BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Review of Solvency II: Qualitative Questionnaire Q&A

Updated: 13 October 2021. Coloured text details new content with this update.

This Q&A covers queries to assist firms with the completion of the Qualitative Questionnaire, for example to provide clarification on the information required. It does not cover questions relating to reform proposals or the broader Solvency II (SII) review.

Please raise any queries to your usual supervisory contact or InsuranceData@bankofengland.co.uk. Where appropriate and relevant to all firms we will update this Q&A with a response.

General questions

1. Why is the PRA doing the Qualitative Questionnaire?

On Thursday 1 July 2021, the Government published its response to its 'Call for Evidence' for the SII review. As part of that response it asked the PRA 'to model different options to better understand which combination of reforms would best meet the Government's objectives and what the aggregate impact would be'. Together the Quantitative Impact Study[1], launched on 20 July, and the Qualitative Questionnaire will gather the data that will help us carry out this modelling, which will inform an overall set of SII reforms.

The Qualitative Questionnaire complements 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:

i. To support the development of reforms to make the regime more streamlined and/or flexible – this includes Matching Adjustment (MA) requirements; the internal model approval framework, and the Transitional Measure on Technical Provisions (TMTP).
ii. 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.
iii. To understand the costs of complying with the current regime, as well as the implementation costs of potential policy design options, for example the calculation of the Risk Margin and the MA.

[1] Review of Solvency II: Quantitative Impact Study (QIS).

2. What is the timeframe for completion of the Qualitative Questionnaire?

The Qualitative Questionnaire was published on Friday 13 August. Participants should submit responses by Wednesday 20 October. The timescales of the QIS and the Qualitative Questionnaire have been set to fit within the overall review of SII.

We encourage participants to engage with the Qualitative Questionnaire early and to provide any feedback or queries within the first few weeks of this publication.

If you wish to participate in the Qualitative Questionnaire but find that the timescales may be challenging, please contact your usual supervisory contact (and copy in InsuranceData@bankofengland.co.uk).

3. What firms fall within scope of the Qualitative Questionnaire?

The Qualitative Questionnaire is relevant to UK solo insurance firms (both life and non-life), the Society of Lloyd's and managing agents at Lloyd's.

UK groups are out of scope of the Qualitative Questionnaire, unless you have been specifically contacted by the PRA to provide a response.

We have written to a number of firms inviting them to participate in the exercise to ensure that we have an appropriate breadth and level of coverage in the industry for our study. If you receive this invitation, we would ask that you prioritise resource to complete the exercise to the standard needed to inform policy making.

We welcome responses from all other UK regulated firms should they wish to participate.

We are liaising directly with the Society of Lloyd's to receive an aggregate submission to the QIS Template (i.e. the quantitative elements of the QIS, which is a separate document to the Qualitative Questionnaire) that will cover all managing agents. We have also asked the Lloyd's Market Association (LMA) to consider coordinating a response to the Qualitative Questionnaire from managing agents. Regardless of this, individual managing agents are welcome to respond separately to the Qualitative Questionnaire.

4. What businesses should composite firms provide data for?

Composite firms should provide information for all lines of business, split as appropriate according to the templates and instructions.

5. What level of validation and governance will be required before submitting a response?

It is important for the PRA to receive high-quality data, so we ask that firms take an appropriate level of validation before it is submitted. Where possible, we would like firms to be as evidence-based as possible when answering the questionnaire, for example by referring to relevant actions that were taken or contemplated in the past. However, we understand that some of the information we request may not be collected by firms for management purposes, such as regulatory compliance costs. We encourage firms to apply a "best efforts" approach to completing such questions, for instance, making use of estimates.

6. Is the Qualitative Questionnaire publicly available?

The Qualitative Questionnaire and supplementary documents have been published on the Bank of England's website.

7. Can work on the Qualitative Questionnaire be outsourced to consultants etc.?

Yes, although we expect firms to be well placed to answer the questions, since they relate to business impacts of regulation and areas where streamlining or greater flexibility would be beneficial.

8. How do I submit a response?

Firms will be asked to submit their data via BEEDS, using the Excel template provided. We ask that firms complete the Main QIS template and Qualitative Questionnaire, and to submit their return via the BEEDS portal no later than 20 October 2021. For the name of the return, please use the full entity name and FRN of the firm followed by:

- "QIS template", for the Main QIS template
- "QIS Qualitative Questionnaire", for the Qualitative Questionnaire

9. Can I request an extension to the 20 October deadline?

A long extension is not possible given the timescales of the overall SII review. There may however be flexibility to give a short extension of the deadline, to agree which parts of the QIS or Qualitative Questionnaire should be prioritised, or to agree simplifications in some areas. Please contact your supervisor (copying InsuranceData@bankofengland.co.uk) if you would like to discuss this further.

10. Does the spreadsheet format of the questionnaire preclude firms from providing as much narrative text in response to questions as deemed necessary?

Firms are welcome to submit as much information as they think is necessary in the questionnaire. In addition, as detailed in the instructions and Dear CFO letter, firms are welcome to submit supplementary information. If firms submit supplementary information, we request that they label to which question(s) their response(s) refer, or, where the response does not neatly relate to a question, they refer to the tab of the questionnaire.

11. Some of the questions request £ or FTE answers. What level of accuracy or quality assurance is required?

We understand that some of the information we request may not be collected by firms for management purposes, such as regulatory compliance costs. We encourage firms to apply a "best efforts" approach to completing such questions, for instance, making use of estimates. We expect that our use of submitted information will be on the basis of aggregates, rather than individual responses.

