



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP31/16

Solvency II: updates to SS25/15 and SS26/15

September 2016

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Responses are requested by Wednesday 21 December 2016.

Please address any comments or enquiries to:

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1 Introduction

1.1 This Prudential Regulation Authority (PRA) consultation paper (CP) sets out proposed updates to both Supervisory Statement (SS) 25/15, 'Solvency II: regulatory reporting, internal model outputs',¹ and SS26/15, 'Solvency II: ORSA and the ultimate time horizon'.² This CP is relevant to non-life UK insurance firms within the scope of Solvency II and to the Society of Lloyd's in respect of each of their Syndicates and in respect of outputs of the Lloyd's internal model.

Responses and next steps

1.2 This consultation closes on 21 December 2016. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP31_16@bankofengland.co.uk.

2 Proposals

2.1 The PRA proposes to amend the non-life templates and the associated instruction files in SS25/15 and SS26/15. The draft changes to SS25/15 and SS26/15 are set out in the appendices to this CP.

2.2 The proposals in this CP follow the analysis of the year-end 2015 PRA internal model output data request, which concluded post the publication of SS25/15 and SS26/15. The analysis identified both data quality and technology issues of sufficient materiality to propose the updates to the supervisory statements.

2.3 The PRA proposes to update the templates and instructions attached to SS25/15 and SS26/16 with the changes set out below. The PRA also proposes consequential updates to the body of these supervisory statements.

The templates for output templates expected under SS25/15 and SS26/15 to be contained in a single excel workbook

2.4 The PRA proposes that firms download from the PRA website a single excel workbook that contains the templates for reporting internal model outputs (template ID code starting 'IM.03') expected under SS25/15 and the templates for reporting ORSA ultimate time-horizon outputs (template ID code starting 'MO.03') expected under SS26/15. The PRA considers that this will make it easier for firms to submit and for the PRA to analyse.

2.5 As SS25/15 and SS26/15 operate independently, firms have the option to include in a single submission both the internal model outputs (ie the 'IM.03' templates) and the ORSA ultimate time- horizon outputs (ie the 'MO.03' templates), or one of these with the other being sent in a separate submission.

2.6 In the June 2015 versions of SS25/15 and SS26/15 the internal model outputs and the ultimate time-horizon outputs were in separate excel workbooks. When SS25/15 and SS26/15 were tested in the PRA's model outputs as at end 2015 data request, it appears that firms found the separate workbooks confusing.

1 June 2015, www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss2515.aspx.

2 June 2015, www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss2615.aspx.

Non-Life underwriting outputs at entity line of business level to be reported on separate excel tabs to the outputs at Solvency II line of business (LoB) level

2.7 The PRA proposes to put outputs at entity line of business level and outputs at Solvency II line of business level on separate excel tabs.

2.8 In the June 2015 version of SS25/15 the entity and Solvency II lines of business were on the same tab. When SS25/15 was tested in the PRA's model outputs as at end 2015 data request, some firms appeared to miss the Solvency II lines of business because they were at the far right of the excel tab.

Template ID codes

2.9 The PRA proposes to change the ID codes of the templates to be a format of two characters followed by three sets of two digits (eg the proposed code for the non-life basic information template is 'IM.03.01.01' instead of 'NL-IMS-01'). This format is consistent with the ID codes of the life and counterparty risk templates. The change to the template ID codes is also a consequence of the updates outlined above.

The same reserve and premium risk outputs to be expected at firm LoB level and at Solvency II LoBs level

2.10 The PRA proposes that in the reserve risk and premium risk templates the same outputs are expected for entity lines of business and for Solvency II lines of business. This proposal has not altered the structure of these templates.

2.11 In the June 2015 version of SS25/15 and SS26/15 these expected outputs sometimes differed, eg net of reinsurance outputs were expected for entity lines of business but not for Solvency II lines of business. When SS25/15 was tested in the PRA's model output as at end 2015 data request, it was found that information not being asked for at Solvency II LoB level (particularly net of reinsurance outputs) was needed by the PRA to supervise firms' internal models.

Consistent loss ratio outputs on the premium risk template regardless of whether catastrophe losses are included in the outputs

2.12 The PRA also proposes for the premium risk templates that the same outputs are expected for 'premium risk excluding catastrophes', 'catastrophes' and 'premium risk all'. This proposal has not altered the structure of these templates.

2.13 In the June 2015 version of SS25/15 the number of model outputs expected differed between premium risk excluding catastrophes, catastrophes and premium risk all. It is understood that this caused firms undue difficulty.

