



**PRA Solvency II Regulatory Reporting Industry Working Group, 27 September 2016**

<b>Firm representative</b>	<b>Organisation and representing</b>
Roni Ramdin	RSA, for ABI
Alan Hardings	Aviva, for ABI
Kim Harmer	E&Y for ILAG
Steven Findlay	ABI
Mike Schofield	Assurant Solutions, for ABI
Angus McLean	Baillie Gifford & Co, for ABI
Darren Sait	JP Morgan for The Investment Association
Rebecca Wyatt	Prudential, for ABI
Andrew Smith	XL Catlin, for ABI
Willem Van Der Westhuysen	Thomas Miller, for P&I Clubs
Jane Tusar	Society of Lloyd's
Jim Troy	Legal and General
Kate Parker	Lancashire Group, for IUA
<b>Bank of England</b>	<b>Role</b>
Lewis Webber - Chair	Head of Division, Insurance Data Analytics Division and Solvency II Project Sponsor
Rachel Evans	Solvency II Technical Specialist
Joanna Rose	Regulatory Data Group
Beju Shah	Information Service Technology Division
Peter Shirley	Solvency II Reporting Project Manager
David Jeacock	Data Analytics, Senior Manager
Paul Wateridge	Analyst – Insurance Analytics
Alex Novitsky	Data Analyst
Michele Bellabarba	Manager – Investment Analysis Team
Sibel Akar	Communications Specialist, PRA Insurance
Andrea French	Insurance Data Analytics Division representative
Karun Deep	Insurance Data Analytics Division representative
<b>Apologies</b>	
Paul Appleton	Society of Lloyd's
Russell Worsley	Lancashire Group, for IUA
Susan Wright	The Investment Association
Nick Lowe	IUA
Ben Terrett	UIA, for AFM
Steve Dixon	Steve Dixon Associates, for AFM
Martin Shaw	Association of Financial Mutuals
Miki Palocsai	One Family, for AFM

These notes are intended as a record of the discussions held at the PRA on 27 September 2016. They are not verbatim minutes and, for the benefit of those organisations that are not members of the industry working group (IWG), they indicate the themes of the discussion and questions that were raised. The views expressed are those of IWG members and do not represent guidance from the PRA.

Firms seeking clarification on aspects of these notes, or wishing to raise questions regarding regulatory reporting for discussion at the IWG, should contact the appropriate industry representative in the first instance. If firms are not represented at the IWG by a member organisation, they should submit their question to:

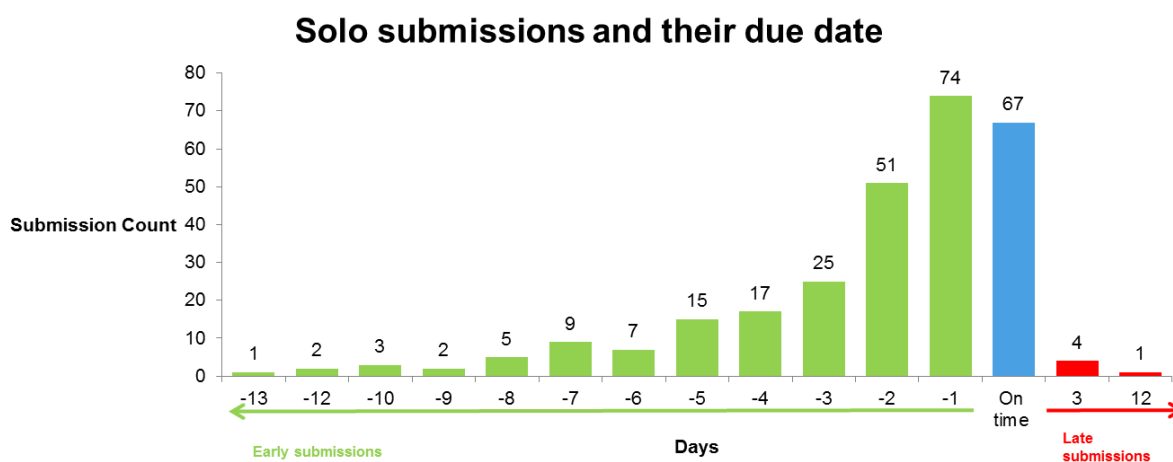
[PRA.FirmEnquiries@bankofengland.gsi.gov.uk](mailto:PRA.FirmEnquiries@bankofengland.gsi.gov.uk).

## Notes from the meeting on 27 September 2016 covering agenda items:

1. **Welcome from Chair, Lewis Webber**
  - Introduction
  - Update on progress since last IWG
2. **Feedback on recent submissions**
3. **Upcoming reporting using National Specific Templates**
4. **Internal model outputs**
5. **Taxonomy 2.1**
6. **Solvency II transitional recalculation and implications on reporting /TMTP**
7. **EIOPA Stress Test 2016**
8. **Assets sub-group**
  - a. Discussion regarding firm challenges
  - b. Asset and investment framework
  - c. PRA Insurance work to analyse and cleanse data

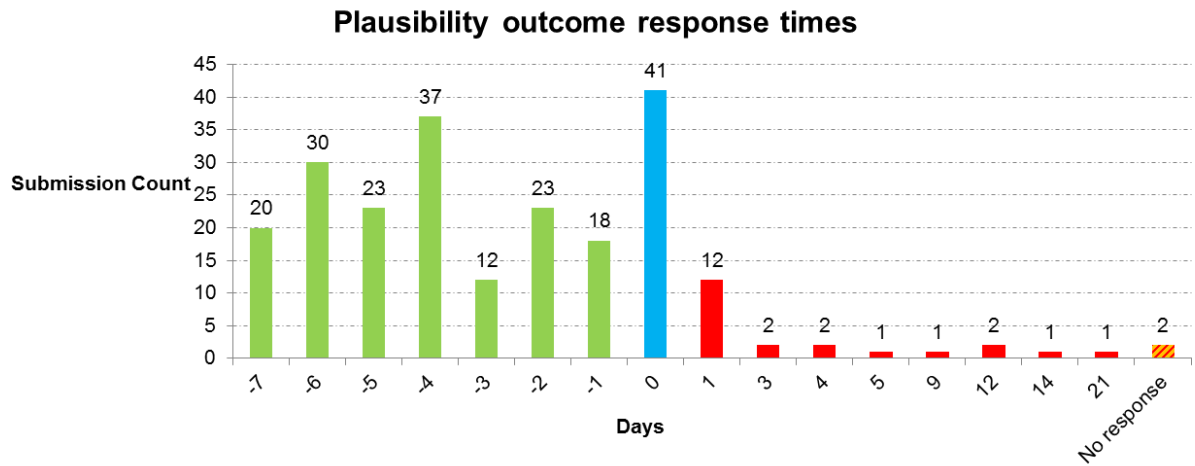
### Key points

1. **Welcome from Chair, Lewis Webber**
  - Introduction and update on activity since previous meeting:
    - Firm submissions of data have been received and 90% coverage was achieved in time
2. **Feedback on recent submissions**
  - 2.1 *Q1 Solo entity submission timeline*



