BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

PRA Solvency II Regulatory Reporting Industry Working Group, 22 January 2018

Firm representative	Organisation and representing
Angus McLean	Baillie Gifford & Co, for ABI
Ben Terrett	Metfriendly
Cara Whatford	One Family, for AFM
David Scott	Financial Conduct Authority
Helen Dalziel	International Underwriting Association
Jane Tusar	Society of Lloyd's
Jim Troy	Legal and General
Kim Harmer	E&Y, for ILAG
Matthew Reed	Prudential, for ABI
Mike Schofield	Assurant Solutions, for ABI
Paul Appleton	Society of Lloyd's
Robert Warren	Association of British Insurers
Roni Ramdin	RSA, for ABI
Steve Dixon	Steve Dixon Associates, for AFM
Susan Said	Lancashire Group, for IUA
Tony Gellett	Financial Conduct Authority
Bank of England	**Role**
Lewis Webber - Chair	Head of Division, Insurance Data Analytics Division
Amanda Istari	General Insurance Division
Danielle Martis	Reporting and Disclosure Policy
David Jeacock	Insurance Data Analytics Division
David Simmons	General Insurance Division
Eleanor Watson	Insurance Policy
Joanna Rose	Data and Statistics Division
Robert Kipling	Life Insurance Division
Ron Pisa	Data Collection and Publication
Apologies	
Andrew Smith	XL Catlin, for ABI
Barbara Kubis-Labiak	Financial Conduct Authority
Darren Sait	JP Morgan for The Investment Association
Elzbieta Woynowska	Aviva, for ABI
Martin Shaw	Association of Financial Mutuals
Willem Van Der Westhuysen	Thomas Miller, for P&I Clubs

These notes are intended as a record of the discussions held at the PRA on 22 January 2018. They are not verbatim minutes and, for the benefit of those organisations that are not members of the industry working group (IWG), they indicate the themes of the discussion and questions that were raised. The views expressed are those of IWG members and do not represent guidance from the PRA.

Firms seeking clarification on aspects of these notes, or wishing to raise questions regarding regulatory reporting for discussion at the IWG, should contact the appropriate industry representative in the first instance. If firms are not represented at the IWG by a member organisation, they should submit their question to: PRA.FirmEnquiries@bankofengland.gsi.gov.uk.

Notes from the meeting on 22 January 2018 covering agenda items:

Agenda

1. Welcome and progress
2. ABI 23 and response to Treasury Committee
3. Reporting reforms, CP2/18
4. Life homogeneous risk groups and product codes
5. Solvency II internal model updates, CP27/17
6. Taxonomy update
7. AOB

Key points:

1. **Welcome and progress, Lewis Webber**
   - Introduction
   - Update on progress since last IWG

2. **ABI 23 and response to Treasury Committee**
   - The PRA is considering the recommendations in the Treasury Committee's report and will provide a full response in due course.
   - The PRA sent its initial views to the Treasury Committee, on 3 January.
   - LEIs – the majority of costs reside within a small number of large insurance groups. The PRA agreed to look at proportionality with respect to specific firms.
   - In addition to the reporting CP, the PRA published two consultations which are intended to make targeted improvements to its implementation of Solvency II (see point 3 for further details).
   - The PRA is assessing whether improvements can be made to its implementation of other aspects of Solvency II (audit of SFCRs, TMTP).

3. **Reporting reforms, CP2/18**
   - Published on 11 January 2018, as part of a series of suggested reforms to the PRA's implementation of Solvency II:
     - CP2/18: Changes in insurance reporting requirements (Jan 2018);
     - CP27/17 Solvency II: Internal model updates (Dec 2017); and
     - CP21/17 Solvency II: Matching Adjustment (Oct 2017).
   - CP2/18 seeks to reduce the reporting burden on firms whilst allowing the PRA to meet its statutory objectives.

