SECOND SUPPLEMENT TO THE GIBRALTAR GAZETTE

No. 5220 GIBRALTAR Thursday 3rd April 2025

LEGAL NOTICE NO. 74 OF 2025

FINANCIAL SERVICES ACT 2019

FINANCIAL SERVICES (INSURANCE COMPANIES) (AMENDMENT No. 3) REGULATIONS 2025

In exercise of the powers conferred on the Minister by sections 55C, 620, 621, 626A 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. 3) Regulations 2025.

Commencement.

2. These Regulations come into operation on the day of publication.

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

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

(2) After regulation 36(5), insert–

"(6) The requirement to give notice under sub-regulation (1)(a) or (b) does not apply where the insurer has consented in writing to a direction being given under regulation 33, 34(1)(b) or 35(1) but, in that event, the GFSC must give the insurer written notice of the direction and the date from which it has effect.".

(3) In regulation 39(1), in the opening words, omit "exceptional".

(4) In regulation 45(4), for "matters specified" substitute "areas listed".

(5) In regulation 56E(2A), for "firm's" substitute "undertaking's".

(6) In regulation 68(14), for "firm" substitute "insurance or reinsurance undertaking".

(7) In regulation 99(17)(c), for "firm" substitute "insurance or reinsurance undertaking".

(8) In regulation 102B(1)(b), for "firm" substitute "undertaking".

(9) After regulation 103, insert–

"**Integration of partial internal models.**

103A.(1) Unless sub-regulation (2) or (3) applies, an insurance or reinsurance undertaking must use as a default integration technique the correlation matrices and formulae of the standard formula set out in Schedule 4 and Chapter 5 of Part 1 of the Solvency 2 Technical Standards, in order to fully integrate the capital requirement generated by a partial internal model into the standard formula Solvency Capital Requirement.

(2) Unless sub-regulation (3) applies, where it would not be appropriate to use the default integration technique referred to in sub-regulation (1) for any of the reasons referred to in sub-regulation (5), an undertaking must use the most appropriate integration technique of those set out in Schedule 5 and be able to explain and justify its choice.

(3) If the default integration technique referred to in sub-regulation (1) and all integration techniques set out in Schedule 5 are inappropriate for one or more reasons referred to in sub-regulation (5), an undertaking may use an alternative integration technique that is appropriate and must be able to explain and justify its choice.

(4) An undertaking must ensure that the alternative integration technique referred to in sub-regulation (3) that it uses results in a Solvency Capital Requirement that complies with the principles set out in regulations 90 to 92 and 101 to 114 and more appropriately reflects the risk profile of the undertaking.

(5) An integration technique must not be appropriate where any of the following conditions applies–

(a) the resulting Solvency Capital Requirement would not comply with regulation 91;

(b) the resulting Solvency Capital Requirement would not appropriately reflect the risk profile of the undertaking; or

(c) the design of the partial internal model is consistent with the principles set out in regulations 91 and 92 but it would not be possible to use the integration technique to fully integrate the capital requirement generated by the partial internal model into the standard formula Solvency Capital Requirement.".

(10) In regulation 276A(1), after paragraph (g), insert–

"(ga) under Article 71 of the Solvency 2 Technical Standards–

(i) to give approval for an insurance or reinsurance undertaking–

(aa) to take any of the steps in paragraph (12)(a) to (d) in relation to basic own funds; or

(bb) in accordance with paragraph (14), to treat a significant non-compliance with the Solvency Capital Requirement without it being treated as a trigger event for the principal loss absorbency mechanism; or

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

(gb) under Article 73 of the Solvency 2 Technical Standards–

(i) to give approval for an insurance or reinsurance undertaking–

(aa) to take any of the steps in paragraph (6)(a) to (d) in relation to basic own funds; or

(bb) in accordance with paragraph (7), to treat an exchange, conversion, repayment or redemption without it being deemed as a repayment or redemption; or

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

(gc) under Article 77 of the Solvency 2 Technical Standards–

(i) to give approval for an insurance or reinsurance undertaking–

(aa) to take any of the steps in paragraph (6)(a) to (c) in relation to basic own funds; or

(bb) in accordance with paragraph (7), to treat an exchange, conversion, repayment or redemption without it being deemed as a repayment or redemption; or

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

(11) After Schedule 4, insert–

"SCHEDULE 5
INTEGRATION TECHNIQUES FOR PARTIAL INTERNAL MODELS

Regulation 103A

General provisions.

