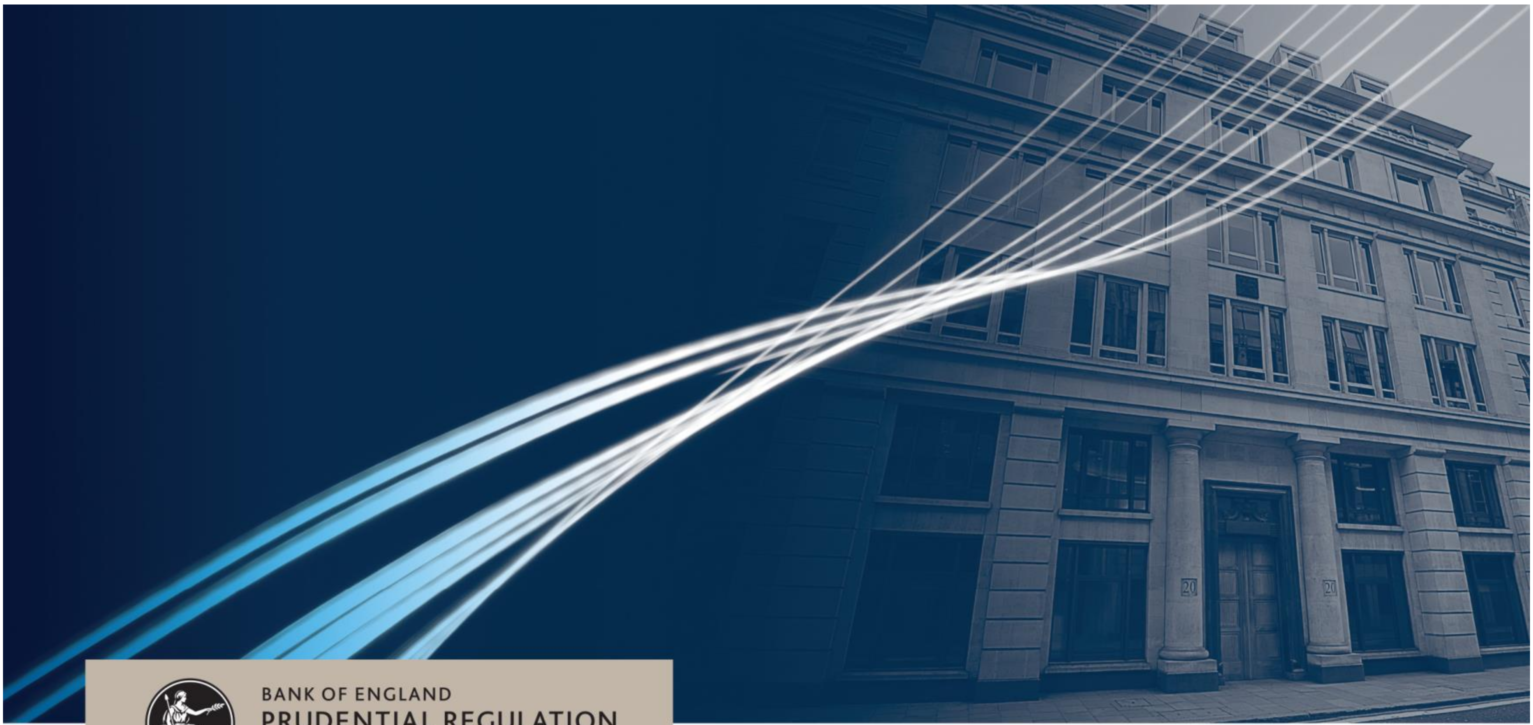

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP32/16

Dealing with a market turning event in the general insurance sector

September 2016

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London EC2R 6DA

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Responses are requested by 21 December 2016.

Please address any comments or enquiries to:

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Contents

1 Overview

1.1 In this consultation paper (CP), the Prudential Regulation Authority (PRA) sets out a draft supervisory statement (SS, see Appendix 1) on its expectations of general insurance firms regulated by the PRA, in relation to significant general insurance loss events which might affect firms' solvency and future business plans.

1.2 This CP is relevant to all PRA-regulated general insurance firms in scope of the Solvency II Directive (the Directive),[1] and to the Society of Lloyd's and managing agents ('Solvency II firms'). The SS sets out the PRA's expectations of how such firms, particularly those operating in the global specialty insurance and reinsurance market known as the London market, might plan for and respond to such an event.