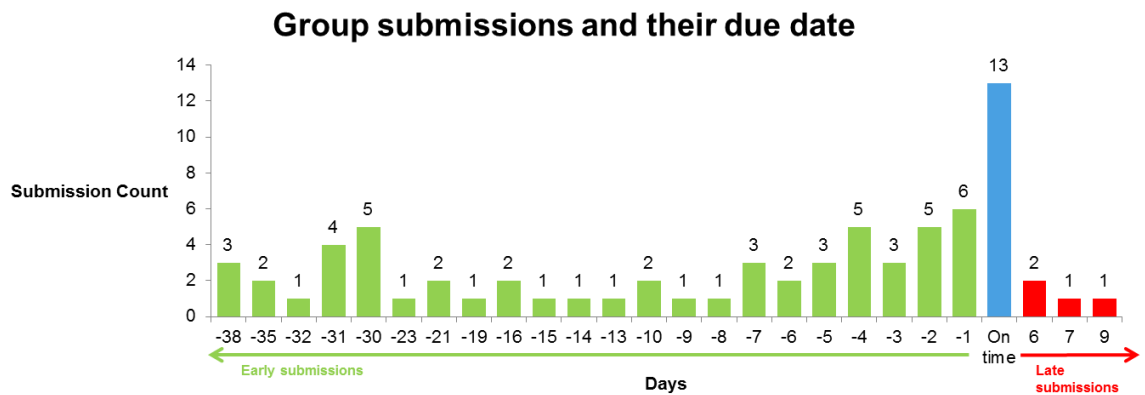
- RDG received 283 Solo submissions in total
- 98% of the submissions were made by firms by the due date
- 88% of the submissions were made in the 5 days before the due date

## 2.2 Q1 Solo entity response to RDG



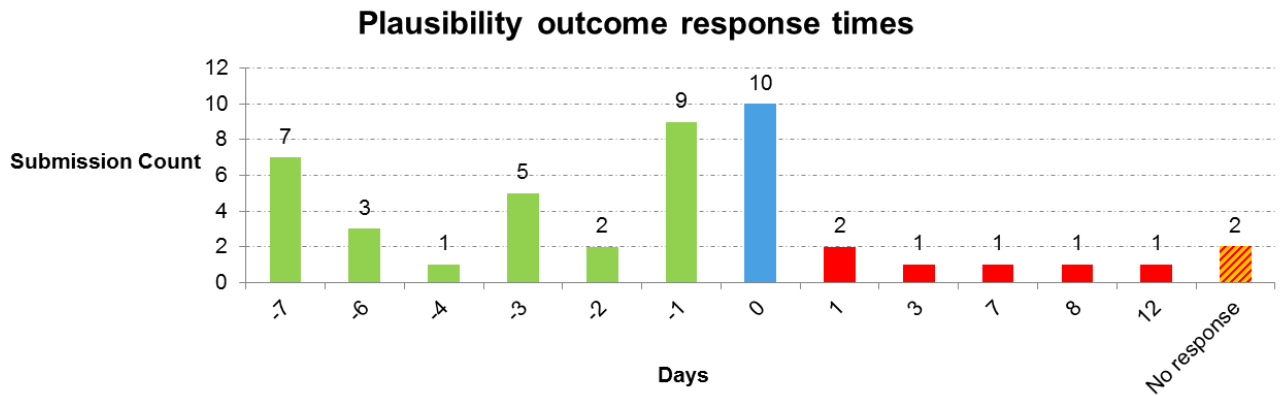
- Vast majority of firms, 89%, responded within the given deadline
- An additional 5% of firms were only a day overdue
- Only 1% of solo firms contacted failed to respond to RDG and address the query

## 2.3 Q1 Group submission timeline



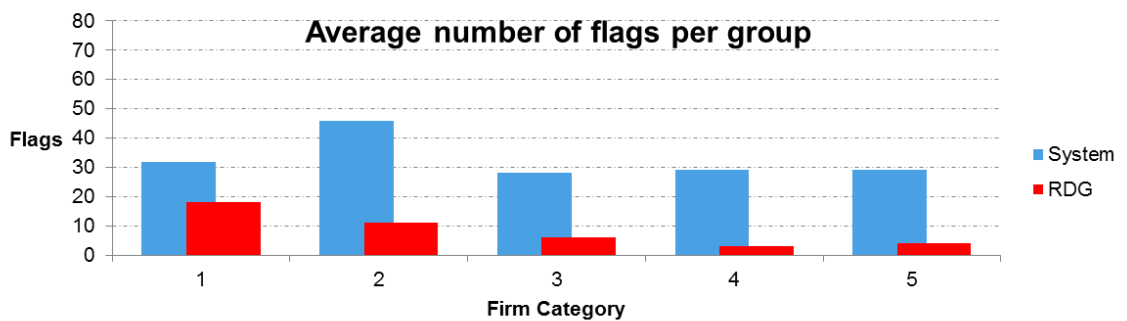
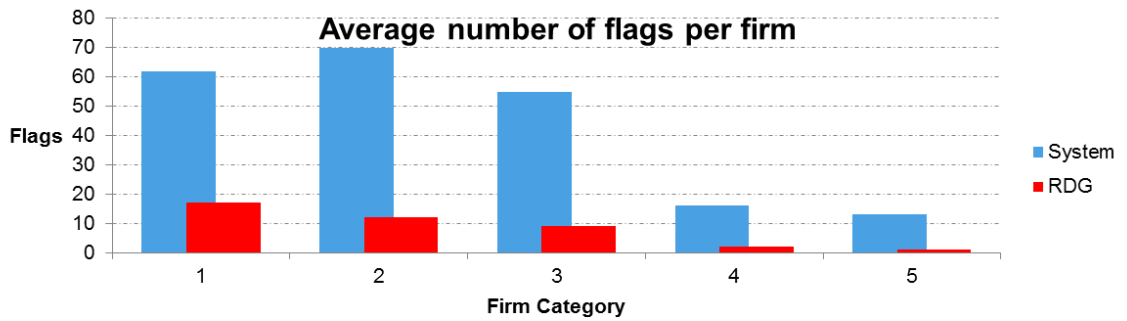
- RDG received 72 Group submissions
- 94% of the submissions were received by the due date
- More than 20% of Groups submitted their returns 30+ working days prior to the deadline

2.4 Q1 Group response to RDG



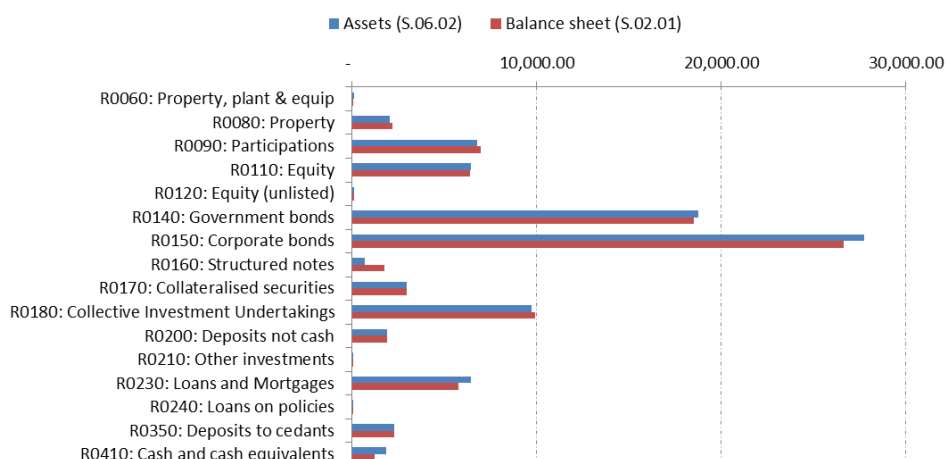
- 82% of Groups responded to RDG queries within five days
- 13% of the Groups which did respond were overdue
- 4% of Groups failed to respond to RDG and address the query

