Solvency II

August 2016

The PRA Solvency II remuneration requirements

On 12 August, the PRA published Policy and Supervisory Statements on the remuneration requirements of Solvency II. The Policy Statement provides feedback on the responses to the consultation process, while the Supervisory Statement sets out the final PRA guidance to all PRA regulated insurance firms (including the Society of Lloyd's and managing agents) on how to comply with the remuneration aspects of the Solvency II Regulation.

The full text of the Policy and Supervisory Statements can be found here and here.

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In a nutshell

What is it?

Policy Statement 22/16 ("Policy Statement") responds to the feedback on the Consultation Paper 13/16 entitled Solvency II: Remuneration requirements ("Consultation Paper") which included the draft Supervisory Statement.

Supervisory Statement 10/16 contains the final guidance for firms in complying with the Solvency II remuneration regulations and includes the PRA's Solvency II Remuneration Policy Statement ("RPS") reporting template.

Who has published it?

The Prudential Regulation Authority (the "PRA").

When was it published?

12 August 2016.

Who is this relevant to?

All firms in scope of Solvency II (including the Society of Lloyd's and managing agents).

Where can I find it?

A link to the Policy and Supervisory Statements can be found here and here.

What is the timing?

The Solvency II Regulation has already been in force from 1 January 2016. Therefore, the PRA is expecting immediate application, particularly for PRA Category 1 and 2 firms (i.e. variable remuneration awards made in the respect of 2016 performance year should be compliant with the Supervisory Statement).

What should I do next?

PRA Category 1 and 2 firms ("significant insurers")

Firms should continue to finalise their remuneration policy and RPS for the 2016 performance year, taking into account any relevant changes in the final guidance. The deadline for RPS submission is 10 months after the end of the firm's financial year (i.e. 31 October 2016 for firms with a year end of 31 December 2015).

Consider whether a discussion with your PRA supervisory contact is appropriate prior to submitting the RPS. This is necessary if you are concerned that you are unable to meet the PRA's expectations as set out in the Supervisory Statement.

PRA Categories 3, 4 and 5 firms

Review your remuneration policy against the requirements of the Solvency II Regulation, ensuring that it reflects the nature, scale and complexity of the risk inherent to your business.

Who can I contact?

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Executive summary

As anticipated, there have been limited changes of substance to the final text of the draft Supervisory Statement on which the PRA started consulting in April.

The Supervisory Statement provides additional guidance to all PRA Solvency II firms (including the Society of Lloyd's and managing agents) on how to comply with the remuneration aspects of Solvency II.

The changes introduced to the final Supervisory Statement are mainly to provide further clarity and address the feedback received during the consultation period. The further changes/clarity introduced broadly cover the following key points:

1. Annual bonus and Long Term Incentive Plan ("LTIP") can be used in aggregate to address the 40% variable remuneration requirement.
2. For the purpose of determining the 40% variable remuneration deferral requirement, the LTIP should be valued at the grant date at the maximum potential value that could be paid out if 100% of the performance condition(s) are met. No further guidance has been provided for the valuation approach that firms should take when assessing individual proportionality, but we would assume that the same valuation approach to LTIP would apply when calculating this.
3. Variable remuneration payable should vest (over the three year deferral period) no faster than on a pro rata basis from year one.
4. Non-EEA entities of a PRA Solvency II group are expected to comply with the Solvency II Regulation. The PRA will accept modifications to the remuneration policy of non-EEA entities to accommodate conflicting regulatory, legal or taxation requirements in overseas jurisdictions.
5. Confirmation is given that the remuneration requirements apply for the 2016 performance year, but an extension of the deadline for RPS submissions from 9 months to 10 months from the previous financial year end is provided. The deadline is therefore 31 October for firms with a 31 December year end.
6. Firms have the option to engage with their PRA supervisory contact (as opposed to having to consult) prior to finalising their approach for identifying Solvency II staff.

In terms of implementation timelines, the PRA expects immediate application, particularly for significant insurers. This reflects the fact that Solvency II has already been already in force from 1 January 2016.

The PRA makes it clear that the policy contained in the Supervisory Statement has been drafted in the context of the current UK and EU regulatory framework. The PRA will keep the Supervisory Statement under review to reflect changes to the UK regulatory framework, including changes arising from the Brexit.

Further details on the Supervisory Statement are set out over the next few pages, together with our thoughts on their impact, potential challenges to implementation and outstanding areas of uncertainty.

