BANK OF ENGLAND
PRUDENTIAL REGULATION
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Publication

Statement of Policy

The PRA's approach to the publication of Solvency II technical information

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1 Background

1.1 The Prudential Regulation Authority (PRA) is required to publish technical information (TI) necessary for the valuation of insurance liabilities for each relevant currency.[1] This Statement of Policy (SoP) explains how the PRA will fulfil its obligations in this regard. UK firms should use the PRA's published TI for regulatory reporting from and including 11:00pm on Thursday 31 December 2020.

1.2 This SoP is relevant to all UK Solvency II firms, including the Society of Lloyd's and its managing agents, hereafter referred to as 'UK insurers'.

1.3 The PRA refers to the currencies in which it will publish TI as 'PRA relevant currencies'.

2 Overview of the PRA's approach

2.1 The PRA has retained the methodologies and judgements that the European Insurance and Occupational Pensions Authority (EIOPA) incorporates in its TI as at the end of the transition period (TP), with some exceptions as set out in Chapter 3.

3 Variations by the PRA to EIOPA methodologies and judgements

PRA relevant currencies

3.1 The PRA's choice of PRA relevant currencies is based on the relative materiality of technical provisions denominated in each currency, and currencies in which UK insurers have non-zero technical provisions for which the firms are authorised to use the volatility adjustment (VA) or the matching adjustment (MA). The PRA will review the list of PRA relevant currencies from time to time.

3.2 The PRA will use data from the calendar year-end returns of insurers to determine the materiality of technical provisions in each currency. The returns data as at year end N (or, if unavailable at that effective date, at the most recent effective date for which data has been submitted) will be used to choose the PRA relevant currencies in calendar year N+2.

3.3 The PRA will choose PRA relevant currencies using two criteria:

- by materiality; and
- to include currencies in which UK insurers have VA and MA authorisations.

3.4 The PRA will assess materiality by selecting PRA relevant currencies to ensure that at least 99% of group technical provisions are covered which includes the Society of Lloyd's' solo technical provisions. This involves (i) aggregating technical provisions (expressed in GBP and excluding those relating to unit-linked business) by currency and (ii) selecting the top-ranking currencies such that the cumulative proportion of technical provisions exceeds 99%.

3.5 The PRA will use the above criteria to generate the initial list of PRA relevant currencies. In subsequent years, the PRA may add currencies that meet the above two criteria to the list of PRA

1 Regulation 4B of the Solvency 2 Regulations 2015/575. The PRA will publish the first set of TI by the 8th working day in January 2021.

relevant currencies, or remove currencies from the list that fall outside the above two criteria for three consecutive years.

3.6 Where a UK insurer has technical provisions in a particular currency for which the PRA does not publish TI, it is a firm's responsibility to propose TI that complies with Solvency II requirements, and to justify this approach to its supervisor. The PRA reminds firms that it can only apply the VA for currencies and national markets where a VA has been published by the PRA.

Reference portfolios (RPs) for the Volatility Adjustment

3.7 The PRA will use EIOPA's VA RPs (to calculate the VA) in effect at the end of the TP. Under the current timetable for TP completion on Thursday 31 December 2020, this approach will apply until Tuesday 30 March 2021. If the timetable for TP completion changes, the PRA will update users of the TI on its revised approach.

3.8 From Wednesday 31 March 2021, the PRA will derive VA RPs using the same technical approach as EIOPA, except for three specific areas where the PRA's approach will differ, as explained below.

3.9 The first difference in the PRA's approach will be that the derivation of the VA RPs will reflect UK firms' asset exposures. Specifically:

- the VA RPs used to calculate the GBP VA will be derived using data from the Quantitative Reporting Templates (QRTs) submitted to the PRA by UK solo insurers; and

- the VA RPs for non-GBP PRA relevant currencies will be derived by taking a weighted average of EIOPA's published VA RPs derived using QRT data submitted to EIOPA, and the VA RPs derived using QRT data submitted to the PRA for (UK) parent undertakings (as defined in the Solvency 2 Regulations 2015). The respective RPs would be weighted using the aggregate market value of assets as reported in the QRT data of European Economic Area firms and (UK) parent undertakings (as defined in the Solvency 2 Regulations 2015).

3.10 The second difference in the PRA's VA RP approach is that the PRA will apply a simplified approach to determining the weights for the government and corporate bond portfolios when 'looking through' into the underlying assets held within collective investment undertakings (CIUs). The PRA will assume that the exposures within CIUs in respect of duration, sector, and rating are the same as exposures held outside of CIUs.

3.11 The third difference in the PRA's approach is that the PRA published country VA RP for GBP will be the same as the currency VA RP.

3.12 The PRA will aim to give firms at least three months' notice of the change in the VA RPs. The PRA's VA RPs will become effective from the next 31 March following publication.