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PRA Solvency II regulatory reporting update IFoA

Giles Fairhead and David Jeacock

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Agenda

Two sections to today's agenda

1) Update on PRA Solvency II regulatory reporting

- Pillar 3 progress
- What will be submitted and when
- PRA feedback on preparatory phase
- Recent EIOPA developments and PRA publications
- Taxonomy and technical aspects of Solvency II
- Tool 4 Undertakings
- PRA position on outstanding Pillar 3 issues
- The next three months to implementation – Pillar 3
- Solvency II approvals

2) Overview of the PRA's approach to data analytics

- The PRA's approach to data analytics
- The basis of data – Solvency II preparatory phase
- The tools that are currently in use
- Features of the current tools
- Future tools

- Questions and where to find more information



Pillar 3 progress

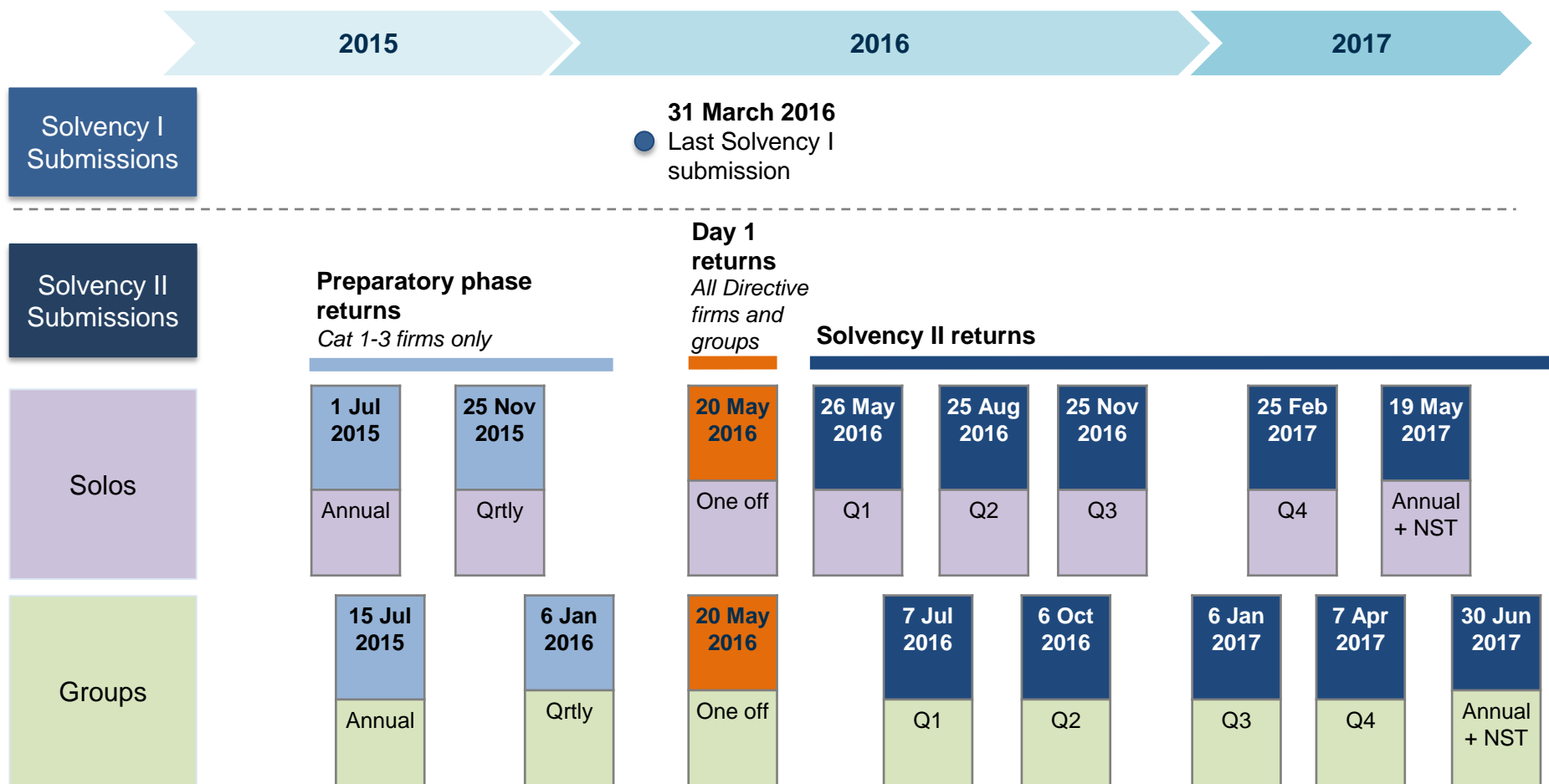
Process around regulatory reporting in development for many years, less than 100 days to implementation