Background

1.3 Premium rates within classes of general insurance often fluctuate over time depending on the supply and demand of capital willing to invest in the market. This is often referred to as the insurance 'cycle'. Hardening of the market, or an up-tick in the cycle, usually occurs after business lines have been in a so-called 'soft' phase, with premium rates under pressure as a result of benign recent loss experience and abundant supply of capital. A large general insurance loss event can, in some circumstances, cause this hardening to occur rapidly, as likely claims increase, profits fall, premium rates rise and/or the supply of capital becomes restricted. Such an event affecting the general insurance sector will be referred to throughout this paper as a market turning event ('MTE').

1.4 Solvency II Directive Article 138 and 139 sets out requirements for firms that breach or expect to breach their solvency capital requirement (SCR) or minimum capital requirement (MCR) within three months. In an MTE, which is discussed in the draft SS, firms may find themselves under stressed conditions and facing these situations. This CP sets out the PRA's expectations of firms before and after such a significant loss event.

Responses and next steps

1.5 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 CP32_16@bankofengland.co.uk.

2 Proposals

2.1 The draft SS sets out the PRA's expectations of firms in planning for and in the event of an MTE. It is particularly focused on those firms that breach or may breach their SCR or MCR within the three months following an MTE, in the event that one occurs, especially given it would likely be at a time when information may still be emerging and when the true impact of the event on a firm's financial position may not be known in its entirety. This information will form the basis of the firm's subsequent recovery plan.

2.2 Finally, the draft SS outlines some areas that the PRA would expect firms to consider in the medium and long-term after an event, to assess the lessons which might be learned from the experience and to assess the potential consequences for their business model and risk profile.

1 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).

3 The PRA's statutory obligations

3.1 The PRA has a public law duty to consult widely on any measure that could significantly affect firms. In discharging its general functions the PRA must, as far as it is reasonably possible, act in a way that advances its general objective and its insurance objective. When discharging its general function in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition.

Compatibility with the PRA's objectives

3.2 The PRA believes that the proposals in this CP are compatible with the PRA's statutory objectives under the Financial Services and Markets Act 2000 (FSMA): to promote the safety and soundness of PRA-authorised firms;[1] and in the context of insurance, to contribute to policyholder protection.[2]

3.3 The draft SS is intended to give insurance firms greater clarity on the PRA's expectations of firms in planning for a significant insurance loss event and how the PRA would expect firms to respond after an event. By providing this information the PRA is seeking to support good governance, systems and processes, which will promote the safety and soundness of firms and contribute to the protection of policyholders.

3.4 The PRA has assessed whether the proposals in this CP facilitate effective competition. The PRA expectations covered in the draft SS do not impose additional requirements on firms, but instead seek to clarify how existing requirements may be met. The proposals therefore are not expected to have a material effect on competition.

Regulatory principles

3.5 The proposals are compatible with the PRA's statutory objectives under FSMA.[3] When determining the general policy and principles by reference to which it performs particular functions, the PRA must have regard to the regulatory principles. Of particular relevance in this circumstance are the principles relating to transparency and proportionality. The PRA believes the draft SS is compatible with the regulatory principles as it sets out transparent (telling firms in advance what the PRA is likely to expect of them) and proportionate (targeted at those firms whose risk profiles are most likely to be affected) expectations on firms in relation to existing requirements. Setting out these expectations clearly in advance also contributes to the efficient use of the PRA's resources because of proactive rather than reactive engagement with firms. These additional supervisory expectations are also proportionate to the benefits of imposing them.

Cost benefit analysis

3.6 This cost benefit analysis compares, for the insurers in scope, the costs and benefits arising from the proposal set out in the draft SS.

Costs

3.7 The PRA expects costs to be minimal to the extent that the proposals do not create additional requirements on an ongoing basis. Where the proposals indicate that the PRA is likely to request certain information from firms after an MTE (including some information which it would like firms to provide in a standardised format), firms might incur some costs

1 Section 2B (1) and Section 2B (2) FSMA.
2 Section 2C FSMA.
3 See s.2H and s.3B FSMA.

upfront in ensuring they are able to respond to such a request. However, the PRA believes that by setting out clearly for firms in advance the information it is likely to seek after an event (Appendix 1 of draft SS), the costs involved for firms are likely to be less than would be the case if firms were asked to respond to the request at the time, without advance notice.

