Society of Actuaries in Ireland

A Review of the First SFCRs

Maaz Mushir and Carol Lynch

15 June 2017

Disclaimer

The views expressed in this presentation are those of the presenter(s) and not necessarily of the Society of Actuaries in Ireland or Deloitte.

Agenda

- Introduction
- Deloitte’s review of the SFCR’s published by the Insurance Industry
- What’s next for insurers

May 2017 – End of a busy busy year-end

30-45 QRTs

3,000-5,000 data points – **EXCLUDING** asset templates

Compared to Quarterly/Day 1 templates
- 15% were the same
- 25% more detailed variants
- **60% completely new templates**

20 weeks!
….Board Approvals….
….Audits….
…. XBRL conversion….
…. ONR validations….

Two qualitative reports

5 sections in each report, with multiple subsections.

Very prescriptive requirements

Each report between 20 to 100 pages.

Structure of the SFCR

Executive Summary

A- Business and Performance

A.1 Business
A.2 Underwriting Performance
A.3 Investment Performance
A.4 Performance of other activities
A.5 Any other information

B. System of Governance

B.1 General information on the system of governance
B.2 Fit and proper requirements
B.3 Risk management system including the own risk and solvency assessment
B.4 Internal control system
B.5 Internal audit function
B.6 Actuarial function
B.7 Outsourcing
B.8 Any other information

C. Risk Profile

C.1 Underwriting risk
C.2 Market risk
C.3 Credit risk
C.4 Liquidity risk
C.5 Operational risk
C.6 Other material risks
C.7 Any other information

D. Valuation for Solvency Purposes

D.1 Assets
D.2 Technical provisions
D.3 Other liabilities
D.4 Alternative methods for valuation
D.5 Any other information

E. Capital Management

E.1 Own funds
E.2 SCR and Minimum Capital Requirement
E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR
E.4 Differences between the standard formula and any internal model used
E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the SCR
E.6 Any other information

Annex of Public disclosure QRTs (for SFCR only)

What companies produced

Our review of SFCRs

Number in sample	High	Medium High	Medium Low	Low
Life	3	10	11	5
Non-Life & Health	3	5	9	12
Composite	-	2	-	1
Total	6	17	20	18

What companies produced

Structure and style

Where companies were similar

- All companies covered the areas specified in the Solvency II Regulations and the order of presentation was consistent across all companies.
- In addition to the main sections, all companies included the required QRTs in appendices.

Where companies were different

- The depth of detail presented and the user accessibility of that presentation varied significantly between companies, **even among those of similar size and type**.
- Larger companies and those listed on an exchange disclosed more information in their SFCR. Their reports were typically produced in line with their corporate branding and consistent with the presentational style of their Annual Report & Accounts.
- Several companies got reviews from quality assurance, investor relations, and/or external consultants in addition to external audit prior to publication of their SFCRs.

What companies produced

Length & section weighting

Page count	Average	Min	Max
Summary	3	-	15
A	6	3	12
B	16	6	34
C	9	1	20
D	10	2	26
E	5	1	12
Total	49	16	88

What companies produced

Length & section weighting

Average page count	High	Medium High	Medium Low	Low
Summary	3	4	3	2
A	8	7	6	5
B	19	19	14	12
C	10	11	9	6
D	13	14	8	7
E	7	7	5	4
Total	60	61	45	37

What companies produced

Section A – Business and performance

What was expected from companies

- Basic information about the company, such as name, legal form, shareholdings, material lines of business etc.
- Quantitative and Qualitative information on investment, underwriting and other performance.
- Allocation of underwriting performance to Solvency II lines of business and material geographical areas where it carries out business.
- Certain details for investment performance were required by major asset classes.

What companies produced

- Section was "factual" in nature.
- Significant variation in the level of detail included in this section.
- Large proportion of companies presented underwriting results (i.e. the numbers) by territory / line of business.
- Qualitative explanation was generally limited or high-level.
- There were no consistent metrics for reporting underwriting performance. E.g. some companies presented underwriting income (premiums and fees less benefits and expenses) whereas others presented internal KPIs.
- Lack of standard underwriting performance measures makes it difficult to compare underwriting performance between companies.