Many firms have had to submit subset of full QRTs as part of the preparatory phase requirements set out by EIOPA, 103 solos and 34 groups

The final requirements are now available and both firms and third parties must work to ensure compliance by implementation - now less than 100 days



What will be submitted and when?

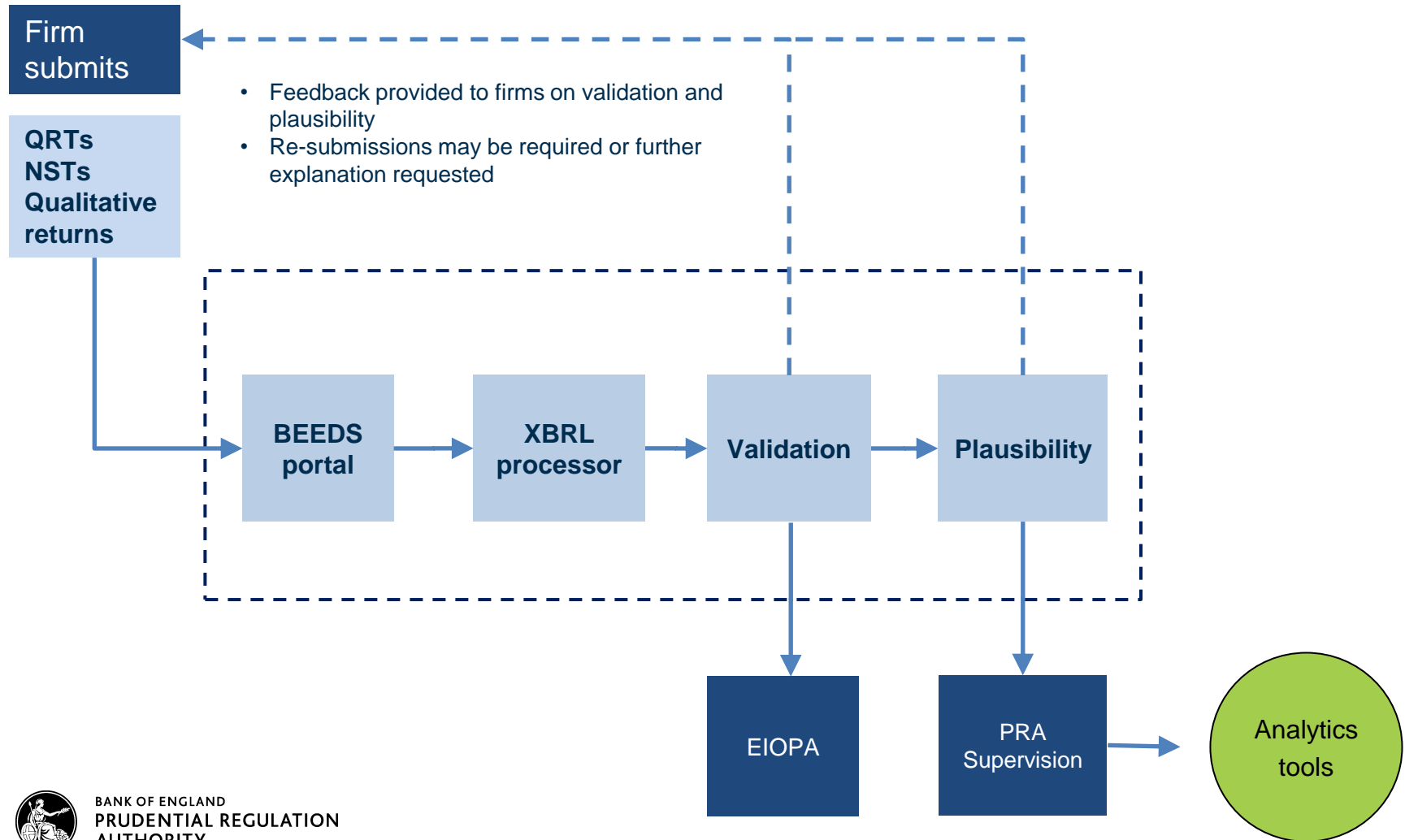


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NB: This diagram shows submission dates for a 31 December year end firm.