- A large proportion (c.80-90%) of reporting to the PRA under Solvency II forms part of the harmonised package, to which the PRA can provide waivers to in certain circumstances.
- Of the remaining share, the PRA has sought to design the most extensive package of suggested changes that do not compromise its ability to supervise firms with the appropriate evidence base.
- The consultation closes on 13 April 2018.

3.1 Proposed changes to non-life National Specific Templates (NSTs)

- Industry fed back that some of the non-life NSTs were overly complex to complete
- To address this, in CP2/18 the PRA has proposed changes to the following non-life national specific templates (NSTs):
  - NS.07, business model analysis non-life;
  - NS.10, projection of future cash flows (best-estimate –nonlife liability claim types); and
  - NS.11, non-life claim development information (general liability sub-classes).
- Feedback from industry on this CP is welcomed.

3.2 Proposed changes to life NSTs

- NS.01, with-profits value of bonus
- NS.02, with-profits liabilities and assets
- NS.05, revenue account life
- NS.06, business model analysis, life
- NS.09, best estimate assumptions for life insurance risks

Q1: How has the PRA concluded that the proposals within CP2/18 could result in a reduction of the reporting burden within the PRA's power, to change by half?
A1: There are a number of ways to measure reporting. Up to 80% of the requirements relate to the harmonised element of the total reporting package and therefore the PRA has no flexibility to change. Of the remaining 20%, the proposals result in a reduction in reporting of up to half. This reduction is largely as a result of the proposed changes in NST reporting in combination with the change in policy proposed relating to quarterly reporting waivers. For waivers in particular, the PRA is limited to a maximum of 20% of the market share. However,

managing the changes up to this level puts no weight on the PRA's own supervisory data needs and increases the risk that existing waivers could need to be revoked if this limit were to be breached.

Q2: Can the PRA discuss the item-by-item waiver results in EIOPA's report on the Use of Limitations and Exemptions?
A2: The 2017 report on the Use of Limitations and Exemptions discloses the use of item-by-item reporting waivers and National Competent Authority (NCA) reporting waiver policies. The 2017 results reveal low use of item-by-item waivers by NCAs, with only 5 authorising such waivers for 2016 annual reporting. The PRA will continue to consider applications on a firm-specific basis.

Q3: Can the PRA explain what factors it considers in assessing a firm's application for an item-by-item exemption?
A3: The PRA will consider the merits of the application in the context of the firm specific circumstances, taking into account the justification as to why reporting the item is overly burdensome, as well as the nature and complexity of a firm's business. There is a dependency between granting quarterly and item-by-item waivers and the interaction between these will also be considered.

4. Life homogeneous risk groups (HRG) and product codes

- The PRA consulted in Occasional Consultation Paper (OCP) 18/17 on changes to SS36/15 'Solvency II: life insurance product reporting codes. The reason for consultation was the difficulty in using 2016 data from S.14 due to inconsistent reporting. The PRA and the Office for National Statistics (ONS) would benefit from a consistent split of the liabilities by main product lines. The PRA has received responses to the OCP from ABI and three firms.
- The PRA is not asking for resubmissions from impacted firms, but seeks improved consistency in reporting for 2017 where possible. The PRA issued feedback to industry on a number of issues with QRT submissions that was published on 7 December 2017.
- The PRA expects 2017 Homogeneous Risk Groups to meet EIOPA guidelines:
    - Underwriting policy;
    - Claims settlement pattern;
    - Risk profile of policyholders;

- Product features in particular guarantees; and
- Future management actions.

- Approximations are acceptable, for example, a firm may apportion guarantee costs where these are calculated for multiple products.

Q4: Does the PRA expect firms to meet the OCP proposals for 2017 reporting?
A4: The final policy statement is yet to be published and 2017 is not referenced as an effective date within the OCP. Where firms are using Solvency I codes, the PRA expects firms to stop using these, however, there are no expectations set for 2017, regarding the specific OCP proposals. OCP18/17 and the 2017 feedback to life insurers both explain the direction of travel regarding the application of homogenous risk groups.