2.5 Q1 Flags sent to firms in the plausibility process



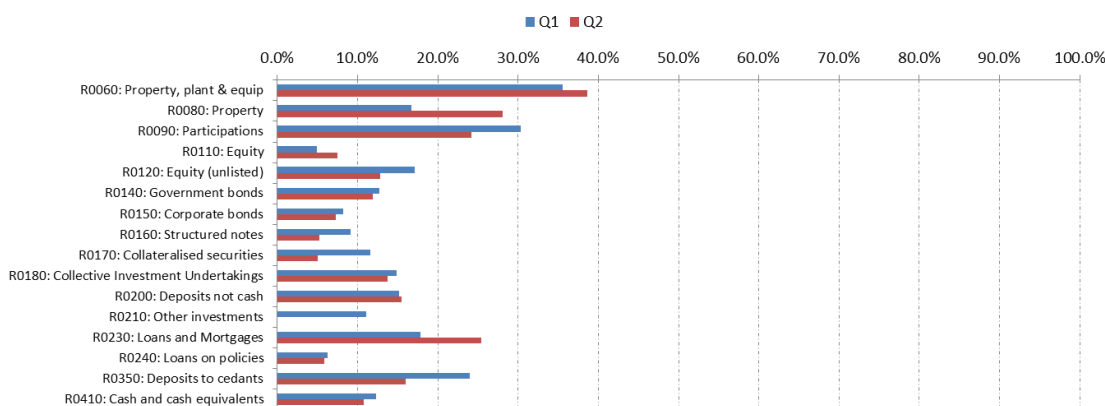
## 2.6 Asset data analysis

### Q2 asset comparison in £ millions



- Assets recorded in S.06.02 continue not to match the Balance sheet form S.02.01
- Most assets are corporate bonds
- Main discrepancies are for structured notes and cash

### Percentage analysis of exact matches between S.02.01 and S.06.02



- No asset category has over 40% of exact matches between S.02.01 and S.06.02
- Only 7.3% of Corporate bond data matched exactly between S.02.01 and S.6.02
- Only 7 firm submissions out of 141 would pass the proposed EIOPA x-form validations

**Q1:** When does the PRA plan to publish the plausibility framework?

**A1:** With Solvency II reporting still in its infancy, some plausibility flags have been found to be of limited use. Therefore, at this stage it is not considered beneficial to publish the full set of plausibility tests/flags.

**Q2:** Receiving the plausibility tests results, two months after submission can cause uncertainty in the production of the next set of numbers and in achieving sign off, especially for larger groups. Though we recognise the templates internally, the validation checks performed by the PRA do not always take all issues into consideration, in particular assets in index and unit linked funds, participations. If most

firms feel they are complying does this then mean there may be some issues in the plausibility tests being performed?

**A2:** The current checks on the assets are at a very high level. As we learn more about the data firms report, we will be able to build more **appropriate and sophisticated** checks.

### 3. Upcoming reporting using National Specific Templates

#### 3.1 National Specific Templates - enhanced data collection and data quality

##### Executive summary

- National Specific Template (NST) data is due to be collected from November 2016 (for firms with a June financial year end) but with the majority of firms (31 December year end) submitting in May 2017. The information requested and collection method is outlined within [Policy Statement 02/15](#), and on the Bank of England's website under regulatory reporting, published in 2015, following a consultation in 2014.
- The PRA has now published a consultation paper, which proposes the following:
  - a) reporting for financial year end 2016 and future financial year ends whereby firms submit NSTs in Excel templates, that have been designed using XBRL principles;
  - b) the information requirements for NSTs are brought into the Reporting Part of the PRA Rulebook; and
  - c) updates to the NST LOG files to reflect changes in cell references, reporting clarifications and technical corrections. No changes to the data items collected are being proposed.

#### 3.2 Background and current situation

- In addition to the collection of Solvency II data from UK Insurance firms driven by the Directive, the PRA also requires UK Insurance firms to submit additional information in the form of National Specific Templates (NSTs). NSTs comprise of the collection of PRA required data via 13 templates that form an additional requirement for UK firms
- The requirements for NST data collection were set out for firms in [Policy Statement 02/15](#).
- As the Bank's understanding of the Solvency II XBRL taxonomy and maturity surrounding data collection has increased and we have gained more experience of the potential issues with using MS Excel (re-submissions etc) it has become apparent that the best solution for the collection of NST data collection is not via Excel. This is because:
  - the data received will not be easily consolidated
  - experience suggests we will have to review quality on a case-by-case basis and ask a number of firms to re-submit
  - XBRL will include the usual validation and plausibility checks
  - a significant amount of manual effort will be required to try to make use of this low quality and inconsistent data

#### 3.3 Proposal

In time, the PRA propose to develop a solution aligned to the main Solvency II QRT data collection, specifically this means:

- creation of a (BoE owned) Data Point Model; and
- creation of a (BoE owned) XBRL taxonomy

For financial year end 2016 and onwards, the PRA have created updated Excel templates, designed using XBRL principles.

### 3.4 Implications

It should be noted that within [CP16/14](#), the PRA planned to move to an XBRL solution but stated that it had decided to remain with an Excel solution. It also stated that the PRA would consult on any changes to reporting format and give industry sufficient lead time to make system changes. The full extract is shown below:

#### Extract from CP16/14 - Format of reporting

*“12.13 A respondent asked whether the national specific reporting should be in XBRL to match the rest of the reporting suite. The PRA expects to move to XBRL reporting but has decided to remain with our proposal to use Excel due to the requirement for additional systems and taxonomy changes to do so. The PRA will consult on any changes to reporting format in due course and will give the industry sufficient lead time to make system changes.”*

The PRA are now consulting on the update Excel templates, designed using XBRL principles.

In order for all firms to have the opportunity to submit information using the new templates and time to implement any system changes required, the PRA is publishing a Modification by Consent on the submission date rules for NSTs. This applies to firms with a 30 June - 19 December year end. This will allow for those firms to apply for a waiver of the rules in order to take advantage of a later submission date.

### 3.5 IT solution

The IT solution will be similar to that deployed for the core Solvency II data collection:

- Data collection from firms and validation will continue via the **BEEDS portal**
- In future, the PRA hope to utilise an **XBRL data point model and taxonomy**

The key differences are that:

- Any future taxonomy will be Bank of England owned and maintained specifically for NST and other UK-driven data collections

### 3.6 Reporting clarifications

- Applicable to all templates: monetary amounts should be reported in units with no decimals consistent with Commission Implementing Regulations
- Reporting clarifications are proposed for the following templates:
  - NS.02 (With-profits Liabilities and Assets)
  - NS.05 (Revenue Account Life)
  - NS.06 (Business Model Analysis Life)
  - NS.07 (Business Model Analysis Non-Life)



- NS.10 - Projection of future cash flows (best estimate – non-life: liability claim types)
- NS.11 - Non-life claim development information (general liability sub-classes)
- Further information can be found within Appendix 4, CP40/16.

**Q3:** Firms face challenges in implementing changes for financial year end 2016. How do firms proceed with submissions if clarity on reporting requirements is not provided?

**A3:** There is an option proposed within CP40/16, whereby firms may, following discussion with their supervisor, submit NSTs in Excel format as originally published in March 2015 for financial year end 2016. For example, some June year end firms may have completed the NSTs in their original Excel format already.

**Q4:** There seems to be a significant delay in receiving responses from the PRA to queries firms submit, how can we ensure a timely response to questions raised?