Non-December year end reporting schedules are available at www.bankofengland.co.uk/solvency2

PRA feedback on preparatory phase – process overview



PRA feedback on preparatory phase - summary

- Submission of preparatory phase data generally went well
 - Aided by involvement of firms participating in testing sub-group and additionally the testing of XBRL files ahead of submissions
 - Discussions at IWG demonstrated that firms have been working for some time to ensure compliance and these preparations paid off
- Returns received by 103 solo firms and 34 groups
- EIOPA 80% target achieved
- Only EIOPA data validation checks and limited plausibility checking took place – this will increase from 2016 and build year on year as the PRA gathers more data and gains more experience



PRA feedback on preparatory phase – data submission

- BEEDS portal launched and firms successfully on boarded on time
- Considerable focus on working with firms on quality of XBRL ahead of submission deadline
 - without this many firms would have been unable to submit their returns as the XBRL would not have been of high-enough quality
 - all firms must work with their vendors to ensure XBRL files meet requirements, including EIOPA filing rules
- The PRA hopes to offer a test environment early in 2016 so that firms can test their whether their XBRL files meet the requirements



PRA feedback on preparatory phase – data quality

There are three distinct stages where data quality issues will be found:

1. Automated EIOPA validation checks upon firm submission
 - No significant issues, in the preparatory phase. However EIOPA had ‘turned off’ a lot of the checks prior to the submission deadlines. More issues expected in the future as more checks become active.
2. Plausibility checks undertaken by Bank of England regulatory data specialist team
 - Limited number of checks currently exist, this will increase
 - In particular lack of reference data mean comparative data checks difficult
 - Key area of significant weakness was asset data quality
3. Analytical review by firm supervisors and other Bank of England staff via new data analytics tools
 - New analytics tool and team now established
 - Significant investment in tools to analyse the data, therefore firms should expect an increase in feedback from their supervisors
 - Developing dedicated asset analysis tools



PRA feedback on preparatory phase – data quality

Focus on asset data

- List of assets form (S.06.02) provides a much more detailed analysis than under Solvency I
- Some firms submitted up to 100k rows of asset data across 30 columns, with over half a million rows of data collected across all preparatory phase submissions
- Checks found the following common issues:
 - A mixed approach to providing information on asset issuer
 - Different approaches to categorisation
 - Over-use of ‘other’ category
 - Incomplete data sets re corporate bond credit ratings and sector information
- NACE codes, CIC, LEIs were also issues



Recent EIOPA developments and PRA publications

- The final version of the second set of ITS is with the European Commission, following EIOPA's submission on 6 July 2015
- The PRA has published:
 - CP25/15 Solvency II: reporting and public disclosure - options provided to supervisory authorities
 - SS36/15 Solvency II: life insurance product reporting codes
 - SS37/15 Solvency II: internal model reporting codes and components



Taxonomy and technical aspects of Solvency II

EIOPA has made the Solvency II taxonomy available

- Taxonomy v2.0.0 published 31 July 2015 and should be used to for IT implementation
- Final publication of v2.0.1 currently expected 21 October 2015
- Taxonomy timeline for 2016 to be determined, firms should prepare for ongoing change

Bank of England Solvency II XBRL filing manual

- Should assist firms and software vendors in creating XBRL instance documents for Solvency II Pillar 3 reporting in the preparatory phase
- Includes common technical issues with XBRL files as well as detailed technical information to help firms complete quarterly returns due in November 2015 and January 2016
- Will be updated for Solvency II filings in January 2016



EIOPA developments: Tool 4 Undertakings

- A number of firms appear to be using T4U for either reporting or testing.
 - Majority are using it for testing their files
- EIOPA will no longer develop or support this tool
- Intention is to move it to an open-source model
 - Discussions with market have started
- Future is not clear
- Firms that use it should make contingency plans
 - Market has a range of Solvency II reporting tools available
- EIOPA's aim of preparing the market has largely been achieved



