

GREFFE
ROYAL COURT

15 DEC 2020

GUERNSEY

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**THE INSURANCE BUSINESS (SOLVENCY)
(AMENDMENT) RULES, 2020
No. 136**

Made: 14th December 2020

Coming into Operation: 15th December 2020

The Guernsey Financial Services Commission (the “Commission”), in exercise of the powers conferred on it by sections 38A and 38B of *The Insurance Business (Bailiwick of Guernsey) Law, 2002*¹ (the “Law”) hereby makes the following Rules.

Citation and Commencement

1. These Rules may be cited as the Insurance Business (Solvency) (Amendment) Rules, 2020 and amend the Insurance Business (Solvency) Rules, 2015² (“the Rules”).
2. These Rules shall come into force on 15th December 2020.

¹ No. XXI of 2002 (Ordres en Conseil Vol. XLII(2), p. 766) as amended.

² No.31 of 2015.

Amendments

3. The Rules are amended in accordance with Annex A.

Dated this 14th day of December, 2020



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C. A. SCHRAUWERS

Chairman of the Guernsey Financial Services Commission

For and on behalf of the Commission

Annex A

Amendments to The Insurance Business (Solvency) Rules, 2015

1. Delete the word “paragraph” and substitute with the word “rule” in every instance in which it occurs in these Rules.
2. Delete the word “subparagraph” and substitute with the word “rule” in every instance in which it occurs in these Rules.
3. In this section underlining indicates new text, to be added to the Rules, and striking through indicates text to be deleted:

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20. The regulatory capital resources must be determined as set out in ~~sections~~ rules 21 to 34. Alternative definitions, which may be specified by other regulatory regimes, are not permitted.

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Part 4 – PCR

48. The PCR of an insurer equals –

(a) an amount determined either –

(i) by applying the ‘Guernsey standard formula’; or

- (ii) by applying a 'recognised standard formula'; or
- (iii) by using an internal model developed by the company to reflect the circumstances of the business; or
- (iv) by using a partial internal model which is a combination of the approaches specified in (i) and (iii) or (ii) and (iii) above; ~~plus~~
or
- (v) by using any one of (i) to (iv) above and modifying it to take account of the Green Discount set out in rule 209, provided the insurer meets all of the requirements set out in Part 9 of these Rules; plus

(b) any regulatory adjustment specified in writing by the Commission.

49. The PCR is the capital required to ensure that the licensed insurer should be able to meet its obligations over the next 12 months with a probability as defined by the ~~confidence levels specified in subparagraphs (a) to (e).~~ following specified confidence levels –

- (a) Category 1 – Commercial Life Insurers – the PCR is determined at a 99.5% confidence level.

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51. A licensed insurer may use a recognised standard formula applied in full to calculate its PCR in place of the Guernsey standard formula without the prior written approval of the Commission. A list of recognised standard formula is provided at Schedule 4. If the recognised standard formula is not applied in full, except where a licensed insurer applies the Green Discount set out in rule 209, then it will be deemed a partial internal model.

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Part 8 – Risk Management and Own Risk Solvency Assessment

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207. Further reference should be made to the Commission’s published guidance on the ORSA.

Part 9 – Green Assets

208. Green Assets are defined as resources controlled by an insurer, as a result of past events, from which future benefits are expected to flow to the insurer and which meet one of the green criteria set out in Schedule 12.

209. A Category 1 or Category 2 insurer that makes investments into Green Assets may apply the following adjustment, or “Green Discount”, when calculating their PCR using the Guernsey standard formula, a recognised standard formula, or a full or partial internal model –

- (a) for investments in Green Assets that are exposed to spread risk: the stresses and factors applied to determine the capital requirement for spread risk for Green Assets may be those of one credit rating band, or equivalent, higher than the rating assigned them by an Acceptable Rating Agency. No such adjustments may be applied to liabilities. The stresses and factors are set out in either –

(i) Schedule 10;

(ii) the relevant text of a recognised standard formula; or

(iii) the documentation of a partial or full internal model.

210. Insurers that apply rule 209 must monitor their PCR both inclusive and exclusive of the Green Discount.
211. The maximum benefit an insurer may derive from the Green Discount will be limited to a 15% reduction in its PCR. This will be measured by comparing the PCR inclusive of the Green Discount with the PCR exclusive of the Green Discount.
212. Where the regulatory capital resources of the insurer, under rule 22, fall below the higher of –
- (a) 105% of the insurer’s PCR exclusive of the Green Discount; or
 - (b) an amount specified, in writing, by the Commission.

the insurer must not make further use of the Green Discount. The insurer must consider the measures necessary to improve its solvency position in accordance with Stage 1 of the Guidance Note on Supervisory Ladder of Intervention. Such an event, and any proposed measures, must be notified to the Commission immediately.

