Appendix 2:
Supervisory Statements

Appendix 2.1

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Supervisory Statement | SS[xx]/14

Solvency II: general application

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to those firms which are subject to the Solvency II rules in the Prudential Regulation Authority (PRA) Rulebook and to Lloyd's. The statement should be read alongside the General Application Part of the PRA Rulebook. It explains the scope of application of the PRA Rulebook Parts on Solvency II to UK Solvency II firms and to Lloyd's.

1.2 The PRA is publishing this statement to ensure that firms understand the requirements that they are expected to fulfil in order to comply with the PRA's rules. It expands on the general approach as set out in its insurance approach document.[1] By clarifying the scope of Solvency II, 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.

2 Scope of application of Solvency II

2.1 In the PRA Rulebook, the Solvency II rules apply to a UK Solvency II firm. They also apply to Lloyd's by virtue of the application of various provisions to the Society and, where specified, to managing agents. In addition, the Lloyd's instrument of the PRA Rulebook contains provisions relevant only to the application of the rules transposing the Solvency II Directive and certain other rules to Lloyd's.

2.2 Though a firm might otherwise be excluded from the scope of 'UK Solvency II firm' under General Application 2, the provisions in the Solvency II rules will apply if the firm's Part 4A permission includes a requirement that it must comply with the Solvency II rules. This will be the case where a firm has opted in to the Solvency II regime or where a firm might otherwise be excluded pursuant to the Solvency II Directive but the PRA has decided to apply the Solvency II rules to that firm.

(1) www.bankofengland.co.uk/publications/Documents/praapproach/insuranceappr1304.pdf.

Appendix 2.2

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Supervisory Statement | SS[xx]/14

Solvency II: own funds

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to UK Solvency II firms and to Lloyd's, whether they are assessing the quality of their existing own funds and/or intending to issue new own fund items under Solvency II.

1.2 This statement sets out the Prudential Regulation Authority's (PRA's) expectations of firms in relation to own funds, on the following topics in particular:

(a) ancillary own funds and Article 96 of the Solvency II Directive;

(b) the transitional measures for own funds;

(c) the right to cancel (or defer) dividends or other distributions; and

(d) pre-issuance notification.

1.3 Firms should read this statement alongside all relevant European legislation as well as the Own Funds Part of the PRA Rulebook. In particular, among other relevant provisions:

(a) Articles [ ] of Regulation (EU) No [ ] set out requirements relating to applications for the approval of ancillary own funds and their assessment;

(b). Articles [ ] of Regulation (EU) [ ] set out the adjustments that must be made to own funds to reflect the lack of transferability of ring-fenced funds that can only be used to cover losses arising from a particular segment of liabilities or from particular risks;

(c) Articles [ ] of Regulation (EU) [ ] set out a list of own funds items and the criteria for classifying them as Tier 1 own funds, Tier 2 own funds or Tier 3 own funds.

(d) For the purposes of Own Funds 4, Articles [ ] of Regulation (EU) [ ] set out the applicable limits regarding the proportion of Tier 1 own funds, Tier 2 own funds and Tier 3 own funds which can be included in a firm's eligible own funds to cover the firm's SCR and MCR.

(e) For the purposes of Own Funds 3.1 in connection with the classification of an item as ordinary share capital in Tier 1 own funds a firm must assess whether that item of basic own funds satisfies all relevant criteria for that classification in the Solvency II Regulations. For example, a firm must assess whether the item ranks after all other claims including other classes of share capital in the event the firm is wound up.

1.4 This statement expands on the PRA's general approach as set out in its insurance approach document and the Own Funds Part of the PRA Rulebook. 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.

2 Ancillary own funds and Article 96 of the Solvency II Directive

2.1 The PRA does not envisage approving an amount under Own Funds 2.5(1) or a method under Own Funds 2.5(2) unless it is satisfied that the amount approved or determined using the approved method reflects the loss absorbency of the item of ancillary own funds and is based on prudent and realistic assumptions. Therefore, where an item of ancillary own funds has a fixed nominal value the amount of that item that can be included in a firm's own funds will only be equal to its nominal value where that value appropriately reflects its loss-absorbency (see article 90(2) of the Solvency II Directive).

2.2 Article 96 of the Solvency II Directive contemplates that:

(a) surplus funds will normally be classified as Tier 1 own funds;

(b) letters of credit and guarantees which are held on trust for the benefit of policyholders by an independent trustee and are provided by credit institutions authorised in accordance with the Banking Consolidation Directive will normally be classified as Tier 2 ancillary own funds;

(c) any future claims which a mutual of shipowners with variable contributions solely insuring risks listed in general insurance business class 6 (ships), class 12 (liability of ships) and class 17 (legal expenses), may have against their members by way of a call for supplementary contributions within the next twelve months will normally be classified as Tier 2 ancillary own funds; and

(d) any future claims which a mutual with variable contributions may have against their members by way of a call for supplementary contributions within the next twelve months which do not fall within (b) above will normally be classified as Tier 2 ancillary own funds where they substantially possess the characteristics set out in Own Funds 3.2(2)

2.3 The classification of the items referred to in (a) to (d) will depend on the extent to which they satisfy the requirements in Own Funds 3.1–3.6 and Articles [ ] of Regulation (EU) [ ],

Table 1 The operation of the transitional measures

GENPRU instrument subject to transitional arrangements	Treatment under Directive 2002/83/EC or Directive 2002/13/EC to cover the available solvency margin	Treatment under Solvency II transitional measures (for up to 10 years from 1 January 2016)
Core Tier 1	Not limited	Tier 1 restricted (Transitional Measures 4.1 (3) in the Transitional Measures Part of the PRA Rulebook applies)
Perpetual non-cumulative preference shares	Not limited	Tier 1 restricted (Transitional Measures 4.1 (3) applies)
Innovative Tier 1	Category limited to 50%	Tier 1 restricted (Transitional Measures 4.1 (3) applies)
Upper Tier 2	Category limited to 50%	Tier 1 restricted (Transitional Measures 4.1 (3) applies)
Lower Tier 2	Category limited to 25%	Tier 2

which set out requirements relating to the classification of own funds.

