Institute and Faculty of Actuaries

CP24/14 Solvency II: further measures for implementation

Consultation response to the Prudential Regulation Authority

30 January 2015

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

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Solvency II: further measures for implementation
Jack Middleton
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

30 January 2015

Dear Jack

IFoA response to CP24/14 Solvency II: further measures for implementation

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Prudential Regulation Authority's (PRA) latest consultation paper on the transposition of Solvency II into UK law. The IFoA's Solvency II Steering Group, Health Board and Life Solvency II Current Issues Committee have led the drafting of this response. Members of these groups are actively engaged with the implementation of Solvency II by insurers.

Our response to specific matters follows the order in which they appear in the consultation paper. We list below only the sections of the consultation paper where we have a concern or observation we would like to raise; please note that our comments relate mainly to the Appendices.

General Comments

1. PRA Consultation Paper CP24/14 provides generally useful clarification on the appointment of actuaries to actuarial functions. The range of appended Supervisory Statements also provides clarity on the PRA's expectations of firms in the corresponding contexts.

2. We are in overall agreement that, where the PRA's proposals do not involve a material change to insurers' current or (already anticipated) activity, the additional incremental costs should be minimal.

<u>Appendix 1: Actuaries instrument</u>

3. Paragraph 1.2 explains that (part 1) applies to an actuary appointed under (part) 2 or appointed under or *as a result of a statutory provision other than in FSMA.* We were unclear of the meaning of the text italicised here, and it would be helpful if this could be clarified.

4. We understand that an external actuary appointed to the actuarial function would need, as proposed by paragraph 2.1, to be a Fellow of the IFoA (or, in relation to general insurance business, a Fellow of the Casualty Actuarial Society and Member of the IFoA). This would seem to us to follow from the in line with definition given to 'actuary' in the PRA Handbook Glossary. It would be helpful if this interpretation could be confirmed.

5. We note that the scope of paragraphs 2.4/ 2.6 is restricted to the actuarial functions described in paragraphs 2.1/ 2.2. Paragraph 2.3 relates to actuarial vacancies, but does not include the same restriction in scope. Confirmation of the scope of paragraph 2.3 would be useful.

Appendix 4: Regulatory reporting exemptions

6. We welcome proposed exemptions for category 4 and 5 companies. We are concerned that the delay in submitting an application for an exemption, and by extension the receipt of an exemption, may cause reporting difficulties for companies if an exemption is not granted.

Appendix 5: Regulatory reporting, internal model outputs

7. Whilst we appreciate firms using an internal model ought to be able to generate the percentile output for specified variables, the number of percentiles requested is substantial and there may be operational issues. The processing requirements and results files for internal models are likely to be immense and, in order to optimise processing and space requirements, firms may not otherwise generate output for all these proposed variables at each of these percentile levels.

Appendix 7: The quality of capital instruments

8. We welcome the PRA's clarification about both the cut-off date for the consideration of own-fund transitionals and interpretation of redemption.

Appendix 8: The treatment of pension scheme risk

9. Where there is a relevant contractual agreement / policy in place, insurance firms with a defined benefit pension schemes are required to 'look through' to the pension scheme assets and liabilities when determining their Solvency Capital Requirement. This may be financially onerous for some insurance firms, but we note that this arises from EIOPA's requirements set out in Level II Chapter V of the Implementing Technical Standards.

Appendix 9: Reporting templates

National specific templates and LOG files

10. We support the PRA's approach.

Regulatory reporting templates and LOG files

Whilst we appreciate that all firms with an internal model will need to analyse their results at the level proposed in the reporting templates, we feel there are practical implications for the PRA in having sufficient resource to analyse the results. If a company were to fail and the PRA did not, because of practical resource constraints, notice the warning signs in these reporting templates, the PRA may face unreasonable criticism. Moreover, the scope for regulatory action may be limited where the PRA was 'officially' aware of the risks a failed company was running.

Should you wish to discuss any of the points raised in further detail please contact Steven Graham, Technical Policy Manager (steven.graham@actuaries.org.uk 0207 632 2146) in the first instance.

Yours sincerely

David Hare

David Hare
Immediate Past President, Institute and Faculty of Actuaries