

SECOND SUPPLEMENT TO THE GIBRALTAR GAZETTE

No. 5206 GIBRALTAR Thursday 30th January 2025

LEGAL NOTICE NO. 33 OF 2025

FINANCIAL SERVICES ACT 2019

FINANCIAL SERVICES (INSURANCE COMPANIES) (AMENDMENT No.2) REGULATIONS 2025

In exercise of the powers conferred on the Minister by sections 55C, 620, 621 and 627 of the Financial Services Act 2019, the Minister has made these Regulations-

Title.

1. These Regulations may be cited as the Financial Services (Insurance Companies) (Amendment No.2) Regulations 2025.

Commencement.

2. These Regulations come into operation on 31st January 2025.

Amendment of the Financial Services (Insurance Companies) Regulations 2020.

3.(1) The Financial Services (Insurance Companies) Regulations 2020 are as amended as follows.

(2) In regulation 3(1)-

(a) after the definition of “insurer”, insert-

““internal model residual deviation” means a residual deviation, as determined by the GFSC, in the risk profile of an insurance or reinsurance undertaking, or a group (as appropriate), from the assumptions underlying the Solvency Capital Requirement (or group Solvency Capital Requirement, as appropriate) in circumstances where the undertaking’s Solvency Capital Requirement (or group Solvency Capital Requirement of the undertaking’s group, as appropriate) is calculated using an internal model. For this purpose, assumptions include proposed assumptions in an internal model permission application;

“internal model safeguard” means a limitation or requirement imposed by the GFSC on an insurance or reinsurance undertaking, whether in its internal model approval, which either or both-

- (a) to the extent that a residual model limitation relates to regulations 91(3) to (5), is intended to ensure compliance of the internal model with those provisions; or
 - (b) to the extent that a residual model limitation relates to the internal model requirements, is intended to mitigate the effect of that residual model limitation;”;
- (b) after the definition of “liquidity risk”, insert–
““major business unit” means–
 - (a) in relation to an insurance or reinsurance undertaking, a defined segment of the insurance or reinsurance undertaking that operates independently from other parts of the undertaking and has dedicated governance resources and procedures within the undertaking and which contains risks that are material in relation to the entire business of the undertaking; or
 - (b) in relation to an insurance or reinsurance group, a defined segment of the group that operates independently from other parts of the group and has dedicated governance resources and procedures within the group and which contains risks that are material in relation to the entire business of the group; any legal entity belonging to the group is a major business unit or consists of several major business units;”;
- (c) after the definition of “reinsurance undertaking”, insert–
““Reporting Technical Standards” means the Technical Standards on Supervisory Reporting Requirements for Insurers and Reinsurers set out in the Annex to the Financial Services (Insurance Supervisory Reporting) (Technical Standards) Regulations 2025;

“residual model limitation” means, in relation to an internal model for which an insurance or reinsurance undertaking has, or in respect of which the undertaking is applying for, an internal model approval, an aspect of that internal model that prevents the undertaking from demonstrating that that internal model meets regulations 91(3) to (5) and all internal model requirements in all the circumstances in which it is, or is intended, to be used;”;
- (d) after the definition of “risk-mitigation techniques”, insert–
““scenario analysis” means the analysis of the impact of a combination of adverse events;”;
- (e) for the definition of “Solvency 2 Regulation” substitute–

““Solvency 2 Technical Standards” means the Solvency 2 Technical Standards set out in the Annex to the Financial Services (Solvency 2) (Technical Standards) Regulations 2025;”.

(3) In regulation 43(5), the opening words, for “have written policies” substitute “establish, implement and maintain written policies and adequate procedures”.

(4) In regulation 44–

(a) in sub-regulation(2)(a)(i) omit “and”; and

(b) after sub-regulation (2)(a)(ii), insert–

“(iii) they establish, implement and maintain documented policies and procedures to ensure that all persons who effectively run the undertaking or have another key function are at all times fit and proper; and”

(5) In regulation 45–

(a) in sub-regulation 45(1), for “have in place” substitute “establish, implement and maintain”;

(b) after sub-regulation (1), insert–

“(1A) The risk management must include the following–

(a) a clearly defined risk management strategy which is consistent with the undertaking's overall business strategy. The objectives and key principles of the strategy, the approved risk tolerance limits and the assignment of responsibilities across all the activities of the undertaking must be documented;

(b) a clearly defined procedure on the decision-making process;

(c) written policies which effectively ensure the definition and categorisation of the material risks by type to which the undertaking is exposed and the approved risk tolerance limits for each type of risk, and which implement the undertaking's risk strategy, facilitate control mechanisms and take into account the nature, scope and time periods of the business and the associated risks; and

(d) reporting procedures and processes which ensure that information on the material risks faced by the undertaking and the effectiveness of the risk management system are actively monitored and analysed and that appropriate modifications to the system are made where necessary.”;

(c) in sub-regulation (3), after “investment” insert “risk management”;

(d) in sub-regulation (4)–

- (i) for “policy” substitute “policies”;
- (ii) for “comprise” substitute “include”;

(e) after sub-regulation (4), insert–

“(4A) An insurance or reinsurance undertaking must ensure that, where appropriate, the performance of stress tests and scenario analysis with regard to all relevant risks faced by the undertaking is included in its risk management system.

(4B) An insurance or reinsurance undertaking must ensure that it takes into account the information reported as part of the risk management system in its decision-making process.”;

(f) in sub-regulation (8)–

- (i) for “policy” substitute “policies”;
- (ii) for “comprise” substitute “include”;
- (iii) *Omitted*

(g) for sub-regulation (11), substitute–

“(11) An insurance or reinsurance undertaking must–

- (a) ensure that its internal risk management methodologies do not rely solely or automatically on external credit assessments; and
- (b) assess the appropriateness of those external credit assessments as part of its risk management by using additional assessments wherever practicably possible,

and where an undertaking’s calculation of technical provisions or the Solvency Capital Requirement is based on external credit assessments or the fact that an exposure is unrated, it does not exempt the undertaking from also considering other relevant information.”.

(6) After regulation 45, insert–

“Policy on risk management.

45A.(1) For the purpose of assessing the appropriateness of external credit rating assessments used in the calculation of technical provisions and the Solvency Capital Requirement by way of additional assessments referred to in regulation 45(11), an

insurance or reinsurance undertaking must include in its policy on risk management the following–

- (a) the scope and frequency of the additional assessments;
- (b) the manner in which the additional assessments are carried out, including the assumptions on which they are based; and
- (c) the frequency of the regular review of the additional assessments and the conditions requiring an ad hoc review of the additional assessments.

(2) An insurance or reinsurance undertaking must ensure that its risk-management function covers the additional assessments in accordance with the risk management policy referred to in sub-regulation (1) and duly considers the results of the additional assessments in the calculation of technical provisions and the Solvency Capital Requirement.

(3) When carrying out the additional assessments, an undertaking must use information that is derived from reliable sources that are up to date.

(4) In accordance with regulation 43, an insurance or reinsurance undertaking must review its additional assessments at least annually.

(5) An insurance or reinsurance undertaking must review the additional assessments on an ad hoc basis whenever any of the conditions under sub-regulation (1)(c) take place or if the assumptions on which those assessments are based are no longer valid.

(6) An insurance or reinsurance undertaking must document the following–

- (a) the manner in which the additional assessments are carried out and the results of those assessments; and
- (b) the extent to which the results of the additional assessments are taken into account in the calculation of technical provisions and the Solvency Capital Requirement.

Risk management areas.

45B. An insurance or reinsurance undertaking must ensure that the areas referred to in regulation 45(3) include all of the following policies–

- (a) underwriting and reserving–
 - (i) actions to be taken by the undertaking to assess and manage the risk of loss or of adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions;

- (ii) the sufficiency and quality of relevant data to be considered in the underwriting and reserving processes, as set out in Article 19 of the Solvency 2 Technical Standards, and their consistency with the standards of sufficiency and quality; and
 - (iii) the adequacy of claims management procedures including the extent to which they cover the overall cycle of claims;
- (b) asset-liability management–
 - (i) the structural mismatch between assets and liabilities and in particular the duration mismatch of those assets and liabilities;
 - (ii) any dependency between risks of different asset and liability classes;
 - (iii) any dependency between the risks of different insurance or reinsurance obligations;
 - (iv) any off-balance sheet exposures of the undertaking; and
 - (v) the effect of relevant risk-mitigating techniques on asset-liability management;
- (c) investment risk management–
 - (i) actions to be taken by the undertaking to ensure that the undertaking's investments comply with the prudent person principle in regulation 117;
 - (ii) actions to be taken by the undertaking to ensure that the undertaking's investments take into account the nature of the undertaking's business, its approved risk tolerance limits, its solvency position and its long-term risk exposure;
 - (iii) the undertakings' own internal assessment of the credit risk of investment counterparties;
 - (iv) where the undertaking uses derivatives or any other financial instrument with similar characteristics or effects, the objectives of, and strategy underlying their use and the way in which they facilitate efficient portfolio management or contribute to a reduction of risks, as well as procedures to assess the risk of such instruments and the principles of risk management to be applied to them; and
 - (v) where appropriate in order to ensure effective risk-management, internal quantitative limits on assets and exposures, including off-balance sheet exposures;

- (d) liquidity risk management—
 - (i) actions to be taken by the undertaking to take into account both short term and long term liquidity risk;
 - (ii) the appropriateness of the composition of the assets in terms of their nature, duration and liquidity in order to meet the undertaking's obligations as they fall due; and
 - (iii) a plan to deal with changes in expected cash in-flows and out-flows;
- (e) concentration risk management: actions to be taken by the undertaking to identify relevant sources of concentration risk to ensure that risk concentrations remain within established limits and actions to analyse possible risks of contagion between concentrated exposures;
- (f) operational risk management: actions to be taken by the undertaking to assign clear responsibilities to regularly identify, document and monitor relevant operational risk exposures;
- (g) reinsurance and other insurance risk mitigation techniques—
 - (i) actions to be taken by the undertaking to ensure the selection of suitable reinsurance and other risk mitigation techniques;
 - (ii) actions to be taken by the undertaking to assess which types of risk mitigation techniques are appropriate according to the nature of the risks assumed and the capabilities of the undertaking to manage and control the risks associated with those techniques; and
 - (iii) the undertakings' own assessment of the credit risk of the risk mitigation techniques; and
- (h) deferred taxes—
 - (i) actions related to the undertaking's selection of methods and assumptions to demonstrate the amount and recoverability of the loss-absorbing capacity of deferred taxes;
 - (ii) involvement of the relevant key functions in the selection and assessment of methods and assumptions to demonstrate the amount and recoverability of the loss-absorbing capacity of deferred taxes, how the outcome of that assessment is reported to the administrative, management or supervisory body, including the assessment of the underlying assumptions applied for the projection of future taxable profit (for the purposes of recognising and valuing deferred taxes and making an adjustment for the loss-absorbing capacity of deferred taxes), and an explanation of any concerns about those assumptions,

which must be carried out in each case by either the actuarial function or the risk management function; and

- (iii) risks that the undertaking is or could be exposed to, taking into account potential future changes in its risk profile due to its business strategy or the economic and financial environment, including operational risks and potential changes in its loss-absorbing capacity of deferred taxes. That assessment must include the overall reliance of the solvency and financial condition on deferred taxes and its consistency with the risk management policy.”.

(7) After regulation 46, insert–

“ORSA supervisory report.

46A. The ORSA supervisory report must present the following–

- (a) the qualitative and quantitative results of the own risk and solvency assessment and the conclusions drawn by the insurance or reinsurance undertaking from those results;
- (b) the methods and main assumptions used in the own risk and solvency assessment;
- (c) information on the undertaking's overall solvency needs and a comparison between those solvency needs, the regulatory capital requirements and the undertaking's own funds; and
- (d) qualitative information on, and where significant deviations have been identified, a quantification of the extent to which quantifiable risks of the undertakings are not reflected in the calculation of the Solvency Capital Requirement.”.

(8) In regulation 47–

(a) after sub-regulation (1), insert–

“(1A) An undertaking must ensure that its internal control system ensures–

- (a) the undertaking’s compliance with applicable laws, regulations and administrative provisions;
- (b) the effectiveness and the efficiency of the undertaking’s operations in light of its objectives; and
- (c) the availability and reliability of financial and non-financial information.

(1B) An undertaking must ensure that the compliance function required by sub-regulation (1)(d) establishes—

- (a) a compliance policy that defines the responsibilities, competencies and reporting duties of the compliance function; and
- (b) a compliance plan that sets out the planned activities of the compliance function which take into account all relevant areas of the activities of the undertaking and their exposure to compliance risk.”;

(b) in sub-regulation (2)—

- (i) in paragraph (a), at the end, omit “and”;
- (ii) in paragraph (b), for “risk.” substitute “risk; and”;
- (iii) after paragraph (b), insert—

“(c) assessing the adequacy of the measures adopted by the undertaking to prevent non-compliance.”.

(9) For the cross-heading before regulation 52, substitute—

“Solvency and financial condition report: structure and contents”.

