Solvency II Delay
Latest Developments

Solvency II will be delayed, and another round of ICAs is expected in 2013. The PRA however is still encouraging firms who want to progress their Solvency II plans.

Background

Solvency II is likely to be delayed by two years from January 2014 to January 2016.

Although there is only one material area of disagreement (affecting long term guarantees for life firms), a decision has been made to delay the whole implementation rather than take a partial or piecemeal approach.

The PRA's view

In a speech to the insurance industry on 22 October 2012, Julian Adams, Director of Insurance at the Prudential Regulatory Authority (PRA), indicated that January 2016 is a possible, but still uncertain, start date. He stated that the PRA will work with firms to agree a revised date for their internal model approval process (IMAP) submission. This date may be as late as December 2015, though that may not provide 'day one' model approval.

As a result of the slippage in the timetable, the PRA will continue to operate the current ICAS regime, but in a way that moves towards Solvency II. In the meantime, firms with well advanced Solvency II plans and models may use these models for ICAS purposes, subject to adequate reconciliation, validation and documentation.

The PRA have further indicated that they will be looking more closely at macro-economic risk for all insurers, especially market risk in a low-interest-rate environment. Forward looking, longer-term risk assessments are also high on their agenda, requiring evaluation of emerging risks and associated management actions.

Key messages from the PRA

- January 2016 is a possible but still uncertain start date.
- The current ICAS regime will continue to operate in the interim but in a way that allows companies to move towards Solvency II.
- Closer look at macro-economic risks and forward looking longer-term risk assessments.

How PwC is supporting clients

- Support and review of ICA submissions (which may use Solvency II models), including ORSA and model validation activities. Assistance, challenge and support in reconciling differences between the Solvency II model and ICAS results.
- Review of Solvency II plans in light of the delay. Many Solvency II programmes are being paused or, at least, reduced in scope. However, much work still needs to be done.
- Review and challenge of current and future IMAP submissions, including self assessment templates (SATs) and documentation reviews.
- Assistance with the embedding of Solvency II, including ensuring Boards and Senior Management teams are comfortable with their overall knowledge, roles and responsibilities.
- Assistance with the identification and implementation of optimal Group structures to reduce the impact of Solvency II – some firms have already made major structural changes, whilst others are still to do so.
- Assistance with the optimisation of firms' regulatory capital positions, through the review of activities that are particularly capital intensive and through the consideration of capital management tools (such as internal and external reinsurance).

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Solvency II – Getting over the line

We recognise that insurers are taking different approaches to the delay in Solvency II implementation. Many insurers have not yet decided which approach to take – here are the two most popular – and polarised – options.

'Get over the line as soon as possible'

The firms adopting this approach would be expected to achieve the following by mid-2013:

- Progress your IMAP work to ensure timely submission to PRA – in most cases, this should mean that the Solvency II model could then be used as a basis for the ICA.
- Ensure that your model validation and ORSA processes/reports can be used as the basis of your ICA response, to avoid additional effort.
- Reconcile ICA and SCR outputs, aiming to ensure that future ICA activity can be based solely on Solvency II values.
- Embed all Pillar 2 (governance and risk management) activities, reflecting Directive and draft Level 2 requirements.
- Continue to monitor Solvency II developments and implement any required changes.
- Prepare for expected EIOPA trials of Solvency II reports under Pillar 3.

'Take the time to get it right'

The firms adopting this approach will be looking to use the delay to extend their Solvency II work over a longer period (e.g. 2 to 3 years). These firms would need to:

- Secure executive leadership and assign responsibilities for each element of Solvency II. In the absence of a separate Solvency II programme, internal governance and reporting arrangements will need to be developed.
- Re-plan your Solvency II programme, timelines and resources, and ensure that budgetary assumptions are robust.
- Train 'business as usual' staff who are assuming Solvency II responsibilities, as many of them will not have worked on the change programme to date.
- Agree your implementation schedule, including key deliverables, with the PRA.
- Consider how to address your response to 'ICA':
  - for IMAP firms, how Solvency II models might be used to support your ICA (this may require PRA agreement if IMAP submission is delayed)
  - for Standard Formula firms, how to use historic models to support your ICA.
- Respond to the enhanced supervisory regime, with increased focus on forward-looking risk and capital assessment, plus a need to demonstrate improved documentation, validation and use of all models.
- Prepare for expected EIOPA trials of Solvency II reports under Pillar 3.

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