**A4:** Firms are advised to contact their Supervisor in the first instance or email

[PRASIIregulatoryreporting@bankofengland.co.uk](mailto:PRASIIregulatoryreporting@bankofengland.co.uk) with queries.

#### 4. Internal model outputs

On 21 September 2016, the PRA published [CP31/16](#) – Solvency II: updates to '[SS25/15 Regulatory reporting, internal model outputs](#)' and '[SS26/15 ORSA and the ultimate time horizon — non-life firms](#)'.

- Summary of proposals:
  - Consolidation of internal model (one-year) and ultimate time-horizon into one set of templates
  - Separation of entity line of business (LoB) and Solvency II LoB into two separate tabs
  - New template ID codes
  - New qualitative template for capturing own LoB descriptions
  - Updates to SS25/15 and SS26/15 in line with the 2015 year end PRA data request for internal model outputs
- Consultation closes on 21 December 2016

**Q5:** What feedback is currently available for model drift and when should we expect a response?

**A5:** The PRA has assessed all responses to the consultation paper and the feedback has been addressed within the published [Supervisory Statement 15/16](#). In particular, the PRA clarified the following:

- The standard formula is one of a suite of metrics that can be used to monitor model drift, recognising there may be limitations with the standard formula calculation for firms with approved internal models;
- Ratios will be re-based only if there is a major model change or change in risk profile resulting in a material change to the SCR to ensure the value in recording trends in model drift ratios over time is maintained where possible;
- The results of the standard formula SCR calculation is privately reported to the PRA;

- Firms are not required to have their standard formula calculation externally audited;
- Submissions should be approved by a member of the senior management team with suitable authorisation before being submitted; and
- Firms should submit their standard formula SCR information four weeks following the submission date for their annual quantitative reporting templates.

## 5. Taxonomy 2.1

- Implementation
  - To be used for all submissions with reference date 31 December 2016, onwards
  - Resubmissions of historic data will be within the relevant previous taxonomy – all taxonomy versions will remain available in BEEDS
- Changes
  - Taxonomy 2.1 scope of changes
  - Ad-hoc and D1 entry points
  - T4U
  - Filing rules
- Testing
  - External UAT testing window for firms is scheduled for mid-December where quarterly and annual templates will be available to upload
  - The PRA aims to give firms sufficient notice of the testing period
  - Firms will be requested to provide the PRA with file sizes for their XBRL files a month in advance

**Q6:** Is it possible for firms to upload information in draft within BEEDS?

**A6:** Unfortunately, the BEEDS platform does not currently offer this functionality.

**Q7:** Feedback was provided to RDG with regards to the taxonomy challenges being faced by firms, any indication of when firms will receive a response?

**A7:** RDG hope to be in a position to respond to all queries soon.

## 6. Solvency II transitional recalculation

Firms were invited to submit applications for transitional recalculation in the summer given developments in financial markets, including material falls in market interest rates.

**Q8:** There is confusion in the industry around the need for audit opinion on transitional measures. As it has not explicitly been communicated previously, it was excluded from the requirement for audit and auditors used scope limitations, can the PRA provide further clarity on this?

Similarly, can the PRA also clarify the requirement for an audit for capital add-ons?

**A8:** The audit requirement is set out in paragraph 3.4 of [Supervisory Statement 11/16](#). Draft guidance has also been provided by the Financial Reporting Council from Section 7 paragraph 47 of the exposure draft PN20 “The Audit of Insurers in the United Kingdom”. Capital add-ons are not excluded

from the scope of the audit requirements. They are discussed in Section 7 paragraph 57 of the PN20 exposure draft.

## **7. EIOPA Stress Testing**

### *7.1 EIOPA Stress Test 2016: overview*

- The 2016 exercise is tailored to assess the insurance sector's vulnerabilities to a combination of adverse market risk scenarios and is being run in close co-operation with national supervisory authorities
- EIOPA and the ESRB have developed scenarios for the bottom-up stress test - "Double Hit" and "Low for Long" stress tests modelled as one-off instantaneous shocks to balance sheets and own funds. The exercise includes two stress test questionnaires
- EIOPA are additionally planning a desk-based top-down exercise in 2017
- The exercise covers a +75% market share of large/medium firms holding gross life technical provisions (excluding unit-linked, indexed linked and health business assets)

### *7.2 EIOPA Stress Test 2016: progress year to date*

- The stress test exercise was launched on 24 May 2016
- The PRA held a roundtable event with firms and industry bodies on 25 May
- Firms had until 22 August to finalise domestic submissions (7 weeks)
- 10 firms in the exercise submitted numerous submissions which were validated by the PRA – using both IDAD's & EIOPA's validation tool
- All stress result submissions were transferred to EIOPA on 22 August
- Next stage: Central European validation in Frankfurt for the whole of Europe – from 23 August to 21 October 2016 (split into two phases)

### *7.3 EIOPA Stress Test 2016: timelines*

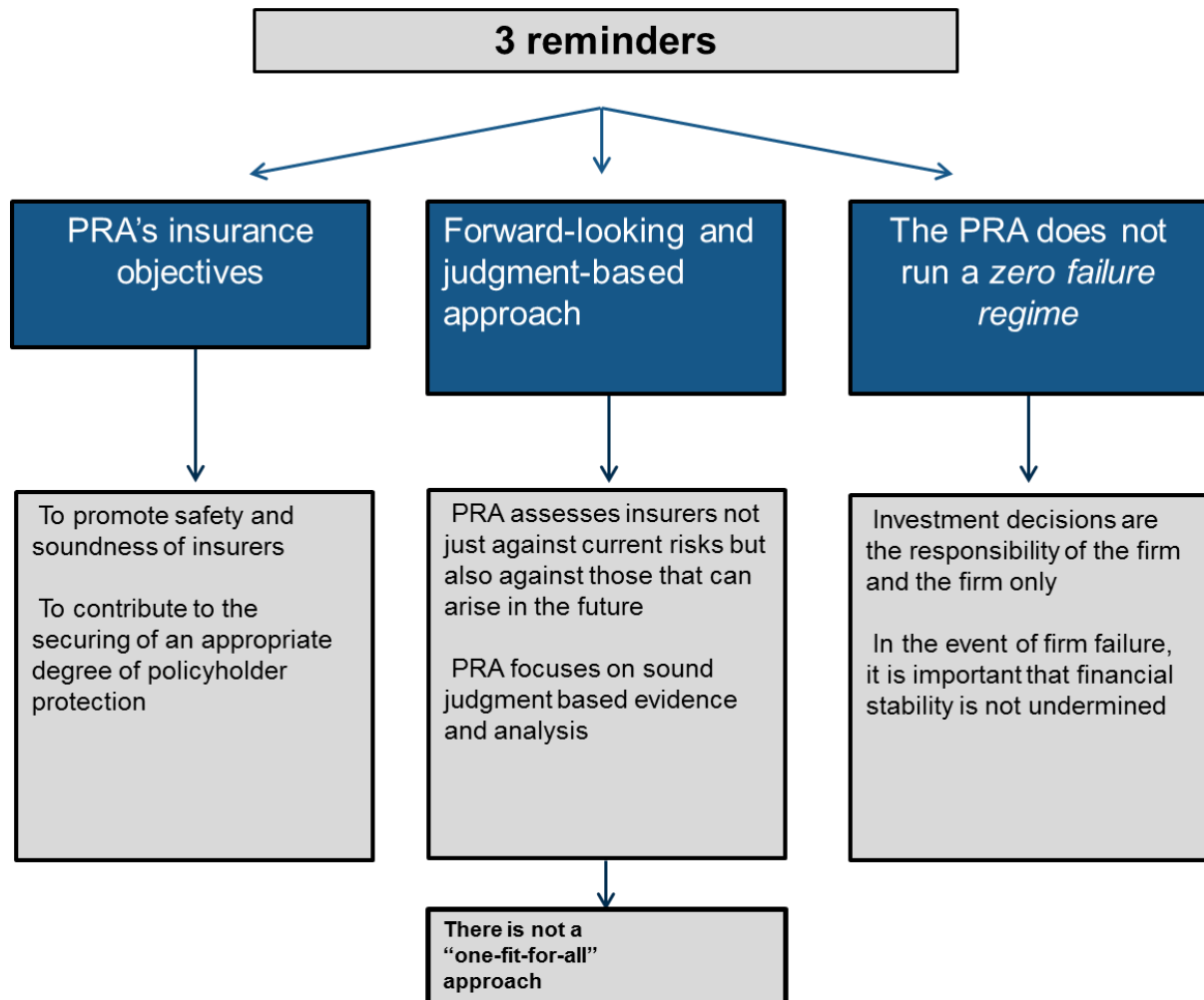
<b>24 May 2016</b>	Launch of a Europe-wide stress test specifications and templates for the insurance sector and press release
<b>15 Jul 2016</b>	Submission deadline for industry participants to the national supervisory authorities (NSAs)
<b>22 Aug 2016</b>	Collection and validation of undertakings' data by the national supervisory authorities (NSAs)
<b>Sep/Oct 2016</b>	Centralised validation by EIOPA of all the submitted results
<b>Early Dec 2016</b>	Disclosure of the results of the stress test analysis with press release and a communication plan for January 2017

