



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP20/15

Solvency II: internal model reporting codes and components and life product codes

June 2015

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Responses are requested by 10 July 2015.

CP20/15 Responses
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1 Introduction

1.1 The consultation paper (CP) is addressed to all UK insurance firms, and groups within the scope of Solvency II including mutuals, and to the Society of Lloyd's that will be calculating the solvency capital requirement (SCR) using an internal model or partial internal model or which carry out life business or have annuities stemming from non-life business. It seeks feedback on two draft supervisory statements: internal model reporting codes and components; and life product codes.

2 Internal model reporting codes and components

2.1 This supervisory statement sets out how the PRA expects internal model and partial internal firms to derive the 'unique number of component' for each component of the internal model.

2.2 The PRA expects that firms will send proposals for their components after the publication of the final supervisory statement (2015 Q3). It will accept comments earlier with the understanding that the components cannot be finalised until after the publication of the final supervisory statement.

3 Life product codes

3.1 This supervisory statement sets the list of codes which the PRA expects firms to use when reporting information on life business or annuities stemming from non-life business at product level.

3.2 The products have been divided into main categories, which are similar to the presentation used by Association of British Insurers (ABI) for its new business data collection:

- investment and savings;
- individual pensions;
- corporate pensions;
- protection; and
- annuities.

4 Statutory obligations

4.1 The PRA has considered matters to which it is required to have regard, and it considers that these statements are compatible with the regulatory principles⁽¹⁾ and relevant provisions of the Legislative and Regulatory Reform Act 2006.⁽²⁾ The PRA has considered equality and diversity issues and has not identified any impact arising from these statements.

4.2 The PRA has also assessed whether the content of this CP facilitates effective competition in markets for services provided by PRA-authorized persons in carrying on regulated activities, in light of the introduction of its secondary competition objective. The supervisory statements apply the standards required by the Solvency II Directive⁽³⁾ and draft Solvency II Regulations. As a result, the PRA does not expect incremental costs or benefits to arise.

4.3 The PRA therefore considers the content of this CP as compatible with the facilitation of effective competition.

5 Cost benefit analysis

5.1 The PRA regards the expected cost as proportionate to the benefits from the collection of this information.

5.2 Internal model firms have allocated their SCR to risk categories when completing the PRA's recent data collection exercises (IM-SF-ICA comparison). The internal model codes are a formalisation of this process and once agreed for an individual firm the PRA expects changes to be infrequent. The PRA does not expect allocation of components to internal model codes to be burdensome. The benefit to the PRA in having a standard set of codes is that the PRA will be able to compare the amount of capital by risk between firms and across the market, supporting its policyholder protection objective.

5.3 The benefit to the PRA in having a standard set of codes is that it will be able to identify exposures to individual products and specific risks. This supports the PRA's policyholder protection objective by improving its ability to identify risks. The PRA will also use the data for market and financial stability analysis.

6 Responses and next steps

6.1 This consultation closes on Friday 10 July. Views are welcomed on any of the proposals in this CP. Respondents should send their feedback to CP20_15@bankofengland.co.uk.

(1) Section 3B of FSMA 2000. In particular, Section 3B(1)(b) which provides that the principle that a burden or restriction which is imposed on a person, or, on the carrying out of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction.

(2) www.legislation.gov.uk/ukpga/2006/51/pdfs/ukpga_20060051_en.pdf.

(3) Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast) (Text with EEA relevance). <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1412873282412&uri=CELEX:02009L0138-20140523>.

Appendices

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- 1 Draft Supervisory Statement**
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-
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Solvency II: life product reporting codes



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Appendix 1

Supervisory Statement | SSXX/15

Solvency II: internal model reporting codes and components

June 2015

1 Introduction

1.1 This supervisory statement is addressed to all UK insurance firms, and groups, within the scope of Solvency II including mutuals, and to the Society of Lloyd's, that will be calculating its SCR using an internal model or partial internal model.

1.2 The PRA expects that the Implementing Technical Standard on the templates for the submission of information to the supervisory authorities⁽¹⁾ will state that firms should agree the unique number of each component of their internal model with their national supervisory authority when reporting the capital requirement by component in templates S.25.02 and S.25.03.

2 Unique number of components in templates S.25.02 and S.25.03

2.1 This supervisory statement sets out how the PRA expects firms to derive the field C0010 'unique number of component' in these templates.

2.2 The PRA expects firms to match their internal model components to one of the codes set out in the Appendix. The list of codes corresponds to the risks covered in an internal model calculation of the solvency capital requirement (SCR).

2.3 The PRA expects firms to use these codes to all variants of these templates, ie for group, solo, ring-fenced funds, matching adjustment portfolio and remaining part SCR reporting, as applicable.