Background

The Solvency II Regulation - (EU) 2015/35 - was published in the Official Journal of the European Union on 17 January 2015. The rules cover the whole range of Solvency II issues and Article 275 sets out remuneration principles for insurance and reinsurance firms. Some of the Solvency II remuneration principles are similar to those found in the fourth iteration of the Capital Requirements Directive ("CRDIV"). However, Article 275 is less prescriptive and does not contain restrictions such as the 'bonus cap' or a requirement for a proportion of deferral of variable remuneration to be paid in shares. In addition to the remuneration and governance principles set out under Article 275, the Regulation sets out remuneration disclosure requirements that must be disclosed in the Solvency and Financial Condition Report (SFCR) and the Report of Supervisors (RSR).

The Solvency II Regulation, which has the force of law in Member States, came into force along with the Directive itself on 1 January 2016.

Following the publication of Article 275, the EIOPA published a set of Guidelines on systems of governance on 14 September 2015. The EIOPA Guidelines included the requirement for an insurance group to have a group wide remuneration policy and clarified that it is not compulsory for firms to establish a remuneration committee.

The PRA's Supervisory Statement focusses on a number of issues which were not addressed in the EIOPA Guidelines, relating especially to the identification of Solvency II staff and how a number of 'specific arrangements' noted in Article 275 of the Regulation should be applied. It also sets out how the PRA intends to apply proportionality, which is allowed for in Article 275, in the context of Solvency II.

Overview of key requirements

Topics	Overview
Proportionality	Allows for the application of proportionality at both a firm-wide and individual level. Specific requirements of the Supervisory Statement, notably the requirement to defer 40% of variable remuneration, will only apply to Solvency II staff in PRA Category 1 and 2 firms. Although other firms should exercise 'appropriate judgement' to ensure their specific arrangements are applied proportionately and in line with the size and nature of their business. The application of proportionality at an individual level allows all firms, including those in Categories 1 and 2, to disapply the deferral rules if an individual has total remuneration of no more than £500,000 and variable remuneration awarded of no more than 33% of their total remuneration. ***See Section 1***
Solvency II staff	The Supervisory Statement sets out the proposed employee categories that are expected to be identified as "Solvency II staff" to whom structural remuneration requirements under Article 275(2) of Solvency II apply (e.g. deferral). ***See Section 2***
Deferral of variable remuneration	Solvency II staff should have at least 40% of variable remuneration deferred over a 3 year period (unless proportionality at the individual level may be applied) with vesting no faster than on a pro rata basis from year one. The PRA indicates that it is "very unlikely" that deferral of less than 40% will be accepted. ***See Section 3***
Application of malus	The Supervisory Statement requires the application of malus (i.e. reduction or cancellation of unvested awards to take into account specific management failures). The application of clawback (i.e. reduction or cancellation of awards that have been made or vested) is not required. ***See Section 4***
Performance measurement	Recommendations that firms should adopt a balanced scorecard approach, consider the use of risk adjusted metrics and only use profit or value based measures such as

Topics	Overview
	Total Shareholder Return ("TSR") and Return on Equity ("ROE") where they form part of a balanced risk adjusted scorecard. ***See Section 5***
Group wide remuneration policy and its application	The PRA expects a consistent remuneration policy to be applied that is in line with the group's risk management strategies. Solvency II staff need to be identified in non-Solvency II firms if they can have a material impact on the risk profile of the group or other Solvency II entities in the group. Under specific circumstances the PRA accepts variations to the group remuneration policy. This is particularly relevant for non-EEA entities of UK Solvency II groups. ***See Section 6***
Interaction with group remuneration policy with CRD, AIFMD and/or UCITS remuneration requirements	Where an insurance group includes a banking and/or asset management entity different remuneration requirements may need to be applied to comply with the Capital Requirements Directive (CRD), Alternative Investment Fund Managers Directive (AIFMD) and Undertakings for Collective Investment in Transferable Securities Directive (UCITS). In such a scenario there will still need to be a high degree of consistency in applying the group wide policy to enable control at group level. ***See Section 6***
Governance	No specific additional guidance is provided in the Supervisory Statement on governance, although the RPS does ask for details on this area and the PRA states that they would expect the UK Remuneration Committee or equivalent body to review and approve the RPS prior to submission. ***See Section 7***
Disclosure to the PRA	All Category 1 and 2 firms are required to submit a completed RPS (or their own template covering the same areas) no later than 10 months after the end of the preceding financial year (i.e. the end of October for December year ends). The first RPS returns will be required for the 2016 performance year. ***See Section 7***
Proportion of fixed to variable remuneration	No further detail is provided beyond Article 275 of Solvency II Regulation. Fixed and variable remuneration components need to be appropriately balanced, with the fixed portion representing a sufficiently high proportion of total remuneration, allowing the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration.
Remuneration of control functions	No further detail is provided beyond Article 275 of Solvency II Regulation. Variable remuneration of Solvency II staff engaged in the risk management, compliance, internal audit and actuarial function should be independent from the operational units under their control.
Termination payment	No further detail is provided beyond Article 275 of the Solvency II Regulation. Termination payments should be fair and proportionate relative to prior performance.
Personal hedging	No further detail is provided beyond Article 275 of the Solvency II Regulation. Arrangements should be in place to ensure that Solvency II staff undertake not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Scope of the Supervisory Statement