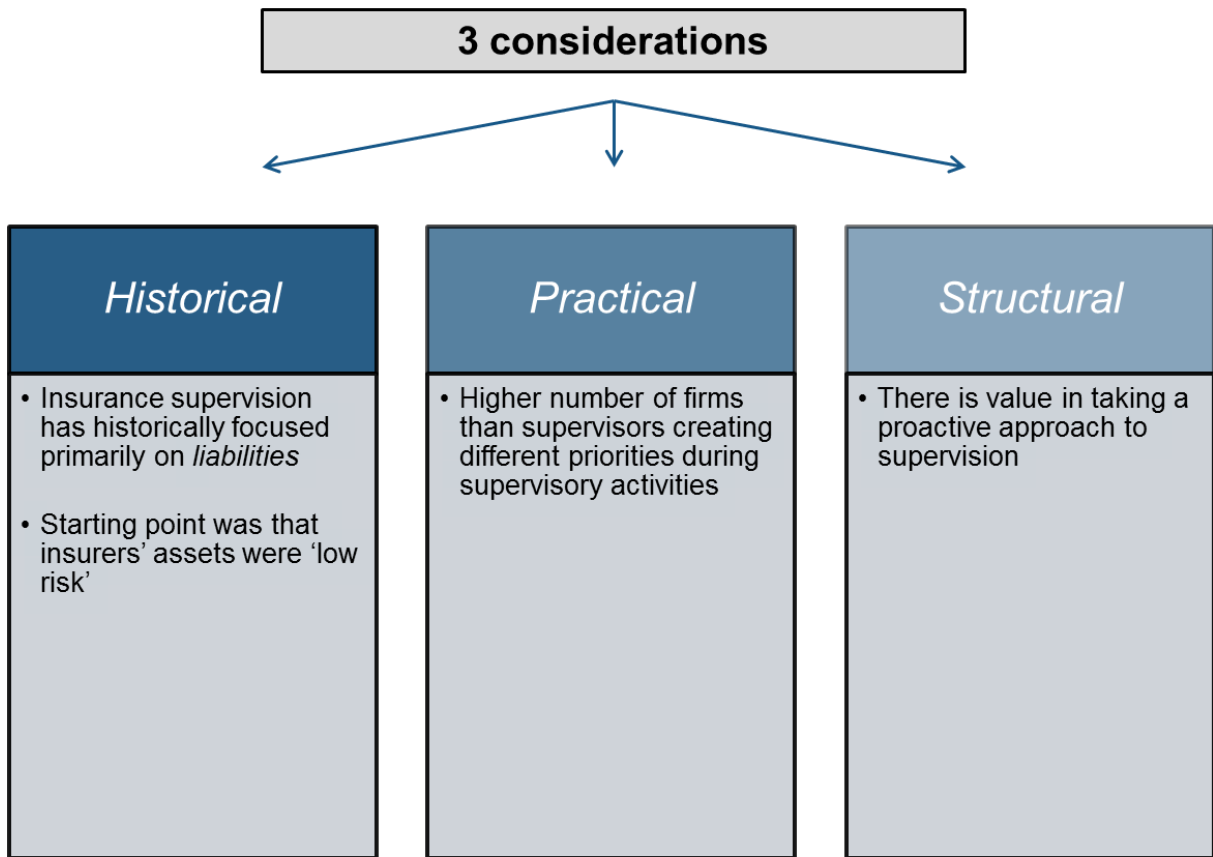
## Notes from the PRA Regulatory Reporting IWG: Assets sub-group