What companies produced

Section B – System of Governance

What was expected from companies

- The CBI sent a clear message to the market that the system of governance was a key disclosure requirement.
- Companies were expected to present information such as:
  - Organisation and governance structure, and changes over the reporting period.
  - Remuneration policies and practices for the Board and the management.
  - Fitness and probity of key function holders.
  - Information on the key functions; their activities; and how they have been implemented.
  - Information on Risk Management Systems and ORSA.

What companies produced

- In many cases, this section was a compilation of information already included in other documents.
- Generally, the information presented was at the minimum factual level. Very few companies explained how their systems of governance were suitable for the nature, scale and complexity of risks they were exposed to.
- Several companies used diagrams and organisation charts to provide clarity around the company and its governance structures.
- There are a number of specific requirements to be included within this section, some of which were not always met. E.g. location of outsourced providers, or information on remuneration policy.

What companies produced

Section C – Risk Profile

What was expected from companies

- The following quantitative and qualitative information, separately for each category of risk.
  - Information on material risk exposures and risk concentrations, and how these were managed over the reporting period.
  - Description of risk mitigation techniques, their effectiveness and their impact on SCR.
  - How assets are invested in line with the prudent person principle.
  - Description of the methods, assumptions and outcome of the sensitivity testing and stress and scenario testing.

What companies produced

- High impact companies generally provided a clear explanation of the risks related to their business.
- Medium impact companies typically provided less detail about the risks they were exposed to, and how those risks were managed.
- Several low impact companies provided a very generic description of the risks but did not explain how these risks related to their business.
- Several insurers provided minimal information in relation to "stress testing and sensitivity analysis for material risks".

What companies produced

Section D – Valuation for Solvency Purposes

What was expected from companies

- For material classes of assets, liabilities and TPs:
  - Description of bases, methods and assumptions in valuation for Solvency purposes.
  - Material differences in above used for valuation in Financial Statements.
- In addition, for technical provisions
  - Information on the “level of uncertainty” in TPs;
  - Whether companies have used matching adjustment, volatility adjustment, and transitional measures.
  - Impact of using the measures above.
- Information on reinsurance recoverable.

What companies produced

- The level of detail and structure of this section of the report varied significantly by company.
- Several Medium-low and low impact companies only provided a high level description on their valuation methodology for their Technical Provisions.
- Certain companies did not provide quantitative information on the reserves held in their financial statements or a quantitative explanation of material differences with financial statements.
- The language used in Section D2 was generally quite technical. However there are examples where companies provided information in a very simple manner to make it more accessible for the “public”.

What companies produced

Section E – Capital Management

What was expected from companies

- Quantitative and qualitative information on the own funds by Tier and for each significant own fund item.
- Quantitative and qualitative information about the SCR and MCR.
- Reconciliation of Solvency II own funds, and shareholder equity in financial statements.
- Differences between Standard Formula and Internal Models.