Q5: Is EIOPA moving to align the use of product codes with homogenous risk groups?
A5: This is what the PRA expects in order to analyse homogenous risk group data and the definition of product codes on the whole meet the definition of homogenous risk groups. Firms have applied homogenous risk groups in inconsistent ways, making the data more difficult to use and analyse.

5. Solvency II internal model updates, CP27/17

- Published in December 2017, as part of a series of suggested reforms to the PRA's implementation of Solvency II:
  - CP2/18 Changes in insurance reporting requirements (Jan 2018);
  - CP27/17 Solvency II: Internal model updates (Dec 2017); and
  - CP21/17 Solvency II: Matching Adjustment (Oct 2017).
- The PRA reviewed the effectiveness of aspects of the model change process following discussion with the ABI and a number of industry participants
- The CP outlines proposed updates to the PRA's expectations on:
  - the model change process;
  - model change policies; and
  - the reporting of minor model changes.
- It proposes an annual reset of minor model change accumulations which do not trigger the major change threshold and that are not linked to a major model change application:
  - in order to implement an annual reset of minor model change accumulations, firms will need to modify their model change policies (MCPs);

  - reminder that a modification to the MCP requires PRA approval;
  - if implemented, firms are encouraged to discuss the accumulated minor changes with the PRA prior to resetting accumulations; and
  - firms may wish to review their major model change thresholds in light of an annual minor model change reset.
- In relation to minor model reporting, firms are expected to:
  - submit their quarterly minor model change reports via **BEEDS** (rather than direct to supervisors);
  - submit their reports within **5 weeks** of a quarter end; and
  - have an option to use a **standardised template**. Appendix 2 of the CP contains the proposed standardised template and related LOG file.
- Proposed timing:
  - the updated guidance on the model change process would be implemented in 2018 Q2; and
  - the changes in relation to minor model change reporting would take effect from June 2018.
- A PRA statement was released at the same time as CP27/17, with statistics and facts on:
  - the time it has taken the PRA to assess model change applications;
  - how firms had completed the Common Application Package (CAP) when making model change applications;
  - how firms have defined model changes in model change policies; and
  - quarterly model change reporting.

Q6: The change to an internal model policy from the annual reset is itself a major model change. Is the PRA prepared to review the expected influx of changes?
A6: Policy changes can be reviewed and approved quickly and the PRA is prepared for the incoming approvals associated with the proposals in CP 27/17.

Q7: Will such a change prevent a firm from submitting another major model change during the year?
A7: No.

6. **Taxonomy update**
   - EIOPA Taxonomy 2.2 has been adopted and installed by the PRA and the Solvency II filing manual has been updated.
   - This taxonomy version introduces ad hoc submission entry points. This will allow the submission of a number of cases foreseen by EIOPA as requiring an ad hoc entry point. Specific examples are provided in the Solvency II filing manual.

Q8: Does the Hotfix cover issues with the ISIN and LEI validation identified by some firms during the recent January 2018, user acceptance testing?
A8: The Hotfix includes a validation to check if the LEI is correct. The PRA will individually respond to firms regarding user acceptance testing results.

7. **AOB**

Q9: Will the PRA be issuing its own feedback on the Solvency and Financial Condition Report (SFCR) similar to EIOPA's Supervisory Statement on the SFCR?
A9: The PRA is not currently considering issuing industry feedback on the SFCR. Some users are of the view that there is insufficient information on the sources and flows of capital as highlighted in the summary of feedback in the PRA's SFCR Roundtables. The PRA is looking to industry forums to come to a consensus of what additional disclosure is useful.

Q10: What are the PRA's expectations regarding the submission of the updates to Regulatory Supervisory Reports? Will it be acceptable for firms to submit a blank submission if there is no material changes in the business?
A10: Firms should consider what additional information needs reporting, taking into account the content that will already be provided via the SFCR and ORSA, and what elements of the previous, full RSR have materially changed. The PRA expects firms to discuss with their Supervisors that if upon applying a de minimis assessment, they decide that there are no material changes since the last RSR.