

# Bank of England

## Prudential Regulation Authority

### HMT SOLVENCY II REVIEW

### PRA/ABI ENGAGEMENT GROUP ON REGULATORY REPORTING REFORM (PHASE 2)

#### Terms of Reference

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#### Background

A Solvency II review has been requested by HMT, launched via a Call for Evidence published in October 2020 inviting industry views on areas of reform including the Solvency II reporting and disclosure requirements. Within the reporting component of this Solvency II review, the PRA's objective is to develop recommendations on the design of the regulatory reporting regime for UK insurers and third country branches now that the UK has left the EU. The regime must ensure that the PRA is able to fully meet its statutory objectives, while eliminating unnecessary burden on insurers.

#### Purpose and role of the PRA-industry engagement group ('Engagement Group')

To enable the PRA to discuss with industry at a working level and gather feedback on both the current reporting and disclosure requirements, and early ideas for potential reforms. The Engagement Group will also provide information to support the PRA in conducting a cost benefit analysis of future reform proposals.

The Engagement Group will not carry out any of the functions or responsibilities of the PRA. It should be for the PRA, applying its usual governance process, to use the input of the Engagement Group (among other considerations) to decide the proposals that will be put to public consultation. The Engagement Group should not be asked to make decisions on proposals or otherwise to determine the content of material that will put to the PRA's internal governance process for decision.

Final regulatory reforms will be determined by the PRA in accordance with its statutory objectives and 'have regards'. The PRA will seek the views of the wider industry and other interested parties through a formal public consultation process in due course.

#### Membership

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Participation in the Engagement Group is at the invitation of the conveners, and drawn from a broad range of PRA-regulated reporting firms (including (re)insurance entities, and financial mutuals) as well as representative trade bodies, to ensure a diverse set of knowledgeable and experienced insurance market participants. In addition, other bodies that represent specific relevant interests may be invited to participate.

Firms (and trade bodies) can nominate individuals to be members of the groups. Criteria for selection include:

- Has a senior role within their organisations, with managerial and strategic planning responsibilities within their functional areas related to the reporting and disclosure requirements as set out by the PRA;
- Can make an initial commitment for a period of 3 – 5 months; and
- Has relevant experience and skill.

A member who steps down cannot automatically pass on their seat to a replacement within their organisation. As vacancies arise, the conveners will select replacement or additional members as required, and may seek nominations, including by publicising vacant positions on the website of the PRA. The Engagement Group's membership will be published on the PRA's website.

Membership of the Engagement Group is set out in Annex 2.<sup>1</sup>

### **Responsibilities of the Engagement Group members**

The Engagement Group members are expected to:

- attend meetings convened by the (co-)chair(s);
- provide technical, analytical, and business perspectives and inputs to the meeting discussions.

### **In-principle scope of discussions**

- Areas for improvements covering all aspects of reporting that were previously part of the Solvency II harmonised package before the UK left the EU including:
  - Quantitative Reporting Templates contained in the onshored ITS on supervisory reporting and public disclosure;
  - ORSA;

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<sup>1</sup> The PRA will recirculate Annex 2 if there are changes in membership (and update the information published on its website accordingly).

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- SFCR; and
  - RSR.
- Areas for improvements covering all aspects of reporting by Solvency II firms that were owned by the PRA before the UK left the EU. This includes:
    - PRA rulebook reporting including National Specific Templates;
    - PRA Supervisory Statement reporting e.g. IMO, Market Risk Sensitivities; and
    - Ad-hoc requests
  - Potential reporting on new topics.

### Meetings

#### *Approach*

The PRA will set the agenda for each meeting. Meetings will initially focus on initial ideas and reporting templates that may attract a longer redevelopment timeline. This will then be followed by more detailed discussions as appropriate.

#### *Meetings and materials*

The Engagement Group will meet fortnightly. This may be supplemented by additional meetings to explore certain issues in model details. The co-chairs may also choose to meet with the relevant participants depending on the meeting topic (i.e. where the reporting requirements may not be applicable to all members). By default, the Engagement Group will hold hybrid meetings (i.e. members may attend in person or virtually via MS Teams). The physical venue for each meeting will alternate between PRA and ABI premises.

The PRA's current expectation is that the Engagement Group will continue to meet to the timelines set out below, until such time that the PRA determines that the Engagement Group is no longer required.

An agenda and, where applicable, associated papers will be circulated by the PRA three working days ahead of each meeting. Minutes of each meeting will be prepared by the PRA and circulated within two weeks of each meeting for the benefit of interested parties outside of the Engagement Group's membership on the topic areas discussed.

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Potential policy proposals contained in materials provided to, or discussed at, the Engagement Group are for the purposes of discussion and information gathering only and should not be taken to indicate the PRA's likely final policy on any aspect of the Solvency II review. No discussion or decision of the Engagement Group shall bind the PRA in relation to any future policy development.

### *Confidentiality*

Information provided to the Engagement Group by the PRA shall be treated as confidential, shall not be distributed within participant organisations except as necessary to fulfil the objectives of the Engagement Group, and shall not be disclosed to third parties. The PRA shall publish a list of participating entities on the PRA's website; and to ensure sufficient transparency of the PRA's approach in engaging with the industry via this forum, the PRA shall publish the minutes of the Engagement Group meetings on the PRA's website.<sup>2</sup> Any non-public information disclosed or opinions expressed during group meetings will be treated as confidential unless and until the members collectively have authorised their public release according to the majority opinion. Where there is no clear majority, the (co)chairs will make the final decision.