(10) In regulation 52—

(a) for sub-regulation (1) substitute—

“(1) An insurance or reinsurance undertaking must disclose publicly, on an annual basis, a report on its solvency and financial condition and that report must—

- (a) include the information required by regulation 37(4) and comply with the principles set out in regulation 37(5);
- (b) contain the information specified in sub-regulation (2), either in full or by way of reference to equivalent information, both in nature and scope, published under other legal or regulatory requirements; and
- (c) follow the structure set out in Article 51A of the Reporting Technical Standards and disclose the information in regulations 57B to 57H.”;

(b) after sub-regulation (2)(e), insert—

“(f) a clear and concise summary understandable to policyholders. The summary of the report must highlight any material changes to the matters described in paragraphs (a), (b), (d) and (e) over the reporting period.”;

(c) for sub-regulation (3) substitute–

“(3) For the purposes of sub-regulation (2)(d), where an insurance or reinsurance undertaking applies–

- (a) a matching adjustment in accordance with regulation 68, the undertaking must include in the description–
 - (i) a description of the matching adjustment and of the relevant portfolio of insurance and reinsurance obligations and relevant portfolio of assets to which the matching adjustment is applied;
 - (ii) a quantification of the impact of a change to zero of the matching adjustment on the undertaking’s financial position including on the amount of its technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, basic own funds and eligible own funds to cover the Minimum Capital Requirement and the Solvency Capital Requirement; and
 - (iii) the disclosure in respect of the undertaking’s attestation required by regulation 69H;
- (b) a volatility adjustment in accordance with regulation 70, the undertaking must include in the description–
 - (i) a statement on whether the volatility adjustment referred to in regulation 70 is used by the undertaking; and
 - (ii) quantification of the impact of a change to zero of the volatility adjustment on the undertaking’s financial position, including on the amount of its technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, basic own funds and eligible own funds to cover the Minimum Capital Requirement and the Solvency Capital Requirement.”;

(c) for sub-regulation (5) substitute–

“(5) The disclosure of the Solvency Capital Requirement referred to in sub-regulation (2)(e)(ii) must–

- (a) show separately the amount calculated in accordance with Chapter 3 of Part 6;
- (b) except for any capital add-on imposed because of an internal model residual deviation, include the amount of any capital add-on imposed on the undertaking by the GFSC, together with concise information on the GFSC’s justification for its imposition; and

- (c) include the impact of the undertaking specific parameters the undertaking is required to use in accordance with regulation 100, together with concise information on the GFSC's justification for requiring its use.”.

(11) After regulation 54(4), insert–

“(5) As soon as the solvency and financial condition report, or any updated version of that report, is disclosed by insurance and reinsurance undertakings it must be submitted to the GFSC.

(6) Where an insurance or reinsurance undertaking discloses publicly, any information or explanation related to its solvency and financial condition the public disclosure of which is not legally required, the undertaking must ensure that the information is consistent with any information it has provided to the GFSC under regulation 37.”.

(12) In regulation 55–

(a) after sub-regulation (1), insert–

“(1A) Where the circumstances in sub-regulation (1) arise, the undertaking must publish an updated version of its solvency and financial condition report in accordance with sub-regulation (1B), regulations 52, 54(6), and 56A to 56E and, where applicable, Articles 57A to 57C, 57F(1) and (2) of the Reporting Technical Standards apply to that updated version.

(1B) Without limiting any disclosure which must be immediately provided by an undertaking in accordance with sub-regulations (1) and (2) to (5), any updated version of the solvency and financial condition report must be disclosed as soon as possible after the major development, in accordance with the provisions set out in Article 53B of the Reporting Technical Standards.

(1C) Despite sub-regulations (1A) and (1B), an undertaking may decide, for the purposes of Article 53B of the Reporting Technical Standards, to disclose appropriate information on the nature and effects of any major development significantly affecting the relevance of its solvency and financial condition report in the form of amendments supplementing the initial report.”;

(b) in sub-regulation (3)(a), for “the GFSC must require the undertaking concerned to” substitute “the undertaking must”.

(13) After regulation 56, insert–

“Business and performance.

56A(1). The solvency and condition report must include the following information regarding the business of the insurance or reinsurance undertaking–

- (a) the name and legal form of the undertaking;
- (b) the GFSC's contact details and, where applicable, the name and contact details of the group supervisor of the group to which the undertaking belongs;
- (c) the name and contact details of the external auditor of the undertaking;
- (d) a description of the holders of qualifying holdings in the undertaking;
- (e) where the undertaking belongs to a group, details of the undertaking's position within the legal structure of the group;
- (f) the undertaking's material lines of business and material geographical areas where it carries out business;
- (g) any significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking;
- (h) qualitative and quantitative information on the insurance or reinsurance undertaking's underwriting performance—
 - (i) at an aggregate level and by material line of business and material geographical areas where it carries out business over the reporting period; and
 - (ii) together with a comparison of the information with that reported on the previous reporting period, as shown in the undertaking's financial statements;
- (i) qualitative and quantitative information regarding the performance of the investments of the insurance or reinsurance undertaking over the reporting period, together with a comparison of the information with that reported on the previous reporting period, as shown in that undertaking's financial statements—
 - (i) information on income and expenses arising from investments by asset class and, where necessary for a proper understanding of the income and expenses, the components of such income and expenses;
 - (ii) information about any gains and losses recognised directly in equity; and
 - (iii) information about any investments in securitisation;
- (j) a description of other material income and expenses of the undertaking incurred over the reporting period together with a comparison of the

information with that reported on the previous reporting period, as shown in that undertaking's financial statements; and

- (k) a separate section on any other material information regarding the business and performance of the undertaking.

System of governance.

56B.(1) The solvency and financial condition report must include the following information regarding the system of governance of the insurance or reinsurance undertaking–

- (a) the structure of the undertaking's administrative, management or supervisory body, providing a description of its main roles and responsibilities and a brief description of the segregation of responsibilities within these bodies, in particular whether relevant committees exist within them, as well as a description of the main roles and responsibilities of key functions;
- (b) any material changes in the system of governance that have taken place over the reporting period;
- (c) information on the remuneration policy and practices regarding administrative, management or supervisory body and, unless otherwise stated, employees, including–
 - (i) principles of the remuneration policy, with an explanation of the relative importance of the fixed and variable components of remuneration;
 - (ii) information on the individual and collective performance criteria on which any entitlement to share options, shares or variable components of remuneration is based; and
 - (iii) a description of the main characteristics of supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders; and
- (d) information about material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body.

(2) The solvency and financial condition report must include the following information regarding the “fit and proper” policy of the insurance or reinsurance undertaking–

- (a) a description of the undertaking's specific requirements concerning skills, knowledge and expertise applicable to the persons who effectively run the undertaking or have other key functions; and
 - (b) a description of the undertaking's process for assessing the fitness and the propriety of the persons who effectively run the undertaking or have other key functions.
- (3) The solvency and financial condition report must include the following information regarding the risk management system of the insurance or reinsurance undertaking–
 - (a) a description of the undertaking's risk management system comprising strategies, processes and reporting procedures, and how it is able to effectively identify, measure, monitor, manage and report, on a continuous basis, the risks on an individual and aggregated level, to which the undertaking is or could be exposed; and
 - (b) a description of how the risk management system including the risk management function are implemented and integrated into the organisational structure and decision-making processes of the undertaking.
- (4) The solvency and financial condition report must include the following information regarding the process the insurance or reinsurance undertaking has adopted to fulfil its obligation to conduct an own risk and solvency assessment–
 - (a) a description of the process undertaken by the undertaking to fulfil its obligation to conduct an own risk and solvency assessment as part of its risk management system including how the own risk and solvency assessment is integrated into the organisational structure and decision making processes of the undertaking;
 - (b) a statement detailing how often the own risk and solvency assessment is reviewed and approved by the undertaking's administrative, management or supervisory body; and
 - (c) a statement explaining how the undertaking has determined its own solvency needs given its risk profile and how its capital management activities and its risk management system interact with each other.
- (5) The solvency and financial condition report must include the following information regarding the internal control system of the insurance or reinsurance undertaking–
 - (a) a description of the undertaking's internal control system; and
 - (b) a description of how the compliance function is implemented.

(6) The solvency and financial condition report must include the following information regarding the internal audit function of the insurance or reinsurance undertaking–

- (a) a description of how the undertaking's internal audit function is implemented; and
- (b) a description of how the undertaking's internal audit function maintains its independence and objectivity from the activities it reviews.

(7) The solvency and financial condition report must include a description of how the actuarial function of the insurance or reinsurance undertaking is implemented.

(8) The solvency and financial condition report must include a description of the outsourcing policy of the insurance or reinsurance undertaking, that undertaking's outsourcing of any critical or important operational functions or activities and the jurisdiction in which the service providers of such functions or activities are located.

(9) The solvency and financial condition report must include an assessment of the adequacy of the system of governance of the insurance or reinsurance undertaking to the nature, scale and complexity of the risks inherent in its business.

(10) The solvency and financial condition report must include in a separate section any other material information regarding the system of governance of the insurance or reinsurance undertaking.

Risk profile.

56C.(1) The solvency and financial condition report must include qualitative and quantitative information regarding the risk profile of the insurance or reinsurance undertaking, in accordance with sub-regulations (2) to (6), separately for the following categories of risk–

- (a) underwriting risk;
- (b) market risk;
- (c) credit risk;
- (d) liquidity risk;
- (e) operational risk; and
- (f) other material risks.

(2) The solvency and financial condition report must include the following information regarding the risk exposure of the insurance or reinsurance undertaking,

including the exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles–

- (a) a description of the measures used to assess these risks within that undertaking, including any material changes over the reporting period;
- (b) a description of the material risks that that undertaking is exposed to, including any material changes over the reporting period; and
- (c) a description of how assets have been invested in accordance with the “prudent person principle” in regulation 117 so that the risks mentioned in that regulation and their proper management are addressed in that description.

(3) With regard to risk concentration, the solvency and financial condition report must include a description of the material risk concentrations to which the insurance or reinsurance undertaking is exposed.

(4) With regard to risk mitigation, the solvency and financial condition report must include a description of the techniques used for mitigating risks, and the processes for monitoring the continued effectiveness of these risk-mitigation techniques.

(5) With regard to risk sensitivity the solvency and financial condition report must include a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.

(6) The solvency and financial condition report must include in a separate section any other material information regarding the risk profile of the insurance or reinsurance undertaking.

Valuation for solvency purposes.

56D.(1) The solvency and financial condition report must include the following information regarding the valuation of the assets of the insurance or reinsurance undertaking for solvency purposes–

- (a) separately for each material class of assets, the value of the assets, as well as a description of the bases, methods and main assumptions used for valuation for solvency purposes; and
- (b) separately for each material class of assets, a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used by that undertaking for the valuation for solvency purposes and those used for its valuation in financial statements.

(2) The solvency and financial condition report must include the following information regarding the valuation of the technical provisions of the insurance or reinsurance undertaking for solvency purposes–

- (a) separately for each material line of business the value of technical provisions, including the amount of the best estimate and the risk margin, as well as a description of the bases, methods and main assumptions used for its valuation for solvency purposes;
- (b) a description of the level of uncertainty associated with the value of technical provisions;
- (c) separately for each material line of business, a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used by that undertaking for the valuation for solvency purposes and those used for their valuation in financial statements;
- (d) where the matching adjustment in regulation 68 is applied, the undertaking must include—
 - (i) a description of the matching adjustment and of the relevant portfolio of insurance and reinsurance obligations and relevant portfolio of assets to which the matching adjustment is applied; and
 - (ii) a quantification of the impact of a change to zero of the matching adjustment on the undertaking's financial position including on the amount of its technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, basic own funds and eligible own funds to cover the Minimum Capital Requirement and the Solvency Capital Requirement;
- (e) where the volatility adjustment in regulation 70 is used, the undertaking must include—
 - (i) a statement that the volatility adjustment is used by the undertaking; and
 - (ii) a quantification of the impact of a change to zero of the volatility adjustment on the undertaking's financial position, including on the amount of its technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, basic own funds and eligible own funds to cover the Minimum Capital Requirement and the Solvency Capital Requirement;
- (f) a statement on whether the transitional risk-free interest rate-term structure paragraph 2 of Schedule 1 is applied and a quantification of the impact of not applying the transitional measure on the undertaking's financial position, including on the amount of technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement;

- (g) a statement on whether the transitional deduction in paragraphs 3 of Schedule 1 is applied and a quantification of the impact of not applying the deduction measure on the undertaking's financial position, including on the amount of technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement; and
 - (h) a description of the following–
 - (i) the recoverables from reinsurance contracts and special purpose vehicles; and
 - (ii) any material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period.
- (3) The solvency and financial condition report must include the following information regarding the valuation of the other liabilities of the insurance or reinsurance undertaking for solvency purposes–
- (a) separately for each material class of other liabilities the value of other liabilities as well as a description of the bases, methods and main assumptions used for their valuation for solvency purposes; and
 - (b) separately for each material class of other liabilities, a quantitative and qualitative explanation of any material differences with the valuation bases, methods and main assumptions used by the undertaking for the valuation for solvency purposes and those used for their valuation in financial statements.
- (4) For the purpose of complying with sub-regulations (1) and (3), the solvency and financial condition report must include information on alternative methods of valuation, as set out in Article 263 of the Solvency 2 Technical Standards.
- (5) The solvency and financial condition report must include in a separate section any other material information regarding the valuation of assets and liabilities for solvency purposes.

