



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

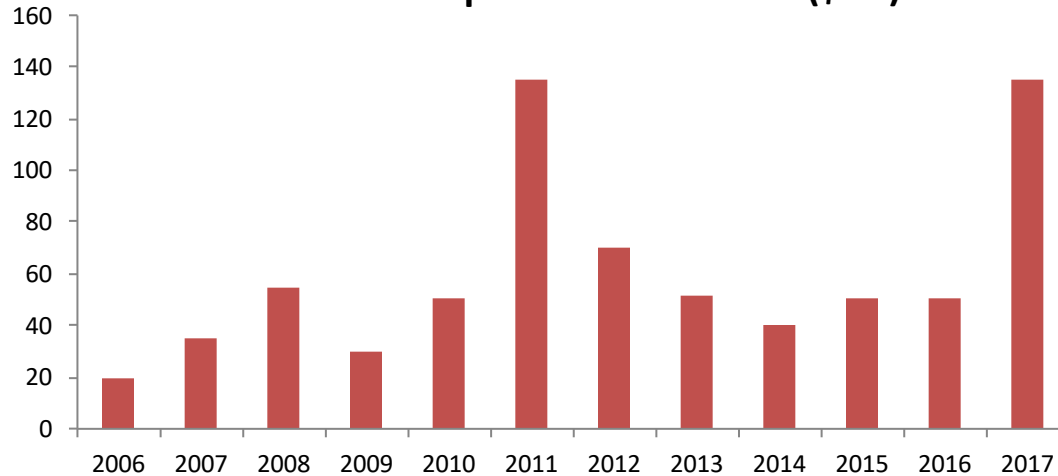
PRA regulatory issues in 2018

Stefan Claus, Technical Head of Insurance, Bank of England

London, 9 April 2018

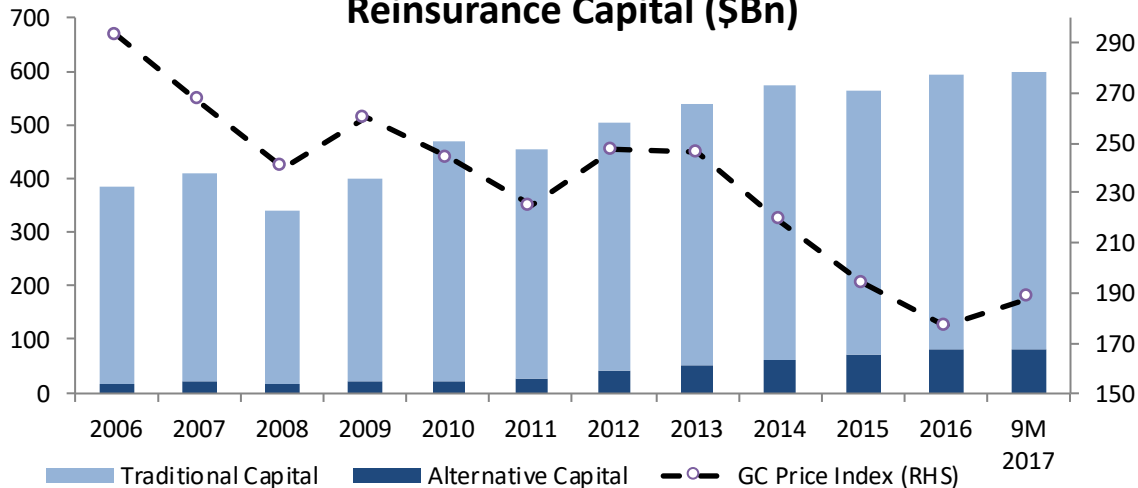
Despite HIM market conditions expected to remain soft

Global Catastrophe Insured Losses (\$Bn)

