



Director Life/General Insurance
Bank of England
Prudential Regulation Authority

13 June 2014

Solvency II – Director’s update

The last few years have been difficult for firms waiting for clarity on the future of Solvency II. We know that many firms stopped their Solvency II planning and reduced the resources needed to implement the Directive. Encouragingly, the policy landscape is now clearer with the Directive complete and the delegated acts soon available for consultation. Although there are some fundamental policy areas where decisions are still outstanding, including the matching adjustment and volatility adjustment, firms now need to concentrate on the work required to put implementation plans back on track to ensure that they will be ready for Solvency II by 1 January 2016.

Internal model development has been on the agenda of some firms for a number of years. Despite this, the PRA is not always seeing the progress it would expect if firms are going to be ready to submit a formal application for internal model approval from 1 April next year. This is underlined if we look at the current status of model development, based on discussions and meetings with firms. A significant number of firms are behind on their work plans so there is a real risk that these firms will not reach the standard expected of a preliminary review by transposition on 1 April 2015.

The PRA has provided some assistance to help firms to understand where it perceives the gaps in model development to currently exist. In April 2014, the PRA issued Supervisory Statement 7/14 on Solvency II: The calculation of technical provisions and the use of internal models for general insurers.

<http://www.bankofengland.co.uk/pr/Documents/publications/policy/2014/solvency2calctechcp714.pdf>

In April and May 2014, the PRA held two technical conferences, one for general insurance and one for life firms, where we identified some common issues and provided some thoughts on possible solutions. The delegate packs from both events are available in Key Resources via the link below.

<http://www.bankofengland.co.uk/pr/Pages/solvency2/internalmodel.aspx>

To ensure that the remaining nine months, before we start receiving formal applications, are as productive as possible, any remediation work required to ensure the internal models meet the tests and standards of Solvency II needs to start now. Firm representatives are encouraged to meet their supervisory teams as soon as practicable to agree joint plans to achieve model development and discuss a realistic date for formal application. Firms should also consider their options if their model application is rejected.

On 14 April 2014 the PRA informed firms that it would be undertaking a number of data collection exercises this year. The first was on 13 May 2014 when firms were asked to identify which of the Solvency II approvals their firm intended to apply for, which include undertaking specific parameters, matching adjustment, and various group approvals. The survey closes on 20 June and only a limited number of firms have replied with less than a week to go until the deadline. To help the PRA develop appropriate

templates and processes to facilitate applications for these approvals in the lead up to implementation, firms are reminded to complete the survey before the deadline of 20 June. In addition, the PRA will be asking firms to assist the development of the application process for one of the more complex approvals; the ITS on matching adjustment is now available for consultation on the EIOPA website and your supervisor will be writing to ask firms for a 'best effort' trial submission of the ITS requirements in order to help shape the final process.

The PRA is making preparations to build the IT infrastructure to enable firms to submit Solvency II data for the first time in July 2015; we expect this will be tested with firms in Q1 2015. Firms should be at a similar stage in their regulatory reporting implementation and supervision will ask to see your plans soon. The PRA has convened a Solvency II regulatory reporting industry working group, as a forum for the PRA and industry representatives to discuss technical, and practical, implementation challenges and answer questions. The notes from the meetings are available via the link below in Key Resources. We may also hold meetings later in the year to provide additional support to technical teams in advance of testing the reporting systems.

<http://www.bankofengland.co.uk/pr/Pages/solvency2/preparing.aspx>

The PRA's Supervisory Statement 4/13 set the expectations of firms in relation to EIOPA's preparatory guidelines. Firms are expected to have due regard to the guidelines in order to demonstrate to the PRA that they are making appropriate progress with their preparations for Solvency II to ensure their eventual readiness for the Directive regime. Supervisory teams will be talking to firm representatives to evaluate steps firms are taking to comply with the preparatory guidelines, especially new Solvency II topics, for example, the Prudent Person Principle. The Supervisory Statement also required firms to send us their Own Risk and Solvency Assessment (ORSA) this year and next and it is important that an ORSA that meets the preparatory guidelines is sent to your supervisory team before the end of 2014.

In July this year the PRA intends to consult on the final changes we expect to make to the PRA rule-book. The consultation will be for three months. The paper will include the final changes we expect to make to the rule-book; feedback on the comments we received on our last consultation in July 2012; a number of supervisory statements; and most of the proposed National Specific Templates. There are likely to be further changes before the rules are finally made, not least to pick up on consultation responses. The results of the consultation process will be made available in Q4 2014.

The PRA intends to communicate with firms regularly this year to keep them informed of Solvency II plans. This will include a major external conference in Q4 where PRA subject matter experts will bring together all the information we have communicated throughout the year. This will include updates on the process for formal IMA applications and other approvals; regulatory reporting; use of the standard formula; and, how the firms and regulators will work together post Solvency II implementation. Expected communications over the next five months is attached. Notwithstanding this, firms should maintain regular dialogue with their supervisory teams during this very busy phase.

Yours sincerely



Chris Moulder
Director, General Insurance



Andrew Bulley
Director, Life Insurance

Timetable of activity over the next five months as at 10 June 2014

Date	Description	Information or Action
20 June	Approvals survey due (issued 13 May).	Action
July	Update on Solvency II from PRA Directors, including: regulatory reporting progress; consultation paper for PRA rule-book; preparatory guidelines; and firm survey.	Information
July	Firm survey on Solvency II progress issued to firms	Action
Early Q3	Consultation to transpose Solvency II into PRA Rulebook	Information and action
August	Update on Solvency II from PRA Directors, including: Consultation paper; regulatory reporting update including technical meetings; and update on approval survey.	Information
22 August	SCR comparison and SRI returns due (issued 23 May).	Action
From August	Technical conferences on regulatory reporting. This is in addition to the technical information on integrating with the PRA systems, testing firms systems and on-boarding firms.	Information
Early September	Solvency II briefing for firms – details to follow	Information
September	PRA Solvency II regulatory reporting industry working group	Information
September	Update on Solvency II from PRA Directors, including: standard formula update; National Specific Templates; and, initial findings from SCR and SRI survey.	Information
October	Update on Solvency II Directors; including more information on the industry conference.	Information
10 November	PRA Solvency II Conference, including: formal IMAF applications and other approvals; regulatory reporting; use of the standard formula; and, how the firms and regulators will work together post Solvency II implementation.	Information