Capital management.

56E.(1) The solvency and financial condition report must include the following information regarding the own funds of the insurance or reinsurance undertaking–

- (a) information on the objectives, policies and processes employed by the undertaking for managing its own funds, including information on the time

horizon used for business planning and on any material changes over the reporting period;

- (b) separately for each tier, information on the structure, amount and quality of own funds at the end of the reporting period and at the end of the previous reporting period, including an analysis of the significant changes in each tier over the reporting period;
- (c) the eligible amount of own funds to cover the Solvency Capital Requirement, classified by tiers;
- (d) the eligible amount of basic own funds to cover the Minimum Capital Requirement, classified by tiers;
- (e) a quantitative and qualitative explanation of any material differences between equity as shown in the undertaking's financial statements and the excess of assets over liabilities as calculated for solvency purposes;
- (f) for each basic own funds item that is subject to the transitional arrangements in paragraphs 1(5) and (6) of Schedule 1, a description of the nature of the item and its amount;
- (g) for each material item of ancillary own funds, a description of the item, the amount of the ancillary own funds item and, where a method by which to determine the amount of the ancillary own funds item has been approved, that method as well as the nature and the names of the counterparty or group of counterparties for the items in regulation 83(1)(a) to (c);
- (h) a description of any item deducted from own funds and a brief description of any significant restriction affecting the availability and transferability of own funds within the undertaking; and
- (i) information regarding deferred taxes which as a minimum must contain all of the following–
 - (i) a description of the calculated amount of deferred tax assets without assessing their probable utilisation, and the extent to which those deferred tax assets have been recognised;
 - (ii) for deferred tax assets which have been recognised, a description of the assets likely to be utilised by reference to probable future taxable profit and by reference to the reversion of deferred tax liabilities relating to income taxes levied by the same taxation authority; and
 - (iii) with regard to net deferred taxes assets calculated as the difference between the amount of deferred tax assets which has been recognised and the amount of deferred tax liabilities, all of the following information–

- (aa) confirmation that those net deferred tax assets are available as basic own funds items classified as Tier 3 in accordance with Article 76(a)(iii) of the Solvency 2 Technical Standards;
- (bb) a description of the amount of those net deferred tax assets that are recognised as eligible own funds, applying the eligibility limits set out in Article 82 of the Solvency 2 Technical Standards; and
- (cc) where the amount of deferred tax assets is material, a description of the underlying assumptions used for the projection of probable future taxable profit for the purposes of Article 15 of the Solvency 2 Technical Standards.

(2) For the purposes of sub-regulation (1)(g), the names of the counterparties must not be disclosed where disclosure is legally not possible or impracticable or where the counterparties concerned are not material.

(2A) For the purposes regulation 52(2)(e)(ii), the disclosure of the amount of the Solvency Capital Requirement calculated using the firm's internal model under regulation 52(5)(a) and of the Solvency Capital Requirement split by risk categories under sub-regulation (3)(b) may include any capital add-on imposed because of an internal model residual deviation.

(3) The solvency and financial condition report must include the following information regarding the Solvency Capital Requirement and the Minimum Capital Requirement of the insurance or reinsurance undertaking–

- (a) the amounts of the undertaking's Solvency Capital Requirement and the Minimum Capital Requirement at the end of the reporting period;
- (b) the amount of the undertaking's Solvency Capital Requirement split by risk modules where that undertaking applies the standard formula, and by risk categories where the undertaking applies an internal model;
- (c) information on whether and for which risk modules and sub-modules of the standard formula that undertaking is using simplified calculations;
- (d) where the undertaking has been given approval to apply an undertaking specific parameter ("USP approval") by the GFSC in accordance with regulation 276A, information on whether and for which standard parameters of the standard formula the undertaking is using undertaking specific parameters;
- (e) [Not used]

- (f) the impact of any undertaking-specific parameters that undertaking is required to use in accordance with regulation 100 and the amount of any capital add-on applied to the Solvency Capital Requirement, together with concise information on its justification by the GFSC;
 - (g) information on the inputs used by the undertaking to calculate the Minimum Capital Requirement;
 - (h) any material change to the Solvency Capital Requirement and to the Minimum Capital Requirement over the reporting period, and the reasons for any such change; and
 - (i) information regarding the loss-absorbing capacity of deferred taxes that must contain—
 - (i) the amount with which the Solvency Capital Requirement has been adjusted for the loss-absorbing capacity of deferred taxes; and
 - (ii) a description of the deferred tax liabilities, carry-back and probable future taxable profit used to demonstrate likely utilisation.
- (4) Where an internal model is used to calculate the Solvency Capital Requirement, the solvency and financial condition report must also include the following information—
- (a) a description of the various purposes for which that undertaking is using its internal model;
 - (b) a description of the scope of the internal model in terms of business units and risk categories;
 - (c) where a partial internal model is used, a description of the technique which has been used to integrate any partial internal model into the standard formula including, where relevant, a description of alternative techniques used;
 - (d) a description of the methods used in the internal model for the calculation of the probability distribution forecast and the Solvency Capital Requirement;
 - (e) an explanation, by risk module, of the main differences in the methodologies and underlying assumptions used in the standard formula and in the internal model;
 - (f) the risk measure and time period used in the internal model, and where they are not the same as those in regulation 91(3), an explanation of why the Solvency Capital Requirement calculated using the internal model provides

policyholders and beneficiaries with a level of protection equivalent to that in regulation 91; and

- (g) a description of the nature and appropriateness of the data used in the internal model.

(5) The solvency and financial condition report must include the following information regarding any non-compliance with the Minimum Capital Requirement or significant non-compliance with the Solvency Capital Requirement of the insurance or reinsurance undertaking–

- (a) where non-compliance with the undertaking's Minimum Capital Requirement has not been subsequently resolved: the amount of the non-compliance at the reporting date;
- (b) where a significant non-compliance with the undertaking's Solvency Capital Requirement has not been subsequently resolved: the amount of the non-compliance at the reporting date; and
- (c) where paragraph (a) or (b) applies, an explanation of the origin and consequences of the non-compliance, any remedial measures taken, as provided for under regulation 52(2)(e)(v) and an explanation of the effects of those remedial measures.

(6) The solvency and financial condition report must include in a separate section any other material information regarding the capital management of the insurance or reinsurance undertaking.

Solvency and financial condition report: non-disclosure of information

Permitted non-disclosure.

56F.(1) Where, in accordance with regulation 54(1) and (2), the GFSC permits an insurance or reinsurance undertaking not to disclose certain information, that permission remains valid only for as long as the reason for non-disclosure continues to exist.

(2) The insurance or reinsurance undertaking must notify the GFSC as soon as the reason for any permitted non-disclosure ceases to exist.

Solvency and financial condition report: deadlines, means of disclosure and updates

External audit of relevant elements of the SFCR.

56G.(1) The GFSC may direct an insurance or reinsurance undertaking or a relevant insurance group undertaking to ensure that its external auditor provides a report which includes an opinion about the relevant elements of the solvency and financial condition report (SFCR).

(2) A direction under sub-regulation (1) must be given to the undertaking by notice in writing which includes the GFSC's reasons for giving it.

(3) Subject to sub-regulations (4), (5) and (7), the "relevant elements" of the SFCR are—

(a) the information that an undertaking and a group disclose under regulation 52(2)(e)(v), 52(3), 56D, 56E(1), (2) and (3) to (6), and Articles 7A(1)(d) and Articles 57A(1)(d) and (e) of the Reporting Technical Standards; and

(b) where appropriate, the following templates provided in accordance with the Reporting Technical Standards—

- (i) IR.02.01.02;
- (ii) IR.12.01.02;
- (iii) IR.17.01.02;
- (iv) IR.22.01.21;
- (v) IR.22.01.22;
- (vi) IR.23.01.01;
- (vii) IR.23.01.04;
- (viii) IR.25.04.21;
- (ix) IR.25.04.22;
- (x) IR.28.01.01;
- (xi) IR.28.02.01; and
- (xii) IR.32.01.22.

(4) Where the information in sub-regulation (3)(a) and (3)(b) is, or derives from, the Solvency Capital Requirement, that information is only subject to external audit for undertakings which calculate their Solvency Capital Requirement using the standard formula.

(5) Where the information in sub-regulation (3)(a) and (3)(b) is, or derives from, the group Solvency Capital Requirement that information is only subject to external audit for relevant insurance group undertakings which calculate their group Solvency Capital Requirement using the standard formula.

(6) Subject to sub-regulation (7), an external auditor appointed by an undertaking or relevant insurance group undertaking must–

- (a) undertake a reasonable assurance engagement on relevant elements of the SFCR;
- (b) produce a report that includes an opinion addressed to the administrative, management or supervisory body confirming that the relevant elements of the SFCR are prepared in all material respects in accordance with the applicable law; and
- (c) read and consider all information disclosed by the undertaking in its SFCR that is not a relevant element of the SFCR to identify material inconsistencies with the relevant elements of the SFCR and any knowledge obtained during the course of the audit of the SFCR engagement and (where applicable) audit of the financial statements.

(7) Where the relevant elements of the SFCR in a group SFCR that–

- (a) pertains to an undertaking that is not an insurance and reinsurance undertaking authorised under the Act; and
- (b) information has been prepared other than in accordance with the applicable law,

the external auditor must state in the report under sub-regulation (6) that the information has been properly compiled in accordance with the relevant law relating to that undertaking from information provided by undertakings in the group and the relevant insurance group undertaking.

(8) In this regulation the “applicable law” means these Regulations and the Reporting Technical Standards.”.

(14) In regulation 67(8), after “undertakings” insert “and must be assumed to be equal to 4%”.

(15) For regulation 68C(5), substitute–

“(5) In these regulations “matching adjustment approval” mean approval given by the GFSC under this regulation and in accordance with regulation 276A for an undertaking to apply a matching adjustment for the purposes of calculating the best estimate in relation to a relevant portfolio of insurance or reinsurance obligations.”.

(16) In regulation 69G–

- (a) in sub-regulation (2), for “governing” substitute “administrative, management or supervisory”;

- (b) in sub-regulation (3)(b), for “governing” substitute “administrative, management or supervisory”.

(17) In regulation 70(1), for “prior approval by the GFSC” substitute “GFSC’s prior approval given in accordance with regulation 276A”.

(18) In regulation 81(1)(b), for “ancillary” substitute “subject to regulation 84(1), ancillary”.

(19) In regulation 84–

- (a) in sub-regulation (1), for “without the GFSC’s approval” substitute–

“unless it has received an ancillary own funds approval in respect of that item specifying either–

- (a) a monetary amount for the relevant item of ancillary own funds; or
- (b) the method by which to determine the amount of the relevant item of ancillary own funds, together with the amount determined in accordance with that method for a specified time period.”;

- (b) after sub-regulation (1), insert–

“(1A) In this regulation “ancillary own funds approval” means approval given to an undertaking by the GFSC in accordance with regulation 276A for the purpose of allowing the undertaking to take into account an item of ancillary own funds as part of its own funds.

(1B) Where, in respect of an ancillary own funds item, an insurance or reinsurance undertaking has received an ancillary own funds approval–

- (a) that specifies a monetary amount, in accordance with sub-regulation (1)(a), the undertaking may only include that item in its own funds up to the monetary amount set out in the ancillary own funds approval; or
- (b) that specifies a method by which to determine a monetary amount in accordance with sub-regulation (1)(b), the undertaking may only include that item in its own funds up to the monetary amount that has been determined by the method set out in, and only for the time period specified by, the ancillary own funds approval.”;

- (c) omit sub-regulations (3) and (4).

(20) After regulation 85(2), insert–

“(3) An insurance or reinsurance undertaking must not classify as Tier 1 own funds–

- (a) paid-in ordinary share capital and related share premium account; or

- (b) paid-in initial fund, member's contribution or the equivalent basic own funds for a mutual,

unless the undertaking has the right to cancel and withhold dividends or other distributions in respect of those items at any time prior to payment (and exercises that right) in the circumstances specified in Article 71(1)(l) of the Solvency 2 Technical Standards.

(4) An insurance or reinsurance undertaking must not classify as Tier 2 basic own funds–

- (a) ordinary share capital and related share premium account; or
- (b) initial fund, member's contribution or the equivalent basic own funds for a mutual,

unless the undertaking has the right to defer dividends or other distributions in respect of those items at any time prior to payment (and exercises that right) in the circumstances specified in Article 73(1)(h) of the Solvency 2 Technical Standards.”