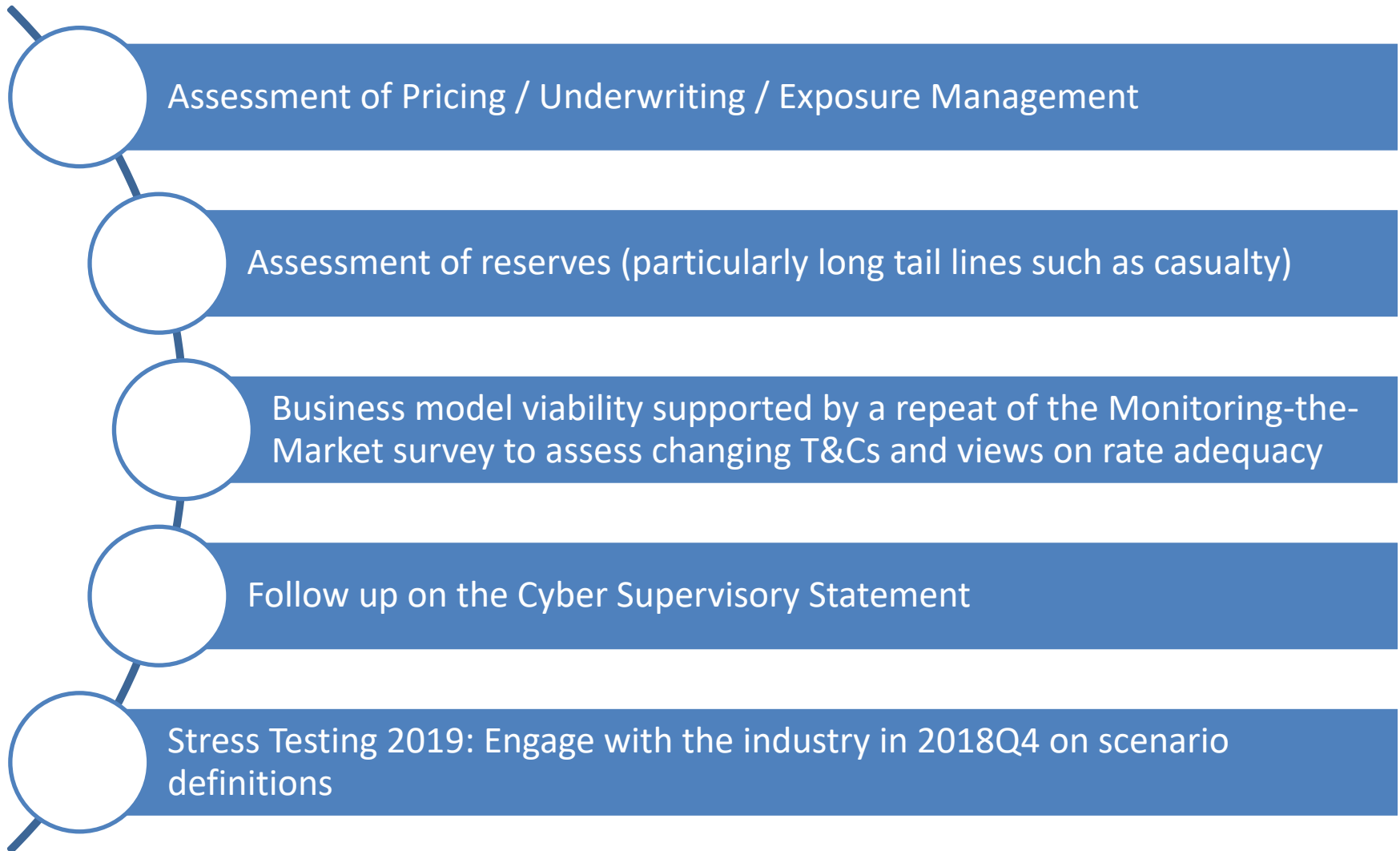


- Alternative Capital
- M&A activity
- Distribution
- Reserve releases / strengthening
- Technology / Cyber

Reinsurance Capital (\$Bn)



2018 PRA focus: assessing capital & business model viability



Early observations

- **Pricing/UW:** risk pricing less advanced than portfolio management; ability to reflect changes in T&Cs reduced?
- **Distribution:** Broker facility structures not homogeneous; number of firms have declined facilities on concerns of the quality of data
- **Reserving:** Reported strengthening in long-tail lines – firm specific or early indicators of wider issues?
- **M-t-M:** Qualitative feedback support common messages: E.g. rate improvements less than expected & more localised
- **Actuarial Function Reports:** Engagement with the Board and Risk Management could be more effective... (see next slide)

Dear Chief Actuary letter: Actuarial Function Report (AFR)

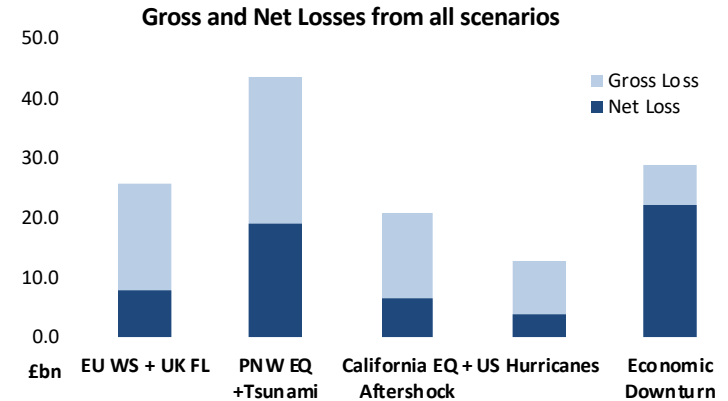
- AFR is for the Board not the PRA
- Some AFRs had no clearly stated opinion on the adequacy of premiums, Technical Provisions or reinsurance, and instead focused on process
- Recommendations and deficiencies were not always highlighted
- We encourage Boards to use the AFR to enhance the debate in areas surrounding Pricing, Technical Provisions and Reinsurance

Highlights from the General Insurance Stress Testing in 2017

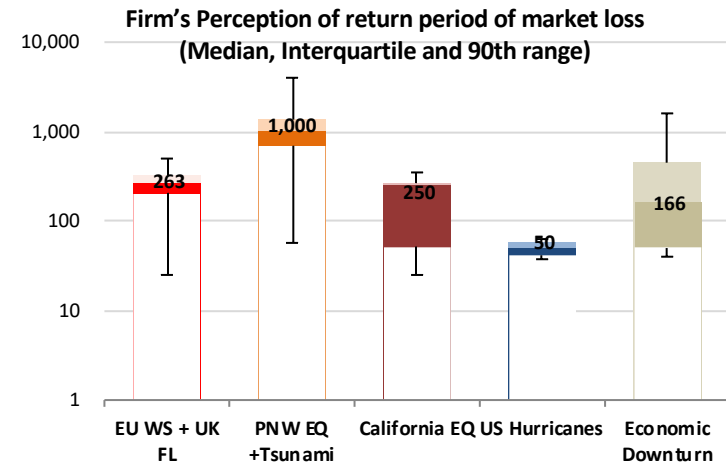
- Sector and firms resilient to scenarios within SII regulatory threshold
- There is no evidence of concentrations to specific reinsurers ...
- ...collateralised reinsurers continuing to play an important part of reinsurers panels

Potential areas for improvement:

- Exposure management
 - Nat Cat modelling
 - Post loss planning
 - Accounting
- *We anticipate the next stress test exercise will be in 2019*



PNW EQ and Economic Downturn were the most severe stresses. Significant cessions to reinsurers in all stresses



At the median, the Pacific North West Earthquake was perceived to be remote and the US hurricanes most likely