Benefits

3.8 The draft SS aims to ensure that there is a clear and consistent understanding of the PRA's expectations of firms in planning for a significant insurance loss event. The PRA believes that providing this clarity to firms in advance is likely to reduce the administrative burden for firms and the PRA. This is likely to improve the PRA's ability to discharge its statutory objectives at the time of a significant insurance loss event, and to enable it to respond efficiently and effectively to requests and applications made to it by firms at the time.

Impact on mutuals

3.9 In the PRA's opinion, the impact of the draft SS on mutuals is expected to be no different from the impact on other firms.

Equality and diversity

3.10 The PRA may not act in an unlawfully discriminatory manner. It is also required under the Equality Act 2010[1] to have regard to the need to eliminate discrimination and to promote the equality of opportunity in carrying out its policies, services and functions. To meet its requirement, the PRA has performed an assessment of the proposals and has not identified any equality or diversity implications.

1 Section 149 (1) Equality Act 2010.

Appendix 1: Draft supervisory statement – Dealing with a market turning event in the general insurance sector

1 Introduction

1.1 This supervisory statement (SS) is addressed to all UK general insurance firms regulated by the Prudential Regulation Authority (PRA) within the scope of the Solvency II Directive (the Directive)[1], including the Society of Lloyd's and managing agents ('Solvency II firms'). The SS is aimed particularly at those firms operating in the global specialty insurance and reinsurance market known as the London market, whose business models are exposed to low probability, high severity catastrophe risks. It sets out the PRA's expectations of how such firms[2] might prepare for and respond to a major general insurance loss event, which might affect their solvency and future business plans, and explains how the PRA expects firms to interact with the PRA on these issues.

1.2 This SS should be read in conjunction with the PRA's rules in the Solvency II sector of the PRA Rulebook,[3] and the PRA's insurance approach document.[4]

1.3 This SS expands on the PRA's general approach as set out in its insurance approach document. By clearly and consistently explaining its expectations of firms in relation to the particular areas addressed, the PRA seeks to advance its statutory objectives of ensuring the safety and soundness of the firms it regulates, and contributing to securing an appropriate degree of protection for policyholders.

2 Market turning events (MTEs)

2.1 The insurance risks covered by general insurers, particularly those operating in the specialist London market, include complex, low probability, high severity events for which limited data might be available to quantify potential exposures accurately. For such firms, individual large claims (or a combination of claims) might, in certain circumstances, impact significantly a firm's capital resources or its future business plans.

2.2 This SS does not attempt to forecast the potential likelihood or impact of such a major general insurance loss event. Instead, it starts from the premise that an extreme general insurance loss event has occurred, impacting multiple insurers, but makes no assumption about the cause of the event. The event in question is assumed to be sufficiently material to cause some or all of the following consequences, although this may not be an exhaustive list:

- the event is likely to generate significant insurance claims (potentially, significant in size) to a number of firms operating in the general insurance market;

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1 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).
2 Unless otherwise stated, references to 'firms' in this statement mean general insurance firms regulated by the PRA.
3 Solvency II contains the concept of an 'exceptional adverse event' under which firms may be granted an extension in the time in which they should recover a breach of SCR. The intention is that this SS would be relevant not only in circumstances where an exceptional adverse situation has been declared, but that it could be considered alongside and/or in absence of this.
4 Available at www.bankofengland.co.uk/publications/Pages/other/pra/supervisoryapproach.aspx.

- the full extent of likely claims and their eventual settlement cost might take some time to be known with certainty;[1]

- some firms might have been impacted severely by the event, to the extent that their potential losses mean they might no longer have sufficient financial resources to meet their regulatory capital requirements;

- given the initial uncertainties involved in estimating claims, some affected firms might not know for some time how the event has impacted their overall regulatory capital position, or the full nature of the claims to which they are exposed;

- some other firms might not be impacted at all by claims from the event, or are impacted to a much lesser extent;

- the event impacts prevailing market conditions for general insurance products including the availability, price and/or terms of insurance coverage that firms are able to offer policyholders for future policies. The impact might or might not be limited to the class(es) of business most directly affected by the event;

- if premium rates rise, some firms are likely to wish to take advantage of this to write more business; and

- some firms might need to raise additional capital in order to continue to trade, or might wish to raise additional capital to take advantage of perceived market opportunities. Sources of capital could include a parent company, or third-party investors.