3 The transitional measures for own funds

3.1 Article 308b (9) and (10) of the Directive sets out how regulatory capital items could be used to meet capital requirements before 1 January 2016 that do not meet the criteria for available basic own funds, will be treated under Solvency II. These are referred to as the transitional measures for own funds in this statement.

3.2 Firms should not assume that all instruments issued before the cut-off date for the transitional measures automatically receive transitional treatment. The PRA expects firms to carry out their own analysis of instruments against the required features in the Solvency II Regulations and the transitional measures. The purpose is to determine which instruments can be classified as Solvency II compliant and those for which the transitional measures will be required.

3.3 This analysis should be carried out before 1 January 2016 in order that any necessary discussions with supervisors can take place, and that the firm can be clear as to the treatment of its instruments, before Solvency II applies. It is important that firms consult the Solvency II Regulations as the PRA rules transposing the Directive do not contain all of the necessary requirements in order to apply the transitional measures. Firms will also be expected to comply with the EIOPA Guidelines that complement and clarify the Solvency II Regulations. Firms should note that the inclusion of an item in Tier 1 own funds under the transitional measures is subject to the effect of the limits on such items specified in the Solvency II Regulations.

3.4 The operation of the transitional measures are summarised in the **Table 1**.

3.5 The PRA also expects firms to analyse the impact of the transitional measures on their current and projected capital position, instruments currently in issue, the ten-year transitional period and the incidence of call dates within that time.

3.6 The PRA expects firms not to rely on capital instruments that are already subject to transitional measures under GENPRU. Such instruments are unlikely to provide adequate loss-absorbency, thereby running contrary to the PRA's objectives to promote the safety and soundness of firms and the securing of an appropriate degree of protection for policyholders. For this reason, the PRA is excluding from the scope of Own Funds 4.1 and 4.2 items that are only eligible for the treatment specified by virtue of GENPRU Transitional Provision 4 of the PRA Rulebook. Similarly, the PRA does not expect to renew existing waivers, relating to capital instruments, which expire before 1 January 2016.

4 The right to cancel (or defer) dividends or other distributions

4.1 This section is relevant to all firms assessing the quality of their own-fund items by reference to the features determining classification as Tier 1.

4.2 The same considerations can also apply where own fund items are classified in Tier 2 and the Solvency II Regulations require deferral as opposed to cancellation of distributions.

4.3 All items of basic own-funds must meet the criteria in Own Funds 3 and the features determining classification in the Solvency II Regulations. In relation to paid-in ordinary share capital, matters such as the absence of mandatory fixed charges or encumbrances will be a characteristic until such time as a dividend is declared but the shares would cease to meet this criterion unless there is the ability to cancel a dividend after this point but prior to payment.

4.4 The PRA considers that where a firm's articles of association do not prohibit the cancellation of a dividend at

any time, including after declaration, then they may be said to allow such cancellation so that the firm may be able to declare a dividend on a conditional basis, allowing cancellation of the dividend at any time prior to payment, if the applicable conditions are not met. Firms should ensure that they review their own articles to establish the absence of any such prohibition. Firms should also consider whether it is appropriate to amend their articles to include a specific power for the firm to declare dividends subject to conditions or even for all declarations of dividend to be conditional.

4.5 Article [ ] of Regulation (EU) [ ] sets out in more detail the nature of the conditionality that firms will need to apply to their declaration of dividends for these purposes. In order to link these provisions with the PRA Rulebook, the PRA is also proposing a rule that requires firms to include in their classification of Tier 1 own-funds only ordinary share capital in respect of which a dividend or other distribution is capable of being cancelled and withheld at any time prior to payment and where the firm exercises its rights to do so, where necessary. Where firms whose articles so permit adopt the practice of declaring all dividends conditionally (or amend their articles to provide that all dividends are conditional) and the conditions applied satisfy the requirements of article [ ] of Regulation (EU) [ ], they would be in a position to satisfy Own Funds 3.7(1).

4.6 There may be additional considerations for any firms with publicly traded shares for which an 'ex dividend' date may apply. Such firms may also have disclosure or other obligations arising from their listing arrangements in relation to possible non-payment of a declared dividend. The PRA expects firms to continue to monitor their solvency position carefully during this time and to engage with supervisors at an early stage to be assured that the need to cancel dividends is unlikely to arise.

4.7 The same considerations as to cancellation (or, in the case of Tier 2 own funds, deferral) of distributions apply to relevant Tier 1 own-fund items of mutuals. These comprise paid-in initial fund, members' contributions and any other equivalent items. While for many mutuals, distributions in relation to these items may not be relevant or common, reference to the firm's constitution or governing statute should be made to confirm that there are no provisions in relation to distributions which would disqualify the item as Tier 1 own funds.

