

PRA RULEBOOK: SOLVENCY II FIRMS: GROUP SUPERVISION INSTRUMENT 2015

Powers exercised

- A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
- (1) section 137G (the PRA's general rules);
 - (2) section 137T (general supplementary powers); and
 - (3) section 192J (rules requiring provision of information by parent undertakings).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (consultation with the Financial Conduct Authority), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: Solvency II Firms: Group Supervision Instrument 2015

- D. The PRA makes the rules in the Annex to this instrument.

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Group Supervision Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

In this Annex, the text is all new and is not underlined.

Part

GROUP SUPERVISION

Chapter content

1. APPLICATION AND DEFINITIONS
2. CASES OF APPLICATION AND SCOPE OF GROUP SUPERVISION
3. LEVELS
4. GROUP SOLVENCY: GENERAL PROVISIONS
5. GROUP SOLVENCY: FREQUENCY OF CALCULATIONS
6. GROUP SOLVENCY: NOTIFICATION OF ISSUANCE OF OWN FUNDS ITEMS BY GROUP MEMBER
7. GROUP SOLVENCY: BASIC PRINCIPLES
8. GROUP SOLVENCY: PROPORTIONAL SHARES
9. GROUP SOLVENCY: ELIMINATION OF DOUBLE USE OF ELIGIBLE OWN FUNDS AND INTRA-GROUP CREATION OF CAPITAL AND VALUATION
10. GROUP SOLVENCY: APPLICATION OF THE CALCULATION METHODS
11. CALCULATION METHODS: METHOD 1
12. CALCULATION METHODS: METHOD 2
13. CALCULATION METHODS: CAPITAL ADD-ONS
14. SUPERVISION OF GROUP SOLVENCY FOR SOLVENCY II FIRMS THAT ARE SUBSIDIARIES OF AN INSURANCE HOLDING COMPANY OR A MIXED FINANCIAL HOLDING COMPANY
15. GROUPS WITH CENTRALISED RISK MANAGEMENT
16. RISK CONCENTRATION AND INTRA-GROUP TRANSACTIONS
17. RISK MANAGEMENT AND INTERNAL CONTROL
18. GROUP SFCR
19. GROUP STRUCTURE
20. THIRD COUNTRIES
21. MIXED-ACTIVITY INSURANCE HOLDING COMPANIES

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) every *UK Solvency II firm*:
 - (a) that is a member of a *group* for which the *PRA* is the *group supervisor*;
 - (b) that is a member of a *group* for which a *supervisory authority* (other than the *PRA*) is the *group supervisor*, subject to (c) and to the extent this Part gives effect to the *Solvency II EEA implementing measures* in the *EEA State* of its *group supervisor*; and
 - (c) where the *group supervisor* of a *group* of which a *firm* is a member is a *supervisory authority* in an *EEA State* other than the *UK*, the requirements of the *Solvency II EEA implementing measures* in that *EEA State* apply to the *firm* in relation to its capacity as a member of that *group*;
- (2) in accordance with Insurance General Application 3, the *Society* as a *mixed activity insurance holding company*, as modified by 21; and
- (3) a *UK holding company*.

1.2 In this Part, the following definitions shall apply:

close links

means a situation in which two or more *persons* are linked by *control* or *participation*, or a situation in which two or more *persons* are permanently linked to one and the same person by a *control* relationship.

[Note: Art. 13(17) of the *Solvency II Directive*]

financial institution

has the meaning given in point (26) of Article 4(1) of the *CRR*.

group supervisor

means (in relation to a *group*) the authority designated as group supervisor in relation to that *group*, in accordance with Article 247 of the *Solvency II Directive*.

intermediate holding company

means an *insurance holding company* or a *mixed financial holding company* through which a *Solvency II undertaking* in a *group* holds a *participation* in a *related Solvency II undertaking*, a *third country insurance undertaking* or a *third country reinsurance undertaking*.

method 1

means the method for calculating group solvency described in 11.1.

method 2

means the method for calculating group solvency described in 12.1.

mixed activity insurance holding company

means a *parent undertaking*, other than a *Solvency II undertaking*, a *third-country insurance undertaking*, a *third-country reinsurance undertaking*, an *insurance holding company* or a *mixed financial holding company*, the *subsidiary undertakings* of which include at least one *Solvency II undertaking*.

[Note: Art. 212(1)(g) of the Solvency II Directive]*own funds eligible for the group SCR*

means:

- (1) in relation to *method 1*, the *own funds eligible for the group SCR* in accordance with 11.1(3); and
- (2) in relation to *method 2*, the aggregate *eligible own funds* of the *group* referred to in 12.2.

own funds eligible for the SCR

means the aggregate of the *firm's*:

- (a) *Tier 1 own funds*; and
- (b) *eligible Tier 2 own funds*; and
- (c) *eligible Tier 3 own funds*.

related Solvency II undertaking

means a *Solvency II undertaking* that is a *related undertaking* of another *undertaking*.

related undertaking

means, in relation to an *undertaking* ("U"):

- (1) any *subsidiary undertaking* of U; or
- (2) any *undertaking* in which U or any of U's *subsidiary undertakings* holds a *participation*; or
- (3) any *undertaking* linked to U by an *Article 12(1) relationship*; or
- (4) any *undertaking* linked by an *Article 12(1) relationship* to an *undertaking* in (1), (2) or (3).

solvency deficit

means the amount (if any) by which the *related undertaking's eligible own funds* fall short of its solvency capital requirement under the *SCR Rules* or the relevant *Solvency II EEA implementing measures* as appropriate.

