

Supervisory Statement | SS9/15

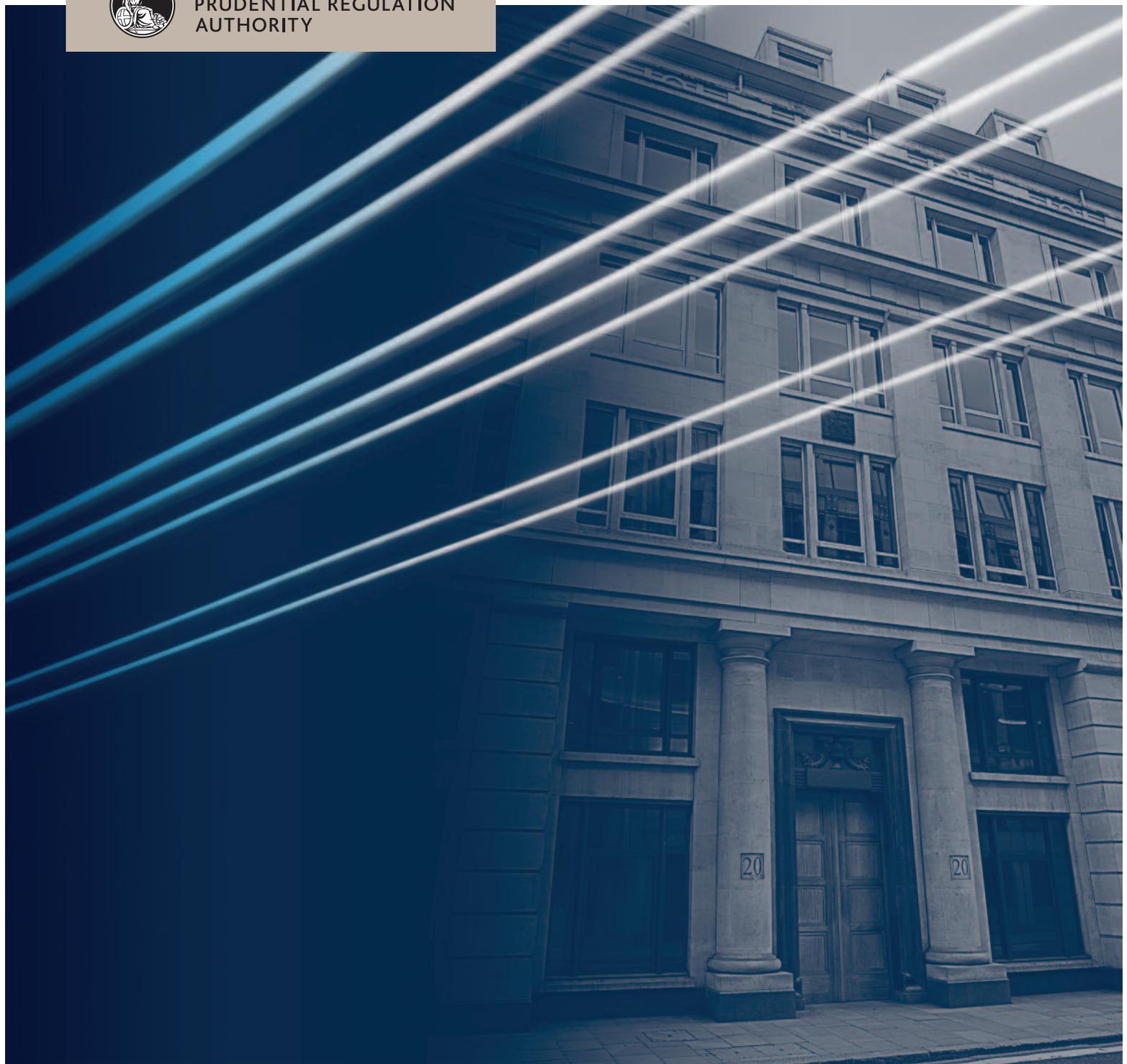
Solvency II: group supervision

Appendix 2.9

March 2015



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



12 July 2018: This supervisory statement has been updated, please see:
<https://www.bankofengland.co.uk/prudential-regulation/publication/2015/solvency2-group-supervision-ss>

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1 Introduction

1.1 This supervisory statement is addressed to UK Solvency II firms that are part of a group (and the Society of Lloyd's as a mixed activity insurance holding company). It sets out the Prudential Regulation Authority's (PRA's) expectations in respect of the Solvency II groups provisions.

1.2 Firms should note that if the group supervisor is a supervisory authority other than the PRA, the PRA still requires the UK insurers to comply with the groups provisions set out in the Solvency II Directive ('the Directive').

1.3 The groups provisions referred to in this statement should be read alongside the relevant European legislation, which includes Articles 213 to 246, 256, 256a, 257 and 260 to 266 of the Directive. It should also be read in conjunction with the Solvency II Regulations, the rules in the Group Supervision Part of the PRA Rulebook and the high-level expectations outlined in the PRA's approach to insurance supervision.

1.4 This statement expands on the PRA's general approach as set out in its insurance approach document.⁽¹⁾ 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. The PRA has considered matters to which it is required to have regard, and it considers that this statement is 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.

1.5 This statement has been subject to public consultation⁽²⁾ and reflects the feedback that was received by the PRA.

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. The PRA expects this application to articulate the way in which the firm believes that the conditions set out in Article 214(2) of the Directive are met.

