

Supervisory Statement | SS37/15

# Solvency II: internal model reporting codes and components

August 2015

(Updated February 2016)



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## 1 Introduction

**Update:** On 18 February 2016 the PRA updated this statement to provide the additional flexibility when assigning codes to internal model Solvency Capital Requirement (SCR) components being reported (internal model SCR component codes remain a six character code). The appendix has been updated to reflect additional flexibility in use of characters 4 and 5 of the code; these characters are now letters or numbers.

1.1 This supervisory statement is addressed to all UK insurance firms and groups within the scope of Solvency II, and to the Society of Lloyd's, that will be calculating their Solvency Capital Requirement (SCR) using an internal model or partial internal model.

1.2 The Solvency II supervisory reporting Implementing Technical Standards (ITS) state that firms should agree the unique number of each component of their internal model with their national supervisory authority when reporting the capital requirement by component in templates S.25.02 and S.25.03.

1.3 This statement clarifies out how the Prudential Regulation Authority (PRA) expects firms to derive the field C0010 'unique number of component' in these templates and the process for agreeing the components to be reported with the PRA.

## 2 Unique number of components in templates S.25.02 and S.25.03

2.1 The PRA expects firms to match their internal model components to one of the codes set out in the Appendix. The list of codes corresponds to the risks covered in an internal model calculation of the SCR.

2.2 The PRA expects firms to use these codes in all variants of these templates, eg for group, solo and other SCR reporting, as applicable.

2.3 The list of codes does not represent any expectation of the PRA with regards to the form or content of firm's internal model. There is an 'other' category within market risk and underwriting risks and also an 'other risks' category to ensure that all risks can be captured against a code. It is for firms to compile their list based on the features of the firm's model. Mapping to the internal model codes is an output of the exercise where the most appropriate code is selected.

2.4 Firms are expected to agree components with their usual supervisory contact. The PRA expects that some firms will report more than one component for some of the risk categories. Where firms show more than one component the PRA expects that firms should show diversification between these components. This will enable the PRA to calculate the allocation of capital to each listed risk.

2.5 The PRA expects that internal model firms, and partial internal model firms, submit their proposed list of components to their normal supervisory contact. The PRA will review the list and discuss with firms as necessary with the intention of sending a formal confirmation letter to each firm after a letter approving the firm's internal model has been issued.

2.6 The PRA expects firms to submit the proposed list of components a minimum of three months prior to the first reference date at which any of the S.25.02 or S.25.03 templates are reported.

## Appendix List of internal model reporting codes and components

This appendix sets out how the PRA expects firms to derive the data item 'unique number of component' as a 6 character string in templates S.25.02 and S.25.03.

- Characters 1-3 identify the risk category, for example 101 for interest rates down and 302 for longevity risk.
- Characters 4-5 (which can be any combination of letters or letters and numbers) represent the component within each risk category. For example 1041A represents equity values (sterling) and 30810 represents life catastrophe risk – pandemic.
- Character 6 (a letter) represents whether the component is a risk within the insurer, a risk within the pension scheme, an expectation or a deviation from expectation. For example '30220P' is the component of longevity trend risk within the pension scheme.
- Firms should derive characters 1-3 of the data item 'unique number of component' using the codes provided in the table below.
- Firms should use 00 for characters 4 and 5 where the risk is not divided into further sub-risk categories. Where a component represents a level of granularity higher than the risk category firms should use a code for characters 4 and 5 agreed with their usual supervisory contact.
- Firms should use the letter 'I' for character 6 where the risk arises within the insurer and the letter 'P' where the risk arises within the pension scheme unless otherwise agreed with their usual supervisory contact.



<b>Characters 1-3</b>	<b>Risks covered</b>
	<b>Market risk</b>
101	Interest rates down
102	Interest rates up
103	Other interest rate risk
104	Equity risk
105	Equity risk (participations)
106	Property risk
107	Spread risk
108	Concentration risk
109	Currency risk
110	Other market risk
199	Diversification within market risk
	<b>Counterparty default risk</b>
201	Type 1 counterparty risk
202	Type 2 counterparty risk
203	Other counterparty risk
299	Diversification within counterparty risk
	<b>Life underwriting risk</b>
301	Mortality risk
302	Longevity risk
303	Disability-morbidity risk
304	Mass lapse
305	Other lapse risk
306	Expense risk
307	Revision risk
308	Life catastrophe risk
309	Other life underwriting risk
399	Diversification within life underwriting risk
	<b>Health underwriting risk</b>
401	Health mortality risk
402	Health longevity risk
403	Health disability-morbidity risk
404	Health SLT mass lapse
405	Health SLT other lapse risk
406	Health expense risk
407	Health revision risk
408	Health NSLT medical expenses
409	Health NSLT income protection
410	Health NSLT worker's compensation
411	Health NSLT non-proportional reinsurance
412	Health NSLT lapse risk
413	Health mass accident risk
414	Health accident concentration risk
415	Health pandemic risk
416	Other health underwriting risk
499	Diversification within health underwriting risk
	<b>Non-life underwriting risk</b>
501	Premium risk
502	Reserve risk
503	Non-life catastrophe risk
504	Non-life lapse risk
505	Other non-life underwriting risk
599	Diversification within non-life underwriting risk

<b>Characters 1-3</b>	<b>Risks covered</b>
	<b>Intangible asset risk</b>
601	Intangible asset risk
	<b>Operational risk</b>
701	Operational risk
	<b>Other risks and adjustments</b>
801	Other risks
802	Loss-absorbing capacity of technical provisions
803	Loss-absorbing capacity of deferred tax
804	Other adjustments

### Notes on internal model reporting codes

- Diversification within risks should be shown as a negative amount. The sum of all the amounts equals the total undiversified components (R0110/C0100).
- Lines 199, 299, 399, 499 and 599 are the diversification within risks 101-110, 201-203, 301-311, 401-417 and 501-505 respectively. Diversification in S25.02/S25.03 R0060/C0100 is diversification between market risk, counterparty risk, life underwriting risk, health SLT underwriting risk, non-life underwriting risk, intangible asset risk, operational risk and other risks and adjustments.
- Where a firm has a single interest rate risk component this should be reported under risk 101 if interest rates down is more onerous than interest rates up and under risk 102 if interest rates up is more onerous than interest rates down. Where a firm has more than one interest rate risk component these should be reported under risk 103.