4.8 Articles [ ] and [ ] of Regulation (EU) [ ] envisages exceptional circumstances in which respectively the cancellation (or deferral in the case of a Tier 2 item) may be waived. In the event of a firm applying for a waiver of cancellation (or deferral in the case of a Tier 2 item), the PRA would consider those circumstances carefully and, if it is satisfied the relevant conditions are met, signify its permission to the firm not to cancel or defer by waiving the relevant part of Own Funds 3.7(1) or (2) respectively.

4.9 The PRA is adopting this approach in order to provide clarity as to the manner in which relevant firms can demonstrate when classifying items as own funds that ordinary share capital can qualify as Tier 1 (or Tier 2) own funds. While firms may incur some administrative and legal costs in order to achieve compliance with this approach, the benefits of retaining compliant own funds will outweigh these.

5 Pre-issuance notification

5.1 Own Funds 5.2 provides that, in exceptional circumstances, a firm may provide less than one month's notice of the intended issue of own fund items. The PRA is unlikely to consider circumstances to be exceptional unless they are such that there is a risk of a firm not complying with its SCR or, as the case may be, MCR if a one-month notification period is observed. In such circumstances, a firm should notify the PRA as soon as it has resolved to issue further items it intends to include as basic own funds, and provide details of its circumstances and why it is not possible to provide one month's notice of the intended issue.

5.2 Details of the notification to be provided by a firm in relation to items of basic own funds issued by another undertaking in its group for inclusion in its own funds are set out in Group Supervision 6.

Appendix 2.3

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Supervisory Statement | SS[xx]/14

Solvency II: solvency capital requirement

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to UK Solvency II firms and to Lloyd's. It sets out the Prudential Regulation Authority's (PRA's) expectations of firms in relation to the calculation of their Solvency Capital Requirement (SCR) under Solvency II.

1.2 In particular, this statement expands on the following topics:

- Undertaking specific parameters;
- Significant deviations from the assumptions underlying the standard formula, internal models, or the system of governance;
- Reversion to the standard formula; and
- Statistical quality standards.

1.3 This statement should be read alongside the relevant European legislation, as well as the Solvency Capital Requirement Parts of the PRA Rulebook.

1.4 The Solvency II Regulations set out requirements in respect of the calculation of the SCR. The Regulations:

(1) supplement the formula in Solvency Capital Requirement — Standard Formula 3.1(2) for calculating the basic SCR;

(2) set out the formula for calculating the capital requirement for the non-life underwriting risk module is set out in the Solvency II Regulations;

(3) set out a correlation matrix for the purposes of calculating the capital requirement for the life underwriting risk, the correlation coefficient 'Corr i,j' referred to in Solvency Capital Requirement — Standard Formula 3.1(2);

(4) set out the formula for calculating the capital requirement for health underwriting risk; and

(5) set out the formula for calculating the capital requirement for the market risk module.

1.5 This statement expands on the PRA's general approach as set out in its insurance approach document. 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.

2 Undertaking specific parameters

2.1 Under Article 104(7) of the Solvency II Directive, firms may, with the prior approval of the PRA, replace a subset of parameters with undertaking specific parameters when calculating the life, non-life and underwriting risk modules. A firm may apply for this approval by applying to the PRA for a waiver.

2.2 Firms should be aware that undertaking specific parameters must be calibrated on the basis of the firm's internal data or on the basis of data which is directly relevant for the operations of the firm using standardised methods (see Article 104(7) of the Solvency II Directive).

2.3 The PRA may also require a firm, using its powers under section 55M of the Financial Services and Markets Act 2000 (FSMA), to replace a subset of the parameters used in the standard formula by undertaking specific parameters when calculating the life, non-life and health underwriting risk modules, where it is inappropriate to calculate the SCR in accordance with the standard formula because the firm's risk profile deviates significantly from the assumptions underlying the standard formula (see Article 110 of the Solvency II Directive).

3 Significant deviations from the assumptions underlying the standard formula calculation, internal model, and/or system of governance

3.1 Where it is inappropriate for a firm to calculate the SCR in accordance with the standard formula, because its risk profile deviates significantly from the assumptions underlying the standard formula calculation, then the PRA may require the firm to use an internal model to calculate the SCR, or the relevant risk modules of the SCR.

3.2 Article 37 of the Solvency II Directive contemplates the PRA applying a capital add-on to a firm in circumstances where there has been a standard formula significant risk profile deviation, an internal model significant risk profile deviation, a significant system of governance deviation, or a significant risk profile deviation following the application of the matching adjustment, volatility adjustment or transitional measures in Articles 308c or d, in circumstances where the conditions stipulated in article 37(1)(a), (b), (c) or (d) have been met. The PRA will use its powers under section 55M of FSMA in order to apply a capital add-on. The Solvency II Regulations also apply in relation to the imposition of a capital add-on.

Reversion to the standard formula

3.3 A firm may apply to the PRA for a waiver of Solvency Capital Requirement — Internal Models 8.1, if there are duly

justified circumstances for the firm to revert to calculating the SCR on the basis of the standard formula.

3.4 If a firm fails to implement the plan to restore compliance referred to in Solvency Capital Requirement — Internal Models 9.1, the PRA may require the firm to revert to calculating the SCR in accordance with the standard formula.

Statistical quality standards

3.5 No particular method for the calculation of the probability distribution forecast is prescribed by PRA rules.

3.6 For the purposes of Solvency Capital Requirement — Internal Models 11.8(1), the PRA would only approve diversification effects to be taken into account in a firm's internal model dependencies within and across risk categories provided the firm satisfies the PRA that the system used for measuring those diversification effects is adequate.