2.3 A significant general insurance event which has these consequences is referred to in this paper as a Market-Turning Event ('MTE'). In reality, 'event' for these purposes might be one very large single insurance loss event, a potential combination of significant individual insurance loss events, or a combination of an insurance event and a secondary simultaneous disruption (e.g. a wider dislocation in financial markets).

3 PRA expectations for firms affected by an MTE

3.1 The PRA expects firms to consider in advance the possible implications of a MTE on their business, including what steps might reasonably be taken in advance to enable them to respond appropriately and meet their regulatory obligations. The PRA expects the level of consideration given to these issues by firms to be proportionate to the nature and scale of their business, and the impact that an MTE is likely to have on its operations.

3.2 Where a firm's business is such that an MTE and its potential consequences could have a significant impact on the firm's financial position or future business plans, the PRA expects firms to consider their approach to MTEs particularly with regard to risk management, capital management and financing, governance, and reporting and disclosure. The following sections set out the PRA's expectations in these areas in more detail.

1 For example, news may emerge only over time about the circumstances relating to the event in question. It may also take firms some time to assemble data on their exposures. The full implications of the event and the existence of secondary losses may only become apparent over time. Finally, firms might have risk mitigation arrangements in place (for example, reinsurance protection) which may enable some losses to be recovered in time.

3.3 The PRA recognises that there is a limit as to how much detailed planning can be undertaken for a future event whose cause and likely consequences are uncertain, and that firms will need to preserve appropriate flexibility within their plans to respond appropriately to circumstances at the time. The PRA's expectations in relation to firms' planning for an MTE focus on the general considerations which might arise in dealing such an event, rather than specific detailed planning for a particular MTE scenario.

4 Risk management

4.1 As part of their general governance and risk management, the PRA expects firms to put in place appropriate processes and procedures that would enable them to prepare for and manage the impact of an MTE on their business. In order to do this the PRA expects that a firm should consider in its planning the following factors (amongst others):

- how it would go about gathering initial estimates of exposures and possible losses, the speed at which it might be able to produce credible initial estimates, and the range of possible uncertainties it might face in collecting and compiling relevant data;

- how its own resources might need to be mobilised to ensure a timely and joined-up internal response to an MTE; for example how it would ensure that it drew appropriately on expertise from teams dealing with claims, reserving and capital, reinsurance, financial reporting, and communications issues;

- what lessons might be drawn from previous events concerning a firm's ability to calculate reliable loss estimates at different stages of the development of the loss; and

- how it might use a dry-run scenario or reverse stress testing to test its likely financial and operational response to an MTE, including some of the factors mentioned in the following sections;

- where firms are part of larger international groups, how any local response might need to be coordinated or managed as part of a wider group initiative.

4.2 After an MTE, the PRA would expect a firm to use all the tools at its disposal, including its understanding of its business model and the risks it faces, to help inform its analysis of the impact of the MTE and how it might respond. The PRA expects that, following an MTE, firms should consider appropriate methods for:

- assessing potential uncertainties around initial loss estimate(s);

- establishing and maintaining appropriate reserves for the loss event, and assessing the potential for future reserve deterioration;

- assessing any proposed revisions to an agreed business plan, including any potential implications for a firm's economic or regulatory capital requirements of changes to business volumes or mix of business;

- assessing the ongoing appropriateness of a firm's stated risk tolerances, risk appetites, or the appropriateness of its reinsurance programme;

- assessing the continued appropriateness of a firm's investment strategy, given the potential for different MTEs to have different speed of loss development and payment profiles; and

- informing any rating agency capital analysis, or the potential need for revisions to a firm's own risk and solvency assessment (ORSA) or stress and scenario analysis.

Firms with internal models approved under Solvency II

4.3 After an MTE, the PRA would expect a firm with an approved internal model to consider how it might use its model to help inform its analysis of the impact of the MTE and how it might respond. The PRA does not expect that the internal model would be the only tool that firms would use in such a scenario. Nevertheless, the PRA expects that, following an MTE, firms might consider using their internal models for a range of purposes including the matters listed in paragraph 4.2 above.