1.(1) For the purposes of this Schedule, the following definitions apply–

"unit of the partial internal model" is a component of the partial internal model that is separately calculated and not aggregated within the partial internal model; and

"basic Solvency Capital Requirement" means the basic Solvency Capital Requirement as supplemented or amended for the purposes of applying the relevant integration techniques in this Schedule.

(2) Where an insurance or reinsurance undertaking applies integration techniques 1 to 5, its Solvency Capital Requirement must be the sum of the following items–

(a) the Basic Solvency Capital Requirements as laid down in paragraphs 2 to 6;

(b) the capital requirement for operational risk as laid down in regulation 98, where that risk is not within the scope of the partial internal model, and generated by the partial internal model, where that risk is within the scope of the partial internal model;

(c) the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes, as laid down in sub-paragraph (3), where that adjustment is not within the scope of the partial internal model, and generated by the partial internal model where that adjustment is within the scope of the partial internal model.

(3) Where the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes is not within the scope of the partial internal model, the undertaking must calculate it as laid down in Articles 205 to 207 of the Solvency 2 Technical Standards, but with the following changes–

(a) the Basic Solvency Capital Requirement referred to in Articles 206(1) and (2) and 207(1) of those Standards is calculated in accordance with paragraphs 2 to 6;

(b) Article 206(2)(a) to (d) of those Standards apply only to calculations with the standard formula;

(c) for the purposes of Article 206(2) of those Standards the capital requirements used in the calculation of the Basic Solvency Capital Requirement that are generated by the partial internal must take into account the risk-mitigating effect provided by future discretionary benefits of insurance contracts;

(d) the capital requirement for operational risk referred to in Article 207(1)(c) of those Standards is calculated in accordance with sub-paragraph (2)(b).

Partial Internal Model Integration technique 1.

2. The Basic Solvency Capital Requirement must be equal to the sum of the capital requirements for the units of the partial internal model, the capital requirement derived by applying the standard formula for the Basic Solvency Capital Requirement only to the risks that are out of the scope of the partial internal model and the capital requirement for intangible asset risk as set out in Article 203 of the Solvency 2 Technical Standards.

Partial Internal Model Integration technique 2.

3.(1) The Basic Solvency Capital Requirement must be equal to the following–

$$\mathrm{BSCR} = \sqrt{\sum_{i,j} \mathrm{Corr}_{(i,j)} \cdot \mathrm{SCR_i} \cdot \mathrm{SCR_j}} + \mathrm{SCR_{int}}$$

where–

(a) the sum covers all possible combinations (*i,j*) of the aggregation list set out in sub-paragraph (2);

(b) $Corr_{(i,j)}$ denotes the correlation parameter, for items *i* and *j* of the aggregation list;

(c) SCR_i and SCR_j denote the capital requirements for the items *i* and *j* of the aggregation list, respectively;

(d) SCR_{int} denotes the capital requirement for intangible asset risk as set out in Article 203 of the Solvency 2 Technical Standards.

(2) The items on the aggregation list must meet the following requirements–

(a) they must cover each of the units of the partial internal model;

(b) they must include each of the following sub-modules of the standard formula excluding those within the scope of the partial internal model–

(i) the sub-modules of the non-life underwriting risk module set out in Article 114(1) of the Solvency 2 Technical Standards;

(ii) the sub-modules of the life underwriting risk module set out in regulation 95(3);

(iii) the sub-modules of the health underwriting risk module set out in Article 151(1) of the Solvency 2 Technical Standards; and

(iv) the sub-modules of the market risk module set out in regulation 95(5);

(c) they must include the counterparty default risk module of the standard formula unless it is within the scope of the partial internal model.

However, where none of the sub-modules of a module of the standard formula are within the scope of the partial internal module, the aggregation list must include that module instead of its sub-modules.

(3) The correlation parameters referred to in sub-paragraph (1)(b) must comply with the following requirements–

(a) for all items *i* and *j* from the aggregation list the correlation parameter $Corr_{(i,j)}$ must not be less than – 1 and must not exceed 1;

(b) for all items *i* and *j* from the aggregation list the correlation parameters $Corr_{(i,j)}$ and $Corr_{(j,i)}$ must be equal;

(c) for all items *i* from the aggregation list the correlation parameter $Corr_{(i,i)}$ must be equal to 1;

(d) for any assignment of real numbers to the items of the aggregation list the following must hold–

$$\sum_{i,j} \mathrm{Corr}_{(i,j)} \cdot x_i \cdot x_j \geq 0$$

where–

(i) the sum covers all possible combinations (*i*,*j*) of the aggregation list; and

(ii) x_i and x_j are the numbers assigned to the items *i* and *j*, respectively, of the aggregation list;