(21) In regulation 87–

- (a) in sub-regulation (1), for “criteria set out in regulation 86” substitute “the own funds lists”;
- (b) for sub-regulation (2), substitute–

“(2) An insurance or reinsurance undertaking must not include an own funds item in its Tier 1 own funds, Tier 2 own funds or Tier 3 own funds if that own funds item is not covered by the own funds lists, unless it has received a classification of own funds approval in respect of that item.”;

- (c) for sub-regulation (3), substitute–

“(3) An undertaking which has received a classification of own funds approval, may only classify as Tier 1 own funds basic own fund items that are not included in the own funds list where they are fully paid-in.

(4) In this regulation “classification of own funds approval” means approval given to an undertaking by the GFSC in accordance with regulation 276A for the purpose of allowing the undertaking to include in its Tier 1 own funds, Tier 2 own funds or Tier 3 own funds (as the case may be) an own funds item that is not included in the own funds lists.”.

(22) Omit regulation 88.

(23) In regulation 89, omit sub-regulations (3) and (4).

(24) After regulation 89, insert–

“Notification of issue of own funds items.

89A.(1) This regulation does not apply in respect of the following–

- (a) any item which an insurance or reinsurance undertaking intends to include within its basic own funds that is not included in the own funds lists but in respect of which the undertaking would need to receive a classification of own funds approval in accordance with regulation 87; and
- (b) any item in respect of which the undertaking would need to receive an ancillary own funds approval in accordance with regulation 84.

(2) Subject to sub-regulation (6), an insurance or reinsurance undertaking must notify the GFSC in writing of its intention to issue an item which it intends to include in its basic own funds–

- (a) at least one month before the intended date of issue; or
- (b) where there are exceptional circumstances which make it impracticable to comply with paragraph (a), giving the GFSC–
 - (i) as much notice as is practicable in those circumstances; and
 - (ii) an explanation as to why the circumstances are considered exceptional.

(3) When giving notice, an insurance or reinsurance undertaking must–

- (a) provide details of the amount of basic own funds the undertaking is seeking to raise through the intended issue and whether the item is intended to be issued to external investors or within its group;
- (b) identify the classification of basic own funds the item is intended to fall within;
- (c) provide a copy of the draft terms and conditions;
- (d) provide a draft of a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the item complies with the rules applicable to items of basic own funds included in the classification of the item identified in paragraph (b);
- (e) for any item referred to in Article 82(3) of the Solvency 2 Technical Standards, provide a draft of a properly reasoned independent accounting opinion from an appropriately qualified individual as to the item’s treatment in the undertaking’s financial statements;

- (f) include confirmation from the undertaking's administrative, management or supervisory body that the item complies with the rules applicable to items of basic own funds included in the classification of the item identified in (b); and
- (g) state whether the item is encumbered or whether there are any connected transactions in respect of the item and, if so, provide details.

(4) If after an initial notification under sub-regulation (2), but prior to an item's issuance, an insurance or reinsurance undertaking proposes to change the information previously submitted, it must provide a further written notification of that change without delay.

(5) If an insurance or reinsurance undertaking proposes to establish or amend a debt securities programme for the issue of an item for inclusion within its basic own funds, it must—

- (a) notify the GFSC of the establishment of the programme or of the proposed amendment to the programme; and
- (b) provide the information required by sub-regulation (3),

at least one month before any proposed drawdown. The GFSC must be notified of any changes in accordance with sub-regulation (4).

(6) Sub-regulations (2) and (3) do not apply to—

- (a) ordinary shares which—
 - (i) meet the classification criteria for ordinary share capital in Tier 1 own funds; and
 - (ii) are the same as ordinary shares previously issued by the undertaking;
- (b) debt instruments issued from a debt securities programme, if—
 - (i) the establishment of (and any subsequent amendment to) the programme was notified to the GFSC in accordance with sub-regulation (5) and the last such notification was given to the GFSC no more than twelve months prior to the date of the proposed drawdown;
 - (ii) the programme complies with, and the information previously notified to the GFSC in accordance with sub-regulation (5) in relation to the programme is unaffected by, any changes in law or regulation, or the interpretation or application of either, coming into effect since the last notification in accordance with sub-regulation (5); and

(iii) any instrument issued pursuant to the programme must, under the terms of the programme, constitute basic own funds; and

(c) any item which is to be issued on identical terms to one or more items included in basic own funds issued by the undertaking within the previous twelve months and notified to the GFSC in accordance with sub-regulations (2) and (3), excluding–

(i) the issue date;

(ii) the maturity date;

(iii) the amount of the issuance;

(iv) the currency of the issuance; and

(v) the rate of interest payable by the issuer.

(7) An insurance or reinsurance undertaking must notify the GFSC in writing, no later than the date of issue, of its intention to issue an item listed in sub-regulation (6) which it intends to include within its basic own funds and, when giving notice, an insurance or reinsurance undertaking must–

(a) provide the information set out in sub-regulation (3) other than sub-regulations (3)(c),(d) and (e); and

(b) for issuance of an item pursuant to sub-regulation (6)(a) or (c), confirm that the terms of the item have not changed since the previous issue by the undertaking of that type of item of basic own funds.

(8) An insurance or reinsurance undertaking must notify the GFSC in writing of its intention to amend or otherwise vary the terms of any item included within its basic own funds at least one month before the intended date of such amendment or other variation.

(9) An insurance or reinsurance undertaking must provide to the GFSC as soon as practicable after the issuance of an item of basic own funds to which sub-regulations (2), (3), (5), (6)(a) or (6)(c) applies–

(a) a finalised copy of the draft legal opinion referred to in sub-regulation (3)(d);

(b) a finalised copy of the draft accounting opinion referred to in sub-regulation (3)(e) if applicable;

(c) a copy of the instrument's final terms and conditions; and

- (d) a reasoned basis for the choice of coupon structure and any other provision that might suggest an incentive to redeem.”.

(25) In regulation 93–

- (a) re-number regulation 93 as sub-regulation (1);
- (b) in sub-regulation (1), in the opening words, for “The” substitute “Subject to sub-regulation (2), the”;
- (c) after sub-regulation (1), insert–

“(2) An insurance or reinsurance undertaking with–

- (a) a ring-fenced fund (other than a ring-fenced fund in respect of which the reconciliation reserve has been reduced by the total amount of restricted own funds items in accordance with Article 81(2) of the Solvency 2 Technical Standards); or

- (b) a matching adjustment portfolio,

must make an adjustment to the calculation of its Solvency Capital Requirement following the method set out in Articles 216 and 217 of the Solvency 2 Technical Standards.”.

(26) After regulation 93, insert–

“Look through approach.

93A.(1) An insurance or reinsurance undertaking must calculate its Solvency Capital Requirement on the basis of each of the underlying assets of collective investment undertakings and other investments packaged as funds.

(2) Subject to sub-regulation (6), an undertaking must also apply the look-through approach to the following–

- (a) indirect exposures to market risk other than collective investment undertakings and investments packaged as funds;
- (b) indirect exposures to underwriting risk; and
- (c) indirect exposures to counterparty risk.

(3) Subject to Article 88 of the Solvency 2 Technical Standards, if an undertaking cannot apply the look-through approach to collective investment undertakings or investments packaged as funds, it may calculate its Solvency Capital Requirement on the basis of the target underlying asset allocation or, if the target underlying asset allocation is not available to the undertaking, on the basis of the last reported asset

allocation, of the collective investment undertaking or fund, provided that, in either case—

- (a) the underlying assets are managed in accordance with that target allocation or last reported asset allocation, as applicable; and
- (b) exposures and risks are not expected to vary materially over a short period of time.

(4) For the purposes of the calculation in sub-regulation (3), an undertaking may use data groupings which—

- (a) enable all relevant sub-modules and scenarios of the standard formula to be calculated in a prudent manner; and
- (b) do not apply to more than 20% of the total value of the undertaking's assets.

(5) For the purposes of determining the percentage of assets where data groupings are used as referred to in sub-regulation (4)(b), an undertaking must not take into account underlying assets of the collective investment undertaking, or the investments packaged as funds, backing unit-linked liabilities or index-linked liabilities for which the market risk is borne by the policyholders.

(6) Sub-regulation (2) does not apply to investments in related undertakings, other than investments in respect of which all of the following requirements are met—

- (a) the main purpose of the related undertaking is to hold and manage assets on behalf of the participating undertaking;
- (b) the related undertaking supports the operations of the participating undertaking related to investment activities, following a specific and documented investment mandate; and
- (c) the related undertaking does not carry on any significant business other than investing for the benefit of the participating undertaking.”.

(27) In regulation 94, after sub-regulation (2), insert—

“(2A) For the purposes of sub-regulation (1)(a) to (c), an undertaking must apply—

- (a) the non-life underwriting risk module to non-life insurance and reinsurance obligations other than health insurance obligations and health reinsurance obligations;
- (b) the life underwriting risk module to life insurance and reinsurance obligations other than health insurance obligations and health reinsurance obligations; and

- (c) the health underwriting risk module to health insurance obligations and health reinsurance obligations.”.

(28) After regulation 94, insert–

“Scenario based calculations.

94A.(1) Where the calculation of a module or sub-module of the basic Solvency Capital Requirement is based on the impact of a scenario on the basic own funds of an insurance or reinsurance undertaking, the undertaking must make all of the following assumptions in that calculation–

- (a) the scenario does not change the amount of the risk margin included in technical provisions;
- (b) the scenario does not change the value of deferred tax assets and liabilities;
- (c) the scenario does not change the value of future discretionary benefits included in technical provisions; and
- (d) no management actions are taken by the undertaking during the scenario.

(2) In calculating technical provisions arising as a result of determining the impact of a scenario on its basic own funds as referred to in sub-regulation (1), an undertaking must not change the value of future discretionary benefits, and must take account of all of the following–

- (a) without prejudice to sub-regulation (1)(d), future management actions following the scenario, provided they comply with Article 23 of the Solvency 2 Technical Standards; and
- (b) any material adverse impact of the scenario or the future management actions referred to in paragraph (a) on the likelihood that policyholders will exercise options relating to contracts of insurance.

(3) An undertaking may use simplified methods to calculate the technical provisions arising as a result of determining the impact of a scenario as referred to in sub-regulation (1) if the simplified method does not lead to a misstatement of the Solvency Capital Requirement that could influence the decision making or judgement of the user of the information relating to the Solvency Capital Requirement, unless the simplified calculation produces a Solvency Capital Requirement which exceeds the Solvency Capital Requirement that results from the calculation according to the standard formula.

(4) In calculating the assets and liabilities arising as a result of determining the impact of a scenario as referred to in sub-regulation (1), an undertaking must take account of the impact of the scenario on the value of any relevant risk mitigation instruments held

by the undertaking which comply with Articles 209, 210 and 211 to 215 of the Solvency 2 Technical Standards.

(5) Where the scenario would result in an increase in its basic own funds, an undertaking must base the calculation of the module or sub-module on the assumption that the scenario has no impact on its basic own funds.”.

(29) In regulation 95–

(a) for sub-regulation (2)(c), substitute–

“(c) must be calculated, in accordance with paragraph (2) of Schedule 4, as a combination of the capital requirements for the following sub-modules–

- (i) the non-life premium and reserve risk sub-module covering non-life premium and reserve risk;
- (ii) the non-life catastrophe risk sub-module covering non-life catastrophe risk; and
- (iii) the non-life lapse risk sub-module covering non-life lapse risk.”;

(b) after sub-regulation (6), insert–

“(7) An insurance or reinsurance undertaking must calculate the capital requirement for counterparty default risk in accordance with the following formula–

$$SCR_{def} = \sqrt{SCR_{(def,1)}^2 + 1.5 \cdot SCR_{(def,1)} \cdot SCR_{(def,2)} + SCR_{(def,2)}^2}$$

where–

- (a) $SCR_{(def,1)}$ denotes the capital requirement for counterparty default risk on type 1 exposures as set out in sub-regulation (8); and
- (b) $SCR_{(def,2)}$ denotes the capital requirement for counterparty default risk on type 2 exposures as set out in sub-regulation (9).

(8) An insurance or reinsurance undertaking must treat exposures in relation to the following as type 1 exposures–

- (a) risk-mitigation contracts including reinsurance arrangements, special purpose vehicles and insurance securitisations;

- (b) cash at bank as referred to in the Financial Services (Insurance Companies) (Accounts) Regulations 2021;
 - (c) deposits with ceding undertakings where the number of single name exposures does not exceed 15;
 - (d) commitments received by the undertaking which have been called up but are unpaid, where the number of single name exposures does not exceed 15, including called up but unpaid ordinary share capital and preference shares, called up but unpaid legally binding commitments to subscribe and pay for subordinated liabilities, called up but unpaid initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings, called up but unpaid guarantees, called up but unpaid letters of credit, called up but unpaid claims which mutual or mutual-type associations may have against their members by way of a call for supplementary contributions;
 - (e) legally binding commitments which the undertaking has provided or arranged and which may create payment obligations depending on the credit standing or default of a counterparty including guarantees, letters of credit and letters of comfort; and
 - (f) derivatives other than credit derivatives covered in the spread risk sub-module.
- (9) An insurance or reinsurance undertaking must treat all credit exposures which are not covered in the spread risk sub-module and which are not type 1 exposures as type 2 exposures, including the following—
- (a) receivables from intermediaries;
 - (b) policyholder debtors;
 - (c) mortgage loans which meet the requirements in Article 191(2) to (13) of the Solvency 2 Technical Standards;
 - (d) deposits with ceding undertakings where the number of single name exposures exceeds 15; and
 - (e) commitments received by the undertaking which have been called up but are unpaid as referred to in sub-regulation (8)(d), where the number of single name exposures exceeds 15.
- (10) An insurance or reinsurance undertaking may, at its discretion, consider all exposures referred to in sub-regulation (9)(d) and (e) as type 1 exposures, regardless of the number of single name exposures.