UK holding company

means an *insurance holding company* or *mixed financial holding company* that:

- (1) is incorporated in the *UK*; or

- (2) has a place of business in the *UK*.

2 CASES OF APPLICATION AND SCOPE OF GROUP SUPERVISION

2.1 This Part applies at the level of the *group* to types of *groups* where:

- (1) either:
- (a) a *UK Solvency II firm* is a *participating undertaking* in at least one other *Solvency II undertaking, third country insurance undertaking or third country reinsurance undertaking*; or
 - (b) a *Solvency II undertaking* (other than a *UK Solvency II firm*) is a *participating undertaking* in a *UK Solvency II firm*; or
- (2) the *parent undertaking* of a *UK Solvency II firm* is an *insurance holding company* or a *mixed financial holding company* which has its head office in an *EEA State*; or
- (3) the *parent undertaking* of a *UK Solvency II firm* is an *insurance holding company* or a *mixed financial holding company* which does not have its head office in an *EEA State* or is a *third country insurance undertaking* or a *third country reinsurance undertaking*; or
- (4) the *parent undertaking* of a *UK Solvency II firm* is a *mixed activity insurance holding company*.

[Note: Art. 213(2) of the *Solvency II Directive*]

2.2 Where, in accordance with 2.1, this Part applies at the level of a *group*, that *group* consists of all *undertakings* within the relevant *group*, subject to 2.3 and 3 and provided that:

- (1) where 2.1(1) applies, the definition of a *group* must be applied to the *participating Solvency II undertaking*, its *subsidiary undertakings*, the *undertakings* in which it holds a *participation* and *undertakings* to which it is linked by an *Article 12(1) relationship* or, where applicable, to the *undertakings* in a *mutual-type group*;
- (2) where 2.1(2) applies, the definition of a *group* must be applied to the *insurance holding company* or *mixed financial holding company*, its *subsidiary undertakings*, the *undertakings* in which it holds a *participation* and *undertakings* to which it is linked by an *Article 12(1) relationship* or, where applicable, to the *undertakings* in a *mutual-type group*;
- (3) where 2.1(3) applies, the definition of a *group* must be applied to the *insurance holding company* or *mixed financial holding company, third country insurance undertaking or third country reinsurance undertaking* (as applicable), its *subsidiary undertakings*, the *undertakings* in which it holds a *participation* and *undertakings* to which it is linked by an *Article 12(1) relationship* or, where applicable, to the *undertakings* in a *mutual-type group*; and
- (4) where 2.1(4) applies, the definition of a *group* must be applied to the *mixed activity insurance holding company*, its *subsidiary undertakings*, the *undertakings* in which it holds a *participation* and *undertakings* to which it is linked by an *Article 12(1) relationship* or, where applicable, to the *undertakings* in a *mutual-type group*.

[Note: Art. 213(2) of the *Solvency II Directive*]

2.3 Where the *PRA* as *group supervisor* has granted a *waiver* or where a *supervisory authority* which is the *group supervisor* has decided, in accordance with Article 214 of the *Solvency II Directive*, not to include an *undertaking* in the group supervision referred to in 2.1:

- (1) that *undertaking* must be excluded from the *group* for the purposes of 2.1; and
- (2) if that *undertaking* is a *firm* and is excluded because:
 - (a) it is of negligible interest with respect to the objectives of group supervision; or
 - (b) its inclusion would be inappropriate or misleading with respect to the objectives of group supervision,

the *firm* which is at the head of the *group* of which that *firm* would otherwise be a part, or any other *firm* which is a member of the *group* must provide any information in relation to the excluded *firm* that the *PRA* may require to facilitate the supervision of the excluded *firm*.

[Note: Art. 214(2) of the *Solvency II Directive*]

2.4 The provisions of the *Solvency II Firms Sector* of the *PRA Rulebook* concerning the supervision of *firms* (or the *Solvency II EEA implementing measures* in relation to *Solvency II undertakings* which are members of a *group* for which the *PRA* is the *group supervisor*) taken individually continue to apply to those *undertakings*, except where otherwise provided under this Part.

[Note: Art. 213(1) of the *Solvency II Directive*]

3 LEVELS

3.1 If the *participating Solvency II undertaking* or the *insurance holding company* or *mixed financial holding company* referred to in 2.1(1) or 2.1(2) is itself a *subsidiary undertaking* of another *Solvency II undertaking* or of another *insurance holding company* or *mixed financial holding company* which has its head office in an *EEA State*, then 4 to 19 apply only at the level of the ultimate *Solvency II undertaking*, *insurance holding company*, or *mixed financial holding company* in the *group* which has its head office in an *EEA State*.

[Note: Art. 215(1) of the *Solvency II Directive*]

3.2 If the *PRA* makes a decision referred to in Article 216(1) or 217(1) of the *Solvency II Directive* (group supervision at national level) then 4 to 19 apply with any necessary changes, subject to Articles 216(6) and 217 of the *Solvency II Directive* and the following:

- (1) group supervision of the ultimate *parent undertaking* at national level is restricted to those remaining rules of 4 to 19 if the *firm* is granted a *waiver* of such other sections as would otherwise apply to a *group*; and
- (2) no *firm* in the *group* may introduce, in accordance with 15.1(5), an application for permission to subject any *subsidiary undertakings* in the *group* to 15.3.

[Note: Art. 216(2) and (5) and Art. 217(2) of the *Solvency II Directive*]

4 GROUP SOLVENCY: GENERAL PROVISIONS

- 4.1 Where 2.1(1) applies, each *participating Solvency II undertaking* that is a *firm* in the *group* and each *relevant insurance group undertaking* must ensure that *eligible own funds* are available in the *group* which are always at least equal to the *group SCR* as calculated in accordance with 7 to 12.

