

Supervisory Statement | SS44/15

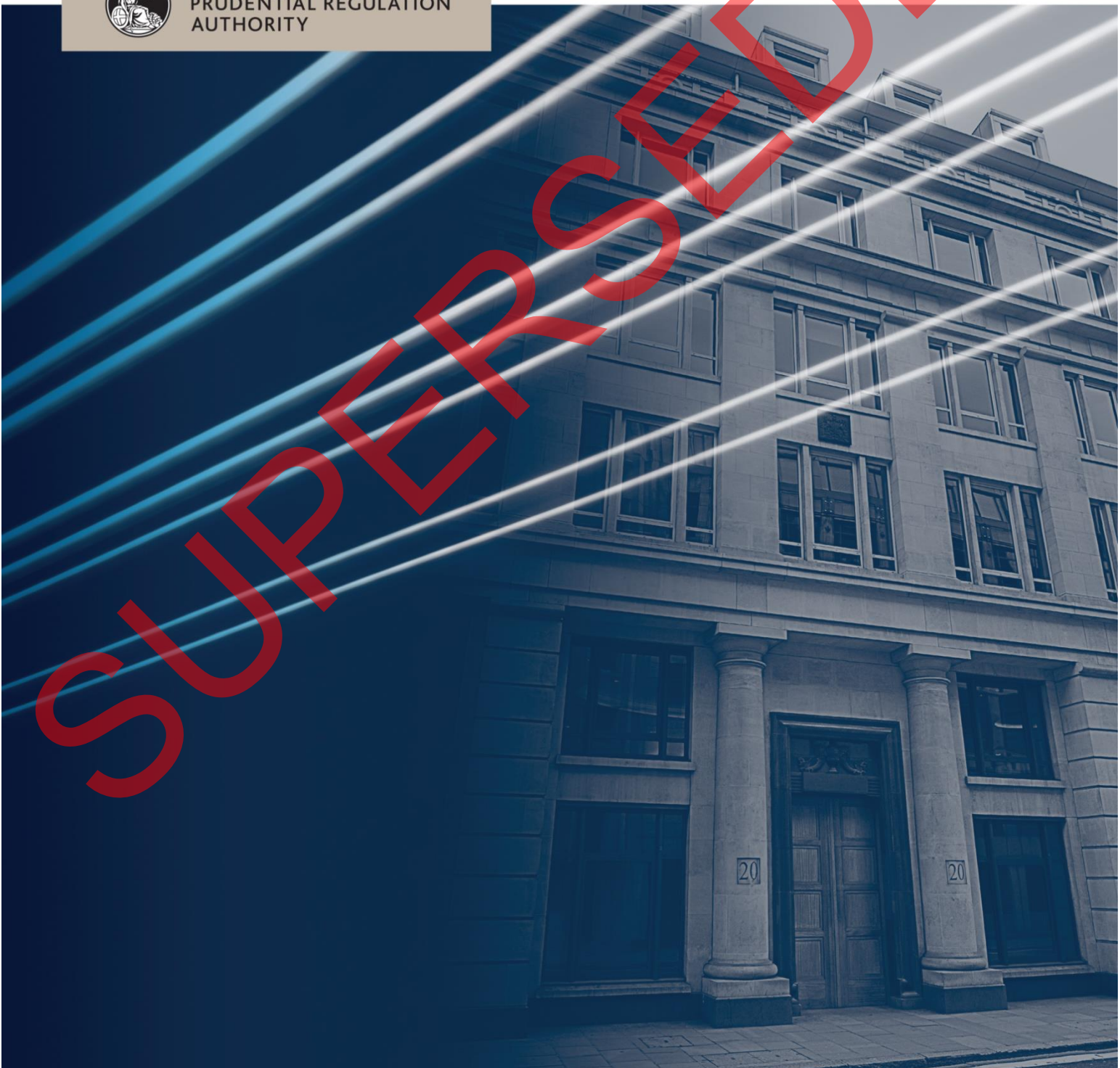
Solvency II: third-country insurance and pure reinsurance branches

November 2015



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

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1 Introduction

1.1 This 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). The statement replaces Supervisory Statement 10/15 'Solvency II: third-country branches'.¹ 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 statement expands on the PRA's general approach to supervision as set out in its insurance approach document.² 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. This statement has been subject to public consultation and reflects the feedback that was received by the PRA.³

1.4 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 supervisory statement would have any different impact on mutuals.