(11) Where a letter of credit, a guarantee or an equivalent risk mitigation technique has been provided to fully secure an exposure and this risk mitigation technique complies with the requirements of Articles 209 to 210 and 211 to 215 of the Solvency 2 Technical Standards, the insurance or reinsurance undertaking may treat the provider of that letter of credit, guarantee or equivalent risk mitigation technique as the counterparty on the secured exposure for the purposes of assessing the number of single name exposures.

(12) An insurance or reinsurance undertaking must not include the following credit risks in the counterparty default risk module–

- (a) the credit risk transferred by a credit derivative;
- (b) the credit risk on debt issuance by special purpose vehicles;
- (c) the underwriting risk of credit and suretyship insurance or reinsurance as referred to in lines of business 9, 21 and 28 of Schedule 1 of the Solvency 2 Technical Standards;
- (d) the credit risk on mortgage loans which do not meet the requirements in Article 191(2) to (9) of the Solvency 2 Technical Standards; and
- (e) the credit risk on assets posted as collateral to a CCP or a clearing member that are bankruptcy remote.

(13) An insurance or reinsurance undertaking must treat investment guarantees on contracts of insurance provided to policy holders by a third party and for which the insurance or reinsurance undertaking would be liable should the third party default as derivatives in the counterparty default risk module.”.

(30) In regulation 98–

- (a) in sub-regulation (3), for “those insurance and reinsurance operations.” substitute “those insurance and reinsurance operations; and must comply with sub-regulation (4).”;
- (b) after sub-regulation (3), insert–

“(4) An insurance or reinsurance undertaking must calculate the capital requirement for the operational risk module in accordance with the following formula–

$$SCR_{Operational} = \min(0.3 \cdot BSCR; Op) + 0.25 \cdot Exp_{ul}$$

where–

- (a) BSCR denotes the Basic Solvency Capital Requirement;

- (b) Op denotes the basic capital requirement for operational risk as referred to in sub-regulation (5); and
- (c) Exp_{ul} denotes the amount of expenses incurred during the previous 12 months in respect of life insurance contracts where the investment risk is borne by policyholders.

(5) An insurance or reinsurance undertaking must calculate the basic capital requirement for operational risk in accordance with the following formula—

$$Op = \max(Op_{premiums}; Op_{provisions})$$

where—

- (a) $Op_{premiums}$ denotes the capital requirement for operational risk based on earned premiums; and
- (b) $Op_{provisions}$ denotes the capital requirement for operational risk based on technical provisions.

(6) An insurance or reinsurance undertaking must calculate the capital requirement for operational risks based on earned premiums as follows—

$$Op_{premiums} = 0.04 \cdot (Earn_{life} - Earn_{life-ul}) + 0.03 \cdot Earn_{non-life} + \max(0; 0.04 \cdot (Earn_{life} - 1.2 \cdot pEarn_{life} - (Earn_{life-ul} - 1.2 \cdot pEarn_{life-ul}))) + \max(0; 0.03(Earn_{non-life} - 1.2 \cdot pEarn_{non-life}))$$

where—

- (a) $Earn_{life}$ denotes the premiums earned during the last 12 months for life insurance and reinsurance obligations, without deducting premiums for reinsurance contracts;
- (b) $Earn_{life-ul}$ denotes the premiums earned during the last 12 months for life insurance and reinsurance obligations where the investment risk is borne by the policyholders without deducting premiums for reinsurance contracts;
- (c) $Earn_{non-life}$ denotes the premiums earned during the last 12 months for non-life insurance and reinsurance obligations, without deducting premiums for reinsurance contracts;
- (d) $pEarn_{life}$ denotes the premiums earned during the 12 months prior to the last 12 months for life insurance and reinsurance obligations, without deducting premiums for reinsurance contracts;

- (e) $p_{\text{Earnlife-ul}}$ denotes the premiums earned during the 12 months prior to the last 12 months for life insurance and reinsurance obligations where the investment risk is borne by the policyholders without deducting premiums for reinsurance contracts; and
- (f) $p_{\text{Earnnon-life}}$ denotes the premium earned during the 12 months prior to the last 12 months for non-life insurance and reinsurance obligations, without deducting premiums for reinsurance contracts.

For the purposes of this sub-regulation, earned premiums must be gross, without deduction of premiums for reinsurance contracts.

(7) An insurance or reinsurance undertaking must calculate the capital requirement for operational risk based on technical provisions in accordance with the following formula—

$$Op_{\text{provisions}} = 0.0045 \cdot \max(0; TP_{\text{life}} - TP_{\text{life-ul}}) + 0.03 \cdot \max(0; TP_{\text{non-life}})$$

where—

- (a) TP_{life} denotes the technical provisions for life insurance and reinsurance obligations;
- (b) $TP_{\text{life-ul}}$ denotes the technical provisions for life insurance obligations where the investment risk is borne by the policy holders; and
- (c) $TP_{\text{non-life}}$ denotes the technical provisions for non-life insurance and reinsurance obligations.

For the purposes of this sub-regulation, technical provisions must not include the risk margin, and must be calculated without deduction of recoverables from reinsurance contracts and special purpose vehicles.”.

(31) In regulation 99—

- (a) for sub-regulation (1), substitute—

“(1) The adjustment for the loss-absorbing capacity of technical provisions and deferred taxes as referred to in regulation 93(c) must—

- (a) reflect potential compensation of unexpected losses through a simultaneous decrease in technical provisions or deferred taxes or a combination of the two;
- (b) take account of the risk mitigating effect provided by future discretionary benefits of contracts of insurance; and

- (c) represent the sum of—
 - (i) the adjustment for the loss-absorbing capacity of technical provisions calculated in accordance with sub-regulations (5) to (7); and
 - (ii) the adjustment for the loss-absorbing capacity of deferred taxes calculated in accordance with sub-regulations (8) to (14) and, if applicable, sub-regulations (15) to (17).”;
- (b) for sub-regulation (2), substitute—

“(2) For the purpose of sub-regulation (1)(b),

 - (a) an insurance or reinsurance undertaking must take account of the risk mitigating effect provided by future discretionary benefits to the extent that it can establish that a reduction in future discretionary benefits may be used to cover unexpected losses when they arise;
 - (b) the risk-mitigating effect provided by future discretionary benefits must be no higher than the sum of technical provisions and deferred taxes relating to those future discretionary benefits; and
 - (c) the value of future discretionary benefits under adverse circumstances must be compared to the value of those benefits under the underlying assumptions of the best-estimate calculation.”;
- (c) omit sub-regulations (3) and (4);
- (d) after sub-regulation (4), insert—

“(5) An insurance or reinsurance undertaking must calculate the adjustment for the loss-absorbing capacity of technical provisions in accordance with the following formula—

$$Adj_{TP} = -\max(\min(BSCR - nBSCR; FDB); 0)$$

where—

- (a) BSCR denotes the Basic Solvency Capital Requirement;
- (b) nBSCR denotes the net Basic Solvency Capital Requirement calculated in accordance with sub-regulation (6); and
- (c) FDB denotes the technical provisions without risk margin in relation to future discretionary benefits.

(6) The net Basic Solvency Capital Requirement is the Basic Solvency Capital Requirement calculated in accordance with all the following modifications–

- (a) where the calculation of a module or sub-module of the Basic Solvency Capital Requirement is based on the impact of a scenario on an insurance or reinsurance undertaking's basic own funds, the undertaking must assume that the scenario can change the value of the future discretionary benefits included in technical provisions;
- (b) the scenario based calculations of the life underwriting risk module, the SLT health underwriting risk sub-module, the health catastrophe risk sub-module, the market risk module and the counterparty default risk module as well as the scenario-based calculation set out in paragraphs (c) and (d) must take into account the impact of the scenario on future discretionary benefits included in technical provisions and this must be done on the basis of assumptions on future management actions that comply with Article 23 of the Solvency 2 Technical Standards;
- (c) instead of the capital requirement for counterparty default risk on type 1 exposures referred to in regulation 95(7), the calculation must be based on the capital requirement that is equal to the loss in the insurance or reinsurance undertaking's basic own funds that would result from an instantaneous loss, due to default events relating to type 1 exposures referred to in regulation 95(8), of the amount of the capital requirement for counterparty default risk on type 1 exposures referred to in regulation 95(7); and
- (d) where an insurance or reinsurance undertaking uses a simplified calculation for a specific capital requirement as set out in Articles 91, 92, 93, 94, 95(1), 95(2), 96, 101, 103(1)(a), 103(1)(b) or 104 of the Solvency 2 Technical Standards, the undertaking must base the calculation on the capital requirement that is equal to the loss in its basic own funds that would result from an instantaneous loss of the amount of the capital requirement referred to in the relevant Article and must assume that the instantaneous loss is due to the risk that the capital requirement referred to in that Article captures.

(7) For the purposes of sub-regulation (6)(b), an insurance or reinsurance undertaking must take into account any legal, regulatory or contractual restrictions in the distribution of future discretionary benefits.

(8) An insurance or reinsurance undertaking must calculate the adjustment for the loss-absorbing capacity of deferred taxes as equal to the change in the value of deferred taxes that would result from an instantaneous loss of an amount that is equal to the sum of the following–

- (a) the Basic Solvency Capital;

- (b) the adjustment for the loss-absorbing capacity of technical provisions referred to in sub-regulations (5) to (7); and
- (c) the capital requirement for operational risk as set out in regulation 98(1) to (7).

(9) For the purposes of sub-regulation (8), deferred taxes must be valued in accordance with Article 15(1) and (2) of the Solvency 2 Technical Standards, without prejudice to sub-regulations (10) and (15) to (17).

(10) Where the loss referred to in sub-regulation (8) would result in the increase in the amount of deferred tax assets, an insurance or reinsurance undertaking must not utilise that increase for the purposes of calculating the adjustment referred to in sub-regulation (8), unless sub-regulations (15) to (17) apply.

(11) An insurance or reinsurance undertaking may assume the implementation of future management actions following the loss referred to in sub-regulation (8), provided that the provisions set out in Article 23 of the Solvency 2 Technical Standards are complied with.

(12) For the purposes of sub-regulation (8), a decrease in deferred tax liabilities or an increase in deferred tax assets must result in a negative adjustment for the loss-absorbing capacity of deferred taxes.

(13) Where the calculation of the adjustment in accordance with sub-regulation (8) results in a positive change of deferred taxes, the adjustment must be nil.

(14) Where it is necessary to allocate the loss referred to in sub-regulation (8) to its causes in order to calculate the adjustment for the loss-absorbing capacity of deferred taxes, an insurance or reinsurance undertaking must—

- (a) allocate the loss to the risks that are captured by the Basic Solvency Capital Requirement and the capital requirement for operational risk;
- (b) make that allocation consistent with the contribution of the modules and sub-modules of the standard formula to the Basic Solvency Capital Requirement; and
- (c) where an insurance or reinsurance undertaking has an internal model approval to use a partial internal model and where the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes is not within the scope of the partial internal model, make that allocation consistent with the contribution of the modules and sub-modules of the standard formula which are outside of the scope of the partial internal model to the Basic Solvency Capital Requirement.

(15) For a transitional period ending on 30th December 2025, where the loss referred to in sub-regulation (8) would result in an increase in the amount of deferred tax assets, an insurance or reinsurance undertaking may utilise that increase for the purposes of calculating the adjustment referred to in regulation 99(8), if all of the following requirements are met—

- (a) it is probable that future taxable profit will be available against which that increase can be utilised;
- (b) the undertaking has determined that the requirement in (a) is met based on an assessment that—
 - (i) takes account of all of the matters referred to in sub-regulation (16); and
 - (ii) uses assumptions that comply with the requirements in sub-regulation (17);
- (c) the undertaking has documentary evidence explaining how the requirements in (a) and (b) are met and can provide that evidence to the GFSC, if the GFSC requests it; and
- (d) the undertaking has given the GFSC advance notice in writing that it proposes to utilise an increase in deferred tax assets in accordance with this sub-regulation.