4.4 Firms with approved internal models are responsible for ensuring their internal models meet the required tests and standards on an ongoing basis, and for assessing whether model changes might be required in accordance with their approved model change policies. After an MTE, the PRA would expect firms to consider whether the event might prompt a need to review elements of an approved internal model. For example, an MTE might generate new data which might change firms' assessments of the likelihood or severity of extreme events, or affect firms' judgements on possible correlations or dependencies between risks.

4.5 At the same time, the PRA recognises that it might take some time after an MTE for reliable data to become available which are sufficiently complete and accurate to enable the firm to undertake a robust assessment of whether (and, if so, how) its internal model should be re-parameterised and/or re-validated. The PRA has published in Supervisory Statement 12/16 'Solvency II: Changes to internal models by UK insurance firms'[1] (September 2016) its expectations of firms in relation to internal model changes. This includes its expectations on how firms might deal with any temporary deficiency in its internal model which might arise following an external event such an MTE.

5 Capital management and financing

5.1 Firms are required to monitor their SCR on an ongoing basis. In the event of a breach or potential breach of the SCR or MCR, within the following three months firms are required to inform the PRA, and provide either a realistic recovery plan or finance schedule according to the requirements in the PRA Rulebook, Undertakings in Difficulty 3.1 and 4.1. If an MTE coincided with a declaration of an exceptional adverse situation then there is also the possibility that the recovery period could be extended, by a maximum of 7 years.

5.2 The PRA recognises that for some events, it might take some time for firms to gather reliable and stable loss estimates. Nevertheless the PRA expects firms to consider in advance how they could gather information as quickly as practicable after a major event to assess the likely impact on their financial positions, to enable their boards and senior management to respond as necessary.

5.3 Although firms might assume that additional capital would be available quickly after an MTE either to help restore a firm's solvency position, or to provide funds to enable additional

1 Available at; www.bankofengland.co.uk/pra/Pages/publications/ss/2016/ss1216.aspx.

business to be written, the PRA expects firms also to consider what actions might be required in the event that further capital was not available as quickly as assumed (e.g. if the MTE occurred at a time of wider financial market disruption, or if additional capital from other group companies was not available).

5.4 As with any adverse situation, firms which might be impacted by a MTE are required to keep the PRA informed of their assessment of the impact of the event on their financial position, their strategy and business plans, their operational capabilities, and any other issues which might be material to the PRA's prudential assessment. The PRA would also expect firms to keep their supervisors updated if their assessments changed over time.

5.5 The PRA rules require firms to remain adequately capitalised at all times.[1] For internal model firms, this includes a period in which a model change application is being reviewed by the PRA. The PRA may consider using supervisory tools (including as a temporary measure) to ensure that any risks are adequately mitigated where an internal model no longer meets the required tests and standards.

6 Governance

6.1 The PRA expects firms to consider in advance and to put in place appropriate arrangements to ensure that their boards and senior management teams are able to provide effective management oversight following an MTE, and to ensure that significant decisions can be made quickly where necessary.

6.2 It is the responsibility of a firm's board of directors to assess whether the financial position of the firm is sufficiently secure to enable it to continue to trade and to meet its ongoing legal and regulatory obligations. The PRA expects a firm to consider in advance what information its board would wish to see to gain assurance about the firm's financial position after an MTE, and to assess what contingency actions might be available to the firm to improve its financial position if necessary. These actions might include potential recapitalisation options, either immediately after an event or in the event of future deterioration over time as loss estimates develop.

6.3 The PRA expects that after an MTE a firm's board would need to take particular care to consider how the financial position of the firm might have been affected by the event when deciding how it should respond, particularly given the likely uncertainties involved in developing loss estimates in the early stages after an MTE. The PRA expects firms to be able to explain, if asked, the judgements that their boards had reached in this area.

