

# Bank of England PRA

## The PRA's approach to insurance group supervision

### Statement of policy

November 2024



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# 1: Introduction

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1.1 This statement of policy (SoP) sets out the Prudential Regulation Authority's (PRA) approach to certain aspects of insurance group supervision under the Group Supervision Part of the PRA Rulebook. This SoP is relevant to UK Solvency II firms within the scope of the Group Supervision Part of the PRA Rulebook and to the Society of Lloyd's, its members and managing agents, insurance holding companies and mixed financial holding companies within the scope of the Group Supervision Part.

1.2 Chapter 2 explains the cases of application and scope of group supervision. This chapter also explains the PRA's approach to insurance groups where the group is a financial conglomerate and where the PRA may exercise its statutory power to waive rules relating to Solvency II group supervision for such firms.

1.3 Chapter 3 explains the PRA's approach to exercising its powers in relation to how insurance groups calculate their group solvency capital requirement (SCR) and group eligible own funds.

1.4 Chapter 4 explains the PRA's approach to third countries and the PRA's policy when exercising discretion to allow a group that meets certain factors to bring in its overseas subgroup's group SCR under method 2 (deduction and aggregation method), where the PRA relies on group supervision exercised by a designated overseas regime.

1.5 Chapter 5 explains the PRA's policy when exercising discretion to allow groups, which meet certain factors, to add the results of two or more calculation approaches while calculating the consolidated group SCR as an interim option until the new or extended group internal model (or group-specific parameters) has been approved.

1.6 Chapter 6 explains the PRA's policy to identify and monitor risk concentration and intra-group transactions including in the case of mixed-activity insurance holding companies.

1.7 This SoP should be read in conjunction with the capital add-ons<sup>1</sup> and internal models<sup>2</sup> SoPs, Group Supervision Part of the PRA Rulebook<sup>3</sup>, and supervisory statement (SS) 9/15 – Solvency II: Group supervision.<sup>4</sup>

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<sup>1</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/february/solvency-ii-capital-add-ons-sop>.

<sup>2</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/february/solvency-ii-internal-models-permissions-and-ongoing-monitoring-sop>.

<sup>3</sup> <https://www.prarulebook.co.uk/pa-rules/group-supervision/21-07-2024>.

<sup>4</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/solvency2-group-supervision-ss>.

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## 2: Cases of application and scope

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### Financial conglomerates: Exercising discretion over Solvency II group supervision

2.1 Where the PRA is the group supervisor of a group that includes a mixed financial holding company that is subject to sectoral requirements in the Solvency II Firms Sector of the PRA Rulebook and requirements on financial conglomerates in the Financial Conglomerate Part, the PRA may exercise its statutory power under section 138A of the Financial Services and Markets Act (FSMA) to modify or waive rules in order to apply only the sectoral requirements in the Solvency II Firms Sector of the PRA Rulebook, or requirements of financial conglomerates in the Financial Conglomerates Part of the PRA Rulebook. Before exercising this power, the PRA will consult the Financial Conduct Authority (FCA), where there is a firm in the group that is authorised and regulated by the FCA.

2.2 Where the mixed financial holding company is subject to equivalent<sup>5</sup> provisions, the PRA may exercise its statutory power to modify or waive rules under s138A of FSMA and apply only the sectoral requirements in the Solvency II Firms Sector of the PRA Rulebook, or the sectoral requirements in the CRR Firms Sector of the PRA Rulebook and the Capital Requirements Regulation relating to the most significant sector, (with that sector to be determined in accordance with that relevant UK law). Before exercising this power, the PRA will obtain the agreement of the FCA, where the FCA is the consolidating supervisor under the Capital Requirements Regulation.

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<sup>5</sup> Equivalent refers here to the sectoral requirements in the Solvency II Firms Sector of the PRA Rulebook and the CRR Firms Sector of the PRA Rulebook and the on-shored Capital Requirements Regulation (EU) 575/2013.