8. Asset and investment framework
9. PRA Insurance work to analyse and cleanse data

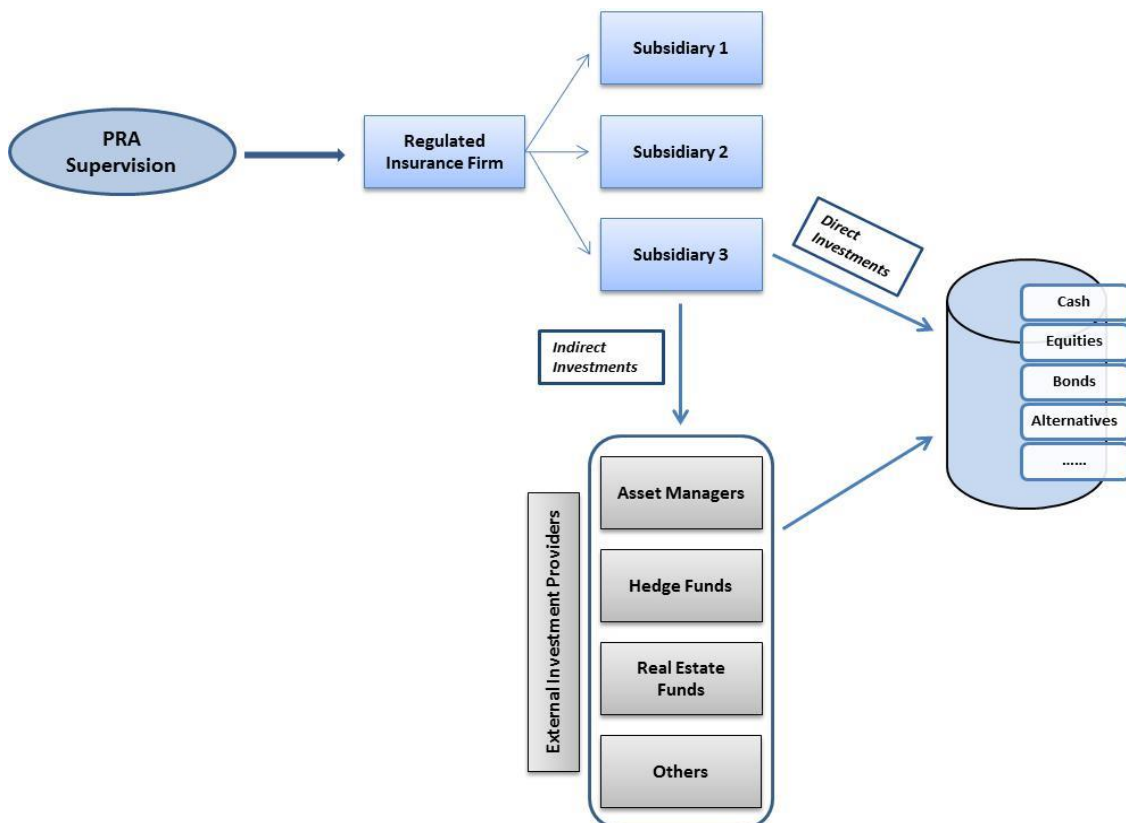
### 8. Asset and investment framework

#### 8.1 The 4-level assessment model: The Investment Framework

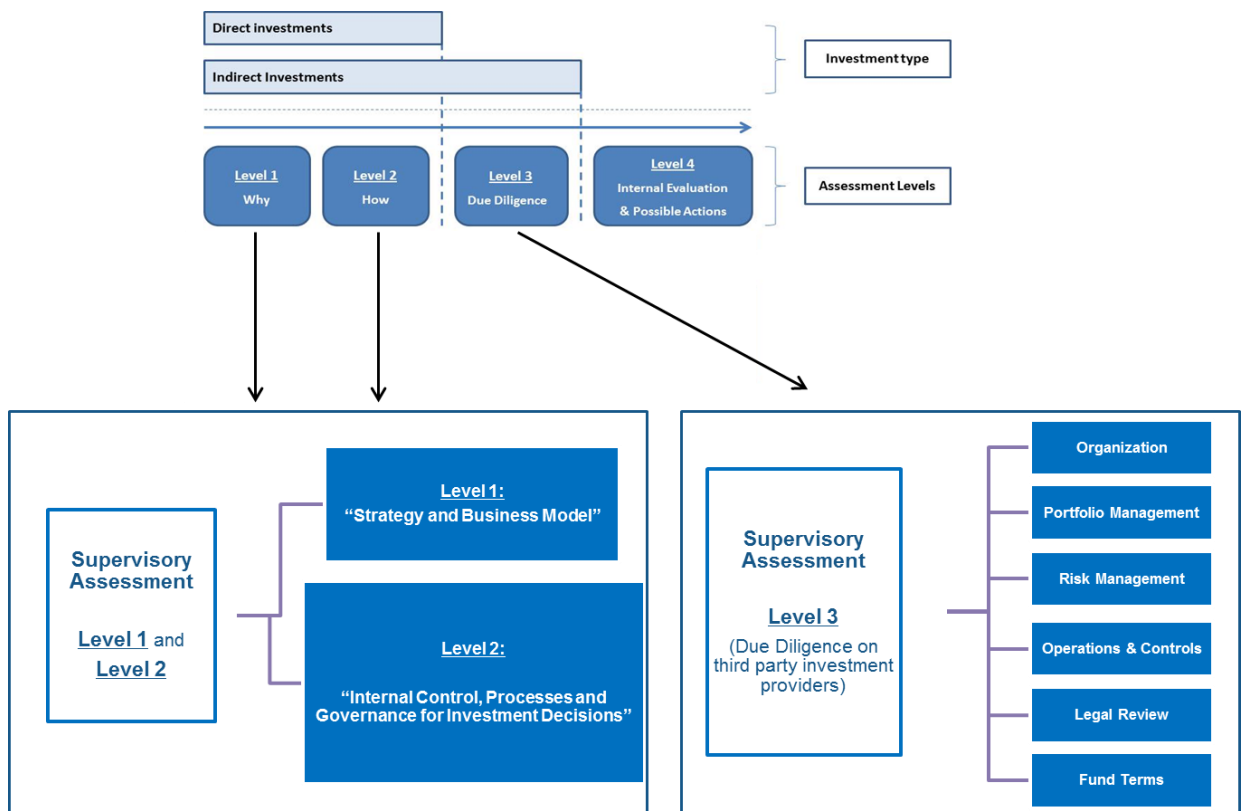
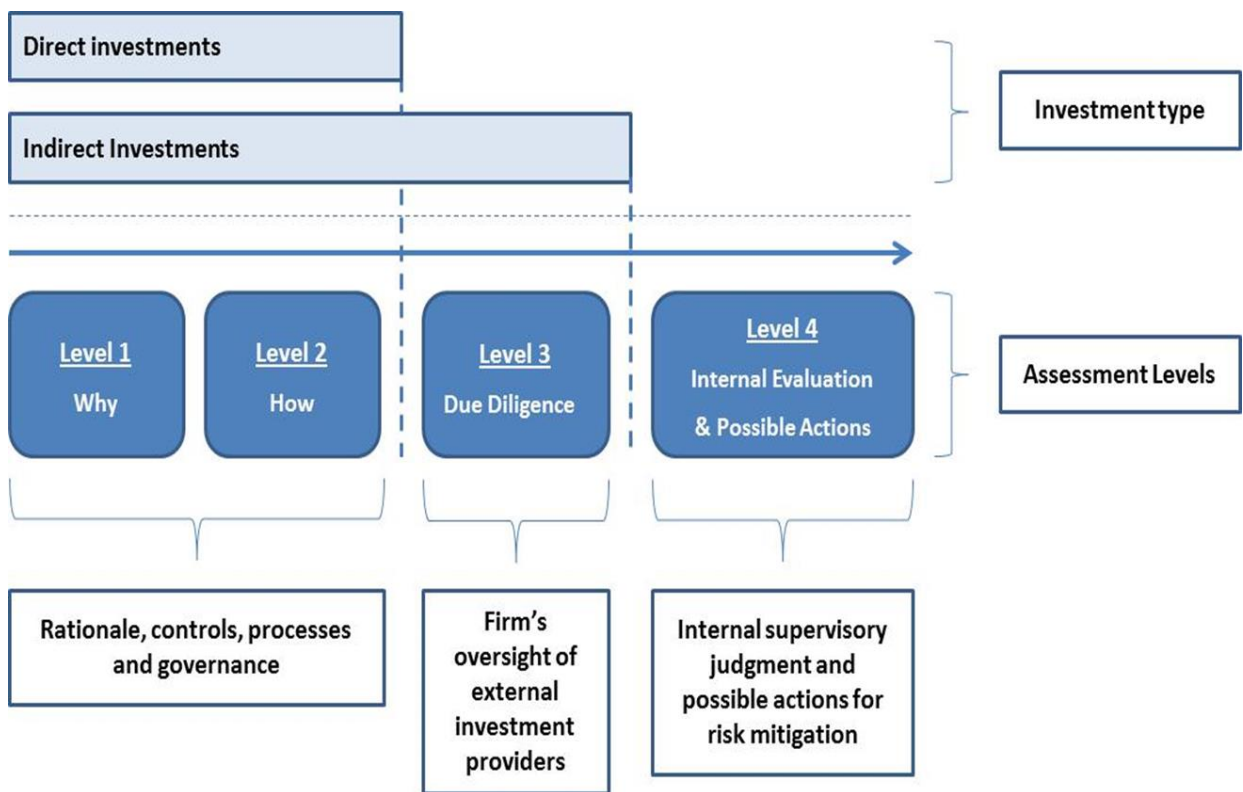