1.5 The PRA has consulted with the Financial Conduct Authority (FCA) on this supervisory statement.

2 Compliance with the Guidelines

2.1 The PRA expects third-country branch undertakings to comply with the EIOPA Branch Guidelines published as a final report on 6 July 2015 (and re-issued on 23 October 2015)⁴ 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. The

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

² PRA's approach to insurance supervision:
www.bankofengland.co.uk/publications/Documents/pruapproach/insuranceappr1406.pdf.

³ PRA Consultation Paper 31/15, 'Solvency II: third-country insurance and pure reinsurance branches', August 2015:
<http://www.bankofengland.co.uk/pru/Pages/publications/cp/2015/cp3115.aspx>.

⁴ EIOPA Guidelines on supervision of branches of third-country insurance undertakings:
<https://eiopa.europa.eu/Pages/Guidelines/Guidelines-on-the-supervision-of-branches-of-third-country-insurance-undertakings.aspx>.

PRA expects such undertakings to comply with the rules in the PRA Rulebook that apply to them in light of the EIOPA Branch Guidelines as if the scope 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.

3.2 Having regard to the PRA's supervisory approach, third-country undertakings are expected to maintain financial soundness at branch level (Guidelines 17-26) to ensure that the branch policyholders enjoy the same level of protection as those policyholders of an insurance undertaking situated in the European Union.

3.3 The PRA expects considerable importance to be attached to calculating branch own funds so as to ensure that only those assets that are available to pay the claims of branch policyholders in the event of a winding up event are included in the calculation of branch assets. Assets will be deemed to be available, where either all of the undertaking's assets would be available to pay policyholders in priority to other creditors irrespective of the location of the policyholders, or where those assets are exclusively available to pay the claims of branch policyholders (Guidelines 6 and 25).

3.4 The PRA expects to receive an analysis from the third-country undertaking of the applicable winding up regime analysing the priority given to policyholders of the branch and how the assets of the third-country undertaking would be distributed to those policyholders. The PRA may have access to analyses that have already been provided by other undertakings or been made available by EIOPA and may be able to rely on these documents (Guideline 4) in which case the analysis expected from the third-country undertaking need concern only the application of that regime to the undertaking's own circumstances.

3.5 In the context of third-country branch undertakings observing quantitative reporting requirements (Guidelines 44-61), the PRA is taking a proportionate approach as set out in section 6 of this supervisory statement.

4 Worldwide financial resources

4.1 In the PRA Rulebook, Third Country Branches 13 requires a third-country branch undertaking to maintain adequate worldwide financial resources and assess the adequacy of these resources. For this purpose, 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 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 UK, 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 UK, 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 UK.

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 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 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 57 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 for 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 1 January 2016, or a 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 depend 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 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 40/15, 'Solvency II: Reporting and public disclosure - options provided to supervisory authorities'.⁵ SS40/15 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 of 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).

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
Full reporting – group 1	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

⁵ PRA Supervisory Statement 40/15 'Solvency II: reporting and public disclosure – options provided to supervisory authorities', October 2015: <http://www.bankofengland.co.uk/pru/Pages/publications/ss/2015/ss4015.aspx>.

Reporting group	Day 1 - transitional information requirements	Quarterly reporting Quarters 1 and 3	Quarterly reporting Quarters 2 and 4	Annual reporting
Limited reporting – group 2	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.22.06.01 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.01.01.07 SR.12.01.01 SR.17.01.01 SR.25.01.01
Limited reporting – group 3	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.22.06.01 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.01.01.07 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 UK, 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).

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