Institute and Faculty of Actuaries

6 December 2021

PRA CP17/21 - Solvency II: Definition of an insurance holding company

IFoA Response

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.

Key points

If a group undertaking has two or more operations of similar size, of which one is insurance and one non-insurance, the group may prefer that group supervision does not include their non-insurance operations. This has the benefit to the undertaking of avoiding capital requirements and oversight that may make their non-insurance operations uncompetitive in their respective area. The wording of current regulation gives undertakings some latitude to exercise judgment on the scope of group supervision.

Reducing the scope of insurance group supervision increases the possibility that if an insurance entity has to accelerate dividends up the group to cover losses in non-insurance operations, the regulator could be 'blind' to such adverse developments outside of the (insurance) regulated group.

It is in the public interest that insurance regulators should have oversight over all business that could indirectly impact an insurance entity to a material extent. This oversight should not be too broad to include large businesses which are not primarily insurance businesses. However, the proposed approach within CP 17/21 of using precise 50% thresholds, whilst it does add more precision to the definition, may be binary in nature when undertaking/ regulator judgement may be more useful.

An alternative approach would be for the regulator to review the level of risk in the non-insurance component of the business and determine if the risk is sufficient to necessitate oversight.

Beijing 14F China World Office 1 · 1 Jianwai Avenue · Beijing · China 100004 · **Tel**: +86 (10) 6535 0248
Edinburgh Level 2 · Exchange Crescent · 7 Conference Square · Edinburgh · EH3 8RA · **Tel**: +44 (0) 131 240 1300
Hong Kong 1803 Tower One · Lippo Centre · 89 Queensway · Hong Kong · **Tel:** +852 2147 9418
London (registered office) 7th Floor · Holborn Gate · 326-330 High Holborn · London · WC1V 7PP · **Tel**: +44 (0) 20 7632 2100
Oxford 1st Floor · Park Central · 40/41 Park End Street · Oxford · OX1 1JD · **Tel**: +44 (0) 1865 268 200
Singapore 163 Tras Street · #07-05 Lian Huat Building · Singapore 079024 · **Tel**: +65 6906 0889

www.actuaries.org.uk

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the PRA's Consultation Paper (CP) 17/21 *Solvency II: Definition of an insurance holding company*. In developing our response, we have drawn upon input from members with relevant experience of insurance regulation of group undertakings.

2. It is important to note that, as for any IFoA response, we have considered the PRA's proposals from an independent, public interest perspective.

3. Please note that the comments below are based on the specific experience of our members who have worked on issues relating to insurance group supervision recently. This feedback is focussed on the impact of the change in definition of an insurance holding company insofar as it could impact the entity within a company's group structure at which group supervision is exercised.

4. We have made these points to illustrate this experience in the hope that it provides helpful feedback to the PRA. However, we recognise that some of our comments may be more relevant to the specific circumstances of this experience, rather than necessarily generalising more broadly across the insurance group market.

5. If a group undertaking has two or more operations of similar size, of which one is insurance and one non-insurance, the group *may* prefer that group supervision does not include their non-insurance operations. This has the benefit to the undertaking of avoiding capital requirements and oversight that may make their non-insurance operations uncompetitive in their respective area.

6. The wording of current regulation gives undertakings some latitude to exercise judgment on the scope of group supervision. We have noted a preference for groups to define the supervision at the level of:

   - the Insurance Holding Company, which does not hold the non-insurance business;
   - rather than a higher Mixed Activity Insurance Holding Company, which does hold insurance business.

7. More generally, reducing the scope of insurance group supervision increases the possibility that if an insurance entity has to accelerate dividends up the group to cover losses in non-insurance operations, the regulator could be 'blind' to such adverse developments outside of the (insurance) regulated group.

8. In our view, it is in the public interest that insurance regulators should have oversight over all business that could indirectly impact an insurance entity to a material extent. This oversight should not be too broad to include large businesses which are not primarily insurance businesses. However, the proposed approach within CP 17/21 of using precise 50% thresholds, whilst it does add more precision to the definition, may be binary in nature when undertaking / regulator judgement may be more useful.

9. An alternative approach would be for the regulator to review the level of risk in the non-insurance component of the business and determine if the risk is sufficient to necessitate oversight. We do acknowledge though that the Solvency II treatment of non-insurance business can be rather 'blunt'.

10. We also acknowledge that the use of 50% thresholds may increase the PRA's oversight of non-insurance firms; subject to appropriate regulatory resource being available, this may be in the public interest.

11. Paragraph 1.6 of the CP explains that existing holding company classifications would not be revisited, unless a trigger event occurs, with examples of such events including acquisition or disposal. We note the PRA's proposed thresholds may impact firms' future merger/ acquisition activity given the change in definitions that would be required following a trigger event.

12. Paragraph 2.5 of the CP refers to whether a holding company's subsidiaries exceed the proposed 50% threshold by two out of three metrics. However, paragraph 2.7 refers to assessing whether each of three metrics exceed the 50% threshold. We wonder whether these two requirements should be mutually consistent.

13. Paragraph 1A.1 of the Draft amendments to Supervisory Statement 9/15 refers to 'more prudent' measures. Do these references relate to the broadest scope of regulation?

Should you want to discuss any of the points raised please contact me, Technical Policy Manager (steven.graham@actuaries.org.uk) in the first instance.

Yours Sincerely,

Steven Graham
On behalf of Institute and Faculty of Actuaries