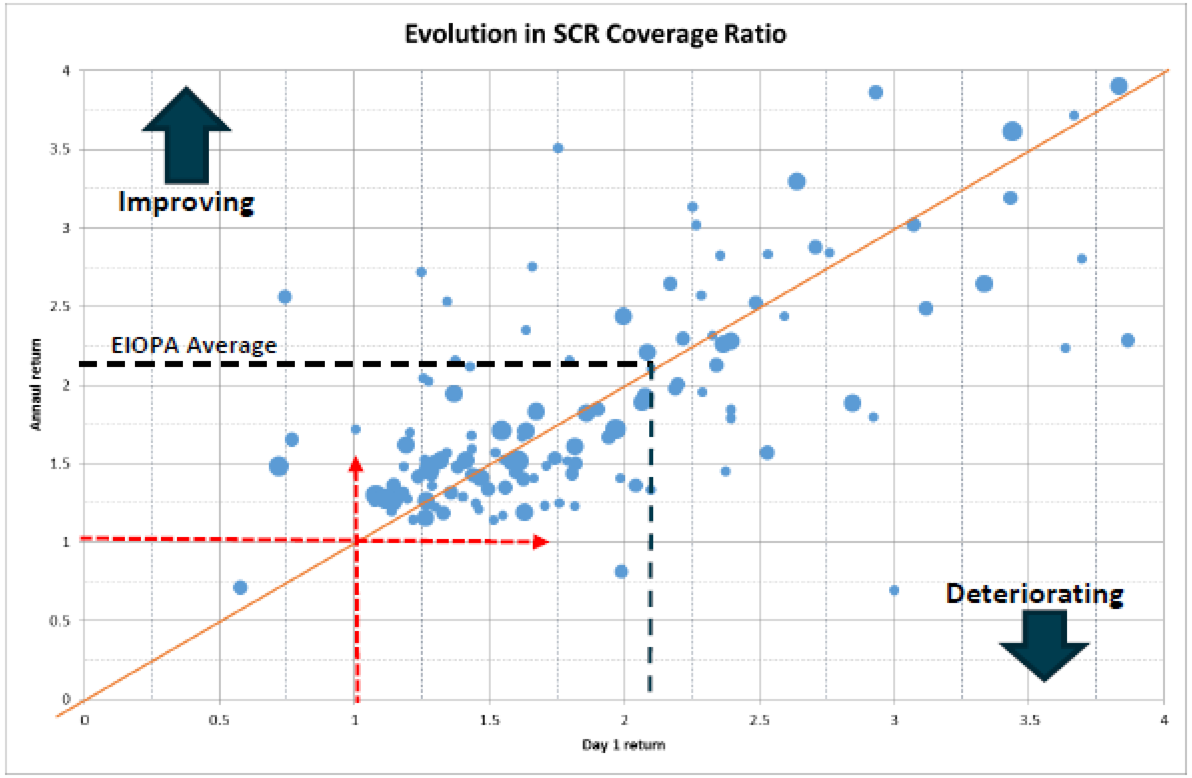
What companies produced

- Very few companies did more than aiming for the minimum requirements.
- In most cases, companies simply provided the required SCR and MCR information.
- We expect that this is an area where companies may choose to focus efforts in the future in order to expand the dialogue here, for example, to use strong coverage ratios to promote the strength of their business and brand.

Additional insights from the SFCRs

Solvency Coverage Ratios, use of LTGAs, and transitional measures

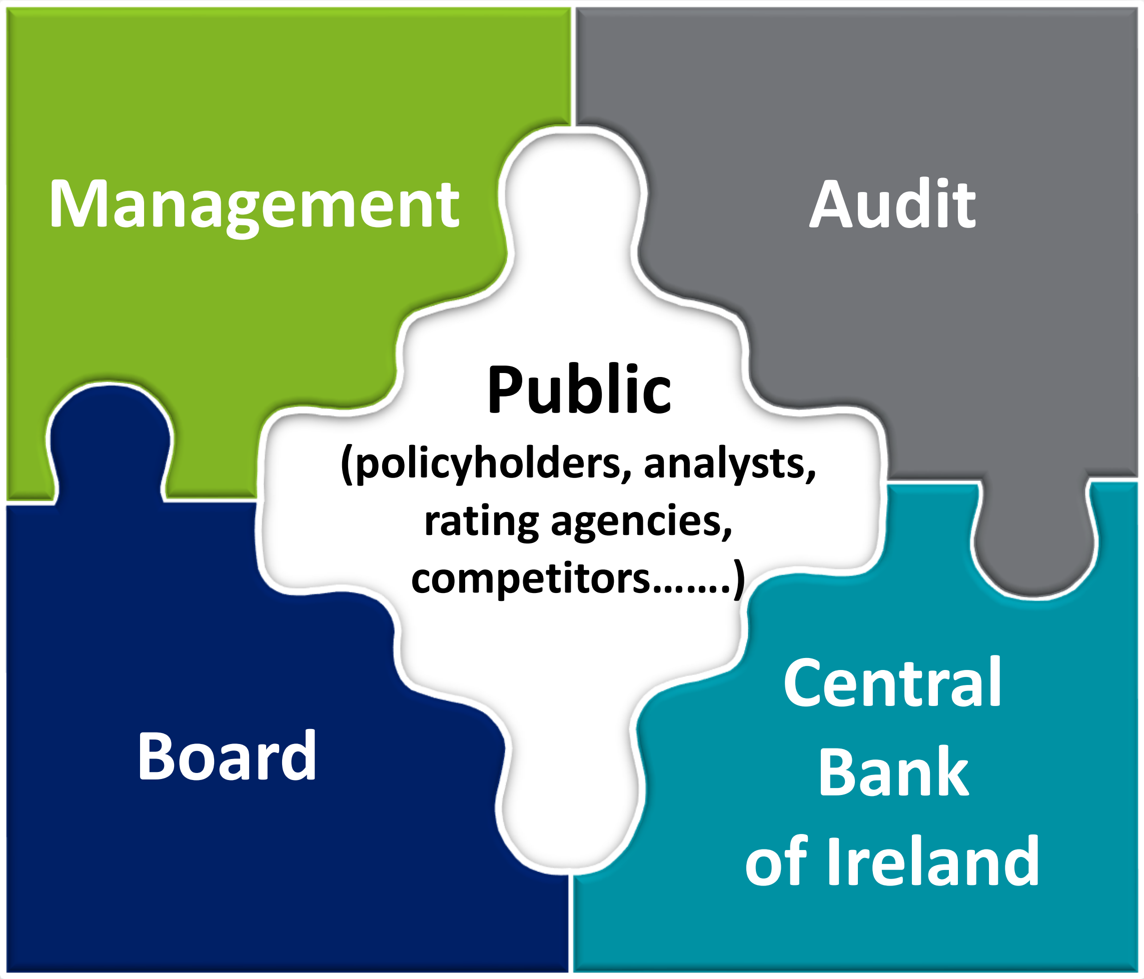
SCR coverage Ratio as at 31 December 2016				
	High	Medium High	Medium Low	Low
Average	183%	175%	218%	241%
Minimum	127%	108%	81%	123%
Maximum	361%	390%	478%	800%



