



CP 12/23 - REVIEW OF SOLVENCY II: ADAPTING TO THE UK INSURANCE MARKET

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ICAEW welcomes the opportunity to comment on CP 12/23 - Review of Solvency II: Adapting to the UK insurance market published by the Prudential Regulation Authority on 29 June 2023, a copy of which is available from this link: [CP 12/23](#).

If you wish to discuss any aspects of our response, please contact the ICAEW Financial Services Faculty, using the following email address: fsf@icaew.com

ICAEW welcomes the proposals set out in the consultation. We believe that they will help reduce the reporting burden on firms, in particular the proposal to remove the requirement to submit a Regular Supervisory Report which will benefit all firms subject to the UK Solvency II rules irrespective of size.

We do, however, have some significant concerns and recommendations, notably that the implementation timetable is unduly tight, and that firms and software providers will find it a challenge to implement the changes by 31 December 2024.

This response has been prepared by the ICAEW Financial Services Faculty. As a leading centre for thought leadership on financial services, the faculty brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk, auditing and reporting issues facing the financial services sector. The faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

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KEY POINTS

1. ICAEW welcomes the opportunity to comment on the Prudential Regulation Authority's (PRA) consultation: CP 12/23 - *Review of Solvency II: Adapting to the UK insurance market*.
2. ICAEW welcomes the proposals set out in the consultation. We believe that they will help reduce the reporting burden on firms, in particular the proposal to remove the requirement to submit a Regular Supervisory Report which will benefit all firms subject to the UK Solvency II rules irrespective of size.
3. We do, however, have the following recommendations to address significant concerns over the implementation of the changes:
 - Implementation timetable and costs: we believe the timetable is unduly tight and that firms and software providers will find it a challenge to implement changes by 31 December 2024. We are aware that in the Reporting Roundtable on 10 July 2023 the PRA referred to publication of a Policy Statement on all Phase 2 Reforms in early 2024 with a final taxonomy to follow this Policy Statement - which would allow less than twelve-months to implement. We suggest that the PRA should allow more time from the date of publication of its final policy to implementation. Alternatively, the PRA could implement the reporting changes in a phased manner, with templates proposed for deletion being removed before 31 December 2024, while new and amended templates could be introduced later along with the new PRA taxonomy.
 - Moving existing data items to new templates: we believe it is generally preferable to retain required reporting data items within existing templates rather than move them to new templates. This avoids the cost of reconfiguring systems, which may also carry a risk of implementation error. Where possible, alignment to updated EEA requirements is likely to be desirable for groups with both UK and EEA subsidiaries to the extent that this is compatible with the PRA's supervisory needs.
 - Regular Supervisory Report: we welcome the removal of this return. We would, however, suggest that the requirement to submit a return should cease from 2023 rather than 2024. It is an unnecessary cost to prepare the return for 2023, if the PRA judges collection of the data is no longer necessary for its purposes. There is a precedent for the PRA to waive the RSR reporting requirement – as for example with the 2019 RSR due to COVID-19.
 - Audit of consolidated Group SCR: we welcome the additional flexibility proposed for the calculation of the Group SCR. However, in respect of the proposal to allow more than one approach to be used when calculating the Group SCR, it is not clear whether the element of an internal model Group SCR which relates to a subsidiary under the Standard Formula would be subject to external audit. We would appreciate further clarification on this point.
 - Solvency II thresholds: we welcome the proposed increase in the thresholds which will benefit very small firms. However, we note that the audit requirement currently applicable to the annual return for non-Solvency II firms may deter some firms from taking advantage of this proposal. We therefore recommend that this audit requirement for non-Solvency II firms be removed or rationalised to make less onerous.
 - Third country branches: we welcome the removal of capital and reporting requirements for third country branches. However, regarding the metrics required for the legal entity in new QRT S.01.04.07, we would appreciate clarification that 'equivalent metrics' means local requirements, to avoid confusion with the different concept of regulatory equivalence.
4. We elaborate upon each of these points in our detailed response below along with some other observations.

