Paul Fisher: PRA Solvency II Conference – countdown to implementation

Speech by Mr Paul Fisher, Executive Director for Insurance Supervision of the Bank of England and Deputy Head of the Prudential Regulation Authority (PRA), at the PRA Solvency II Conference, London, 17 October 2014.

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Good morning and thank you for coming today. First let me introduce myself. I have been both an academic and a long-term central banker – 24 years and counting at the Bank of England. I have worked across the Bank as a specialist economist/forecaster, private secretary to Eddie George, Head of Foreign Exchange and then Markets Director, I have served 5 years on the MPC, 2 years on the interim FPC and am now pledged to the PRA Board.

Insurance is not an entirely new sector to me. For many years I have been speaking with the asset management arms of many insurance firms about your businesses, in Edinburgh as well as London. One of our strategic aims is to deliver supervision as One Bank and one of my personal objectives is to maximise the synergies of insurance supervision operating as part of the Bank of England. There is a lot to be gained by us and the industry if we can do that.

But since taking over from Julian Adams as Executive Director for Insurance, one thing has been very, very clear. Right now, Solvency II is the main game in town. Yes, there are new and continuing challenges to business models across the whole of the insurance sector, whether from changes to Government regulations affecting annuity businesses, through the advent of new capital, particularly in re-insurance, to challenges from overseas insurers. Those challenges are short, medium and long-term and very considerable. We can't – and won't – take our eyes off those challenges to the industry. But Solvency II is a train of the future speeding down the track towards us – for both regulators and firms the message is: be on board or get left behind. So it is a key priority for us, working with you, to get implementation right and on time. The clocks are counting down.

We are now at a pivotal moment for Solvency II preparations. Solvency II will bring about the most significant change to the industry in decades. Following years of negotiation and delays, we are finally at a point where the end is in sight and the regime is to become a reality.

With the majority of the legislation now finalised, the PRA's focus has shifted to implementation. Since assuming this responsibility in early August, I have been struck by the volume of activity and the energy with which PRA staff are working to ensure that we – and most of you – hit the 1/1/16 deadline. Our supervisors and actuaries, supported by policy analysts and others across the Bank, are working hard to ensure that the UK industry meets these statutory deadlines and that we can provide you with all of the information you need in advance.

The challenge of Solvency II for the industry should not be underestimated. As my colleagues will explain during the sessions today; there is a great deal of work to do, time is short and the responsibility for you to be ready lies squarely with each of your individual regulated firms.

I am conscious that there have been claims or rumours in some quarters that the Bank is looking to take the opportunity of Solvency II to raise capital levels across the board. Let me assure you that there is no such intention on the Bank's part; nor are we looking to subvert in any way what is legally a maximum-harmonising Directive.

As always, we will be proportionate and pragmatic in our approach to implementation. I want to say definitively, and I am sure my colleagues will repeat this message throughout today:

we are not "gold plating" the Directive and we are not front-running the requirements of Solvency II.

What is different about the UK, compared with most of Europe, is that we have successfully operated a pillar two regime, with a strong modelling component, for the last nine years. We believe this benefitted policyholders and left the industry in good shape to weather the recent financial storms of the Great Recession. Those are also desired outcomes that lie at the heart of the Solvency II Directive and so I want to leave you in no doubt that we will implement the Directive in a full and robust manner so as to continue to deliver the level of financial resilience consistent with the safety and soundness of firms and policy-holder protection.

Another difference in the UK is that we are anticipating more internal model applications than any other EU country, which is not unexpected given the scale and diversity of the UK industry. This creates an unprecedented challenge for the industry, and for the Bank, in ensuring that models are of a high quality and that they meet the Solvency II requirements. It also creates some logistical challenges which you need to be aware of. If there are a lot of you trying to get approval, and only one of us, don't expect that you can all present us with your models at the last minute and expect a one-to-one service. If too many firms leave their preparations too late, then we will have to prioritise – if you want to be sure, then get in as early as you can.

Naturally, a significant proportion of our work relates to internal model approval, given the complex nature of many models and the detailed requirements of the Solvency II Tests and Standards. But the large volume of other Solvency II work is certainly not being ignored. Part of the purpose of this conference is to draw attention to the requirements in relation to the standard formula, other approvals and reporting requirements; which affect both internal model and standard formula firms.

The title of today's conference is "countdown to implementation" and in the sessions that follow we will:

- Set out, as far as policy certainty allows, some of the key requirements and deadlines for firms between now and 1/1/16;
- Provide you with the information you need to be ready for transposition and implementation;
- And provide an opportunity for you to ask questions and discuss key topics with representatives from the Bank.

On the internal model approval process (IMAP), good progress is now being made by some firms on their models; however many of you are behind and timelines look very tight for remedial action. In order for the PRA to review models, we must receive all necessary documentation and evidence of compliance in good time and produced to a sufficient standard. The deadline for pre-application submissions is March 2015; although firms should be striving to submit as soon as they are ready to give themselves more time to respond to PRA feedback on their models. I understand that some of your work depends on responses by us – I can assure you that we will be making our best endeavours to react quickly and make any remaining decisions or give necessary guidance as soon as we are able.

As Governor Mark Carney noted in his speech in September, the PRA will not hesitate to withhold approval for inadequate or opaque models. The responsibility to meet the Solvency II Tests and Standards rests solely with firms and their senior management. Although the Bank will continue to work with firms as they finalise their models, be under no illusion that each model will be assessed comprehensively and objectively against the full Tests and Standards, and that those failing to meet the requirements will not be approved. We have to get this right and can't allow weak models to go into live.

IMAP firms must ensure that they have contingency plans in place so that they are still able to meet the 1/1/16 implementation date in the event that their model fails to be approved.

For all firms, there are important deadlines to be aware of in relation to reporting and non-IMAP approval permissions, which will be discussed in the sessions later today. We are implementing new IT and data collection systems and will be ready to accept the submission data required under the directive from June 2015.

In organising the agenda for today, we have made a conscious decision to have joint sessions for both IMAP and standard formula firms. This is because we recognise that some firms currently on the standard formula may wish to apply for an internal model after 1/1/16, and also because firms currently in IMAP that fail to obtain model approval, whether full or partial, will need to move on to the standard formula. Almost 90% of our regulated firms will be using the standard formula, and I can assure you that we will be taking a rigorous approach to ensure that the Directive is being implemented as intended by standard formula firms.

As an organisation we are looking at Solvency II holistically, rather than in silos, and it is important for firms to do the same. Bank staff will be on hand throughout the day to answer any questions you may have; however if you have any queries that aren't answered during the sessions today, please contact your supervisor.

The end of the track is now in sight on Solvency II preparation. This will likely be our last large conference in advance of transposition. We recognise that it will take time for the new regime to bed in, perhaps a number of years; but now is the key time for firms to get in place the processes, approvals and, above all, the recognition and acceptance that Solvency II will be the new normal.

Solvency II is a one-time opportunity for us to embed policyholder protection and put in place the foundations required for the UK insurance industry to remain profitable, resilient and a key part of the UK's economy.