Bank of England

Prudential Regulation Authority

Second TMTP Roundtable, 6 October 2022, 4pm-5.30pm

Annotated Agenda

1. **Objectives for TMTP reform**

2. **Summary of previous feedback**

- The burden of the application and governance process for recalculations;
- Desire for dynamic / continuous recalculations;
- Desire to remove the Financial Resources Requirement (FRR) test;
- The increasing difficulties of maintaining and referencing Solvency I models;
- The need to consider interactions between TMTP reform and other parts of SII review;
- Desire for pragmatism in determining a simplified approach; and
- Desire for consistency across firms, for symmetry (recalculations when conditions improve or deteriorate), and for avoiding bias (approximations being as likely to undershoot as overshoot).

3. **Your views on the feasibility of specifying a standardised, simplified approach to the TMTP calculation**

The PRA is considering a range of options for simplifying TMTP, drawing on the feedback received to date.

One approach to simplifying TMTP would be to allow firms to propose their own bespoke simplifications. Another option that has been proposed is to agree a standardised simplified approach that would apply to all firms. We are interested in understanding the feasibility of a standardised approach.

To make the discussion more concrete, and in the spirit of stimulating debate, we set out a straw person for this type of approach, with some questions.

Straw person for a standardised, simplified approach to calculating TMTP:

- Determine a **risk margin component** equal to the risk margin on TMTP-eligible business.
- Determine a **Best Estimate Liabilities (BEL) component**, perhaps separately for annuities versus other life business:
  - The BEL component would be determined as a firm-specific percentage of the Solvency II BEL on TMTP-eligible business.

    - This percentage would be determined at the point of implementing the reform.
    - Firms would continue to apply this set percentage of the SII BEL of the TMTP eligible business to produce the BEL component of TMTP over time*.
- Both components would be recalculated continuously, ie TMTP would update as the SII BEL and the risk margin on the TMTP-eligible business changed over time**.
- The risk margin and BEL components would also both be multiplied by an amortisation factor so that they amortised to zero by 2032.

  * Where lines of business are less material for TMTP, the corresponding BEL component could be 'frozen' at implementation.

  ** There is an open question over what should happen to the Financial Resources Requirement (FRR) comparison test within a reformed TMTP, as per the next agenda item.

Questions for discussion:

1. What are the preferences for simplifying TMTP on a spectrum ranging from a standardised approach to bespoke simplifications?

Standardised, simplified approach:

2. What do you think about the type of standardised approach set out above?
3. Would determining the BEL component of TMTP as a set percentage of SII BEL result in complications for annuities business?
4. What about for other lines of business, such as with-profits and unit-linked?
5. If a percentage of SII BEL does not work as a proxy for the TMTP, are there other proxies based only on the SII balance sheet that you think could be specified in a standardised way across firms?
6. Alternatively, what do you think about "freezing" TMTP for less material lines of business? An appropriate amount would be determined at implementation and then run off linearly to 2032.
7. What do you think about the 'double run-off' effect in the example approach above? The TMTP amount would run off with the TMTP-eligible business, and would also be multiplied by a linear amortisation factor.

Bespoke approach:

8. What are the pros and cons of adopting bespoke TMTP methodology?

4. Your views on reforming the Financial Resources Requirement (FRR) test, and how its effect could potentially be maintained without the continued use of pre-Solvency II models

The PRA acknowledges feedback in favour of removing the FRR test. Another option would be to retain its effect while breaking the ongoing link to Solvency I methods and assumptions. We are interested in your views on how the FRR test could be reformed to result in a simpler calculation.

5. Any other views on TMTP reform