

PRA RULEBOOK: SOLVENCY II FIRMS: RUN-OFF OPERATIONS 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); and
 - (2) 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 Rulebook: Solvency II Firms: Run-off Operations 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: Run-off Operations 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

RUN-OFF OPERATIONS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. CEASING TO EFFECT CONTRACTS OF INSURANCE**
- 3. CONTENT OF A SCHEME OF OPERATIONS**
- 4. SUBMITTED SCHEMES OF OPERATION**
- 5. THIRD COUNTRY BRANCHES**

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II firm*; and
- (2) in accordance with 5, *third country branch undertakings* except *Swiss general insurers*.

1.2 In this Part, the following definitions shall apply:

liability to a policyholder

means (in relation to a *firm* carrying out *contracts of insurance*) any liability or obligation of that *firm* to, or in respect of, a *policyholder*.

linked liabilities

means insurance liabilities in respect of *linked benefits*.

material transaction

means a transaction (when aggregated with any similar transactions) in which:

- (1) the price actually paid or received for the transfer of assets or liabilities or the performance of services; or
- (2) the price which would have been paid or received had that transaction been negotiated at arm's length between unconnected parties;

exceeds:

- (a) in the case of a *firm* which carries on *long-term insurance business*, but not *general insurance business*, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *long-term insurance business*, excluding *linked liabilities* and net of *reinsurance ceded*; or
- (b) in the case of a *firm* which carries on *general insurance business*, but not *long-term insurance business*, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *general insurance business*, net of *reinsurance ceded*; or
- (c) in the case of a *firm* which carries on both *long-term insurance business* and *general insurance business*:
 - (i) where the transaction is in connection with the *firm's long-term insurance business*, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *long-term insurance business*, excluding *linked liabilities* and net of *reinsurance ceded*; and
 - (ii) in all other cases, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *general insurance business*, net of *reinsurance ceded*.

and

- (d) in the case of *third country branch undertakings*, a reference to the “*firm’s liabilities*” is to be interpreted as a reference only to the liabilities relevant to the operations effected by the *third country branch*.

scheme of operations

means a scheme which:

- (1) describes the nature of the risks which the *insurer* is underwriting, or intends to underwrite, and the guiding principles which it intends to follow in reinsuring or covering those risks; and
- (2) contains the information required under 3.1.

2 CEASING TO EFFECT CONTRACTS OF INSURANCE

- 2.1 If a *firm* decides to cease to effect new *contracts of insurance* in respect of the whole of its *insurance business*, it must, within 28 days of that decision, submit a run-off plan to the *PRA* including:
- (1) a *scheme of operations*, in accordance with 3; and
- (2) an explanation of how, or to what extent, all *liabilities to policyholders* will be met in full as they fall due.
- 2.2 For the purposes of 2.1, a new *contract of insurance* excludes contracts effected under a term in a subsisting *contract of insurance*.
- 2.3 A *third country branch undertaking* must apply the requirements in 2.1 and 2.2 taking account only of the operations effected by the *third country branch*.

3 CONTENT OF A SCHEME OF OPERATIONS

- 3.1 In accordance with 3.2, a *scheme of operations* must:
- (1) describe the *firm’s* run-off strategy;
- (2) include a description of the business underwritten by the *firm*;
- (3) include financial projections (including appropriate scenarios and stress-tests) as follows:
- (a) a forecast summary profit and loss account in accordance with 3.3;
- (b) a forecast summary balance sheet in accordance with 3.4; and
- (c) forecast *MCR* and *SCR* at the end of each *financial year* or part *financial year*;
- (4) as at the end of each *financial year* which falls (in whole or part) within the period to which the *scheme of operations* relates:
- (a) describe the assumptions which underlie those forecasts and the reasons for adopting those assumptions; and

- (b) identify any *material transactions* proposed to be entered into or carried out with, or in respect of, any associate or any other person with whom the *firm* has *close links*; and
 - (5) cover the run-off period until all *liabilities to policyholders* are met.
- 3.2 The information required by 3.1 must:
- (1) reflect the nature and content of the rules relating to *eligible own funds* applicable to a *firm*;
 - (2) where a *firm* carries on both *long-term insurance business* and *general insurance business*, be separated for *long-term insurance business* and *general insurance business*; and
 - (3) in the case of *third country branch undertakings*, take account only of matters relevant to the operations effected by the *third country branch*.
- 3.3 The forecast summary profit and loss account referred to in 3.1(3)(a) must contain the following information:
- (1) *premiums* and claims (gross and net of *reinsurance*) analysed by accounting *class* of *insurance business*;
 - (2) investment return;
 - (3) expenses;
 - (4) other charges and income;
 - (5) taxation; and
 - (6) dividends paid and accrued.
- 3.4 The forecast summary balance sheet referred to in 3.1(3)(b) must contain the following information:
- (1) investments analysed by type;
 - (2) assets held to cover *linked liabilities*;
 - (3) other assets and liabilities separately identifying cash at bank and in hand;
 - (4) capital and reserves analysed into called up share capital or equivalent funds, share premium account, revaluation reserve, other reserves and profit and loss account;
 - (5) subordinated liabilities;
 - (6) the fund for future appropriations;
 - (7) *technical provisions* gross and net of *reinsurance* analysed by accounting *class* of *insurance business* and separately identifying the provision for *linked liabilities*, unearned *premiums*, unexpired risks and equalisation; and
 - (8) other liabilities and credits.

4 SUBMITTED SCHEMES OF OPERATION

- 4.1 A *firm* which has submitted a *scheme of operations* to the *PRA* must during the period covered by that *scheme of operations*:
- (1) notify the *PRA* at least 28 days before entering into or carrying out any *material transaction* with, or in respect of, an associate or any other *person* with whom the *firm* has *close links*, unless that transaction is in accordance with a *scheme of operations* which has been submitted to the *PRA*;
 - (2) notify the *PRA* promptly of any matter which has happened or is likely to happen and which represents a significant departure from the *scheme of operations* and either:
 - (a) explain the nature of the departure and the reasons for it and provide revised forecast financial information in 3.1(3) in the *scheme of operations* for its remaining term; or
 - (b) include an amended *scheme of operations* and explain the amendments and the reasons for them.

5 THIRD COUNTRY BRANCHES

- 5.1 This Chapter applies to *third country branch undertakings*.
- 5.2 In this Part, reference to “*SCR*”, “*MCR*” and “*technical provisions*” is to be interpreted in accordance with Third Country Branches 10.2(1) to (3).