2.4 The list of codes does not represent any expectation of the PRA with regards to the form or content of firm's internal model. There is an 'other' category within market risk and underwriting risks and also an 'other risks' category to ensure that all risks can be captured against a code.

2.5 Firms shall agree components with supervisors at the PRA. The PRA expects that some firms will report more than one component for some of the risk categories.

(1) https://eiopa.europa.eu/Publications/Consultations/EIOPA_EIOPA-CP-14-052_ITS_Reg_Supervisory_reporting.pdf.

Appendix PRA Solvency II reporting — internal model codes

This Appendix sets out how the PRA expects firms to derive the data item 'unique number of component' as a six-character string in templates S.25.02 and S.25.03.

Characters 1–3	Risks covered	Characters 1–3	Risks covered
	Market risk		Health underwriting risk
100	Market risk	400	Health underwriting risk
101	Interest rates down	401	Health mortality risk
102	Interest rates up	402	Health longevity risk
103	Other interest rate risk	403	Health disability-morbidity risk
104	Equity risk	404	Health SLT lapses up
105	Equity risk (participations)	405	Health SLT lapses down
106	Property risk	406	Health SLT mass lapse
107	Spread risk	407	Health expense risk
108	Concentration risk	408	Health revision risk
109	Currency risk	409	Health NSLT medical expenses
110	Other market risk	410	Health NSLT income protection
199	Diversification within market risk	411	Health NSLT worker's compensation
	Counterparty default risk	412	Health NSLT non-proportional reinsurance
200	Counterparty default risk	413	Health NSLT lapse risk
201	Type 1 counterparty risk	414	Health mass accident risk
202	Type 2 counterparty risk	415	Health accident concentration risk
203	Other counterparty risk	416	Health pandemic risk
299	Diversification within counterparty risk	417	Other health underwriting risk
	Life underwriting risk	499	Diversification within health underwriting risk
300	Life underwriting risk		Non-life underwriting risk
301	Mortality risk	500	Non-life underwriting risk
302	Longevity risk	501	Premium risk
303	Disability-morbidity risk	502	Reserve risk
304	Lapses up	503	Non-life catastrophe risk
305	Lapses down	504	Non-life lapse risk
306	Mass lapse	505	Other non-life underwriting risk
307	Other lapse risk	599	Diversification within non-life underwriting risk
308	Expense risk		Intangible asset risk
309	Revision risk	601	Intangible asset risk
310	Life catastrophe risk		Operational risk
311	Other life underwriting risk	701	Operational risk
399	Diversification within life underwriting risk		Other risks and adjustments
		801	Other risks
		802	Loss-absorbing capacity of technical provisions
		803	Loss-absorbing capacity of deferred tax
		804	Other adjustments

Characters 1–3 identify the risk category.

Characters 4–5 represent the component number within each risk starting with 01.

Character 6 is 'I' for capital requirements from risks within the insurer, 'P' for risks arising within the pension scheme.



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Appendix 2

Supervisory Statement | SSXX/15

Solvency II: life product reporting codes

June 2015

1 Introduction

1.1 This draft supervisory statement is addressed to all UK solo insurance firms, including mutuals, within the scope of Solvency II, and to the Society of Lloyd's, that carry out life business or have annuities stemming from non-life business.

1.2 The PRA expects that the Implementing Technical Standard on the templates for the submission of information to the supervisory authorities⁽¹⁾ shall permit firms to use a defined list of product codes where attributed by the supervisory authority in the instruction to the template S.14.01 (Article 8).

2 Codes for firms that carry out life business or have annuities stemming from non-life business

2.1 This draft supervisory statement sets out, in the Appendix, the list of codes which the PRA expects firms to use.

2.2 In these product codes the third digit of the code is used to distinguish varieties of the same product. This separates conventional and unitised with-profit, unit-linked and index-linked as well as retaining data for industrial branch business.

2.3 Miscellaneous codes have only been shown for protection where there are minor products that do not fit into the named codes. For the other main categories the product codes are intended to be sufficiently generic to cover all the products within that main category.

(1) https://eiopa.europa.eu/Publications/Consultations/EIOPA_EIOPA-CP-14-052_ITS_Reg_Supervisory_reporting.pdf.

Appendix

PRA Solvency II reporting — life product codes

This Appendix sets out how the PRA expects firms to complete the data item 'product ID code' C0010 in template S.14.01.b as a 3 character string.