DETAILED RESPONSE

5. ICAEW response has focused on the 'reporting' issues within the consultation as it is these matters that most affect our members.

Implementation timetable and costs

6. ICAEW considers the implementation timetable in relation to the proposed changes to reporting templates to be very tight.
7. Whilst the reporting changes proposed in CP 12/23 overall appear to represent a reduction in the level of information required to be reported to the PRA for most firms, groups and UK branches, they do also need to be seen in the context of the significant reporting changes already proposed in CP 14/22. The one-off implementation costs for UK firms and groups of implementing the proposed changes in both CP 14/22 and CP 12/23 appear likely to be considerable. For UK firms with EEA branches and UK groups with EEA subsidiaries there will also be a further cost of implementing EIOPA's QRT changes for Q4 2023 and annual 2023 reporting and an ongoing cost of meeting diverging reporting requirements.
8. The new rules are proposed to become effective on 31 December 2024 assuming the final policy is published around the end of 2023 (paragraph 1.57 of CP 12/23 refers to final policy being published around the end of 2023). However, we are aware that in the Reporting Roundtable on 10 July 2023 the PRA referred to publication of a Policy Statement on all Phase 2 Reforms (CP 14/22 and CP 12/23) in early 2024, with a final PRA taxonomy to follow this Policy Statement (slides 5 and 13 of the presentation given in the meeting).
9. This means the possibility of publication of a revised XBRL taxonomy conceivably is as late as the end of Q1 2024. Firms have significant reporting obligations in Q1 2024, and for many it will also be the first year of reporting under IFRS 17 and IFRS 9. Regardless of the timing of publication of the taxonomy, there is likely at most, around 9 months lead time before the final policy comes into force. We think this timetable is unduly tight, and that firms and software providers may struggle to implement the final policy effectively in time.
10. ICAEW see the challenges in meeting the timetable as:
- Following publication of the final rules, firms will need to establish what changes are required to their systems and reporting processes. These changes will then need to be implemented, including testing to ensure any issues can be identified prior to 'go live'.
 - Some firms may need to recruit additional or specialist resource to assist with implementation. There may be a lead time before the resource can be used effectively, as it may not be known what resource is required until the final policy is published, and it may take time to recruit.
 - Some firms may also be dependent upon software providers updating their software. These firms have the added challenge of waiting for the software to be updated, before then evaluating whether the updated software satisfies their needs.
 - Lloyd's Managing Agents are likely to have the further challenge of Lloyd's changes to Syndicate Reporting Requirements which are likely to be published following finalisation of the PRA requirements.
11. The approach gives rise to the following risks:
- We are aware some firms are looking to make system changes based on the draft proposals, as they do not consider there to be sufficient time otherwise to implement the final requirements. Consequently, costs may need to be incurred twice to make further changes once rules are finalised.
 - Some firms may not have sufficient time to adequately test changes prior to the 31 December 2024 deadline. As a result, there is a risk of errors being made in the production of 31 December 2024 reporting, causing delays and potentially incorrect data being provided to the regulator.

12. We also note that the PRA proposes to review changes to the SFCR 'in due course'. It would be helpful to signpost what likely changes the PRA has in mind at the earliest opportunity to help firms plan changes to their processes and systems.
13. Recommendation: We suggest that the PRA should allow more time from the date of publication of final policy to implementation. Alternatively, the PRA could implement the reporting changes in a phased manner, with templates proposed for deletion being removed before 31 December 2024, while new and amended templates could be introduced later, along with the new PRA taxonomy.

Moving existing data items to new or other existing templates

14. The proposals include moving existing data items to new templates or other existing templates. For example, there is the introduction of new NST reporting requirements for UK Branches reporting requirements; for Transitional Measures on Technical Provisions ('TMTP') there is a proposal to delete S.22.05 and replace with revised disclosure on S.12 and for Volatility Adjustment ('VA') there is a proposal to delete template S.22.06 and replace it with S.22.07.
15. As set out in of our previous CP 14/22 response¹ there is a cost to reconfigure systems to report existing data items in new QRTs. An alternative option to explore would be to continue to report the existing QRTs, excluding the data that the PRA no longer requires to be collected. This does mean more QRTs overall are reported, but it saves on the transformation costs that firms would otherwise incur. For example, templates S.12.02 and S17.02 could be retained instead of adding TP-related fields to S.05.04
16. Recommendation: In addition to the templates S.12.02 and S.17.02 mentioned above, we suggest that templates S.22.05 and S.22.06 are retained albeit excluding the data items no longer required. Avoiding system changes to move existing data items to new templates would help firms meet the timetable, as it would avoid potentially unnecessary system changes (also refer to the recommendations within the 'Implementation timetable and costs' section above).

