PRA RULEBOOK: SOLVENCY II FIRMS: SOLVENCY CAPITAL REQUIREMENT - GENERAL PROVISIONS 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.

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: Solvency Capital Requirement - General Provisions 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

SOLVENCY CAPITAL REQUIREMENT – GENERAL PROVISIONS

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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, as modified by 6 to 8; and

(3) in accordance with Insurance General Application 3, managing agents, as modified by 8.

2 REQUIREMENT TO HOLD ELIGIBLE OWN FUNDS COVERING THE SCR

2.1 A firm must hold eligible own funds covering its SCR.

[Note: Art. 100 of the Solvency II Directive]

3 GENERAL PROVISIONS FOR THE CALCULATION OF THE SCR

3.1 A firm must calculate its SCR either in accordance with the standard formula or using an internal model for which internal model approval has been granted.

[Note: Art. 100 of the Solvency II Directive]

3.2 A firm must calculate its SCR on the presumption that it will pursue its business as a going concern.

[Note: Art. 101(2) of the Solvency II Directive]

3.3 A firm’s SCR:

(1) must be calibrated to ensure that all quantifiable risks to which the firm is exposed are taken into account, including at least the non-life underwriting risk, life underwriting risk, health underwriting risk, market risk, credit risk, and operational risk;

(2) must cover existing business, as well as the new business expected to be written over the following 12 months; and

(3) with respect to existing business, must cover only unexpected losses.

[Note: Art. 101(3)–(4) of the Solvency II Directive]

3.4 A firm’s SCR must correspond to the value-at-risk of its basic own funds subject to a confidence level of 99.5% over a one-year period.

[Note: Art. 101(3) of the Solvency II Directive]

3.5 When calculating the SCR, firms must take account of the effect of risk-mitigation techniques, provided that credit risk and other risks arising from the use of risk-mitigation techniques are properly reflected in the SCR.

[Note: Art. 101(5) of the Solvency II Directive]

3.6 Notwithstanding 3.2 to 3.5, a firm’s SCR shall not cover the risk of loss of basic own funds resulting from changes to the volatility adjustment.
4 FREQUENCY OF CALCULATION OF THE SCR

4.1 A firm must calculate its SCR and report the result of that calculation to the PRA at least once a year.

4.2 For the purposes of 2.1, a firm must hold eligible own funds which cover its last reported SCR.

4.3 A firm must monitor the amount of its eligible own funds and its SCR on an ongoing basis.

4.4 If a firm's risk profile deviates significantly from the assumptions underlying its last reported SCR, the firm must recalculate its SCR without delay and report it to the PRA.

4.5 Where there is evidence to suggest that the risk profile of a firm has altered significantly since the date on which the SCR was last reported by it, if so requested by the PRA, the firm must recalculate its SCR.

5 CAPITAL ADD-ON

5.1 A firm must make every effort to remedy the deficiencies that led to the imposition of a capital add-on arising as a result of an internal model significant risk profile deviation or a significant system of governance deviation.

5.2 Except as provided in 5.3, the SCR prior to the imposition of the capital add-on, together with the amount of the capital add-on imposed by the PRA, will constitute the firm's SCR.

5.3 For the purposes of calculating the risk margin, the SCR of a firm must not include any capital add-on imposed as a result of a significant system of governance deviation.

6 REQUIREMENT TO HOLD ELIGIBLE OWN FUNDS: LLOYD’S

6.1 This Chapter applies to the Society.

6.2 The Society must ensure that eligible own funds are held at Lloyd’s covering its SCR.

6.3 Eligible own funds covering the central requirement must be eligible own funds attributable to the Society.

6.4 Where the standard formula is used by the Society to calculate the SCR for Lloyd’s, the Society must carry out the following process before it will be taken to have demonstrated that 6.2 is met:
(1) own funds attributable to a member are to be compared with the member’s notional SCR derived pursuant to 8.4;

(2) where the own funds attributable to the member are less than or equal to that member’s notional SCR, such own funds (but no additional own funds attributable to that member, including any own funds which are greater than the member’s notional SCR) are to be taken into account for the purposes of establishing compliance with 6.2; and

(3) to the extent the own funds attributable to the member are less than that member’s notional SCR derived pursuant to 8.4, the Society must hold own funds in respect of the difference.

6.5 Where the Society uses an approved internal model, the Society must also ensure that eligible own funds are held at Lloyd’s covering, for at least 99.5% of the scenarios taken into account in the internal model for the purposes of meeting Solvency Capital Requirement - Internal Models 12.2, any diminution in own funds at Lloyd’s arising from the impact of those scenarios.

6.6 Where an approved internal model is used by the Society to calculate the SCR, for the purpose of meeting the requirement set out in 6.2, the Society may take account of own funds attributable to a member only to the extent of the diminution, if any, to those own funds resulting from the application of risk scenarios taken into account in the internal model.

7 GENERAL PROVISIONS FOR CALCULATION OF THE SCR: LLOYD’S

7.1 This Chapter applies to the Society.

7.2 In calculating the SCR for Lloyd’s, the Society must ensure that the SCR is calibrated so as to include:

(1) all quantifiable risks to which members are exposed as a consequence of those members carrying on insurance business at Lloyd’s; and

(2) all quantifiable risks to which the Society is exposed, including risks to the central assets and central liabilities;

in the manner required by 3 (and, where an internal model is used, in accordance with the Solvency Capital Requirement - Internal Models Part of the PRA Rulebook and where the standard formula is used, in accordance with the Solvency Capital Requirement - Standard Formula Part of the PRA Rulebook).

7.3 The Society must calculate a central requirement for Lloyd’s which meets 7.2(2).

7.4 The central requirement must take account of the risk that the central assets may be used to meet deficiencies (as to amount or quality) in own funds attributable to members, such own funds supporting members’ insurance business at Lloyd’s.

8 SYNDICATE NOTIONAL SCR AND MEMBER NOTIONAL SCR: LLOYD’S

8.1 This Chapter applies to managing agents and, where specified, the Society.

8.2 A managing agent must calculate a notional SCR for each syndicate which it manages.

8.3 The notional SCR for each syndicate referred to in 8.2 must be calculated using a methodology which is consistent with the method used by the Society to derive the SCR for
Lloyd’s for the purposes of enabling the Society to comply with the relevant provisions of this Chapter.

8.4 The Society must calculate a notional SCR for each member using the method of calculation chosen to calculate the SCR for Lloyd’s for the purpose of 3.1.

8.5 Where a managing agent manages risks which are included in the Lloyd’s SCR calculation, the managing agent must promptly assist and provide all relevant information to the Society for the purposes of the Society complying with relevant provisions of SCR Rules.