

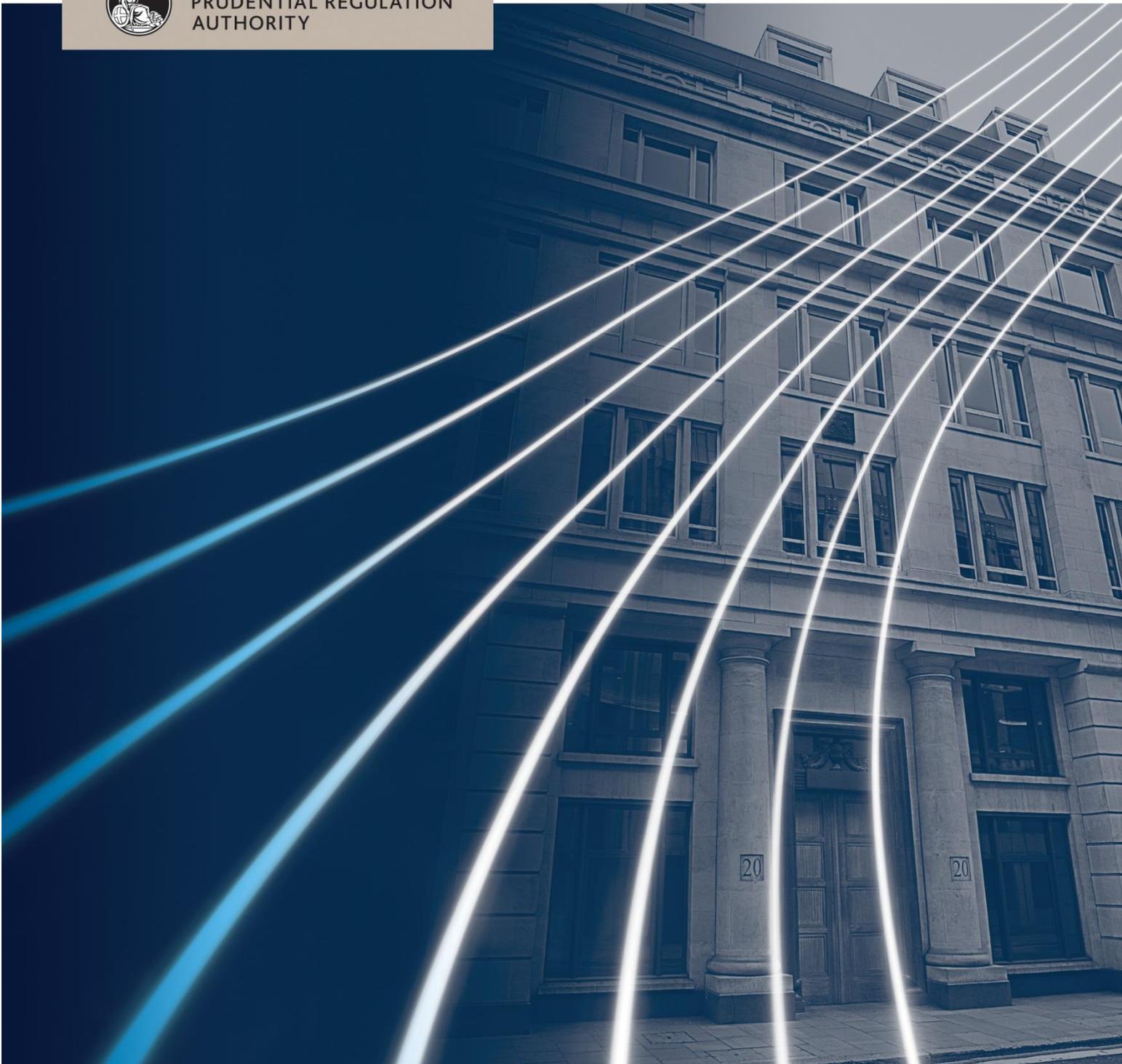
Policy Statement | PS22/16

# Solvency II: Remuneration requirements

August 2016



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This policy statement responds to feedback on Consultation Paper 13/16 'Solvency II: Remuneration requirements' and includes a link to the final supervisory statement and reporting template.



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## 1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses on Consultation Paper (CP) 13/16 'Solvency II: Remuneration requirements'<sup>1</sup> and includes a final supervisory statement (SS) on the Solvency II remuneration requirements (see Appendix 1), and a Remuneration Policy Statement (RPS) reporting template for PRA Category 1 and 2 firms (see Appendix 2).

1.2 This PS is relevant to all UK Solvency II firms including the Society of Lloyd's and managing agents ('Solvency II firms').

1.3 The Solvency II remuneration requirements are contained in Article 275 of the Commission Delegated Regulation (EU) 2015/35 ('the Solvency II Regulation') with guidance provided in the European Insurance and Occupational Pensions Authority (EIOPA) 'Guidelines on system of governance' finalised on 14 September 2015<sup>2</sup>. The Solvency II Regulation is directly applicable to Solvency II firms, and as such it is for firms themselves to interpret the Solvency II Regulation correctly and ensure compliance.

