

**Bank of England PRA**

# Appendix 8: Draft amendments to SS15/15 – Solvency II: approvals

**Consultation paper | CP12/23**

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Draft for consultation



# Draft amendments to SS15/15 – Solvency II: approvals

In this appendix, new text is underlined and deleted text is struck through.

## Supervisory statement 15/15: Solvency II: approvals and permissions

### 1 Introduction

1.1 This supervisory statement (SS) is of primary interest to all UK Solvency II firms and to the Society of Lloyd's, its members and managing agents. It sets out the Prudential Regulation Authority's (PRA's) expectations of firms regarding applications for the following Solvency II approvals and permissions:

- internal model;
- matching adjustment (MA), ancillary own funds (AOF) and undertaking specific parameters (USPs); and
- other Solvency II approvals including: exclusion of an entity from the scope of group supervision; single group own risk and solvency assessment (ORSA); solvency and financial condition report (SFCR) dispensation; and calculation method for the group solvency capital requirement.

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#### 1.4 Firms should also refer to:

- the Bank of England and PRA statement of policy (SoP) – Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU;<sup>3</sup>
- SoP – Solvency II internal models: Permissions and ongoing monitoring;<sup>4</sup>

<sup>3</sup> April 2019: <https://www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop>.

<sup>4</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2023/june/cp1223app5.pdf>.

- SoP – Solvency II: Capital add-ons;<sup>5</sup>
- SS1/19 – Non-binding PRA materials: The PRA’s approach after the UK’s withdrawal from the EU;<sup>6</sup> and
- SS2/19 – PRA approach to interpreting reporting and disclosure requirements and regulatory transactions forms after EU withdrawal.<sup>7</sup>

1.5 Any reference to any provision of direct EU legislation is a reference to it as it forms part of retained EU law.

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<sup>5</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2023/june/cp1223app13.pdf>.

<sup>6</sup> April 2019: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/non-binding-pra-materials-the-pras-approachafter-the-uks-withdrawal-from-the-eu-ss>.

<sup>7</sup> April 2019: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/pras-approach-to-interpreting-reporting-and-disclosure-reqs-and-reg-trans-forms-ss>.

## 2 Applications for Solvency II approvals and permissions

2.1 Firms can formally submit applications to the PRA for Solvency II approvals or permissions ~~from 1 April 2015~~. Prior to submitting an application the PRA encourages firms to discuss the approvals and permissions they intend to apply for with their usual supervisory contact.

2.2 For all Solvency II approvals or permissions, the PRA will consider applications against any relevant criteria set out in the Solvency II Directive, PRA Rulebook and Solvency II Regulations taking into account the approach in the relevant SoPs, and inform the firm of its decision. As the PRA can reject an application for a Solvency II approval or permission, firms should have a contingency plan in place in case the application is rejected. This should include any wider impact on other aspects of Solvency II ~~implementation~~, for example, the internal model.

2.3 Where the PRA is the group supervisor, the PRA will consult the relevant members of the college of supervisors and take into account their views as part of reviewing group applications. The PRA also expects to have input into the group application processes where the PRA is part of a college of supervisors led by a group supervisor from a third country ~~another Member State~~.

2.4 Once the PRA has received applications for approvals or permissions, further information regarding good practice, which may be considered useful or necessary for firms, ~~and the PRA will~~ be communicated accordingly.

### Dependencies between approvals or permissions

2.5 Firms submitting applications for multiple Solvency II approvals or permissions, including for the internal model, are expected to understand any dependencies between the ~~applications~~ approvals or permissions and how these may affect the order in which they submit their applications. In addition, as a result of the relationship which exists between certain approvals or permissions, firms are also expected to have a contingency plan in case they do not receive approval or permission for applications where dependencies exist, for example:

- firms applying to use the MA may consider another measure as an alternative;
- where firms apply for any of the transitional measures at the same time as applying for the MA and/or volatility adjustment (VA), the PRA expects firms to provide sensitivity tests showing the impact on the transitional measure(s) if their applications for the other adjustments are approved or rejected; and
- where a group submitting an internal model application is intending to use the deduction and aggregation method (method 2) for the group solvency calculation, or intending to apply to exclude an entity from the scope of group supervision,

consideration should be given to the impact on the group internal model application if these applications are rejected.

### Internal model ~~approval~~ permission and matching adjustment

2.6 Some firms applying for internal model ~~approval~~ permission may have a dependency on the approval to use the MA. Firms should consider the impact on the internal model if the MA application is rejected. This includes but not limited to, modelling of individual risk factors, proxy modelling techniques (including loss functions and identification of the biting scenario), and the solvency capital requirement.