PRA position on outstanding Pillar 3 issues (1/2)

Proportionality and materiality

- The Delegated Act will be incorporated directly into the UK approach and it is therefore difficult to provide prospective national guidance on how materiality should be interpreted as it creates a legal risk for the PRA
- The PRA will ensure EIOPA understand the desire for further guidance in this area
- Firms are encouraged to continue to raise concerns and questions with EIOPA (for example through the ABI and CFO Forum)
- Firms are reminded that they need to decide on their use of thresholds and approach, taking into account their current circumstances and environment they operate in



PRA position on outstanding Pillar 3 issues (2/2)

Audit of Solvency II regulatory returns

- EIOPA issued a statement supportive of the external audit of Solvency II reporting
- The PRA anticipates that, to some extent, there will be an audit requirement of firms' public regulatory reporting for solos and groups. Audit opinion would be 'properly prepared in all material respects, in accordance with the Solvency II regulatory framework.'
- The PRA will consult in Q4 2015
- Scope currently discussion, broadly in line with the draft EIOPA guidelines, but internal model and partial internal model SCR subject to further considerations. The PRA's initial view:
 - Valuation and capital management sections of the Solvency and Financial Condition Report (SFCR)
 - Balance sheet and own funds' templates
 - Solvency capital requirement templates for insurers on standard formula
 - Approvals granted to undertakings by the PRA will be out of scope
 - SCR for firms using approved models will be out of scope – impact on risk margin in technical provisions in balance sheet
- Private reporting will be out of scope – S166



The next three months to implementation – Pillar 3

- Publication in September of feedback on preparatory phase submissions received in July, went through details earlier
- Increasing engagement with firms submitting for the first time in 2016
 - Industry working group held on 25 September, broader range of firms
 - 22 October regulatory reporting seminar and invitations have been sent, can register interest by emailing PRAEventsManagement@bankofengland.co.uk
- Testing sub group continues ... held on 9 October 2015
- Firms can submit XBRL files via email for XBRL testing ahead of preparatory phase quarterly submissions.
 - The Bank of England will offer feedback on a reasonable endeavours basis from mid-October 2015
- As indicated earlier hope to make a BEEDS test environment available in Q1 2016 for use by all firms
 - May hold a technical event for firms in January 2016 as part of this tbc



Solvency II approvals

Letter from Sam Woods, Executive Director, Insurance Supervision, 24 September 2015

Matching adjustment

- Published an update on 24 July 2015 outlining the PRA's approach to informing firms of MA decisions
- Decisions will be made via formal panel of PRA senior management
- Simultaneous communication to firms of decision in early November of 'approve' or 'reject'

Internal models

- Worked with firms on the internal model approval process since 2009
- Received circa 20 applications from firms seeking approval to use an internal model from Day 1
- Consistent with approach to MA decisions, the PRA expects to communicate simultaneously to firms in early December with an 'approve' or 'reject' decision.

The PRA is committed to a fair process consistent with orderly markets



PRA's approach to data analytics

Major
investment in
analytical tools

Upscales the
PRA's
analytical
capabilities

Ring-fenced
internal
resources

Multi-year
project

- Analysis of the Solvency II regulatory data is a key focus for the PRA and will drive supervisory capabilities
- Step change that will revolutionise the PRA's quantitative analysis, management information and analytical capability
- Three year analytics development plan currently being drawn up by dedicated analytics team to continue to roll out tools, MI and analysis to Bank users



The basis of data – Solvency II preparatory phase

Preparatory phase		Solvency II
Profitability	<p>1. Balance sheet A firm's balance sheet on a Solvency II basis and the balance sheet presented in a firm's financial statements are reported.</p> <p>2. Detailed - Assets Detailed list of assets including derivatives: Credit Rating, Sector, Term to Maturity, Currency</p> <p>3. Technical Provision Premium provision , claims provision and risk margin by line of business.</p> <p>4. Solvency Standard formula: <ul style="list-style-type: none"> - SCR sub-modules (details of calculations) - MCR (incl. Non-Life NWP) Internal model: <ul style="list-style-type: none"> - Breakdown of modules and SCR (no detailed info) </p> <p>5. Similar - Own funds <ul style="list-style-type: none"> - Basic own funds and ancillary own funds - Available and eligible own funds (Tiers) </p>	Profitability
Balance sheet		Balance sheet
Assets		Assets
Technical Provision		Provision
Investment return		Investment return
Solvency		Solvency
Own funds		Capital resources
Business mix		Business mix
Quality of reserves		Quality of reserves
Underwriting		Underwriting
Reinsurance		Reinsurance