213. An insurer applying the Green Discount must –
- (a) determine and document the valuation policy to be applied to Green Assets, which includes any judgements required in applying the recognition, classification, or measurement criteria of the Recognised Accounting Standards applied by the insurer;
 - (b) modify its investment policy, under rule 190, to explicitly set out the nature, role, and extent of investment in Green Assets as part of its portfolio. This should include the green criteria applied, any other positive or negative investment screening criteria used, what controls will be implemented to ensure these are followed, and how any specific risks relating to Green Assets, such as liquidity risk, are managed in the context of the insurer’s overall investment portfolio;
 - (c) ensure that its risk management policy, under rule 195 and rule 197, explicitly incorporates how their risks, in relation to Green Assets and the use of the Green Discount, will be monitored and managed and how any tolerance limits associated with the Green Discount will be operated to; and

(d) where applicable, consider the risks attributable to Green Assets as part of its ORSA, under rules 198 to 207. This must include incorporating the risks around Green Assets into its OSCA;

in a manner proportionate to its nature, scale, and complexity.

214. An insurer applying the Green Discount must disclose that fact in the pre-contractual, or contractual, information provided to policyholders and potential policyholders as appropriate to the nature, scale, and complexity of the insurer and its use of the Green Discount. Disclosures should state what the Green Discount is and the effect that applying it has on the insurer's risk profile and the calculation of its Capital Adequacy.

215. Use of the Green Discount constitutes a material change of business plan, under subsection 11(2) of the Law, and an insurer must notify the Commission prior to its implementation. As part of that notification, the insurer must make available to the Commission the documents listed in rule 213 and rule 214 and must quantify the impact applying the Green Discount would have on their Capital Adequacy.

216. An applicant for an insurance licence that wishes to make use of the Green Discount must state that fact in its application and must demonstrate how it intends to meet all the requirements.

Schedule 1

Recognised Accounting Standards

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Schedule 3

Glossary of Expressions

~~In this Regulation these Rules, unless the context requires otherwise –~~

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“diversification effects” mean the reduction in the risk of exposure of insurance and reinsurance undertakings and groups related to the diversification of their business, resulting from the fact that the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated;

“Green Asset” has the meaning given in rule 208;

“Green Discount” means the adjustments to the PCR set out in rule 209 for an insurer that makes investments in Green Assets;

“interest rate risk” means the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates;

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Schedule 11

Life Business Diversification Adjustment

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Correlation Matrix: Catastrophe Risk

For insurers, reinsurers, and captive (re)insurers, $Corr_{x,y}$ is defined as:

Corr	Life pandemic	Disability/Morbidity pandemic	Mass accident
Life pandemic	1	0	0
Disability/Morbidity	0	1	0
Mass accident	0	0	1

Schedule 12

Green Criteria

For the purposes of Part 9 of these Rules, the following is a list of green criteria, endorsed by the Commission, as standards that can be adopted when considering whether an investment is a Green Asset.

An insurer may only apply Part 9 of the Rules to an asset that would meet the chosen criteria adopted from the table below.

An insurer can only apply one set of criteria for all their investments at any one time and must apply the criteria consistently.

<u>Criteria</u>	<u>Date added</u>	<u>Source</u>
<u>The Common Principles for Climate Mitigation Finance Tracking</u>	<u>10th Dec. 2020</u>	<u>Appendix 1</u>

Appendix 1

List of activities eligible for classification as climate mitigation finance

Category	Sub-category	Example
1. Renewable Energy	1.1 Electricity Generation	<p>Wind power</p> <p>Geothermal power (only if net emission reductions can be demonstrated)</p> <p>Solar power (concentrated solar power, photovoltaic power)</p> <p>Biomass or biogas power that does not decrease biomass and soil carbon pools (only if net emission reductions can be demonstrated)</p> <p>Ocean power (wave, tidal, ocean currents, salt gradient, etc.)</p> <p>Hydropower plants (only if net emission reductions can be demonstrated)</p>
	1.2 Heat Production or other renewable energy application	<p>Solar water heating and other thermal applications of solar power in all sectors</p> <p>Thermal applications of geothermal power in all sectors</p> <p>Wind-drive pumping systems or similar</p> <p>Thermal applications of sustainability/produced bioenergy in all sectors, incl. efficient, improved biomass stoves</p>

	<p>3.5 Greenfield energy efficiency in commercial and residential sectors (buildings)</p> <p>3.6 Energy audits</p>	<p>Use of highly efficient and architectural designs, energy efficiency and equipment, and building techniques that reduce building energy consumption, exceeding available standards and complying with high energy efficiency certification or rating schemes</p> <p>Energy audits to energy end-users, including industries, buildings and transport systems</p>
<p>4. Agriculture, forestry and land-use</p>	<p>4.1 Agriculture</p> <p>4.2 Afforestation and reforestation, and biosphere conservation</p>	<p>Reduction in energy use in traction (e.g. efficient tillage), irrigation and other agriculture processes</p> <p>Agriculture projects that do not deplete and/or improve existing carbon pools (reduction in fertiliser use, rangeland management, collection and use of bagasse, rice husks, or other agricultural waste, low tillage techniques that increase carbon contents of soil, rehabilitation of degraded lands, etc.)</p> <p>Afforestation (plantations) on non-forested land</p> <p>Reforestation on previously forested land</p> <p>Sustainable forest management activities that increase carbon stocks or reduce the impact of forestry activities</p> <p>Biosphere conservation projects (including payments for ecosystem services) targeting reducing</p>

