



Institute
and Faculty
of Actuaries

CP15/18 Solvency II Group own funds availability

IFoA response to Prudential Regulation Authority

12 November 2018

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

We strive to act in the public interest by speaking out on issues where actuaries have the expertise to provide analysis and insight on public policy issues. To fulfil the requirements of our Charter, the IFoA maintains a Public Affairs function, which represents the views of the profession to Government, policymakers, regulators and other stakeholders, in order to shape public policy.

Actuarial science is founded on mathematical and statistical techniques used in insurance, pension fund management and investment. Actuaries provide commercial, financial and prudential advice on the management of assets and liabilities, particularly over the long term, and this long term view is reflected in our approach to analysing policy developments. A rigorous examination system, programme of continuous professional development and a professional code of conduct supports high standards and reflects the significant role of the profession in society.



Andrea Muhammad and Simona Murariu
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

12 November 2018

Dear Andrea/ Simona,

IFoA response to PRA CP15/18 – Solvency II: Group own funds availability

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the PRA's consultation paper (CP) on Group own funds availability. Our Life and General Insurance Standards and Consultations sub Committees have been involved in the drafting of the IFoA's response to CP15/18. Members of both Committees have considerable experience in the management of insurance Groups, including associated capital management.
2. For most insurance groups, the sum of solo Solvency Capital Requirements (SCRs) within a group might be expected to be higher than the group SCR as the latter incorporates a higher level of diversification benefit. As proposed under CP15/18, where this occurs, 'the solo SCR should no longer be presumed to be a barrier to availability'. We understand this to mean that the requirement to hold the solo SCR should not deem it to be unavailable to other parts of the group, and by implication, that is transferable if and when required.
3. As such, we support this proposal, and our response to CP15/18 is therefore quite brief. However, we believe the drafting of Supervisory Statement SS 9/15 could be improved to increase clarity, as noted below.
4. Paragraph 5A.2.1 of the draft SS includes: '*... where standards that are not built on the same principles as, and are similar in outcome to, those applicable under the UK group solvency regime are applied to the valuation basis and quality of capital, then the PRA will not assume that diversification benefits are intended to be preserved*' (our italics).
5. The two statements in italics appear to work in opposite directions. We wonder if the 'not' is intended to apply to both but, as it is drafted, it could be read either way. This is repeated in Clause 5A.2.4.
6. In addition, paragraph 5A.2.2 of the draft SS includes: 'Therefore, in principle, firms should not consider the solo SCR as restricting the availability of own fund items or assets at the level of the group, in the meaning of Article 330 of Commission Delegated Regulation (EU) 2015/35. However this does not prevent the PRA from challenging the availability and transferability of own funds as assessed by groups.' This appears to backtrack slightly from the broad intention of the CP15/18 as it will leave some uncertainty as to the extent groups can take credit for the benefit of diversification amongst entities within the group to determine group eligible own funds.

Should you wish to discuss any of the points raised in further detail please contact me (steven.graham@actuaries.org.uk / 0207 632 2146) in the first instance.

Yours sincerely

Steven Graham

A handwritten signature in black ink that reads "Steven Graham". The signature is written in a cursive style with a large, stylized 'S' at the beginning.

Technical Policy Manager
On behalf of Institute and Faculty of Actuaries