Regular Supervisory Report

17. ICAEW welcomes the removal of the requirement for firms to produce a Regular Supervisory Report (RSR).
18. The proposal to remove the requirement takes effect for years ending 31 December 2024. If the PRA has decided it no longer requires the data item, it would be a considerable help to firms to cease reporting immediately (ie for 2023 year-ends). It seems an unnecessary burden on firms to require continued reporting of a data item that the PRA has decided it no longer needs.
19. Recognising that the requirement to produce an RSR comes from the Solvency II Delegated Regulation, which the PRA is unable to amend until it receives the necessary powers from the government, the PRA may instead consider providing a market wide waiver to enable firms to benefit from this proposal for 2023 year-ends.
20. We note the PRA previously permitted firms to not submit an RSR for the 2019 year-end due to the disruption caused by the COVID-19 pandemic and would suggest a similar dispensation could be granted for the 2023 year-end.
21. Alternatively, the PRA could perhaps consider accepting the submission of minimal RSR information or a reference to information submitted elsewhere rather than requiring the submission of a document that would otherwise not be useful for supervisory purposes.
22. Recommendation: We recommend that firms, UK branches and groups are able to take advantage of the removal of the RSR reporting requirement earlier than 31 December 2024.

¹ [icaew-rep-039-23-cp1422-review-of-solvency-ii-reporting-phase-2.ashx](#)

Audit of consolidated group SCR

23. ICAEW welcomes the PRA's proposals to allow greater flexibility in the calculation of the Group SCR by permitting UK groups to:
 - a) include an overseas sub-group SCR in the consolidated group SCR under method 2, thereby allowing diversification benefits between the method 2 entities within that subgroup, and
 - b) include on a temporary basis a subsidiary's SCR in the consolidated Group SCR under method 1, where the two SCRs have been calculated under different approaches, thereby allowing diversification benefits.
24. In relation to (b), where a subsidiary's SCR is calculated using the Standard Formula while the Group SCR is calculated using an internal model, it is not clear whether the element of the consolidated group SCR that is derived from the Standard Formula would be subject to external audit.
25. Recommendation: We suggest that the PRA clarifies whether a subsidiary's Standard Formula SCR which is included in the Group internal model SCR on a temporary basis would be subject to external audit.

Solvency II thresholds

Audit requirement for Non-Directive firms

26. ICAEW welcomes the increase of the thresholds at which Solvency II applies.
27. We note that the returns that Non-Directive Firms must produce in lieu of Solvency II reporting are subject to an audit requirement. Given that the PRA introduced an exemption from external audit of the SFCR for certain Solvency II firms in 2018 and did not introduce a similar exemption at that time for Non-Directive Firms, there now potentially exists a more significant inconsistency between the two regimes. There is a risk that the audit requirement becomes an unnecessary impediment to firms taking advantage of the amended threshold.
28. Recommendation: We recommend that the audit requirement for non-Solvency II firms be removed or rationalised to make less onerous, and to enhance alignment between the two regimes.

Pure Reinsurers

29. As regards the thresholds themselves, the proposed changes appear to bring pure reinsurers initially within the scope of the thresholds under the Solvency UK rules (which is not the case under the Solvency II Directive). The PRA rules as currently drafted would however then exclude pure reinsurers by virtue of Rule 2.3(5) of the Insurance Application Part of the PRA Rulebook for Solvency II firms, as their reinsurance business is always by definition more than 10%. The rationale for excluding pure reinsurers from the thresholds, and doing so in this indirect way, is not clear.
30. Recommendation: The PRA could consider deleting Rule 2.3(5) which was previously intended to capture direct insurers with non-trivial reinsurance business (consequential amendment would then be needed to Rules 2.4, 2.5 and 2.6).