[Note: Art. 218(2) of the Solvency II Directive]

- 4.2 Where 2.1(2) applies, each *relevant insurance group undertaking* must ensure that *eligible own funds* are available in the *group* which are always at least equal to the *group SCR* as calculated in accordance with 14.

[Note: Art. 218(3) of the Solvency II Directive]

- 4.3 *Relevant insurance group undertakings* must have procedures in place to identify deteriorating financial conditions within the *groups* of which they are members and must immediately notify the *group supervisor* when that deterioration occurs.

[Note: Art. 218(4) and Art. 136 of the Solvency II Directive]

- 4.4 *Relevant insurance group undertakings* must:
- (1) immediately inform the *PRA* as soon as they observe that the *group SCR* is no longer complied with, or where there is a risk of non-compliance within the next three *months*;
 - (2) within two *months* from the observation of non-compliance with the *group SCR*, submit a realistic *recovery plan* in accordance with Undertakings In Difficulty 5.1 for approval by the *PRA*;
 - (3) take the measures necessary to achieve, within six *months* (or such longer period as the *PRA* may determine) from the observation of non-compliance with the *group SCR*, the re-establishment of the level of *eligible own funds* covering the *group SCR* or the reduction of the risk profile to ensure compliance with the *group SCR*; and
 - (4) if the *PRA* has extended the period referred to (3) by reason of the declaration by *EIOPA* of an *exceptional adverse situation* affecting the *group*, submit a progress report to the *PRA* every three *months* setting out the measures taken and the progress made to re-establish the level of *own funds* covering the *group SCR* or to reduce the risk profile to ensure compliance with the *group SCR*.

[Note: Art. 218(4) and Art. 138(1)–(4) of the Solvency II Directive]

5 GROUP SOLVENCY: FREQUENCY OF CALCULATIONS

- 5.1 The calculations referred to in 4.1 and 4.2 must be carried out at least annually by the *relevant insurance group undertakings*.

[Note: Art. 219(1) of the Solvency II Directive]

- 5.2 The relevant data for, and the results of, the calculations referred to in 4.1 and 4.2 must be submitted to the *group supervisor* by:
- (1) the *participating Solvency II undertakings* referred to in 4.1, or by any one of them, in the case of the calculations referred to in 4.1; or

- (2) *the UK holding company* or such other *undertaking* in the *group* as may be determined by the *group supervisor* in accordance with Article 219(1) of the *Solvency II Directive*, in the case of the calculations referred to in 4.2.

[Note: Art. 219(1) of the *Solvency II Directive*]

- 5.3 (1) The *relevant insurance group undertakings* must monitor the *group SCR* on an ongoing basis.
- (2) Where the risk profile of the *group* deviates significantly from the assumptions underlying the last reported *group SCR*, the *group SCR* must be recalculated without delay and reported to the *group supervisor*.
- (3) Upon request by the *group supervisor*, in accordance with Article 219(2) of the *Solvency II Directive*, the *group SCR* must be recalculated without delay and reported to the *group supervisor*.

[Note: Art. 219(2) of the *Solvency II Directive*]

6 GROUP SOLVENCY: NOTIFICATION OF ISSUANCE OF OWN FUNDS ITEMS BY GROUP MEMBER

- 6.1 This section applies to a *firm* if another member of its *group* intends to issue an item for inclusion within the *basic own funds* forming the *own funds eligible for the group SCR* of the *firm's group*.
- 6.2 A *firm* must notify the *PRA* in writing of the intention of another member of its *group* which is not a *firm* to issue an item which it intends to include within the *basic own funds* forming the *own funds eligible for the group SCR*, as soon as it becomes aware of the intention of the issuing *undertaking*. When giving notice, a *firm* must:
- (1) provide details of the amount of *basic own funds* to be raised through the intended issue and whether the item is intended to be issued to external investors or within its *group*;
 - (2) identify the classification of *basic own funds* the item is intended to fall within;
 - (3) include confirmation from the *governing body* of the *firm* that the item complies with the rules applicable to items of *basic own funds* included in the classification of the item identified in (2); and
 - (4) provide a copy of the term sheet and details of any features of the item it intends to include within the *basic own funds* forming the *own funds eligible for the group SCR* which are novel, unusual or different from an item of *own funds* of a similar nature previously issued by the *firm* or widely available in the market or not specifically contemplated by the *Solvency II Firms Sector* of the *PRA Rulebook* or the *Solvency II Regulations*.
- 6.3 A *firm* must provide a further written notification to the *PRA* including all the information required in 6.2 as soon as it proposes any change to the intended date of issue, amount of issue, type of investors, classification of a particular tier of *basic own funds* or any other feature of the item intended to be included as *basic own funds* to that previously notified to the *PRA*.

6.4 If an *undertaking* proposes to establish a debt securities program for the issue of an item which the *firm* intends to include within the *basic own funds* forming the *own funds eligible for the group SCR*, the *firm* must:

- (1) notify the *PRA* of the establishment of the program; and
- (2) provide the information required by 6.2

as soon it becomes aware of the proposed establishment. The *PRA* must be notified of any changes in accordance with 6.3.

6.5 The items of *basic own funds* to which 6.2 does not apply are:

- (1) ordinary *shares* issued by an *undertaking* in the *group* which are:
 - (a) classified as *Tier 1 own funds* or *Tier 2 basic own funds*; and
 - (b) the same as ordinary *shares* previously issued by that *undertaking*;
- (2) debt instruments issued from a debt securities program established by an *undertaking* in the *group*, provided that program was notified to the *PRA* prior to its first drawdown in accordance with 6.4; and
- (3) any item which is not materially different in terms of its characteristics and eligibility for inclusion in a particular tier of *basic own funds* to items previously issued by the *undertaking* in the *group* and included in the *basic own funds* forming the *own funds eligible for the group SCR*.

