

# Society of Actuaries in Ireland

## Solvency II - Pillar III

Brian Morrissey

22 June 2011



# Agenda

The focus of Solvency II presentations to date has focused on Pillar I (technical provisions and capital requirements) and Pillar II (governance and supervision) matters. The purpose of the presentation will be to set out the Pillar III reporting and disclosure requirements under Solvency II and the challenges facing companies as the implementation date nears

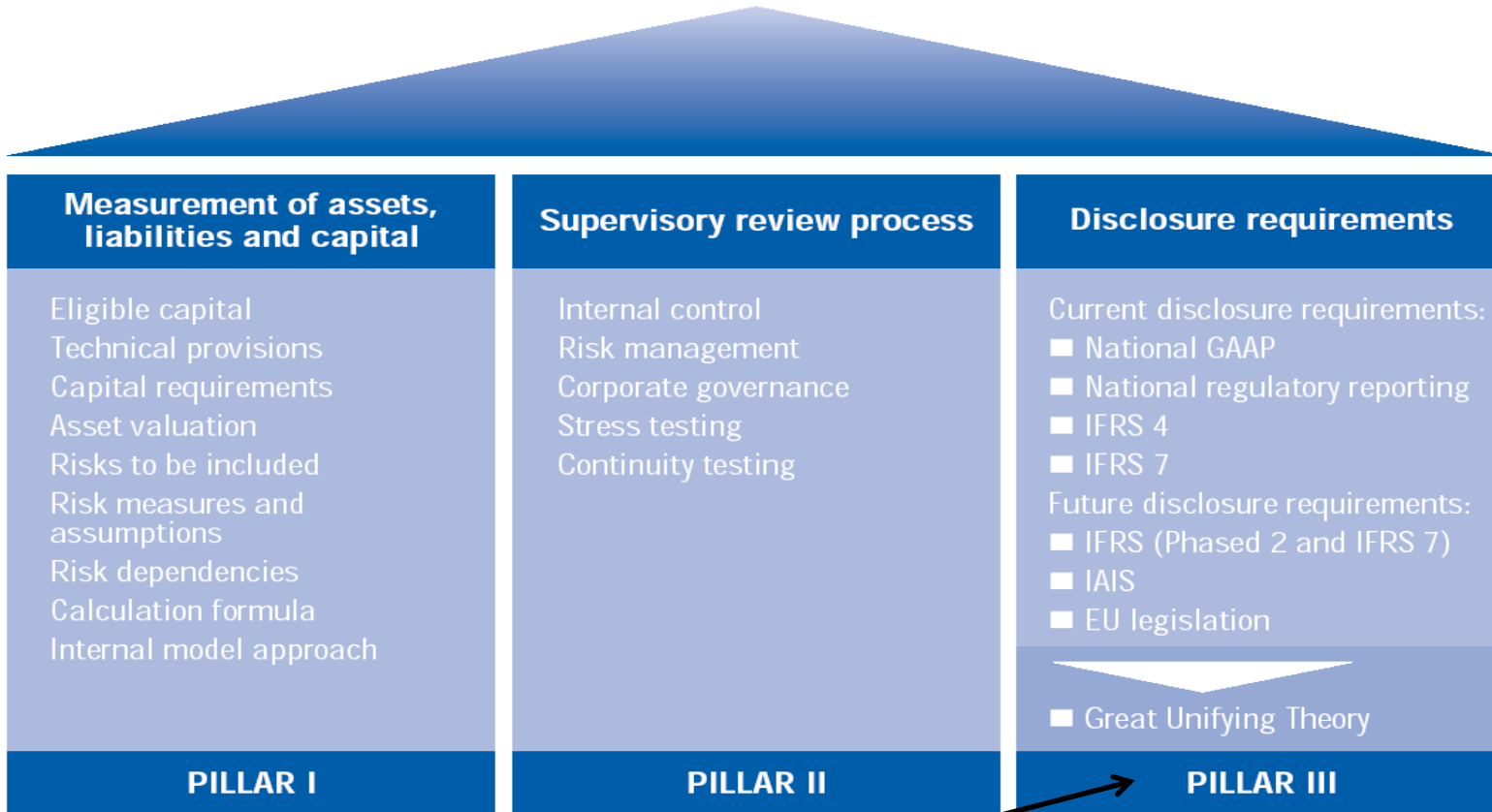


# Agenda

- Directive and Level 2/ 3 requirements
- Reporting Framework
- Reporting timetables
- Solvency and Financial Condition Report (SFCR)
- Regular Supervisory Reporting (RSR)
- Quantitative Reporting Templates (QRT)
- Challenges



# Solvency II framework



Focus of this presentation



## Aims of Pillar III

- Solvency II is designed around a ‘3 Pillar’ structure where an effective Pillar III supervisory reporting and public disclosure regime is considered important to enhance market discipline and complement requirements under Pillars I and II to make undertaking’s more transparent.
- As stated in CEIOPS’ Advice to the European Commission, dated March 2007, on Supervisory Reporting and Public Disclosure in the Framework of the Solvency II Project (paragraph 2.2):
  - “Supervisory reporting requirements in the Solvency II framework should support the risk-oriented approach to insurance supervision while public disclosure requirements should reinforce market mechanisms and market discipline”.

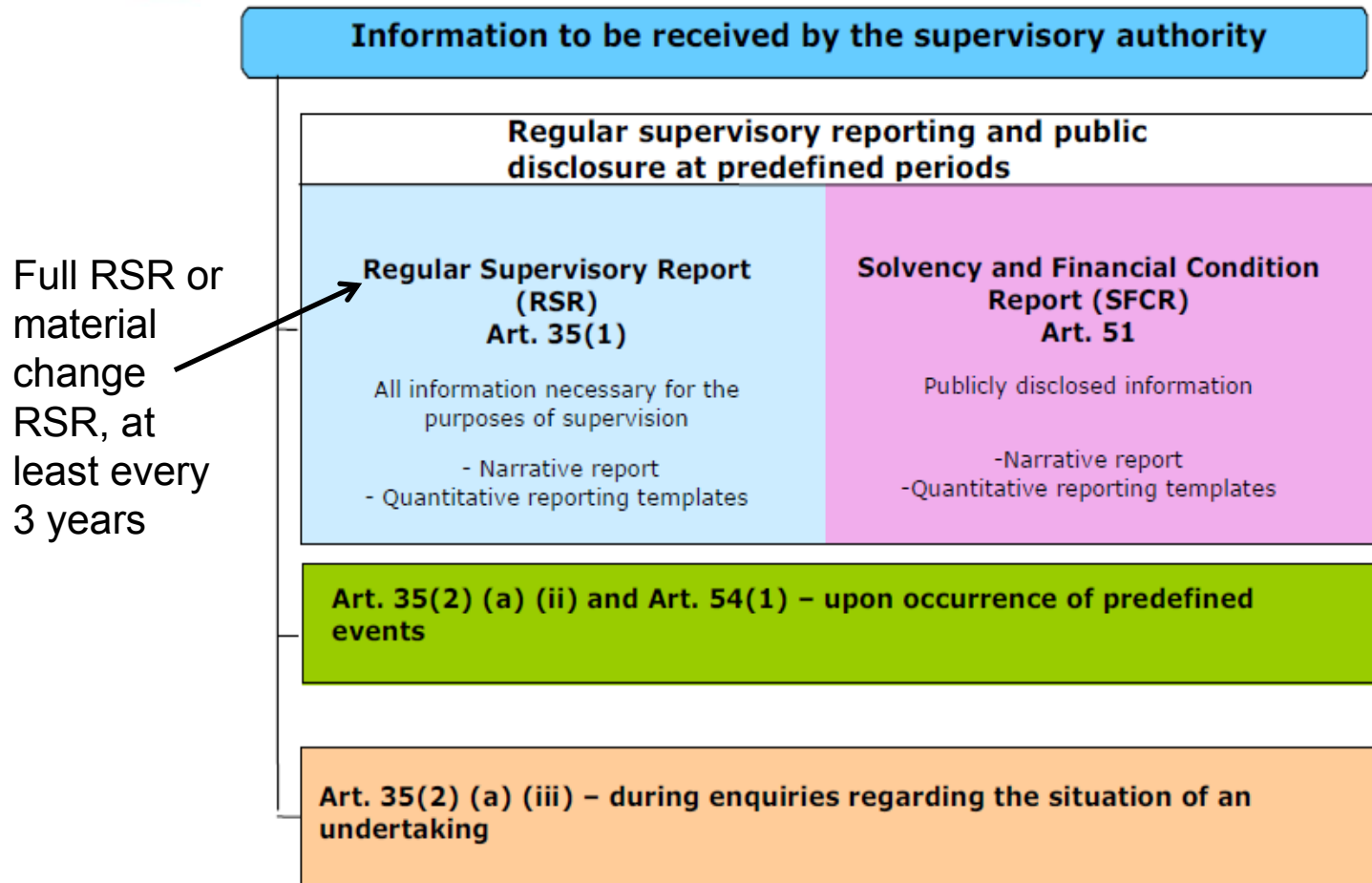


## Sources of info

- Directive that is approved already
- Omnibus II makes changes on transitional measures
- CEIOPS/ EIOPA final advice
- Draft IM on Level 2 from the Commission
- Pre-consultation on Level 3
  
