

Supervisory Statement | SS7/17

Solvency II: Data collection of market risk sensitivities

October 2017



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



31 December 2018: This document had been updated, please see:
<https://www.bankofengland.co.uk/prudential-regulation/publication/2017/solvency-2-data-collection-of-market-risk-sensitivities-ss>



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Supervisory Statement | SS7/17

Solvency II: Data collection of market risk sensitivities

October 2017

Contents

1	Introduction	5
2	Firms in scope of the request for sensitivities	5
3	The key market risks and information to be provided	5
4	Timescales and format	6
	Appendices	7

1 Introduction

1.1 This supervisory statement sets out the Prudential Regulation Authority's (PRA) expectations in respect of the reporting of sensitivities of solvency position to various changes in market conditions by firms with material exposure to market risk.

1.2 It is relevant to Solvency II insurance and reinsurance firms holding, or intending to hold, material quantities of assets exposed to market risk.

2 Firms in scope of the request for sensitivities

2.1 The firms in scope are those insurance or reinsurance firms most exposed to market risks. These are primarily Category 1 and 2 firms in the life sector, and any other category life firm or general insurance firm, or composite insurance firm that demonstrates material market risk exposures. The PRA will inform firms individually through their usual supervisory contacts whether they fall within the scope outlined above. A firm that has not been contacted but would like to submit the information may do so after discussion with its usual supervisory contact.

2.2 Where a group exists, the solo firms within the group may each find themselves within scope. Subject to agreement with the PRA, participants that have immaterial non-UK business have the option to submit the information for the group.

3 The key market risks and information to be provided

3.1 The PRA expects firms in scope to report sensitivities to various changes in market risks half-yearly.

3.2 Market risks cover a range of exposures including to UK equity prices, property prices, swap rates, sovereign rates, spreads on corporate bonds over swap rates, downgrades on credit-risky assets, inflation and exchange rates. New risks may develop over time, as markets develop or insurers move into new asset or liability classes. Similarly one or more of the existing risks noted above may become less significant over time. The population of risks surveyed is expected to stay constant until further notice.

3.3 The PRA expects the sensitivities to show the impact on assets, technical provisions and other liabilities and ultimately to Own Funds as well as the Solvency Capital Requirement (SCR). In light of the potential for recalculation of the transitional measure on technical provisions (TMTP), the PRA expects the impacts of that adjustment also to be provided, where applicable.

3.4 Firms should apply the principle of proportionality when providing these sensitivities. The PRA is willing to accept approximations in the methodologies used by firms to calculate the sensitivities and encourages participants to discuss such approaches with their usual supervisory contact.

3.5 The PRA will estimate a firm's financial position on a regular basis by interpolating the sensitivity information. In order to do this, it is helpful to exclude from the sensitivities effects that could cause step changes in the financial position. One potential step change is the use of 'one-off' or 'out of model' management actions. Therefore the PRA expects the submission to show the impact of stresses excluding material, one-off management actions where such actions mitigate the Own Funds impact of such a stress only at a certain stress level. The PRA

expects such actions to be described separately both as to the action and at what level of stress it would be initiated, with the impact quantified.

3.6 Firms should engage with the PRA via their usual supervisory contact where the reporting of an immaterial ring-fenced fund would be disproportionate.

3.7 The data request also encompasses the sensitivity of the SCR to the defined stresses. The PRA expects this to be reported on the basis of the firm's current regulatory requirements, ie an approved full or partial internal model, or the standard formula.

4 Timescales and format

4.1 The information requested will enable the PRA to understand how a firm's financial situation, and through extrapolation that of the sector as a whole, might alter in a stressed scenario. Therefore, the PRA expects the sensitivities to be kept up to date as firms' exposures change over time. To this end, the PRA expects firms to submit the information four weeks after the formal submission of solo quarterly Quantitative Reporting Templates (QRTs) for end June and end December, or following a significant change in the risk profile of the company, or upon the PRA's request due to extraordinary market conditions. For example, the PRA expects firms to consider the need for a resubmission following a merger, acquisition or a recalculation of the TMTP. The first submission of sensitivity results should be at the effective date of 31 December 2017. Firms that have taken the option to provide combined group information are still expected to submit four weeks after the formal submission of solo quarterly QRTs for end June and end December.

4.2 The PRA expects the format of the information to be consistent with the Solvency II data reported. The PRA also expects firms to submit data using the template provided (Appendix 1). As new key risks develop or become more significant over time, the format of the information request may need minor revision. If a firm can respond to the request but not in the precise format of the particular information request, it should speak to its usual supervisory contact.

4.3 The PRA expects the information to be reported in the form of an Excel spreadsheet to be submitted to the firm's usual supervisory contact, consistent with the process for Solvency II submission of information. Links to the template and instructions are included in the appendices.

Appendices

-
- 1 **Template - Data collection of market risk sensitivities available at**
www.bankofengland.co.uk/prd/Documents/solvency2/reporting/mrtemplate.xlsx

 - 2 **Instructions - Data collection of market risk sensitivities available at**
www.bankofengland.co.uk/prd/Documents/solvency2/reporting/mrsinstructions.pdf