SII product code	Description	SII product code	Description
Savings & investments		Protection	
100	Whole of life OB CWP	404	Level term regular premium
101	Whole of life OB UWP	414	Level term single premium
105	Whole of life IB WP	424	Decreasing term regular premium
102	Whole of life OB UL	434	Decreasing term single premium
104	Whole of life OB NP	444	Accelerated critical illness (guaranteed premiums)
106	Whole of life IB NP	454	Accelerated critical illness (reviewable premiums)
111	Single premium bond UWP	461	Stand-alone critical illness (guaranteed premiums)
112	Single premium bond UL	474	Stand-alone critical illness (reviewable premiums)
113	Single premium bond IL	484	Income protection WP
114	Single premium bond NP	494	Income protection (guaranteed premiums)
120	Endowment OB CWP	504	Income protection (reviewable premiums)
121	Endowment OB UWP	514	Income protection single premium
125	Endowment IB WP	524	Income protection claims in payment
122	Endowment OB UL	534	Group life
124	Endowment OB NP	544	Group death in service dependants' annuities
125	Endowment IB WP	554	Collective life
126	Endowment IB NP	564	Group income protection
131	Holloway accounts WP	574	Group income protection claims in payment
141	Investment only reinsurance UWP	584	Group critical illness
142	Investment only reinsurance UL	594	Risk premium mortality reinsurance
Individual pensions		604	Risk premium critical illness reinsurance
200	Individual defined contribution pensions CWP	614	Risk premium income protection reinsurance
201	Individual defined contribution pensions UWP	620	Miscellaneous protection CWP
202	Individual defined contribution pensions UL	622	Miscellaneous protection UL
204	Individual defined contribution pensions NP	624	Miscellaneous protection NP
211	Workplace defined contribution pensions WP	Annuities	
212	Workplace defined contribution pensions UL	700	Purchased life annuity WP
214	Workplace defined contribution pensions NP	704	Purchased life annuity NP
221	Income drawdown WP	710	Individual deferred annuity WP
222	Income drawdown UL	714	Individual deferred annuity NP
224	Income drawdown NP	720	Individual pension annuity WP
231	Individual pensions investment only reinsurance UWP	722	Individual pension annuity UL
232	Individual pensions investment only reinsurance UL	724	Individual pension annuity NP
Corporate pensions		734	Individual enhanced pension annuity NP
300	Corporate defined benefit pensions CWP	744	Bulk purchase deferred annuity NP
301	Corporate defined benefit pensions UWP	754	Bulk purchase pension annuity NP
302	Corporate defined benefit pensions UL	764	Purchased temporary annuity NP
304	Corporate defined benefit pensions NP	774	Pension temporary annuity NP
310	Corporate defined contribution pensions WP	784	Annuity stemming from non-life
312	Corporate defined contribution pensions UL	794	Longevity swap
321	Corporate pensions investment only reinsurance UWP		
322	Corporate pensions investment only reinsurance UL		

Notes on product categories

Whole life and endowment — regular premium business only — includes policies made 'paid-up' — excludes single premium bonds which are technically whole of life.

Single premium bond — includes 'investment bond' and 'with-profits bond'.

Individual defined contribution pensions — pensions savings before retirement, excludes deferred annuity buyouts, but contract may be written as deferred annuity with-profits, endowment with-profits, UWP or UL. Individual means there is no employer involvement.

Workplace defined contribution pensions — covers 'group pensions' where the group is the employer and the insurer has a separate record for each employee covered, which may include employer contributions. The firm calculates liabilities at member level.

Corporate pensions — covers trust based pension arrangements where the insurer does not hold separate records for individual employees. The insurer normally just provides investment services, and the records of benefits are maintained by the trustees or another party. The firm calculates liabilities at scheme level.

Miscellaneous protection — these categories are for types of protection which do not fit within the named protection categories, eg long term care.

Bulk purchase annuity — this is for annuity liabilities arising from occupational pension schemes including where members hold individual policies after winding up of the scheme.

Abbreviations

OB Ordinary branch: in the past this term was required to distinguish OB and IB policies.

IB Industrial branch: business sold in the past where premiums were collected door to door. The policies are now either paid up or premiums are collected by direct debit.

CWP Conventional with-profits: the traditional style of with-profits, where the policy specifies the regular premium payable and the initial guaranteed benefit, to which reversionary (annual bonuses) are added.

UWP Unitised with-profits (includes accumulating with-profits): the newer style of with-profits, where each premium is invested in units or to an account at the face value of the amount invested. This amount grows with 'bonus' and any further premiums.

UL Unit-linked: the same as the legal term 'property linked' in the PRA annual returns.

IL Index-linked: as for Solvency II, so this just covers policies linked to a stock market index or the value of specific securities. It excludes RPI/CPI linked policies.

NP Non-profit: all policies covered by the 'Other' Solvency II line of business and including life health business.