- .....keeping on top of public and not so public information very difficult



# Reporting Framework



Additionally in 2013 companies may be required to provide the regulator with an opening Solvency II balance sheet and SCR and the first Supervisory Report



# Reporting Framework

## Reporting principles

- Proportionality principle

*Detail of reporting  $\propto$  Complexity of risk profile*

### Risk profile

- Scale
- Nature
- Complexity

Of each risk

- Materiality levels

## Reporting principles within the SFCR

- Qualitative and Quantitative reports
  - **Relevant, accessible, meaningful, reliable and understandable**
  - **Comparable and consistent**
  - **Solo and group level**





## Level 1 Text

- Article 35 (Information to be provided for supervisory purposes)
- Article 36 (Supervisory review process)
- Article 51 (Report on solvency and financial condition: contents)
- Article 53 (Report on solvency and financial condition: applicable principles)
- Article 54 (Report on solvency and financial condition: updates and additional voluntary information)
- Article 55 (Report on solvency and financial condition: policy and approval)



## Level 1 Text (cont)

- Article 56 (Solvency and financial condition report: implementing measures)
- Article 112 (General provisions for the approval of full and partial internal models)
- Article 254 (Access to information)
- Article 256 (Group solvency and financial condition report)



## Level 1 Text (cont)

- Other relevant articles for public disclosure of internal models are:
  - Article 120, which refers to the use test of internal model,
  - Article 121, which refers to the statistical quality standards for internal model,
  - Article 122, which refers to the calibration standards for internal model,
  - Article 123, which refers to the profit and loss attribution for internal model,
  - Article 124, which refers to the validation standards for internal model and
  - Article 126, which refers to the use of external models and data.



## EIOPA advice on Level 2 Text

- CEIOPS advice for Level II implementing measures
  - Supervisory Reporting and Public Disclosure Requirements
  - Formerly CP 58
  - Published October 2009, 169 pages
- Covers the following main sections:
  - Overview of the contextual background to the paper.
  - High level principles of supervisory reporting and public disclosure
  - ‘Solvency and Financial Condition Report’ (SFCR)
  - ‘Report to Supervisors’ (RTS, now called RSR)
  - Process of Reporting
  - Supervisory reporting following predefined events and supervisory enquiries
  - Impact Studies
  - Draft Quantitative Templates



## EIOPA advice on Level 2 Text (cont)

- Principle of proportionality applies to disclosure requirements
  - Detail of information disclosed will be commensurate with nature, scale, and complexity of the risks inherent in business of undertaking.
  - For the purposes of the report to supervisors, materiality is defined as per the International Accounting Standards.
- In respect of internal models
  - sufficient information such that a knowledgeable person can get a reasonably good understanding of the design, operational details and reliability of the model
- Level of prescription in both the SFCR and RSR (from draft level 3) appears to have softened compared to the CP 58 advice
- Initial suggestion of every 5 years for the RSR – now changed to every 3 years



## Omnibus 2 and Pillar III

- Transitional provisions
  - May be introduced by Commission (by delegated act)
  - Each area has maximum permitted duration (3,5,10 years)
  - Minimum compliance levels are set (ensure neither a more favourable treatment for undertakings or lower level of protection for policyholders than is currently in place)
- Supervisory reporting and public disclosure
  - Written policy; systems to support reporting to supervisors; SFCR disclosure
  - Transitional provision of up to 3 years
  - Min requirement: existing rules for production of accounts and returns; high level summary SFCR



## Pre consultation Level 2 and Level 3 guidelines

- Draft Level 2 guidelines (February 2011)
  - Draft level 2 guidelines have been circulated among a limited number of key stakeholders
  - Disclosure requirements are high-level compared to the more prescriptive requirements in CEIOPS Final Advice (Oct 2009)
- Pre-consultation on draft Level 3 guidelines (December 2010)
  - Not widely circulated for comments
  - Provide very high-level guidance on SFCR and RSR.
  - However, these guidelines provide detailed guidance on QRTs including the following:



# Pre consultation Level 3 guidelines

## Current level 3 consultation on qualitative reporting

	Topic	Requirements
<b>SFCR</b>	<ul style="list-style-type: none"> <li>● Business and Performance</li> </ul>	<ul style="list-style-type: none"> <li>● Ownership, group structure</li> <li>● Focus on intra-group underwriting and investment activities</li> </ul>
	<ul style="list-style-type: none"> <li>● System of Governance</li> </ul>	<ul style="list-style-type: none"> <li>● Authority and resources of 4 key functions</li> <li>● Risk management: ALM to be addressed</li> <li>● Internal control: also discuss internal control over financial/nonfinancial reporting</li> </ul>
	<ul style="list-style-type: none"> <li>● Risk Profile</li> </ul>	<ul style="list-style-type: none"> <li>● Information on SPV's</li> </ul>
	<ul style="list-style-type: none"> <li>● Valuation in SII balance sheet</li> </ul>	<ul style="list-style-type: none"> <li>● Assets: definition of asset classes to be described; groups should use solo level of detail</li> <li>● TP: future premiums, material changes, simplifications</li> <li>● Some more group disclosures</li> </ul>
	<ul style="list-style-type: none"> <li>● Capital management</li> </ul>	<ul style="list-style-type: none"> <li>● Definition of solvency ratio</li> <li>● Solo vs group methods to calculate SCR, information on MCR</li> <li>● Standard formula vs internal model</li> <li>● Data quality control process</li> </ul>





# Pre consultation Level 3 guidelines

## Current level 3 consultation on qualitative reporting

	Topic	Requirements
<b>RSR</b>	<ul style="list-style-type: none"> <li>● Business and Performance</li> </ul>	<ul style="list-style-type: none"> <li>● Employees, organisational structure, distribution to shareholders</li> <li>● Significant related party transactions</li> </ul>
	<ul style="list-style-type: none"> <li>● System of Governance</li> </ul>	<ul style="list-style-type: none"> <li>● Standard organisational information</li> <li>● Consistency of remuneration policies and practices</li> <li>● Risk Management: documentation, monitoring and enforcement of controls</li> <li>● ORSA (with some details here)</li> </ul>
	<ul style="list-style-type: none"> <li>● Risk Profile</li> </ul>	<ul style="list-style-type: none"> <li>● Information on derivatives contributing to risk reduction</li> </ul>
	<ul style="list-style-type: none"> <li>● Capital management</li> </ul>	<ul style="list-style-type: none"> <li>● Justification for using risk mitigation in SCR calculation</li> </ul>
<b>Predefined events</b>		<ul style="list-style-type: none"> <li>● Can be expected to lead to material changes in the above, including solvency and financial position (some guidance given)</li> <li>● Additional ORSA</li> </ul>
<b>General principles</b>	Disclosure policy details, treatment of confidential information, reporting governance and process	



