

Appendix 2

Insurers: Regulatory intervention points and run-off plans

2.1 Application

- App2.1.1** **R** Subject to SUP App 2.1.6R, ■ SUP App 2.1 to ■ 2.15 apply to an *insurer*, unless it is a *Swiss general insurer*.
- App2.1.2** **G** ■ SUP App 2.1 to ■ 2.15 apply to every *friendly society* that is an insurer.
- App2.1.4** **G** SUP App 2.14A and ■ SUP App 2.15 apply to an *insurer* carrying on *with-profits business*, but ■ SUP App 2.15 only applies if ■ COBS 20.2.53 R (Ceasing to effect new contracts of insurance in a with-profits fund) also applies.
- App2.1.5** **G** ■ SUP App 2.7.1 G is made by the FCA for the purpose of its application to *dormant asset fund operators*.
- App2.1.6** **R** [deleted]
- App2.1.7** **G** The *rules for Solvency II firms* in difficulty or in an irregular situation are in the PRA Rulebook: Solvency II Firms: Undertakings in Difficulty.

2.2 Interpretation

App2.2.1 **R** For the purpose of ■ SUP App 2.1 to ■ 2.14:

- (1) "capital resources":
 - (a) in relation to a *non-directive friendly society*, has the meaning given to "margin of solvency" in rule 2.1 of the Friendly Society – Overall Resources and Guarantee Fund part of the PRA Rulebook;
 - (b) [deleted]
 - (c) in relation to any other *firm* which is not a *Solvency II firm*, means the *firm's* capital resources as calculated in accordance with:
 - (i) in the case of a *dormant asset fund operator*, the version of ■ GENPRU 2.2.17R that applied as at 31 December 2015 (the effect of which has been preserved for the purposes of ■ INSPRU 7); and
 - (ii) in the case of a *non-directive insurer* (other than a *non-directive friendly society*), the PRA Rulebook: Non-Solvency II Firms: Insurance Company – Capital Resources; and
 - (d) in relation to a *Solvency II firm* means the *firm's* "eligible own funds" as defined in the PRA Rulebook: Glossary;
- (2) [deleted]
 - (b) [deleted]
- (3) "material transaction" means a transaction (when aggregated with any similar transactions) in which:
 - (a) the price actually paid or received for the transfer of assets or liabilities or the performance of services; or
 - (b) the price which would have been paid or received had that transaction been negotiated at arm's length between unconnected parties;
exceeds:
 - (c) 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 *property-linked liabilities* and net of *reinsurance ceded*; or
 - (d) 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
 - (e) 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 *property-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

- (4) "required margin of solvency":
- (a) in relation to a *non-directive friendly society*, has the meaning given to that term in *IPRU(FSOC)*;
 - (b) in relation to a *participating insurance undertaking*, means R-S-U, where R, S and U have the meanings given by ■ *INSPRU 6.1.45R (3)(c)*, ■ (d) and ■ (f) respectively;
 - (c) in relation to a *firm* which is not covered by (a) or (b), carrying on *general insurance business*, means the *general insurance capital requirement* applicable to that *firm*; and
 - (d) in relation to a *firm* which is not covered by (a) or (b), carrying on *long-term insurance business*, means the *long-term insurance capital requirement* applicable to that *firm*.

2.3 Purpose

App2.3.8 G

2.7 Capital resources below the level of individual capital guidance

App2.7.1 G For a *dormant asset fund operator*, unless any of ■ *SUP App 2.4.1 R*, ■ *SUP App 2.5.1 R*, ■ *SUP App 2.5.3 R* or ■ *SUP App 2.6.1 R* applies, if a *firm's* circumstances change, such that its capital resources have fallen, or are expected to fall, below the level advised in *individual capital guidance* given to the *firm* by the *FCA*, then, consistent with ■ *PRIN 2.1.1 R Principle 11 (Relations with regulators)*, a *firm* should inform the *appropriate regulator* of this fact as soon as practicable, explaining why capital resources have fallen, or are expected to fall, below the level advised in *individual capital guidance*, and:

- (1) what action the *firm* intends to take to increase its capital resources; or
- (2) what modification the *firm* considers should be made to the *individual capital guidance* which it has been given.

App2.7.2 G Terms in ■ *SUP App 2.7.1G* have the meaning in ■ *INSPRU 7* and *GENPRU* in force as at 31 December 2015. References to *SUP App 2* provisions are to the provisions in force in the *PRA Rulebook* on 31 December 2015.

App2.7.3 **G****2.8 Ceasing to effect contracts of insurance**

App2.8.1 **R** If a *firm* (whether within or outside the scope of the *Solvency II Directive*) decides to cease to effect new *contracts of insurance*, it must, within 28 days of that decision, submit a run-off plan to the *FCA* including:

- (1) a *scheme of operations*; and
- (2) an explanation of how, or to what extent, all liabilities to *policyholders* (including, where relevant, liabilities which arise from the regulatory duty to treat *customers* fairly in setting discretionary benefits) will be met in full as they fall due.

