BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Publication

Statement of Policy

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

December 2023 (Updating August 2022)

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

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

December 2023

(Updating August 2022)

Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

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 fulfils 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 publishes 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. Additionally, from the end of the temporary transitional powers (TTP) on 31st March 2022, the PRA applies the preferential (30%) long term average spread calculation only to UK central government and central bank exposures and no longer to EU exposures.[2]

2.2 The PRA's TI is published on the Bank of England's website.[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 [DELETED]

3.3 The PRA chooses 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 assesses 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

1 Regulation 4B of the Solvency 2 Regulations 2015/575. The PRA published the first set of TI in January 2021.
2 Consultation Paper 18/19: UK withdrawal from the EU: Changes following extension of Article 50 - Annex BU (Amendments to the Technical Provisions Part), section 7.3.
The CP proposals were confirmed as final policy via the joint Bank and PRA statement in April 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/joint-bank-pra-statement-on-proposed-use-of-ttp-at-the-end-of-the-transition-period
3 https://www.bankofengland.co.uk/prudential-regulation/key-initiatives/solvency-ii/technical-information.

relating to unit-linked business) by currency and (ii) selecting the top-ranking currencies such that the cumulative proportion of technical provisions exceeds 99%.

3.4A When assessing the above materiality criterion, the PRA will use data from the calendar year-end returns of insurers. 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 inform the choice of the PRA relevant currencies in calendar year N+2.

3.5 The PRA used the above criteria to generate the initial list of PRA relevant currencies applicable from 31 December 2020. In subsequent years, the PRA may add currencies that meet either of the above two criteria to the list of PRA relevant currencies.

3.5A A currency may also be removed from the list of PRA relevant currencies, where:

- in the case of a currency that was included on the basis of the materiality criterion, it subsequently ceases to satisfy this criterion and continues not to satisfy this criterion for three consecutive years; or
- in the case of a currency that was included on the basis that it was covered within the scope of a UK firm's MA or VA authorisation, it subsequently ceases to be covered within the scope of any UK firm's MA or VA authorisation.

3.5B The PRA aims to give firms at least three months' notice of any addition or removal of a currency from the list of PRA relevant currencies.

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.

Basic risk-free rates (RFRs)

3.6A The PRA needs to make judgements about the reference instruments and associated Credit Risk Adjustments (CRAs) to use when constructing the basic RFRs for PRA relevant currencies. For example, some reference instruments and CRAs have been updated in light of the cessation of Libor settings. The PRA will make available, for example via the TI area of the Bank of England's website, relevant information about any changes to the reference instruments and CRAs used to construct the basic RFRs for PRA relevant currencies. The PRA aims to give firms at least three months' notice of such changes.

Calculation of the long-term average spread (LTAS)

3.6B For the LTAS calculation, the PRA calculates the average of spreads over the RFR applicable at the time of the spread data. Therefore, following the transition of TI references from Libor to an OIS rate, historic spreads (over Libor-based RFR) already embedded in the LTAS calculation remain unadjusted.

3.6ZB The LTAS calculation for government bonds interpolates spread data for maturities where there isn't reliable financial market data for that government bond. The PRA will consider EIOPA's published conclusions in this area.

Assessment of the depth, liquidity, and transparency of the markets

3.6C The PRA focuses its assessment of the depth, liquidity, and transparency of the market (the DLT assessment) on interest rate swaps data for the markets of relevant currencies where there is an active swap market and government bonds data where the swap market is insufficiently active.

3.6D The PRA uses the same volume indicators as applied by EIOPA (at the end of the TP) for assessing the liquidity of the swaps market, but with the average (over one year) daily notional turnover requirement being £45 million. These indicators therefore comprise the:

- average (over one year) daily notional turnover of at least £45 million; and

- average (over one year) daily number of trades of at least ten.

3.6E The PRA also considers in its DLT assessment additional criteria developed to avoid excessive volatility in the results of the assessment, specifically that a previously liquid market needs to drop at least 20% below one of the thresholds to be considered illiquid, and a previously illiquid market must meet both thresholds and rise at least 20% above one of the thresholds to be considered liquid. The PRA is guided by these additional criteria as soft thresholds.

3.6F The PRA may also consider other metrics and expert opinion in order to supplement its assessment as required for the relevant currencies, which are set out in its published results and analysis of the DLT assessment.

3.6G For non-GBP currencies, the PRA makes use of externally published DLT data and analysis, including that published by EIOPA and the International Association of Insurance Supervisors (IAIS), to contribute to its own DLT assessments and any other DLT assumptions required for the calculation of the SII TI.

3.6H [DELETED]

Reference portfolios (RPs) for the Volatility Adjustment

3.7 [DELETED]

3.8 The PRA derives VA RPs using the same technical approach as EIOPA, except for specific areas where the PRA's approach differs, as explained below.

3.9 The derivation of the VA RPs reflects UK firms' asset exposures. Specifically:

- the VA RPs used to calculate the GBP VA are 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 are derived by taking a weighted average of:

    (i) EIOPA's published VA RPs derived using QRT data submitted to EIOPA; and

    (ii) the VA RPs derived using QRT data submitted to the PRA for (UK) parent undertakings (as defined in the Solvency 2 Regulations 2015). This QRT data is aggregated together with solo QRT data submitted to the PRA by the Society of Lloyd's. The respective RPs are weighted using the aggregate market value of assets as reported in the QRT data of (i) European Economic Area firms and (ii) (UK) parent undertakings (as defined in the Solvency 2 Regulations 2015) and the Society of Lloyd's.

3.10 The PRA applies 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 assumes that the exposures within CIUs in respect of duration, sector, and rating are the same as exposures held outside of CIUs.

3.11 The PRA published country VA RP for GBP is the same as the currency VA RP.

3.11A The PRA's approach will only treat exposures to central governments and central banks as government bonds, with all bonds issued by regional governments and local authorities (RGLAs) classified as corporate bonds.

3.12 The PRA aims 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.

Annex – Statement of Policy updates

This annex details the changes that have been made to this SoP since the update in June 2021:

2023

December 2023

Following publication of PS19/23 'Responses to CP8/23 'Occasional Consultation Paper', paragraph 3.9 was amended and paragraph 3.11A was added to reflect minor technical updates to the PRA's approach for determining VA RPs.

This policy is effective from Friday 22 December 2023.

2022

August 2022

Following publication of PS7/22 'Responses to CP3/22 'Occasional Consultation Paper', paragraphs 3.4A, 3.5A and 3.5B were added to explain the PRA's revised approach to determine the relevant currencies. Paragraph 3.6ZB was added and existing paragraphs edited to clarify that the PRA's approach to the LTAS calculation and DLT assessments. The PRA deleted paragraph 3.6H since the content is now covered in the updated paragraphs 3.6ZB and 3.6G of the amended SoP.

The PRA also updated the terminology throughout the SoP from the 'future' to 'present' tense to reflect that, as the transition period has now ended, the PRA now implements the approach in the SoP to publish the Solvency II TI. Paragraph 3.7 was deleted since this described the PRA's approach to calculate the VA for a short period at the end of the TP and is no longer relevant.

This policy is effective from Thursday 1 September 2022.

2021

June 2021

Following publication of PS12/21 'Solvency II: Deep, liquid and transparent assessments, and GBP transition to SONIA', paragraph 2.2 was added to include a reference to the TI section of the Bank of England's website. Paragraphs 3.6A–3.6H were added to describe the reference instruments used for the basic risk-free rates, calculation of the long-term average spread (LTAS) and assessment of the depth, liquidity, and transparency of the markets.

This policy is effective from Thursday 3 June 2021.