2.2 The PRA will assess applications to exclude entities from the scope of group supervision under Article 214 on a case-by-case basis. The PRA expects to only grant a waiver with respect to undertakings where it is satisfied that conditions in Article 214(2) are met, following a consultation with the concerned supervisory authorities.

3 Choice of calculation method

3.1 Where the PRA is the group supervisor, Article 220 of the Directive allows the PRA to decide, after consulting the concerned supervisory authorities and the group, to apply to the group 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.

4 Group capital add-on

4.1 Where the PRA is the group supervisor, in considering whether the consolidated group solvency capital requirement (SCR) appropriately reflects the risk profile of the group, it may consider a capital add-on for a group if the circumstances referred to in Article 37(1)(a) to (d) of the Directive arise at the group level.

4.2 In particular, the PRA will consider imposing a capital add-on under Article 232 of the Directive where:

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

5 Centralised risk management

5.1 A group, for which the PRA is the group supervisor, may apply to be subject to the rules set out for centralised risk management in order to allow it to calculate the SCR for its subsidiary undertakings in accordance with a decision taken in the context of Article 238 of the Directive.

5.2 The PRA, together with the college of supervisors, will assess such applications for centralised risk management assessment in accordance with the approach set out in Article 237 of the Directive.

6 Single own risk and solvency assessment report

6.1 A group, for which the PRA is the group supervisor, may apply to produce a single document covering own risk and solvency assessments (ORSA) at the level of the group and at

(1) *The Prudential Regulation Authority's approach to insurance supervision*, June 2014; www.bankofengland.co.uk/publications/Documents/praapproach/insuranceappr1406.pdf.

(2) *PRA Consultation Paper CP16/14*, 'Transposition of Solvency II: Part 3', August 2014; www.bankofengland.co.uk/pradocuments/publications/cp/2014/cp1614.pdf.

the level of any subsidiary in the group at the same time. The PRA will assess applications to produce a single ORSA document in consultation with the college of supervisors.

6.2 In addition to the ORSA conducted at group level, the PRA expects the group-wide ORSA document to include sufficient details on the solo firms included within the scope of the group wide ORSA such that Article 45 of the Directive (solo ORSA) is satisfied in respect of each of those firms.

7 Single solvency and financial condition report

7.1 A group, for which the PRA is the group supervisor, may apply to produce a single report on its solvency and financial condition (SFCR) at the level of the group, and at the level of any subsidiary in the group which must be individually identifiable. The PRA will assess applications to produce a single SFCR in consultation with the college of supervisors.

7.2 The PRA expects the single document produced to cover the same level of detail on the solo subsidiary firms as is required in the solo SFCR.

8 Responsibilities of the relevant insurance group undertaking

8.1 Where the PRA is the group supervisor it may determine, after consulting the relevant supervisory authorities, the relevant insurance group undertaking in accordance with Article 219, which will be responsible for the group solvency calculations referred to in Article 218(2) and (3) of the Directive.

8.2 For a group, for which the PRA is the group supervisor, it is sufficient for one relevant insurance group undertaking within an insurance group to undertake the following activities on behalf of the group:

- (a) to submit the relevant data for and the results of the group eligible own funds and the group SCR to the PRA, as referred to in Group Supervision 5.2;
- (b) to ensure ongoing compliance with the conditions for the prudent management of subsidiaries, production of a single document covering all relevant ORSAs and production of a single SFCR, as referred to in Group Supervision 15.4(2);

- (c) to inform the PRA in an event of non-compliance with the group SCR within the appropriate timeframes, as referred to in Group Supervision 4.4;
- (d) to submit a realistic recovery plan and take measures to ensure compliance with the group SCR in an event of non-compliance with the group SCR within the appropriate timeframes, as referred to in Group Supervision 4.4;
- (e) to inform the PRA and the supervisory authorities of the subsidiary undertakings concerned of non-compliance with the centralised risk management (CRM) criteria, as referred to in Group Supervision 15.4(2)(a); and
- (f) to present a plan on how compliance will be restored with the CRM criteria to the PRA and the supervisory authorities, as referred to in Group Supervision 15.4(2)(b).

9 Supervision in the absence of third-country equivalence

9.1 In the absence of equivalent group supervision, in accordance with Article 262 of the Directive, the PRA may decide to apply to the group either the relevant Solvency II requirements to the worldwide group as if it were based in the European Economic Area (EEA), or it may use 'other methods' specified by the Directive pursuant to the objectives of group supervision (Group Supervision 20). In the absence of a decision from the PRA to apply 'other methods' to the group, then that group is required to apply the relevant Solvency II requirements to the worldwide group as if it were based in the EEA.

9.2 Firms may apply to the PRA for a waiver from the requirement to apply the relevant Solvency II requirements to the worldwide group as if it were a group based in the EEA. In its application, firms should state other methods for the PRA to consider. Firms wishing to apply for a waiver should do so via the usual waiver process. The PRA will assess such applications on a case-by-case basis, taking into account the objectives of group supervision as specified by the Directive.

9.3 If firms wish to submit an application before a relevant equivalence decision is made, they may do so stating the assumptions made with regard to equivalence. Where appropriate, the PRA may refrain from making a decision until an equivalence decision has been finalised.