

PRA RULEBOOK: SOLVENCY II FIRMS: COMPOSITES 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 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: Composites 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: Composites Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex A

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

Part

COMPOSITES

Chapter content

1. APPLICATION
2. LONG-TERM AND GENERAL INSURANCE ACTIVITIES TO BE SEPARATELY MANAGED
3. MINIMUM FINANCIAL OBLIGATIONS: GENERAL PROVISIONS
4. MINIMUM FINANCIAL OBLIGATIONS: CALCULATION OF NOTIONAL MINIMUM CAPITAL REQUIREMENT
5. LINKS BETWEEN GENERAL INSURERS AND LONG-TERM INSURERS
6. LLOYDS

Links

1 APPLICATION

- 1.1 Unless otherwise stated, this Part applies to:
- (1) a *UK Solvency II firm*;
 - (2) in accordance with Insurance General Application 3, the *Society*; and
 - (3) in accordance with Insurance General Application 3, *managing agents*.

2 LONG-TERM AND GENERAL INSURANCE ACTIVITIES TO BE SEPARATELY MANAGED

- 2.1 This Chapter:
- (1) applies to a *composite firm* other than a *pure reinsurer*; and
 - (2) does not apply to a *managing agent* which manages one or more *syndicates*, all of which carry on *reinsurance* exclusively.
- 2.2 A *composite firm* must separately manage the activities relating to its *general insurance business* and the activities relating to its *long-term insurance business* in such a way that:
- (1) its *long-term insurance business* and its *general insurance business* are distinct from one another;
 - (2) the interests of *policyholders of contracts of long-term insurance* are not prejudiced by activities relating to the *firm's general insurance business* and the interests of *policyholders of contracts of general insurance* are not prejudiced by activities relating to the *firm's long-term insurance business*; and
 - (3) profits from the activities relating to the *composite firm's long-term insurance business* benefit *policyholders of contracts of long-term insurance* as if the *composite firm* was engaged only in *long-term insurance business*.

[Note: Art. 74(1) of the *Solvency II Directive*]

3 MINIMUM FINANCIAL OBLIGATIONS: GENERAL PROVISIONS

- 3.1 This Chapter:
- (1) applies to a *composite firm*, other than a *pure reinsurer*; and
 - (2) does not apply to a *managing agent* which manages one or more *syndicates*, all of which carry on *reinsurance* exclusively.
- 3.2 A *composite firm* must maintain separate accounts for each of its *long-term insurance business* and its *general insurance business* to show the sources of the results for each activity separately.
- 3.3 For the purposes of 3.2, the *firm* must:
- (1) break down, according to origin, all income (including *premiums*, recoverables from *reinsurance contracts* and investment income) and all expenditure (including insurance settlements, additions to *technical provisions*, *reinsurance premiums* and

operating expenses) in respect of its *general insurance business* and its *long-term insurance business*, respectively; and

- (2) if items are shared between the *firm's long-term insurance business* and its *general insurance business*, apportion those items appropriately between the two activities and enter them into the accounts on the basis of that apportionment.

[Note: Art. 74(6) of the Solvency II Directive]

- 3.4 The *firm* must record the methods on the basis of which the apportionment referred to in 3.3(2) has been made and be able to demonstrate to the *PRA* the appropriateness of those methods of apportionment.

4 MINIMUM FINANCIAL OBLIGATIONS: CALCULATION OF NOTIONAL MINIMUM CAPITAL REQUIREMENT

- 4.1 This Chapter:

- (1) applies to a *composite firm*, other than a *pure reinsurer*; and
- (2) does not apply to *managing agents*.

- 4.2 Without prejudice to the *SCR Rules* and the Minimum Capital Requirement Part of the *PRA Handbook*, the *firm* must calculate a notional minimum capital requirement on the basis of the accounts referred to in 3.2:

- (1) with respect to its *long-term insurance business*, calculated as if the *firm* carried on *long-term insurance business* only; and
- (2) with respect to its *general insurance business*, calculated as if the *firm* carried on *general insurance business* only.

[Note: Art. 74(2) of the Solvency II Directive]

- 4.3 The *firm* must cover:

- (1) its *notional life MCR* with *eligible own funds* attributable to its *long-term insurance business*, as identified on the basis of the accounts referred to in 3.2; and
- (2) its *notional non-life MCR* with *eligible own funds* attributable to its *general insurance business*, as identified on the basis of the accounts referred to in 3.2.

[Note: Art. 74(3) of the Solvency II Directive]

- 4.4 For the purposes of 4.3, the *firm* must not cover:

- (1) its *notional life MCR* with *eligible own funds* attributable to its *general insurance business*; and
- (2) its *notional non-life MCR* with *eligible own funds* attributable to its *long-term insurance business*.

[Note: Art. 74(3) of the Solvency II Directive]

- 4.5 The *firm* must prepare a statement on the basis of the accounts referred to in 3.2 identifying the *eligible own funds* covering the *notional life MCR* and the *notional non-life MCR*, respectively.

[Note: Art. 74(6) of the Solvency II Directive]

4.6 Provided the *firm* satisfies the requirements in 4.3 and 4.4, and subject to the requirement in 4.7, a *firm* may use:

- (1) *eligible own funds* attributable to its *general insurance business* that are in excess of its *notional non-life MCR*; and
- (2) *eligible own funds* attributable to its *long-term insurance business* that are in excess of its *notional life MCR*;

to cover part or all of the difference between the *firm's SCR* and the sum of its *notional non-life MCR* and *notional life MCR*.

[Note: Art. 74(4) of the Solvency II Directive]

4.7 For the purposes of 4.6, a *firm* must notify the *PRA* before using:

- (1) *eligible own funds* referred to in 4.6(1) to cover the portion of the difference referred to in 4.6 that relates to the difference between the *notional life SCR* and the *notional life MCR*; or
- (2) *eligible own funds* referred to in 4.6(2) to cover the portion of the difference referred to in 4.6 that relates to the difference between the *notional non-life SCR* and the *notional non-life MCR*.

[Note: Art. 74(4) of the Solvency II Directive]

4.8 If a *composite firm* is in breach of either 4.3(1) or 4.3(2), Undertakings In Difficulty 4.1 applies to the activity in respect of which the breach has occurred, as if the words "*MCR*" in Undertakings In Difficulty 4.1 were substituted with the words "*notional life MCR*" or "*notional non-life MCR*", as applicable, regardless of whether any breach has occurred in respect of the other activity.

[Note: Art. 74(7) of the Solvency II Directive]**5 LINKS BETWEEN GENERAL INSURERS AND LONG-TERM INSURERS**

5.1 If a *general insurer* and a *long-term insurer* have financial, commercial or administrative links with each other, each of those *firms* must ensure that its accounts are not distorted by an agreement between them or by any arrangement which could affect the apportionment of expenses and income.

[Note: Art. 73(4) of the Solvency II Directive]**6 LLOYD'S**

6.1 This Chapter applies to *managing agents*.

6.2 A *managing agent* must not permit both *general insurance business* and *long-term insurance business* to be carried on together through any *syndicate* managed by it, except where:

- (1) the *long-term insurance business* to be carried on by that *syndicate* is or is to be restricted to *reinsurance*; or

- (2) the *general insurance business* to be carried on by that *syndicate* is or is to be restricted to *effect contracts of insurance* or *carry out contracts of insurance* in *general insurance business class 1* (accident) or *class 2* (sickness).

[Note: Art. 73(2) of the Solvency II Directive]