Different roles, objectives and expectations!

- Interpretation of requirements.
- Level of detail for each disclosure item.
- Consider range of audiences.
- Getting over the line!

- Provide Reasonable Assurance Opinion on specified elements.
- Consistency of information for other sections.



- Director’s accuracy statements.
- Overall responsibility for ensuring compliance.
- Market and external stakeholder impact.

- Depth of Commentary
- Treatment of Less Relevant Topics
- Disclosure of the Governance Process

Pillar 3 maturity diagnostic

Rudimentary

- Roles and responsibilities across the organisation are not clear.
- Policies and controls not fully operational.
- Data flows and transformation from Pillar 1 to Pillar 3 reporting not fully traceable.
- Information for qualitative reporting collated on an ad-hoc basis and not provided in a consistent manner across all sections of the reports.
- Some sections of SFCR/RSR are overly detailed, whereas others do not have sufficient information.

Basic

- Responsibilities defined at the highest level, but not cascaded through the business units.
- Key controls and policies fully documented and operational.
- Inputs and outputs across all three Pillars fully consistent and traceable.
- Narrative reports have been produced in a consistent manner, with an adequate level of detail across each section/sub-section.
- The language was too technical and did not consider the wider audience of SFCRs.
- Final QRTs submitted to the CBI not consistent with the Narrative Reports in certain aspects.