The Supervisory Statement applies to all UK insurance and reinsurance firms and groups within the scope of Solvency II, including the Society of Lloyd's and managing agents ("Solvency II firms"). This is defined as including firms with gross premium income above €5 million and gross technical provisions greater than €25 million. These are not the only criteria that determine whether a firm is in or out of scope of Solvency II, and firms should therefore review Chapter 2 of the Insurance General Application section of the PRA Rulebook, and/or discuss directly with the PRA, where in doubt.

The Supervisory Statement also clarifies that the impact of the Supervisory Statement on mutuals is expected to be no different from that on other firms.

Timing of implementation

The PRA has confirmed (in the Policy Statement) that the Supervisory Statement comes into effect for the 2016 performance year. This expectation of immediate application reflects the fact that the Solvency II Regulation has been in force since 1 January 2016. This means that Category 1 and 2 UK insurance firms with performance years ending 31 December 2015 will need to prepare and submit their RPS by the end of October 2016. Whilst other PRA Category firms do not have to submit an RPS, they should still identify their Solvency II staff and consider an appropriate application of the structural remuneration requirements of the Supervisory Statement.

Brexit considerations

The specific application of EU remuneration regulations to the UK will depend to a large extent on the terms of any negotiation/agreement upon exit. However, as emphasised by the PRA, firms should work on the basis that the EU regulations (including the Solvency II Regulation) will continue to apply until exit.

Key requirements

1. Proportionality

Article 275 (3) of the Solvency II Regulation contains a proportionality provision – firms may design their remuneration policy "... In such a way as to take into account ... the nature, scale and complexity of the risks inherent in its business'. The PRA's Supervisory Statement clarifies how firms may apply this, stating that the specific expectations set out in the Supervisory Statement will only apply to significant insurers.

Firm wide proportionality criteria

The Statement refers to the document entitled "The 'PRA's approach to insurance supervision" published in March 2016. This divides insurance firms into five categories, defined as follows:

- *Category 1: Insurers whose size (including number of policyholders) and type of business mean that there is very significant capacity to cause disruption to the interests of a substantial number of policyholders.*
- *Category 2: Insurers whose size (including number of policyholders) and type of business mean that there is significant capacity to cause disruption to the interests of a substantial number of policyholders.*
- *Category 3: Insurers whose size (including number of policyholders) and type of business mean that there is minor capacity to cause disruption to the interests of a substantial number of policyholders.*
- *Category 4: Insurers whose size (including number of policyholders) and type of business mean that there is very little capacity to cause disruption to the interests of a substantial number of policyholders.*
- *Category 5: Insurers whose size (including number of policyholders) and type of business mean that there is almost no capacity to cause disruption to the interests of a substantial number of policyholders.*

The PRA firm categories are based on both a qualitative and a quantitative impact assessment, as opposed to the solely quantitative approach used to determine proportionality levels for firms within the scope of CRDIV. There is therefore no published list of firms in each Category: firms are informed by the PRA of the Category into which they have been placed, and notified of any changes.

The PRA states that only firms in Categories 1 and 2 need to meet, or to exceed, the expectations set out in the Supervisory Statement. A requirement for smaller insurers to do so would have a disproportionate cost impact on these firms.

In our view, therefore, firms in Categories 3, 4 and 5 are permitted to disapply the deferral requirements, subject to having demonstrably exercised 'appropriate judgement' to ensure that the specific arrangements for Solvency II staff set out in Article 275(2) of the Solvency II Regulation (which include deferral) are applied proportionally and modified where required to meet the size and nature of the business. This would put the application of proportionality for Category 3, 4 and 5 firms broadly in line with the current arrangements for banks and investment firms in Level 3 under CRDIV.

