HYMANS ROBERTSON

Solvency II newsflash

In its recent consultation paper Solvency II: Equity release mortgages, the Prudential Regulation Authority ('PRA') consulted on the proposed changes to the valuation of no-negative equity guarantees for equity release mortgages to ensure that firms are not understating the risks associated with equity release mortgages in their balance sheets.

Following closure of the consultation period on 30 September 2018, the PRA has now published an update on the Consultation Paper on equity release mortgages, CP13/18. To clarify the position for insurers planning their 2018 year-end valuations, the PRA has indicated that it will **not** be implementing any of the changes envisaged in CP13/18 before 31 December 2019. As its initial intention was to publish the final policy by December 2018 with an implementation date of 31 December 2018, this change gives firms at least a further year of breathing space.

As we discussed in our previous newsflash on CP13/18, the proposed changes would have had a significant impact on some insurers' balance sheets and so the industry will be pleased that the PRA is taking more time to understand the impact of the proposed changes before finalising its policy. We note, however, that the update does not provide further certainty on the eventual outcome of the consultation.

The delay may also allow the PRA to consider the outcomes from the joint research by the Institute and Faculty of Actuaries and Association of British Insurers on valuing the no-negative equity guarantees of equity release mortgages, which is expected to commence soon.

The PRA did not provide specific reasons for the delay nor any indication of when the final policy will be published in the update.

What does this mean for insurers who are affected?

Whilst the delay should in no way be viewed as an indication that the PRA will relax the changes it has initially proposed, it does provide firms with additional time to consider the options available to them and to react accordingly.

The timing of the initial proposed implementation date would have been very close to the year-end reporting period for firms which may not give firms sufficient time to implement the required changes to their reporting process to generate year-end 2018 results based on the updated methods and assumptions. It will also give firms time to mitigate any impacts that the proposals might have.

Hymans Robertson has a wealth of Solvency II experience. Our consultants would be delighted to support you to evaluate the PRA's proposals and to determine any impact these may have on your business.

If you would like to discuss with one of our specialists, please get in touch

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