The tools that are currently in use

Supervisors now have access to tools and their analysis of the data has commenced

Currently three tools either available to users or in the final stages of testing

Tool to
analyse
solo
returns

Tool to
analyse
group
returns

Tool to
analyse
assets
data



Features of the current tools

Charts & QRT tools for solos and groups

- Allow the user to interact with data from all firms and reporting periods
- Provide a way of visualising a firms' data across multiple reporting periods to help understand it better
- Simplified QRTs viewable side-by-side across multiple firms and reporting periods
- Automated production of Word report for user-selected metrics
- Both tools allow selection of Group entities
 - Solo tool displays data common to both solo and group reporting
 - Group tool displays data specific to group entities

**Current tools do not calculate risk or performance-based metrics
and are planned for future tools**



Future tools

Will develop to align with data submissions and the PRA's Solvency II requirements

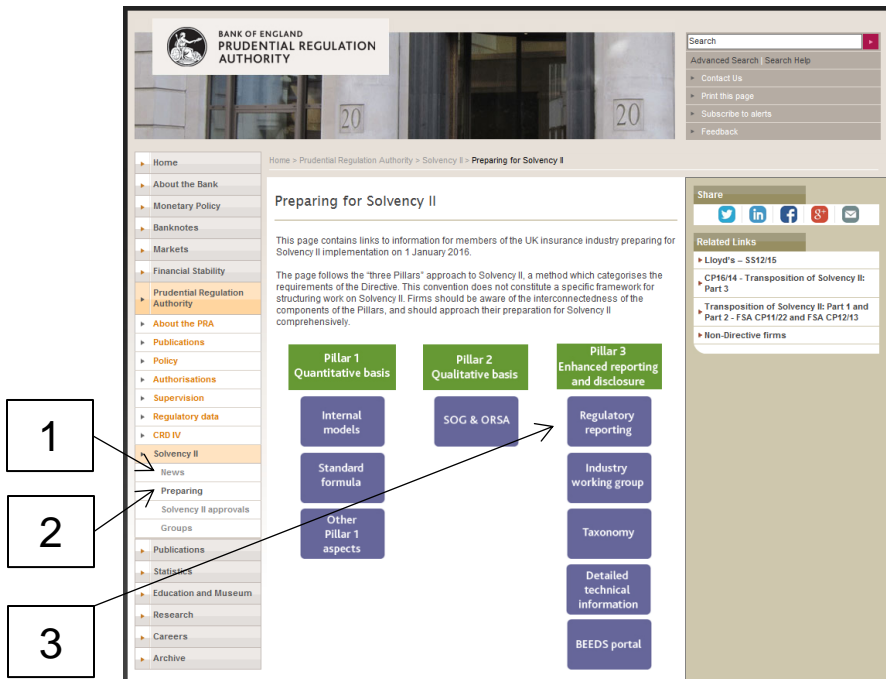
- **Asset tool** – a tool to provide detailed insight into a firm's assets
- **Quarterly monitoring reports** – a report that provides a high level overview of a firm and highlights key information
- **Annual returns reports** – a report providing detailed firm metrics around solvency, performance and strategy
- **Data extraction tool** – a tool that allows users to extract all data items
- **Sector/peer group analysis** – a tool that allows users to compare a firm against their peers
- **Charts and QRTs updates** – the existing metrics will be refreshed each time new data becomes available

Future tools will develop with supervisor's experience of the data, expertise, knowledge and feedback to the Insurance Analytics team



Questions and where to find more information

- (1) Access the latest News on Solvency II: www.bankofengland.co.uk/solvency2
- (2) To find the latest information on regulatory reporting navigate to the 'Preparing' section and then (3) the Pillar 3 pages



Five pages of Pillar 3 information:

- Regulatory reporting
- Industry working group
- Taxonomy
- Detailed technical information
- BEEDS portal



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Questions should be emailed to PRASIIRegulatoryReporting@bankofengland.co.uk