6.6 A *firm* must notify the *PRA* in writing, no later than the date of issue, of the intention of the *undertaking* in the *group* to issue an item listed in 6.5 which it intends to include within the *basic own funds* forming the *own funds eligible for the group SCR*. When giving notice, a *firm* must:

- (1) provide the information set out at 6.2(1) to (3); and
- (2) confirm that the terms of the item have not changed since the previous issue of that type of item of *basic own funds* by that *undertaking*.

7 GROUP SOLVENCY: BASIC PRINCIPLES

7.1 The calculation of the solvency at the level of the *group* of the *Solvency II undertakings* referred to in 2.1(1) must be carried out:

- (1) in accordance with the technical principles in 8 to 10; and

[Note: Art. 220(1) of the *Solvency II Directive*]

- (2) in accordance with *method 1*, unless the *group supervisor* has determined under Article 220(2) of the *Solvency II Directive* that *method 2* or a combination of *method 1* and *method 2* must be applied.

[Note: Art. 220(2) of the *Solvency II Directive*]

8 GROUP SOLVENCY: PROPORTIONAL SHARES

8.1 The calculation of the solvency of a *group* must take account of the proportional share held by the *participating undertaking* in its *related undertakings*.

[Note: Art. 221(1) of the Solvency II Directive]

8.2 For the purposes of 8.1, the proportional share must comprise either of the following, subject to 8.3:

- (1) where *method 1* is used, the percentages used for the establishment of the consolidated accounts; or
- (2) where *method 2* is used, the proportion of the subscribed capital that is held, directly or indirectly, by the *participating undertaking*.

[Note: Art. 221(1) of the Solvency II Directive]

8.3 Notwithstanding 8.2:

- (1) where the *related undertaking* is a *subsidiary undertaking* and does not have sufficient *eligible own funds* to cover its *SCR*, the total *solvency deficit* of the *subsidiary undertaking* must be taken into account (or a proportional share of that *solvency deficit*, if the *group supervisor* so determines under Article 221(1) of the *Solvency II Directive*); and

[Note: Art. 221(1) of the Solvency II Directive]

- (2) the proportional share must be as determined by the *group supervisor* if such a determination is made under Article 221(2) of the *Solvency II Directive*.

[Note: Art. 221(2) of the Solvency II Directive]

9 GROUP SOLVENCY: ELIMINATION OF DOUBLE USE OF ELIGIBLE OWN FUNDS AND INTRA-GROUP CREATION OF CAPITAL AND VALUATION

9.1 *Own funds eligible for the SCR* must not be taken into account more than once among the different *Solvency II undertakings* taken into account in the calculation of the solvency of a *group*. For that purpose, when calculating the solvency of a *group* and where *method 1* and *method 2* do not provide for it, the following amounts must be excluded:

- (1) the value of any asset of the *participating Solvency II undertaking* which represents the financing of *own funds eligible for the SCR* of one of its *related Solvency II undertakings*;
- (2) the value of any asset of a *related Solvency II undertaking* of the *participating Solvency II undertaking* which represents the financing of *own funds eligible for the SCR* of that *participating Solvency II undertaking*; and
- (3) the value of any asset of a *related Solvency II undertaking* of the *participating Solvency II undertaking* which represents the financing of *own funds eligible for the SCR* of any other *related Solvency II undertaking* of that *participating Solvency II undertaking*.

[Note: Art. 222(1) of the Solvency II Directive]

9.2 Without prejudice to 9.1 or 9.3, the following must be excluded in the calculation of the solvency of a *group* unless they are, and only insofar as they are, eligible for covering the *SCR* of the *related undertaking* concerned:

- (1) surplus funds falling under Article 91(2) of the *Solvency II Directive* arising in a *related Solvency II undertaking* of the *participating Solvency II undertaking* for which the solvency of a *group* is calculated; and
- (2) any subscribed but not paid-up capital of a *related Solvency II undertaking* of the *participating Solvency II undertaking* for which the solvency of a *group* is calculated.

[Note: Art. 222(2) of the *Solvency II Directive*]

- 9.3 Without prejudice to 9.1, the following must, in any event, be excluded from the calculation:
- (1) subscribed but not paid-up capital which represents a potential obligation on the part of the *participating undertaking*;
 - (2) subscribed but not paid-up capital of the *participating Solvency II undertaking* which represents a potential obligation on the part of a *related Solvency II undertaking*; and
 - (3) subscribed but not paid-up capital of a *related Solvency II undertaking* which represents a potential obligation on the part of another *related Solvency II undertaking* of the same *participating Solvency II undertaking*.

[Note: Art. 222(2) of the *Solvency II Directive*]

- 9.4 Where the PRA considers that certain *own funds eligible for the SCR* of a *related Solvency II undertaking* (other than those referred to in 9.2 and 9.3) cannot effectively be made available to cover the *SCR* of the *participating Solvency II undertaking* for which the solvency of a *group* is calculated, those *own funds* must not be included in the calculation of the group solvency of the *group* unless they are, and only in so far as they are, eligible for covering the *SCR* of the *related undertaking*.

[Note: Art. 222(3) of the *Solvency II Directive*]

- 9.5 The sum of the *own funds* included under 9.2 and 9.4 must not exceed the *SCR* of the *related Solvency II undertaking*.