3.7 If a firm cannot derive the SCR directly from the probability distribution forecast generated by its internal model, then the firm may apply to the PRA for a waiver of Solvency Capital Requirement — Internal Models 12.2 so that approximations may be used in the process to calculate the SCR. In considering whether to grant such a waiver, the PRA will consider whether policyholders are provided with a level of protection equivalent to that set out in Solvency Capital Requirement — General Provisions 3.2–3.5 and Solvency Capital Requirement — Internal Models 3.1(2). The Solvency II Regulations contain additional requirements relevant to a firm seeking a waiver of Solvency Capital Requirement — Internal Models 12.2.

3.8 Article 37 of the Solvency II Directive contemplates the PRA applying a capital add-on to a firm in circumstances where there has been a standard formula significant risk profile deviation, an internal model significant risk profile deviation, a significant system of governance deviation, or a significant risk profile deviation following the application of the matching adjustment, volatility adjustment or transitional measures in Articles 308c or d, in circumstances where the conditions stipulated in article 37(1)(a), (b), (c) or (d) have been met. The PRA will use its powers under section 55M of FSMA in order to apply a capital add-on. The Solvency II Regulations also apply in relation to the imposition of a capital add-on.

Appendix 2.4

Supervisory Statement | SS[xx]/14

Solvency II: minimum capital requirement

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to all UK Solvency II firms and to Lloyd's. Firms should read this alongside all relevant European legislation as well as the Minimum Capital Requirement Part of the Prudential Regulation Authority (PRA) Rulebook. It clarifies the PRA's expectations regarding the period during which the PRA is to apply the percentages that relate to the calculation of the Minimum Capital Requirement (MCR) as specified in Article 129 of the Solvency II Directive.

1.2 This statement expands on the PRA's general approach as set out in its insurance approach document and the Minimum Capital Requirement Part of the PRA Rulebook. By clearly and consistently explaining its expectations of firms in relation to the particular area 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.

2 Minimum capital requirement

2.1 The PRA may, until 31 December 2017, require a firm to apply the percentages referred to in Minimum Capital Requirement 3.3 to the firm's SCR calculated in accordance with the standard formula. An example of when the PRA may require this would be where the output from the firm's internal model has deviated from the firm's risk profile and where the standard formula provides a better fit to the firm's risk profile.

Appendix 2.5

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Supervisory Statement | SS[xx]/14

Solvency II: supervision of firms in difficulty or in run-off

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to UK Solvency II firms. It sets out how the Prudential Regulation Authority (PRA) expects to deal with firms in the circumstances envisaged by Article 144 of the Directive, where a firm does not meet the Minimum Capital Requirement (MCR) and where either the PRA considers that the finance scheme it has submitted is manifestly inadequate or the firm fails to comply with the approved scheme within three months from the observation of non-compliance with the MCR.

1.2 It is also addressed to firms in run-off which may fall within the ambit of the transitional provision set out in Transitional Measures 2 in the Transitional Measures Part of the PRA Rulebook.

1.3 This statement should be read alongside all relevant European legislation as well as the Undertakings in Difficulty Part of the PRA Rulebook.

1.4 This statement expands on the PRA's general approach as set out in its insurance approach document. 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.

2 Firms in breach of the minimum capital requirement

2.1 The PRA will take the same approach to firms which are failing to meet the MCR, whether they are still being run by their directors or whether an administrator or liquidator has been appointed.

2.2 The PRA expects those firms to act in a way which avoids significant systemic disruption, while protecting vital economic functions and which ensures that policyholders are appropriately protected. The interests of shareholders and creditors other than policyholders are therefore likely to be of lesser priority for the PRA in discharging its statutory functions. This approach is aligned with Solvency II, which has as its main objective the protection of policyholders and requires the PRA to take all measures necessary to safeguard the interests of insured persons when insurers or reinsurers fail to meet MCR.

2.3 The PRA will be particularly concerned to ensure that:

- policyholders can maintain their insurance cover or obtain alternative insurance cover on reasonable terms where this is critical to them or their business;
- payments to them, which are essential for their living necessities, continue without disruption; and
- where this becomes necessary, the method for distributing assets amongst creditors (and shareholders) is fair to both those whose claims have arisen and those who may have claims in the future, given the increased risk that the firm will not have sufficient assets to pay all creditors in full.

2.4 The PRA will require a firm with no realistic prospect of prompt restoration of compliance with the MCR to bring its business to a close in as rapid and orderly manner as is consistent with the generality of policyholders' best interests. This may well take time and there are many circumstances in which a run-off strategy is in the best interests of policyholders (whether the firm is solvent or insolvent) and thus consistent with the main objective of Solvency II.

2.5 A firm in this position will not be permitted by the PRA to effect new contracts of insurance but the firm may be permitted to continue activities necessary to carry out existing contracts in a manner, and for so long as, the PRA considers necessary in order to afford an appropriate degree of protection to policyholders. Where a firm continues carrying out contracts of insurance as principal under the Financial Services and Markets Act 2000 (FSMA), the firm would continue to be authorised and retain a Part 4A permission for these limited purposes. The effect of this would be that the firm would also remain subject to PRA supervision, to the ongoing requirements of the PRA Rules which transpose Solvency II and to the Solvency II Regulations during this time. The same will be the case where an insolvency practitioner has been appointed. The PRA would expect such a person to conduct the firm's affairs in a way which is compatible with the main objective of Solvency II, as well as with their own statutory duties.

