



# Solvency II reform: are you taking advantage of the upcoming changes? **James Isherwood and Marinos Savvides**

1 December 2023

# Agenda

1. The journey to Solvency UK
2. Risk Margin reform
3. Internal Model reforms
4. Changing the Matching Adjustment
5. Other reforms
6. Q&A

# 01

The journey to Solvency UK

# The journey to Solvency UK Consultations & Response

28 April 2022

HMT Consultation &  
DP2/22 Published

PRA publishes discussion document proposed reforms.

Responses largely disagreed with reforming Fundamental Spread.



7 November 2022

CP14/22 &  
Industry Response

Reporting templates reforms, reducing administrative burdens while adding new information

Industry welcomes decrease in admin burden but questions whether proposals go far enough.



29 June 2023

CP12/23 &  
Industry Response

Proposed reforms to risk margin, internal models, capital add-ons and reporting.

Largely welcomed due to capital benefits, questions on the onerousness of the capital add-on.



28 September 2023

CP19/23 Published

Widening asset and liability eligibility for inclusion in Matching Adjustment Portfolios.

Responses expected 5 January 2024.

Industry sentiment suggests reform is insufficient to meet stated goals.

# The journey to Solvency UK

## Proposed timelines



# 02

Risk Margin reform

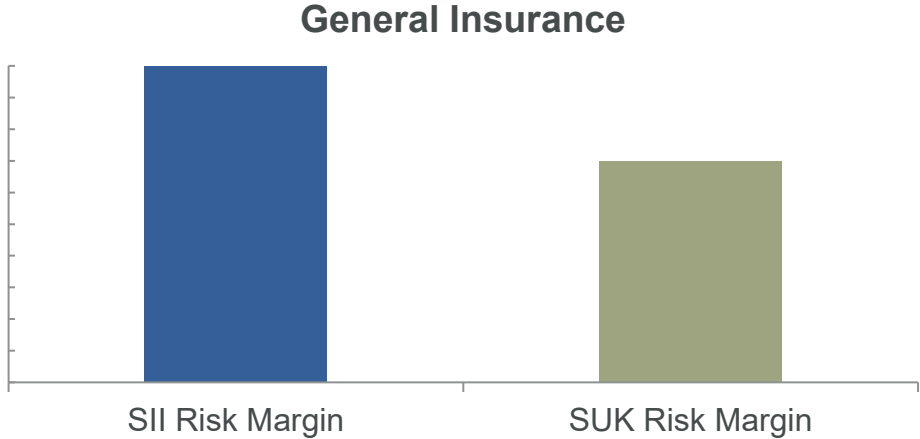
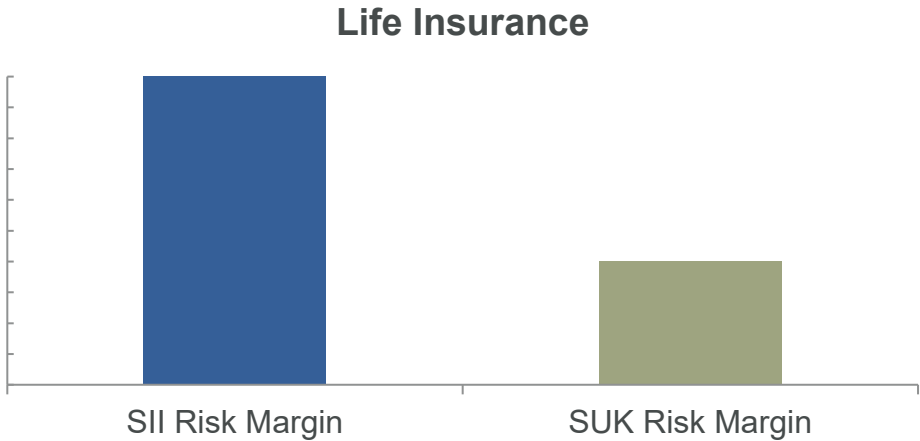
# Risk Margin reform

## Formulaic release of capital

Cost of Capital decreasing from 6% to 4%

Introduction of tapering mechanism for long-term business

Expectation for released capital to be invested back into the markets



# Risk Margin reform

## Embracing the opportunity

Release of capital across all Lines of Business (LoBs)



Allocation plans & balance sheet optimisation

Uncertainty on implementation date



Prepare separate sets of results

Knock-on effects on reinsurance



Understand impact and need for rebalancing



# 03

Internal Model reforms

# Internal Model reforms

## A streamlined path to permission

<b>Documentation</b>	<b>Data Appropriateness</b>	<b>SCR Approximations</b>	<b>P&amp;L Attribution</b>	<b>Residual Model Limitations</b>
Minimum documentation content is no longer a requirement.	Principles-based, PRA relying on firms to “responsibly comply”.	Move to a case-by-case basis.	Replace with SCR Analysis of Change submitted to PRA.	Internal Models approved with Capital Add-on & “requirement” safeguard.

# Internal Model reforms

## Embracing change

Better reflect risk profile & lower SCR



Consult ORSA / assess SF alignment

Less onerous Operational Risk



Calibrate risk scenarios and run preliminary simulations

Internal Models with limitations granted permission



Assess level of capital add-on against SCR benefit

## Changing the Matching Adjustment

# Changing the Matching Adjustment Eligibility is expanding

## Asset eligibility

- Highly Predictable (HP) assets allowed in matching adjustment portfolios.
- Sub-investment grade (SIG) assets no longer capped.
- Requirement for internal credit assessments to be comparable to those arising from external credit ratings.

## Liability eligibility

- Underwriting risks extended to include recovery time risk, allowing **Income Protection Claims in Payment** to be included in Matching Adjustment Portfolios
- Guaranteed elements of with-profit annuities will be permitted in Matching Adjustment Portfolios

# Changing the Matching Adjustment

## Seizing the opportunity

Expanded investment opportunities



Identify target HP and SIG assets and assess impact on MA

Opportunity for lower level of technical provisions



Review portfolio cashflow structures for IP CIP and WP annuities

More time to address MA condition breaches

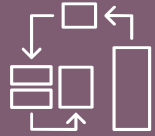


Revisit and adjust policy for remediating breaches

# 05

Other reforms

# Other reforms



## New methodology for TMTPs

- Figures for TMTPs based on SII Risk Margin & BEL.
- No application of FRR test.



## Reporting and disclosures

- Removal of Regulatory Supervisory Report.
- Removal of SCR and third-country branch templates.



## Thresholds & Redenomination

- Changes to gross written premium income from €5m to £15m.
- Changes to firm and group Technical Provisions from €25m to £50m.
- Redenomination and increase of the Minimum Capital Requirement floor.





# Q&A

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