[Note: Art. 222(4) of the *Solvency II Directive*]

- 9.6 Any *eligible own funds* of a *related Solvency II undertaking* of the *participating Solvency II undertaking* for which the solvency of a *group* is calculated that are subject to prior authorisation from the *supervisory authority* of the *related Solvency II undertaking*, in accordance with Article 90 of the *Solvency II Directive*, must be included in the calculation of the group solvency only in so far as they have been duly authorised by that *supervisory authority*.

[Note: Art. 222(5) of the *Solvency II Directive*]

- 9.7 When calculating the solvency of a *group*, no account must be taken of any *own funds eligible for the SCR* arising out of reciprocal financing between the *participating Solvency II undertaking* and any of the following:
- (1) a *related undertaking*;
 - (2) a *participating undertaking*; and
 - (3) another *related undertaking* of any of its *participating undertakings*.

[Note: Art. 223(1) of the *Solvency II Directive*]

- 9.8 When calculating the solvency of a *group*, no account must be taken of any *own funds eligible for the SCR* of a *related Solvency II undertaking* of the *participating Solvency II undertaking* for which the group solvency of the *group* is calculated where the *own funds* concerned arise out of reciprocal financing with any other *related undertaking* of that *participating Solvency II undertaking*. Reciprocal financing exists at least where a *Solvency II undertaking*, or any of its *related undertakings*, holds shares in, or makes loans to, another *undertaking* which, directly or indirectly, holds *eligible own funds* of the first *undertaking*.

[Note: Art. 223(2), (3) of the Solvency II Directive]

- 9.9 The value of the assets and liabilities of a *group* must be assessed in accordance with Valuation 2.

[Note: Art. 224 of the Solvency II Directive]

10 GROUP SOLVENCY: APPLICATION OF THE CALCULATION METHODS

- 10.1 Where a *Solvency II undertaking* has more than one *related Solvency II undertaking*, the group solvency calculation of the *group* must be carried out by including each of those *related Solvency II undertakings*.

[Note: Art. 225 of the Solvency II Directive]

- 10.2 In respect of a *related Solvency II undertaking* with its head office in an *EEA State* other than that of the *Solvency II undertaking* for which the group solvency calculation of the *group* is carried out, the group solvency calculation must take account of the *SCR* and the *own funds eligible for the SCR* as laid down in the *Solvency II EEA implementing measures* of that other *EEA State*.

[Note: Art. 225 of the Solvency II Directive]

- 10.3 (1) When calculating the group solvency of a *Solvency II undertaking* in a *group*, the situation of each *intermediate holding company* must be taken into account.
- (2) For the sole purpose of that calculation, the *intermediate holding company* must be treated as if it were a *Solvency II undertaking* subject to the *SCR Rules* in respect of the *SCR* and were subject to the same conditions as are laid down in the *Own Funds Part* of the *PRA Rulebook* in respect of *own funds eligible for the SCR*.
- (3) In cases where an *intermediate holding company* holds subordinated debt or other *eligible own funds* subject to limitation in accordance with *Own Funds 4* or any applicable *Solvency II Regulations*, they must be recognised as *eligible own funds* up to the amounts calculated by application of the limits in *Own Funds 4* or any applicable *Solvency II Regulations* to the total *eligible own funds* outstanding at the level of the *group* as compared to the *group SCR*.
- (4) Any *eligible own funds* of an *intermediate holding company*, which would require prior authorisation from a *supervisory authority* in accordance with Article 90 of the *Solvency II Directive*, may be included in the calculation of the group solvency of the *group* only in so far as they have been duly authorised by the *group supervisor*.

[Note: Art. 226 of the Solvency II Directive]

- 10.4 (1) Subject to (2), when calculating, in accordance with *method 2*, the group solvency of a *Solvency II undertaking* in a *group* which is a *participating undertaking* in a *third country insurance undertaking* or *third country reinsurance undertaking*, that

third country insurance undertaking or third country reinsurance undertaking must, solely for the purposes of that calculation, be treated as a *related Solvency II undertaking*.

- (2) If the third country in which that *third country insurance undertaking or third country reinsurance undertaking* has its head office makes it subject to authorisation and imposes on it a solvency regime that is assessed to be equivalent under Article 227 of the *Solvency II Directive*, the calculation in (1) must take into account, as regards that *undertaking*, the requirement equivalent to the *SCR* and the capital items eligible to satisfy that requirement as laid down by that third country.

[Note: Art. 227 of the Solvency II Directive]

10.5 When calculating the group solvency of a *Solvency II undertaking* in a *group* which is a *participating undertaking* in a *credit institution, investment firm or financial institution*, the *participating Solvency II undertaking* must either:

- (1) apply *method 1* or *method 2* in Annex I to Directive 2002/87/EC with any necessary changes, provided that *method 1* in that Annex must be applied only where the *group supervisor* is satisfied as to the level of integrated management and internal control regarding the *undertakings* which would be included in the scope of consolidation and provided always that the method chosen must be applied in a consistent manner over time; or
- (2) if the *group supervisor* so determines (either at the request of the *participating undertaking* or on its own initiative), deduct any such *participation* from the *own funds eligible for the group SCR* of the *participating undertaking*.

[Note: Art. 228 of the Solvency II Directive]

10.6 Where the information necessary for calculating the group solvency of a *Solvency II undertaking* in a *group*, concerning a *related undertaking* with its head office in an *EEA State* or a third country, is not available to the *group supervisor* then:

- (1) the book value of that *related undertaking* in the *participating Solvency II undertaking* must be deducted from the *own funds eligible for the group SCR*; and
- (2) the unrealised gains connected with that *participation* must not be recognised as *own funds eligible for the group SCR*.