Advanced

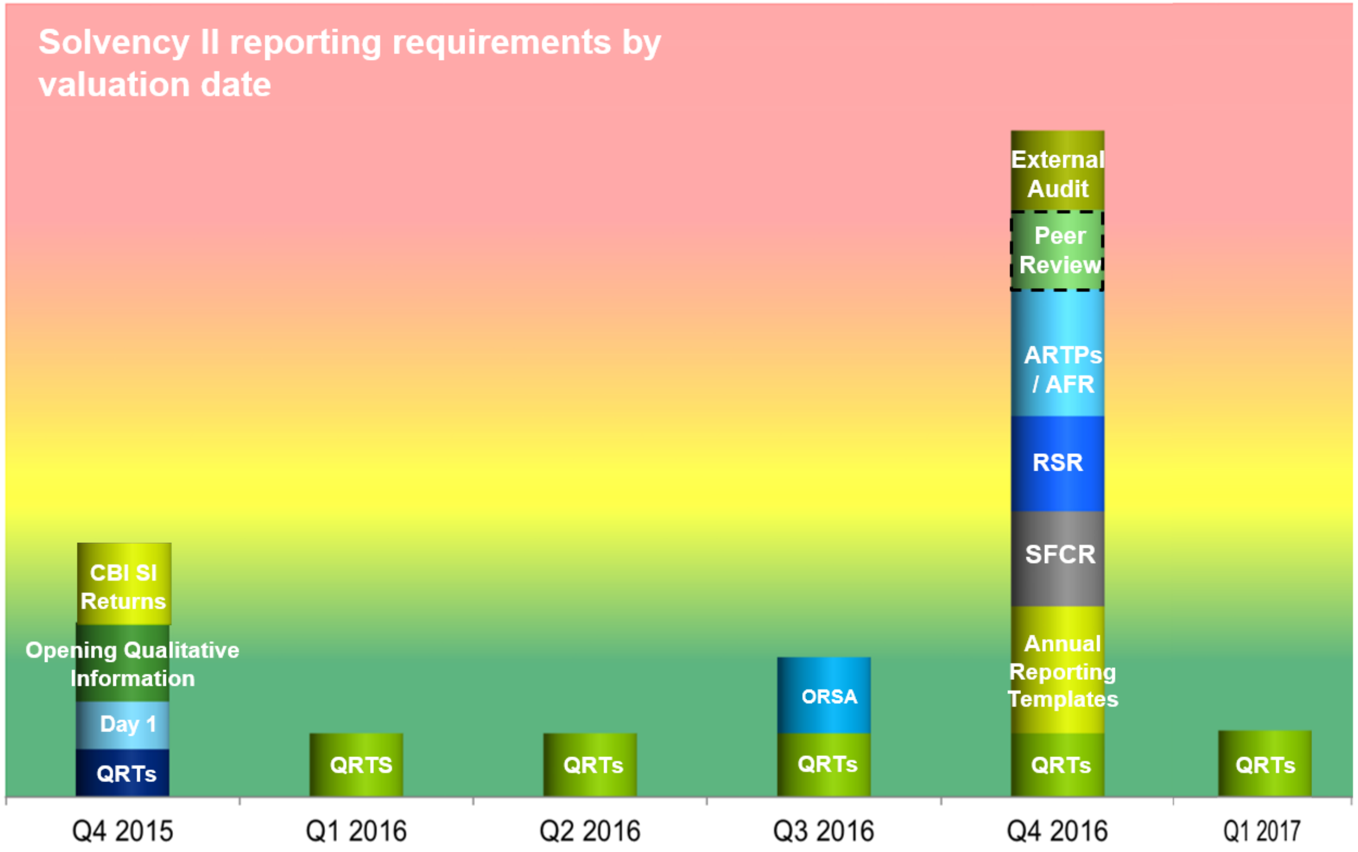
- Process documentation is more detailed, and covers for example the process for completion of individual QRTs and (sub)sections of the Narrative Reports.
- Data flows, data processes and data transformations clearly documented for non-TP data.
- Suite of data checks and business validations within templates, across templates and over different reporting periods.
- The SFCRs were peer reviewed externally, and/or by investor relations to consider the market impact of public disclosure.
- Language used in the SFCRs considered a wider audience, and technical jargon was clearly explained.
- Considered how confidential or sensitive information is to be presented in the reports.

Leading

- Processes across the organisation fully standardised, supporting an optimal control framework for all reporting bases.
- Pillar 3 output can be produced regularly on a timely basis through increased automation.
- Regular maintenance and fitness assessments for all documentation in relation to Pillar 3 policies, process, and controls; and data processes, data flows, data transformations and data dictionaries.
- SFCRs fully transparent. Additional information presented in the SFCR to showcase the financial strength of the company.
- Charts and graphs were used extensively in narrative reports to illustrate key points.
- Continuous feedback allowing optimisation of processes based on results of analyses. Knowledge accumulated and shared.

The case for strategic implementation of Solvency II Reporting

- ✓ The reporting processes typically involve between 30 - 100 different spreadsheets, and 5 - 10 different information systems.
- ✓ Workload seasonality significantly increases the costs in relation to meeting reporting requirements. Quality may also be compromised.
- ✓ Extreme workloads could result in breakdown of internal controls.
- ✓ Expected developments in the Insurance Financial Reporting world coupled with reducing timescales for Solvency II reporting will maintain pressure of resources. The need for efficient reporting is a necessity and rather than a luxury.



Solvency II provides insurers an opportunity to improve and develop their processes for management and supervisory reporting, and reduce their costs over the longer term.

What’s next for Irish Insurers

Use of a Single Solvency and Financial Condition Report

Non-disclosure of sensitive or confidential information.

Disclosure of additional voluntary information

Market reaction to public disclosure

Benchmarking against peers

Analysis of competitor’s performance and pricing

Changes in SCR coverage ratios, use of LTGAs

Optimisation of Pillar 3 reporting processes

Questions or comments?