12. There are questions about annual compliance costs for aspects of the regulations. These costs might vary according to economic conditions, e.g. management costs. How should we record this information in our responses?

We would like firms to provide a typical or average annual cost, based on their experience of Solvency II. In addition, firms are welcome to elaborate on their estimates, or to explain how these costs vary year-on-year according to economic conditions. Firms can provide more details either within the template itself, where there is the opportunity for a "free-text" response, or within a submission of supplemental information. We request that firms label to which question(s) their response(s) refers.

13. Where can I find the meaning of the terms 'Scenario A' and 'Scenario B', or 'MOCE' or 'Risk Tapering' designs for the Risk Margin?

To give a focus to questions about the impacts of regulatory designs for the Risk Margin and Matching Adjustment Fundamental Spread the questionnaire refers to Scenario A and Scenario B. Please see page 22 of the QIS instructions where Scenarios A and B are set out, and the Annex references therein to Risk Margin and Match Adjustment Fundamental Spread (MA FS) designs. QIS instructions v1.1.

For general background on the Risk Margin and MA FS designs in the QIS please see Annex A (page 7) and Annex B (page 9), respectively, of the Government's response to the Call for Evidence: Solvency II Call for Evidence Response.

We will update the questionnaire template to include these references during the week commencing 27 September.

14. Our firm is not completing the QIS, does this mean that we cannot complete the Qualitative Questionnaire?

We believe that firms will still be able to complete the questionnaire if they do not complete the QIS. First the questionnaire has questions about the effects of the current regime, and areas for streamlining and/or flexibility. Secondly, for questions that refer to potential policy design options, or combinations of them (e.g. Scenarios A and B), in the QIS we believe that firms will be able to gauge the high-level impact on their firm by reference to the Instructions to the QIS[2] and the relevant chapters in the Government's response to the Call for Evidence[3]. Firms are welcome to provide information to elaborate on how their responses vary by the materiality of the impact of the potential policy design options.

15. We have had feedback that for some smaller firms the only potential policy design options that are relevant are those for the risk margin, and rather than engage with QIS material, can they answer some simpler questions instead of the Qualitative Questionnaire?

Yes. We would find it helpful if smaller firms could submit answers to the following questions.

1a) how does the design of the risk margin affect **risk appetite**?
1b) what changes, if any, would you make because of different parameters in a cost of capital design (e.g. risk tapering) or a MOCE design for the risk margin. Please indicate how your response varies according to the materiality of the change.
2a) how does the design of the risk margin affect **business growth**?
2b) what changes, if any, would you make because of different parameters in a cost of capital design (e.g. risk tapering) or a MOCE design for the risk margin. Please indicate how your response varies according to the materiality of the change.
3a) how does the design of the risk margin affect **reinsurance programmes**?
3b) what changes, if any, would you make because of different parameters in a cost of capital design (e.g. risk tapering) or a MOCE design for the risk margin. Please indicate how your response varies according to the materiality of the change.
4a) how does the design of the risk margin affect **investment**?

[2] Scenarios A and B are set out on page 22 of the QIS Instructions: QIS instructions v1.1. For firms for which only be the risk margin designs that are relevant, please find further details of them on pages 23-26 of the instructions.
[3] Solvency II Call for Evidence Response.

4b) what changes, if any, would you make because of a different parameters in a cost of capital design (e.g. risk tapering) or a MOCE design for the risk margin. Please indicate how your response varies according to the materiality of the change.

Firms are still welcome to submit responses to any of the questions on the 'risk margin' tab of the questionnaire.

Firms should submit their response via BEEDS.

16. Business Growth and Investment: Should firms consider "competitor activity" when answering these questions?

We think the easiest way to answer the questions is to consider how your firm might alter its plans in response to different regulatory designs, not taking into account what other firms might do, or other market changes, – i.e. 'first round changes'. At current market prices (i.e. assuming that no other firms have yet made, or implemented, changes because of regulatory impacts), would the impacts of regulatory design options cause your firm to change its business supplied or asset allocation?

Feedback from firms suggests that they are also considering how their plans might change further because of knock-on market changes, e.g. in response to expected changes made by competitors and/or market prices – i.e. 'second round changes' as other firms make changes because of the regulatory impact. For example, market price increases may offset some of an expected volume reduction from 'first round changes'. We'd welcome information on 'second round changes' too. We would encourage firms for whom this is relevant to supply this information, clearly labelling their responses to indicate their 'first round changes' and their 'second round changes'. It would also be useful for firms to state any underlying assumptions underpinning expected 'second round effects', e.g. assumptions about market supply or demand effects. Where possible, firms should supply any relevant evidence supporting their assumptions.

17. Where questions ask about detriments or benefits of potential policy design options, should this be interpreted narrowly, e.g. practical implementation, or broadly, e.g. economic outcomes?

We intend that these questions should be interpreted broadly. There might be pros or cons in terms of implementation and use; management of the business; or in terms of the objectives of the Solvency II review, or other economic outcomes. We encourage firms to identify what they regard as the most important detriments or benefits, rather than seek an exhaustive answer to these types of question.

18. In responding to the questionnaire we'd like to include references to 'illiquid' assets. Does the PRA have a preferred definition?

If firms want to refer to the term illiquid assets, we suggest they include their own examples of the term to illustrate their answers.
We request that firms categorise their examples using the asset class definitions of the Matching Adjustment data request[4], which will help us better understand the examples, and provide their own assessment of the liquidity of the assets.

[4] Please see the MA asset and liability information request template (Cells B49:C71 in 'Instructions' tab).