Draft statement for consultation closing Wednesday 30 September 2020.

Statement of Policy

The PRA's approach to the publication of Solvency II technical information

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PRUDENTIAL REGULATION
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Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

1 Background

1.1 The Prudential Regulation Authority is required to publish technical information (TI) necessary for the valuation of insurance liabilities for each relevant currency.[1] This Statement of Policy (SoP) explains how the PRA will fulfil its obligations in this regard. In the remainder of this document, the PRA refers to the currencies in which the PRA would publish TI as 'PRA relevant currencies'.

2 Overview of the PRA's approach

2.1 The PRA has retained the methodologies and judgements that the European Insurance and Occupational Pensions Authority (EIOPA) incorporates in its TI as at the end of the transition period (TP), with some exceptions, set out in Chapter 3.

3 Variations by the PRA to EIOPA methodologies and judgements

PRA relevant currencies

3.1 The PRA's choice of PRA relevant currencies is based on the relative materiality of technical provisions denominated in each currency, and currencies in which UK insurers have non-zero technical provisions for which the firms are authorised to use the volatility adjustment (VA). The PRA will review the list of PRA relevant currencies from time to time.

3.2 The PRA will use data from the calendar year-end returns of insurers to determine the materiality of technical provisions in each currency. The returns data as at year end N (or, if unavailable at that effective date, at the most recent effective date for which data has been submitted) will be used to choose the PRA relevant currencies in calendar year N+2.

3.3 The PRA will choose PRA relevant currencies using two criteria:

- by materiality, so that at least 99% of group technical provisions are covered. This will involve aggregating technical provisions (expressed in GBP and excluding those relating to unit-linked business) by currency and selecting the top-ranking currencies such that the cumulative proportion of technical provisions exceeds 99%; and

- to include currencies in which UK insurers have VA and matching adjustment (MA) authorisations.

3.4 The PRA will use the above criteria to generate the initial list of PRA relevant currencies. In subsequent years, the PRA will add to the list of PRA relevant currencies using the above criteria, and remove a currency from its list of PRA relevant currencies if it falls outside the above two criteria for three consecutive years.

3.5 Where UK insurers have technical provisions in a particular currency for which the PRA does not publish TI, these undertakings should approach their supervisors to discuss suitable TI to use. The PRA envisages that such cases would likely be limited to the derivation of the risk-free interest rate term structure. The PRA will assess whether a firm's proposed TI for a currency if it fulfils the requirements of Rules 5.1 and 5.2 of the Technical Provisions Part of the PRA Rulebook and Articles 44 to 48 and 53 to 54 of the Commission Delegated Regulation (EU) 2015/35 as onshored.

1 Regulation 4B of the Solvency 2 Regulations 2015/575.

Reference portfolios (RPs) for the Volatility Adjustment

3.6 The PRA will use EIOPA's VA RPs (to calculate the VA) in effect at the end of the TP. Under the current timetable for TP completion of Thursday 31 December 2020, this approach will apply until Tuesday 30 March 2021. If the timetable for TP completion changes, the PRA will update users of the TI on its revised approach.

3.7 From Wednesday 31 March 2021, the PRA will derive VA RPs using the same technical approach as EIOPA, except for three specific areas where the PRA's approach will differ, as explained below.

3.8 The first difference in the PRA's approach will be that the derivation of the VA RPs will reflect UK firms' asset exposures. Specifically:

- the VA RPs used to calculate the GBP VA will be derived using data from the Quantitative Reporting Templates (QRTs) submitted to the PRA by UK solo insurers; and

- the VA RPs for non-GBP PRA relevant currencies will be derived by taking a weighted average of EIOPA's published VA RPs derived using QRT data submitted to EIOPA and the VA RPs derived using QRT data submitted to the PRA for (UK) parent undertakings (as defined in the Solvency 2 Regulations 2015). The respective RPs would be weighted using the aggregate market value of assets in reported in the QRT data of EEA firms and (UK) parent undertakings (as defined in the Solvency 2 Regulations 2015).

3.9 The second difference in the PRA's VA RP approach is that the PRA will apply a simplified approach to determining the weights for the government and corporate bond portfolios when 'looking through' into the underlying assets held within collective investment undertakings (CIUs). The PRA will assume that the exposures within CIUs in respect of duration, sector, and rating are the same as exposures held outside of CIUs.

3.10 The third difference in the PRA's approach is that the PRA published country VA RP for GBP will be the same as the currency VA RP.

3.11 With the exception of the arrangements at the end of the TP, the PRA will give firms at least three months' notice of the change in the VA RPs. The PRA's VA RPs will be published on the PRA website in the fourth quarter of each calendar year and will become effective from 31 March the following year.