	<p>4.3 Livestock</p> <p>4.4 Biofuels</p>	<p>emissions from the deforestation or degradation of ecosystems</p> <p>Livestock projects that reduce methane or other greenhouse gas emissions (manure management and biodigestors, etc.)</p> <p>Production of biofuels (including biodiesel and bioethanol)</p>
5. Non-energy greenhouse gas reduction	<p>5.1 Fugitive emissions</p> <p>5.2 Carbon capture and storage</p> <p>5.3 Air conditioning and refrigeration</p> <p>5.4 Industrial processes</p>	<p>Reduction of gas flaring or methane fugitive emissions in the oil and gas industry</p> <p>Coal mine methane capture</p> <p>Projects for carbon capture and storage technology that intend to prevent release of large quantities of CO₂ into the atmosphere from fossil fuel use in power generation and process emissions in other industries</p> <p>Retrofit to existing industrial, commercial and residential infrastructure to switch to cooling agent with lower global warming potential</p> <p>Reduction in greenhouse gas emissions resulting from industrial process improvements and cleaner production (e.g. cement, chemical), excluding carbon capture and storage</p>
6. Waste and wastewater		<p>Treatment of wastewater if not a compliance requirement (e.g. performance standard or safeguard) as part of a larger project that reduces methane emissions (only if net</p>

		<p>emission reductions can be demonstrated)</p> <p>Waste management and waste-to-energy projects that reduce methane emissions and generate energy (e.g. incineration of waste, landfill gas capture, and landfill gas combustion)</p> <p>Waste-recycling projects that recover or reuse materials and waste as inputs into new products or as a resource (only if net emission reductions can be demonstrated)</p>
7. Transport	<p>7.1 Urban transport modal change</p> <p>7.2 Transport oriented urban development</p> <p>7.3 Inter-urban transport</p>	<p>Urban mass transit</p> <p>Non-motorised transport (bicycles and pedestrian mobility)</p> <p>Integration of transport and urban development planning (dense development, multiple land-use, walking communities, transit connectivity, etc.) leading to a reduction in the use of passenger cars</p> <p>Transport demand management measures to reduce GHG emissions (e.g. speed limits, high-occupancy vehicles, congestion charging/road pricing, parking management, restriction or auctioning of licence plates, car-free city areas, low emission zones)</p> <p>Railway transport ensuring a modal shift of freight and/or passenger transport from road to rail (improvement of existing lines or construction of new lines)</p>

		Waterways transport ensuring a modal shift of freight and/or passenger transport from road to waterways (improvement of existing infrastructure or construction of new infrastructure)
8. Low-carbon technologies	8.1 Products or equipment	Projects producing components, equipment or infrastructure dedicated for the renewable and energy efficiency sectors
	8.2 R & D	Research and development of renewable energy or energy efficiency technologies
9. Cross-cutting issues	9.1 Support to national, regional or local policy, through technical assistance or policy lending, fully or partially dedicated to climate change policy or action	<p>Mitigation national, sectoral, or territorial policies/planning/action plan policy/planning/institutions</p> <p>Energy sector policies and regulations (energy efficiency standards or certification schemes; energy efficiency procurement schemes; renewable energy policies)</p> <p>Systems for monitoring the emissions of greenhouse gases</p> <p>Efficient pricing of fuels and electricity (subsidy rationalisation efficient end-user tariffs and efficient regulations on electricity generation, transmission or distribution)</p> <p>Education, training, capacity building and awareness raising on climate change mitigation/sustainable energy/sustainable transport; mitigation research</p> <p>Other policy and regulatory activities, including those in non-energy sectors, leading to climate</p>

	<p>9.2 Other activities with net greenhouse gas reduction</p> <p>9.3 Financing instruments</p>	<p>change mitigation or mainstreaming of climate action</p> <p>Any other activity not included in this list for which the results of an ex-ante greenhouse gas accounting (undertaken according to commonly agreed methodologies) show emission reductions</p> <p>Carbon markets and finance (purchase, sale, trading, financing and other technical assistance). Includes all activities related to compliance-grade carbon assets and mechanisms, such as CDM, JI, AAUs as well as well-established voluntary carbon standards like VCS or Gold Standard</p>
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Explanatory Note

These Rules amend the Insurance Business (Solvency) Rules, 2015, to allow Category 1 and 2 insurers to apply a lower capital requirement to the green assets they hold that are sensitive to spread risk, as described more fully in a Consultation Paper issued by the Commission on 6 October 2020.