For financial advisers only

Standard Life
Part of Phoenix Group

Policyholder Protection

Standard Life International

Standard Life has been trusted to look after people's life savings for almost 200 years.

EU legislation – Solvency II

The introduction of Solvency II brought into effect European-wide capital requirements that are more sensitive to the levels of risk being undertaken by a particular company, and provided appropriate incentives for good risk management. Primarily this concerns the amount of capital that EU insurance companies, such as Standard Life International (SL Intl), must hold to reduce the risk of insolvency, in order to provide improved consumer protection.

Under Pillar 1 of Solvency II there are two distinct capital requirements: the Solvency Capital Requirement ('SCR') and the Minimum Capital Requirement ('MCR'). The SCR and MCR both represent capital requirements that must be held in addition to the technical provisions (comprised of policyholder liabilities plus a risk margin).

SCR

There is a prescribed list of risk groups that the SCR has to cover. The ones applicable to SL Intl are Life underwriting risk, Market risk, Counterparty default risk, and Operational risk.

The standard formula SCR is calculated using prescribed stress tests. The capital requirement for each individual risk is determined as the difference between the net asset value (taken as assets less best estimate liabilities) in the unstressed balance sheet and the net asset value in the stressed balance sheet. These individual risk capital amounts are then aggregated using a specified method to allow for diversification between the risks.

The following table details the 1-in-200 year stresses that are applied as part of the Market risk component of the SCR. The concept of a 1-in-200 year event over a one-year time period means that there is a 0.5% probability of a risk event impact being equal to or greater than the stress result.

Risk Drivers	SCR shock (as at March 2023)
Interest Rate risk	Increase/decrease in interest rates
Equity risk	Equity prices fall (22%-59% shock depending on equity type and market conditions)
Property risk	25% fall in property prices
Spread risk	Stress to value based on credit quality
Currency risk	25% movement up/down in exchange rates
Concentration risk	Formula based on total exposure and credit quality

MCR

The MCR is a lower, minimum level of security. It is designed to be the solvency threshold and corresponds to the level of capital, below which the insurance company is exposed to an unacceptable level of risk. Supervisory intervention will follow a breach in MCR.

For life insurance business, the formula is based on technical provisions and capital at risk on death, multiplied by specified factors. These factors vary according to whether the business is with profits, unit-linked or without profits.

SL Intl's position

SCR €329m
More than double the MCR

Available Capital €766m

Capital Ratio to SCR 233%

By holding more excess capital than SCR, the situation where SL Intl would be unable to pay customer obligations is extremely unlikely. Even after a 1-in-200 shock, SL Intl should still be in the situation where there are more assets than liabilities and should be able to meet customer obligations.

The main purpose of holding capital is to provide security to policyholders and other customers. SL Intl considers itself to be strongly capitalised under Solvency II, as it holds significantly more funds than the SCR.

Q1) What happens if an insurer goes below the minimum solvency requirement?

In the event that the SCR is not complied with, or there is a risk that it may not be complied with within three months, the insurer would have to notify its regulatory authority - in the case of SL Intl, the Central Bank of Ireland (CBI). Within two months of any non-compliance with the SCR, an insurer would have to submit a realistic recovery plan to the supervisory authority who would require the insurer to take the necessary measures to achieve, within six months from when it was unable to comply with the SCR, the re-establishment of the level of assets required to cover its SCR or the reduction of its risk profile to ensure compliance with its SCR. In exceptional circumstances, where the supervisory authority is of the opinion that the financial situation of the insurer will deteriorate further, it can also restrict or prohibit the disposal of the insurer's assets.

Q2) If SL Intl were to become insolvent, would clients' funds be protected? E.g. are the funds held in segmented accounts within the Bond?

Whilst SL Intl does not ring-fence the assets in the same way as a fund manager may be required to, it is subject to extensive regulatory obligations in relation to its obligations to policyholders. For example, SL Intl has to ensure that it maintains sufficient assets to cover its "technical provisions". To calculate these technical provisions, SL Intl must establish the best estimate of the amount that it needs to maintain, today, to meet its current and future commitments to policyholders. In doing this, it must apply appropriate actuarial and statistical techniques. It must then add a risk margin to the amount calculated.

Irish law imposes mechanisms to supervise technical provisions. SL Intl must include details of these provisions in its financial returns to the CBI. It must also provide an annual actuarial opinion on technical provisions to the CBI. Amongst other things, the opinion must confirm that the calculation of the technical provisions is reliable and adequate. SL Intl's Head of Actuarial Function must also provide an annual report on SL Intl's technical provisions to its Board.

In addition, SL Intl must appoint an independent actuary to peer review its technical provisions at least every 2 years.

SL Intl must also maintain additional solvency capital over and above the assets representing its technical provisions. This capital is designed to provide a buffer against SL Intl's assets not being sufficient to meet its losses and liabilities. Please refer back the SCR section for more information on this point

The CBI has extensive powers to intervene in any case where an insurer's solvency is in doubt. It may, for example, require SL Intl to take or refrain from taking specified action, limit its business and take other measures to preserve its capital.

CBI regulations also require SL Intl to maintain a pre-emptive recovery plan, reviewed periodically, addressing the measures that it would take to restore its financial position or maintain its viability following a significant deterioration of its financial situation.

In the unlikely event of SL Intl's insolvency, only the CBI can apply for appointment of a liquidator or administrator to wind up or administer its business. If SL Intl were placed into liquidation, a liquidator would take possession of all of SL Intl's assets and distribute them in accordance with the priorities established by law. With limited exceptions, Irish law affords absolute priority, over the assets representing technical provisions, to any amount that has become due under an insurance policy before SL Intl goes into liquidation, even if the exact amount owed is not yet clear.

Important Note

The information provided in these FAQs is intended as a general guide only, based on SL Intl's understanding of current legislation as at 18/04/2024. It is not, and is not a substitute for, legal advice. We recommend that you take Irish legal advice if you have any doubts or concerns as to what may happen if SL Intl becomes insolvent.

FSCS

Q3) Now that the UK has left the EU, what is the current position with SL Intl and FSCS compensation?

The rules made under the Financial Services and Markets Act 2000 (as amended) for the protection of retail clients in the UK do not apply.

It is important to understand that the International Bond is not protected by the UK Financial Services Compensation Scheme (FSCS) if we are unable to meet our liabilities to your clients. There is no access to the FSCS for existing Bond clients, or for those who plan to take out an International Bond in the future.

You should note that there is no equivalent compensation scheme available in Ireland. However, the situation where Standard Life International would be unable to meet policyholder liabilities is extremely unlikely. Irish regulations protect policyholders by imposing strict capital requirements on insurance companies. Under Solvency II, Standard Life International is subject to extensive obligations concerning the level of capital it must hold. Solvency Capital Requirements (SCR) represent the capital requirements that must be held in addition to policyholder liabilities. At the end of 2022, Standard Life International had available capital of €766 million, which is well in excess of its SCR of €329 million (ratio of available capital to SCR of 233%). By holding more excess capital than SCR, the situation where SL Intl would be unable to pay customer obligations is very low.

Standard Life International dac is authorised and regulated by the Central Bank of Ireland. Standard Life International dac is a Category A Insurance Permit holder with the Jersey Financial Services Commission.

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