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Pollyanna Deane's insurance column: July 2021

by Pollyanna Deane, Partner, Financial Services Regulatory Team, Fox Williams LLP

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Pollyanna Deane is a Partner in Fox Williams LLP's Financial Services Regulatory Team, and is also a member of Practical Law Financial Services' Consultation Board.

In her column for July 2021, Pollyanna considers the PRA's consultation on reducing Solvency II reporting burdens, the latest information on insurers' BI insurance payouts and the PRA's forthcoming Solvency II Quantitative Impact Study (QIS).

PRA consultation on Solvency II reporting

Well, it feels just like old times. Summer is upon us and the regulator has issued a Solvency II paper for us to peruse on holiday. Except that it isn't – only 49 pages and really not much to write home about. I was interested to read the consultation paper issued last week by the PRA, to follow up on HM Treasury's call for evidence with proposals to update Solvency II. While it is a bit disappointing, we should not ignore the fact that it does represent a step in the right direction, reducing the regulatory reporting burden. That said, it's really a bit too cautious, with the reductions only being in areas the PRA is comfortable it doesn't need, or which are really superfluous to the insurance industry. What do we find?

- A reduction in the number of quantitative reporting templates (QRTs), but essentially only the ones which the PRA doesn't see as adding prudential value or which EIOPA were interested in but now aren't as the UK is no longer part of the EU, so again not something the PRA feels fussed about.
- A reduction in reporting of the minimum capital requirement (MCR), from quarterly to bi-annual. However, the information can be obtained from other submissions and, frankly, who imagines that the insurers are producing the MCR for practical reasons anyway? I recall when it was brought in with the solvency capital requirement (SCR) and the commentary was generally – what is the point of the MCR when the SCR was going to be treated as the MCR for all important purposes anyway.
- A change for reinsurers to exempt them from reporting on annuities stemming from non-life insurance obligations.
- Tidying up the PRA's supervisory statements (SSs) and Statements of Policy (SoP) to reflect the above.

Well it isn't enough. We've had five years of noting the changes that need to be made to risk margin calculations, the matching adjustment and the rest of the more onerous obligations that Solvency II involves. This is tinkering around the edges and, perhaps more to the point, removes some of the information that the regulator gets which means it reduces the burden on itself. The PRA has said that this is the first of the consultations, but really it's not even that – it gives little comfort that the regulator isn't just looking for another chance to impose yet more regulation, giving us a false sense of security before doing so. Could it not have taken the opportunity to at least reduce the cost of capital 6% figure to one more in line with the current interest rate environment – a quick fix that would be welcomed by many as a real gesture of solidarity towards the industry. I know that these changes will take time and the need to amend the legislation to make such changes is not a simple thing. That said, taking one of the big issues that the call for evidence covered, using the responses as well as the earlier work by the Treasury Select Committee, would have been welcome.

BI test case

The FCA has been busy collating data and published, on 13 July 2021, a spread sheet identifying the payments out by various insurers. In summary:

> "The aggregate value of the interim/initial payments made for the 4,975 (5 June: 4,188) unsettled claims where such payments have been made is £308,885,284 (5 June: £289,595,404). The aggregate value of the payments made for the 18,958 (5 June: 16,159) claims where final

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> settlements have been agreed and paid ... is £566,604,710 (5 June: £467,251,258). This means that (at the point of this information submission) 23,933 (5 June: 20,347) BI policyholders out of the 40,531 (5 June: 37,702) who had had claims accepted, had received at least an interim payment."

The press saw this differently, noting that "4 in 10 U.K. companies forced to close during national COVID-19 lockdowns that filed insurance claims after a Supreme Court test case in January have yet to receive money from their insurer, according to data released on Tuesday by the Financial Conduct Authority."

I had a few observations on this as follows:

- These are large amounts but note that the total claim for the Ever Given is described as the market suffering a total loss of "a few hundred million dollars" – so perhaps less than might have originally been thought, perhaps because not every policy will respond.
- The prudential status of insurers is not being questioned, which is a good thing, but we are hearing that reinsurers are seeking not to pay claims. While not wholly COVID related, Lloyd's has taken out around £650 million of reinsurance cover to back its Central Fund, £200 million in the traditional market and £450 million through Constellation Re, using ILS, which has improved the Lloyd's central solvency ratio and improves its buffer for future years. Thus, the market is looking to improve its capital security while not necessarily increasing prices.
- The insurance press had a headline today regarding Hiscox's payment of over £5 million to meet nightclub claims. More to the point, I wondered if the real point of the headline was to say "Hiscox pays claim"?
- There is going to be a lot of to-ing and fro-ing – the news all points to disputes on payments, and while the position is clearly direct insurance-focused at the moment, the real tests are to come in the reinsurance and broker markets.

PRA QIS

In my last column (see Article, Pollyanna Deane's insurance column: May 2021), I noted that the Treasury Select Committee had asked questions about the financial sustainability of paying the BI claims. Nikhil Rathi, FCA Chief Executive, referred the question to the PRA, who obviously must take a keen interest on this question. However, little or nothing has been published on prudential supervision which affects the BI world, simply the above Solvency II review and a speech by Anna Sweeney in June 2021, where she discussed the PRA's focus on the Solvency II review and what we might have in store. She commented on risk margin and the matching adjustment (MA), but focused first on policyholder protection. In short, there was nothing new in there save for a warning that the PRA is after data and responses to a Quantitative Impact Study (QIS) over the summer, which would have a short deadline (three months) and firms will be encouraged to respond.

> "We know the QIS will require significant resource from firms. We will be asking for high-quality data from a wide range of firms covering different parts of the framework, and in a relatively short period of time – three months or so. We are only asking this because of how important the exercise will be in determining the eventual policy proposals, and because of the understandable enthusiasm of firms to get on with the reform – enthusiasm which we share. But I'll say now, if there are aspects of the timetable which firms are going to struggle to meet, we would like to understand that at an early stage – so we would welcome feedback on any barriers to providing high-quality data as soon as possible.
>
> The QIS will focus on areas of potential policy change which are the easiest to quantify and have a more obvious immediate balance sheet impact."

Again, this seems to be requiring an uncomfortable level of engagement from the industry rather than the regulator focusing on the hard questions itself. One of the problems with Anna Sweeney's speech is the way it is structured, likening the Solvency II review to an episode of Grand Designs, saying that Solvency II provides good bones for house building. I can see the attraction, but note that the problem with Grand Designs is that the aims of those involved are often pure fantasy and come with a camera crew and an "audience of about 3.5 million people, eager to journey along the familiar narrative arc of big dream, big budget, over budget, no contingency, late finish, happy or unhappy owner".

We have already had the first experience of Solvency II – remember that? One could suggest that it has already met the Grand Designs test – big dream, big budget, over budget, no contingency (remember being told that the UK insurance industry had to be ready by 2012, only the Germans weren't?) There's your late finish and what do we conclude – a happy or unhappy owner?

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