1.4 The PRA expects all Solvency II firms to comply with Article 275 of the Solvency II Regulation. The PRA, as the supervisory authority responsible for monitoring and enforcing compliance with Article 275, publishes the final SS to support compliance by setting out the PRA's expectations of how compliance may be achieved, particularly by 'significant insurers'<sup>3</sup> (PRA Category 1 and 2 firms).

1.5 Any Category 1 or 2 firms that are concerned they may be unable to meet the PRA's expectations for compliance (as set out in the SS) for the 2016 performance year should communicate this to their PRA supervisory contact in advance of submitting the RPS. Other Solvency II firms should review their remuneration policies against the requirements in the Solvency II Regulation and exercise the discretion available under Article 275(3) to tailor application to the nature, scale and complexity of the risks inherent to the business concerned.

1.6 The SS draws on the results of a review conducted by the PRA in 2015 of the remuneration policies and practices of significant insurers. This review identified key areas of the Solvency II Regulation where PRA guidance would be beneficial in order to ensure the requirements are applied consistently. The foremost being the identification of Solvency II staff under Article 275(1)(d) and the application of deferral to these individuals (Article 275(2)(c)).

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<sup>1</sup> April 2016; [www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp1316.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp1316.aspx).

<sup>2</sup> <https://eiopa.europa.eu/publications/eiopa-guidelines/guidelines-on-system-of-governance>.

<sup>3</sup> 'The PRA's approach to insurance supervision' March 2016 explains that Category 1 and 2 firms are deemed significant within the PRA's supervisory framework; [www.bankofengland.co.uk/publications/Pages/other/pr/supervisoryapproach.aspx](http://www.bankofengland.co.uk/publications/Pages/other/pr/supervisoryapproach.aspx).

## 2 Feedback on consultation response

2.1 The PRA has had regard to the representations made to the proposals in CP13/16. Responses were generally supportive and welcomed the PRA adopting a proportionate approach. There were a number of requests for additional clarity on particular points including application of the deferral threshold to long-term incentive plan structures (LTIPs), which have been reflected in the final text.

2.2 A few respondents expressed concern at the PRA's expectation that remuneration requirements should apply to variable remuneration in respect of the 2016 performance year. The remuneration requirements in the Solvency II Regulation have been legally effective since 1 January 2016. The SS does not seek to introduce additional expectations over and above those already in the Solvency II Regulation; rather it sets out guidance for Category 1 and 2 firms in interpreting these requirements. For instance, the requirement under Article 275(2)(c) for a 'substantial portion of the variable remuneration component' for Solvency II staff to be deferred has applied since 1 January 2016. The SS (paragraph 4.3) states the PRA's view that 'substantial portion' is very unlikely to be less than 40% of all variable remuneration awarded in a given performance year. In coming to this view the PRA considered the responses to the consultation, which overall did not suggest that 'substantial portion' is likely to be less than 40%.

2.3 Firms should also note that the RPS requires Category 1 and 2 firms to demonstrate compliance against the Solvency II Regulation requirements already in force and uses the same language as the Regulation (eg the Solvency II staff table asks for staff to be identified against the exact six categories referenced in Article 275(1)(c)). The PRA requests all Category 1 and 2 firms to submit the RPS for the 2016 performance year to enable it to review compliance with the new regulatory requirements. The PRA will subsequently consider the approach for future performance years. Other Solvency II firms will still need to review their remuneration policies to ensure they are compliant with the Solvency II Regulation.

2.4 Further clarity was requested on the application of the SS to non-European Economic Area (EEA) entities in the same group as a Solvency II firm where the PRA is the group supervisor. The PRA has revised the draft SS to provide sufficient flexibility for supervisory judgement to be applied where there are conflicting jurisdictional restrictions for Solvency II staff identified within non-EEA entities of a Solvency II firm in the scope of group supervision. Given the legal and regulatory requirements will vary depending on the non-EEA jurisdictions concerned, a more prescriptive approach would not be appropriate.

2.5 Prior to consultation the PRA considered the way in which the SS advances its statutory obligations and objectives, impacts mutuals, is consistent with the regulatory principles, and impacts on equality and diversity. The PRA has considered the consultation feedback and has concluded that its findings on these issues remain appropriate.

2.6 Appendix 1 contains the final SS on the Solvency II remuneration requirements, and Appendix 2 the final RPS template for 2016.

## Appendices

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- 1** **Supervisory Statement 10/16 ‘Solvency II: Remuneration requirements’ available at [www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss1016.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss1016.aspx)**
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- 2** **Solvency II Remuneration Policy Statement reporting template, available at [www.bankofengland.co.uk/pr/Pages/supervision/activities/remuneration.aspx](http://www.bankofengland.co.uk/pr/Pages/supervision/activities/remuneration.aspx)**