Draft for consultation



Draft amendments to SS9/15 – Solvency II: Group Supervision

In this appendix, new text is underlined and deleted text is struck through. The text below reflects the version of SS9/15 effective from 7 July 2023.

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1 Introduction

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1.3 This supervisory statement should be read in conjunction with the relevant European legislation (as it forms part of retained EU law), the Group Supervision Part of the PRA Rulebook, statement of policy (SoP) – The PRA’s approach to insurance group supervision^{A.1}, the European Insurance and Occupational Pension Authority’s (EIOPA) Guidelines on group solvency (as at IP completion day)¹, The Solvency 2 Regulations 2015¹ (‘the Regulations’), the PRA’s insurance approach document², and the relevant provisions of the Financial Services and Markets Act 2000 (FSMA).

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1A Insurance holding company assessment

1A.1 Where a group for which the PRA is the group supervisor, wishes to demonstrate that a holding company is a mixed-activity insurance holding company, the group’s assets, revenue, and capital requirements derived from insurance or reinsurance undertakings, including ancillary insurance services undertakings, should be assessed by the firm as follows:

- **Assets:** Gross assets would be considered by the PRA in the first instance. In cases where gross figures are below the 50% threshold whereas net figures are above the 50% threshold or vice versa, firms should calculate the proportion of group assets on both gross and net basis and refer each to the 50% threshold. The PRA would apply discretion in choosing the most appropriate measure, taking into consideration a group’s specific circumstances. A Solvency II basis of valuation would be considered most appropriate. An IFRS/UK GAAP basis of valuation may be acceptable as an alternative, provided that there is a consistent basis of measurement.
- **Revenues:** Gross revenues would be considered by the PRA in the first instance. Gross revenue refers to total revenue; net revenue is the revenue after factoring in outward reinsurance. In cases where gross figures are below the 50% threshold whereas net figures are above the 50% threshold or vice versa, firms should calculate the proportion of group revenues on both gross and net basis and refer each to the 50% threshold. The PRA would

A.1 <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2023/june/cp1223app17.pdf>

¹ EIOPA Guidelines on Group Solvency: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-group-solvency.pdf>.

¹ SI 2015/575 available at www.legislation.gov.uk/ukxi/2015/575/contents/made, as amended by SI 2019/407 available at: https://www.legislation.gov.uk/ukxi/2019/407/contents.

² Available at www.bankofengland.co.uk/prudential-regulation/supervision.

apply discretion in choosing the most appropriate measure, taking into consideration a group's specific circumstances. Revenues should be based on the consolidated financial statements. If none are available, the statutory accounts under IFRS/UK GAAP may be acceptable provided that there is a consistent basis of measurement.

- Capital requirements: Solvency Capital Requirements (SCR) should be based on the contribution to the consolidated group SCR⁷ or based on local solvency capital requirements if a Method 2 waiver has been granted.
- Where there are material intra-group transactions, firms should calculate assets and revenue both gross and net of intra-group transactions.

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2 Entities excluded from the scope of group supervision

2.1 Where a group, for which the PRA is the group supervisor, wishes to exclude entities from the scope of group supervision, it will be expected to make a formal application to the PRA. Where that application is approved, the exclusion will be given effect by the PRA issuing a direction under section 138A of FSMA, taking into account the criteria in Group Supervision 2.3. ~~The PRA expects such applications to articulate the way in which the firm believes that the conditions set out in Group Supervision 2.3 are met.~~

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2.3 The group should ensure that any risks that might be posed by the excluded entity are adequately identified and managed. Those risks should be reflected in the ORSA and the capital adequacy assessments of group entities that are at risk (including modelled assessments).

3 Choice of calculation method

3.1 Where the PRA is the group supervisor the PRA may decide, after consulting other concerned supervisory authorities where relevant and the group ~~(as required by Regulation 16 of the Regulations)~~, to apply to the group either method 2 (deduction and aggregation method) or a combination of methods 1 and 2, where the exclusive application of method 1 (accounting consolidation-based method) would not be appropriate,⁸ having considered ~~the provisions of the Group Supervision statement of policy 3.2-3.5.~~ Article 328(1) of the Delegated Regulation.⁹

3.1A A group using method 1 may temporarily be allowed to use more than one calculation approach when calculating the group solvency capital requirement by adding the results of two or more calculation approaches (eg internal model and internal model; or internal model and standard formula) considering Group Supervision statement of policy 5.1-5.5. The PRA expects the group to make a formal application to the PRA for a permission under section 138BA of FSMA.

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⁷ Chapter 11.2A of the Group Supervision Part of the PRA Rulebook, Article 336 of the Commission Delegated Regulation (EU) 2015/35 of 10 October supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) Text with EEA relevance.

⁸ Group Supervision 7 in the PRA Rulebook.

⁹ Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) Text with EEA relevance.

3.3 The PRA expects this application to articulate the way in which the firm believes that Group Supervision 3.2-3.5 Article 328(1) of the Delegated Regulation should be considered in the context of the firm's application.

3.4 A group using method 2 may also apply to include in the group solvency calculation the local capital requirements calculated for its overseas sub-groups taking into account the factors in the Group Supervision statement of policy 4.2-4.3. The PRA expects the group to make a formal application to the PRA for a permission under section 138BA of FSMA.

4 Group capital add-on

This chapter has been deleted.

4.1 Where the PRA is the group supervisor, in considering whether the consolidated group SCR appropriately reflects the risk profile of the group, the PRA may consider a capital add-on for a group in the circumstances referred to in paragraph 3.2 of Supervisory Statement 4/15 'Solvency II: the solvency and minimum capital requirements'.