# Draft pre consultation Level 3 guidelines

## Public disclosure, Regular Supervisory Reporting, Predefined Events

- It sets out minimum content within selected sections of both the public SFCR and the RSR.
- The paper also covers minimum content of notifications required by the occurrence of predefined events (events that have/could materially change the business/performance, governance, risk profile or solvency)
- Structured in terms of a number of guidelines:
  - 6 general principles (dealing with disclosure and reporting policies, information not reported and voluntary disclosures and non-disclosure (without supervisor permission) of confidential information sent by the supervisor). Reference to other publicly available documents can now be made within the SFCR, provided it is directly to the information concerned and not just to a document that contains it, however use of references to other documents within the RSR is not
  - 21 guidelines for the SFCR (covering the sections of disclosure on business, underwriting and investment performance, governance, risk management and internal control systems, valuation of assets, technical provisions, information on own funds, SCR and MCR and information in respect of any internal model used for SCR calculations)
  - 8 on the RSR (business, performance, risk management, ORSA, risk profile and capital management)
  - 2 on the pre-defined events notifications. In particular, performance of an additional ORSA triggers the requirements
- The RSR will contain confidential information needed for supervisory purposes, including items such as organisational charts, linkage of remuneration policy with risk management, and the ORSA reporting. The ORSA element of the RSR will be the same, regardless of whether the RSR is on a full form or summary (intermediate years) basis
- A standardised definition of solvency ratio is proposed (eligible own funds as a percentage of the SCR) – other ratios may be disclosed where relevant, but should not challenge this ratio



# Draft pre consultation Level 3 guidelines

## Quantitative Reporting Templates (QRT)

- Guidelines, deal primarily with the format and timeliness of reporting.
- Pre-consultation comprises excel spreadsheets setting out the format of the various templates proposed together with word documents setting out the summary and detail (termed LOGs) which include definitions, purpose and (in some cases) examples for various cells. There is one LOG per template
- The templates cover solo and group, annual and quarterly templates. Half-yearly group templates (not quarterly) are proposed
- Templates will be harmonised across Europe, although there is facility for some additional national templates to be added covering local market specifics, local legal requirements or areas not covered by the QRT pack
- At a solo level, the templates can be divided into those supporting the balance sheet, capital requirements, assets, technical provisions, reinsurance and variation analysis
- Group specific templates cover the scope of the group, contribution to key elements of the solvency calculation (own funds, SCR etc) by entity, intra-group transactions and risk concentration. Certain of the solo templates are also replicated at group level
- A subset of the forms will be included within the annual public disclosure. Current proposals are that the templates are disclosed:
  - Solo and group: balance sheet, off balance sheet items, own funds, SCR, possibly changes in basic own funds
  - Solo only: MCR (not applicable to groups in any case), country activity, technical provisions
  - Group only: entities excluded from group supervision, subordinated liabilities, others are yet to be decided



# Future reporting timelines

Report	Frequency	Format of report	Internal approval
<b>SFCR - entity</b>	Annually, unless a single group-wide SFCR is prepared	Common structure	Yes
<b>RSR - entity</b>	Dependent upon the intensity of supervisory review process (SRP)	Common structure	Yes
<b>QRT - entity</b>	All templates annually, with some quarterly (e.g. MCR, SCR, technical provisions, premiums and claims, investments and own funds) Group (bi annual)	Common structure	Yes



# Future reporting timelines

## Submission deadlines for annual SFCR, RSR and QRTs

	YE 31 December 2013	YE 31 December 2014	YE 31 December 2015	YE 31 December 2016 and thereafter
Solo SFCR	20 May 2014 (20 weeks)	06 May 2015 (18 weeks)	21 April 2016 (16 weeks)	08 April in the next year (14 weeks) **
Solo RSR *				
Solo QRTs - annual				
Group SFCR	17 June 2014 (24 weeks)	03 June 2015 (22 weeks)	19 May 2016 (20 weeks)	06 May in the next year (18 weeks) **
Group RSR *				
Group QRTs - annual				

Source: Draft Level 2 implementation measures

\* A full annual RSR will only be required where the supervisory authority is performing an annual detailed assessment, as part of the Supervisory Review Process (SRP). Subject to this, RSR should only contain material changes. However, a full RSR is required at least once in every three years.

\*\* The deadline falls due one day before the above dates if the reporting date falls in a leap year.



# Future reporting timelines

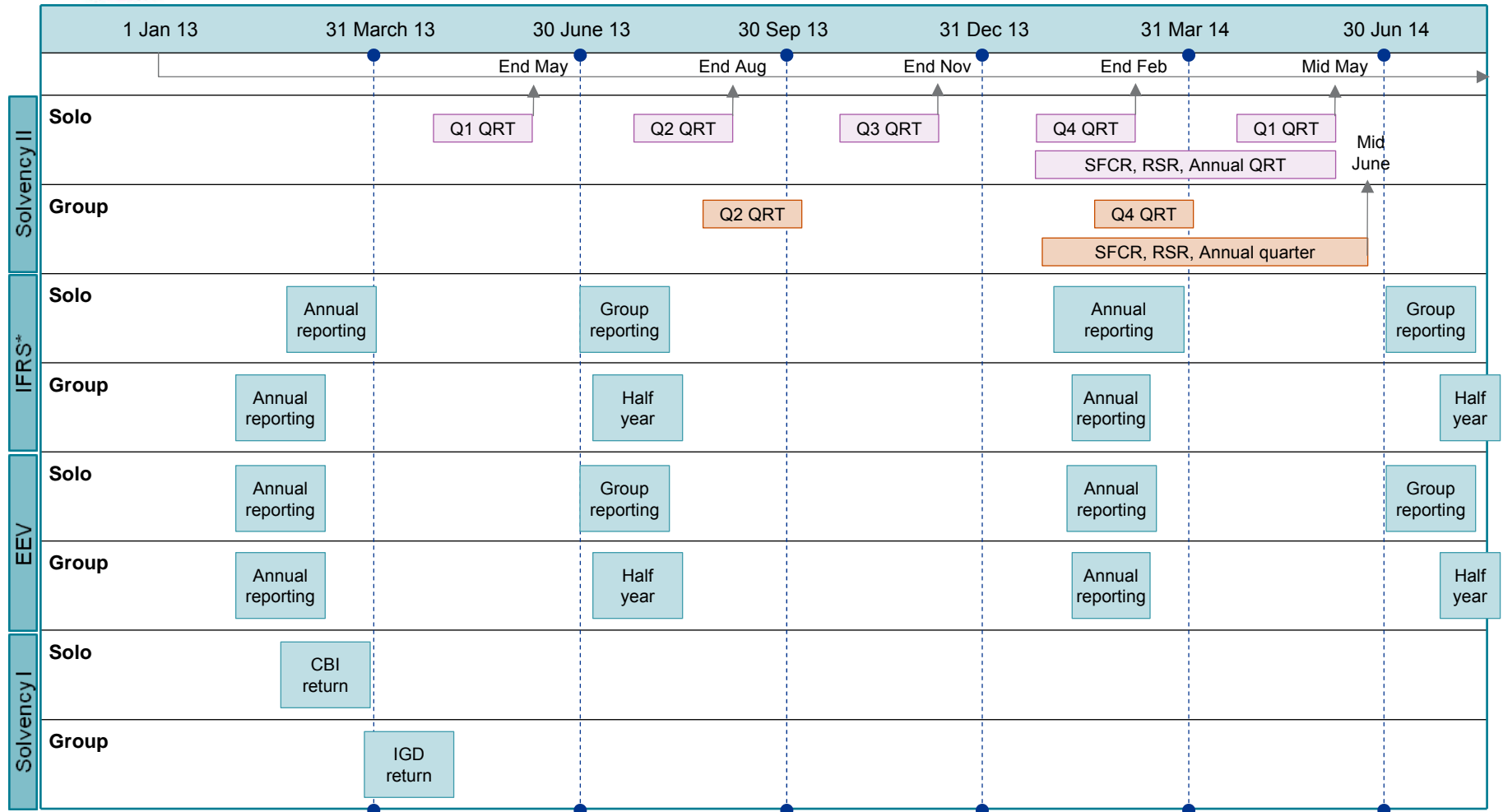
Submission deadlines for quarterly solo QRTs and bi-annual group QRTs

