



Charlotte Gerken
Executive Director, Insurance
Prudential Regulation Authority

13 August 2021

Dear CFO,

Gathering information for the Solvency II Review: Qualitative Questionnaire

Further to my letter to Chief Executives of Tuesday 20 July,¹ which concerned the launch of the Quantitative Impact Study (QIS) for the Solvency II Review, I am writing to you today as the Prudential Regulation Authority (PRA) launches a further data collection: a Qualitative Questionnaire, relevant to both life and general insurers.² Information gathered from the questionnaire, alongside the data gathered from the QIS, will inform further Solvency II policy development. We encourage firms to participate and to provide supporting information. Your responses to the questionnaire are requested by Wednesday 20 October 2021. We will support you through the exercise, including through the roundtable meetings that are already underway, a series of surgeries, updates, and Q&As to help your teams.

Context for the Qualitative Questionnaire in the Solvency II Review

The Solvency II Review will be informed by a wide range of sources of information and analysis. This includes responses to HM Treasury's Call for Evidence (CfE), where respondents have already provided detailed information on a range of issues, across its 11 chapters, including streamlining regulatory processes and areas for greater flexibility, such as eligibility criteria for the Matching Adjustment (MA). However, there are some areas where we seek to obtain further insights to inform the review work. This includes through the QIS, Qualitative Questionnaire, and separate work on regulatory reporting.

The QIS and the Qualitative Questionnaire are more targeted in nature and do not cover all areas of the Solvency II Review. They differ in their respective focuses and scopes, although there are some topics, such as Risk Margin, MA, and Transitional Measure on Technical Provisions (TMTP), which are explored in both.

We understand that firms would welcome an update on where and how the issues that were raised in response to the CfE are being addressed, and how the QIS and Qualitative Questionnaire relate to them. With that in mind, the annex to this letter contains some further explanation.

Purpose and content of the Qualitative Questionnaire

As you know, we are working closely with HM Treasury to develop a range of potential reforms to Solvency II to achieve three objectives the Government has set for the review: to spur a vibrant,

¹ <https://www.bankofengland.co.uk/prudential-regulation/letter/2021/july/gathering-data-solvency-ii-review>.

² <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/solvency-ii/solvency-ii-reform-quantitative-impact-survey/qualitative-questionnaire.xlsx>.



innovative, and internationally competitive insurance sector; to protect policyholders and ensure the safety and soundness of firms; and to support insurance firms to provide long-term capital to underpin growth.

The Qualitative Questionnaire will complement the QIS by allowing us to undertake a broader analysis of areas for reform, beyond quantitative balance sheet impacts. Specifically, the questionnaire will gather information for three key purposes:

- First, to support the development of reforms to make the regime more streamlined and/or flexible – this includes MA requirements, the internal model approval framework, and the TMTP.
- Second, to understand the business impacts of potential policy design options, particularly how firms might respond to regulatory changes to the Risk Margin, MA, and internal model approval framework; and how these changes might support the objectives of the review.
- Third, to understand the costs of complying with the current regime, as well as the implementation costs of potential policy design options, for example for the Risk Margin and the MA.

We would value any additional insights and explanation firms can give us to support our analysis. The responses to the questionnaire will be important in order to inform our development of policy proposals, including future cost benefit analysis.

Design of the questionnaire

We have designed the questionnaire to gather relevant information that allows us to analyse a wide range of potential policy options, and to understand how these are likely to help achieve the review's objectives. The qualitative questions asked do not in themselves represent reform proposals or decisions. This is consistent with how we approached the QIS. In some instances, we believe it is helpful for the questions to cross-refer to design variants and calibrations described in the QIS. This is to provide illustrative scenarios that can act as a focus to firms' responses, but enable us to use responses to help analyse the impact of other scenarios not specified in the QIS. We encourage firms to use the questions with 'free-form' responses in the questionnaire to help us understand the factors that affect their answers and how they might change with a different regulatory option or calibration. We would like firms to be as evidence-based as possible when answering these questions, for example by referring, wherever possible, to relevant actions that were actually taken or contemplated in past situations. We would also welcome supplementary information from firms to support their responses.