## 3: Group solvency calculation and group eligible own funds

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### Supervision of group solvency and frequency of calculation

3.1 In relation to supervision of group solvency and frequency of calculation, where the PRA is the group supervisor of a group within the scope of Group Supervision 2.1, the PRA will:

- a) ensure that the calculations referred to in Group Supervision 4.1 and 4.2 are carried out at least annually to ensure that the group has adequate financial resources at the level of the ultimate UK Solvency II firm, insurance holding company, or mixed financial holding company in the group;
- b) conduct supervisory reviews to determine whether the UK Solvency II firms in the group are complying with the requirement to ensure that the group has adequate financial resources at the level of the ultimate UK Solvency II firm, insurance holding company, or mixed financial holding company in the group; and
- c) where the group is not headed by a UK Solvency II firm, consult the undertakings in the group before identifying an undertaking other than an insurance holding company or a mixed financial holding company to supply relevant data for, and the results of, the calculations referred to in 3.1(a).

### Choice of method: general principles

3.2 In exercising its statutory power to modify rules under s138A of FSMA, the PRA will, in consultation with the participating Solvency II undertaking or the insurance holding company or the mixed financial holding company, consider all of the following elements when assessing whether the exclusive application of method 1 is not appropriate:

- a) whether the amount and quality of information available in relation to a related undertaking would not be sufficient for it to be subject to method 1;
- b) whether a related undertaking is not covered by a group internal model, in the cases where the PRA has given a permission under section 138BA of FSMA providing for a group internal model to be used for the calculation of the consolidated group SCR;
- c) whether, for the purposes of 3.2(b), the risks that are not captured in the group internal model are immaterial in relation to the overall risk profile of the group,

- d) whether the nature, scale, and complexity of the risks of the group are such that the use of method 2 in relation to that related undertaking or those related undertakings does not materially affect the results of the group solvency calculation;
- e) whether intra-group transactions are not significant both in terms of volume and value of the transaction;
- f) where the group includes related third country insurance or reinsurance undertakings, whether the solvency regimes of those third countries are designated overseas regimes;<sup>6</sup> and
- g) whether the use of method 1 in relation to a related undertaking or several related undertakings would be overly burdensome.

3.3 As part of the assessment in 3.2, the PRA will review the impact of the use of method 2 or a combination of methods 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.

3.4 For the purposes of the materiality assessment set out in 3.2(d), method 2 should be compared with method 1 using the aggregated group eligible own funds and the aggregated group SCR calculated in accordance with UK solvency rules and not with solvency requirements laid down in a designated overseas regime.

3.5 The PRA expects firms to apply the method or combination of methods chosen in a consistent manner over time. The PRA may decide to revoke or vary a direction that it has granted and require the participating Solvency II undertaking or the insurance holding company or the mixed financial holding company to revert to method 1 in relation to any related undertaking where the use of method 2 or a combination of methods 1 and 2 is not appropriate after considering the elements referred to in 3.2 for the specific circumstances of the group.

## Inclusion of proportional share

3.6 Where Group Supervision 8.3(1) applies, firms may apply to the PRA for a direction under s138A of FSMA to modify Group Supervision 8.3. The PRA may modify Group Supervision 8.3 to allow for the solvency deficit of the subsidiary undertaking to be considered on a proportional basis. Any modification decision will be considered in accordance with the statutory test in s138A of FSMA in each individual case. The PRA considers that an application is more likely to meet the statutory test where, the responsibility

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<sup>6</sup> Designated overseas regime under regulation 11 for the purposes of regulation 13 of the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023 (overseas insurance regime).

of the parent undertaking owning a share of the capital is strictly limited to that share of the capital.

3.7 Group Supervision 8.3(2) applies if there are no capital ties between any of the undertakings in the group, if a participating undertaking has a participation in another undertaking because it effectively exercises a significant influence over that undertaking, or if a participating undertaking is a parent undertaking of another undertaking because it effectively exercises a dominant influence over that undertaking. Firms may apply to the PRA for a direction under s138A of FSMA to modify Group Supervision 8.3 to set a proportional share lower than 100%, to be taken into account in the calculation of group solvency. Any modification decision will be considered in accordance with the statutory test in s138A of FSMA in each individual case.