Year ending	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Solo QRTS – quarterly</b>				
December 2013	26 May 2013 (8 weeks)	25 August 2013 (8 weeks)	25 November 2013 (8 weeks)	25 February 2014 (8 weeks)
December 2014	19 May 2014 (7 weeks)	18 August 2014 (7 weeks)	18 November 2014 (7 weeks)	18 February 2015 (7 weeks)
December 2015 and thereafter	12 May 2015 (6 weeks)	11 August 2015 (6 weeks)	11 November 2015 (6 weeks)	11 February 2016 (6 weeks)
<b>Group QRTs – bi-annual</b>				
December 2013	N/A	22 September 2013 (12 weeks)	N/A	25 March 2014 (12 weeks)
December 2014	N/A	15 September 2014 (11 weeks)	N/A	18 March 2015 (11 weeks)
December 2015 and thereafter	N/A	08 September 2015 (10 weeks)	N/A	10 March 2016 (10 weeks)

Source: Draft Level 2 implementation measures and draft proposal for Level 3 Guidelines on QRTs/Public Disclosure, Regular Supervisory Reporting and Predefined Events



# Future reporting timelines





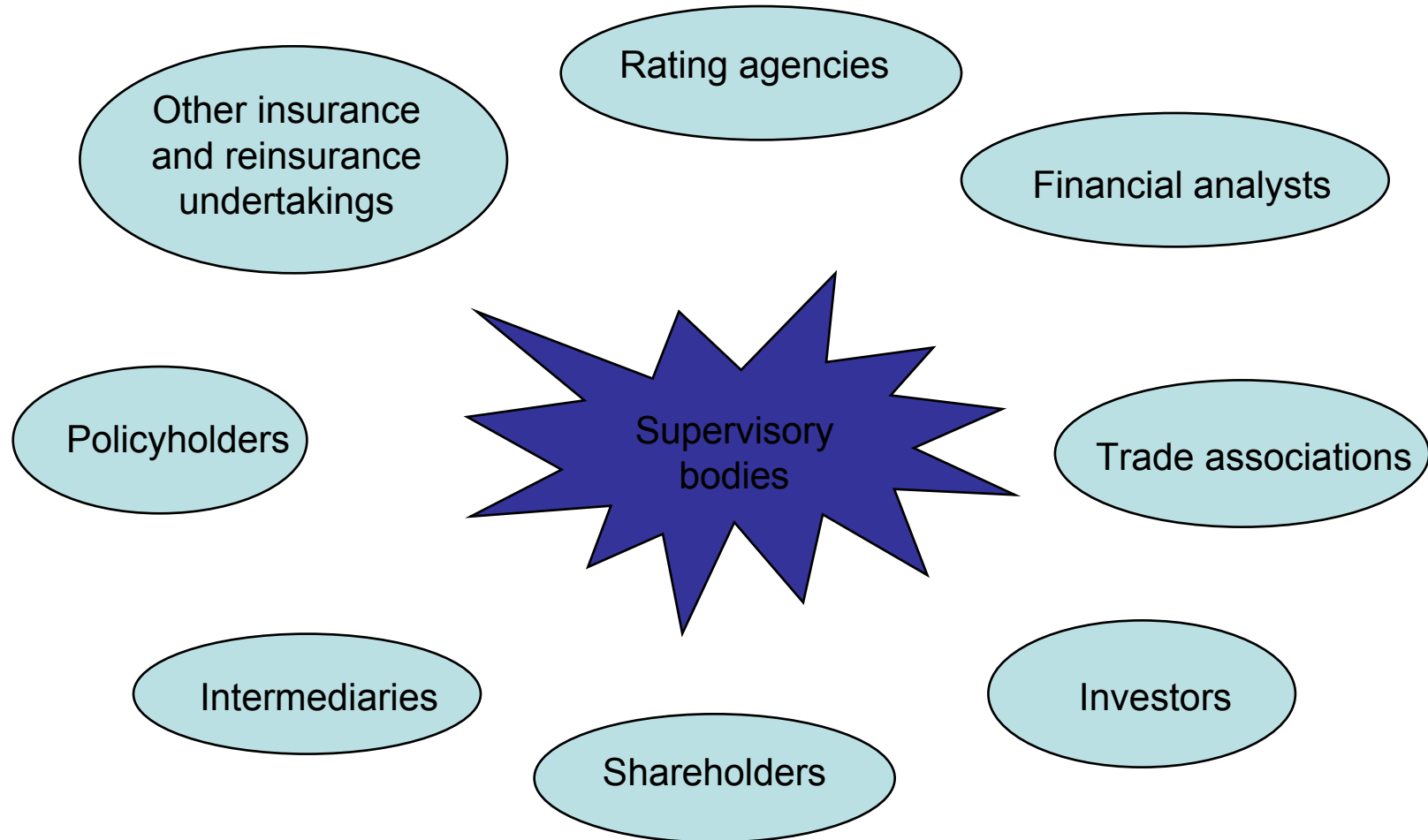
## Contents of SFCR & RSR

- A) Business, External Environment & Performance
  - B) System of Governance
  - C) Risk Profile
  - D) Valuation for Solvency Purposes
  - E) Capital Management
- 
- Groups – option to prepare a single group wide SFCR (with agreement of supervisor).
  - Must prepare both a group and solo RSR



