



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Rt Hon. Nicky Morgan MP
Chair of the Treasury Committee
House of Commons
Committee Office



Sam Woods

Deputy Governor, Prudential Regulation
CEO, Prudential Regulation Authority



27 March 2018

Dear Ms Morgan —

Solvency II – outstanding issues

In the PRA's response of 20 February to the Committee's Report on the Solvency II Directive, I promised to provide a further update on any outstanding issues. I am therefore writing to you with a progress update on the risk margin and the two other outstanding issues – the dynamic volatility adjustment and audit requirements.

Risk margin. Since 20 February the Prudential Regulation Committee (PRC) has had a further discussion on the PRA's supervisory approach to use of future risk mitigation and transfer mechanisms. Solvency II allows the use of these in a number of contexts, including the calculation of the risk margin. We are close to completing our policy work on this, which we undertook in response to proposals by firms that are currently reinsuring longevity risk on a substantial portion of new business. Once the work is completed, we expect to consult on the outcome with a view to implementation of any new policy by the end of the year. I will send you a copy of the proposals when the material is ready for publication.

Dynamic volatility adjustment (DVA). EIOPA has recently published an Opinion which aims to reinforce supervisory convergence in the approach to the way that modelling of DVA is reviewed by National Supervisory Authorities. We consider that this is a material policy development which has prompted a review of the PRA's policy position in this area. That review is nearly finalised and we are planning to consult on any necessary updates to our policy in the next few weeks.

External audit of the Solvency & Financial Condition Report (SFCR). Firms have questioned the proportionality of a continuing audit requirement for their SFCRs. After reviewing the costs and benefits of the ongoing additional assurance provided by external audit, the PRA has decided to consult on removing the requirement for smaller firms from the end of 2018. We estimate that over 150 firms would no longer be subject to the audit requirement under this proposed rule change.

Yours sincerely

Sam Woods
Deputy Governor and CEO, Prudential Regulation Authority