Capital and reporting requirements for UK branches of overseas insurers

31. ICAEW welcomes the removal of the capital requirements applicable to UK branches of overseas insurers (Third Country branches or TCBs).

UK Branch Deposit Requirements

32. We note however that there is no proposal to remove the branch deposit requirement in Rule 3.3 of the Third Country Branches Part of the PRA Rulebook for Solvency II Firms. We note that the PRA confirmed in the Q&A responses at the Solvency II Reporting Roundtable on 10 July 2023 that there is no intention to remove the deposit requirement. It would be helpful to

clarify reasons for keeping this in light of the removal of the branch MCR and SCR requirements.

33. Recommendation: We suggest that the PRA clarifies the rationale for retaining the branch deposit requirement.

UK Branch Assets

34. UK branches will welcome the removal of the requirement to report a listing of UK TCB assets on QRT S.06.02 (list of assets). It is however noted that the requirement to report UK branch assets by Solvency balance sheet category on QRT S.02.01 remains, notwithstanding the apparent absence of any requirement to hold capital or even to cover branch liabilities, and paragraph 3.3 of the revised SS 44/15 notes that: *“The PRA expects considerable importance to be attached to calculating branch own funds assets so as to ensure that only those assets that are available to pay the claims of branch policyholders in the event of a winding up event are included in the calculation of branch assets.”*
35. In many cases assets are likely to be managed centrally on a legal entity rather than a branch basis. Furthermore, branch assets reported typically represent only a subset of the assets that are eligible, and attribution is therefore often an artificial process.
36. Recommendation: It is suggested that the PRA confirms that a notional allocation of legal entity eligible assets to the UK branch is acceptable.

Narrative reporting by UK branches on home state resolution requirements

37. The PRA proposes in paragraph 7.23 to require all UK branches to provide a short standalone resolution-focused report containing resolution information previously reported in the TCB RSR.
38. A new paragraph 3.4A of SS44/15 refers to the provision of a numerical illustration of how the available assets would be distributed in the event of the winding up of the undertakings but without providing further details of the form that this numerical illustration should take. The format of the numerical example provided by EIOPA in Annex II of the EIOPA Branch Guidelines is unwieldy and difficult to follow.
39. Recommendation: We recommend that the PRA provides an alternative numerical example which is simpler than the EIOPA version, and which aligns with the PRA’s expectation set out in paragraph 3.4A of SS44/15.

S.01.04.07: Basic Information

40. ICAEW notes the PRA’s proposals to introduce S.01.04.07: Basic Information – Branch Legal Entity to be reported by all third-country branches, including pure reinsurers.
41. We note that the LOG file for this new QRT states: *Where the legal entity is subject to Solvency II the data items below should be readily available. For other regulatory regimes equivalent metrics should be reported for capital resources, capital requirements and best estimate liabilities.*
42. We would interpret ‘equivalent metrics’ as meaning the local capital metrics required by local solvency rules and there is no expectation on firms to translate these onto a Solvency II basis where that is not already readily available. We believe to interpret otherwise is to impose an unnecessary burden on firms. However, an alternative interpretation might be that restatement is required where the legal entity is not domiciled in a Solvency II equivalent regime.
43. For non-Solvency II equivalent regimes, restatement of the metrics to a Solvency II basis, if required, is likely to be onerous. As an alternative the PRA could permit the relevant figures to be provided on a local regulatory basis together with a brief narrative description of differences from Solvency II values.
44. Recommendation: the PRA should clarify that ‘equivalent metrics’ means local requirements, to avoid confusion with the different concept of regulatory equivalence.

Pure reinsurance branches

45. Waivers and modifications by consent currently relieve pure reinsurers from a significant amount of PRA reporting requirements.
46. Recommendation: we would appreciate confirmation that such waivers and modifications by consent will continue to be available to pure reinsurers.