



23 May 2013

Dear Firm

Solvency II update for all firms

As part of our commitment to sharing developments in our approach to the implementation of Solvency II, I thought it would be helpful to write to all firms affected by the Directive to give an update on the current position and what this means for the work that has to be done in the coming months.

As you know, there continues to be significant uncertainty over the timetable and final shape of the Solvency II regime. We are very conscious of the implications for the industry of the continuing delays in terms of complexity and cost. We cannot yet provide the clear timetable but we are acting in two ways to help the UK industry, both in the European negotiation and in our approach to implementation for UK firms. I will take each of these points in turn.

European timetable

We are actively engaging with European colleagues to support the timely resolution of policy issues. Earlier this year we invited firms to take part in the long-term guarantees assessment and we submitted data to the European Insurance and Occupational Pensions Authority (EIOPA) at the end of April. EIOPA is currently analysing data from Member States with a view to preparing a report for European co-legislators in June. This is expected to be followed by a report from the European Commission which will inform the development of the Omnibus II Directive which is currently scheduled for a vote in the European Parliament on 22 October 2013.

On 27 March 2013, EIOPA published its consultations on preparatory guidelines for Solvency II. The guidelines cover areas that EIOPA considers to be the most stable and fundamental to ensure effective preparation by Member States starting from 1 January 2014. It is important to note that the guidelines focus on preparedness rather than bringing forward elements of Solvency II early. The four areas are: i) systems of governance; ii) forward-looking assessment of the undertaking's own risks (based on the ORSA principles); iii) submission of information (reporting); and iv) pre-application for internal models.

We are very much aware of the concerns raised by industry, in particular, with regards to the cost of potential duplication of work and parallel running stemming from the reporting guidelines. The EIOPA position on the reporting guidelines will be clearer towards the end of the year, and we very much support the review clause in EIOPA's cover note to the consultations designed to remove the potential for an extended period of parallel running. We will be responding to EIOPA's consultations by the deadline of 19 June, and I would like to thank firms for their attendance and constructive input which will inform our response. EIOPA will consider all responses to the consultations with a view to producing final guidelines in the autumn; and National Competent Authorities (NCAs), including the PRA, will have two months to respond as to whether they will comply or intend to comply with each of the guidelines, and/or give reasons for non-compliance where needed. We appreciate that the timing is difficult as it leaves little time for us and for you to prepare. We will provide as much information to the UK industry as soon as we can.

The work on the long-term guarantees assessment, the Omnibus II Directive and the EIOPA preparatory guidelines should come together in the autumn. There is, therefore, unlikely to be any certainty about the timetable before then.

Approach to implementation

In October 2012 I acknowledged the EU delay to the implementation of Solvency II and set out a new planning horizon of 31 December 2015 for UK firms. We have rephased and scaled back our plans for

future work on Solvency II and we believe that the action we have taken is both sensible and pragmatic. It has reduced considerably the cost to industry under the special project fees this year.

Since my letter to firms about 'ICAS+' in January this year, we have received requests from just under half of the firms in our internal model approval process (IMAP) that wish to leverage the investment in their Solvency II internal models to meet the current regulatory requirements. We have started to deliver the new approach with the first firms in the process. It is too early to share learnings from ICAS+ as we are still at a preliminary stage, but we plan to do so as soon as we can, particularly developments used by firms in their modelling techniques.

As I have said previously, given the complexity inherent in modelled approaches, we continue to believe in the importance of non-modelled cross checks. To that end, we have been developing early warning indicators (EWIs) to monitor the continuing appropriateness of the firm's internal model to deliver the Solvency II calibration requirement (i.e. 99.5% over a one-year period). I am sending a separate letter to IMAP firms today on the introduction of those indicators we will use in the ICAS regime to inform and assist our supervision, and test the calibrations of the EWIs in the run up to Solvency II.

For standard formula firms, we are currently considering a number of areas and circumstances in which the standard formula may not be appropriate; for example, in capturing pension risk. The data submitted by firms last year has informed our approach together with our assessment of firms' preparedness for Solvency II. Our conclusions will also depend on the finalised standard formula calibrations in the Level 2 text. Our eventual approach will need to be consistent with the PRA's approach to supervision and reflect our response to EIOPA's guidelines on preparing for Solvency II. We will update the industry more fully on our approach when we have greater certainty of the European timetable later this year. In the meantime, firms should continue to ensure that their chosen method to calculate their Solvency II Solvency Capital Requirement (SCR) is suitable, and where necessary, consider whether it is appropriate to use undertaking specific parameters, or a partial internal model, where the standard formula does not adequately reflect the firm's risk profile.

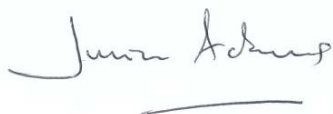
Finally, at the end of this month we will be writing to a number of life and general insurance firms with data requests for their responses by end July. The requests will include a comparison of ICAS to the standard formula SCR and internal model SCR, a credit benchmark portfolio survey and a request for standardised risk information. This will allow us to identify trends and outliers, and we need your input to make our reviews efficient and up to date across the sector. It is essential for us, and the industry, that the data is consistent. Ultimately, these numbers are critical in our judgements. Details of the data collection exercise, including the scope, purpose and firms affected, are available at the [PRA's Solvency II webpages](#). We will continue to give as much feedback as we are able at both firm and industry level.

Next steps

We remain committed to updating you of developments in our approach to implementation of the Solvency II Directive, and sharing early developments and feedback from our work as far as possible. We are looking to hold an industry briefing later this year, and will provide further information in September. I attach a timetable, based on information available at the time of writing, that we hope you will find useful.

Please continue to raise issues and questions with your usual supervisory contact so that we can consider them in the planning of our future communications.

Yours sincerely



Julian Adams
Deputy Head PRA
Executive Director Insurance

Timetable as at 23 May 2013

Date	Description	For action and/or information
31 May	PRA data collection exercise sent to a number of life and general insurance firms	For action
19 June	EIOPA consultation on preparatory guidelines closes	For action or information
June	Long-term guarantees assessment: EIOPA report to co-legislators (date tbc)	For information
July	Long-term guarantees assessment: Commission report (date tbc) Trialogues begin in Europe on the Omnibus II Directive (tbc)	For information
31 July	Deadline for responses to PRA data collection exercise issued on 31 May	For action
August	n/a	
September	EIOPA final preparatory guidelines expected (date tbc)	For information
September	Information about PRA Solvency II industry briefing	For information
22 October	Omnibus II Directive scheduled for plenary vote in European Parliament	For information
November	EIOPA publishes NCAs' comply, intend to comply and/or explain responses to the final guidelines (date tbc) NCAs may also publish their own comply, intend to comply and/or explain responses to the final guidelines (date tbc)	For action
Late November	PRA Solvency II industry briefing (date tbc)	For information