

HANDBOOK (SOLVENCY II RULEBOOK CONSEQUENTIALS) 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 59 (approval for particular arrangements);
 - (2) section 60 (applications for approval);
 - (3) section 137G (The PRA’s general rules); and
 - (4) section 137T (General supplementary powers).
- 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 by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Handbook: Handbook (SOLVENCY II Rulebook Consequentials) Instrument 2015

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

Commencement

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

Deletion

- F. Each of the following modules and sections of the PRA’s Handbook is deleted:

COBS 1 (Application)
 GENPRU 1 (Application)
 GENPRU 2 (Capital)
 GENPRU TP 1 to 6 and 10 to 13
 GENPRU Schedule 1 to 3 and 6
 INSPRU (Prudential Sourcebook for insurers)
 IPRU(FSOC) (Interim Prudential sourcebook for Friendly Societies)
 IPRU(INS) (Interim Prudential sourcebook for Insurers)
 IPRU(INV) (Interim Prudential sourcebook for Investment Businesses)
 SUP 4 (Actuaries)
 SUP TP 1.2 row 4, 4A, 4BA, 5 (Transitional provisions)
 SUP App 2 (Insurers: Regulatory intervention points and run-off plans)
 SYSC 2 (Senior management arrangements)
 SYSC 3 (Systems and controls)
 SYSC 11 (Liquidity risk systems and controls)
 SYSC 13 (Operational risk: systems and controls for insurers)
 SYSC 14 (Risk management and associated systems and controls for insurers)
 SYSC 15 (Credit risk management systems and controls for insurers)
 SYSC 16 (Market risk management systems and controls for insurers)
 SYSC 17 (Insurance risk systems and controls)
 SYSC 20 (Reverse stress testing)

Citation

- G. This instrument may be cited as the Handbook (Solvency II Rulebook Consequentials) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

12 November 2015

Annex A

Amendments to the Supervision Manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

10B.4 Specification of functions

...

10B.4.3 PRA controlled functions

Type	CF	Description of PRA controlled function
...		
PRA required functions	12 12A 12B	Actuarial function With-profits actuary function Lloyd's actuary function
...		

...

10B.6 PRA governing functions

...

10B.6.16 Small friendly society functions (CF6)

10B.6.18G (1) ...

(2) ~~The PRA expects that any appointment of responsibilities will have taken place under SYSC 2.1.1R. The PRA may ask to see details of the appointment but will not require, as a matter of course, a copy of the material which records this, (see SYSC 2.2).~~

...

10B.7 Other functions included in the governing functions

10B.7.1R Systems and controls functions

Each of the *PRA governing functions* includes, where apportioned under ~~SYSC 2.1.1R~~, SYSC 4.3.1R₁ ~~or SYSC 4.4.3R~~, or for:

- (a) a UK Solvency II firm, the Society, a managing agent and a third country branch undertaking, Conditions Governing Business 2.2(a) of the PRA Rulebook; or
- (b) a non-directive insurer, Non-Solvency II Firms – Governance 2 and 3 of the PRA Rulebook,

the *systems and controls function*. This does not apply to the *non-executive director function* or the function described in SUP 10B.6.2R.

...

10B.8 PRA required functions

10B.8.1R Actuarial Function (CF12)

The *actuarial function* is the function of ~~acting in the capacity of an *actuary* appointed by a *firm* under SUP 4.3.1R to perform the duties set out in SUP 4.3.13R;~~

(1) for a *non-directive insurer*, acting in the capacity of an *actuary* appointed by a *firm* under Non-Solvency II Firms - Actuarial Requirements 2.1(1) of the *PRA* Rulebook;

(2) for a *UK Solvency II firm*, the *Society*, a *managing agent* and a *third country branch undertaking* acting the capacity of a person who is responsible for the actuarial function set out in Conditions Governing Business 6.1 of the *PRA* Rulebook.

10B.8.2R With-profits actuary function (CF12A)

The *with-profits actuary function* is the function of ~~acting in the capacity of an *actuary* appointed by a *firm* under SUP 4.3.1R to perform the duties set out in SUP 4.3.16A R;~~

(1) for a *non-directive insurer*, acting in the capacity of an *actuary* appointed by a *firm* under Non-Solvency II Firms - Actuarial Requirements 2.1(2) of the *PRA* Rulebook;

(2) for a *UK Solvency II firm* and a *third country branch undertaking*, acting in the capacity of an *actuary* appointed by a *firm* under Actuaries 2.2 of the *PRA* Rulebook.

