



Institute  
and Faculty  
of Actuaries

# CP 11/15 SII: supervisory approval for the volatility adjustment

IFoA response to the Prudential Regulation  
Authority

21 April 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.



SII: CP11/15 Response  
Romain Labaune  
Prudential Regulation Authority  
20 Moorgate  
London  
EC2R 6DA

21 April 2015

Dear Mr Labaune

**IFoA response to CP11/15 SII: supervisory approval for the volatility adjustment**

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Prudential Regulation Authority's (PRA) consultation paper on supervisory approval for the Volatility Adjustment (VA). The IFoA's Life Standards and Consultations sub-committee has led the drafting of this response. Members of this group are actively engaged with the implementation of Solvency II (SII) by insurers.
2. We welcome the clarity this consultation provides, particularly in setting out the PRA's expectations of firms in relation to the VA approval process. The Draft Supervisory Statement sets out a clear framework for the items to be included in a VA application, together with the PRA's proposed approach to assessing such an application. This clarity will be helpful to firms as they prepare for SII. It would also be useful if the PRA could provide guidance on which business lines it believes a VA could be applicable for, in a similar way to the helpful feedback on the Matching Adjustment (MA) application. In particular, guidance on whether unit-linked business could meet VA eligibility would be useful.
3. Annex 1 to the consultation indicates how VA application contents relate to the necessary Statutory Conditions which need to be met. This mapping should also prove useful to firms as they prepare their VA applications. We agree that it is important that any VA application should have relevant board approval, including an explanation of how the associated Statutory Conditions have been met.
4. We note that the PRA proposes reaching a conclusion on VA approval within 6 months from submission of a completed application, although it would try to reach a decision before this. We strongly encourage the PRA to conclude on applications as quickly as possible, particularly where firms' applications have followed the clear framework set out within this consultation. This will help reduce uncertainty and time pressure for firms in the late stages of SII implementation. However, we also note that a 6-week timescale would be aimed for where there were no other related applications. The shorter timescale for standalone VA approval is welcome.
5. We believe the proposed approach to related SII approval applications is sensible – considering MA and VA applications concurrently. We expect that many firms will want to use a VA as a contingency if their MA application is unsuccessful. However, where firms make a contingent application, we suggest that the PRA allow firms to submit the VA application at a

later stage if appropriate. This would recognise that any response would then be either within 6 months of the first application, or 6 weeks of the VA application, if later.

6. Although not strictly relevant to the context of this consultation, we also encourage the PRA to consider how 'emergency' VA approval could operate. We believe that it is in the public interest for a firm to be able to apply a VA to take corrective action quickly, where a significant change of circumstances makes this necessary. This could arise if the MA failed, or if currently unforeseen events occurred. In such instances 'emergency' approval could reduce uncertainty for current and prospective policyholders if it mitigated failure.
7. The consultation does not set out any application considerations specific to Group firms, and some additional guidance here would be useful. In particular, it would be useful to understand how the VA approval process would work for a UK Group with subsidiaries in territories that do not require VA pre-approval.
8. It would also be helpful if the PRA could clarify the potential 'lifespan' of a VA approval. We note the underlying requirement that use of the VA approval complies with the three relevant Statutory Conditions. Once VA approval is granted, is ongoing subsequent compliance with these Statutory Conditions a sufficient condition for continued use of the VA? Clarification on the process firms should follow to evidence this would also be useful.

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](mailto:steven.graham@actuaries.org.uk) / 0207 632 2146) in the first instance.

Yours sincerely,

A handwritten signature in black ink that reads "David Hare". The signature is written in a cursive style and is positioned above a horizontal line.

David Hare,  
**Immediate Past President, Institute and Faculty of Actuaries**