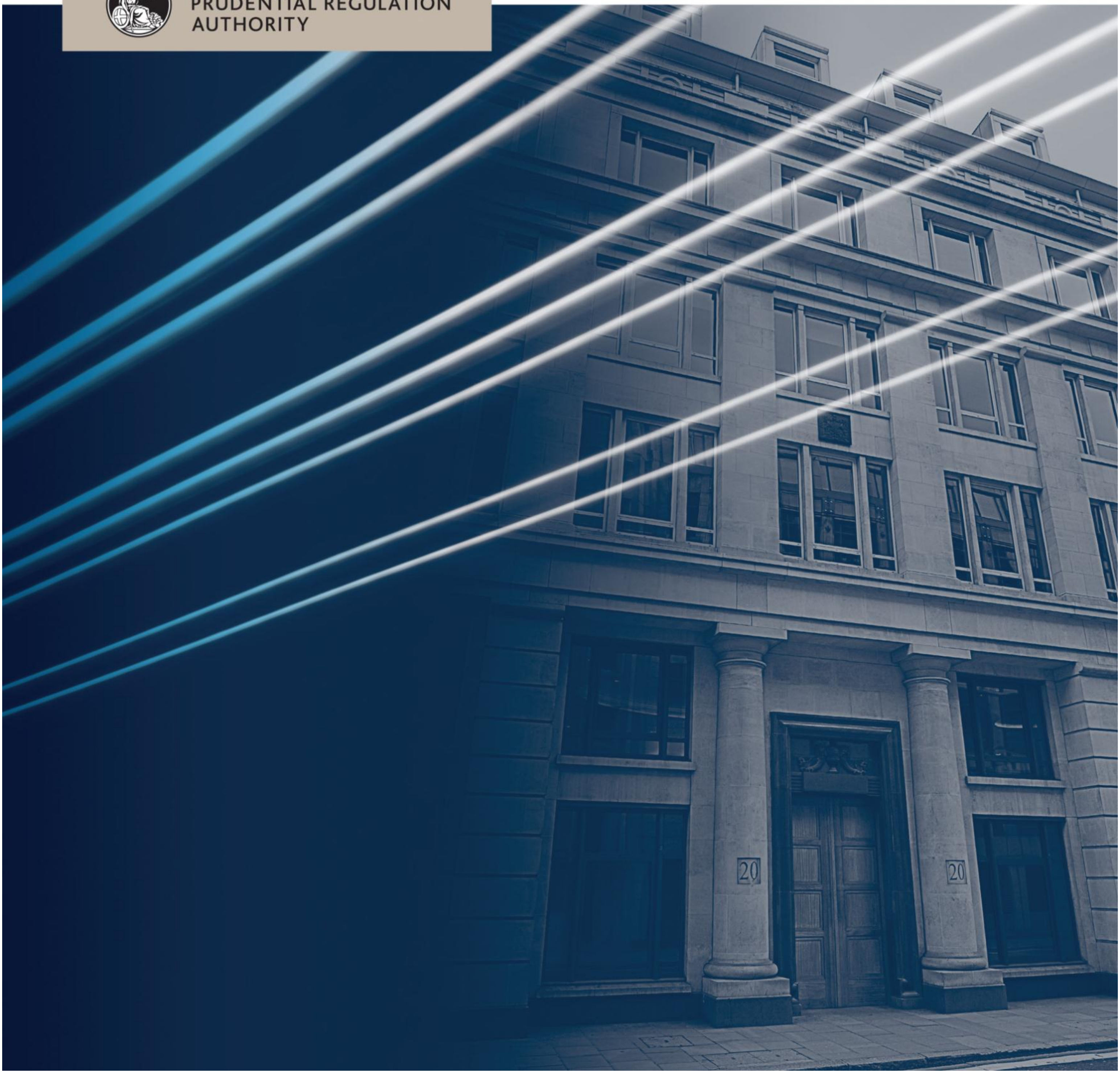
Supervisory Statement | SS37/15

Solvency II: internal model reporting codes and components

August 2015

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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1 Introduction

1.1 This supervisory statement is addressed to all UK insurance firms and groups within the scope of Solvency II, and to the Society of Lloyd's, that will be calculating their Solvency Capital Requirement (SCR) using an internal model or partial internal model.

1.2 The Solvency II supervisory reporting Implementing Technical Standards (ITS) state that firms should agree the unique number of each component of their internal model with their national supervisory authority when reporting the capital requirement by component in templates S.25.02 and S.25.03.

1.3 This statement clarifies out how the Prudential Regulation Authority (PRA) expects firms to derive the field C0010 'unique number of component' in these templates and the process for agreeing the components to be reported with the PRA.

2 Unique number of components in templates S.25.02 and S.25.03

2.1 The PRA expects firms to match their internal model components to one of the codes set out in the Appendix. The list of codes corresponds to the risks covered in an internal model calculation of the SCR.