Next steps

Since the launch of the QIS, we have held industry roundtables on 3 and 5 August 2021, to engage with firms. We intend to hold a further roundtable in respect of the Qualitative Questionnaire in September. And we will continue to work closely with insurers and other stakeholders during this stage of the Solvency II review.

We will also continue to keep the technical Q&A document updated on the QIS section of the PRA website.³ We will provide a similar Q&A document covering the Qualitative Questionnaire.

³ <https://www.bankofengland.co.uk/prudential-regulation/key-initiatives/solvency-ii/solvency-ii-reform-quantitative-impact-survey>.



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

We encourage you to engage with us early with any challenges or queries, and to maintain an open dialogue. We are particularly keen to hear from firms that are facing difficulties in completing all of the requested information, where we might identify bilaterally and/or through surgeries what information they could provide that would be of most value.

Any queries about the QIS or the Qualitative Questionnaire should be addressed to InsuranceData@bankofengland.co.uk in the first instance, copying your usual supervisory contacts.

Once we have the data from the QIS and the Qualitative Questionnaire, we will work closely with HM Treasury to analyse the results, together with other information, and to develop policy proposals.

Thank you for your continued efforts to respond to the QIS and the Qualitative Questionnaire over the coming months. Your participation and response will provide invaluable information to support the development of a comprehensive package of Solvency II reforms.

Yours faithfully

Charlotte Gerken

Executive Director, Insurance Supervision, Prudential Regulation Authority



Annex: The relationship between HM Treasury’s Call for Evidence, the QIS, Qualitative Questionnaire, and other work

The issues raised in HM Treasury’s Call for Evidence (CfE) fall into three broad categories:

1. Issues with aspects that can be modelled quantitatively. The QIS gathers data that will allow us to do our own modelling of a range of possible policy designs and calibrations.
2. Issues with aspects that do not lend themselves to modelling, but for which gathering largely qualitative information can help inform policy proposals.
3. A set of issues where gathering further data is not needed or, if it is, then the QIS or Qualitative Questionnaire may not be the best way to collect it.

Category 1

Issues in category 1 include elements of the Risk Margin, the calculation of the MA, and the TMTP. The data we will gather through the QIS will allow us to model a wide range of potential policy designs and calibrations, under different economic conditions. For the Risk Margin, this includes different percentiles for the Margin Over Current Estimate (MOCE) approach, and different parameters under ‘cost-of-capital’ approaches. Similarly, the QIS will collect data that will allow the PRA to model different possible design variants and calibrations for the Fundamental Spread (FS).

Category 2

Issues in category 2 include approvals and eligibility requirements for the MA; Internal Model Approval, as well as other elements of the Risk Margin; the calculation of the MA; and TMTP. The Qualitative Questionnaire allows us to explore areas for additional regulatory flexibility and streamlining raised in the CfE. This includes eligibility and approval for the MA and the Internal Model approval framework. The CfE identified TMTP as another area where requirements governing the calculation could be improved. We also wish to understand the likely combined effect of potential reform options on firms’ business strategies, such as risk appetite, business growth, reinsurance, and investments, which goes beyond the first order financial impacts quantified in the QIS.

Category 3

Issues in category 3 include regulatory reporting, group SCR calculations using multiple internal models, branch capital requirements, and thresholds for regulation under Solvency II and mobilisation of new insurance firms. For reporting requirements, we have already consulted on a number of ‘quick win’ changes, and we will engage firms during a second phase of the review of reporting to develop further proposals.⁴ For the remaining issues in this category, we believe we have sufficient material to support our analysis. We have information from the CfE, and from the course of operating Solvency II over the last five years, including from quarterly and annually submitted data. Furthermore, some topics have already been and will also be informed by industry engagement, including via the PRA Practitioner Panels.

⁴ July 2021: <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/july/review-of-solvency-ii-reporting-phase-1>.