

Policy Statement | PS16/18

Changes in insurance reporting requirements

July 2018



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY





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1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 2/18 'Changes in insurance reporting requirements'.¹ It also contains the PRA's final policy, as follows:

- amendments to the Reporting Part of the PRA Rulebook (Appendix 1);
- Supervisory Statement (SS) 6/18 'National Specific Templates: LOG files' (Appendix 2);
- updated SS11/15 'Solvency II: Regulatory reporting and exemptions' (Appendix 3); and
- amendments to the Change in Control Part of the PRA Rulebook (Appendix 4).

1.2 This PS is relevant to all UK Solvency II firms, the Society of Lloyd's and its managing agents and mutuals.

1.3 In CP2/18 the PRA proposed to:

- update the scope, content and/or format of eight of the thirteen National Specific Templates (NSTs): NS.01, NS.02, NS.05, NS.06, NS.07, NS.09, NS.10 and NS.11, found in rule 2.6 and Chapter 8 of the Reporting Part of the PRA Rulebook;
- amend the content of corresponding NST LOG files and introduce a new supervisory statement containing the LOG files;
- update SS11/15 'Solvency II: Regulatory reporting and exemptions' for changes to quarterly reporting waivers and clarification on the timing when resuming reporting should a waiver expire or be revoked; and
- amend rule 5.2 of the Change in Control Part of the PRA Rulebook to exempt mutuals from submitting Annual Controller Reports if they do not have a Controller.

Changes to draft policy

1.4 After considering the responses, the PRA has made minor amendments to the draft rules and LOG files to provide further clarity on completion of the relevant NSTs. The PRA considers that the above changes enhance the clarity of the final rules and will therefore reduce the burden on firms relative to the original proposal in the CP. In the PRA's opinion, the impact on mutuals of the policy set out in the updated SS is not significantly different from the impact on other firms. Chapter 2 of this PS summarises the issues raised by respondents and provides further details of the changes.

1.5 The amendments made to the Reporting Part of the PRA Rulebook focus on the ordering of the sub-paragraphs within rule 2.6, in order to improve the flow of information for NSTs, and group together the requirements for long-term insurers.

1.6 For clarification, in line with feedback, the rules for NSR.01 and NSR.02 (part of NS.01 and NS.02 respectively) have been amended to include 'and for the remaining part'.

¹ January 2018: www.bankofengland.co.uk/prudential-regulation/publication/2018/changes-in-insurance-reporting-requirements.

1.7 The PRA has amended the definition of 'employers' liability' to align with the definition under Solvency II. This is for clarity and is not intended to affect the information to be submitted.

Implementation

1.8 The policy relating to NSTs will take effect for all financial year-ends on, or after, Monday 31 December 2018.

1.9 The modification by consent for Category 4 and 5 firms (introduced in the updated SS11/15) will apply from quarter 3 2018 onwards.

1.10 The policy relating to Annual Controller Reports submitted by mutuals will apply from Saturday 1 September 2018.

1.11 The policy contained in this PS has been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including changes arising once any new arrangements with the European Union take effect.

2 Feedback to responses

2.1 Before making any proposed rules, the PRA is required by the Financial Services and Markets Authority (FSMA) to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its response to them.¹

2.2 The PRA received nine responses to the CP. Respondents generally welcomed the PRA's proposals, particularly smaller firms. Some respondents made a number of observations relating to further changes to be considered and requests for clarification which are set out below.

National Specific Templates

NS.01 With-profits value of bonus, NS.02 With-profits assets and liabilities

2.3 The PRA received six responses to the changes in scope proposed for NS.01 and NS.02, whereby the submission of these templates is limited to with-profits firms where the with-profits best estimate liabilities are more than £500 million.

2.4 Two respondents questioned whether the £500 million limit applied at firm or fund level.

2.5 The PRA confirms that the test on with-profits liabilities is for the firm as a whole. NSR.01 and NSR.02 are required for each fund if the total exceeds £500 million.

NS.05 Revenue account life

2.6 The PRA proposed to remove some information from NS.05 as the majority of relevant information is expected to be available within the Quantitative Reporting Templates (QRTs) once the variation analysis reporting is submitted.

2.7 One respondent considers there to be overlap with QRTs and UK Generally Accepted Accounting Practice (GAAP) financial statements.

2.8 The PRA requires additional detail to that submitted within the QRTs in order to carry out analysis where there are several sub-funds in some firms and a variety of types of claim. The PRA considers it premature to amend the split of claims after just one year of fully analysed data.

NS.07 Business model analysis (non-life)

2.9 The PRA proposed a number of changes in relation to NS.07, including bringing the template more into line with QRTs, simplifying the format, requiring the same information for all business plan years and introduction of some items important for business model analysis.

2.10 One respondent considers there to be overlap with QRTs and statutory accounting, and two respondents requested additional justification for some of the additional items.

2.11 The PRA considers the changes to NS.07 to align with the QRTs do not result in material overlap with S.05.01. NS.07 requires claims incurred and premiums earned split into their component parts to enable the PRA to assess reserve adequacy on an accounting basis and to understand where firms source their income.