(e) where the items *i* and *j* from the aggregation list are modules of the standard formula, the correlation parameter $Corr_{(i,j)}$ must be equal to the correlation

parameter of the standard formula that is used to aggregate those two modules;

(f) where the items *i* and *j* from the aggregation list are sub-modules of the same module of the standard formula, then the correlation parameter $Corr_{(i,j)}$ must be equal to the correlation parameter of the standard formula that is used to aggregate those two sub-modules;

(g) for all items *i* and *j* from the aggregation list the correlation parameter $Corr_{(i,j)}$ must not be less than $Corr^{min}_{(i,j)}$ and must not exceed $Corr^{max}_{(i,j)}$, where $Corr^{min}_{(i,j)}$ and $Corr^{max}_{(i,j)}$ are appropriate lower and upper bounds selected by the undertaking.

An insurance or reinsurance undertaking must choose the correlation parameters referred to in sub-paragraph (1)(b) in such a way that no other set of correlation parameters that meets the requirements set out in sub-paragraphs (a) to (g) results in a higher Solvency Capital Requirement, calculated in accordance with sub-paragraph (1).

Partial Internal Model Integration technique 3.

4.(1) The Basic Solvency Capital Requirement must be equal to the following–

$$\mathrm{BSCR} = \sqrt{\sum_{i,j} S_S^2 + 2S_S(\omega_1 \cdot P_C + \omega_2 \cdot P_S) + P^2} + \mathrm{SCR}_{\mathrm{int}}$$

where–

(a) S_S denotes the capital requirement derived by applying the standard formula for the Basic Solvency Capital Requirement only to the risks not covered by the partial internal model;

(b) ω_1 denotes the first implied correlation parameter as set out in sub-paragraph (2);

(c) P_c denotes the capital requirement reflecting the risks that are both within the scope of the standard formula and the partial internal model, generated by the partial internal model;

(d) ω_2 denotes the second implied correlation parameter as set out in sub-paragraph (3);

(e) P_s is the capital requirement reflecting the risks within the scope of the partial internal model but not within the scope of the standard formula, generated by the partial internal model;

(f) P denotes the capital requirement reflecting the risks that are within the scope of the partial internal model, generated by the partial internal model.

(g) SCR_{int} denotes the capital requirement for intangible asset risk as set out in Article 203 of the Solvency 2 Technical Standards.

(2) The first implied correlation parameter must be equal to the following–

$$\omega_1 = \frac{S^2 - S_S^2 - S_C^2}{d_1 + 2 \cdot S_S \cdot S_C}$$

where–

(a) S denotes the capital requirement calculated in the same way as the Basic Solvency Capital Requirement by means of the standard formula, but where capital requirements for modules or sub-modules are replaced by capital requirements for those modules or sub-modules that are generated by the partial internal model, where possible;

(b) S_C denotes the capital requirement derived by applying the standard formula for the Basic Solvency Capital Requirement only to the risks that are within the scope of the standard formula and the partial internal model, but where the capital requirements for the modules and sub-modules are replaced by capital requirements for those modules or sub-modules that are generated by the partial internal model;

(c) S_S is defined as in sub-paragraph (1)(a);

(d) d_1 is equal to 1 where S_S or S_C are zero and equal to zero where S_S and S_C are different from zero.

(3) The second implied correlation parameter must be equal to the following–

$$\omega_2 = \omega_1 \cdot \omega_3 + \frac{1}{2} \cdot \sqrt{(1 - \omega_1^2) \cdot (1 - \omega_3^2)}$$

Where ω 1 is as defined in sub-paragraph (2) and ω 3 is the third implied correlation parameter as set out in sub-paragraph (4).

(4) The third implied correlation parameter must be equal to the following–

$$\omega_3 = \frac{P^2 - P_S^2 - P_C^2}{d_2 + 2 \cdot P_S \cdot P_C}$$

where–

(a) P, P_s and P_c are as defined in sub-paragraph (1);

(b) d_2 is equal to 1 where P_s or P_c are zero and equal to zero where P_s and P_c are different from zero.

Partial Internal Model Integration technique 4.