6.4 Some firms might wish to respond to changed market conditions after an MTE by amending their business plans significantly to write greater levels of business or different classes of business than previously expected. The PRA expects firms wishing to respond in this way to assure themselves and their boards of directors that their financial position is sufficiently robust to justify their plans at a time of uncertainty that is likely to follow an MTE. The PRA expects a firm in this position to consider factors such as:

- the robustness of its short-term financial position, taking into account the possible initial uncertainty on loss estimates;

1 Fundamental Rules 2.4 and Solvency Capital Requirement – General Provisions 2.1.

- the potential impact of any losses on the remaining coverage available within a firm's reinsurance programme;
- the availability and speed of access to additional capital where needed;
- the financial and non-financial resources available to the firm to support writing higher volumes of business;
- the expertise available to the firm to ensure business written in new areas (geographies, products, etc.) can be understood, monitored and controlled appropriately; and
- for subsidiaries of broader international groups, the extent to which support is likely to be available from other group companies.

6.5 The PRA also expects firms to notify the PRA of any material changes to business plans agreed by their boards in these circumstances.

7 Reporting and disclosure

7.1 Firms are likely to have a number of potential parties to whom they might owe obligations to communicate or disclose information following an MTE, such as investors, other market participants, policyholders, staff and regulators. Firms are responsible for determining the obligations they have in these areas and for making the appropriate disclosures. When planning for such an event, the PRA expects firms to have considered what notifications or applications they might need or wish to make to the PRA, the Society of Lloyd's or other authorities following a large loss event, and to consider what planning they might undertake ahead of an MTE to ensure they could make these notifications or applications in a timely manner.

Matters requiring notification or applications to the PRA

7.2 Beyond firms' general obligation to keep the PRA informed of any significant impacts of an MTE on their financial position, operational capabilities, or business plans, some firms might wish (or need) to approach the PRA following an MTE to make some specific regulatory notifications or applications.

7.3 The PRA expects firms to consider (in advance, and at the time of an MTE) whether any aspects of their proposed response to an MTE might require prior approval from the PRA or other bodies, or whether there are matters which might require prior notification to the PRA, based on requirements within the PRA Rulebook. Some examples might include (but are not limited to):

- notification of an intention to issue new 'own funds' items, as specified in the Own Funds Part of the PRA Rulebook;
- applications for PRA approval to include items within a firm's own funds, such as 'ancillary own funds';
- notification of changes to internal models where these models are approved by the PRA for the calculation of firms' regulatory capital requirements;
- notification of significant changes to reinsurance arrangements;

- applications for Part 4A permission for new insurance entities; and
- other matters required to be notified to the PRA (for example, requirements within the Notifications Part of the PRA Rulebook).

7.4 The PRA encourages firms to consider in advance what approvals they might wish to seek from the PRA in advance of an MTE, and to discuss their proposed approach and likely plans with the PRA. A firm should factor in the need for approval of any such applications into its planning for dealing with MTEs.

7.5 The PRA requires the Society of Lloyd's to comply with the applicable notification requirements of the PRA Rulebook.[1] If an individual Lloyd's managing agent believes the impact of the MTE has been sufficiently large to affect its ability to discharge its own regulatory responsibilities, the PRA expects the managing agent to discuss this with the PRA as well as discussing the situation with the Society.

8 PRA data collection following an MTE

8.1 If the PRA judges that an insurance event has occurred which could cause significant losses to firms, the PRA will contact firms through its usual supervisory channels to understand their initial assessment of the likely impact on their financial position. Although firms' initial estimates might be based largely on a high-level exposure assessment, the PRA expects firms to seek to understand as quickly as possible the extent to which the event might impact the level of their own funds or SCR.

8.2 At some point after a large general insurance event, the PRA might consider collecting certain information from affected firms on a standardised basis through an *ad hoc* data request, in order to assist the PRA in assessing firms' individual financial positions and to improve its ability to make decisions quickly.

8.3 As it is likely to be helpful for firms to understand in advance the information that the PRA might request in such circumstances Appendix [1] to this supervisory statement includes an example of a standardised template containing the information that the PRA believes it is most likely to use or need following a MTE. The PRA expects firms to review the template and consider the type of information that is likely to be useful to, and required by, the PRA at the time of an event, and to consider what steps can be taken in advance to improve firms' ability to provide this information to the PRA at short notice and upon request following a MTE.

8.4 The draft template has been prepared with no prior assumptions made about the nature of the possible MTE, its cause or its consequences. As a result, it is possible that the information template used in response to an actual event would be refined to ensure that the data requested was focused and relevant to the specific scenario.