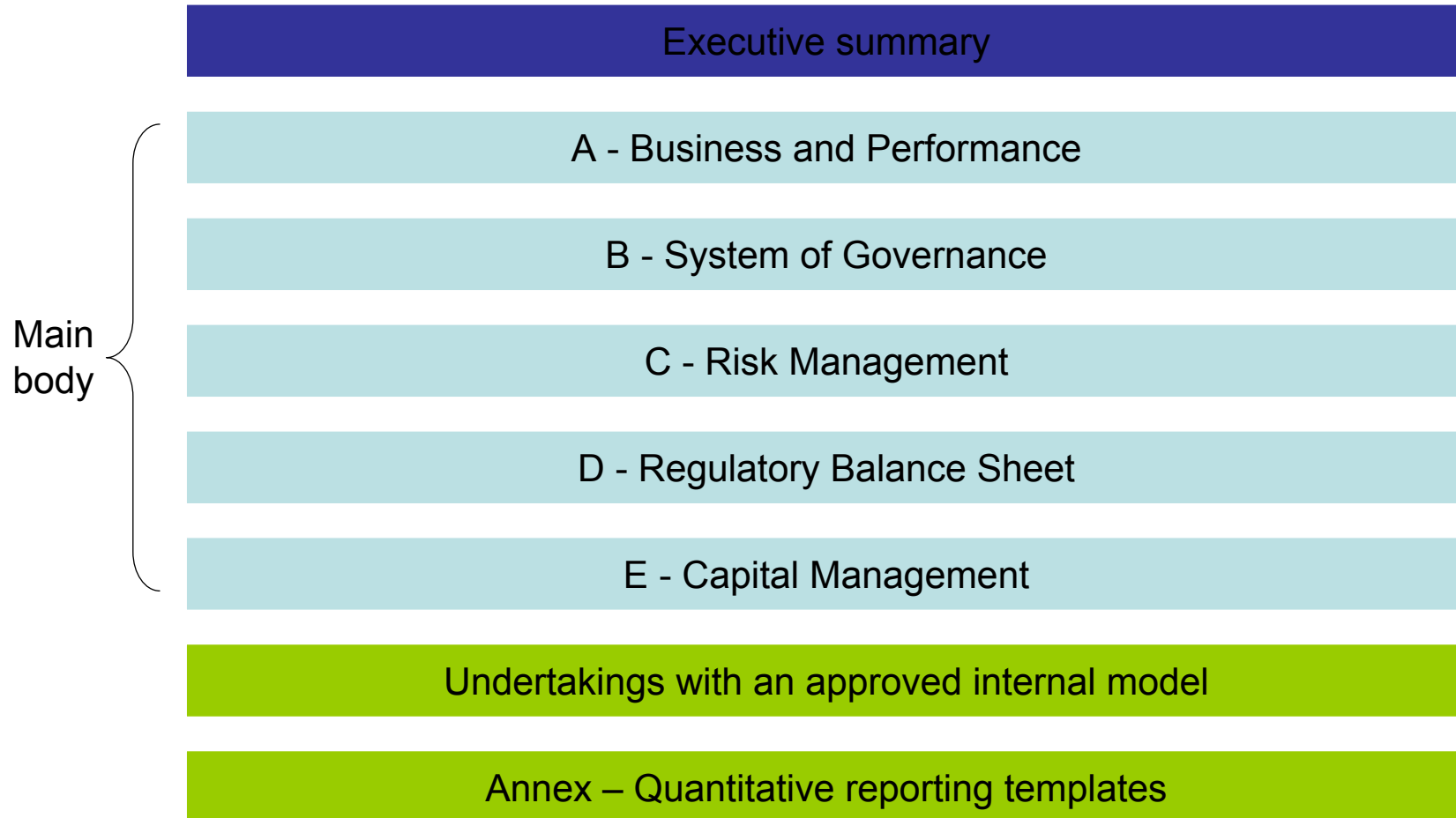


## SFCR – interested parties





# SFCR - Structure



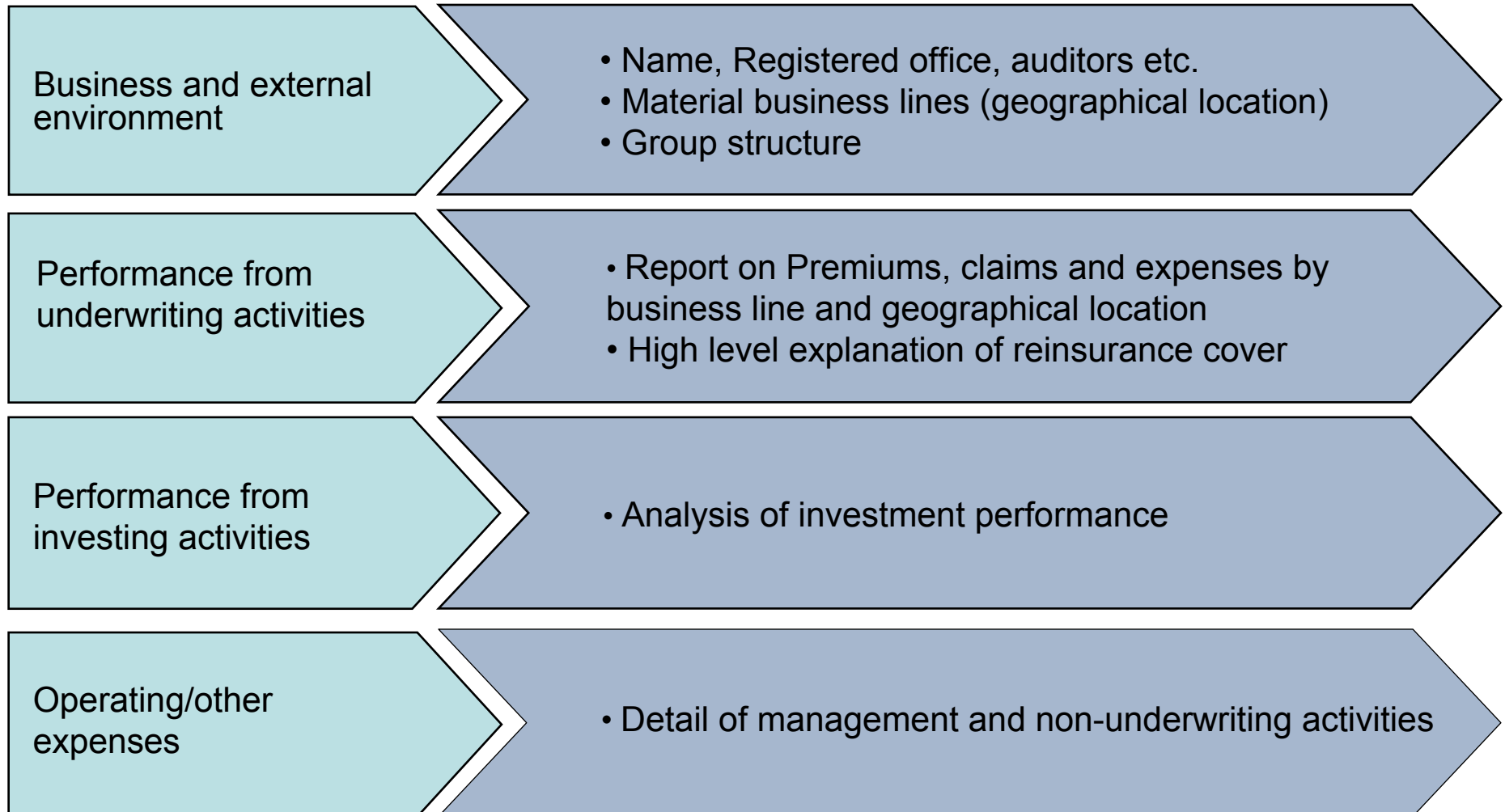


## SFCR - Overview

- Easily understandable summary aimed at policyholders
- Highlights material changes in:
  - Business written
  - Risk profile
  - Solvency position
  - System of governance
- Gives an overall summary of the contents of the SFCR (similar to the directors report in a companies annual report)



# SFCR - Business and performance





# SFCR - Systems of Governance

## General governance arrangements

- Structure of administrative and management bodies
- Assessment of system adequacy and disclosure of material changes
- Consideration of remuneration policies (relationship between risk and remuneration)

## Fit and proper

- Disclose process for assessing fitness and propriety of persons responsible for key functions
- Disclose minimum requirements for skills, knowledge and expertise of above persons

## Risk management system

- Overview of risk management system including risk strategy and processes to achieve compliance with risk appetite



# SFCR - Systems of Governance (continued)

Own Risk and  
Solvency  
Assessment  
(ORSA)

Provide details on process used to conduct the ORSA, which should at least cover:

- Integration
- Frequency of review
- Determination of solvency needs given its risk profile
- Evidence, internal documentation and independent assessment

Internal Controls

Overview of internal controls, which should at least cover:

- Administrative and accounting procedures
- Delegation of responsibilities, reporting lines and segregation of duties
- Integration of the compliance function

Internal Audit

Operation and independence

Actuarial function

Responsibilities and objectivity

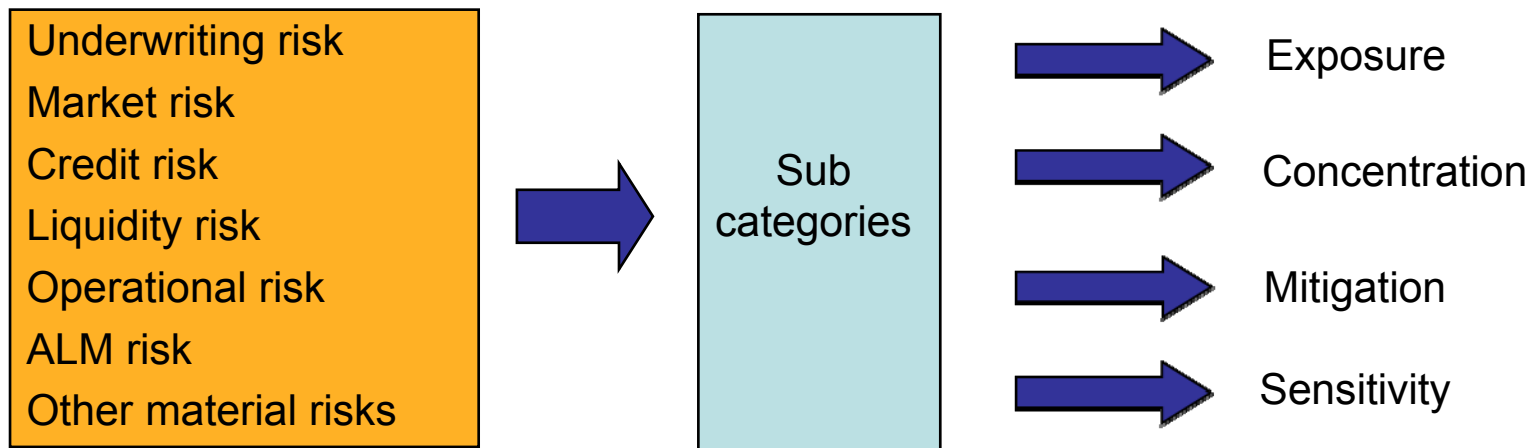
Outsourcing

Location and ownership of service provider



# SFCR - Risk Management

- Risk categories



- Material risk exposures

For each risk category: Details, recent historical development, limits and appetite