NS.10 Projection of future cash flows (Best Estimate - non-life: liability claim types)

2.12 The PRA proposed substantial layout changes to NS.10 and some changes to content.

2.13 One respondent considers there to be overlap with QRTs and two respondents requested additional justification for some of the changes.

2.14 The PRA considers there to be negligible overlap with S.17.01 as the focus of NS.10 is the best estimate by claim type, and mainly latent claims.

Updates to SS11/15 ‘Solvency II: regulatory reporting and exemptions’

2.15 The PRA received seven responses to the proposed updates to SS11/15. All respondents were supportive of the proposal to replace the formal quarterly reporting waiver application process for Category 4 and 5 firms with a modification by consent.

2.16 Three of the responses received were specific to the proposals in CP2/18. An additional two responses related to other aspects of the PRA’s approach to granting Solvency II reporting waivers.

Solo quarterly reporting waivers

2.17 One respondent commented that the PRA could provide greater certainty to firms by permanently waiving quarterly Solvency II solo reporting. The duration of this modification by consent is aligned to the rule which it modifies. The direction for modification by consent will last until the date when the relevant rule is revoked, or no longer applies to a firm (in whole or in part).

2.18 Another respondent asked the PRA to ensure that firms with non-December year-ends are not disadvantaged by later acceptance of the modification by consent. The PRA does not envisage that its ability to grant quarterly reporting waivers for Category 4 and 5 firms will be limited by the timing in which these firms accept the modification by consent. The total population of Category 4 and 5 Solvency II firms currently represent less than Solvency II life, non-life and reinsurance market share limits. The PRA’s evaluation of other Solvency II reporting waivers will be made without prejudicing its ability to grant solo quarterly reporting waivers to Category 4 and 5 firms.

2.19 Category 4 and 5 firms with existing quarterly reporting waivers can accept the modification by consent when their current waiver is due to expire. Category 4 and 5 firms without an existing quarterly reporting waiver can accept the modification by consent at their preferred time, in advance of the quarterly reporting date from which the waiver will commence.

2.20 One respondent commented that for some firms with a quarterly reporting waiver, maintaining the ability to meet an ad-hoc data request from the PRA is no less onerous than reporting the quarterly templates waived. As circumstances impacting the fulfilment of the PRA’s objectives with respect to a specific firm may change, the PRA must maintain the ability to request data from firms with a quarterly reporting waiver via ad hoc means. The timing and nature of such a request will be subject to the circumstances of the request and a firm may discuss with their usual supervisory contact how such a request can be met.

Other responses

2.21 One respondent called for the PRA to review the exclusion of the second quarter Solvency II S.02.01 Balance Sheet and the S.23.01 Own Funds returns from the scope of the quarterly reporting waiver. The PRA continues to consider these returns to provide important information to supervisors, in addition to minimum capital requirement data, to understand the changes in the balance sheet and own funds between annual reporting submissions. There

are no changes to the list of solo quarterly returns required from firms with a quarterly reporting waiver in SS11/15.

2.22 One respondent also called for the PRA to demonstrate a willingness to waive the annual item-by-item returns in addition to the quarterly reporting included in SS11/15, and to provide firms with an indication of the eligibility criteria. Under the Solvency II Directive, reporting with a frequency less than one year can only be waived where it is reported at least annually. The PRA considers its ability to waive the same return quarterly and annually for a firm to be mutually exclusive. The criteria listed in Articles 35(7) to 35(8) of the Solvency II Directive will inform the PRA's consideration of annual item-by-item reporting waivers. The eligibility of firms for these reporting waivers is considered on a firm-specific basis.

Submitting Annual Controller Reports for mutuals

2.23 The PRA proposed to extend the exemption in the PRA Rulebook permitting a firm not to submit the Annual Controllers Report (REP002 Controllers Report) unless it is aware of the existence of a Controller. The exemption is currently available for friendly societies, and the PRA proposed to extend this exemption to all mutuals.

2.24 The PRA received two responses, both supporting the proposal to relieve mutual firms from submitting the REP002 Controllers Report. This change in the scope of the exemption to submit the Annual Controllers Report will come into legal effect simultaneously in both the FCA Handbook and PRA Rulebook.

Appendices

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- 1 **PRA RULEBOOK: REPORTING PART AMENDMENT INSTRUMENT**, available at:
www.bankofengland.co.uk/prudential-regulation/publication/2018/changes-in-insurance-reporting-requirements

 - 2 **SS6/18 'National Specific Templates: LOG files'**, available at:
www.bankofengland.co.uk/prudential-regulation/publication/2018/national-specific-templates-log-files-ss

 - 3 **Updates to SS11/15 'Regulatory reporting and exemptions'**, available at:
www.bankofengland.co.uk/prudential-regulation/publication/2015/solvency2-regulatory-reporting-and-exemptions-ss

 - 4 **PRA RULEBOOK: ANNUAL CONTROLLER AMENDMENT INSTRUMENT**, available at:
www.bankofengland.co.uk/prudential-regulation/publication/2018/changes-in-insurance-reporting-requirements