5.(1) The Basic Solvency Capital Requirement must be equal to the following–

$$BSCR = \sqrt{P^2 + S_S^2 + \sum_{j=k+1}^{n} 2 \cdot S_j \cdot (\sum_{i=1}^{l} Corr_{(i,j)} \cdot P_i + \sum_{i=l+1}^{k} Corr_{(i,j)} \cdot S_i)} + SCR_{int}$$

where–

(a) P denotes the capital requirement reflecting the risks that are within the scope of the partial internal model, generated by the partial internal model;

(b) S_S denotes the capital requirement derived by applying the standard formula for the Basic Solvency Capital Requirement only to the risks not covered by the partial internal model;

(c) k denotes the number of modules of the standard formula that are within the scope of the partial internal model;

(d) n denotes the number of modules of the standard formula;

(e) l denotes the number of modules of the standard formula for each of which the capital requirement can be generated by the partial internal model;

(f) $Corr_{(i,j)}$ denotes the correlation parameter of the standard formula for the aggregation of modules i and j;

(g) P_i denotes the capital requirement for the module i of the standard formula, generated by the partial internal model;

(h) S_i and S_j denote the capital requirement for modules i and j of the standard formula, respectively, which are calculated in the following way–

(i) the module is generated by the standard formula provided that the module does not consists of sub-modules; and

(ii) the module is calculated in accordance with sub-paragraph (2) provided that the module consist of sub-modules.

(i) SCR_{int} denotes the capital requirement for intangible asset risk as set out in Article 203 of the Solvency 2 Technical Standards.

(2) For all modules of the standard formula referred to in sub-paragraph (1)(h)(ii), the capital requirement of a particular module must be generated by the formula set out in sub-paragraph (1), applying the following denominations–

(a) *P* denotes the capital requirement reflecting the risks of the sub-modules of that particular module which are within the scope of the partial internal model, generated by the partial internal model;

(b) S_S denotes the capital requirement derived by applying that particular module only to the risks not covered by the partial internal model;

(c) *k* denotes the number of sub-modules of that particular module that are within the scope of the partial internal model;

(d) *n* denotes the number of sub-modules of that particular module;

(e) *l* denotes the number of sub-modules of that particular module for each of which the capital requirement can be generated by the partial internal model;

(f) $Corr_{(i,j)}$ denotes the correlation parameter of the standard formula for the aggregation of sub-modules *i* and *j* of that particular module;

(g) P_i denotes the capital requirement for the sub-module *i* of that particular module, generated by the partial internal model;

(h) S_i and S_j denote the capital requirement for sub-modules *i* and *j* of that particular module respectively which are calculated in the following way–

(i) the sub-module is generated by the standard formula provided that the sub-module does not consists of other sub-modules; and

(ii) the sub-module is calculated in accordance with paragraph 3 provided that the sub-module consist of other sub-modules;

(i) SCR_{int} must be set to zero.

(3) For all sub-modules of the standard formula referred to in paragraph (2)(h)(ii), the capital requirement of a particular sub-module must be generated by the formula set out in sub-paragraph (1), applying the following denominations–

(a) *P* denotes the capital requirement reflecting the risks of the sub-modules of that particular sub-module which are within the scope of the partial internal model, generated by the partial internal model;

(b) S_S denotes the capital requirement derived by applying that particular sub-module only to the risks not covered by the partial internal model;

(c) k denotes the number of sub-modules of that particular sub-module that are within the scope of the partial internal model;

(d) n denotes the number of sub-modules of that particular sub-module;

(e) l denotes the number of sub-modules of that particular sub-module for each of which the capital requirement can be generated by the partial internal model;

(f) $Corr_{(i,j)}$ denotes the correlation parameter of the standard formula for the aggregation of sub-modules i and j of that particular sub-module;

(g) P_i denotes the capital requirement for the sub-module i of that particular sub-module, generated by the partial internal model;

(h) S_i and S_j denote the capital requirement for sub-modules i and j of that particular sub-module respectively which are calculated in the following way–

(i) the sub-module is generated by the standard formula provided that the sub-module does not consists of other sub-modules; and

(ii) the sub-module is calculated in accordance with this paragraph provided that the sub-module consist of other sub-modules;

(i) SCR_{int} must be set to zero.

Partial Internal Model Integration technique 5.

6.(1) The Basic Solvency Capital Requirement must be equal to the following–

$$BSCR = \sqrt{P^2 + S_S^2 + \frac{2 \cdot P}{\sqrt{\sum_{i=1}^{k} \sum_{j=1}^{k} Corr_{(i,j)} \cdot S_i \cdot S_j}} \cdot \sum_{j=k+1}^{n} \sum_{i=1}^{k} Corr_{(i,j)} \cdot S_i \cdot S_j + SCR_{int}}$$

where–

(a) P, S_S, k, n, $Corr_{(i,j)}$ and SCR_{in} are defined as in paragraph 5(1);

(b) S_i and S_j denote the capital requirement for modules i and j respectively of the standard formula which are calculated in the following way–

(i) the module is generated by the standard formula provided that the module does not consists of sub-modules;

(ii) the module is calculated in accordance with sub-paragraph (2) provided that the module consist of sub-modules.