[Note: Art. 229 of the Solvency II Directive]

11 CALCULATION METHODS: METHOD 1

- 11.1 (1) The calculation of the group solvency of the *participating Solvency II undertaking* in a *group* must be carried out on the basis of the consolidated accounts.
- (2) The group solvency of the *participating Solvency II undertaking* in a *group* is the difference between the following:
- (a) the *own funds eligible for the group SCR*, calculated on the basis of consolidated data; and
- (b) the *group SCR* calculated on the basis of consolidated data.

- (3) Own Funds and the *SCR Rules* apply to the calculation of the *own funds eligible for the group SCR* and of the *group SCR* based on consolidated data.

[Note: Art. 230(1) of the Solvency II Directive]

- 11.2 The *group SCR* of a *group* based on consolidated data (*consolidated group SCR*) must be calculated on the basis of either the *standard formula* or an approved *internal model*, in a manner consistent with the general principles contained in the *SCR Rules*

[Note: Art. 230(2) of the Solvency II Directive]

- 11.3 (1) The consolidated *group SCR* of a *group* must have as a minimum the sum of the following:
- (a) the *MCR* of the *participating Solvency II undertaking*; and
 - (b) the proportional share of the *MCR* of the *related Solvency II undertakings*.
- (2) That minimum must be covered by *eligible own funds* within paragraph 2 of the definition of "*eligible own funds*".
- (3) For the purposes of determining whether those *eligible own funds* qualify to cover the minimum consolidated *group SCR* of a *group*, the principles in 8 to 10 apply with any necessary changes. Undertakings In Difficulty 3 also applies with any necessary changes.

[Note: Art. 230(2) of the Solvency II Directive]

- 11.4 Any application for permission to calculate the consolidated *group SCR*, as well as the *SCR* of *Solvency II undertakings* in the *group*, on the basis of an *internal model*, submitted by a *Solvency II undertaking* and its *related undertakings*, or jointly by the *related Solvency II undertakings* of an *insurance holding company* or a *mixed financial holding company*, must be submitted to the *group supervisor*.

[Note: Art. 231(1) of the Solvency II Directive]

12 CALCULATION METHODS: METHOD 2

- 12.1 The group solvency of the *participating Solvency II undertaking* in a *group* is the difference between the following:
- (1) the aggregated group *eligible own funds*, as provided for in 12.2; and
 - (2) the value in the *participating Solvency II undertaking* of the *related Solvency II undertakings* and the aggregated *group SCR*, as provided for in 12.3.

[Note: Art. 233(1) of the Solvency II Directive]

- 12.2 The aggregated group *eligible own funds* of a *group* is the sum of the following:
- (1) the *own funds eligible for the SCR* of the *participating Solvency II undertaking*; and
 - (2) the proportional share of the *participating Solvency II undertaking* in the *own funds eligible for the SCR* of the *related Solvency II undertakings*.

[Note: Art. 233(2) of the Solvency II Directive]

12.3 The aggregated *group SCR* of a *group* is the sum of the following:

- (1) the *SCR* of the *participating Solvency II undertakings*; and
- (2) the proportional share of the *SCR* of the *related Solvency II undertakings*.

[Note: Art. 233(3) of the Solvency II Directive]

12.4 Where, in a *group*, the *participation* in the *related Solvency II undertaking* consists, wholly or in part, of an indirect ownership, the value in the *participating Solvency II undertaking* of the *related Solvency II undertaking* must incorporate the value of that indirect ownership. The value of that indirect ownership must take into account the relevant successive interests, and the items referred to in 12.2(2) and 12.3(2) must include the corresponding proportional shares, respectively, of the *own funds eligible for the SCR* of the *related Solvency II undertaking* and of the *SCR* of the *related Solvency II undertakings*.

[Note: Art. 233(4) of the Solvency II Directive]

12.5 Any application for permission to calculate the *SCR* of *Solvency II undertakings* in the *group*, on the basis of an *internal model*, submitted by a *Solvency II undertaking* and its *related undertakings*, or jointly by the *related undertakings* of an *insurance holding company* or a *mixed financial holding company*, must be submitted to the *group supervisor*.

[Note: Art. 233(5) of the Solvency II Directive]

13 CALCULATION METHODS: CAPITAL ADD-ONS

13.1 The *relevant insurance group undertakings* must make every effort to remedy the deficiencies that led to the imposition of a *capital add-on* arising as a result of an *internal model significant risk profile deviation* or a *significant system of governance deviation* at the level of the *group*.

[Note: Art. 232, Art. 233(6) and Art. 37(3) of the Solvency II Directive]

13.2 The *group SCR* prior to the imposition of the *capital add-on*, together with the amount of the *capital add-on* imposed at the level of the *group*, will constitute the *group's group SCR*.

[Note: Art. 232, Art. 233(6) and Art. 37(5) of the Solvency II Directive]

14 SUPERVISION OF GROUP SOLVENCY FOR SOLVENCY II FIRMS THAT ARE SUBSIDIARIES OF AN INSURANCE HOLDING COMPANY OR A MIXED FINANCIAL HOLDING COMPANY

- 14.1
- (1) Where *Solvency II undertakings* in a *group* are *subsidiary undertakings* of an *insurance holding company* or a *mixed financial holding company*, the calculation of the solvency of the *group* must be carried out at the level of the *insurance holding company* or *mixed financial holding company* applying 7.1(2) to 12.
 - (2) For the purpose of that calculation, the *insurance holding company* or *mixed financial holding company* must be treated as if it were a *Solvency II undertaking* subject to the *SCR Rules* as regards the *SCR* and the Own Funds Part of the *PRA Rulebook* as regards the *own funds eligible for the SCR*, provided that the *relevant insurance group undertakings* remain responsible for discharging any obligations arising from the application of this sub-paragraph.