The specific arrangements in Article 275(2) include not only deferral, but also the requirements on: the balance between fixed and variable remuneration, performance measurement criteria, termination payments, personal hedging and the remuneration of control functions.

The requirement for firms in Categories 3, 4 and 5 to consider the relevance of these arrangements for their staff suggests strongly that these firms must identify their Solvency II staff, in order to consider whether and if so to what extent the specific arrangements in Article 275 (2) should be applied to them. Again, this would put their treatment in line with banks and investment firms in proportionality Level 3 under CRDIV.

Individual proportionality criteria

To ensure consistent thresholds across sectors the PRA states that the existing banking and asset management 'de minimis' threshold can be used in Solvency II. This allows all firms, including those in Categories 1 and 2, to disapply the deferral rules if an individual has total remuneration of no more than £500,000 and variable remuneration awarded of no more than 33% of their total remuneration. We would expect that, for the purpose of calculating individual proportionality, LTIP be valued at maximum potential value if 100% of the performance conditions are met. The Supervisory Statement clarifies that the individual proportionality criteria can be applied on a prorated basis for part year Solvency II staff.

The PRA recognises that anecdotal evidence suggests that levels of variable remuneration in the insurance sector are often lower than in the banking sector. This makes the individual proportionality threshold potentially a more valuable concession in the insurance sector, but the PRA makes reference to its objective not to distort competition for staff resources between the different sectors within financial services.

PwC Comment

Given that the PRA firm Categories are not publically available, it is yet to be seen how many Category 1 and 2 firms are captured by the requirement of the Supervisory Statement. Despite having to comply with the requirement to defer at least 40% of variable remuneration over a period of at least three years, these firms will welcome the ability to apply the individual proportionality threshold to staff that meet that criteria. The application of proportionality for firms in Categories 3, 4 and 5 has not been very clearly expressed. However, it is our belief that they will still need to go through the process of identifying Solvency II staff and to apply the performance measurement requirements.

Firms in Categories 3, 4 and 5 will still be expected to consider whether the 'specific arrangements' in Article 275 (2) can be disapplied. The Supervisory Statement offers smaller firms the opportunity to conclude that deferral may be disproportionate on the grounds of cost or risk profile. However, there may be a greater expectation that other specific arrangements set out Article 275(2), such the balance between fixed and variable remuneration, and performance measurement practices, should be applied.

It should be noted that the question of proportionality under CRDIV is under review. It seems likely that proportionality will be retained in some form, but a stricter approach cannot be ruled out. Given this direction of travel it is important for PRA Category 3, 4 and 5 firms to consider carefully the identification process for Solvency II staff. In addition, Category 1 and 2 firms should be cautious not to over-rely on the application of individual proportionality to neutralise the 40% deferral requirement.

2. Solvency II staff

Article 275(2) of the Solvency II Regulation requires Solvency II firms to apply specific arrangements to "the administrative, management or supervisory body, persons who effectively run the undertaking or have other key functions and other categories of staff whose professional activities have a material impact on the undertaking's risk profile". As noted above, although not explicitly stated, it seems clear that the reference to "Solvency II firms" means that all PRA firms are required to identify Solvency II staff regardless of the Category into which they fall. This interpretation is consistent with the PRA's approach in the asset management and banking sectors.

The PRA recognises, from the review that it undertook recently of the remuneration policies and practices of the significant PRA regulated insurance firms, that there is a concern among firms about the lack of clarity around the identification of those staff (risk takers). It has attempted to address this by setting out the employees that it expects to be identified as Solvency II staff, as set out below.

- Board members (both Executive and non-Executive Directors).
- Executive Committee members.
- Senior Insurance Manager Function (SIMF) holders with PRA supervisory pre-approval and Significant Influence Functions (SIF) holders with Financial Conduct Authority (FCA) supervisory pre-approval.
- Key Function (KF) Holders (risk management, compliance, actuarial and internal audit) reported to the PRA. The PRA clarifies that KF holders should not be limited to heads of function at group level – individuals at regulated entity level should also be considered, and also across other business lines given the wholly different businesses of many subsidiaries. KF holders in functions such as investment, IT and claims management should also be considered.
- Material risk takers (MRTs) based on arrangements and processes that firms put in place. The Supervisory Statement provides additional guidance on how firms should identify MRTs (see PwC commentary for further detail).