(16) The relevant matters for the purpose of sub-regulation (15)(b)(i) are—

- (a) any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits;
- (b) the magnitude of the loss referred to in regulation 99(8) and its impact on the current and future financial situation and on insurance product pricing, market profitability, insurance demand, reinsurance coverage and all other relevant macro-economic variables; and
- (c) the increased uncertainty in future profit following the loss referred to in regulation 99(8), as well as the increasing degree of uncertainty relating to future taxable profit following that loss, as the projection horizon becomes longer.

(17) The relevant requirements for the purpose of sub-regulation (15)(b)(i) are—

- (a) an insurance or reinsurance undertaking must not assume new business sales in excess of those projected for the purposes of the business planning;

- (b) an insurance or reinsurance undertaking must not assume new business sales after the end of the business planning horizon and, for this purpose, a business planning horizon must not exceed five years;
- (c) the rates of return on the investments following the loss referred to in regulation 99(8) must be assumed to be equal to the implicit returns of the forward rates derived from the relevant risk-free interest rate term structure obtained after that loss, unless the firm is able to demonstrate that returns in excess of those implicit returns are likely;
- (d) where an insurance or reinsurance undertaking sets a projection horizon for profits from new business that is longer than its business planning horizon, it must—
 - (i) set a finite projection horizon—
 - (ii) apply appropriate haircuts to the profits from new business projected beyond the business planning horizon;
 - (iii) assume that such haircuts increase the further into the future the profits are projected; and
- (e) an insurance or reinsurance undertaking must not apply assumptions that are more favourable than those used for valuation and utilisation of deferred tax assets in accordance with Article 15 of the Solvency 2 Technical Standards.”.

(32) For regulation 101 substitute—

“101.(1) An insurance or reinsurance undertaking may calculate its Solvency Capital Requirement using an internal model that is either a full internal model or a partial internal model only—

- (a) if it has been given an internal model approval in respect of that internal model; and
- (b) to the extent of its internal model approval.

(2) An undertaking that has been given internal model approval must calculate its Solvency Capital Requirement using the internal model for which approval has been given.

(3) In these regulations “internal model approval” mean approval given by the GFSC to an undertaking in accordance with regulation 276A for the purpose of using an internal model to calculate all or part of its Solvency Capital Requirement and making changes to that internal model.”.

(33) After regulation 101, insert–

“Specific provisions for approval of full and partial internal models.

101A.(1) An insurance or reinsurance undertaking applying for an internal model approval must either–

- (a) confirm to the GFSC in writing and submit, as a minimum, documentary evidence that demonstrates that the internal model and, if the context requires, the undertaking satisfies regulation 91(3) to (5) and its internal model requirements; or
- (b) identify any of the requirements in regulation 91(3) to (5) and any internal model requirements that are not satisfied by the internal model or, if the context requires, the undertaking, explain to the GFSC in writing why and in what way they are not satisfied and submit, as a minimum, documentary evidence demonstrating that the internal model or, if the context requires, the undertaking satisfies all other requirements in regulation 91(3) to (5) and internal model requirements.

(2) An undertaking applying for an internal model approval must demonstrate to the GFSC that its systems for identifying, measuring, monitoring, managing and reporting risk are adequate.

(3) When applying for an internal model approval, the undertaking must submit its internal model change policy to the GFSC.

(4) An undertaking with an internal model approval must be able to provide the GFSC, at its request, with an estimate of the Solvency Capital Requirement determined in accordance with the standard formula.”.

(34) For regulation 102 substitute–

“102.(1) Where an internal model approval application relates to the use of a partial internal model, the internal model requirements apply with any changes that are necessary to take account of the limited scope of the internal model.

(2) An insurance or reinsurance undertaking applying for approval to use a partial internal model must–

- (a) explain, and properly justify, the reason for the limited scope of the internal model;
- (b) explain how the resulting Solvency Capital Requirement reflects more appropriately the risk profile of the undertaking and complies with regulations 90 to 92; and

- (c) demonstrate that the design of its partial internal model is consistent with the principles in regulations 90 to 92 so as to allow the capital requirement generated by the partial internal model to be fully integrated into the standard formula Solvency Capital Requirement.”.

(35) After regulation 102, insert–

“Transitional plan to extend the scope of the model.

102A.(1) An insurance or reinsurance undertaking which has applied for an internal model approval in respect of a partial internal model that only covers certain sub-modules of a specific risk module, or some of the business units of the undertaking with respect to a specific risk module, or parts of both, must be able to, upon request by the GFSC, submit a realistic transitional plan to extend the scope of the proposed partial internal model.

(2) The realistic transitional plan referred to in sub-regulation (1) must set out the manner in which the undertaking plans to extend the scope of the proposed partial internal model to other sub-modules or business units of the undertaking, in order to ensure that the internal model covers a predominant part of the undertaking’s insurance business with respect to that specific risk module.

Transitional plan to reduce the scope of the model.

102B.(1) Where an insurance or reinsurance undertaking is failing or likely to fail to satisfy the requirements in regulations 39(1), 102C or 108(3), the undertaking must be able to, upon request by the GFSC, submit a realistic transitional plan to reduce the scope of its internal model, such that the internal model no longer covers–

- (a) the risks contained in one or more major business units; or
- (b) certain sub-modules of a specific risk module, or some of the business units of the firm with respect to a specific risk module, or parts of both,

in respect of which deficiencies arise.

Internal model safeguards.

102C.(1) An insurance or reinsurance undertaking must make all reasonable efforts to remedy the residual model limitation that led to the imposition of an internal model safeguard.

(2) An undertaking must be able to, upon request by the GFSC, submit a progress report to the GFSC setting out the measures taken, and the progress made, pursuant to sub-regulation (1).”.

(36) For regulation 103 substitute–

“103.(1) An insurance or reinsurance undertaking with internal model approval must not change its internal model otherwise than in accordance with the undertaking’s internal model change policy that is covered by the undertaking’s internal model approval.

(2) An undertaking’s internal model change policy must include a specification of minor and major changes to the internal model and, to the extent the undertaking applies model limitation adjustments within the internal model for which it has approval, an explanation of governance arrangements for their application, including where they are specified as minor and major changes and the reasons they are specified as such.

(3) An undertaking with internal model approval must not–

- (a) make any major change to its internal model; or
- (b) make any change to its internal model change policy, other than those allowed by sub-regulation (4),

without obtaining the prior approval of the GFSC to vary the undertaking’s internal model approval.

(4) An undertaking with internal model approval may make changes to its internal model change policy which are administrative in nature, and do not–

- (a) make substantive changes to the process set out in the internal model change policy; or
- (b) affect the outcome or scope of the internal model change policy.

(5) An undertaking that applies to the GFSC for prior approval to vary its internal model approval in order to make any major change to its internal model or to make a change to its internal model change policy must apply in accordance with the procedures set out in regulations 101A to 102A for obtaining internal model approval.

(6) For the purpose of sub-regulation (5), if an undertaking applying to the GFSC has an internal model approval that modifies any of the internal model requirements applicable to that undertaking, it must also submit documentary evidence for the purposes of regulation 101A(1)(a) or (b) by reference to the unmodified internal model requirements, and the undertaking must also–

- (a) confirm, in accordance with 101A(1)(a); or
- (b) explain, in accordance with 101A(1)(b),

by reference to the unmodified internal model requirements.”.

(37) For regulation 104(1) substitute–

“(1) An insurance or reinsurance undertaking’s administrative, management or supervisory body must approve–

(a) any application to the GFSC for internal model approval; and

(b) any application to the GFSC for approval to vary its internal model approval in order to make a major change to its internal model.”.

(38) In regulation 108–

(a) after sub-regulation (1), insert–

“(1A) An internal model must not be considered to be widely used in or to play an important role in the system of governance of an undertaking where the quantifications of risks and the risk ranking produced by the internal model do not trigger timely and appropriate risk management actions, where relevant.”;

(b) after sub-regulation (3), insert–

“(4) An undertaking must ensure that the design of the internal model is aligned with its activities, including by ensuring that–

(a) the internal model is capable of producing outputs that are sufficiently granular to play an important role in the relevant management decisions of the undertaking; and

(b) as a minimum, the outputs of the internal model differentiate between lines of business, between risk categories and between major business units.

(5) An undertaking must ensure that the internal model change policy provides that the internal model is to be adjusted for changes in the scope or nature of the activities of the undertaking.

(6) Subject to sub-regulation (1), where an undertaking decides not to use the internal model for a part of the system of governance, the undertaking must notify the GFSC and justify that decision.

(7) Where the internal model is used for different purposes, an undertaking must ensure consistency between the different outputs of the internal model.

(8) An undertaking must ensure that its administrative, management or supervisory body and any other persons who effectively run the undertaking have a sufficient understanding of the internal model which comprises knowledge about all of the following–

- (a) the structure of the internal model and the way the internal model fits to the business and is integrated in the risk-management system of the undertaking;
- (b) the scope and purposes of the internal model and the risks that are or are not included in the coverage of the internal model;
- (c) the general methodology applied in the internal model calculations;
- (d) the limitations of the internal model;
- (e) the diversification effects taken into account in the internal model; and
- (f) the material expert judgements used to set assumptions underlying the internal model.

(9) An undertaking must ensure that the persons who effectively run the undertaking have a sufficiently detailed understanding of the parts of the internal model used in the area for which they are responsible.

(10) In order to meet the requirements in sub-regulation (2), the undertaking may use a simplified calculation of the Solvency Capital Requirement, in which it carries out only a part of the calculations usually necessary to determine the Solvency Capital Requirement, if and to the extent that the undertaking–

- (a) uses results from the previous calculation of the Solvency Capital Requirement for the remaining part of the calculation;
- (b) is able to demonstrate upon request by the GFSC that the results taken from the previous calculation of the Solvency Capital Requirement would not be materially different from the results of a new calculation; and
- (c) does not use a simplified calculation of the Solvency Capital Requirement for the purposes of meeting regulation 92.”.

(39) In regulation 109–

- (a) in sub-regulation (1)–
 - (i) for “underlying” substitute “generated by”; and
 - (ii) for “sub-regulations (2) to (12)” substitute “sub-regulations (2) to (13)”;
- (b) in sub-regulation (2)–
 - (i) in paragraph (b), after “technical provisions” insert “, except where this would result in the undertaking failing to comply with sub-regulation (7)”;

- (ii) in paragraph (c), after “realistic assumptions” insert “that make adequate allowance for uncertainty”;
- (iii) omit the closing words;
- (c) after sub-regulation (2), insert—

“(2A) The undertaking must be able to justify the assumptions underlying its internal model to the GFSC.”;
- (d) after sub-regulation (3), insert—

“(3A) Data used in the internal model must only be deemed complete for the purposes of sub-regulation (3) where data are available for all relevant internal model parameters and no such relevant data are excluded from use in the internal model without justification.”;
- (e) in sub-regulation (4), after “annually” insert “, and collect, process and apply data in a transparent and structured”;
- (f) after sub-regulation (7), insert—

“(7A) For the purposes of sub-regulation (7), an undertaking must assess, at least on a quarterly basis, whether the internal model covers all material quantifiable risks within its scope. The assessment must take into account an appropriate set of qualitative and quantitative indicators.

(7B) The qualitative indicators referred to in sub-regulation (7A) must include any risks identified in the ORSA that are not included in the coverage of the internal model.”;
- (g) for sub-regulation (8), substitute—

“(8) An undertaking’s internal model must only take into account—

 - (a) as regards diversification effects, dependencies within and across risk categories, if the undertaking’s system for measuring those diversification effects is adequate;
 - (b) the effect of risk-mitigation techniques, if and to the extent that credit risk and other risks arising from the use of risk-mitigation techniques are properly reflected (in accordance with sub-regulation (14) in the internal model; and
 - (c) future management actions, if and to the extent that—
 - (i) they are future management actions that the undertaking would, in a manner consistent with Article 23 of the Solvency 2 Technical

Standards, applied in the context of this Part, reasonably expect to carry out in specific circumstances; and

(ii) the undertaking makes allowance in its internal model for the time and expenses necessary to implement those actions.”;

(h) omit sub-regulation (9);

(i) omit sub-regulation (11);

(j) after sub-regulation (12), insert–

“(13) An undertaking’s system used for measuring diversification effects referred to in sub-regulation (8)(a) must only be considered adequate where it–

(a) identifies the key variables driving dependencies; and

(b) takes into account all of the following–

(i) any non-linear dependence and any lack of diversification under extreme scenarios;

(ii) any restrictions of diversification which arise from the existence of a ring-fenced fund or matching adjustment portfolio; and

(iii) the characteristics of the risk measure used in the internal model.

(14) In order to comply with sub-regulation (8)(b), an undertaking must not include risks arising from any of the following situations–

(a) the contractual arrangements relating to the risk-mitigation technique are, in any relevant jurisdiction, not legally effective and enforceable or do not ensure that the transfer of risk is clearly defined and incontrovertible;

(b) the undertaking does not have a direct claim on the counterparty in the event of the default, insolvency or bankruptcy of the counterparty or other credit event set out in the transaction documentation to the arrangements relating to the risk-mitigation technique; and

(c) the legal arrangements underlying the risk-mitigation technique do not contain an explicit reference to a specific risk exposure clearly defining the extent of the cover provided by the risk-mitigation technique.