2.6 The PRA will seek to exercise its powers under FSMA (and in particular, section 55M) in order to satisfy the requirements of Article 144 of the Directive by imposing an assets requirement on a firm which is failing to meet the MCR and is unable to rectify this. The purpose of such a requirement will be to restrict the disposal by the firm of its assets but will generally permit the firm to pay the necessary costs of administering its business and to pay policyholder claims as appropriate. Any other transactions are likely to require the PRA's approval to ensure (among other things) that assets are disposed of for fair value. Where the firm is subject to insolvency proceedings then any asset requirement would permit the insolvency practitioner to realise the firm's assets and distribute them, where necessary to ensure compliance with legal requirements arising from the insolvency process and where consistent with the PRA's objectives.

3 Firms in run-off

3.1 The PRA expects firms in run-off, who consider that they meet the conditions set out in Transitional Measures 2, to inform the PRA of their assessment of their circumstances sufficiently before 1 January 2016, such that the PRA can determine whether it is satisfied that the conditions are met. In particular, the PRA will expect firms to have a credible plan for transferring or extinguishing all their existing insurance liabilities within the timescales specified in Transitional Measures 2.1 (1 January 2019 or 1 January 2021, according to their circumstances). Firms should note that, in order for these provisions to apply, the firm must not be part of a group containing any other insurer or reinsurer which is not also in run-off.

3.2 The PRA will notify supervisory authorities in other member states of those firms which it considers meet the transitional provisions.

Appendix 2.6

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Supervisory Statement | SS[xx]/14

Solvency II: composites

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to UK Solvency II firms and to Lloyd's. It sets out the Prudential Regulation Authority's (PRA's) approach to implementing the Solvency II Directive requirements that are specific to composite firms. It should be read alongside the Composites Part of the PRA Rulebook.

1.2 In particular, this statement explains in detail requirements regarding the following topics:

- pursuit of life and non-life insurance activity; and
- separation of life and non-life insurance management.

1.3 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.

2 Pursuit of life and non-life insurance activity

2.1 Under section 19 of the Financial Services and Markets Act 2000 (FSMA), a firm may not carry on a regulated activity unless it has permission to do so (or is exempt in relation to the particular activity). Both general insurance business and long-term insurance business are regulated activities and permission will extend to the effecting or carrying out of contracts of insurance for one or more particular classes.

2.2 A firm's permission can be varied so as to add other classes. The permission of an existing composite firm may be varied by adding classes of both general insurance business and long-term insurance business.

2.3 It is PRA policy, in compliance with the Solvency II Directive, not to grant or vary permission if that would allow a newly established firm, or an existing firm 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 where a firm's permission to carry on long-term insurance business is or is to be restricted to reinsurance. It also does not apply where a firm's permission to carry on general insurance business is or is to be restricted to effecting or carrying out contracts of insurance in general insurance business class 1 (accident) or class 2 (sickness) (see Article 73(2) of the Solvency II Directive).

3 Separation of life and non-life insurance management

3.1 For the purpose of Composites 2.2, the PRA would expect a composite firm to:

(a) comply with the governance rules set out in the Conditions Governing Business Part of the PRA Rulebook separately in respect of its general insurance business activities and its long-term insurance business activities to the extent that it is practicable to do so;

(b) separately identify the assets attributable to each of its long-term insurance business and its general insurance business on the basis of the accounts referred to in Composites 3.2; and

(c) maintain the assets attributable to its long-term insurance business and the assets attributable to its general insurance business separate from each other.

3.2 The firm should consider the appropriateness of the apportionment referred to in Composites 3.3(2), having regard to the requirements in Composites 2.2.

3.3 In order to comply with Composites 3.2 and Composites 3.3 the firm should prepare a notional balance sheet for each of its long-term insurance business and general insurance business, identifying the assets and liabilities relating to its long-term insurance business and its general insurance business, respectively.

3.4 For the purpose of Composites 4.2, firms should note that the Solvency II Regulations set out the method for calculating the notional MCR.

3.5 Article 74(6) of the Solvency II Directive provides that, in the circumstances referred to in Composites 4.8 supervisory authorities may authorise the transfer of eligible own funds from one activity to the other. Therefore, if a composite firm that is in breach of either Composites 4.3(1) or 4.3(2) wishes, as part of its finance scheme referred to in Undertakings in Difficulty 4 of the Undertakings in Difficulty Part of the PRA Rulebook, to use eligible own funds attributable to its long-term insurance business to cover its notional non-life MCR or eligible own funds attributable to its general insurance business to cover its notional life MCR, it may only do so if it obtains a waiver of Composites 4.3 and 4.4 under section 138A of FSMA.

3.6 In deciding whether to grant a waiver to authorise the transfer of eligible own funds from one activity to the other, in

(1) www.bankofengland.co.uk/publications/Documents/praapproach/insuranceappr1304.pdf.

addition to the statutory tests under section 138A of FSMA, the PRA will have regard to whether the interests of policyholders of long-term insurance contracts would be prejudiced by a transfer of eligible own funds attributable to the long-term insurance business to cover the notional non-life MCR and whether the interests of policyholders of general insurance contracts would be prejudiced by a transfer of eligible own funds attributable to the general insurance business to cover the notional life MCR.

