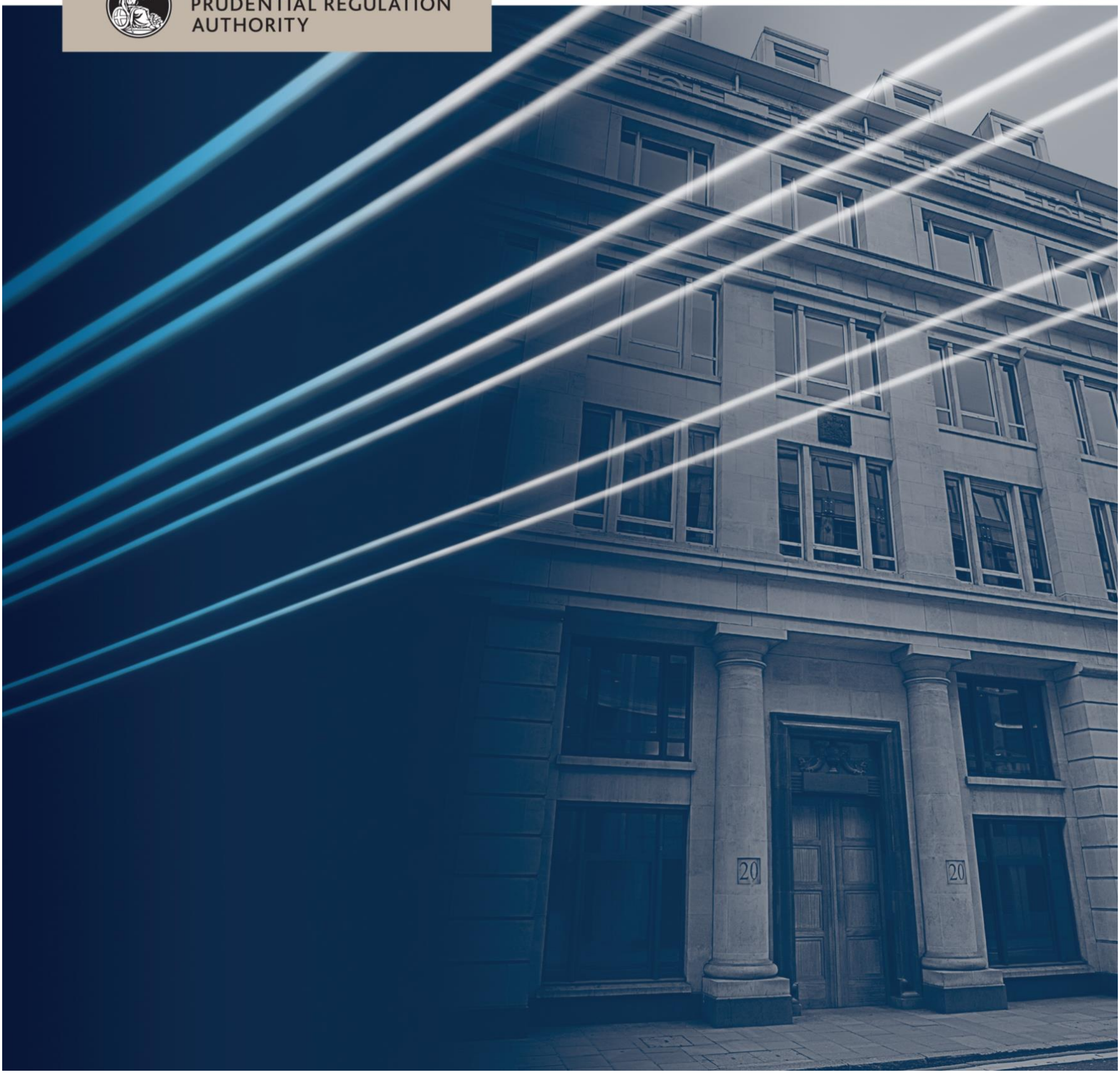
Supervisory Statement | SS26/15

Solvency II: ORSA and the ultimate time horizon - non-life firms

October 2018

(Updating July 2018)

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



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Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

Contents

1 Introduction

1.1 This supervisory statement is of interest to UK solo insurance firms within the scope of Solvency II that carry out nonlife business and the Society of Lloyd's, in respect of each of their Syndicates and in respect of outputs of the Lloyd's internal model.

1.2 This statement sets out the Prudential Regulation Authority's (PRA's) expectations of how firms should identify and manage all risks to which their business could be exposed over the long term, as well as the short term. This enables firms to assess their ability to meet obligations to its policyholders in the event that the firm decides to cease writing business beyond that which it plans to write over the next twelve months, and to meet those obligations in stressed conditions.