[Note: Art. 235 of the Solvency II Directive]

15 GROUPS WITH CENTRALISED RISK MANAGEMENT

- 15.1 15.3 applies to any *Solvency II undertaking* in a *group* which is a *subsidiary undertaking* of another *Solvency II undertaking* or of an *insurance holding company* or *mixed financial holding company* where all of the following conditions are satisfied:
- (1) the *subsidiary undertaking*, in relation to which the *group supervisor* has not made a decision under Article 214(2) of the *Solvency II Directive*, is included in the *group supervision* carried out by the *group supervisor* at the level of the *parent undertaking* in accordance with this Part;
 - (2) the risk-management processes and internal control mechanisms of the *parent undertaking* cover the *subsidiary undertaking* and the *parent undertaking* satisfies the *PRA* regarding the prudent management of the *subsidiary undertaking*;
 - (3)
 - (a) the *parent undertaking*; or
 - (b) one or more *relevant insurance group undertakings*,
 is permitted, under 17.2(3), to produce a single document covering all relevant *ORSA*s;
 - (4)
 - (a) the *parent undertaking*; or
 - (b) one or more *relevant insurance group undertaking*,
 is permitted, under 18.1(2), to produce a single *SFCR* covering all relevant *Solvency II undertakings* and *insurance holding companies* and *mixed financial holding companies*; and
 - (5) an application for permission to be subject to 15.3 has been submitted by the *parent undertaking* or one or more *relevant insurance group undertakings* and a favourable decision has been made on that application in accordance with the procedure in Article 237 of the *Solvency II Directive*.

[Note: Art. 236 of the *Solvency II Directive*]

- 15.2 An application for permission to be subject to 15.3 must be made to the *PRA* if the *subsidiary undertaking* is a *UK Solvency II firm*.

[Note: Art. 237(1) of the *Solvency II Directive*]

- 15.3 Without prejudice to 11.4 and subject to 15.4, if the conditions referred to in 15.1 are satisfied, the *SCR* of the *subsidiary undertaking* in the *group* must be calculated in accordance with any decisions taken in accordance with Article 238 of the *Solvency II Directive*.

[Note: Art. 238 of the *Solvency II Directive*]

- 15.4 (1) 15.3 ceases to apply where:
- (a) the condition referred to in 15.1(1) is no longer complied with;
 - (b) the condition referred to in 15.1(2) is no longer complied with and the *group* does not restore compliance with this condition in an appropriate period of time;
 - (c) the conditions referred to in 15.1(3) and 15.1(4) are no longer complied with.

- (2) The *parent undertaking* or *relevant insurance group undertakings* of a *group* to which 15.3 applies must ensure that the conditions referred to in 15.1(2) to (4) are complied with on an ongoing basis and in the event of non-compliance must:
- (a) inform the *group supervisor* and the *supervisory authority* of the *subsidiary undertaking* concerned without delay; and
 - (b) present a plan to the *supervisory authorities* to restore compliance within an appropriate period of time.

[Note: Art. 240 of the *Solvency II Directive*]

16 RISK CONCENTRATION AND INTRA-GROUP TRANSACTIONS

- 16.1 (1) Where 2.1(1) or 2.1(2) applies, the *relevant insurance group undertakings* or any *UK holding company* must report on a regular basis and at least annually to the *group supervisor* any significant risk concentration at the level of the *group*.
- (2) The necessary information must be submitted to the *group supervisor* by the *relevant insurance group undertaking* which is at the head of the *group* or, where the *group* is not headed by a *relevant insurance group undertaking*, by the *UK holding company* or such other *Solvency II undertaking* in the *group* as the *group supervisor* may specify.

[Note: Art. 244 of the *Solvency II Directive*]

- 16.2 (1) Where 2.1(1) or 2.1(2) applies, the *relevant insurance group undertakings* or any *UK holding company* must report on a regular basis, and at least annually, to the *group supervisor* all significant intra-group transactions by *Solvency II undertakings* within a *group*, including those performed with a natural person with *close links* to an *undertaking* in the *group*.
- (2) Where an intra-group transaction falling within (1) is very significant, it must be reported to the *group supervisor* as soon as practicable.
- (3) The necessary information must be submitted to the *group supervisor* by the *relevant insurance group undertaking* which is at the head of the *group* or, where the *group* is not headed by a *Solvency II undertaking*, by the *UK holding company* or such other *Solvency II undertaking* in the *group* as the *group supervisor* may specify.

[Note: Art. 245 of the *Solvency II Directive*]

17 RISK MANAGEMENT AND INTERNAL CONTROL

- 17.1 (1) Where 2.1(1) or 2.1(2) applies, the following requirements apply with any necessary changes at the level of the *group*:
- (a) Conditions Governing Business 2.2 to 2.6;
 - (b) Conditions Governing Business 3;
 - (c) Conditions Governing Business 4.1 to 4.2;
 - (d) Conditions Governing Business 5;
 - (e) Conditions Governing Business 6;
 - (f) Conditions Governing Business 7.1 to 7.3