App2.8.4 **G** Under *Principle 11*, the *FCA* normally expects to be notified by a *firm* when it decides to cease *effecting new contracts of insurance* in respect of one or more classes of contract of insurance (see ■ SUP 15.3.8 G). At the same time, the *FCA* would normally expect the *firm* to discuss with it the need for the *firm* to apply to vary its *permission* (see ■ SUP 6.2.6 G and ■ SUP 6.2.7 G) and, if appropriate, to submit a *scheme of operations* in accordance with ■ SUP App 2.8.1 R.

2.9 Under control of a new parent undertaking

App2.9.1 **G** [deleted]

2.10 Grant or variation of permission

App2.10.1 **G** The *PRA* will ask *Solvency II firms* seeking a grant or variation of *permission* to provide a *scheme of operations* as part of the application process (see the *UK* provisions which implemented article 18 of the *Solvency II Directive*). It may make a similar request to other *firms* (see ■ SUP 6.3.25 G). *Firms* which have submitted such a *scheme of operations* are not required to submit to the *PRA* a further *scheme of operations* under this appendix unless ■ SUP App 2.8 or the relevant parts of *PRA* Rulebook: Non-Solvency II firms: Run Off Operations or *PRA* Rulebook: Solvency II

firms: Run Off Operations apply. ■ SUP 6 Annex 4 does, however, apply to such a *firm*.

2.11 Submission of a scheme of operations or a plan for restoration

App2.11.4 G

2.14A Fairness issues for with-profit firms in difficulty or in an irregular situation

App2.14A.1 G ■ SUP App 2.14A applies to a *firm* carrying on *with-profits business*.

App2.14A.2 G Action which a *firm* takes either to restore its capital resources to the levels set by the intervention points in *PRA Rulebook: Solvency II Firms: Undertakings in Difficulty* or *PRA Rulebook: Non-Solvency II firms: Run Off Operations*, or to prevent its capital resources falling below those points, should be consistent with *Principle 6* of the *FCA's Principles for Businesses*. *Principle 6* requires a *firm* to pay due regard to the interests of its *customers* and treat them fairly.

App2.14A.3 G If a *firm* intends either (a) to remedy a fall in capital resources, or (b) to prevent such a fall, for example, by taking management action to reduce the risks to which a *with-profits fund* is exposed or by reducing non-contractual benefits for *policyholders*, it should explain to the *FCA* how such proposed actions are consistent with the *firm's* obligations under *Principle 6* (*Customers' interests*).

App2.14A.4 G Where a *firm* submits a plan for restoration under *PRA Rulebook: Solvency II Firms: Undertakings in Difficulty* or *PRA Rulebook: Non-Solvency II firms: Run Off Operations*, the *FCA* would expect an explanation of how any actions it plans to take to restore its capital resources are consistent with the *firm's* obligations under *Principle 6* (*Customers' interests*).

2.15 Run-off plans for closed with-profits funds

App2.15.1 **G** The run-off plan required by **COBS 20.2.53 R** should include the information described in **SUP App 2.15.2 G** to **SUP App 2.15.13 G** in respect of the relevant *with-profits fund*.

Funding

App2.15.2 **G** A *firm's* run-off plan should describe how the *firm* proposes to manage the run-off of the *with-profits fund*. That description should include:

- (1) details of the expected duration and costs of fully running off the fund's liabilities;
- (2) an explanation as to how a solvent run-off will be funded; and
- (3) details of the *firm's* future strategy for managing the risks associated with the run-off of the fund.

Investment risk

App2.15.3 **G** A *firm's* run-off plan should include an explanation of its future investment strategy, including:

- (1) its strategy for matching the *with-profits fund's* liabilities with appropriate assets; and
- (2) any changes it expects to make to the *with-profits fund's* investment strategy as a result of the closure of the *with-profits fund*, including any changes to the proportions of different types of investments.

Credit risk

App2.15.4 **G** A *firm's* run-off plan should include an explanation of its strategy for managing the *with-profits fund's* counterparty and *credit risk*, both within and external to the *firm's group*.

Operational risk

App2.15.5 **G** A *firm's* run-off plan should show how it will address any additional operational risks that may flow from the closure of the *with-profits fund*, including:

- (1) any changes that it proposes to make to staffing arrangements for the run-off;
- (2) an estimate of the cost of proposed operational changes, including redundancy costs; and
- (3) any *material outsourcing* arrangements it proposes to enter into, explaining how the *firm* will address any specific operational risks created by those arrangements.

