



Director Life/General Insurance
Prudential Regulation Authority

16 October 2014

Solvency II Directors' update

Since we wrote to you last on 19 August the PRA has been working to ensure that firms are kept informed on the PRA's thinking on Solvency II. This included an update on Solvency II implementation on 29 August, CP 23/14: Solvency II approvals and a letter from Paul Fisher on Solvency II: Matching adjustment which were both published on the website on 15 October 2014. The timetable of activity (the appendix to this letter) details the next communications the PRA intends to issue and any firm actions required between now and March 2015. If firms have any questions on these communications please contact the Solvency II mailbox on S2comms@bankofengland.co.uk.

Information on the Solvency II balance sheet, technical provisions and review of own funds was added to the 'Other Pillar 1' page in the Solvency II section of the Bank website today. This information sets out how the PRA will gain assurance that a firm's Solvency II balance sheet is adequate for all internal model and some large standard formula firms when assessing the solvency capital requirement calculations. The proposals involve a two-step approach. The first is a 'review and recommend' report on the preparedness of firms to implement the Solvency II regulatory framework in respect of the balance sheet, technical provisions and own funds. This report will be required from firms before the end of 2015 Q1. The second step will be a 'reasonable assurance' opinion on the balance sheet, technical provisions and own funds which should, ideally, be completed by 30 June 2015. Supervisors will contact those firms that will be affected by this process before mid-November 2014. If firms are uncertain whether this should apply to them they should get in touch with their usual supervisor contact.

On 15 October, the PRA also issued two communications on Solvency II approvals. The first was a consultation paper, CP23/14: Solvency II other approvals¹ setting out the proposals for guidance and expectation of firms in the formal application process for internal model and other approvals, including the matching adjustment and undertaking specific parameters. This CP provides details of a matching adjustment pre-application process. Pre-applications for the matching adjustment can be submitted from 1 December 2014 to 6 January 2015 and firms should inform their usual supervisory contact if they wish to participate by 30 November 2014. The process will give the PRA an indication whether a draft application for MA approval is likely to meet the requirements of a formal application and for the PRA to provide the firm with feedback when additional work may be needed. It will also allow the PRA to refine the feedback it has already provided on the MA and provide firms with additional clarification and guidance.

¹ <http://www.bankofengland.co.uk/pru/publications/cp/2014/cp2314.aspx>

The second communication issued on 15 October was a letter from Paul Fisher, entitled Solvency II: Matching adjustment². This letter is designed to answer some of the questions we have had already from firms on Article 77(b) of the Solvency II Directive³, particularly on the interpretation of the eligibility criteria and the nature of evidence the PRA expects firms to submit to demonstrate compliance with the criteria. It also provides feedback on the MA trial submission and, based on this, the PRA's expectations for MA (pre)applications. The PRA expects to issue a similar communication after the MA pre-application phase to help firms make formal applications.

The PRA would like to thank firms for providing their swift response to the data collection exercise in August. The PRA is now completing the analysis and high level results indicate that the standard formula should be appropriate for most firms. Where the standard formula is not an adequate fit for a firm's risk profile, it will be asked to take mitigating options such as developing a partial internal model, making an application for an undertaking-specific parameter, or adjusting their underlying business model. There will be more on this topic at the conference on Friday 17 October 2014.

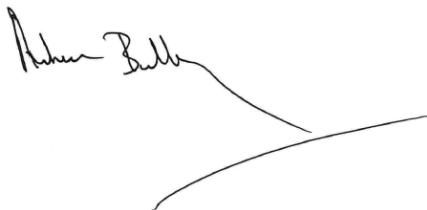
With respect to internal models, some firms are making good progress. It is, however, of concern that, despite previous messages, a number of firms are still behind with internal model work and not meeting deadlines. There are now less than six months before transposition and the PRA sees a clear risk that some firms will not receive approval to use their model unless there is significant progress between now and when formal applications are received. Governor Mark Carney set out the PRA's position on model approval very clearly in his speech to the Institute and Faculty of Actuaries General Insurance Conference on 25 September 2014⁴:

“The dangers of using poorly designed models were made all too clear in the banking sector. So the Bank won't hesitate to withhold approval of inadequate or opaque models”.

It is also evident, following discussions with firms, that some have still not developed a contingency plan should the PRA reject the model application. Supervisors will be having more detailed discussions with firms on their plans in the coming months in order to clarify their contingency plan.

Finally, the PRA will host its conference on Solvency II on Friday 17 October 2014. The intention is to make the conference as informative as possible and the PRA looks forward to seeing industry representatives at the event.

Yours sincerely



Andrew Bulley
Director, Life Insurance



Chris Moulder
Director, General Insurance

² <http://www.bankofengland.co.uk/pradocuments/solvency2/matchingadjustmentletteroct2014>

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>

⁴ <http://www.bankofengland.co.uk/publications/Pages/speeches/2014/757.aspx>

Timetable of activity October 2014 to 31 March 2015

Date	Description	Information or Action	Dependency on policy certainty
Yesterday, 15 October	Publication of CP23/14: Solvency II other approvals and Paul Fisher's letter on Solvency II: Matching adjustment	Information and action	No
17 October	PRA Solvency II Conference, including: IMAP 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	Yes
7 November	Deadline for responses to CP16/14: Transposition of Solvency II: Part 3	Action	No
End November	Consultation paper on: other SII approvals; regulatory reporting; and, pensions in the internal model.	Information and action	Yes
By end November	Firms wishing to enter matching adjustment pre-application approval process inform usual supervisory contact.	Action	No
1 Dec 2014-6 Jan 2015	Submit matching adjustment pre-application approval process submissions.	Action	No
9 January 2015	Deadline for responses to CP23/14: Solvency II other approvals	Action	No
March 2015	Policy Statement on Solvency II	Information and action	No
31 March 2015	Transposition of Solvency II into the PRA rulebook	Information and Action	No