3.8 Before determining the proportional share, the PRA will consult the undertakings in the group.

## **Ancillary own funds for an intermediate insurance holding company**

3.9 Where the PRA is the group supervisor of a group that includes an intermediate insurance holding company or an intermediate mixed financial holding company, a firm may apply to the PRA for permission to include the intermediate insurance holding companies' ancillary own funds in the calculation of group solvency. In determining whether or not to grant this modification, the PRA would be exercising its power under section 138BA of FSMA to modify Group Supervision 10.3(4) and follow the ancillary own funds permission process set out in SoP –The PRA's approach to insurance own funds permissions.<sup>7</sup>

3.10 In deciding whether ancillary own funds can be included in the calculation of group solvency, the PRA will take into account:

- a) the status of the counterparties concerned, in relation to their ability and willingness to pay;
- b) the recoverability of the funds, taking account of the legal form of the ancillary own fund item and any conditions which would prevent the item from being successfully paid in or called up; and
- c) any information on the outcome of past calls that intermediate insurance holding companies and intermediate mixed financial holding companies have made for each

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<sup>7</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/november/ps1524-app11.pdf>

ancillary own-fund item, to the extent that information can be reliably used to assess the expected outcome of future calls.

3.11 The PRA will approve a monetary amount for each ancillary own-fund item, or a method by which each ancillary own-fund item may be determined for a specified period of time.

## **Availability at group level of the eligible own funds of related undertakings**

3.12 The items listed in Group Supervision 9.4A and Group Supervision 9.4B are provided not to be effectively available to cover the group SCR. Where the PRA is the group supervisor, the PRA may exercise its statutory power under s138A of FSMA to modify Group Supervision 9 to provide for items to be deemed effectively available to cover the group SCR. The PRA considers that the FSMA statutory test is more likely to be met where own funds items assumed not to be available are shown to be available in the specific circumstances of the group to cover the group SCR. The PRA considers that it is more likely that this would be the case for the items listed in Group Supervision 9.4A.

3.13 In assessing whether certain own funds eligible to cover the SCR of a related undertaking that is a Solvency II undertaking, a third country insurance or reinsurance undertaking, an insurance holding company or a mixed financial holding company cannot effectively be made available to cover the group SCR. Any modification of Group Supervision 9.4A will need to meet statutory tests in s138A of FSMA. The PRA's assessment will take into account the following factors:

- a) whether the own-fund item is subject to legal or regulatory requirements that restrict the ability of that item to absorb all types of losses wherever they arise in the group;
- b) whether there are legal or regulatory requirements that restrict the transferability of assets to another Solvency II undertaking;
- c) whether making those own funds available for covering the group SCR would not be possible within a maximum of nine months; and
- d) whether, where method 2 is used, the own-fund item does not satisfy the requirements set out in Own Funds 3B, 3E, 3G; for this purpose, the term 'SCR' shall include both the SCR of the related undertaking that has issued the own-fund item and group SCR.

3.14 In the assessment referred to in 3.13, the PRA will consider the restrictions that would exist on a going-concern basis. The PRA will also take into account any costs to the participating solvency II undertaking or insurance holding company or mixed financial holding



company, or to any related undertaking, that making such own funds available for the group is likely to entail.

## 4: Third countries

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### Participating undertakings: Calculation of group solvency

4.1 Where the calculation of group solvency includes a third country insurance undertaking or third country reinsurance undertaking in a designated overseas regime<sup>8</sup>, the PRA will permit the group to take into account national laws adopted by the third country in respect of the group's SCR and the own funds eligible to satisfy the SCR in the calculation of the group's solvency through modification to the Rulebook under s138A of FSMA, subject to the statutory test being met.

### Inclusion of overseas sub-groups under method 2

4.2 The PRA may allow a UK group's overseas sub-group SCR to be included in the consolidated group SCR under method 2. Where a firm applies to the PRA for a permission under s138BA of FSMA to modify Group Supervision 12, a group using method 2 to calculate the group SCR may be allowed to include in the group solvency calculation the local capital requirements calculated for its overseas sub-group and the local eligible own funds. This measure will be available if that sub-group is subject to group supervision and HM Treasury determine the third country is a designated overseas regime.<sup>9</sup>