A template for firms to report descriptions of their firm LoBs that they reported in the non-life reserve and premium risk templates

2.14 Many firms when reporting outputs at firm LoB have been limited by the space on the template to provide meaningful LoB names. Therefore the PRA is proposing a new template 'Firm LoB descriptions' (code IM.03.10.01) to enable firms to provide more information about the lines of business used in the non-life underwriting risk part of their internal model eg on the proposed new template firms are able to provide information on a LoB such as geographic areas covered and types of risks covered. This helps the PRA better understand a firm's model.

Other Proposals

2.15 The PRA has also made numerous minor and consequential changes to the templates, including:

- removing inconsistencies between outputs expected from non-life and life firms for market risk stresses relating to: interest rates risk, spread risk, equity risk, property risk and inflation risk;
- clarification to instructions on the units by which monetary amounts and percentages are expected to be reported and on discount rates used when reporting non-life insurance risk outputs on a discounted basis;
- additional rows on the basic information template as a consequence of the updates listed above;
- removal of rows where the PRA considers that the information that had been expected on those rows is no longer needed for supervisory purposes (namely kurtosis and unearned premium); and
- amendments to the instructions to improve clarity, correct referencing, correct technical errors, and correct grammar. Many of these amendments are a consequence of the updates listed above. These amendments do not add or remove content. As there are many of these changes, it was not practical (and may well have been confusing) to display each change as a track change. Therefore only the more substantive of these changes are displayed as tracked changes in the template and instructions attached draft SS.

3 The PRA's statutory obligations

3.1 The proposals are compatible with the PRA's statutory objectives under the Financial Services and Markets Act 2000 (FSMA) to promote the safety and soundness of firm it regulates and contributing to securing an appropriate degree of protection for policyholders by helping the PRA to better monitor and analyse detailed internal model information at individual firm level, sector level and industry level.

3.2 When determining the general policy and principles by reference to which it performs particular functions, the PRA is legally required, so far as is reasonably possible, to facilitate effective competition in the markets for services provided by PRA-authorized persons in carrying out regulated activities. The PRA does not consider that the proposed amendments will either hinder or promote effective competition.

3.3 The PRA has considered matters to which it is required to have regard, and it considers that the proposals in this CP are compatible with the regulatory principles and relevant provisions of the Legislative and Regulatory Reform Act 2006. In particular, it has regard to the benefits of providing appropriate levels of policyholder protection proportionate to the costs involved and to transparency and clarity for firms.

3.4 The PRA has made an assessment of the impact of the proposed changes, and considers that there will not be a significant increase in costs for firms. The PRA has therefore not produced a full cost-benefit analysis.

3.5 The PRA does not consider that the impact of the proposal on mutual societies will be significantly different from the impact on other firms.

3.6 The PRA may not act in an unlawfully discriminatory manner. It is required, under the Equalities Act 2010, to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions. The PRA does not consider that the proposals give rise to equality and diversity implications.

Appendices

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- 1** Proposed amendments to Supervisory Statement 25/15 ‘Solvency II: regulatory reporting, internal model outputs’

 - 2** Proposed amendments to Supervisory Statement 26/15 ‘Solvency II: ORSA and the ultimate time horizon — non-life firms’

 - 3** Proposed amendments to internal model outputs (non-life) and ORSA ultimate outputs (non-life) templates, available at www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp3116.aspx

 - 4** Proposed amendments to internal model outputs (non-life) instructions, available at www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp3116.aspx

Appendix 1: proposed amendments to Supervisory Statement 25/15 'Solvency II: regulatory reporting, internal model outputs'

In this appendix deleted text is struck through and new text is underlined.

...

2.1 ... These should be submitted at the same time firms submit their annual quantitative reporting templates in accordance with the rules for deadlines set out in 'PRA Rulebook Solvency II Firms: Reporting 2.10 to 2.12 ~~Instrument 2015 (PRA 2015/23)~~' ⁽¹⁾ ...

2.2 Where a firm uses an internal model the PRA is required to evaluate on-going compliance with the Solvency II internal model requirements. ⁽²⁾ ...

2.5 General insurance firms calculating their SCR using an approved internal model or partial internal model should use the templates IM.03.01 to IM.03.11 ~~NL-IMS-01 to NL-IMS-10~~ and IM_02 in Appendix 1 of this supervisory statement.

2.7 ~~In the situation where the Society of Lloyd's seeks and is granted approval to use an internal model to calculate its SCR, the~~ PRA expects the Society of Lloyd's to report the internal model outputs produced by the managing agent for each syndicate it manages using the templates in Appendix 1, ...

...

(1) PRA Policy Statement PS2/15, 'Solvency II: a new regime for insurers, March 2015, appendix 1.15 pages 140 to 330; www.bankofengland.co.uk/pr/Documents/publications/ps/ps215.pdf.