10B.8.3R ~~Lloyd's actuary function (CF12B)~~

The ~~*Lloyd's actuary function* is the function of acting in the capacity of the *actuary* appointed under SUP 4.6.1 R to perform the duties set out in SUP 4.6.7R.~~

10B 9 Systems and controls functions

10B.9.1 Systems and controls function (CF28)

The *systems and controls function* is the function of acting in the capacity of an *employee* of the *firm* with the responsibility for reporting to the *governing body* of a *firm*, or the audit committee (or its equivalent) in relation to:

- (1) its financial affairs;
- (2) setting and controlling its risk exposure (see ~~SYSC 3.2.10G~~, SYSC 7.1.6R, for a *non-directive insurer*, Non-Solvency II Firms – Governance 7 of the *PRA* Rulebook, for a *UK Solvency II firm*, the *Society*, a *managing agent* and a *third country branch undertaking*, Conditions Governing Business 3 of the *PRA* Rulebook and, for *CRR firms*, Risk Control 2.5 of the *PRA* Rulebook); and
- (3) adherence to international systems and controls, procedures and policies (see ~~SYSC 3.2.16G~~, SYSC 6.2, for a *non-Solvency II firm*, Non-Solvency II Firms - Governance 2.9 of the *PRA* Rulebook, for a *UK Solvency II firm*, the *Society*, a *managing agent* and a *third country branch undertaking* Conditions Governing Business 5.1(1) of the *PRA* Rulebook and, for *CRR firms*, Compliance and Internal Audit 3.1 of the *PRA* Rulebook).

...

10B 11 Application for approval and withdrawing an application for approval

...

10B.11.6G Who should make the approval?

- (1) ...
- (2) Usually, this will be the *firm* that is employing the *PRA candidate* to perform the *PRA controlled function*. Where a *firm* has outsourced the performance of a *PRA controlled function*, the details of the outsourcing determine where responsibility lies and whom the *PRA* anticipates will submit *PRA-approved persons* application forms. SUP 10B.11.7G describes some common situations. The *firm* which is outsourcing is referred to as “A” and the *person* to whom the performance of the *PRA controlled function* has been outsourced, or which makes the arrangement for the *PRA controlled function* to be performed, is referred to as “B”. In each situation, A must take reasonable care to ensure that, in accordance with section 59(2) of the Act, no *person* performs a *PRA controlled function* under an arrangement entered into by its contract or in relation to the carrying on by A of a *regulated activity*, without approval from the *PRA*. See also ~~SYSC 3.2.4G~~ and SYSC 8.1.1R, and, for *CRR firms*, Outsourcing 2.1 of the *PRA* Rulebook and ~~SYSC 13.9~~ for *insurers Non-Solvency II Firms - Governance 5.1, 5.2 and 5.3 and Conditions Governing Business Chapter 7 of the PRA Rulebook (as relevant)*.

10B.11.7G Outsourcing arrangements

Outsourcing arrangements		Submitting form
...		
(i) A to B, where B is a non- <i>authorised person</i> not part of the same <i>group</i> as A	Responsibility for (as opposed to the performance of) any activity outsourced to B will remain with A. See SYSC 3.2.4G and SYSC 8 and for an <i>insurer</i> see <u>Non-Solvency II Firms – Governance 5.1 and 5.2 and Conditions Governing Business Chapter 7 of the PRA Rulebook (as relevant)</u> .	A ensures that an individual approved under one of the <i>PRA controlled functions</i> has responsibility for the outsourced arrangements and A submits a form in relation to that individual.
...		

...

Annex B

Amendments to Glossary definitions

In this Annex, underlining indicates new text and striking through indicates deleted text.

...

actuarial function

(in the *PRA Handbook*) *PRA controlled function* CF12 in the *table of PRA controlled functions*, described more fully in ~~SUP 4.3.13 R~~ and ~~SUP 10B.8.1 R~~;

(a) for a *non-directive insurer*, SUP 10B.8.1R(1) and *Non-Solvency II Firms - Actuarial Requirements 2.1(1) of the PRA Rulebook*;

(b) for a *UK Solvency II firm, the Society, a managing agent and a third country branch undertaking*, SUP 10B.8.1R(2) and *Conditions Governing Business 6.1 of the PRA Rulebook*.