3.7 For the purposes of complying with its minimum financial obligations in Composites 4, a firm should consider whether it has any ring-fenced funds which would result in adjustments to its eligible own funds attributable to its long-term insurance business or to its general insurance business.

Appendix 2.7

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Supervisory Statement | SS[xx]/14

Solvency II: conditions governing business

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to UK Solvency II firms and to Lloyd's. It sets out the types of business that a pure reinsurer can carry on as related to its insurance business. It should be read alongside the Conditions Governing Business Part of the Prudential Regulation Authority (PRA) Rulebook.

1.2 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.

2 Related Operations

2.1 In Conditions Governing Business 10.2, 'related operations' include, for example, activities such as provision of statistical or actuarial advice, risk analysis or research for its clients. It may also include a holding company function and activities with respect to financial sector activities within the meaning of Article 2, point 8, of the Financial Conglomerates Directive (Directive 2002/87/EC). But it does not allow the carrying on of, for example, unrelated banking and financial activities (see Recital (13) and Article 18(1)(b) of the Solvency II Directive).

(1) www.bankofengland.co.uk/publications/Documents/praapproach/insuranceappr1304.pdf.

Appendix 2.8

Supervisory Statement | SS[xx]/14

Solvency II: group supervision

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft 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.

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 Solvency II 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. 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.

2 Entities excluded from the scope of group supervision (Article 214)

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) 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 (Article 220)

3.1. Where the PRA is the group supervisor, Article 220 of the Solvency II 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 (Article 232)

4.1 Where the PRA is the group supervisor, in considering whether the consolidated group 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 Solvency II Directive arise at the group level.

4.2 In particular, the PRA will consider imposing a capital add-on under Article 232 of the Solvency II 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 (Article 237)

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.

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.

6 Single own risk and solvency assessment report (Article 246)

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 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 (solo ORSA) is satisfied in respect of each of those firms.

7 Single solvency and financial condition report (Article 256)

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).

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 solvency capital requirements (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).

Appendix 2.9

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Supervisory Statement | SS[xx]/14

Solvency II: reporting

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to all UK Solvency II firms and to Lloyd's. It should be read alongside all relevant EU legislation, and the Reporting Part of the Prudential Regulation Authority (PRA) Rulebook. It clarifies the PRA's implementation of the Solvency II regime's requirements in relation to supervisory reporting.

1.2 This statement expands on the PRA's general approach as set out in its insurance approach document. 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.

2 Solvency II reporting

2.1 The submission of the national-specific templates, are in addition to those set out in the Solvency II Regulations, and as referred to in Reporting 2.3 in the Reporting Part of the PRA Rulebook.

2.2 A firm may disclose on a voluntary basis any information or explanation related to its solvency and financial condition which is not already required to be disclosed in accordance with Reporting 3.3–3.8, 4, 5.1, 5.3 and 5.5.

Appendix 2.10

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Supervisory Statement | SS[xx]/14

Solvency II: Lloyd's

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to Lloyd's. It sets out the Prudential Regulation Authority's (PRA's) expectations in relation to the application of certain parts of Solvency II to Lloyd's. This draft supervisory statement also covers the Lloyd's Part of the PRA Rulebook that is included in this consultation.

1.2 In particular, this statement sets out the PRA's expectations regarding the following topics:

- Amendments to Trust deeds
- Solvency capital requirement
- Capital add-on
- Composites

1.3 This statement expands on the PRA's general approach as set out in its insurance approach document. By clearly and consistently explaining its expectations of Lloyd's 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.

2 Amendments to trust deeds, standard form letters of credit and guarantee arrangements

2.1 Except in urgent cases, the PRA expects the Society to consult members, managing agents and other interested parties in the Lloyd's market in relation to any proposed new Lloyd's trust deed or amendments to any existing deed before the new deed or amendment take effect.

2.2 The PRA would normally expect to receive the information required in Lloyd's 6.3 for any new or amended Lloyd's trust deed not less than three months in advance of the proposed change.

2.3 The PRA would also expect the Society to apply the approach in paragraphs 2.1 and 2.2 above in case of amendments to standard form letters of credit and guarantee arrangements.

3 Solvency capital requirement

3.1 The requirement to hold eligible own funds covering the central requirement is intended to ensure that risks to the Society, including risks to central assets (and in particular, the risk that own funds attributable to a member may not be sufficient to enable the member to meet obligations arising from the member's insurance business at Lloyd's) are suitably covered by the Society.

3.2 Solvency Capital Requirement — General Provisions 6.6 in the Solvency Capital Requirement— General Provisions Part of the PRA Rulebook recognises in its application to Lloyd's that own funds attributable to a member are not available to absorb the losses of other members, or any losses of the Society. Consequently, in respect of own funds attributable to a member, where there is no diminution in those own funds consequent upon the application of scenarios taken into account in the internal model, those own funds attributable to that member must not be taken into account for the purposes of satisfying Solvency Capital Requirement — General Provisions 6.2. Similarly, in respect of own funds attributable to a member, any surplus of own funds in excess of the diminution to those own funds consequent upon the application of the scenarios taken account of in the internal model, must not be taken into account for the purposes of satisfying Solvency Capital Requirement — General Provisions 6.2.