4.3 When considering whether a group could be eligible for the measure in paragraph 4.2, the PRA will consider whether:

- a) the amount and quality of information available in relation to a related undertaking in the sub-group would not be sufficient for it to be subject to method 1;
- b) any of the related undertakings in the sub-group are not covered by a group internal model, in the cases where a group internal model with an internal model permission, is used for the calculation of the consolidated group SCR;
- c) for the purposes of paragraph (b), the risks that are not captured in the group internal model are immaterial in relation to the overall risk profile of the group;
- d) the nature, scale, and complexity of the risks of the group are such that the use of method 2 in relation to the sub-group does not materially affect the results of the group solvency calculation;

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<sup>8</sup> Designated overseas regime under regulation 11 for the purposes of regulation 13 of the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023 (overseas insurance regime).

<sup>9</sup> Designated overseas regime under regulation 11 for the purposes of regulation 14 of the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023 (overseas insurance regime).

- e) transactions between the sub-group and the rest of the group are not significant both in terms of volume and value of the transaction;
- f) the sub-group is managed as a single economic unit distinct from the rest of the group; and
- g) the use of method 1 in relation to related undertakings that make up the sub-group would be overly burdensome.

## **Parent undertaking outside the UK: absence of HMT overseas regime designation**

4.4 In the absence of a HMT overseas regime determination,<sup>10</sup> the PRA may decide the group should establish an insurance holding company or mixed financial holding company with its head office in the UK.

## **Parent undertakings outside the UK: levels**

4.5 A firm may apply to the PRA for a permission under s138A FSMA to modify Group Supervision 20.4 in cases where:

- a) a parent undertaking referred to in Group Supervision 2.1(3) is itself a subsidiary undertaking of an insurance holding company or mixed financial holding company which does not have its head office in the UK or Gibraltar or is a third country insurance undertaking or a third country reinsurance undertaking; and
- b) there is no positive HMT determination on the third country being a designated overseas regime.<sup>10</sup>

4.6 The PRA may modify Group Supervision 20.4 so that it applies at a level in the group below the ultimate parent. The PRA will carry out a new verification of whether HMT's designated overseas regime<sup>10</sup> determination applies at a lower level in the group.

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<sup>10</sup> Designated overseas regime under regulation 11 for the purposes of regulation 14 of the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023 (overseas insurance regime).

## 5: Temporary use of more than one calculation approach

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5.1 Under certain circumstances, the PRA may temporarily allow a group to use more than one calculation approach when calculating the group SCR under method 1. In determining whether or not to grant this modification, the PRA would be exercising its power under s138BA of FSMA to modify Group Supervision 11. The temporary use of more than one calculation approach may be permitted during the interim period before a new or enlarged group internal model has been granted permission, or before new group-specific parameters have been approved for an enlarged group. In assessing whether the temporary use of more than one calculation approach may be permitted, the PRA's assessment will be based on the following factors:

- a) where applicable, each internal model has previously received a permission by the PRA and continues to cover the same entities it covered when the permission was granted;
- b) the group SCR calculation covers all material risks to which the group is exposed, and the risk profile of the group should not deviate significantly from the assumptions underlying the overall calculation of the group SCR;
- c) intra-group transactions between group entities that are not covered by the same calculation approach for the group SCR calculation are not significant in terms of either volume or value of transactions; and
- d) a clear and realistic plan to develop a group internal model that covers all group entities within a set period of using multiple calculation approaches at group level.

5.2 The PRA considers the use of the option set out in paragraph 5.1 would be for a period of two years, while a group internal model (or group-specific parameters) is under development. Any extension beyond the two-year period proposed would be at the discretion of the PRA, taking into account the group's specific circumstances. The PRA considers the long-term use of multiple method 1 calculation approaches in a single group to be inconsistent with the principle that a group should be supervised as a single economic unit.

5.3 Any subsequent applications for permissions for an additional internal model to be used under 5.1 will be subject to further assessment of the factors in 5.1 (a) to (d).

5.4 Any subsequent extensions of the period in which 5.1 is used will be subject to further assessment of the factors in 5.1 (a) to (d). If the PRA previously imposed a capital add-on or other formal requirement on a firm or group that uses the same calculation approach under

5.1 as when the capital add-on or formal requirement was imposed, the capital add-on or formal requirement will continue to apply with respect to that part of the group.