2.2 The PRA expects firms to use these codes in all variants of these templates, e.g. for group, solo and other SCR reporting, as applicable.

2.3 The list of codes does not represent any expectation of the PRA with regards to the form or content of firm's internal model. There is an 'other' category within market risk and underwriting risks and also an 'other risks' category to ensure that all risks can be captured against a code. It is for firms to compile their list based on the features of the firm's model. Mapping to the internal model codes is an output of the exercise where the most appropriate code is selected.

2.4 Firms are expected to agree components with their usual supervisory contact. The PRA expects that some firms will report more than one component for some of the risk categories. Where firms show more than one component the PRA expects that firms should show diversification between these components. This will enable the PRA to calculate the allocation of capital to each listed risk.

2.5 The PRA expects that internal model firms, and partial internal model firms, submit their proposed list of components to their normal supervisory contact. The PRA will review the list and discuss with firms as necessary with the intention of sending a formal confirmation letter to each firm after a letter approving the firm's internal model has been issued.

2.6 The PRA expects firms to submit the proposed list of components a minimum of three months prior to the first reference date at which any of the S.25.02 or S.25.03 templates are reported or disclosed.

Appendix

1 List of internal model reporting codes and components

Appendix 1

List of internal model reporting codes and components

This appendix sets out how the PRA expects firms to derive the data item ‘unique number of component’ as a 6 character string in templates S.25.02 and S.25.03.

- Characters 1-3 identify the risk category, for example 101 for interest rates down and 302 for longevity risk.

- Characters 4-5 represent the component number within each risk starting with 01.

- Character 6 is ‘I’ for capital requirements from risks within the insurer, ‘P’ for risks arising within the pension scheme.

For example ‘30202P’ is second component of longevity risk within the pension scheme.

- Firms should derive characters 1 – 3 of the data item ‘unique number of component” using the codes provided in the table below.

- Firms should use 01 for characters 4 and 5 where the risk cannot be divided into further sub-risk categories. Where the level of granularity is higher than the risk categories firms should number these accordingly starting with 01.

- Firms should use the letter ‘I’ for character 6 where the risk arises within the insurer and the letter ‘P’ where this arises within the pension scheme.

Characters 1-3	Risks covered
	Market risk
101	Interest rates down
102	Interest rates up
103	Other interest rate risk
104	Equity risk
105	Equity risk (participations)
106	Property risk
107	Spread risk
108	Concentration risk
109	Currency risk
110	Other market risk
199	Diversification within market risk
	Counterparty default risk
201	Type 1 counterparty risk
202	Type 2 counterparty risk
203	Other counterparty risk
299	Diversification within counterparty risk
	Life underwriting risk
301	Mortality risk
302	Longevity risk
303	Disability-morbidity risk
304	Mass lapse
305	Other lapse risk

306	Expense risk
307	Revision risk
308	Life catastrophe risk
309	Other life underwriting risk
399	Diversification within life underwriting risk
	Health underwriting risk
401	Health mortality risk
402	Health longevity risk
403	Health disability-morbidity risk
404	Health SLT mass lapse
405	Health SLT other lapse risk
406	Health expense risk
407	Health revision risk
408	Health NSLT medical expenses
409	Health NSLT income protection
410	Health NSLT worker's compensation
411	Health NSLT non-proportional reinsurance
412	Health NSLT lapse risk
413	Health mass accident risk
414	Health accident concentration risk
415	Health pandemic risk
416	Other health underwriting risk
499	Diversification within health underwriting risk
	Non-life underwriting risk
501	Premium risk
502	Reserve risk
503	Non-life catastrophe risk
504	Non-life lapse risk
505	Other non-life underwriting risk
599	Diversification within non-life underwriting risk
	Intangible asset risk
601	Intangible asset risk
	Operational risk
701	Operational risk
	Other risks and adjustments
801	Other risks
802	Loss-absorbing capacity of technical provisions
803	Loss-absorbing capacity of deferred tax
804	Other adjustments

Notes on internal model reporting codes

- Diversification within risks should be shown as a negative amount. The sum of all the amounts equals the total undiversified components (R0110/C0100).

- Lines 199, 299, 399, 499 and 599 are the diversification within risks 101-110, 201-203, 301-311, 401-417 and 501-505 respectively. Diversification in S25.02/S25.03 R0060/C0100 is diversification between market risk, counterparty risk, life underwriting risk, health SLT underwriting risk, non-life underwriting risk, intangible asset risk, operational risk and other risks and adjustments.

- Where a firm calculates a single amount of interest rate risk this should be reported under risk 101 if interest rates down is more onerous than interest rates up if other components of interest rate risk are ignored and under risk 102 if interest rates up is more onerous than interest rates down if other components of interest rate risk are ignored. Where a firm has components of interest rate including a parallel shift the component of the parallel shift should be reported under risk 101 or 102 and other components under risk 103.