Background

1.3 In December 2013, the PRA issued SS4/13[1] which set out the PRA's approach to firms' development of their forward looking assessment of own risks, based on the Own Risk and Solvency Assessment (ORSA) principles. It states that firms are encouraged to work towards ensuring that their ORSAs adequately capture all known risks, and that the PRA expects firms' solvency assessments to consider risks not just on a one-year timeline but over the medium to long term to cover the normal business planning period. It also stated that the PRA would not prescribe the format or content of the forward-looking assessment, recognising that it needs to reflect the specific risk profile and governance mechanism of each firm and group.

1.4 This statement is consistent with SS4/13 on capturing all known risks in a firm's forward-looking assessment, or ORSA, and sets out an option that enables firms to demonstrate the consideration of the ultimate time horizon.

PRA expectations regarding the ultimate time horizon

1.5 The PRA expects firms to consider, and to be able to demonstrate to the PRA that they have considered:

(a) the total uncertainty and risk over the time horizon of the runoff of a firm's obligations to its policyholders, including obligations relating to business planned to be written in the twelve months following the relevant reference date ('the ultimate time horizon'); and

(b) risks over the ultimate time horizon in order to adequately capture all known risks as part of their ORSA.

Option to demonstrate consideration of the ultimate time horizon in ORSA

1.6 The PRA sets out an option for firms to demonstrate that they have considered the ultimate time horizon in their ORSA supervisory report using the templates and instructions set out below. This recognises that this option will be an efficient way for a number of firms to meet the expectations set out above, particularly where firms generate ultimate time horizon model outputs at the same time as they are producing their internal model output reporting under regulatory supervisory statement SS25/15, 'Solvency II: regulatory reporting, internal model outputs'.

1 PRA Supervisory Statement SS4/13, 'Solvency II: applying EIOPA's preparatory guidelines to PRA authorised firms', December 2013; https://www.bankofengland.co.uk/prudential-regulation/publication/2013/solvency-2-applying-eiopas-preparatory-guidelines-to-pra-authorised-firms-ss.

Templates and instructions

1.7 Firms using the option set out above are expected to:

(a) submit the ultimate time horizon model outputs using the same frequency, reporting reference date and submission date as used for the internal model outputs expected under supervisory statement SS25/15, 'Solvency II: regulatory reporting, internal model outputs';

(b) submit the ultimate time horizon model outputs using the templates in Appendix 1 of this supervisory statement; and

(c) [deleted];

(d) [deleted];

(e) submit the information in XBRL via the Bank of England Electronic Data Submission (BEEDS) portal.

(f) [deleted].

1.8 For clarification, ultimate time horizon outputs in the nonlife underwriting risk templates (reserve risk, premium risk excluding catastrophe, and catastrophe claim risk) mean modelled outputs of scenarios of the quantum of future cash flows (from the Reference Date) as would be known when the obligations are fully runoff (ie modelled outputs of scenarios of the ultimate quantum of future cash flows).

Appendices

1 **Related templates, technical architecture documentation and LOG files for SS26/15 are available at: https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-insurance-sector**

2 **SS26/15 updates**

Appendix 2 – SS26/15 updates

This appendix details changes made to SS26/15 following its initial publication in June 2015.

2018

October 2018

Following publication of Policy Statement 24/18,[1] the links to the templates and LOG files were updated and are available on the 'Regulatory reporting – Insurance sector' page of the Bank of England website.[2]

July 2018

Following publication of Policy Statement 21/18,[3] this SS was updated to amend paragraph 1.7(e) to reflect that firms are expected to submit information in XBRL format via the Bank of England's Electronic Data Submission (BEEDS) portal.

2017

16 February 2017

The following updates have been made to reflect revised guidance:

- Paragraph 1.7 – updated to remove references to two separate sets of templates and to sign towards to the combined template included within Appendix 1.
- Appendix 1 – links to combined templates added.

The updates and additions relate to the templates and instructions for submitting internal model output information on an ultimate time horizon basis.

1 'Solvency II: Updates to internal model output reporting', October 2018: https://www.bankofengland.co.uk/prudential-regulation/publication/2018/solvency-ii-updates-to-internal-model-output-reporting.
2 https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-insurance-sector.
3 'Solvency II: Changes to reporting format', July 2018: https://www.bankofengland.co.uk/prudential-regulation/publication/2018/solvency-ii-changes-to-reporting-format.