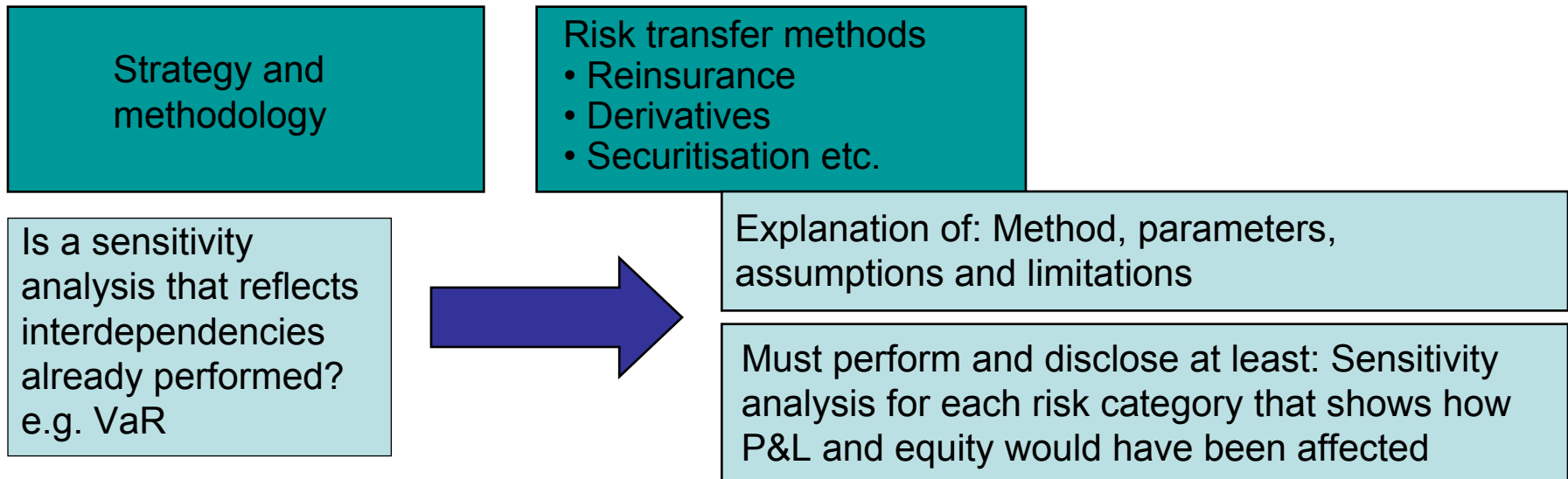


# SFCR - Risk management (continued)

- Material risk concentration
  - Description of types and level of risk concentration for both assets and liabilities
  - Methods and assumptions used to arrive at quantitative data
  - Information on concentration of insurance risk, for example:

Group life risk → Sum assured for the largest policies

- Risk mitigation



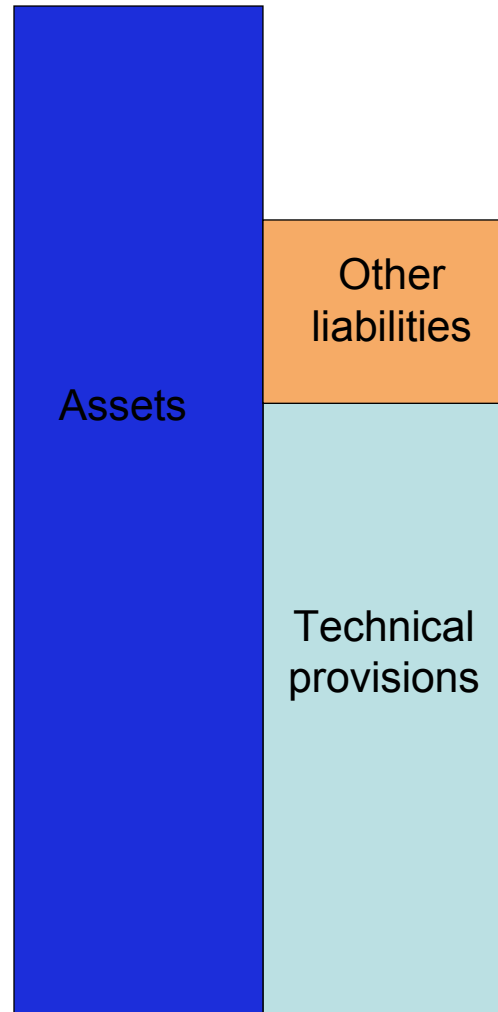




# SFCR - Regulatory Balance Sheet

For both tradable and non-tradable assets a description of:

- Types of assets
- Basis, methods and assumptions used for valuation
- Quantitative and Qualitative explanation of differences to accounting valuation
- Certification of compliance with the 'prudent person principle'
- Financial instruments and how they are valued
- Differences between group and solo valuations



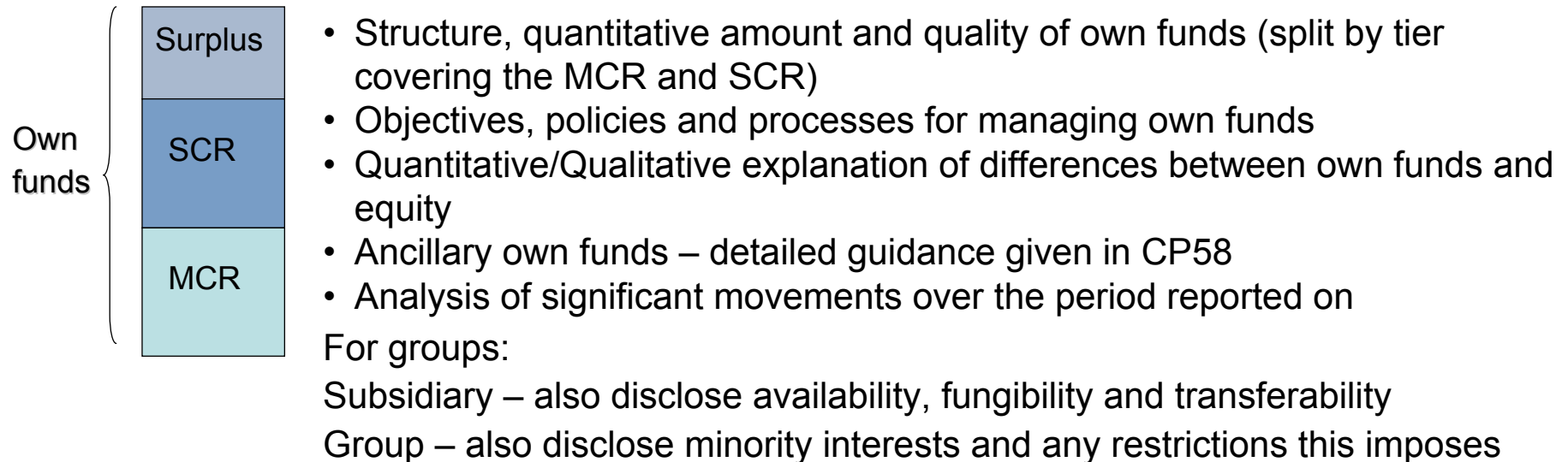
- Types of other material liabilities, bases and assumptions used in valuation.
- Material differences to the accounting valuation
- Differences between group and solo valuations

- Amount of best estimate liabilities (split by line of business)
- Key assumptions and methodologies used e.g.. (discount rates, expenses mortality rates etc.)
- Prior year comparison (material changes)
- Quantitative and Qualitative explanation of differences to accounting valuation
- Differences between group and solo valuations



