

**PRA RULEBOOK: SOLVENCY II FIRMS: MINIMUM CAPITAL REQUIREMENT 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: Minimum Capital Requirement 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: Minimum Capital Requirement 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

MINIMUM CAPITAL REQUIREMENT

Chapter content

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1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II firm*; and
- (2) in accordance with Insurance General Application 3, the *Society*, as modified by 5.

1.2 In this Part, the following definitions shall apply;

captive insurer

means a *Solvency II undertaking* owned by:

- (1) a financial *undertaking* other than a *Solvency II undertaking*; or
- (2) a *group of Solvency II undertakings*; or
- (3) a non-financial *undertaking*;

the purpose of which is to provide insurance cover exclusively for the risks of the *undertaking* or *undertakings* to which it belongs, or of an *undertaking*, or *undertakings*, of the *group* of which that *Solvency II undertaking* is a member.

[Note: Art. 13(2) of the *Solvency II Directive*]

captive reinsurer

means a *Solvency II undertaking* that is a *pure reinsurer* owned by:

- (1) a financial *undertaking* other than a *Solvency II undertaking*; or
- (2) a *group of Solvency II undertakings*; or
- (3) a non-financial *undertaking*;

the purpose of which is to provide *reinsurance* cover exclusively for the risks of the *undertaking* or *undertakings* to which it belongs or of an *undertaking* or *undertakings* of the *group* of which that *pure reinsurer* is a member.

[Note: Art.13(5) of the *Solvency II Directive*]

2 GENERAL PROVISIONS

2.1 A *firm* must hold *eligible own funds* covering the *MCR*.

[Note: Art. 128 of the *Solvency II Directive*]

3 CALCULATION OF THE MINIMUM CAPITAL REQUIREMENT

3.1 The function used to calculate the *firm's MCR* must be calibrated to the value-at-risk of its *basic own funds* subject to a confidence level of 85% over a one-year period.

[Note: Art. 129(1)(c) of the *Solvency II Directive*]

3.2 The *MCR* must have an absolute floor of:

- (1) 2,500,000 euro for *firms*, including *captive insurers*, which have *Part 4A permission to effect contracts of insurance or carry out contracts of insurance* that are *contracts of general insurance*, except in the case where all or some of the *general insurance business classes 10 to 15* are covered, in which case it must be no less than 3,700,000 euro;
- (2) 3,700,000 euro for *firms*, including *captive insurers*, which have *Part 4A permission to effect contracts of insurance or carry out contracts of insurance* that are *contracts of long term insurance*;
- (3) 3,600,000 euro for *pure reinsurers*, except in the case of *captive reinsurers* that are *pure reinsurers*, in which case the *MCR* must be no less than 1,200,000 euro; or
- (4) the sum of the amounts set out in (1) and (2) for *firms* other than *pure reinsurers* which as of 15 March 1979 carried on both *long-term insurance business* and *general insurance business*.

[Note: Art. 129(1)(d) of the Solvency II Directive]

- 3.3 Without prejudice to the requirements on the absolute floor in 3.2, the *MCR* must neither fall below 25% nor exceed 45% of the *firm's SCR*, calculated in accordance with *SCR Rules*, and including any *capital add-on* which has been imposed.

[Note: Art. 129(3) of the Solvency II Directive]

4 FREQUENCY AND REPORTING IN RELATION TO THE MINIMUM CAPITAL REQUIREMENT

- 4.1 A *firm* must calculate the *MCR* and report the results of that calculation to the *PRA* at least quarterly.

[Note: Art. 129(4) of the Solvency II Directive]

- 4.2 Where either of the limits referred to in 3.3 determines a *firm's MCR* the *firm* must provide the *PRA* information allowing a proper understanding of the reasons therefor.

[Note: Art. 129(4) of the Solvency II Directive]

5 LLOYD'S

- 5.1 This Chapter applies to the *Society*.
- 5.2 In calculating the *MCR* for Lloyd's, in the manner required by 3, the *Society* must ensure that the *MCR* is calibrated so as to include all quantifiable risks to which:
- (1) *members* are exposed as a consequence of those *members* carrying on *insurance business* at Lloyd's; and
 - (2) the *Society* is exposed, including risks to the *central assets* and *central liabilities*.
- 5.3 The *Society* must determine, at least quarterly, the ratio of the Lloyd's *MCR* to the Lloyd's *SCR* and notify the *PRA* of the result at the same time it reports the quarterly *MCR* calculation required by 4.1.
- 5.4 The *Society* must calculate a reporting point for each *underwriting member*, in accordance with 5.5.

- 5.5 The reporting point for each *underwriting member* must be calculated using the ratio referred to in 5.3, expressed as a percentage of the *member's* notional SCR referred to in Solvency Capital Requirement – General Provisions 8.4.
- 5.6 The *Society* must notify the *PRA* if *own funds* attributable to a *member* fall below the reporting point determined in accordance with 5.5 as soon as it is observed by the *Society*.