(2) See Article 36 of the Solvency II Directive

Appendix 1 Related templates and LOG files for Supervisory Statement SS25/15

Template number	Template name	Template and LOG file link
IM.01	Internal model risk outputs (life)	Life internal model risk outputs template: www.bankofengland.co.uk/pr/Documents/publications/ss/2015/solvency2/im01template.xlsx Life internal model risk outputs log file: www.bankofengland.co.uk/pr/Documents/publications/ss/2015/solvency2/im01log.pdf
IM.02	Internal model counterparty risk	Life internal model counterparty risk template: www.bankofengland.co.uk/pr/Documents/publications/ss/2015/solvency2/im02template.xlsx Life internal model counterparty risk log file: www.bankofengland.co.uk/pr/Documents/publications/ss/2015/solvency2/im02log.pdf
NL-IMS-01- NL-IMS-10 <u>IM.03.01.-</u> <u>IM.03.11.</u>	Internal model outputs (non-life)	Non-life internal model outputs templates: www.bankofengland.co.uk/pr/Documents/publications/ss/2015/solvency2/im03mo3n0110template.xlsx

Non-life internal model outputs log file:
[www.bankofengland.co.uk/practitioner/Documents/publications/ss/
2015/solvency2/im03mo03n0110log.pdf](http://www.bankofengland.co.uk/practitioner/Documents/publications/ss/2015/solvency2/im03mo03n0110log.pdf)

(NB im03mo03template.xlsx and im03mo03log.pdf include
the templates, and instructions for the templates, expected
in supervisory statement SS26/15.)

Appendix 2: Proposed amendments to Supervisory Statement 26/15 'Solvency II: ORSA and the ultimate time horizon — non-life firms'

In this appendix deleted text is struck through and new text is underlined.

The changes proposed to SS26/15 are restricted to paragraph 1.7.

...

Templates and instructions

1.7 Firms using the option set out above are expected to:

a) submit the ultimate time horizon model outputs using the same frequency, reporting reference date and submission date as used for the internal model outputs expected under supervisory statement SS25/15, 'Solvency II: regulatory reporting, internal model outputs';

b) submit the ultimate time horizon model outputs using the templates in Appendix 1 of this supervisory statement; and ~~Ensure that two separate sets of templates are completed and submitted where the firm is using the same reference date for reporting ultimate time horizon outputs as for internal model outputs;~~

c) ~~[deleted] ensure that all templates within each set should follow a consistent basis (ie templates submitted will not include both twelve months and the ultimate time horizon data);~~

d) ~~[deleted] prepare the templates on the basis selected in cell Z0310 in those templates~~

e) submit the templates in electronic format Excel files via the Bank of England electronic data submission (BEEDS).

f) ~~[deleted] use the corresponding template references for submission of their ultimate time horizon outputs.~~

Template name	Template ID (as per SS25/15)	Suggested template ID for ultimate time horizon
Basic information	NL-IMS-01	NL-MUO-01
Reserving risk	NL-IMS-02	NL-MUO-02
Premium risk	NL-IMS-03	NL-MUO-03
Premium risk — historical LRs	NL-IMS-04	Not applicable
Premium and reserve risk correlations	NL-IMS-05	NL-MUO-05
Catastrophe risk	NL-IMS-06	NL-MUO-06
Market risk	NL-IMS-07	Not applicable
Total risk distributions	NL-IMS-08	NL-MUO-08
Total risk correlations	NL-IMS-09	NL-MUO-09
Comments	NL-IMS-10	NL-MUO-10

....

[new Appendix 1 inserted]

Appendix 1
Related templates and LOG files for Supervisory Statement SS26/15

<u>Template number</u>	<u>Template name</u>	<u>Template and LOG file link</u>
<u>IM.03.01,</u> <u>MO.03.02 –</u> <u>MO.03.06.</u> <u>MO.03.08-</u> <u>MO.03.10,</u> <u>IM.03.11.</u>	<u>ORSA ultimate time</u> <u>horizon model outputs</u> <u>(non-life)</u>	<u>Non-life internal model outputs templates:</u> <u>www.bankofengland.co.uk/prd/Documents/publications/ss/2015/solvency2/im03mo3template.xlsx</u> <u>Non-life internal model outputs log file:</u> <u>www.bankofengland.co.uk/prd/Documents/publications/ss/2015/solvency2/im03mo3.pdf</u> <u>(NB im03mo3template.xlsx and im03mo3log.pdf include the templates, and instructions for the templates, expected in supervisory statement SS25/15.)</u>