# SFCR - Capital Management

- Amount structure and quality of own funds



- MCR and SCR
  - Qualitative and Quantitative information on the results and calculation of MCR/ SCR
  - Details of movements over the year
  - Details on whether the standard formula, partial or full internal model has been used
  - Groups must disclose the group SCR. Also, any capital add-ons applied at group level have to be disclosed (but there may be a member state option not to disclose this during a transitional period)
- Non-compliance with the SCR and MCR
  - Maximum amount, amount at reporting date and period throughout the year including consequences and remedial action



## RSR - Purpose and contents

- Private document sent to the supervisor
- Contain all the information necessary for the purposes of supervision (compliment to the SFCR)
- Detail commensurate with the nature, scale and complexity of the risks
- Following sections to be included in the RSR:
  - Business and risk strategies
  - Legal and regulatory issues
  - Financial and non-financial objectives
  - Explanation of variance to plan
  - Future developments
  - Disclosure on results of the internal model
- Full RSR for undertakings not subject to an annual detailed assessment as part of the supervisory review process will be submitted once every 3 years
- Material changes will be reported annually, including at least:
  - Business and performance, ORSA, Risk management, Regulatory balance sheet, Capital management
  - For groups, intra-group transactions and risk concentration



## RSR Comparison to the SFCR

RSR	SFCR
Stand alone document submitted to the supervisor [draft Level 3 may allow RSR to compliment SFCR]	Stand alone document made available to the public
Wording and content focused at supervisor e.g. more detail	Wording and content aimed at stakeholders e.g. understandable
Dialogue between undertaking and the supervisor e.g. contains response to enquiries	Only public information disclosed



# Quantitative Reporting Templates (QRT) - Overview

- Final QRT will comprise quantitative information in a standardized format, which can easily be compared across the industry
- QRT would replace the current national templates except for, those relating to national specificities, regulations (e.g. taxation) or comprise accounting-specific information
- It is expected that QRT would predominantly comprise of information under the Solvency II valuation basis, with limited data based upon the appropriate GAAP
- No comparative information will be required in the first set of templates
- On a quarterly basis ‘core’ financial and solvency information such as the MCR, SCR, liabilities including technical provisions, premiums and claims, data on assets including investments and own funds
- Harmonization
  - Harmonization of the QRTs that are being developed aims to enhance comparability on a European cross-border basis



# Quantitative Reporting Templates (QRT) – Overview (cont)

- **Template Forms**
  - Balance Sheet (3 Forms)
  - Assets (7 Forms)
  - Technical Provisions (15 Forms)
  - Reinsurance (4 Forms)
  - Capital Requirements (12 Forms)
  - Own Funds (2 Forms)
  - Variation Analysis & Miscellaneous (3 Forms)
- **Group Specific Templates (15 Forms)**



# QRT

## Current level 3 consultation on quantitative reporting

	Topic	Annual disclosure	Frequency
Templates solo & group	● Balance Sheet	● solo and group	● tbd
	● Off-balance sheet items	● solo and group	● quarterly/infra
	● Currency		
	● Own funds (detail)	● solo and group	● quarterly/infra
	● SCR top level information	● solo and group	
	● SCR detail information		
	● MCR	● solo	● quarterly
	● Variation analysis	● Tbd (solo & group)	
	● Countries	● solo	
	● Premiums, claims, expenses		● quarterly
	● Asset details, lookthrough, derivatives etc		● Partly quarterly/infra
	● Life & SLT Health Technical Provisions	● Solo	● quarterly/infra
	● Life details on Technical Provisions		
	● Non-Life & Health non-SLT Technical Provisions	● Solo	● Quarterly
	● Non-life details on Technical Provisions		
	● Reinsurance, SPV		● Partly tbd



# QRT

## Current level 3 consultation on quantitative reporting

	Topic	Annual disclosure	Frequency
Templates group only	• Scope of group	• Group	
	• Solo requirements	• Group tbd	
	• Technical data, Technical provisions		
	• Subordinated liabilities	• Group	
	• Contribution to group SCR with D&A	• Group tbd	
	• Group own funds		
	• Intra-group transactions	• Group tbd	
	• Risk concentrations	• Group tbd	

- **EIOPA is fairly specific on solo templates with respect to disclosure and interim reporting**
- **At group level there are more open issues; among the most significant there are intra-group transactions**
- **Variation analysis continues to be a debated topic**
  - CEA/CFO-forum/AMICE had provided a very economical/EEV minded template
  - This did not appear to meet all EIOPA expectations,
  - Key critiques were missing link to balance sheet variations, missing link to conventional performance metrics such as investment performance and ist sources, and some lack of clarity





## QRT (cont)

---

- Balance sheet
  - Solo and group, annual publicly disclosed (quarterly / half-yearly disclosure open issue)
  - Comparison SII and statutory accounts, but no reconciliation
  - Comparatives not required
- Off balance sheet items
  - Annual public disclosure - solo and group
  - Private disclosure – solo quarterly, group half yearly
  - Guarantees received, collateral held, collateral pledged, contingent liabilities
  - Disclosure unlikely to be an issue but valuation may be
  - No disclosure of overall net position
  - Comparatives not required
- Assets and liabilities by currency
  - Solo and group, private information and annual only
  - Materiality threshold – 95% of both assets and liabilities and currencies with currency mismatch of more than 2%

---

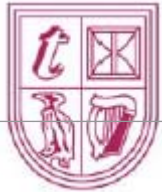
  - No disclosure of overall level of mismatch in reporting currency
  - Only looks at mismatch by currency does not consider durations of assets and liabilities



## QRT (cont)

---

- Own funds – annual
    - Solo and group – publicly disclosed
    - Open issue – disclosure of participations
    - Open issue – reporting by composites
    - Open issue – should template be simplified for public disclosure?
    - Comparatives not required
  - Own funds quarterly
    - Private information – solo quarterly and group half-yearly
    - Similar to annual but no detailed analyses of reserves, preference shares, subordinated liabilities, ancillary own funds, ring fenced funds
-



## QRT (cont)

---

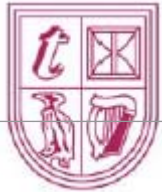
- Analysis of change in basic own funds
    - Solo and group - private information
    - Open issue – should template be specified for public disclosure<
    - 3 templates - summary, analysis life, analysis non-life
    - Current proposal only require from ‘big players’
    - Very detailed information required – likely to be complex and time consuming to prepare
    - SCR summary – standard formula and partial internal model
    - Solo and group – annual and public disclosure
    - Open issue – whether to require quarterly / half-yearly template or instead require reporting where significant deviation in risk profile (difficult to determine in practice) – will be private disclosure
  - SCR – analysis of risk elements of partial internal model
    - Solo and group – annual and public disclosure
    - Open issue as above re quarterly / half-yearly reporting
    - Identifiable components to be agreed with supervisor
-



## QRT (cont)

---

- SCR – analysis of risk elements of full internal model
    - Solo and group – annual and public disclosure
    - Open issue as above re quarterly / half-yearly reporting
    - Identifiable components to be agreed with supervisor
    - EOIPA recommendation – internal model users should agree a reporting template with supervisor to provide similar coverage to detailed QRT's for insurers on standard formula.
  - Detailed SCR forms for each risk element of standard formula SCR
    - Solo and group – annual and private
    - No quarterly reporting required notwithstanding that quarterly reporting of summary template is being considered
    - Not required for undertakings or groups where SCR entirely undertaken with approved internal model (except where required under Article 112(7) to provide estimate of SCR using standard formula)
  - Detailed templates:
    - SCR – market risk/ counterparty risk/ life underwriting risk/ health underwriting risk/ non-life underwriting risk/ non-life catastrophe risks/ SCR – operational risk
-