Reinsurance

App2.15.6 **G** A *firm's* run-off plan should explain how it will use and manage *reinsurance* (if it will), including:

- (1) any new inwards or outwards *reinsurance* it proposes to enter into as a result of the closure of the *with-profits fund* identifying, in each case, the proposed counterparty and the counterparty's relationship to the *firm's group* (if any); and
- (2) how it will manage the risk that the *reinsurance* in (1) will not perform as expected.

Governance and impact on policy holders

App2.15.7 **G** A *firm's* run-off plan should include:

- (1) details of any changes that will be made to the *firm's* corporate governance arrangements as a consequence of closure;
- (2) an explanation of how costs charged to the *with-profits fund* may change in the light of closure;
- (3) an explanation of any changes it will make, as a consequence of closure, to any charges for guarantees, including:
 - (a) the circumstances in which those charges may be varied in the future; or
 - (b) the manner by which the level of any appropriate variation to those charges may be determined;
- (4) an explanation of any actual or potential changes in the maturity payment or surrender payment target ranges that the *firm* will apply to determine benefits under its *with-profits policies*;
- (5) an explanation of any actual or potential changes in the *firm's* smoothing policy as a consequence of closure;
- (6) an explanation of any changes to the *firm's projection* rates as a consequence of closure;
- (7) details of any new deductions to be made from the *firm's* surrender payments, together with an explanation as to how those deductions are consistent with:
 - (a) *Principle 6* (Customers' interests); and
 - (b) **COBS 20.2.11 G** to **COBS 20.2.16 R** (Amounts payable under with-profits policies: Surrender payments);
- (8) if there are groups of unitised *with-profits policies* in the *with-profits fund* with similar market value reduction free dates, an explanation as to whether:
 - (a) the *firm* expects surrenders to peak around any of those dates; and
 - (b) if it does, how it proposes to deal with those peaks;
- (9) details of the information that the *firm* gives to its *with-profits policyholders* about their right (if any) to use the proceeds of a *personal pension scheme, stakeholder pension scheme, FSAVC, retirement annuity contract or pension buy-out contract* to purchase an annuity on the open market when the relevant contracts or schemes vest or mature and any changes that will be made to that information as a result of the closure;

- (10) details of how the *firm* will deal with any potential mis-selling costs that may arise in the future in respect of *contracts of insurance* effected in the *with-profits fund*;
- (11) an explanation of how the *firm*:
 - (a) anticipates capital will become available for distribution to *policyholders* (and shareholders where appropriate); and
 - (b) will ensure a full and fair distribution of the closed *with-profits fund*, including any *inherited estate*;
 including details of:
 - (c) how the *firm* plans to provide in the long term for *annuity* payments on any *with-profits* and non-profits *policies* under which benefits have vested;
 - (d) how the *firm* will address future adverse circumstances in relation to these (e.g. increased annuitant longevity); and
 - (e) details of the *firm's* plans for distributing the embedded value in any major *subsidiaries* held in or by the closed *with-profits fund*;
- (12) an explanation of any material differences between the *firm's* run-off plan and relevant parts of its *PPFM*, together with details of any changes that will be made to the *PPFM* as a consequence of closure (The *firm* should provide the *FCA* with a copy of the revised sections of its *PPFM* when it submits its run-off plan.);
- (13) an explanation of whether the *firm* will be seeking to expand any other business following closure of the *with-profits fund*. (This explanation should include whether the *firm* will effect any new *with-profits policies* in a different *with-profits fund* and whether it will seek to expand its unit-linked or *non-profit insurance business*. It should also include an explanation of how such plans will impact on the closed *with-profits fund*. For example, will the *firm* offer *policyholders* in the closed *with-profits fund* the opportunity to switch into another with-profits fund or into unit-linked business?)

Financial projections

App2.15.8 **G** A *firm*, other than a *Solvency II firm*, should include in its run-off plan:

- (1) a forecast summary revenue account for the *with-profits fund*, in the form of ■ SUP App 2.15.9 G Table 1;
- (2) a forecast summary balance sheet and statement of solvency for the *with-profits fund*, which has been prepared in the form of ■ SUP App 2.15.9 G Table 2 and on a regulatory basis; and
- (3) a forecast summary balance sheet and statement of solvency for the entire *firm*, which has been prepared in the form of ■ SUP App 2.15.9 G Table 3 and on a regulatory basis;

in each case, for at least a three year period, beginning on the date of closure; and

- (4) a description of the assumptions underlying the forecasts at (1) to (3) and the reasons for adopting those assumptions.