(2) For all modules of the standard formula referred to in sub-paragraph (1)(b)(ii), the capital requirement of a particular module must be generated by the formula set out in paragraph (1), applying the following denominations–

(a) P, S_S, k, n, $Corr_{(i,j)}$ and SCR_{int} are defined as in paragraph 5(2);

(b) S_i and S_j denote the capital requirement for sub-modules i and j of that particular module respectively which are calculated in the following way–

(i) the sub-module is generated by the standard formula provided that the sub-module does not consists of other sub-modules; and

(ii) the sub-module is calculated in accordance with sub-paragraph (3) provided that the sub-module consist of other sub-modules.

(3) For all modules of the standard formula referred to in sub-paragraph (2)(b)(ii), the capital requirement of a particular module must be generated by the formula set out in paragraph 1, applying the following denominations–

(a) P, S_S, k, n, $Corr_{(i,j)}$ and SCR_{int} are defined as in paragraph 5(3);

(b) S_i and S_j denote the capital requirement for sub-modules i and j of that particular module respectively which are calculated in the following way–

(i) the sub-module is generated by the standard formula provided that the sub-module does not consists of other sub-modules; and

(ii) the sub-module is calculated in accordance with this paragraph provided that the sub-module consist of other sub-modules.".

Amendment of the Solvency 2 Technical Standards.

4.(1) The Annex to the Financial Services (Solvency 2) (Technical Standards) Regulations 2025 is amended as follows.

(2) Before Article 56, in the cross-heading, omit "and simplifications".

(3) Omit Articles 57 to 61.

(4) In Article 71–

(a) in paragraph (3), in the opening words, for "sub-paragraph (n)" substitute "paragraph (1)(n)";

(b) in paragraph (4), in the opening words, for "1(n)" substitute "(1)(n)";

(c) in paragraph (7), for "Article 71(1)(e)" substitute "paragraph (1)(e)";

(d) in paragraph (8)–

(i) in the opening words, for "Article 71(1)(e)" substitute "paragraph (1)(e)";

(ii) in the closing words, for "paragraphs (a) to (c)" substitute "sub-paragraphs (a) to (c)";

(e) in paragraph (9), for "1(d)" substitute "(1)(d)";

(f) in paragraph (10), in the opening words, for "1(e)" substitute "(1)(e)";

(g) in paragraph (12)–

(i) in the opening words, for "not" substitute "must not";

(ii) in sub-paragraph (b), for "Article 71(1)(j)" substitute "paragraph (1)(j)";

(iii) in sub-paragraph (d), for "paragraph (1)(m)" substitute "paragraph (11)";

(iv) in the closing words, after "GFSC" insert "given in accordance with regulation 276A of the Insurance Companies Regulations";

(h) in paragraph (14), after "GFSC" insert ", given in accordance with regulation 276A of the Insurance Companies Regulations,".

(5) In Article 73–

(a) in paragraph (1)(a) to (d), in the four places it appears, for "–" substitute ";";

(b) in paragraph (6), in the closing words, after "GFSC" insert "given in accordance with regulation 276A of the Insurance Companies Regulations";

(c) in paragraph (7), after "GFSC" insert ", given in accordance with regulation 276A of the Insurance Companies Regulations,".

(6) In Article 77–

(a) in paragraph (6), in the closing words, after "GFSC" insert "given in accordance with regulation 276A of the Insurance Companies Regulations";

(b) in paragraph (7), after "GFSC" insert ", given in accordance with regulation 276A of the Insurance Companies Regulations,".

(7) Omit Chapter 6 of Part 1.

(8) Omit Schedule 18.

Amendment of the Financial Services (Insurance Companies) (Amendment No. 2) Regulations 2025.

5. In regulation 3(5)(f) of the Financial Services (Insurance Companies) (Amendment No. 2) Regulations 2025, omit sub-paragraph (iii).

Dated: 3rd April 2025.

N FEETHAM KC
Minister with responsibility for financial services

EXPLANATORY MEMORANDUM

These Regulations amend the Financial Services (Insurance Companies) Regulations 2020 and make related amendments to the Solvency 2 Technical Standards set out in the Annex to the Financial Services (Solvency 2) (Technical Standards) Regulations 2025, to remove EU-derived provisions relating to matters which are addressed in guidance issued by the GFSC. They also make minor corrections to those Standards and amend the Financial Services (Insurance Companies) (Amendment No. 2) Regulations 2025 to correct a minor referencing error.