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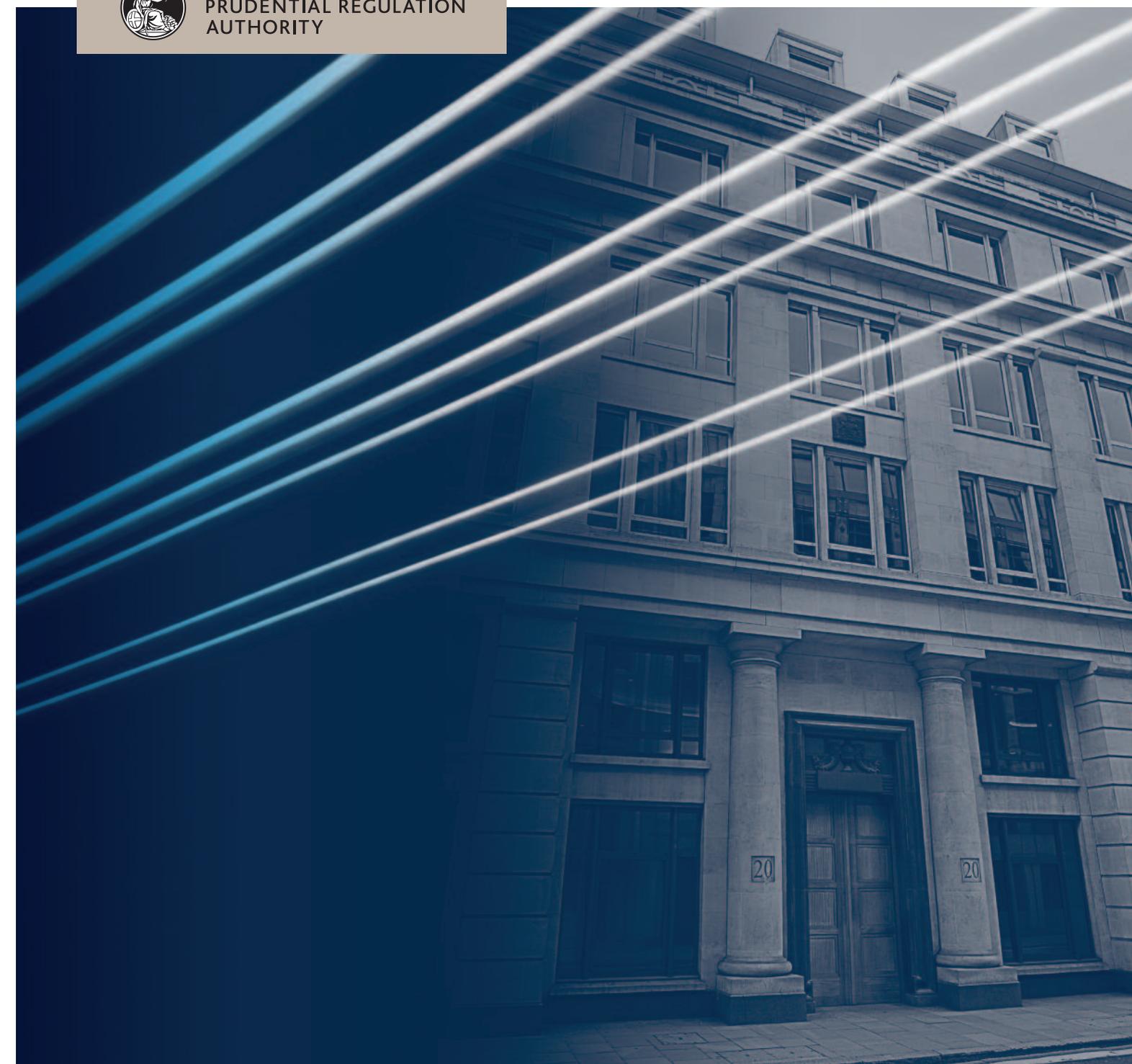
Supervisory Statement | SS26/15

Solvency II: ORSA and the ultimate time horizon — non-life firms

June 2015



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PRUDENTIAL REGULATION
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Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

Prudential Regulation Authority, registered office: 8 Lothbury, London EC2R 7HH.
Registered in England and Wales No: 07854923



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1 Introduction

1.1 This supervisory statement is of interest to UK solo insurance firms within the scope of Solvency II that carry out non-life business and the Society of Lloyd's, in respect of each of their Syndicates and in respect of outputs of the Lloyd's internal model.

1.2 This statement sets out the Prudential Regulation Authority's (PRA's) expectations of how firms should identify and manage all risks to which their business could be exposed over the long term, as well as the short term. This enables firms to assess their ability to meet obligations to its policyholders in the event that the firm decides to cease writing business beyond that which it plans to write over the next twelve months, and to meet those obligations in stressed conditions.

Background

1.3 In December 2013, the PRA issued SS4/13⁽¹⁾ which set out the PRA's approach to firms' development of their forward looking assessment of own risks, based on the Own Risk and Solvency Assessment (ORSA) principles. It states that firms are encouraged to work towards ensuring that their ORSAs adequately capture all known risks, and that the PRA expects firms' solvency assessments to consider risks not just on a one-year timeline but over the medium to long term to cover the normal business planning period. It also stated that the PRA would not prescribe the format or content of the forward-looking assessment, recognising that it needs to reflect the specific risk profile and governance mechanism of each firm and group.

1.4 This statement is consistent with SS4/13 on capturing all known risks in a firm's forward-looking assessment, or ORSA, and sets out an option that enables firms to demonstrate the consideration of the ultimate time horizon.

PRA expectations regarding the ultimate time horizon

1.5 The PRA expects firms to consider, and to be able to demonstrate to the PRA that they have considered:

- (a) the total uncertainty and risk over the time horizon of the run-off of a firm's obligations to its policyholders, including obligations relating to business planned to be written in the twelve months following the relevant reference date ('the ultimate time horizon'); and
- (b) risks over the ultimate time horizon in order to adequately capture all known risks as part of their ORSA

Option to demonstrate consideration of the ultimate time horizon in ORSA

1.6 The PRA sets out an option for firms to demonstrate that they have considered the ultimate time horizon in their ORSA

supervisory report using the templates and instructions set out below. This recognises that this option will be an efficient way for a number of firms to meet the expectations set out above, particularly where firms generate ultimate time horizon model outputs at the same time as they are producing their internal model output reporting under regulatory supervisory statement SS25/15, 'Solvency II: regulatory reporting, internal model outputs'.

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) 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) 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) 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) portal; and
- (f) 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

(1) *PRA Supervisory Statement SS4/13*, 'Solvency II: applying EIOPA's preparatory guidelines to PRA-authorized firms', December 2013; www.bankofengland.co.uk/pr/Documents/publications/ss/2013/ss413.pdf.

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1.8 For clarification, ultimate time horizon outputs in the non-life underwriting risk templates (reserve risk, premium risk excluding catastrophe, and catastrophe claim risk) mean modelled outputs of scenarios of the quantum of future cash flows (from the Reference Date) as would be known when the obligations are fully run-off (ie modelled outputs of scenarios of the ultimate quantum of future cash flows).