4.2 In particular, the PRA will consider imposing a capital add-on under Group Supervision 13 where a:

(a) specific risk at group level is not sufficiently covered by the standard formula or an internal model; or

(b) capital add-on is imposed on a Solvency II undertaking in the insurance group because its risk profile deviates significantly from the assumptions underlying the group's internal model.

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5A Availability of group own funds

5A.1 Group Supervision 9.4 and Article 330 of the Delegated Regulation places limits on the own funds which can be included in the group solvency calculation, depending on their availability to absorb losses anywhere in the group.

5A.2 Groups Supervision 9.4 are requireds groups to assess whether set out their own assessment of any items cannot be made available to cover the group SCR and which might should be deducted from the group's own funds. The PRA expects firms to consider whether deductions should be made due to any significant restriction affecting the availability, fungibility or transferability of own funds within the undertaking. The PRA expects firms to provide this assessment to the PRA. In continuing with existing practice, the PRA does not expect firms to make deductions until the PRA has considered the firm's own assessment and confirms that it agrees with such deductions. Unless a formal determination is made by the PRA in respect of a particular own funds item, firms should report own funds items as available (notwithstanding their own assessment) except where the treatment of that own fund item is specifically referenced under Group Supervision 9.4 to 9.4E 9.1-9.6 and Article 330 of the Delegated Regulation¹⁰. The PRA expects firms to provide the appropriate level of detail in these assessments, either in the solvency and financial condition report (SFCR) or in the regular supervisory report (RSR) depending on the confidentiality of the information. These assessments would subsequently be updated by the firm if there are material changes in the group

¹⁰ https://eur-lex.europa.eu/eli/reg_del/2015/35/oj

or as agreed with the supervisor. Firms are expected to comply with the EIOPA Group Solvency Guideline 13¹¹ when making its own assessment of availability of own funds at group level of related undertakings that are not subsidiaries.

5A.2A The PRA assesses availability of own funds to cover the group solvency capital requirement (SCR) on the same basis for different types of groups. In particular, the PRA notes that the scope of the assessment, elements of availability and assumptions as to the availability of different types of own funds under Group Supervision 9.4 Article 330 of the Delegated Regulation do not differ depending on structure of the group or the type of entity at its head. Furthermore, where a firm faces legal or other restrictions from issuing other types of own funds as a result of being a mutual or company limited by guarantee, it may place greater reliance on own funds issued by other group undertakings. The PRA considers that it is important that such groups demonstrate that these own funds are not restricted in meeting all types of losses arising anywhere in the group.

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5A.2B Therefore, in principle, firms should not consider the solo SCR as restricting the availability of own fund items or assets at the level of the group, in the meaning of Group Supervision 9.4 Article 330 of the Delegated Regulation. However this does not prevent the PRA from challenging the availability and transferability of own funds as assessed by groups. In the case where the PRA deems that own fund items are unavailable, under Article 330 of the Delegated Regulation the PRA may require the group to make a deduction from group own funds. Groups should engage from an early stage with their group supervisor should there be any doubt as to the availability and transferability of group own fund items.

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5A.2D Firms should note that solo regulatory requirements applied under regimes which are not built on the same principles as, or not similar in outcome to, the UK solvency regime do not necessarily apply the same basis for valuing assets and liabilities, and therefore the availability of capital contributed to the group solvency position and the transferability of assets from those regimes may be different. In these cases the PRA will presume that solo regulatory requirements do restrict the availability of capital or assets at the level of the group and so the PRA expects firms to provide details on how such own funds would be made available considering the elements set out in SoP – The PRA’s approach to insurance group supervision at Article 330 of the Delegated Regulation.

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5A.2F Firms will also need to classify separately own funds at group level in accordance with Group Supervision 8A-8D Articles 331 to 334 of the Delegated Regulation including those own funds contributed by third-country insurance or reinsurance undertakings. The quality of capital will be one of the factors taken into account by the PRA when determining when and at which level supervisors from jurisdictions that do not have a solvency framework similar to that applicable in the UK may raise regulatory barriers to reduce own funds availability at group level.

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5B Regulatory determination on the availability of group own funds

¹¹ EIOPA Guidelines on Group Solvency: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-group-solvency.pdf>.

5B.1 SoP – The PRA’s approach to insurance group supervision ~~Article 330 in the Delegated Regulation~~ sets out how own fund items of: a related insurance or reinsurance undertaking; insurance holding company; or mixed financial holding company should be assessed when considering their availability at the group level. Group Supervision 9.4 ~~The Article~~ identifies and describes the treatment of specific own fund items where those own fund items are either:

- (i) presumed to be unavailable unless the firm can demonstrate to the group supervisor that this assumption is inappropriate; or
- (ii) not considered to be available in any case.

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5B.1F Where own fund items are not specifically identified in Group Supervision 9.4 to 9.4E ~~Article 330 of the Delegated Regulation~~, the firm should assume that these own fund items are available to cover the group SCR. The PRA may require the firm to provide an assessment of availability of the own fund items which the PRA will consider to determine whether the PRA agrees with the analysis.

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6 Single own risk and solvency assessment report

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6.1A If permission is granted to produce a single ORSA report covering the group and the firm level ORSA findings, the group will be required to submit the single ORSA report at the same time to the group supervisor and all the relevant supervisory authorities whose firms report their ORSA findings in the single ORSA report.

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9 Supervision in the absence of third-country equivalence

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9.2 Firms will be expected to make a formal application to the PRA, where they wish the PRA to specify ‘other methods’ for the purposes of Group Supervision 20.1(2). Any such specification will be given effect by the PRA issuing a direction under FSMA section 138A. In its application, the PRA expects a firm to propose other methods for the PRA to consider. Firms wishing to apply for a direction may do so using the usual waiver and modification process. The PRA will assess such applications on a case-by-case basis, taking into account the objectives of group supervision.

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