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Solvency II Impacts

With-profits Seminar, Institute & Faculty of Actuaries

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2

Agenda

- PRA objectives
- Relationship with FCA
- Response to CP12/38
- Route to Solvency II transposition
- What's happening in the Solvency II space
- With-profits and Solvency II
- Q & A



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3

PRA objectives

- Promoting safety & soundness of firms
- Contributing to securing an appropriate degree of protection for policyholders
- Secondary competition objective

New



Relationship with FCA (1/2)



- FSA split into PRA & FCA in April 2013
- PRA & FCA have differing regulatory objectives
- Memorandum of Understanding (MoU)

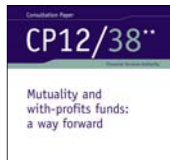
Relationship with FCA (2/2)



- With-profits MoU
 - Cooperation of supervision of insurers who hold with-profits policyholders
 - FCA concern: fair treatment of policyholders
 - PRA concern: safety and soundness
- Close FCA/PRA working relationship on policy issues
 - Mutuality and with-profits
 - With-profits business

Response to CP12/38

CP12/38: mutuality & with-profits



FSA, December 2012



FCA Policy Statement
PS14/5, March 2014



PRA Supervisory
Statement SS1/14,
March 2014

7

PRA SS1/14: key messages

- PRA feedback on responses to CP12/38
- With-profits mutual waiver – joint FCA/PRA waiver
 - Identification of mutual members' fund
 - To support writing of non-profit business
 - Supporting evidence required by PRA & FCA
- Interaction of:



8

Transposition of Solvency II

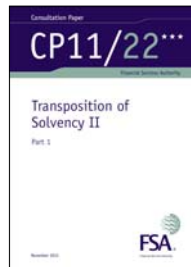
- What needs to be transposed?
- Previous consultations: CP11/22 and CP12/13
- Solvency II Directive as amended by Omnibus II
- Most Directive text is maximum-harmonising
 - Very few areas for Member State discretion/option
 - Directive requirements cannot be waived!



9

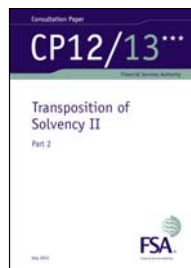
Transposition: CP11/22

- Transposition of Solvency II Part 1
 - FSA, November 2011
- Consultation process
- SOLPRU
- Handbook changes
- Cost Benefit Analysis



Transposition: CP12/13

- Transposition of Solvency II Part 2
 - FSA, July 2012
- Feedback on CP11/22
- SOLPRU
- Handbook amendments
 - With-profits insurance business – COBS 20



Transposition of Solvency II: next steps

- What has happened since CP11/22 & CP12/13?
 - Finalisation of Omnibus II
- PRA will give further information about next steps for transposition in the next few months
 - www.bankofengland.co.uk/solvency2



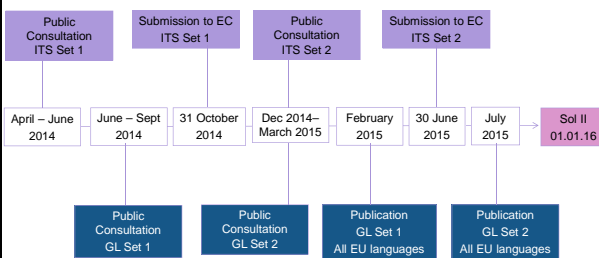
Solvency II: recent developments (1/2)

- Delegated Acts (DA):
 - Ongoing negotiations, most recent draft March 2014
- Implementing Technical Standards (ITS)
 - "Wave" approach
 - Approval processes – matching adjustment, AOF, USP, IMAP, SPV
 - More to come, e.g. reporting, CAO

Solvency II: recent developments (2/2)

- EIOPA Level 3 Guidelines:
 - "Wave" approach
- Guideline papers particularly relevant to with-profits business:
 - Valuation of Technical Provisions (TP)
 - Guidelines on Ring-Fenced Funds (RFF)
 - Governance

EIOPA timeline



With-profits and Solvency II (1/2)

- Solvency II ring-fenced fund (RFF) regime
- Restrictions on transferability of own funds to cover losses on:
 - Certain (re)insurance contracts
 - Certain policyholders/beneficiaries
 - Particular risks or liabilities
- Adjustments to own funds and calculation of SCR

With-profits and Solvency II (2/2)

- SS1/14: PRA expect that the characteristics of with-profits funds will give rise to restrictions on transferability of own funds
- Therefore we expect that with-profits funds will need to be treated as RFFs under Solvency II
- EIOPA Guidelines

Summary

- How with-profits business fits with PRA objectives
- On-going relationship with FCA
- PRA SS1/14 – Mutuality and with-profits: a way forward
- Solvency II transposition
- Recent Solvency II developments
- With-profits and Solvency II

Thank you!

Questions

Comments

The views expressed in this presentation are those of the presenters.