3.3 The notional syndicate SCR is intended to facilitate the Society's compliance with Solvency Capital Requirement — General Provisions 8.3. While the PRA expects the calculation of the notional SCR to meet the relevant standards required under Solvency II, managing agents do not need to seek separate approval from the PRA for any internal model that is used to calculate the notional SCR of a syndicate. The notional SCR will also assist the Society in determining the notional SCR of each member of the syndicate pursuant to Solvency Capital Requirement — General Provisions 8.4. However, the notional member SCR will, to the extent applicable, also take account of diversification effects in respect of members participating on more than one syndicate which have not been reflected in the notional syndicate SCR.

3.4 In deriving the SCR, the Society should have regard to the notional SCR for each syndicate, that is calculated by managing agents either by reference to the standard formula or an internal model. However, the Society should make its own assessment of the risk profile and governance arrangements in respect of each syndicate, in conjunction with the methodology applied by each managing agent to calculate the notional SCR. It may need to increase a notional syndicate SCR, and hence the overall SCR for Lloyd's, if it concludes that there are additional risks to which the Society is exposed in relation to the business written by a syndicate, that would not otherwise be covered, when performing the calculations envisaged by Solvency Capital Requirement — General Provisions 7.

3.5 The approach set out in Solvency Capital Requirement — Internal Models 17.2 in the Solvency Capital Requirement Part of the PRA Rulebook is, when combined with the internal model requirements set out in Solvency Capital Requirement — Internal Models 10 to 16 and Solvency Capital Requirement — General Provisions 8.2, intended to produce, for each risk

taken into account in the internal model, the negative impact on basic own funds at Lloyd's. In this way, the effect of the application of the risks taken into account in the internal model may be determined in respect of Lloyd's as a whole.

4 Capital add-on

4.1 Solvency Capital Requirement — General Provisions 7.3 requires the Society to calculate a central requirement for Lloyd's. As the central requirement forms part of the Lloyd's SCR, the provisions of Article 37 of the Solvency II Directive will apply in respect of any risk profile deviation on the part of the Society from the assumptions underlying the calculation of the central requirement. The PRA will exercise its power under the Financial Services and Markets Act 2000 (FSMA) in order to apply a capital add-on to the Society.

5 Composites

5.1 As Lloyd's is (and was prior to 15 March 1979, being the relevant date set out in the Solvency II Directive) composed of syndicates which separately accept general insurance business or long-term insurance business, the PRA considers Lloyd's to be a composite undertaking for the purposes of the Solvency II Directive.

5.2 The Solvency II Directive requires composite firms to maintain separate management of general insurance business and long-term insurance business. In practical terms, this requires that managing agents separately manage syndicates which carry on general insurance business from syndicates which carry on long-term insurance business. However, where a single syndicate carries on both general insurance business and long-term insurance business pursuant to the exceptions referred to at Composites 6.2 in the Composites Part of the PRA Rulebook, paragraphs 3.1–3.3 of the draft supervisory statement on Composites in Appendix 6 are intended to assist in determining how the requirements of the Composites Part will apply to managing agents.

5.3 Paragraphs 2.1–2.3 of the draft supervisory statement on Composites refer to a firm's permission to effect and/or carry out contracts of insurance which may be general insurance business or long-term insurance business, or both, and, within those categories, to the particular classes of insurance business. For the purpose of the application of rules in the Composites Part to Lloyd's, references in paragraphs 2.1–2.3 of the draft supervisory statement on Composites to a firm's 'permission' in respect of 'classes' of insurance business are to be interpreted by reference to syndicates which carry on what would be, as the context requires:

(a) general insurance business, if the syndicate was a firm authorised to effect and/or carry out contracts of general insurance business;

(b) long-term insurance business, if the syndicate was a firm authorised to effect and/or carry out contracts of long-term insurance business; and

(c) both general insurance business and long-term insurance business, if the syndicate was a firm authorised to effect and/or carry out both contracts of general insurance business and contracts of long-term insurance business, as contemplated by paragraph 2.3 of the draft supervisory statement on Composites.

The references in Composites 2.2 to 'general insurance business' and 'long-term insurance business', and the activities relating thereto, are to be similarly interpreted.

Appendix 2.11

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Supervisory Statement | SS[xx]/14

Solvency II: surplus funds

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to all UK Solvency II firms which write with-profits insurance business and which are therefore required to calculate surplus funds. It sets out the PRA's expectations of firms in relation to surplus funds.

1.2 In particular, this statement sets out the PRA's expectations of firms in relation to the following topics:

- interaction of the surplus funds calculation with the calculation of technical provisions; and
- the calculation of surplus funds.

1.3 This statement expands on the PRA's general approach as set out in its insurance approach document. 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.

1.4 Firms should have regard to the Solvency II Regulations as well as the PRA Rulebook when calculating surplus funds and considering whether they meet the criteria for classification as Tier 1 own funds. In particular, Article [ ] sets out a list of own funds items and the features determining classification as Tier 1 own funds.

2 Interaction of the surplus funds calculation with the calculation of technical provisions

2.1 Article 78 of the Solvency II Directive requires a firm to include, when calculating its technical provisions, all payments to policyholders, including future discretionary bonuses, unless those payments constitute surplus funds that fall within Article 91(2). This is reflected in 5.1(1)(c) of the Technical Provisions Part of the PRA Rulebook. Article 91 provides that surplus funds are not to be considered insurance and reinsurance liabilities, to the extent that national law permits and where those surplus funds meet the requirements for Tier 1 ownfunds.

2.2 The Surplus Funds Part of the PRA Rulebook is the national law provision, referred to in Article 91(2) of the Solvency II Directive, which prescribes the extent to which surplus funds shall not be treated as insurance or reinsurance liabilities and therefore the extent to which they affect the calculation of a firm's technical provisions.