In its formal public consultation on proposals for regulatory reform in the areas discussed by the Engagement Group, the PRA may refer to information and feedback generated by the group.

### **Deliverables and timelines**

The date for consultation for Phase II is not yet decided. However, we wish to cover as much as we can in the first three months of 2022, to ensure we are prepared and maintain an appropriate pace and momentum.

- November and December 2021 – First and second discussions by the Engagement Group of current reporting and disclosure requirements, and early ideas for potential reforms.
- January to March/April 2022 – Further discussion by the Engagement Group to obtain feedback on reporting and disclosure requirements and ideas for potential reform.

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<sup>2</sup> The minutes will not be verbatim but will include key points discussed, such as suggestions and ideas presented at the meeting, nature of the discussions and any outcomes and actions.

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Launch of the reporting cost data collection to inform the PRA's Cost Benefit Analysis of the eventual proposals.<sup>3</sup>

- April 2022 and onwards – final decision on all policy proposals to be consulted in the Phase 2 CP will be taken by the PRA independently of this Engagement Group.

The PRA will draw on the input generated by the Engagement Group in conjunction with other considerations, including the proposed outcomes of the broader Solvency II review and consultation with other government bodies (e.g. HMT, ONS and FCA) to prepare the package of policy reforms for public consultation later in 2022. The decision on proposals to include in the public consultation will be taken by the PRA independently of the Engagement Group.

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<sup>3</sup> s.138I FSMA requires the PRA to analyse the costs and benefits and to provide an estimate of both costs and benefits of new policy (subject to certain exemptions), and quantify these where possible.

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### Annex 1: Background

HMT's Solvency II Review is the mechanism through which the PRA is taking forward regulatory reporting reform for UK insurers. Work is proceeding in two phases.

- **Phase 1: Near term, enacted for quarterly and annual reporting from 31 December 2021.**

[PS29/21](#) was published on 17 December 2021, containing changes that are expected to be straightforward for firms and the PRA to implement, low cost for firms, in particular by targeting deletions of templates that are little-used in their entirety, and by expanding availability of the current quarterly reporting waiver.

- **Phase 2: Medium term, aiming to enact from year-end 2023.**

This is the focus of this Terms of Reference. It involves more ambitious scrutiny of the content and design of regulatory reporting than considered under Phase 1. It is also an opportunity to correct known deficiencies in the current reporting package, such as known errors, and the need to place more emphasis on P&L items.

However the final policy proposals will be decided by the PRA independent of the Engagement Group, and will need to reflect any changes agreed to the wider regime as part of HMT's Solvency II Review – for example, as might flow from the policy track assessing the Risk Margin, the Matching Adjustment, and the Transitional Measure on Technical Provisions.<sup>4</sup>

Much further ahead, over the remainder of the next decade or so (and hence beyond the horizon of the current Review-driven work), it is possible that other modifications might be sensible and necessary under the Bank's long-term vision for transforming data collection.<sup>5</sup> But the aim is to make the Review-driven reforms as time-consistent and enduring as possible.

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<sup>4</sup> In this regard, the PRA published a Dear CEO letter and other materials regarding its Quantitative Impact Study: [www.bankofengland.co.uk/prudential-regulation/key-initiatives/solvency-ii/solvency-ii-reform-quantitative-impact-survey](http://www.bankofengland.co.uk/prudential-regulation/key-initiatives/solvency-ii/solvency-ii-reform-quantitative-impact-survey).

<sup>5</sup> Details are available at [www.bankofengland.co.uk/news/2021/february/data-collection-transformation-plan](http://www.bankofengland.co.uk/news/2021/february/data-collection-transformation-plan), including the Dear CEO letter issued on 23 February 2021.

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### Annex 2: Membership of the Engagement Group

| <b>PRA</b>  |   |
|---|---|
| Catherine Nelson (Co-Chair)                       | Head of Insurance Analytics Division (Co-Chair) |
| Yevgine Asatryan                                  | Secretariat                                     |
| Danielle Martis                                   | Policy  |
| Gao Yu  | Policy  |
| James Orr   | Insurance Analytics Division                    |
| Robert Kipling                                    | Life Actuarial                                  |
| David Simmons                                     | Non-life Actuarial                              |
| Subject Matter Experts chosen based on the agenda | Various areas in the PRA                        |

| <b>Industry</b>                  |   |
|----------------------------------|---|
| Bob Warren                       | ABI (Co-Chair)  |
| Individual names to be confirmed | ABI and its participating member firms: <ol style="list-style-type: none"> <li>1. Aviva</li> <li>2. Axa XL</li> <li>3. Direct Line</li> <li>4. Foresters</li> <li>5. Just</li> <li>6. M&amp;G</li> <li>7. Phoenix</li> <li>8. PIC</li> <li>9. Rothesay Life</li> <li>10. Royal London</li> <li>11. RSA</li> </ol> |
| Tim Culshaw                      | Society of Lloyd's  |
| Martin Shaw                      | AFM   |
| Helen Dalziel                    | LMG/IUA   |
| Abi Latham / James Troy          | L&G   |