Individuals not employed by the Solvency II entity within the group but who perform activities which have a material impact on the risk profile of a Solvency II entity within the group, or for the group as a whole, should also be included in the Solvency II staff list.

The introductory section of the Consultation Paper noted the possibility of subsequent changes or additions to the Solvency II staff criteria, for example by including the MRT category as a "certified function" role. This is not repeated in the Policy Statement.

The Supervisory Statement also makes it clear that the identification of Solvency II employees should be completed at both a solo and consolidated basis. This is also consistent with the approach the PRA have taken for identifying SIMF and the approach set out in the European Banking Authority Guidelines on sound remuneration policies ("EBA Guidelines").

Firms are invited to consult with their PRA supervisor to finalise their approach to identifying the MRT category. A record of the assessment process and of the final list should be made for each performance year. The list will form part of the RPS that should be submitted by Category 1 and 2 PRA firms. The UK Remuneration Committee or equivalent governance body is expected to review and approve the RPS prior to submission.

PwC Comment

Many firms will welcome the significant additional clarity that the Supervisory Statement provides on a number of technical issues associated with identification of Solvency II staff. In our view, it can be interpreted that all PRA Category firms are required to identify Solvency II staff. However Category 3, 4 and 5 firms, being smaller and with lower risk profiles, may find this a less extensive process than firms in Categories 1 and 2.

A likely area of challenge (particularly for Category 1 and 2 PRA firms) is around developing consistent materiality thresholds across the identification process (particularly the identification of MRTs), such as the setting of quantitative risk thresholds to identify underwriters with significant underwriting limits in relation to the firm's overall risk tolerance, and investment managers able to commit to significant credit risk exposures and market risk transactions above a certain material threshold. We note that the PRA does not welcome reliance on committee membership solely as a criteria for identifying MRTs. For example, the PRA would not expect only the chair and/or members of an underwriting committee to be MRT(s); individual underwriters may also need to be captured.

Another area of challenge is for insurance groups with CRD, AIFMD and/or UCITS entities where each Directive also requires the identification of material risk takers. Robust policies should be in place to set out the remuneration implications on individuals who are caught under more than one Directive, particularly CRDIV under which a cap on variable remuneration applies to material risk takers.

3. Deferral of variable remuneration

The Supervisory Statement requires that at least 40% of variable remuneration should be deferred over the 3 year period originally stated under Article 275(2). The PRA indicates that it is "very unlikely" to accept deferral of less than 40%. The final guidance also confirms that vesting should be no faster than on a pro-rata basis. Unlike the banking and asset management sectors, and in keeping with the requirements of Article 275, deferral into instruments is not required.

The deferral requirements apply specifically to Category 1 and 2 PRA firms. As noted above, Category 3, 4 and 5 firms are expected to consider whether it is appropriate for them to disapply the deferral requirement for their Solvency II staff.

The final Supervisory Statement clarifies that Long Term Incentive Plans (LTIPs) can be included in variable remuneration and therefore be used to meet all or part of the deferral requirement. For this purpose the LTIP should be valued at date of grant as the maximum potential pay-out value. This will usually be higher than fair value and likely to result in a more generous valuation for the purposes of meeting the deferral requirement. Note however that the LTIP needs to meet the requirements of deferral, in particular the inclusion of the ability for the application of downwards adjustments, or "malus".

PwC Comment

The Supervisory Statement does not require firms in PRA Categories 3, 4 and 5 to apply the deferral requirements, but it is clear that firms need to consider formally whether or not to do so. If a firm decides to disapply the requirement, it is recommended that the decision and the reasons for it should be documented and available for the regulator if requested.

Firms impacted by the deferral requirements will welcome the additional flexibility allowing the 40% deferral requirement to be met through an LTIP. This is consistent with the approach taken in the banking sector. Of course, using the LTIP to meet the deferral requirements will place a stronger emphasis on the need to risk adjust the LTIP awards.

Another positive for insurance firms is the PRA's decision not to impose the requirement that applies to significant CRD firms that directors and individuals with variable remuneration of £500,000 or more should apply deferral at 60%.

4. Application of malus

The Supervisory Statement explains that the deferral of variable remuneration (i.e. annual bonus and LTIP) should allow firms to apply downwards adjustment, namely the application of malus to unvested deferred awards to capture risk management failures.

PwC Comment

By specifying that malus should be applied to deferred variable remuneration, the Supervisory Statement has brought the requirements closer to the position already in place for UK listed insurance firms introduced by the UK Corporate Governance Code.