...

non-directive friendly society

~~(a) a *friendly society* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of the members are determined on a flat rate basis;~~

~~(b) a *friendly society* whose *long-term insurance business* is restricted to the provision of benefits for employed and self-employed persons belonging to an undertaking or group of undertakings, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the commitments arising from such operations are fully covered at all times by mathematical reserves);~~

~~(c) a *friendly society* which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind;~~

~~(d) a *friendly society* (carrying on *long-term insurance business*):~~

~~(i) whose registered rules contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other persons who have undertaken to provide it; and~~

~~(ii) whose annual gross premium income (other than from contracts of reinsurance) has not exceeded 5 million Euro for each of the three preceding financial years;~~

~~(e) a *friendly society* (carrying on *general insurance business*):~~

~~(i) whose registered rules contain provisions for calling up additional contributions from members or reducing their benefits;~~

~~(ii) whose gross premium income (other than from contracts of reinsurance) for the preceding financial year did not exceed 5 million Euro; and~~

~~(iii) whose members provided at least half of that gross premium income;~~

~~(f)~~

~~(i) a friendly society whose liabilities in respect of general insurance contracts are fully reinsured with or guaranteed by other mutuals (including friendly societies); and~~

~~(ii) the mutuals providing the reinsurance or the guarantee are subject to the rules of the First Non-Life Directive;~~

~~and in each case whose insurance business is limited to that described in any of (a) to (f).~~

has the meaning set out in the Glossary of the PRA Rulebook.

non-directive insurer

~~(a) an insurer which is a provident or mutual benefit institution whose insurance business is restricted to the provision of benefits which vary according to the resources available and in which the contributions are determined on a flat-rate basis; or~~

~~(b) an insurer whose long-term insurance business is restricted to the provision of benefits for employed and self-employed persons belonging to an undertaking or group of undertakings, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the commitments arising from such operations are fully covered at all times by mathematical reserves); or~~

~~(c) an insurer which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind; or~~

~~(d) a mutual (carrying on long-term insurance business) whose:~~

~~(i) articles of association contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other persons who have undertaken to provide it; and~~

~~(ii) annual gross premium income (other than from contracts of reinsurance) has not exceeded 5 million Euro for each of the financial year in question and the two previous financial years; or~~

~~(e) a mutual (carrying on general insurance business) whose:~~

~~(i) articles of association contain provisions for calling up additional contributions from members or reducing their benefits;~~

~~(ii) business does not cover liability risks, other than *ancillary risks*, or credit or suretyship risks;~~

~~(iii) gross *premium* income (other than from contracts of *reinsurance*) for the *financial year in question* did not exceed 5 million Euro; and~~

~~(iv) members provided at least half of that gross *premium* income; or~~

~~(f) an *insurer* whose *insurance business* (other than *reinsurance*) is:~~

~~(i) restricted to the provision of assistance for persons who get into difficulties while travelling, while away from home or while away from their permanent residence;~~

~~(ii) carried out exclusively on a local basis and consists only of benefits in kind; and~~

~~(iii) such that the gross *premium* income from the provision of assistance in the *financial year in question* did not exceed 200,000 Euro; or~~

~~(g)~~

~~(i) a *mutual* whose liabilities in respect of *general insurance contracts* are fully reinsured with or guaranteed by other *mutuals* (including *friendly societies*); and~~

~~(ii) the *mutuals* providing the *reinsurance* or the guarantee are subject to the rules of the *First Non-Life Directive*.~~

means:

(a) as set out in the Glossary of the *PRA* Rulebook;

(b) a *run-off firm*; and

(c) a *Swiss general insurer*.

...

run-off firm

has the meaning in Non-Solvency II Firms – Transitional Measures 1.2 of the *PRA* Rulebook.

...

Single Market Directives

(A) In the *PRA* Handbook:

(a) the *Banking Consolidation Directive* (to the extent it applies to *CAD investment firms*);

(aa) the *CRD*;

(b) ~~the Insurance Directives (within the meaning of paragraph 1 of Schedule 3 to the Act)~~ the Solvency II Directive;

(ba) ~~the Reinsurance Directive;~~

...

...

Solvency II Directive

the Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (No. 2009/138/EC).

...

third country branch undertaking

has the meaning set out in the Glossary of the PRA Rulebook, but excluding a Swiss general insurer.

...

UK Solvency II firm

has the meaning set out in the Glossary of the PRA Rulebook but excluding a run-off firm.

...

with-profits actuary function

(in the PRA Handbook) PRA controlled function CF12A in the table of PRA controlled functions, described more fully in SUP 4.3.16A-R and SUP 10B.8.2-R;

(a) for a non-directive insurer, SUP 10B.8.2R(1) and Non-Solvency II Firms - Actuarial Requirements 2.1(2) of the PRA Rulebook;

(b) for a UK Solvency II firm and a third country branch undertaking SUP 10B.8.2R(2) and Actuaries 2.2 of the PRA Rulebook.

...