Institute and Faculty of Actuaries

15 May 2023

PRA CP14/ 22 - Review of Solvency II: Reporting Phase 2

IFoA Response

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide and oversee their education at all stages of qualification and development throughout their careers.

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the PRA's Consultation Paper CP 14/22 *Review of Solvency II: Reporting Phase 2*. We support the PRA's aims in relation to its proposals for Solvency II (SII) reporting, including significant streamlining of template production and frequency, and better tailoring of reporting to the needs of the UK insurance industry.

2. The PRA's proposals should make SII reporting in the UK more proportionate and fit-for-purpose. We believe this can be done without compromising the safety and soundness of firms, or of policyholder protection. Streamlining of reporting should also have wider benefits, including greater efficiency in reporting production (by firms) and analysis (by industry commentators).

3. In developing our response to this consultation paper, we have drawn upon input from a range of our members working in general insurance, either for insurers themselves or for consultancies.

4. It is important to note that, as for any IFoA response, we have considered the PRA's proposals from an independent, public interest perspective. In doing so we have taken a broad perspective on the public interest.

5. We note that further proposed changes to SII reporting in relation to Solvency and Financial Condition Reports (SFCRs) and Regular Supervisory Reports (RSRs) will be covered in subsequent PRA consultation papers.

6. In the points which follow, we make a number of caveats to our general support for the PRA's reporting streamlining proposals. We hope that the PRA find our response useful and we would be delighted to discuss it with PRA in due course.

7. Template S.05.01 *Premiums, Claims and Expenses by Line of Business* is proposed to be deleted, and replaced by the more detailed Template NS.07 *Business Model Analysis Non-Life*. We understand that UK firms are required to disclose S.05.01 publicly within SFCRs, unless given specific regulatory permission to not include in the SFCR and only include in the private QRT submission to the regulator. The proposed deletion could reduce reporting transparency.

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8. Template S.07.01 *Structured Products* is also proposed to be deleted. Structured products is an area in which insurers can introduce risk into their asset portfolios to increase returns, and we would expect that the PRA would wish to retain its ability to oversee such instruments. We note that there is already a materiality threshold in place that relates to this template, so it is not reported in cases where firms have smaller holdings.

9. A further template proposed for deletion is S.08.02 *Derivatives Transactions*. Removing this template could restrict the PRA from being able to monitor firms using short term derivatives.

10. With respect to the proposed new template S.05.04, the consultation paper refers to 'miscellaneous' in relation to grouping less significant lines of business. It should be clarified if the PRA is referring to a generic 'other' category or if they are referring to the Miscellaneous Financial Loss line of business.

11. The PRA propose reducing the frequency of reporting for the template S.17.01 *Non Life Technical Provisions* for solo and third-country branch undertakings. It is not clear that this would provide a material cost saving as the Technical Provisions and risk margin need to be calculated for the balance sheet Quarterly Reporting Template (QRT) S.02.01 in any case.

12. Templates S.31.02 *Special Purpose Vehicles* (SPVs) and S.36.03 *IGT - Internal Reinsurance* are further proposed deletions. There already exists significant intra-group (and to a lesser extent, SPV) reinsurance within non-life insurance, particularly within the London Market. Removal of these templates could reduce reporting transparency, especially to regulators. The financial strength of a (re)insurance undertaking is potentially significantly weakened if there is heavy reliance on intra-group reinsurance. This is rightly an area of significant regulator and public policy interest, and we would expect that the PRA would wish to retain its ability to oversee such reinsurance arrangements.

Should you want to discuss any of the points raised please contact me, Steven Graham, Technical Policy Manager (steven.graham@actuaries.org.uk) in the first instance.

Yours Sincerely,

Steven Graham
On behalf of Institute and Faculty of Actuaries