

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:

- (1) a *Swiss general insurer*; or
- (2) an *EEA-deposit insurer*; or
- (3) an *incoming EEA firm*; or
- (4) an *incoming Treaty firm*.

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 account fund operators*, rather than *insurers*.

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.

2.3 Purpose

App2.3.8 G

2.7 Capital resources below the level of individual capital guidance

App2.7.1 G For a *dormant fund account 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 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 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 (gross and net of reinsurance) analysed by major class of insurance business</i>
(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

Assets analysed by type (excluding <i>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>
(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.

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.)