2.3 The PRA expects that surplus funds will normally meet the criteria for classification as Tier 1 own funds as referred to in paragraph 1.4. While surplus funds within a with-profits fund may satisfy these criteria, firms should be aware of any other restrictions that may apply to such funds by virtue of their being within the with-profits fund, in particular policyholder fairness rules in the FCA Handbook, and as a consequence, such surplus funds are likely to be treated as part of a ring-fenced fund under the Solvency II Regulations.

2.4 The calculation of surplus funds in the Surplus Funds Instrument does not refer to or include a risk margin. The risk margin is a Solvency II requirement in respect of technical provisions and does not therefore fall within the scope of domestic requirements for the calculation of surplus funds. However, this does not affect the Solvency II requirements for firms to calculate and recognise the risk margin element of technical provisions in respect of their business as a whole, including with-profits business.

3 Surplus funds calculations

3.1 Surplus Funds 3.2 generally requires the value of with-profits policy liabilities to be calculated on the basis of a retrospective approach set out in Surplus Funds 3.3. However where this approach would not adequately reflect the value of the liabilities, or the firm is able to demonstrate that this approach is not practicable, then the prospective basis for calculation in Surplus Funds 3.4 is required. The PRA expects firms to consider whether the application of the retrospective approach would be practicable given the nature of their with-profits policies and, even if possible, whether the results would be meaningful or an appropriate basis for the calculations. While each firm will need to consider its own specific circumstances, whole of life policies or other policies where the result of the retrospective calculation might be negative or significantly lower than the value calculated using the prospective approach are examples where the prospective approach might be necessary.

3.2 Calculations of with-profits policy liabilities are determined on the basis of the aggregate value in respect of each with-profits policy. For this purpose calculations may be based on groupings of similar policies (or other approximations) provided that firms can demonstrate that:

(a) where approximations or generalisations are made they are likely to provide the same, or a higher, result than a separate calculation for each with-profits policy;

(b) the grouping of policies does not materially misrepresent the underlying exposure or misstate the costs of guarantees, options or smoothing; and

(c) the selection of groupings is based on policies with similar attributes including the status of guarantees.

The PRA expects firms to ensure that the choice of groupings is appropriate having regard to (a) to (c) above each time it calculates surplus funds.

3.3 Surplus Funds 3.5 specifies the extent to which future discretionary additions to guaranteed benefits and discretionary payments should be included in benefits payable for the purposes of the prospective calculation in Surplus Funds 3.4. The PRA expects that firms will have regard to their current expectations as to payments which are likely to be made taking into account the principles underlying the retrospective approach. In arriving at their projections of future discretionary benefits firms will need to comply with the requirements of the Solvency II Regulation as well as the intent and provisions of the Surplus Funds Part. The PRA would not expect a firm to include within benefits payable distributions from the estate that it might make over the life of the with-profits policies were the with-profits fund in run-off, or that it expects to make if it is currently in run-off. Firms' current expectations as to an affordable, prudent and realistic level of distributions should inform their projections of future discretionary benefits.

Appendix 2.12

Supervisory Statement | SS[xx]/14

Solvency II: third country branch undertakings

August 2014

© Prudential Regulation Authority 2014

1 Introduction

1.1 This draft supervisory statement is addressed to the UK branch undertakings of non-EEA insurance undertakings. It should be read alongside the Third Country Branches Part of the Prudential regulation Authority (PRA) Rulebook, the relevant European legislation, and the relevant provisions of the Financial Services and Markets Act 2000 (FSMA). It sets out the PRA's expectations of firms with regard to third country branch undertakings,

1.2 In particular, this statement explains the PRA's expectations of firms in relation to the following topics:

- Worldwide financial resources
- Scheme of operations
- Third country branches as composites
- Application of other draft supervisory statements to third country branches

1.3 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.

2 Worldwide financial resources

2.1 A third country branch undertaking must maintain adequate worldwide financial resources and to assess the adequacy of these resources, the PRA will consider the undertaking's compliance with the prudential regime under which it is supervised in its home country.

2.2 The PRA expects the third country branch undertaking to provide the PRA with sufficient information so that the PRA may form an opinion on the adequacy of the worldwide financial resources of the undertaking.

2.3 Where the PRA assesses that prudential regime to be broadly equivalent to the regime applied by the PRA to insurers (or reinsurers) whose head office is in the United Kingdom, 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.

2.4 Where that prudential regime is not broadly equivalent to the regime applied by the PRA to insurers or reinsurers whose head office is in the United Kingdom, then the PRA will assess the adequacy of financial resources using the methods and techniques applicable to insurers and reinsurers whose head office is in the United Kingdom.

3 Scheme of operations

3.3 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 (except a Swiss general insurance company to whom different requirements apply pursuant to the Swiss Treaty Agreement (No. 91/370/EEC)).

4 Third country branches as composites

4.1 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 or long-term insurance business. This does not apply to a third country pure reinsurance branch.

4.2 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 United Kingdom if that branch will engage in long-term business.

5 Application of other draft supervisory statements to third country branches

5.1 The draft supervisory statements concerning instruments that are referred to in the Third Country Branches Part apply to third country branch undertakings with any necessary modifications and insofar as relevant to rules referred to in the Third Country Branches Part.

(1) www.bankofengland.co.uk/publications/Documents/praapproach/insuranceappr1304.pdf.