8.5 As part of this data collection, UK entities that are part of a wider group might also be asked by the PRA to provide high-level information on the impact of the event at group level, particularly where there are close financial or operational dependencies between the UK entity and other group companies.

1 See Notifications 3 in the PRA Rulebook.

Dealing with initial uncertainties in loss estimates

8.6 The PRA recognises that there are a number of factors that would need to be taken into account by firms in making and interpreting initial loss estimates following an MTE, potentially affecting the accuracy of data submitted by firms to the PRA in these circumstances[1]. The uncertainties involved in making loss estimates are likely to diminish over time, but in the initial period, the PRA recognises that after an MTE firms might seek to use a range of techniques to come up with initial estimates, including vendor models, expert judgement and market benchmarks. Further uncertainties might be introduced if firms make adjustments to estimate likely net rather than gross losses, taking into account factors such as likely reinsurance recoveries or subrogation. Firms might differ in their ability to aggregate quickly (or in an automated fashion) exposures from different portfolios or legal entities.

8.7 Given these uncertainties, the PRA expects firms to use whatever techniques they believe are available and appropriate in the circumstances to begin to develop loss estimates or ranges at an early stage. The PRA believes it is not appropriate for it to prescribe the basis on which firms must compile and report their loss estimates. Instead, the PRA proposes to include in the standardised template a facility for firms to provide some narrative information to explain the basis on which initial estimates have been compiled. This should help identify any material inconsistencies in the way in which firms have provided the estimates, and thereby reduce the likelihood that inappropriate comparisons or conclusions are drawn from the data.

Timing of information request

8.8 The PRA understands that in an MTE scenario there is likely to be a trade-off between the timescale in which a standard data request is made and returned, and the reliability of the data submitted. As a guide, the PRA believes that in most cases it is most likely to look to issue its initial data request template within a week of the identification of a significant general insurance loss event, and request initial submissions from firms a week thereafter. However, the actual timeframes in which a request is made and the deadlines for responses will be determined by the PRA at the time, according to its assessment of what is appropriate and reasonable. To the extent possible in the circumstances, the PRA might seek to invite a sample of firms to comment at the time on the feasibility of the proposed timetable for initial data submission, and on any changes it proposes to make to the data requested.

8.9 The PRA might also ask firms to provide updated loss estimates periodically as further information on the event and its impact becomes available. This could be through updated versions of the standardised template or through more bespoke requests if appropriate. The frequency of any such further requests is likely to reflect the speed at which new information is likely to emerge, and will be considered by the PRA and discussed with firms at the time.

9 Longer-term lessons from an MTE

9.1 Once firms have managed the immediate issues associated with an MTE, the PRA would expect firms to consider what longer-term lessons might be drawn from the event, in order to improve firms' future governance and risk management arrangements and to improve their preparation for similar future events. Some factors that the PRA would expect a firm to consider include (among other things):

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1 For example, in a natural catastrophe event, physical access to affected geographic areas might not be possible for some time. Furthermore, the consequences of the primary or secondary events might take time to be fully understood and appreciated.

- how its actual loss experience (e.g. in capital models, aggregate exposure management) compared with expected or modelled experience prior to the MTE, and what lessons might be drawn for the robustness of previous assumptions, modelling techniques, processes and controls;

- the ease with which initial loss estimates could be assembled following the MTE, how loss estimates developed over time, and whether changes might be made to systems, internal processes or data collection to improve the timeliness or accuracy of initial estimates for future similar events;

- whether policy definitions, terms and conditions performed as expected or whether changes might need to be made to ensure contracts operated as all parties intended;

- whether its reinsurance programme responded as expected or intended, and whether amendments are required in future including in the event of a change in the firm's risk appetite;

- whether its medium-term business plans, risk appetites, or ORSA remain appropriate in the light of any changes to business profile or future capital position; and

- whether any crisis management, disaster recovery or business continuity arrangements invoked by the firm operated as expected during the event, and whether any changes might be made to improve the firm's response to future similar events.