App2.15.8A G A *Solvency II* firm should include the following information in its run off plan, except in the circumstances set out in ■ SUP App 2.15.8B G:

- (1) a forecast summary revenue account for the *with-profits fund*, in accordance with *PRA Rulebook: Non-Solvency II firms: Run Off Operations* 6.1(3)(a);
- (2) a forecast summary balance sheet and “eligible own funds” as defined in the *PRA Rulebook: Glossary* and any notional *SCR* for the *with-profits fund*, in accordance with *PRA Rulebook: Non-Solvency II firms: Run Off Operations* 6.1(3)(b); and
- (3) “eligible own funds”, “MCR” (as those terms are defined in the *PRA Rulebook: Glossary*), forecast summary balance sheet and *SCR* for the entire *firm*, in accordance with *PRA Rulebook: Non-Solvency II firms: Run Off Operations* 6.1(3)(b) and 6.1.3(c) to (e);

in each case, for at least a three-year period, beginning on the date of closure.

App2.15.8B G Delegated acts or implementing technical standards may be adopted under the UK provisions which implemented article 35(6) and (7) of the *Solvency II Directive* in relation, among other things, to run-off plans. In that event *Solvency II firms* should comply with those acts and standards to the extent that they supersede ■ SUP App 2.15.8A G.

App2.15.9 G These tables belong to ■ SUP App 2.15.8 G

Table 1 - forecast summary revenue account for the relevant with-profits fund	
(1)	<i>Premiums and claims</i> (gross and net of <i>reinsurance</i>) analysed by major class of insurance business
(2)	Investment return
(3)	Expenses
(4)	Other charges and income
(5)	Taxation
(6)	Increase (decrease) in fund in financial year
(7)	Fund brought forward
(8)	Fund carried forward

Table 2 - forecast summary balance sheet and statement of solvency for the relevant with-profits fund	
<i>Assets analysed by type (excluding implicit items):</i>	
(1)	Equities
(2)	Land and buildings
(3)	Fixed interest investments
(4)	All other assets
(5)	Total assets (excluding <i>implicit items</i>)
(6)	<i>Policyholder</i> liabilities
(7)	Other liabilities
(8)	Total liabilities
(9)	Excess/(deficiency) of assets over liabilities before <i>implicit items</i>

Table 2 - forecast summary balance sheet and statement of solvency for the relevant with-profits fund

(10)	<i>Implicit items</i> allocated to the <i>with-profits fund</i>
(11)	<i>Long-term insurance capital requirement</i> for the <i>with-profits fund</i>
(12)	<i>Resilience capital requirement</i> for the <i>with-profits fund</i>
(13)	[deleted]
(14)	Net excess/(deficiency) of assets in the <i>with-profits fund</i>

Table 3 - forecast summary balance sheet and statement of solvency for the firm

L1	Surplus <i>long-term insurance assets, with-profit fund(s)</i>	
L2	Surplus <i>long-term insurance assets, non-profit fund(s)</i>	
L3	Total <i>long-term insurance assets</i>	L1+L2
L4	Total <i>long-term insurance liabilities</i> (excluding <i>resilience capital requirement</i>)	
L5	Total <i>long-term insurance fund surplus</i>	L3-L4
L6	Shareholder fund assets	
L7	<i>Implicit items</i>	
L8	<i>Long-term insurance capital requirement</i>	
L9	Excess of regulatory assets over <i>long-term insurance capital requirement</i>	L5+L6+L7-L8
L10	[deleted]	
L11	<i>Resilience capital requirement</i>	
L12	Net excess assets	L9-L10-L11
L13	FTSE level at which the <i>long-term insurance capital requirement</i> would be breached	

App2.15.10 G

App2.15.11 G The run-off plan of a *firm* to which *PRA* Supervisory Statement: Non-Solvency II Insurance companies – Capital assessments applies should include:

- (1) a revised individual capital assessment for the *firm* (see INSPRU 7.1), which reflects the impact of the closure of the relevant *with-profits fund*; or
- (2) a statement that the *firm* is satisfied that the closure will not materially affect the *firm's* most recent assessment.

App2.15.12 G A *firm's* run-off plan should include details of any:

- (1) intra-group balances held by the *with-profits fund*;
- (2) group company investments held by the *with-profits fund*; and
- (3) guarantees given by the *firm*;

which, in each case, have a value in excess of 5% of the *firm's* gross technical provisions.

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- App2.15.13** **G** A *firm's* run-off plan should include any other information that the *firm* considers relevant to the run-off of the closed *with-profits fund*.
- App2.15.14** **G** Either regulator may request additional information and explanations from the *firm*. (See section 165 (Regulators' power to require information) of the *Act*.)
- App2.15.15** **G** Significant changes to, or departures from, a *firm's* run-off plan are likely to trigger one or more of the *firm's* obligations to notify the *FCA*. (See, for example, *Principle 11* (Relations with regulators). The guidance in **■ SUP 15.3** (General notification requirements) may also be relevant.)