## QRT (cont)

---

- MCR (except composites) and MCR composites –solo (not group), annually public, quarterly private
  - Insurance results (premiums, claims and expenses)
    - Activity by country – details of insurance results by class and underwriting localisation - completed annually at solo level; simplified version (open issue) intended for public disclosure
    - Cover – an overview of activity by LOB and by country of localization of risk, with additional information on 5 largest countries of risk localization. It is a private report prepared on an annual and quarterly basis by solo entities and annual only for groups
    - Additional details on non-life premiums and expenses in the TPs templates
  - Assets
    - Detailed list of investments – information on each instrument/asset/fund in the portfolio – solo and group, annual and quarterly (bi-annual for groups), private
    - Further analysis of structured products – solo and group, annual, private
    - Analysis of exposure to derivatives (throughout the reporting period) – solo and group, annual and quarterly (bi-annual for groups), private
    - Analysis of repurchase agreements and securities lending (throughout the reporting period) – solo and group, annual, private
-



## QRT (cont)

---

- Assets (cont)
    - Look-through analysis of investment funds (by main asset categories, main geographical zones and currencies) – solo and group, annual and quarterly (bi-annual for groups), private. Public disclosure remains an open issue.
    - Analysis of investment performance (return) by asset category – solo and group, annual, private
    - List of assets held as collateral – solo and group, annual, private
-



## QRT (cont)

---

- Technical provisions (TPs)

- Life and Non-life: overview of TPs by class, best estimate split by country – solo and group, publicly disclosed annually, simplified quarterly (or bi-annual for groups) format – private
- Life and Non-life: overview of the future cash flows projection used in the calculation of the best estimate – solo and group, annual, private
- Life: detailed analysis of life obligation by products – solo, annual, private
- Life: overview of variable annuities (VA) by products – guarantees and hedging techniques – solo, annual, private
- Life: Information on annuities and life-like liabilities stemming from non-life and health non-SLT claims – solo, annual, private
- Non-life: claim development triangles by line of business (LOB) and currency – solo, annual, private
- Non-life: written and earned premiums and expenses analysis by LOB and currency; for last 10 years – solo, annual, private
- Non-life: claims run-off/movement by LOB and currency – solo, annual, private
- Non-life: distribution of claims incurred by LOB and underwriting year – solo, annual, private
- Life and Non-life: overview of 10 largest risks by LOB – solo and group, annual, private
- EIOPA seeks feedback on simplification in the annual disclosure of TPs overview (open issue) and the choice between accident year or underwriting year for the purpose of grouping claims in triangles



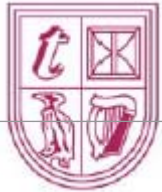
## QRT (cont)

---

- Reinsurance

- Details of 10 largest (by exposure) facultative risks for each LOB
  - Overview of the next year's reinsurance program
  - Assessment of credit exposure to reinsurers related to period-end balance sheet and next year's coverage
  - Details on insurance risk transfer through special purpose vehicles (SPVs)
  - Reinsurance forms are applicable at solo and group level
  - All forms are annual, however any major changes in the reinsurance program may result in an updated quarterly form (open issue)
-





## QRT (cont)

---

- Group-specific templates

- Entities in the scope of the group (all entities included, used to determine the scope of group supervision)
  - Solo entity requirements – 2 forms – 1 for (re)insurance entities and 1 for other entities
  - Technical data
  - Technical provisions by solo entity, including how they feed into group technical provisions (best estimate and risk margin)
  - Subordinated liabilities by entity, including contribution to group own funds
  - Details of insurers brought into the group solvency calculation through a deduction and aggregation approach on a Solvency II basis
  - Group own funds
  - Intra-group transactions – separate forms for equity, loans, cost sharing arrangements, assets transfers, internal reinsurance and other
  - Risk concentrations
  - All group-specific forms are annual
  - Entities in the scope of the group and subordinated liabilities templates are publicly disclosed. Disclosure, including the level of details, of a number of other forms is currently an open issue.
-



# Pre-defined events

- Pre-defined events
  - Undertakings or groups shall report to supervisors on events that could affect the protection of policyholders, for example:
    - Changes in business strategy
    - Significant internal reorganisation restructure
    - Significant lawsuits
    - Material changes in own funds levels: MCR, SCR or Technical Provisions
    - New material internal or external risk
    - Emergence of new material or significant claims
    - Significant governance failures
    - Supervisory enquiries



# Supervisory enquiries

- Supervisors will have the power to raise enquiries and request information on an ad-hoc basis, arising from:
  - Off-site analysis
  - On-site inspection
- Auditors and Actuaries
  - Supervisors expect an undertaking to have immediate access to information from Auditors and Actuaries
  - Supervisor has the power to request any information, which must be received on a timely basis



## External audit requirements

- Some of the SFCR, RTS and QRT may be subject to external audit
- The level and form of audit opinion required has not yet been determined.
- Further information will be issued in the second half of 2011 at Level 3 (which is detailed, non-binding guidance)



# Summary of reporting requirements

## Must haves

### *Documents*

- Public disclosure and reporting policy
- Balance Sheet and Own Funds methodology
- Annual and Quarterly Quantitative Reporting Templates (QRTs)
- Solvency and Financial Condition Report (SFCR)
- Regular Supervisory Reporting (RSR)
- Documentation of reporting process

### *Processes and capabilities*

- Engagement and definition of responsibilities with other work streams
- Stakeholder engagement and education
- Quarterly reporting ability
- Solvency II reporting process
- Integrated financial reporting and planning calendar

## Nice to haves

- IFRS 4 Phase II
- Alignment with existing IFRS and statutory reporting
- Fast close and reporting efficiencies

Dependent on scoping of other work streams

- ORSA reporting
- Management Information
- Use Test Reporting

### Groups

- Consolidation
- Group Solvency calculations
- Group Own Funds methodology



# Industry overview - Peer benchmarking

## Reporting & Disclosure

Pillar III planning is at an early stage, with information requirements not yet defined and pro-forma reporting templates not drafted. Current finance processes need to be improved to meet Pillar 3 reporting requirements.

Progress has been made on information requirements, but gaps still remain. Pro-forma reporting drafts are at an early stage. Current processes are inadequate to meet Pillar 3 reporting requirements, but plans are in place to address this.

Detailed plans are in place to address the reporting /disclosure requirements of SII. Pro-forma reporting templates have been drafted. Current finance processes are considered adequate to meet SII requirements. Changes required are general

Significant effort required for SII compliance

Well progressed towards SII compliance

### Key

- Total sample mean
- Large insurers mean

### Progress in the market:

- Stakeholder engagement
- Detailed scoping and planning of pillar 3 reporting workstream
- Developed disclosure policies and working on identifying commercially-sensitive disclosures
- Developed pro-forma SFCR and RSR
- Performed information/data gap analysis
- Working on improving IT systems to provide additional information requirements and automate production of such information
- Working on finance process and future financial reporting calendar to meet more regular (quarterly) reporting requirements

\* Extract from KPMG high level benchmarking survey of insurance companies in respect of certain aspects of progress towards Solvency II implementation of the results (Pillar 3 only) of this survey



## Interaction with IFRS

- IASB and FASB released exposure draft on IFRS 4 (Phase II) mid 2010
- IFRS Phase II due to be enforced possibly in parallel with Solvency II
- US FASB also assessing moving from US GAAP to IFRS
- Impact on organisation, systems, process and data



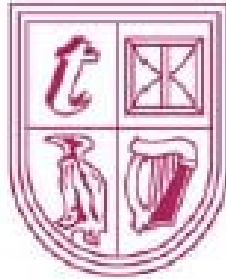
# Challenges

- Deadline for finalisation of requirements?
- Sufficient information on RSR and SFCR to develop drafts?
- QRTs sufficiently defined to develop reporting processes?
- Other points:
  - What will quarterly reporting mean?
  - What will be disclosed about the organisation in addition to what is done currently?
  - How to deal with the increased granularity of reporting?
  - How to ensure the numbers produced are sufficiently high quality?
  - Do reporting processes need to be re-engineered to achieve maximum efficiencies in the context of current and future reporting requirements (e.g. Solvency II, IFRS etc)?
  - Are improvements required to current reporting IT capabilities to achieve the end state?
  - What approach to achieve defined end state (who, what, where, when and how)?





Q&A



# Society of Actuaries in Ireland

## Solvency II - Pillar III

22 June 2011