### Equivalence

2.7 Where approvals or permissions are related to an equivalence decision, if firms wish to submit an application before the equivalence decision is finalised, they may submit an application, stating the assumptions made with regard to equivalence. Where appropriate, the PRA may refrain from making a decision until the equivalence decision has been finalised.

## 3 Internal models

3.1 Firms intending to submit an application for internal model ~~approval~~ permission should refer to the Solvency Capital Requirement – Internal Models Part of the PRA Rulebook, and the Solvency II Regulations SoP – Solvency II internal models: Permissions and ongoing monitoring regarding the internal model permission ~~approval~~ processes for information on how to submit a formal internal model application.<sup>Z.A.1</sup> The European Insurance and Occupational Pensions Authority (EIOPA) has published an internal model application Common Application Package (CAP) template<sup>A.1</sup> for internal model applications which firms should use for their formal internal model applications. Firms in the pre-application process can continue to use the existing PRA self-assessment template (SAT),<sup>4</sup> which is part of the CAP and will be expected to transpose data onto the new EIOPA template when they make their formal application. The PRA will not be updating the SAT to align with EIOPA's application template.

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Z.A.1 Application and supplementary information forms are available at:

<https://www.bankofengland.co.uk/prudential-regulation/authorisations/solvency-ii-approvals>.

A.1 [https://www.eiopa.europa.eu/publications/eiopa-common-application-package-internal-models\\_en](https://www.eiopa.europa.eu/publications/eiopa-common-application-package-internal-models_en).

4 — Dated February 2012, available at

[www.bankofengland.co.uk/pru/Documents/solvency2/soliiselfassesstemp.xls](http://www.bankofengland.co.uk/pru/Documents/solvency2/soliiselfassesstemp.xls).

## 4 Matching adjustment, ancillary own funds and undertaking specific parameters

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4.3 When submitting an application for these approvals, firms are required to inform the PRA of any other approvals or permissions for which they have applied. The PRA encourages firms to also include details of other approvals or permissions for which they intend to apply during the next twelve months.

4.4 For the approvals discussed in this section, the PRA has produced ~~a checklist~~ supplementary information forms which firms should use when submitting their applications. These ~~forms~~ checklists are not mandatory, but are designed to help firms submit the necessary information to allow the PRA to consider the application and avoid delays that may arise from incomplete applications. The application supplementary information forms ~~checklists~~ are based on requirements set out in the Solvency II Directive, and the PRA Rulebook and the Solvency II Regulations.

### Matching adjustment

4.5 Under Article 77(b) of the Solvency II Directive,<sup>1a</sup> firms may apply for approval to use a MA. The PRA's detailed expectations on the MA ~~have been~~ are set out in SS7/18 – 'Solvency II : Matching Adjustment', available on the Bank's website.<sup>1b</sup> ~~a series of industry communications, including letters from the Executive Director for Insurance, that are available on the Bank's website.<sup>2</sup>~~

4.6 ~~Firms wishing to apply to use the MA can submit a formal application after 1 April 2015. Those firms that participate in the MA pre-application process are also expected to provide the PRA with a detailed breakdown of any changes that have occurred since pre-application.~~

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### Undertaking Specific Parameters

4.12 ~~Under Article 104(7) of the Solvency II Directive, firms~~ Firms may apply to the PRA to use USPs when calculating their SCR using the standard formula. Firms are encouraged to submit the application supplementary information form ~~checklist~~ as this will help to ensure firms meet the requirements of ~~the Solvency II Directive~~ the PRA Rulebook.

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<sup>1a</sup> Please note this reference will be updated in due course.

<sup>1b</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/solvency-2-matching-adjustment-ss>

<sup>2</sup> Available at [www.bankofengland.co.uk/pru/Pages/solvency2/updates.aspx](http://www.bankofengland.co.uk/pru/Pages/solvency2/updates.aspx).

4.13 The use of USPs is designed to ensure firms' SCR is being measured appropriately and firms should consider whether the use of an USP results in a ~~is a~~ more accurate reflection of ~~risk~~ their risk profile. As part of the decision-making process the PRA will consider the reasons why a firm has decided to apply to use USPs and whether they have been applied appropriately across a firm's business.

4.14 ~~Under Article 230 of the Solvency II Directive, groups can~~ Groups may also apply to the PRA to use group specific parameters (GSP) when calculating the group SCR with the standard formula. Groups seeking to use GSPs should use the same application process as described for USPs, including the submission of the application supplementary information form checklist.

## 5 Other Solvency II approvals

5.1 This section sets out the PRA's expectations of firms and provides guidance on applications for the following:

- exclusion of entity from scope of group supervision;
- single group Own Risk and Solvency Assessment (ORSA);
- SFCR dispensation; and
- calculation method for group SCR.