(15) Where the risk-mitigation technique referred to in sub-regulation (14)(c) does not cover the risk exposure of the undertaking in all cases, an undertaking must ensure that its internal model takes into account the reduced effectiveness of the risk-mitigation technique resulting from this deviation of risk exposures, in order to comply with sub-regulation (8)(b).

(16) Where a risk-mitigation technique is subject to a condition, the fulfilment of which is outside the direct control of the undertaking and which could undermine the effective transfer of risk, an undertaking must ensure that its internal model takes into account the effect of the condition and any reduced effectiveness of that risk-mitigation technique, in order to comply with sub-regulation (8)(b).

(17) Where an undertaking uses in its internal model parts obtained from a third party, in order for the internal model to be considered adequate the undertaking must be able to demonstrate a sufficient understanding of those parts, including their limitations, such that the undertaking can—

- (a) provide meaningful challenge in order to ensure that those parts operate to achieve the overall purpose for which they were developed; and
- (b) explain how the operation of those parts enables the internal model and, if the context requires, the undertaking to comply with the internal model requirements and regulation 91(2) and (3).

(18) Where an undertaking uses in its internal model data obtained from a third party, in order for those data to be considered to be appropriate, an undertaking must be able to demonstrate a sufficient understanding of those data, including their limitations.”.

(40) Omit regulation 111.

(41) After regulation 111, insert—

“Analysis of change.

111A.(1) An insurance or reinsurance undertaking with internal model approval must annually carry out an analysis comparing the change in—

- (a) the undertaking’s Solvency Capital Requirement as at the undertaking’s most recent financial year end; and
- (b) Subject to sub-regulation (2), the undertaking’s Solvency Capital Requirement as at the undertaking’s previous financial year end.

(2) Where, an undertaking given an internal model approval for the first time which takes effect part way through its financial year, the undertaking must compare its Solvency Capital Requirement as at the end of that financial year with the Solvency Capital Requirement that would have been calculated as at the undertaking’s previous financial year end, if the undertaking’s internal model approval had taken effect at that time.

(3) The analysis referred to in sub-regulation (1) must include reasons, and documentary evidence to support those reasons, explaining any change in Solvency Capital Requirement.

(4) Commencing with the undertaking's first financial year end on or after 31st December 2025, or if the undertaking first receives an internal model approval which takes effect after 31st December 2025, commencing with its first financial year end after the date that internal model approval took effect, the undertaking must submit the analysis, reasons and documentary evidence in sub-regulation (1) to (3) to the GFSC as part of the information reported under regulation 37 and Article 2A of the Reporting Technical Standards.

(5) Sub-regulation (1) applies to an undertaking in respect of each of its financial years ending on or after 31st December 2024 or, if the undertaking first receives an internal model approval which takes effect after 31st December 2024, each of its financial years ending on or after the date that internal model approval took effect.”.

(42) After regulation 112(2), insert–

“(3) In order to be able to demonstrate to the GFSC that the resulting capital requirements are appropriate, the undertaking must–

- (a) compare the coverage of the internal model with the scope of the internal model; and
- (b) ensure that the statistical process for validating the internal model includes stress tests, including a reverse stress test, identifying the most probable stresses that would threaten the viability of the undertaking.

(4) Where an undertaking observes in accordance with sub-regulations (1)(c) and (d) that changes in a key underlying assumption have a significant impact on the Solvency Capital Requirement, it must be able to explain the reasons for this sensitivity and how the sensitivity is taken into account in its decision making process. For the purposes of sub-regulations (1)(c) and (d) the key assumptions must include assumptions on future management actions and assumptions set using expert judgements.

(5) In order to ensure independence of the internal model validation process from the development and operation of the internal model, an undertaking must ensure that the persons or organisational unit must, when carrying out the internal model validation process, be free from influence from those responsible for the development and operation of the internal model.”.

(43) In regulation 113–

- (a) in sub-regulation (2)(a), after “112” insert “and article 239 of the Technical Standards”;
- (b) in sub-regulation (2)(c) omit “and”;
- (c) in sub-regulation (2)(d) for “.” substitute “; and”; and

(d) after sub-regulation (2)(d), insert–

“(e) in the case of a partial internal model, in addition to the requirements in paragraphs (a) to (d)–

- (i) include the justification for the limited scope of the internal model;
- (ii) include a description of the integration technique used to fully integrate the capital requirement generated by the partial internal model into the standard formula Solvency Capital Requirement; and
- (iii) demonstrate compliance with regulation 102(2)(b) and (c).”.

(44) In regulation 114–

(a) re-number regulation 114 as sub regulation (1); and

(b) after that sub regulation, insert–

“(2) An insurance or reinsurance undertaking must monitor any potential limitations arising from the use of external models or external data in the internal model to ensure the ongoing fulfilment of regulations 91, 102(2) and 102A, the internal model requirements, and in respect of a partial internal model.”.

(45) In regulation 116–

(a) for sub-regulation (1)(d), substitute–

“(d)subject to sub-regulation (1A), it must have an absolute floor of–

- (i) £2,400,000 for a non-life insurance undertaking, including a captive insurer, except in the case where all or some of the risks included in one of Classes 10 to 15 are covered, in which case it must be £3,500,000;
- (ii) £3,500,000 for a life insurance undertaking, including a captive insurer; or
- (iii) £3,500,000 for a reinsurance undertaking, other than a captive reinsurer, in which case the absolute floor must be £1,200,000.”;

(b) after sub-regulation (1), insert–

“(1A) For insurance undertakings that have obtained the authorisations referred to in regulation 63(2)(a) and (b) the absolute floor of the Minimum Capital Requirement must be–

- (a) the sum of the amounts set out in sub-regulation (1)(d)(i) and (ii); or

- (b) where the undertaking's non-life business is limited to Class 1 or 2 and the gross written premiums for either non-life or life insurance business do not exceed 10% of total gross written premiums of the undertaking as a whole, the amount set out in sub-regulation (1)(d)(ii).".

(46) In regulation 190(2), for "Solvency 2 Regulation" substitute "Solvency 2 Technical Standards".

(47) After regulation 197, insert–

"Exclusion of special purpose vehicles.

197A.(1) A special purpose vehicle to which a participating undertaking or one of its subsidiaries has transferred risk must be excluded from the calculation of group solvency if the special purpose vehicle is–

- (a) regulated by the GFSC and complies with the requirements in Articles 318 to 327 of the Solvency 2 Technical Standards and Articles 13 to 18 of Commission Implementing Regulation (EU) 2015/462; or
- (b) regulated by a UK or third country supervisory authority and complies with requirements equivalent to those Articles.

(2) For the purposes of this regulation, Articles 318 to 327 of the Solvency 2 Technical Standards and Articles 13 to 18 of Commission Implementing Regulation (EU) 2015/462 are to apply at the level of the group.".

(48) After regulation 198, insert–

"Group solvency: notice of issue of own funds items by group member.

198A.(1) This regulation applies to an insurance or reinsurance undertaking if another member of its group which is not subject to regulation 89A (a "relevant group entity") intends to issue an item for inclusion within the basic own funds forming the own funds eligible for the group Solvency Capital Requirement of the undertaking's group (the "eligible group own funds").

(2) This regulation does not apply in respect of any item which an insurance or reinsurance undertaking intends to include–

- (a) within the basic own funds forming the eligible group own funds that is not an own funds item set out in the own funds lists, but which may be included in the basic own funds forming the eligible group own funds only if the undertaking has received a classification of own funds approval in accordance with regulation 87; and
- (b) within the ancillary own funds forming the eligible group own funds.

(3) Subject to sub-regulation (7), an insurance or reinsurance undertaking must notify the GFSC in writing of the intention of the “relevant group entity” to issue an item which it intends to include within the basic own funds forming the eligible group own funds, as soon as it becomes aware of the relevant group entity’s intention.

(4) When giving notice, an undertaking must–

- (a) provide details of the amount of basic own funds to be raised through the intended issue and whether the item is intended to be issued to external investors or within its group;
- (b) identify the classification of basic own funds the item is intended to fall within;
- (c) provide a copy of the draft terms and conditions;
- (d) describe the proposed item’s contribution to own funds eligible for the group Solvency Capital Requirement;
- (e) describe the group’s membership and structure, including the relationship between the insurance or reinsurance undertaking and the relevant group entity;
- (f) provide a draft of a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the item complies with the rules applicable to items of basic own funds included in the classification of the item identified in paragraph (b);
- (g) for any item referred to in Article 82(3)(a) of the Solvency 2 Technical Standards , provide a draft of a properly reasoned independent accounting opinion from an appropriately qualified individual as to the item’s treatment in the financial statements of the relevant group entity and of the group;
- (h) include confirmation from the undertaking’s administrative, management or supervisory body that the item complies with the rules applicable to items of basic own funds included in the classification of the item identified in paragraph (b); and
- (i) state whether the item is encumbered or whether there are any connected transactions in respect of the item and, if so, provide details.

(5) If, after giving notice under sub-regulations (3) and (4) but before an item is issued, the undertaking proposes to change the information previously submitted, it must provide the GFSC with written notice of that change without delay.

(6) If an insurance or reinsurance undertaking proposes to establish or amend a debt securities programme for the issue of an item which it intends to include within the basic own funds forming the eligible group own funds, as soon as the undertaking becomes aware of the proposed establishment or proposed amendment it must–

(a) notify the GFSC of the proposed establishment of the programme or the proposed amendment to it; and

(b) provide the information required by sub-regulations (3) and (4),

and the GFSC must be notified in accordance with sub-regulation (5) of any changes to the proposed establishment of, or proposed amendment to, the programme.

(7) Sub-regulations (3) and (4) do not apply to–

(a) ordinary shares issued by a relevant group entity which–

(i) meet the classification criteria for ordinary share capital in Tier 1 own funds; and

(ii) are the same as ordinary shares previously issued by that entity;

(b) debt instruments issued from a debt securities programme established by a relevant group entity, if–

(i) the establishment of, and any subsequent amendment to, the programme was notified to the GFSC in accordance with sub-regulation (6) and the last such notification was given to the GFSC no more than twelve months prior to the date of the proposed drawdown;

(ii) the programme complies with, and the information previously notified to the GFSC in accordance with sub-regulation (6) in relation to the programme is unaffected by, any changes in law or regulation, or the interpretation or application of either, coming into effect since the last notification in accordance with sub-regulation (6); and

(iii) any instrument issued pursuant to the programme must, under the terms of the programme, constitute basic own funds; and

(c) any item which is to be issued on identical terms to one or more items included in the basic own funds forming the eligible group own funds issued by the relevant group entity within the previous twelve months and notified to the GFSC in accordance with sub-regulation (4), excluding–

(i) the issue date;

(ii) the maturity date;

- (iii) the amount of the issuance;
- (iv) the currency of the issuance; and
- (v) the rate of interest payable by the issuer.

(8) An insurance or reinsurance undertaking must notify the GFSC in writing, no later than the date of issue, of the intention of a relevant group entity to issue an item listed in sub-regulation (7) which it is intended to include within the basic own funds forming the eligible group own funds and, when giving notice, the undertaking must—

- (a) provide the information set out in sub-regulation (4) other than sub-regulations (4)(c), (4)(f) and (4)(g); and
- (b) for the issue of an item to which sub-regulation (7)(a) or (c) applies, confirm that the terms of the item have not changed since the previous issue of that type of item of basic own funds by the relevant group entity.

(9) An insurance or reinsurance undertaking must notify the GFSC in writing of the intention of a relevant group entity to amend or otherwise vary the terms of any item of own funds eligible for the group Solvency Capital Requirement as soon as it becomes aware of the relevant group entity's intention to do so.

(10) An insurance or reinsurance undertaking must, as soon as practicable after it becomes aware of the issue by a relevant group entity of an item of basic own funds to which sub-regulations (3), (4), (6), (7)(b) or (7)(c) applies, provide to the GFSC—

- (a) a finalised copy of the draft legal opinion referred to in sub-regulation (4)(f);
- (b) a finalised copy of the draft accounting opinion referred to in sub-regulation (4)(g) if applicable;
- (c) a copy of the instrument's final terms and conditions; and
- (d) a reasoned basis for the choice of coupon structure and any other provision that might suggest an incentive to redeem.”.

(49) After regulation 199(5), insert—

“(6) Notice of a direction under sub-regulation (4) or the variation or revocation of a direction under sub-regulation (5) must be given to the group in writing which includes the GFSC's reasons for giving it.”.

(50) After regulation 199, insert—

“Combination of methods 1 and 2: minimum consolidated group Solvency Capital Requirement.

199A. Where the GFSC decides to apply a combination of methods 1 and 2 to a group, in accordance with regulation 199, the consolidated group Solvency Capital Requirement calculated for the part of the group which is covered by method 1 must have a minimum determined in accordance with the requirements in regulation 209(4) to (7).”.

