



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Supervisory Statement | SS15/16

Solvency II: Monitoring model drift and standard formula SCR reporting for firms with an approved internal model

October 2016

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1 Introduction

1.1 This supervisory statement sets out the Prudential Regulation Authority's (PRA) expectations of firms with an approved internal model, and provides further information on the PRA's approach to monitoring model drift and the reporting of standard formula Solvency Capital Requirement (SCR) information.

1.2 This supervisory statement is relevant to UK solo insurance firms within the scope of Solvency II, including undertakings where the solo SCR is calculated by a group internal model, the Society of Lloyd's in respect of each of their syndicates, and in respect of outputs of the Lloyd's internal model.

2 Monitoring model drift

2.1 The PRA has developed an approach to monitoring model drift - the risk that capital requirements calculated using an internal model may drift over time.

2.2 The PRA's approach includes the monitoring of the internal model SCR against certain objective measures of risk. The model drift ratios will be calculated at the point of model approval and re-based following a change in risk profile or major model change resulting in a material change in the SCR.

2.3 These objective measures of risk, for which different measures may be used over time, include standard formula SCR, pre-corridor Minimum Capital Requirement (MCR), net written premium and best estimate liabilities.

2.4 Monitoring model drift is one tool that the PRA uses to help ensure that capital requirements under Solvency II remain reflective of the risks to which firms are exposed, ensuring that the safety and soundness of firms is promoted and the appropriate degree of protection for policyholders is not weakened over time.

2.5 This tool helps the PRA to monitor model drift at firm, sector and industry level.

3 Reporting the standard formula SCR

3.1 As set out above, the PRA considers that the standard formula SCR is a useful measure to monitor model drift. The standard formula SCR is one of a suite of available metrics that the PRA intends to use for this purpose.

3.2 Firms that received approval to use an internal model before 1 January 2016 provided the standard formula SCR calculations as part of their internal model application, as well as the individual capital assessment (ICA) results leading up to implementation of Solvency II through ad hoc PRA data requests. The PRA considers that firms with internal model approval may find it useful to continue to carry out such calculations as part of their risk management, own risk and solvency assessment (ORSA) and other narrative reporting and model validation cycle.

3.3 Solvency Capital Requirement – Internal Models 3.4 part of the PRA Rulebook requires a firm with an approved internal model to provide the PRA, upon request, with an estimate of the SCR determined in accordance with the standard formula.

3.4 Further, the PRA can revoke model approval in certain circumstances and a firm would in that case be required to determine its SCR using the standard formula.

3.5 Therefore in order to be able to comply with a request by the PRA to provide an estimate of the SCR calculated using the standard formula, or to calculate its SCR in case of revocation of model approval, the PRA expects firms with an approved internal model to maintain the ability to calculate their SCR using the standard formula.

3.6 In addition, the PRA expects firms using an approved internal model to calculate their solo SCR to report privately the results of their standard formula SCR calculation using the XBRL-enabled Excel file provided in a link within the appendix or fully in XBRL (link to the technical artefacts also included within the appendix).

3.7 Firms are not required to have their standard formula calculation externally audited. Submissions should be approved by a member of the senior management team with suitable authorisation before being submitted.

3.8 The information should be submitted four weeks following firms' submission dates for their annual quantitative reporting templates in accordance with the rules for deadlines set out in the Reporting Part. Firms that received internal model approval before 1 January 2016 should also submit the information as at the date of their opening Solvency II financial statements.

3.9 For groups that use an approved group internal model where the PRA is the group supervisor, the PRA may request standard formula SCR information at group level. Firms will be notified of group level requests via their supervisor.

3.10 Firms may wish to submit supporting quantitative and qualitative documentation with their submission. For example, a firm may provide additional information as to the appropriateness of the standard formula SCR calculation for the purpose of monitoring model drift.

3.11 Completed information should be submitted through the Bank of England Electronic Data Submission (BEEDS) portal as 'occasional submissions'.

Appendix

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- 1** **Templates and technical artefacts, available at www.bankofengland.co.uk/pru/Pages/regulatorydata/insurance/reporting.aspx**