

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.

PRA Rulebook: Solvency II Firms: Solvency Capital Requirement - General Provisions 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: 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*.

[Note: Art. 77d(6) of the Solvency II Directive]

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.

[Note: Art. 102(1) of the Solvency II Directive]

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

[Note: Art. 102(1) of the Solvency II Directive]

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

[Note: Art. 102(1) of the Solvency II Directive]

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*.

[Note: Art. 102(1) of the Solvency II Directive]

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*.

[Note: Art. 102(2) of the Solvency II Directive]

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*.

[Note: Art. 37(3) of the Solvency II Directive]

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*.

[Note: Art. 37(5) of the Solvency II Directive]

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*.

[Note: Art. 37(5) of the Solvency II Directive]

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*.