(51) For regulation 200(5), substitute—

“(5) The proportional share which must be taken into account in each of the following cases is as specified in this sub-regulation—

- (a) where there are no capital ties between any of the undertakings in the group, an undertaking in the group must be treated as if it is a participating undertaking that holds a proportional share of 100% of each other undertaking in the group;
- (b) where a participating undertaking has a participation in another undertaking because it effectively exercises a significant influence over that undertaking, the proportional share that must be taken account must be 100%; or
- (c) where a participating undertaking is a parent undertaking of another undertaking because it effectively exercises a dominant influence over that undertaking, the proportional share that must be taken into account for the must be 100%.”.

(52) For regulation 205(4), substitute—

“(4) Any eligible own funds of an intermediate insurance holding company or intermediate mixed financial holding company which, if they were held by an insurance or reinsurance undertaking, would require ancillary own funds approval in accordance with regulation 84, must only be included in the calculation of the group solvency if and to the extent that doing so has been approved by the GFSC in accordance with regulation 276A.”.

(53) After regulation 207, insert—

“Treatment of specific related undertakings.

207A. Unless the book value of the relevant related undertaking has been deducted from the own funds eligible for the group solvency under regulation 208, the calculation of the group solvency must include the following—

- (a) the capital requirements for related undertakings which are credit institutions, investment firms or financial institutions, and the own fund items of those undertakings, calculated in accordance with, as applicable, the Financial Services (Credit Institutions and Capital Requirements)

Regulations 2020 or the Financial Services (Investment Firms) (Prudential Requirements) Regulations 2021;

- (b) the capital requirements for related undertakings which are institutions for occupational retirement provision, and the own funds items of those undertakings, calculated in accordance with the Financial Services (Occupational Pensions Institutions) Regulations 2020;
- (c) the capital requirements for related undertakings which are UCITS management companies, and the own funds of those undertakings, calculated in accordance with the Financial Services (UCITS) Regulations 2020;
- (d) the capital requirements for related undertakings which are alternative investment fund managers, and the own funds of those undertakings, calculated in accordance with the Financial Services (Alternative Investment Fund Managers) Regulations 2020; and
- (e) the notional capital requirements and the own fund items of related undertakings which are non-regulated undertakings carrying out financial activities, where the notional capital requirement is the capital requirement with which the related undertaking would have to comply under the relevant sector rules if the undertaking were a regulated entity.”.

(54) After regulation 210, insert–

“Use test for group internal models.

210A.(1) Where, in accordance with regulation 209, an internal model is used to calculate the consolidated group Solvency Capital Requirement, the requirements in regulation 108 must be complied with by–

- (a) the participating undertaking which calculates the consolidated group Solvency Capital Requirement on the basis of the group internal model;
- (b) each related insurance and reinsurance undertaking whose business is fully or partly in the scope of the group internal model, only in relation to the output of the internal model at group level; and
- (c) each related insurance holding company or mixed financial holding company whose business is fully or partly in the scope of the group internal model, only in relation to the output of the internal model at group level.

(2) Where, in addition to sub-regulation (1), a group internal model is used in accordance with regulation 210, the requirements in regulation 108 must be complied with by–

- (a) each participating undertaking in relation to the output of the internal model at the level of that undertaking; and
- (b) each related insurance and reinsurance undertaking which calculates its solvency capital requirement on the basis of the group internal model, at the level of that undertaking.

(3) For the purposes of sub-regulations (1) and (2), an insurance or reinsurance undertaking, insurance holding company or mixed financial holding company must only comply with the requirements in regulation 108(8) and (9) in relation to the parts of the group internal model which cover the risks of that undertaking and the risks of its related undertakings.”.

(55) After regulation 211(2), insert—

“(3) The relevant insurance group undertakings must make all reasonable efforts to remedy the residual model limitation that led to the imposition of a capital add-on arising as a result of an internal model residual deviation at the level of the group.

(4) At the request of the GFSC as group supervisor, a relevant insurance group undertaking must be able to submit a progress report to the GFSC setting out the measures taken, and the progress made, to remedy the deficiencies that led to the imposition of a capital add-on arising as a result of an internal model residual deviation, an internal model significant risk profile deviation or a significant system of governance deviation at the level of the group.”.

(56) After regulation 212, insert—

“Method 2: Elimination of intra-group creation of capital in relation to the best estimate.

212A.(1) The aggregated group eligible own funds must be adjusted to eliminate the impact of an intra-group transaction which affects the best estimates of the insurance and reinsurance undertakings in such way that the amount set out in sub-regulation (2) differs depending on whether the intra-group transaction is eliminated in the calculation of that amount or not.

(2) The amount referred to in sub-regulation (2) is the sum of the following—

- (a) the best estimate of the participating insurance or reinsurance undertaking calculated in accordance with regulations 65 to 80 of the Insurance Companies Regulations;
- (b) the best estimate of the participating insurance or reinsurance undertaking calculated in accordance with regulations 65 to 80; and
- (c) the proportional share referred to in regulation 200(2)(b) of the best estimate, calculated in accordance with regulations 65 to 80 for each related

insurance and reinsurance undertaking and related third-country insurance and reinsurance undertaking.”.

(57) After regulation 213(2), insert–

“(3) Where the parent undertaking has issued subordinated debt or has other eligible own funds subject to the limits set out in regulation 89, regulation 205(3) and (4) must apply.”.

(58) In regulation 237(5)(c), for “Solvency 2 Regulation (as modified by regulation 238(6))” substitute “Solvency 2 Technical Standards”.

(59) In regulation 238–

- (a) in sub-regulation (1), in the opening words, for “Solvency 2 Regulation” substitute “Solvency 2 Technical Standards”;
- (b) in sub-regulation (3)(a)(i), for “Solvency 2 Regulation” substitute “Solvency 2 Technical Standards”;
- (c) omit sub-regulation (6).

(60) After regulation 239(7), insert–

“(8) Notice of a direction under sub-regulation (5)(b) or any conditions imposed on, or the variation or revocation of, such a direction under sub-regulation (6) must be given to the group in writing which includes the GFSC’s reasons for giving it.”.

(61) In regulation 276A–

(a) for sub-regulation (1) substitute–

“(1) This regulation applies to a decision by the GFSC–

- (a) under regulation 68C–
 - (i) to give matching adjustment approval under sub-regulation (3) or to give such approval subject to conditions;
 - (ii) to refuse matching adjustment approval under sub-regulation (3); or
 - (iii) to vary or revoke matching adjustment approval under sub-regulation (4).
- (b) under regulation 70 to–

- (i) to give approval for the application of a volatility adjustment for the purposes of calculating the best estimate; or
 - (ii) to refuse, vary or revoke such an approval;
- (c) under regulation 84–
 - (i) to give ancillary own funds approval; or
 - (ii) to refuse, vary or revoke such an approval;
- (d) under regulation 87–
 - (i) to give classification of own funds approval; or
 - (ii) to refuse, vary or revoke such an approval;
- (e) under regulation 101–
 - (i) to give approval for the use of an internal model for the calculation of all or part of an undertaking’s Solvency Capital Requirement or to make changes to that internal model; or
 - (ii) to refuse, vary or revoke such an approval;
- (f) under regulation 205(4)–
 - (i) to give approval for an intermediate insurance holding company’s or intermediate mixed financial holding company’s eligible own funds to be included in the calculation of group solvency or to give such approval subject to conditions; or
 - (ii) to refuse, vary or revoke such an approval;
- (g) under paragraph 2(1) of Schedule 1–
 - (i) to give approval for the application of a transitional adjustment to the relevant risk-free interest rate term structure with respect to admissible insurance and reinsurance obligations; or
 - (ii) to refuse, vary or revoke such an approval;
- (h) under Article 218 of the Solvency 2 Technical Standards–
 - (i) to give approval for the application of an undertaking specific parameter (“USP approval”); or
 - (ii) to refuse, vary or revoke such an approval;

(i) under Article 338 of the Solvency 2 Technical Standards—

(i) to give approval for the application of a group specific parameter (“GSP approval”); or

(ii) to refuse, vary or revoke such an approval.”.

(b) in sub-regulation (3)(a), for “given” substitute “refused”.

(62) In Schedule 1, in paragraph 2(1), for “Insurance and reinsurance undertaking may, subject to prior approval by their supervisory authority” substitute “An insurance and reinsurance undertaking may, with the GFSC’s prior approval given in accordance with regulation 276A”.

(63) In Schedule 4—

(a) after paragraph 1(3), insert—

“(4) The Basic Solvency Capital Requirement must include a risk module for intangible asset risk and must be equal to the following—

$$BasicSCR = \sqrt{\sum_{i,j} Corr_{i,j} \cdot SCR_i \cdot SCR_j} + SCR_{intangibles}$$

where—

(a) the summation, $Corr_{i,j}$, SCR_i and SCR_j are specified as set out in subparagraph (1); and

(b) $SCR_{intangibles}$ denotes the capital requirement for intangible asset risk in of the Solvency 2 Technical Standards.”;

(b) for paragraph 2, substitute—

“2.(1) The non-life underwriting risk module set out in regulation 95(2) must be calculated in accordance with the following formula—

$$SCR_{non-life} = \sqrt{\sum_{i,j} CorrNL_{(i,j)} \cdot SCR_i \cdot SCR_j}$$

where—

(a) the sum covers all possible combinations (i, j) of the sub-modules;

(b) $CorrNL_{(i,j)}$ denotes the correlation coefficient for non-life underwriting risk for sub-modules i and j ; and

(c) SCR_i and SCR_j denote the capital requirements for risk sub-modules i and j , respectively.

(2) The correlation coefficient $CorrNL(i,j)$ in sub-paragraph (1) denotes the item set out in row i and column j of the following correlation matrix–

$j \ i$	Non-life premium and reserve	Non-life catastrophe	Non-life lapse
Non-life premium and reserve	1	0.25	0
Non-life catastrophe	0.25	1	0
Non-life lapse	0	0	1

(c) for paragraph 3(1), substitute–

“3.(1) The life underwriting risk module must be aggregated in accordance with the following formula–

$$SCR_{life} = \sqrt{\sum_{i,j} Corr_{i,j} \times SCR_i \times SCR_j}$$

where–

(a) SCR_i denotes the sub-module i ;

(b) SCR_j denotes the sub-module j ;

(c) ‘ i,j ’ means that the sum of the different terms should cover all possible combinations of i and j ; and

(d) ‘ $Corr_{i,j}$ ’ denotes the correlation coefficient for life underwriting risk for sub-modules i and j .”;

(c) after paragraph 3(2), insert–

“(3) The correlation coefficient $Corr_{i,j}$ in sub-paragraph (1) must be equal to the item set out in row i and column j of the following correlation matrix–

<i>j i</i>	Mortality	Longevity	Disability	Life expense	Revision	Lapse	Life catastrophe
Mortality	1	-0.25	0.25	0.25	0	0	0.25
Longevity	-0.25	1	0	0.25	0.25	0.25	0
Disability	0.25	0	1	0.5	0	0	0.25
Life expense	0.25	0.25	0.5	1	0.5	0.5	0.25
Revision	0	0.25	0	0.5	1	0	0
Lapse	0	0.25	0	0.5	0	1	0.25
Life catastrophe	0.25	0	0.25	0.25	0	0.25	1

(d) for paragraph 4, substitute—

“4.(1) The market risk module, set out in regulation 95(5) must be calculated in accordance with the following formula—

$$SCR_{market} = \sqrt{\sum_{i,j} Corr(i,j) \cdot SCR_i \cdot SCR_j}$$

Where—

- (a) the sum covers all possible combinations i, j of sub-modules;
 - (b) Corr(i,j) denotes the correlation coefficient for market risk for sub-modules i and j; and
 - (c) SCR_i and SCR_j denote the capital requirements for risk sub-modules i and j, respectively.
- (2) The correlation coefficient Corr(i,j) in sub-paragraph (1) must be equal to the item set out in row i and column j of the following correlation matrix—

<i>j i</i>	Interest rate	Equity	Property	Spread	Concentration	Currency
Interest rate	1	A	A	A	0	0.25
Equity	A	1	0.75	0.75	0	0.25
Property	A	0.75	1	0.5	0	0.25

Spread	A	0.75	0.5	1	0	0.25
Concentration	0	0	0	0	1	0
Currency	0.25	0.25	0.25	0.25	0	1

- (3) The coefficient A in the table must be equal to 0 where the capital requirement for interest-rate risk set out in Article 165 of the Solvency 2 Technical Standards is the capital requirement referred to in paragraph (1)(a) of that Article. In all other cases, the coefficient A must be equal to 0.5.”.

Dated: 30th January 2025.

N FEETHAM KC,
Minister with responsibility for Financial Services.

EXPLANATORY MEMORANDUM

These Regulations make amendments to the Financial Services (Insurance Companies) Regulations 2020 which arise from the revocation of Commission Delegated Regulation (EU) 2015/35 as it formed part of the law of Gibraltar and the introduction of domestic Solvency 2 Technical Standards in place of that Regulation.