5.2 For the approvals discussed in this section, ~~the Directive is silent as to any mandated timeframes that the PRA must comply with. The PRA, however,~~ intends to make every effort to communicate, in writing the decision to approve or reject the application, within six months of receiving a completed application.

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5.5 For the approvals discussed in this section, the PRA has produced application and supplementary information forms ~~a checklist~~ which firms should use when submitting their applications. These forms ~~checklists~~ are not mandatory but are designed to help firms submit the necessary information to allow the PRA to consider the application and avoid delays that may arise from incomplete applications. The application and supplementary information forms ~~checklists~~ are based on requirements set out in the Solvency II Directive ~~PRA Rulebook~~, and the Solvency II Regulations.

5.6 All approvals discussed in this section may be effected by use of the statutory waiver powers ~~(s.138A of the Financial Services and Markets Act 2000 (FSMA))~~. Firms should refer to the Bank of England website for further information on the relevant waiver process.

## Exclusion of entity from scope of group supervision

~~5.7 Article 214(2) of the Solvency II Directive allows the PRA, in consultation with other concerned supervisory authorities, to exclude an entity from the scope of group supervision. This Article is the mechanism to A group may apply to exclude any entity from the scope of group supervision, regardless of its type. The PRA expects such applications to articulate the way in which the group believes that the conditions set out in Group Supervision 2.3 are met.~~

~~5.8 [Deleted] If the PRA decides that an entity is to be excluded from the scope of group supervision under Article 214(2), then the provisions in the Solvency II Directive will not apply to that entity. However, the group should ensure that any risks which that excluded entity may pose to the rest of the group 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).~~

## Single group ORSA

~~5.9 Under Article 246 of the Solvency II Directive, a A group can may apply to produce a single ORSA report which covers the group and the firm-level ORSA for all the firms in the group as described in Group Supervision 17.2(3).~~

5.10 Groups that wish to apply for the single ORSA report are encouraged to complete the application supplementary information form checklist which details:

- the group's motivation for producing a single ORSA report;
- how the group Board has sought to ensure that all solo risks are individually identifiable in the single ORSA; and
- how the single group ORSA submission presents a true picture of solo entity solvency.

~~5.11 [Deleted] 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. The exercise of that option shall not exempt the firms concerned from the obligation to ensure that the requirements of Article 45 of the Solvency II Directive are met. For clarity, firms still need to carry out a full ORSA and provide output of this process to the group for inclusion in the single ORSA report, rather than share its full output with their solo supervisor.~~

5.12 Groups intending to seek approval for a single ORSA report covering the group and the firm-level ORSA findings, should provide a draft single ORSA report as part of their application process based on the forward-looking assessment of own risks (FLAOR) performed by groups during the EIOPA preparatory phase in 2014 and 2015.



## SFCR dispensation

5.13 ~~Under Article 53(1) of the Solvency II Directive, a~~ A firm can apply to the PRA for ~~reporting a disclosure~~ exemptions, allowing them to exclude certain information from their Solvency and Financial Condition Report (SFCR). ~~SFCR, for example, the public narrative report.~~ Rule 4.1 of the Reporting Part of the PRA Rulebook sets out disclosure requirements applicable to firms that have been granted a permitted non-disclosure waiver.

5.14 ~~Under Article 256 of the Solvency II Directive, groups may also apply to the PRA for this exemption.~~ Groups that wish to apply for a non-disclosure waiver are also encouraged to submit the application supplementary information form-checklist.

## Calculation method for group solvency capital requirement

5.15 ~~[Deleted] Under Article 220 of the Solvency II Directive, The PRA as group supervisor may decide to require groups to calculate their group capital requirements using the deduction and aggregation method ('method 2') instead of the default accounting consolidation-based method ('method 1'), or to use a combination of method 1 and method 2.~~

5.16 ~~If~~ Where groups do not think that the exclusive use of the default accounting-consolidation method ('method 1') is appropriate, ~~and therefore propose they may apply to use the deduction and aggregation method ('method 2'), or a combination of method 1 and method 2,~~ the ~~The~~ PRA expects groups to indicate this by submitting the PRA's application supplementary information form-checklist. This form includes the necessary information the PRA needs to make its decision on the choice of calculation method and includes the financial and solvency position of subsidiaries, availability of data, and rationale for using an alternative to method 1.

5.17 ~~[Deleted] The PRA will review the submission from groups and, where applicable, in co-operation with the college of supervisors, decide on whether the exclusive use of method 1 is appropriate and whether to allow groups to use method 2, or a combination of the two. The PRA will make its decision based on the factors outlined in the Solvency II Regulations. As part of this assessment, the PRA will review the impact of the use of method 2 or a combination method on the solvency position of the group, own funds availability, and the interconnectedness of any entity for which method 2 would be used and the rest of the group.~~