The PRA and FCA attach a great deal of importance to malus, and have published guidance on the conditions (trigger events) under which malus should be applied by banks and investment firms. It seems likely that the PRA will adopt a similar approach to the application of malus in the insurance sector. It is also worth noting that, unlike the banking sector, the application of clawback (i.e. reduction or cancellation of awards that have been made or vested) is not required.

Any Category 1 and 2 firms that do not currently apply malus should review their remuneration policies and processes to ensure that documentation and appropriate employee communications are in place to underpin the application of malus provisions to LTIP and/or deferred bonus awards for relevant staff. Experience from the banking sector suggests that merely updating policy documents to reflect malus provisions is not by itself always sufficient to support the application of malus in practice.

We expect that Category 3, 4 and 5 firms already applying deferral to their variable pay arrangements will not be required to operate malus provisions; they may however wish to consider this from a good governance perspective.

5. Performance measurement

The Supervisory Statement provides additional guidance on the approach that firms should adopt in order to align with the requirements of the Solvency II Regulation. Although the Supervisory Statement is clear that the recommendations are not designed to be prescriptive, there is significant overlap with the requirements of banking regulation, including recommendations that firms should in their variable remuneration arrangements; adopt a balanced scorecard approach, consider the use of risk adjusted metrics, and only use profit or value based measures such as TSR and ROE where they form part of a balanced, risk adjusted scorecard.

PwC Comment

It is not clear whether the guidance on performance measurement applies to firms in Categories 3, 4 and 5. On balance, we conclude that it probably does apply. In the banking sector, Level 3 firms are not permitted to disapply rules on performance and risk adjustment, and it is likely that the regulator will consider this as a statement of good practice which should apply to all firms. However it is also likely that the regulator will allow smaller firms with lower risk profiles than those of the larger firms to adopt simpler and less onerous approaches to the use of risk adjustment techniques.

6. Group wide remuneration policy and its application

The Supervisory Statement reiterates the requirements of Article 275 and the EIOPA Guidelines requiring the application of a consistent group wide remuneration policy that is in line with the group's risk management strategies. However, the approach taken in the draft Supervisory Statement, which stated that there should be 'no significant deviation' across group entities, has been softened. The final Supervisory Statement recognises that the same remuneration policy does not need to be applied to every group entity, and deviations may be necessary where there is a conflict with local regulatory or tax rules.

The Supervisory Statement also notes that different remuneration arrangements may need to be applied within a group to comply with the remuneration requirements of other Directives (CRDIV, AIFMD and UCITSV). This would be the case where the group includes entities which are subject to these Directives, for example asset management and/or banking entities. In such a scenario there will still need to be consistency in applying the group wide policy to enable control at group level.

PwC Comment

Establishing a group wide policy will assist an insurance group to enhance risk alignment and maintain control. However, the application of a group wide policy in a number of circumstances may create unintended commercial and competitiveness consequences. For example applying the deferral requirements to Solvency II firms outside the EEA may create additional challenge in attracting and retaining key talent in the organisation in markets where competitors do not operate under similar obligations.

Firms should also ensure, particularly where compliance with the remuneration requirements of other Directives is required (for example the variable remuneration cap under CRDIV), that the more onerous of the various remuneration requirements are complied with. Firms, particularly insurance groups, will need to review their existing approach to applying remuneration policies taking into account the above considerations.

7. Governance and disclosure to the PRA

No specific additional guidance is provided in the Supervisory Statement on governance, although the RPS does ask for details on this area. The PRA also states that the UK Remuneration Committee or equivalent body should review and approve the RPS prior to submission.

The Supervisory Statement requires that all PRA Category 1 and 2 firms submit a completed RPS (or that they use their own template covering the same areas) no later than 10 months after the end of the preceding financial year (i.e. the end of October 2016 for December 2015 year ends). This is a month later than proposed in the draft Supervisory Statement, due to the later than expected publication of the final version. The first RPS returns will be required for the 2016 performance year. It is not known whether RPS submissions will be required on an annual basis. The PRA however states that it will consider its approach for future performance years.

Unlike the banking sector, PRA Category 3, 4 and 5 firms are not required to prepare or submit an RPS, but as noted they are still required to review their remuneration policies to ensure that they are compliant with the Solvency II Regulation. Although not required, we consider it best practice for smaller insurance firms to complete an RPS and to have this approved by their remuneration committees.

Start a conversation

If you would like to discuss the implications for your organisation, please contact your usual PwC adviser or:

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