- (g) Fitness and Propriety 2.1 to 2.3, 4.1, 4.3 and 4.4; and
 - (h) Allocation of Responsibilities 4;
- (2) Without prejudice to (1), the risk management and internal control systems and reporting procedures must be implemented consistently in all the *undertakings* included in the scope of *group* supervision under 2.2(1) and 2.2(2) so that those systems and reporting procedures can be controlled at the level of the *group*.
- (3) Without prejudice to (1), the internal control mechanisms must include at least the following:
- (a) adequate mechanisms as regards group solvency to identify and measure all material risks incurred and to appropriately relate *eligible own funds* to risks; and
 - (b) sound reporting and accounting procedures to monitor and manage the intra-group transactions and the risk concentration.
- 17.2 (1) Where 2.1(1) or 2.1(2) applies, a *participating Solvency II undertaking* that is a *firm*, or if there is none, the *UK holding company* or the *relevant insurance group undertakings*, must undertake at the level of the *group* the assessment required by Conditions Governing Business 3.8 to 3.11.
- (2) Where the calculation of the solvency at the level of the *group* is carried out in accordance with *method 1*, the *participating Solvency II undertaking*, the *UK holding company* or the *relevant insurance group undertakings* (as appropriate) must provide to the *group supervisor* a proper understanding of the difference between the sum of the *SCR* of all the *related Solvency II undertakings* in the *group* and the consolidated *SCR* of the *group*.
- (3) Where the *participating Solvency II undertaking*, the *UK holding company* or the *relevant insurance group undertakings* (as appropriate) so decide, and subject to the agreement of the *group supervisor*, they may undertake any assessments required by Conditions Governing Business 3.8 to 3.11 at the level of the *group* and at the level of any *subsidiary undertaking* in the *group* at the same time, and may produce a single document covering all the assessments.
- (4) Where the *group* exercises the option provided in (3), it must submit the document to all *supervisory authorities* concerned at the same time.
- (5) The exercise of the option provided in (3) does not exempt the *subsidiary undertakings* concerned from the obligation to ensure that the requirements of Conditions Governing Business 3.8 to 3.11 are met.

[Note: Art. 246(1) to (4) of the Solvency II Directive]

17.3 Reporting 2.1 to 2.4 apply with any necessary changes.

[Note: Art. 254(2) of the Solvency II Directive]

18 GROUP SFCR

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- 18.1 (1) When 2.1(1) or 2.1(2) applies, *participating Solvency II undertakings* that are *firms* or, if there are none, the *relevant insurance group undertakings* must disclose publicly,

on an annual basis, a report on the solvency and financial condition at the level of the *group*. Reporting 3 to 6 apply with any necessary changes.

- (2) Where a *participating Solvency II undertaking* that is a *firm* or the *relevant insurance group undertakings* (as appropriate) so decide, and subject to the agreement of the *group supervisor*, they may provide a single *SFCR* which must comprise the following:
- (a) the information at the level of the *group* which must be disclosed in accordance with (1); and
 - (b) the information for any of the subsidiaries within the *group* which must be individually identifiable and disclosed in accordance with Reporting 3 to 6.

[Note: Art. 256 of the Solvency II Directive]

19 GROUP STRUCTURE

- 19.1 When 2.1(1) or 2.1(2) applies, *participating Solvency II undertakings* that are *firms* or, if there are none, the *relevant insurance group undertakings* must disclose publicly, at the level of the *group*, on an annual basis, the legal structure and the governance and organisational structure, including a description of all *subsidiaries*, material *related undertakings*, and significant branches belonging to the *group*.

[Note: Art. 256a of the Solvency II Directive]

20 THIRD COUNTRIES

- 20.1 When 2.1(3) applies, 4 to 14 and 16 to 19 apply with any necessary changes at the level of the *insurance holding company* or *mixed financial holding company* which does not have its head office in an *EEA State*, *third country insurance undertaking* or *third country reinsurance undertaking* unless:
- (1) subject to 20.2, the third country in which that *undertaking* has its head office is assessed to be equivalent under Article 260 of the *Solvency II Directive*; or
 - (2) in the absence of equivalent group supervision referred to in Article 260 of the *Solvency II Directive*, the *PRA* has specified other methods in accordance with Article 262 of the *Solvency II Directive*.

[Note: Art. 262 of the Solvency II Directive]

- 20.2 20.1(1) does not apply where, in the case of temporary equivalence under Article 260(5) of the *Solvency II Directive*, there is a *Solvency II undertaking* in the *group* that has a balance sheet total that exceeds the balance sheet total of the *parent undertaking* situated outside of the *EEA*.

[Note: Art. 260(7) of the Solvency II Directive]

- 20.3 When calculating the solvency of a *group* falling within 2.1(3) for the purpose of 20.1, a *relevant insurance group undertaking* must treat the *parent undertaking* (being an *insurance holding company* which does not have its head office in an *EEA State* or a *third country insurance undertaking* or a *third country reinsurance undertaking*), solely for the purposes of that calculation, as a *UK Solvency II firm* to which 2.1(1)(a) applies.

[Note: Art. 262 of the Solvency II Directive]

- 20.4 Where the *parent undertaking* referred to in 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 an *EEA State* or a *third country insurance undertaking* or a *third country reinsurance undertaking*, 20.1 applies at the level of either:
- (1) the ultimate *parent undertaking* which is an *insurance holding company* or *mixed financial holding company* which does not have its head office in an *EEA State* or a *third country insurance undertaking* or a *third country reinsurance undertaking*; or
 - (2) such other *parent undertaking* as the *PRA* may determine in accordance with Article 263 of the *Solvency II Directive*.

[Note: Art. 263 of the *Solvency II Directive*]

21 MIXED-ACTIVITY INSURANCE HOLDING COMPANIES

- 21.1 16.2 and 17.3 apply, with any necessary changes, to *groups* falling within 2.1(4).

[Note: Art. 265 of the *Solvency II Directive*]