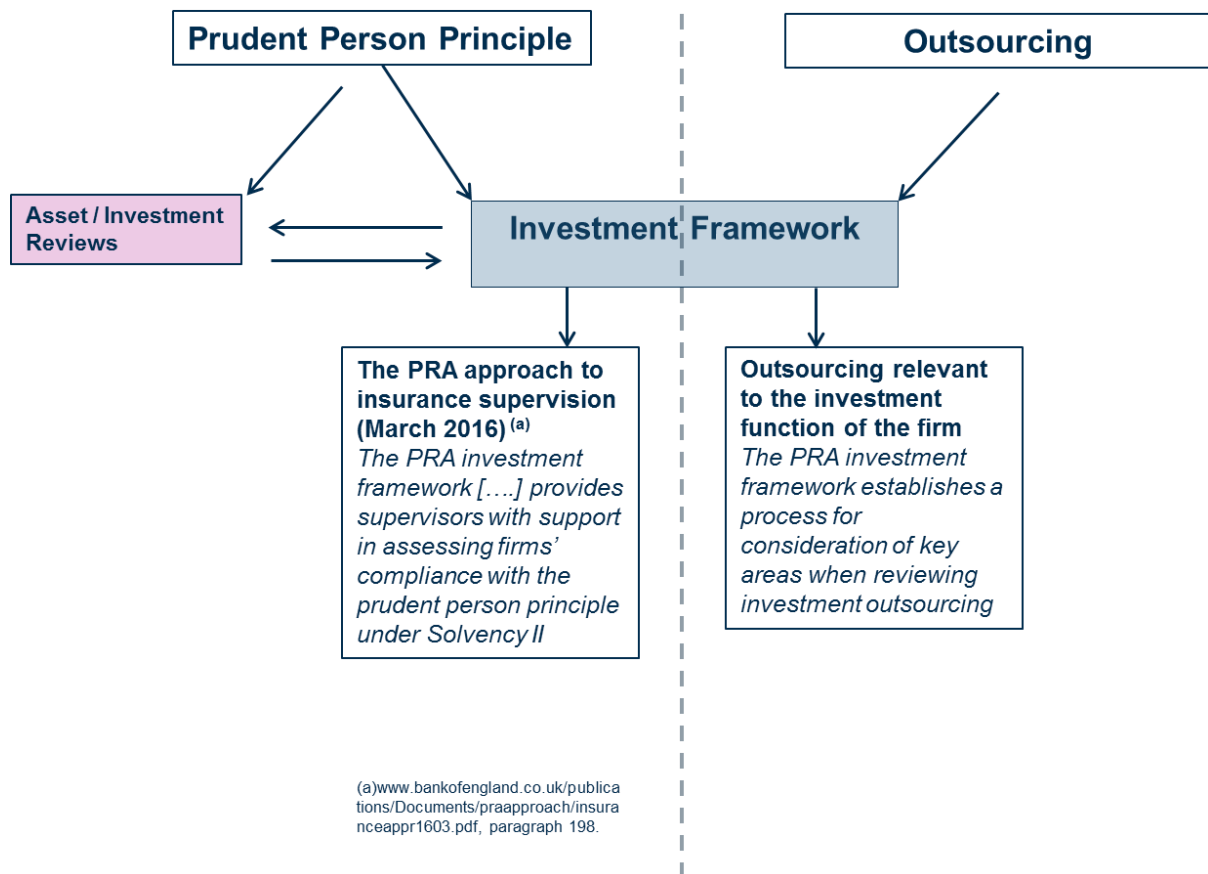
8.2 Investment types: direct vs indirect



8.3 The PRA '4-level assessment model'

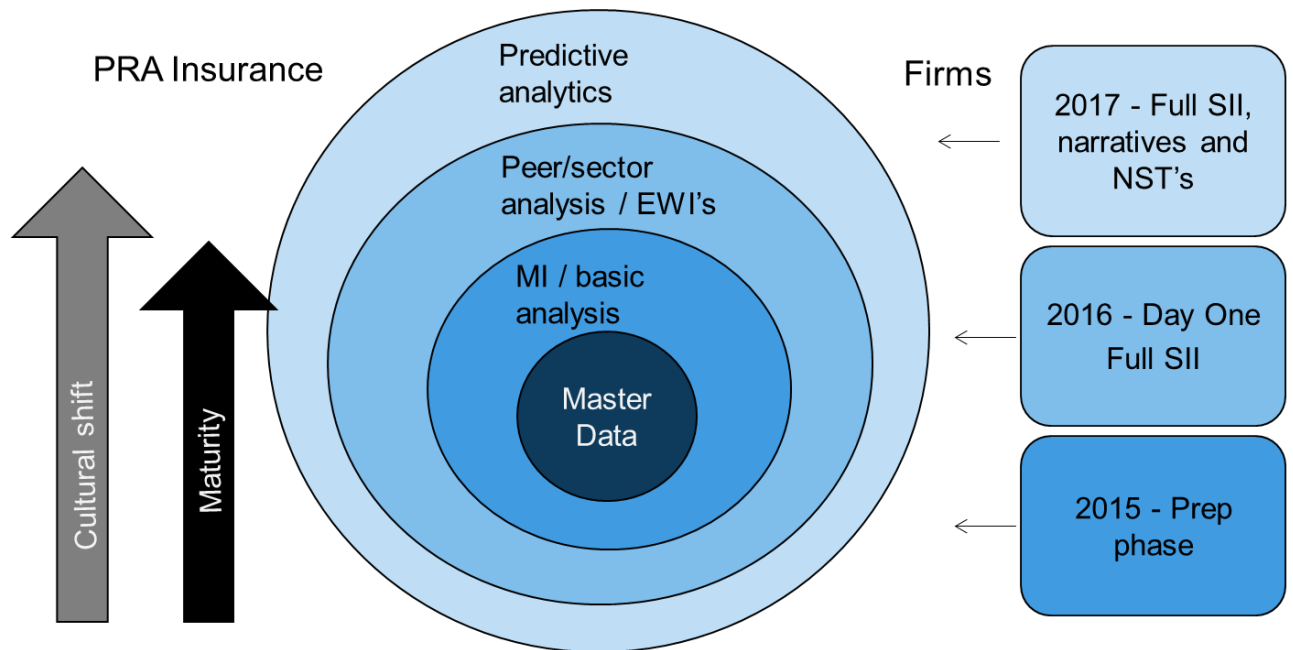


#### 8.4 How the Prudent Person Principle and Outsourcing is operationalised



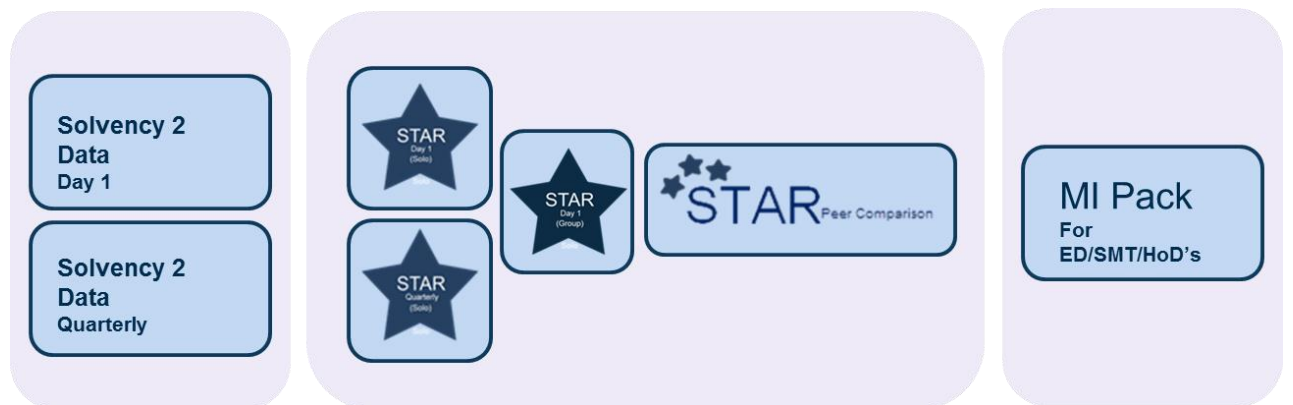
## 9. PRA Insurance work to analyse and cleanse data

### 9.1 Our vision of developing a data centric directorate



Developing a data centric directorate will take 2 to 3 years with important incremental steps to be achieved as well as input from all relevant experts and responsables.