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Appendix 1: Draft Information request to firms from the PRA for possible use after an MTE

Loss Estimate Return

Event Name:	*[insert]*
Date issued:	*[insert]*
Deadline for return to PRA:	*[insert B5 + 4 weeks]*
Return to:	*PRA-MTE-LER@bankofengland.co.uk*

How to complete	1	If you have de minimis exposure* please submit a nil return and complete the "sign off" table with a brief explanation in "Other Comments" below
	2	Please do not add or remove columns or rows to the spreadsheet or rename any of the fields unless stated to.
	3	All values to be recorded in line with the Solvency II reporting currency. Please use rates of exchange stated below (add others if necessary).
	4	Provide figures in 000,000s
	5	All loss estimates should be recorded as negative (e.g a loss of 125 million would be recorded as: '- 125')
	6	Total Loss should be estimated considering all regions and classes of businesses potentially exposed.
	7	Rate movements by line of business are required, and should be completed on a best endeavours basis using broad risk classifications (e.g. Aviation, Marine, Liability, Property etc...)
	8	This return asks for firms to submit data for 3 different scenarios (stated below) - the first is firm determined and the second two are PRA prescribed.
	9	This return is to be undertaken on a best endeavours basis - the PRA will treat all submissions confidentially.

			£bn
Scenario	**A**	**Firm Best Estimate of Industry**	xx
	B	**Industry Loss Estimate 1**	*xx*
	C	**Industry Loss Estimate 2**	*xx*

Control	**Currency**	CAD	EUR	USD	x	y	z	*[input as appropriate]*
	Rate to 1 GBP	1.82	1.26	1.41				

Submission details	1	Please Save As: ["Firm Name" *event, 20XX - LER*]
	2	Please complete the sign-off below indicating the name and role of the person approving the return.
	3	Completed returns must be submitted to PRA by 12pm on: *DD/MM/YY*

Sign-off	Firm:	xxx
	FRN:	xxx
	Name:	xxx
	Role:	xxx
	Date:	xxx

Other Comments (required if nil return)

Cell that requires input from firms

* The classification of de-minimis is only appropriate if the total gross estimated exposure is less than £10 million

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PRUDENTIAL REGULATION
AUTHORITY

		Event loss and exposure estimates		
Scenario A Firm Best Estimate	YoA	Gross Loss	Net Loss	Net incl. Reinst Prem
	Current Year			
	Prior years			
	Total (000,000)	**0**	**0**	**0**

Reporting Currency	
Pre Event SCR (000,000)	
Post Event SCR (000,000)	
SCR coverage ratio based on pre event SCR (%)	
post event SCR (%)	
SCR Calculation Method	

xx	GBP bn		
	% share of Market loss		
	Enter name & % Share of Largest Reinsurance counterparty opposite:	Reinsurer	%

Notes:

		Event loss and exposure estimates		
Scenario B Industry Loss Estimate 1	YoA	Gross Loss	Net Loss	Net incl. Reinst Prem
	Current Year			
	Prior years			
	Total (000,000)	**0**	**0**	**0**

Pre Event SCR (000,000)	0
Post Event SCR (000,000)	0
SCR coverage ratio based on pre event SCR (%)	
SCR coverage ratio based on post event SCR (%)	

xx	GBP bn
	% share of Market loss

Notes:

		Event loss and exposure estimates		
Scenario C Industry Loss Estimate 2	YoA	Gross Loss	Net Loss	Net incl. Reinst Prem
	Current Year			
	Prior years			
	Total (000,000)	**0**	**0**	**0**

Pre Event SCR (000,000)	0
Post Event SCR (000,000)	0
SCR coverage ratio based on pre event SCR (%)	
SCR coverage ratio based on post event SCR (%)	

xx	GBP bn
	% share of Market loss

Notes:

Loss Estimate Methodology

1	What is the primary method you have used to come up with a gross loss estimate immediately after an event has occurred?	
Notes:		
2	Are your systems able to automatically aggregate your exposure to an event across all your portfolio / entities?	
Notes:		
3	Have you/are you publicly disclosing your loss?	
Notes:		
4	What material assumptions have gone into your loss estimates (including how your reinsurance will respond)?	
Notes:		
5	What are the material areas of uncertainty in establishing the gross loss event? (for instance judgements made around legal decisions or interpretation of contract wordings)	
Notes:		
6	What are the material areas of uncertainty in establishing the net loss event? (for instance judgements made around how the losses aggregate for the purpose of establishing reinsurance recoveries)	
Notes:		