BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

TRANSFER OF THE FUNCTION TO THE PRA TO PRODUCE TECHNICAL INFORMATION UNDER REGULATION 4B OF THE SOLVENCY 2 REGULATIONS 2015/575 AND ARTICLE 3(5) OF THE SOLVENCY II DELEGATED ACT 2015/35

Update 29 March 2019: As Friday 29 March 2019 is no longer 'exit day', the PRA updated the first paragraph below, and in the Timing and frequency section of this statement.

In the Bank of England and Prudential Regulation Authority (PRA) Consultation Paper (CP) 'The Bank of England's approach to amending financial services legislation under the European Union' (Withdrawal) Act 2018' we set out that in the event the UK withdraws from the EU the UK regulators would adopt some of the roles and responsibilities carried out by EU authorities. The transferred responsibilities would take effect on exit day in the event that there is no agreed Implementation Period.

These transfers will be effected under the Solvency 2 and Insurance (Amendment etc.) (EU Exit) Regulations. .

This communication provides firms and other interested parties with information on how the PRA will meet its requirement in relation to the publication of technical information required under regulation 4B of the Solvency 2 Regulations 2015/575 and Article 3(5) of the Solvency II Delegated Act 2015/35.

Overview of Solvency 2 technical information

The technical information relating to risk-free interest rate term structures is used for the calculation of the technical provisions for (re)insurance obligations. It consists of:

(a) the relevant risk-free rate term structures;

(b) the fundamental spreads for the calculation of the matching adjustment;

(c) for each relevant national insurance market, the volatility adjustments;

The technical information also includes the Symmetric Adjustment of the Equity Capital Charge (SAECC), which is relevant for insurance and reinsurance firms using the standard formula to calculate their Solvency Capital Requirements (SCR).

Approach to producing Solvency 2 technical information post exit

In fulfilling its responsibilities the PRA's aim is to:

- ensure consistency with current processes where it is appropriate and practicable to do so,
- seek to minimise any disruption to firms, and
- meet the PRA's requirements as set out in the Solvency 2 Regulations 2015 and the Solvency II Delegated Act 2015/35 as onshored and as each is amended by the Solvency 2 and Insurance (Amendment etc.) (EU Exit) Regulations 2019

The PRA intends to replicate EIOPA's approach to the determination of the risk-free interest rate term structures and the SAECC. Some changes to EIOPA's approach may be required because the UK will, after exit, be considered by the EU to be a 'third country'. We expect that many parts of the technical information will not change post exit, and so the PRA only intends to calculate those that are affected by exit and publish these on the PRA's website. Where the technical information are not affected by the UK's exit the PRA will not recalculate these and will re-publish the information published by EIOPA from the point of exit; again this will be available on the PRA's website. Further details are given in the 'Expected Impacts' section below.

As soon as is practicable after exit, the PRA will set out its approach for determining the risk-free interest rate term structures and SAECC going forwards. The PRA would normally expect to consult with firms and other stakeholders should any proposed changes in that approach be material.

Expected impacts

Technical information which are not expected to differ between EIOPA and PRA are the Basic Risk Free Rates and Fundamental Spread for corporate bonds, because these are based on financial market data and historic statistics which will not be affected by the UK's exit. For these we intend to re-publish the EIOPA information for all currencies. In addition, for 2019, for the purpose of determining the Basic Risk Free rates we will be using the same Last Liquid Point (LLP) and Ultimate Forward Rate (UFR) as used by EIOPA for all currencies. We also do not expect the SAECC to differ.

Technical information which are expected to change are the fundamental spreads for UK and EU27 Government Bonds to reflect the UK, after exit, being considered by the EU to be a 'third country' and vice versa. For these we intend to publish different values than published by EIOPA. This may have corresponding impacts on the Volatility Adjustment (VA) for some currencies. Where impacts are material, we intend to calculate a separate VA for those currencies, and re-publish the EIOPA VA for all other currencies.

Timing and frequency

The PRA will publish information on a monthly basis, in line with the requirements in the Statutory Instrument. Further updates will be provided in due course on the timetable for publication.

As part of the publication the PRA will also describe any deviation from EIOPA's published methodologies.

Contact

If there are any queries arising from this communication firms should contact their usual supervisory contact.

March 2019