5.5 The PRA may consider whether the capital add-on or other formal requirement should be increased or extended on account of changes that have occurred at the wider group.

5.6 The factor set out under 5.1 (d) may require a period of time to develop. Where the PRA considers it is otherwise appropriate to give a firm this permission based on the factors 5.1 (a) to (c), the PRA may consider a temporary modification for a period of six months allowing a group to use more than one calculation approach when calculating the group SCR under method 1 while a clear and realistic plan is developed. After a period of six months, and upon satisfactory review of the plan by the PRA, the PRA may grant use of the option set out in paragraph 5.1.

## 6: Risk concentration and intra-group transactions

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### Supervision of risk concentration and intra-group transactions

6.1 Where the PRA is the group supervisor for a type of group referred to in Group Supervision 2.1(1) and (2), the PRA will:

- a) identify the type of risks and intra-group transactions that firms in the group are required to report to the PRA under Group Supervision 16 in all circumstances, taking into account the specific group and risk management structure of the group;
- b) identify appropriate thresholds based on SCR, or technical provisions, in order to identify which risk concentrations and intra-group transactions must be reported due to them being considered significant;
- c) identify the UK holding company or UK Solvency II firm in the group responsible for submitting the information required under Group Supervision 16.1 to 16.2 where the group is not headed by a UK Solvency II firm or UK insurance holding company; and
- d) review the risk concentrations and intra-group transactions at the group level, and in particular monitor the possible risk of contagion within the group, the risk of a conflict of interests and the level or volume of risks.

6.2 The PRA will consult the group while carrying out the activities referred to in 6.1(a) to (c).

6.3 For the purposes of 6.1(b), when identifying appropriate thresholds in a particular group for significant risk concentrations to be reported, the PRA will consider the following elements:

- a) the solvency and liquidity position of the group;
- b) the complexity of the structure of the group;
- c) the importance of regulated entities from other financial sectors or non-regulated entities carrying out financial activities;
- d) the diversification of the group's investments portfolio; and
- e) the diversification of the group's insurance activities, in terms of geographical areas and lines of business.

## **Intra-group transactions in groups headed by mixed-activity insurance holding companies.**

6.4 The matters set out in 6.1 to 6.3 apply to the transactions reported under Group Supervision 21.1 by groups headed by a mixed activity insurance holding company.

## **Conditions under which the PRA may not supervise risk concentrations or intra-group transactions.**

6.5 Where the PRA is the group supervisor of a type of group within Group Supervision 2.1(1) and (2), the PRA may exercise the statutory power in s138A to waive rules on risk concentration or intra-group transactions at a participating undertaking, insurance holding company and mixed financial holding company level. Any waiver or modification decision will be considered in accordance with the statutory test in s138A of FSMA in each individual case, and the PRA's assessment will take into account the following factors:

- a) The group contains a UK Solvency II firm and either:
  - i. the parent undertaking of the UK Solvency II firm is an insurance holding company or a mixed financial holding company which has its head office in the UK; or
  - ii. the group contains a UK Solvency II firm and either the UK Solvency II firm is a participating undertaking in at least one UK Solvency II firm, third country insurance undertaking or third country reinsurance undertaking.
- b) The participating undertaking, insurance holding company or mixed financial holding company referred to above is, or is a related undertaking of, a regulated entity or mixed financial holding company subject to supplementary supervision by the FCA, where the FCA is the supplementary supervisor, or the PRA in accordance with regulation 22 of the Financial Conglomerates and Other Financial Groups Regulations 2004/1862.

6.6 In deciding whether to grant an application, the PRA may consult the FCA.

6.7 Where the ultimate parent UK Solvency II firm or insurance holding company or mixed financial holding company, which has its head office in the UK, is a subsidiary undertaking of an undertaking which is subject to supplementary supervision in accordance with part 5, regulation 22 of the Financial Conglomerates and Other Financial Groups Regulations 2004/1862, the PRA may exercise the statutory power in s138A to waive or modify Group Supervision 16 at the level of that ultimate parent undertaking, subject to the statutory test in s138A of FSMA being met.