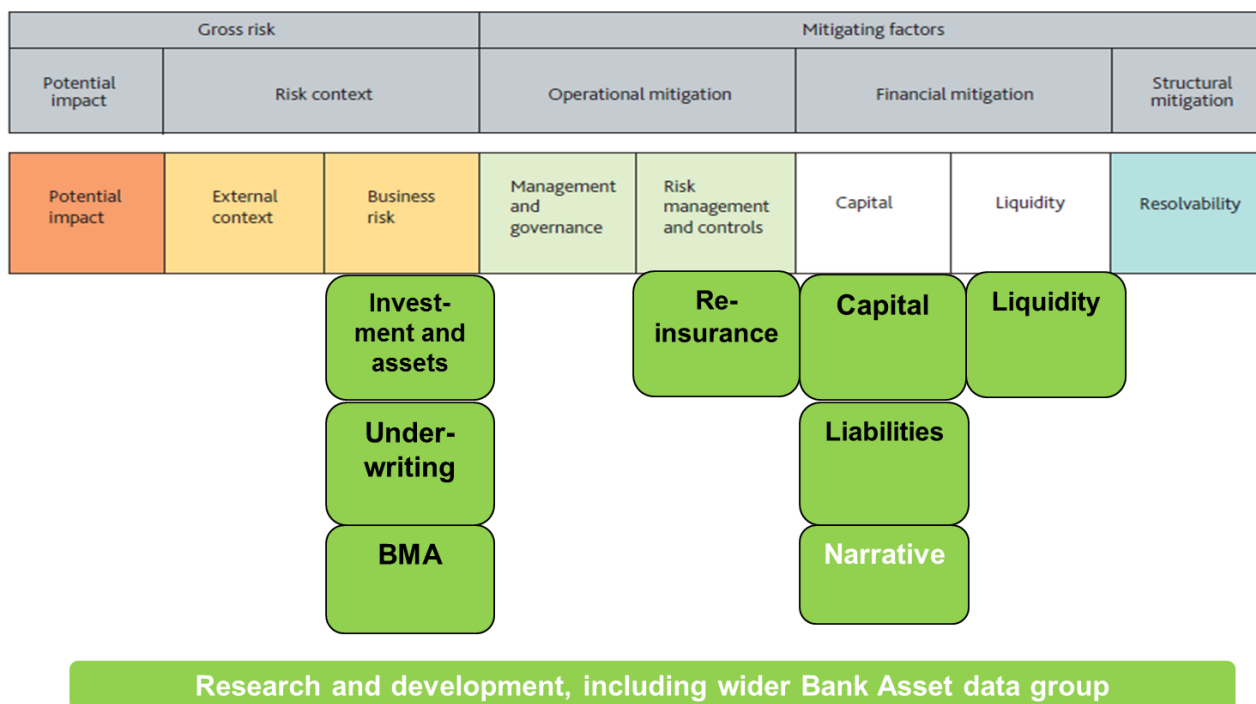
### 9.2 Analytics delivery to date



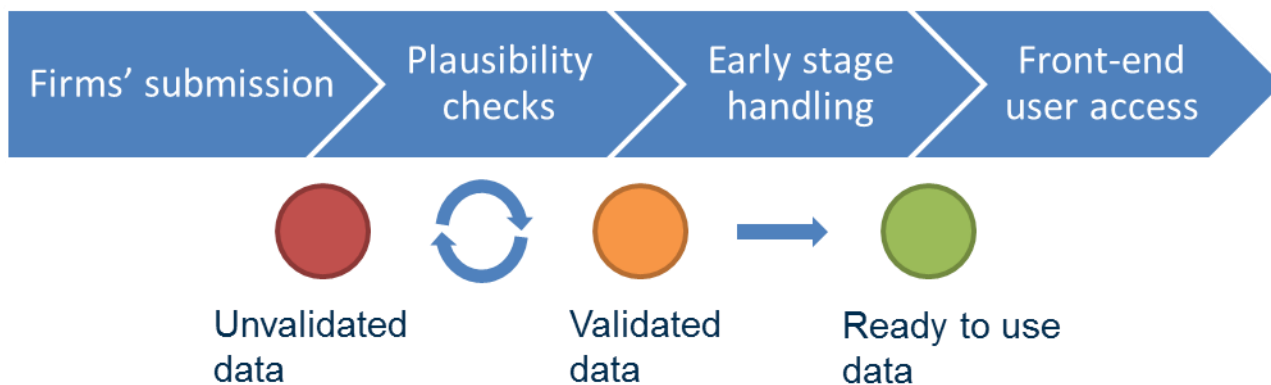
- The suite of STAR tools is continuously being developed over time
- Current tools utilise all available data as it matures
- Continues to develop based on Supervisory needs, increasing levels of feedback and greater focus on data to aid decisions within panel packs



### 9.3 Development based on micro / macro prudential supervision needs



### 9.4 Early Stage Asset Data Management



**Why?** To create a better quality asset data-set that is easy to handle and which potentially combines internal data with externally available data.

#### Data cleaning

- Validate and aggregate credit score columns
- Create naming convention to validate and aggregate columns with names of assets
- Identify data quality by searching for inconsistencies and mistakes
- Identify nil-returns and form a view of what to do with them
-

## **Data exploration**

- Explore possibilities of importing data from Bloomberg into our database
- Explore reconciliation between QRT data and Asset data

### *9.5 Examples of analysis*

#### **Basic asset summary**

- Covers three periods: 2014 Q4, 2015 Q3, 2016 Q1. Shows each insurance firm and their GBP asset holding by category and sub-category
- Only 2016 Q1, has the full population of insurers so trend analysis will be useful going forward at each asset data collection

#### **Bonds and credit rating**

- Separate extracts for Government Bonds and Corporate Bonds. Option to select specific currencies or credit rating for Corporate Bonds
- Ability to show the name of the Credit Rating Agency and rating (Note on data quality – 37 different values for agency and 146 different values for rating)

#### **Asset issuers**

- Extract shows issuer details: Name, Group, Sector, Country. Useful for analysing Government and Corporate Bonds.
- Harder to analyse other assets, for example, loans. Some insurers have listed the fund as the issuer, others the actual loan receiver. Can filter for specific asset, for example, CRE

**Q9:** What does the PRA plan to do with the additional asset data?

**A9:** The additional data will aid supervision and also be used to analyse macro-economic views and spot industry-wide trends. Models are currently being built to develop such capabilities.

**Q10:** Will the PRA provide feedback on data quality?

**A10:** Attempts are underway to assess the data quality by firm and by template in order to enable the PRA to provide feedback to both industry and to EIOPA.