Position Paper

Insurance Europe Position Paper on the Solvency II Reporting Package

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Contact person:	Ecofin department	E-mail:	ecofin@insuranceeurope.eu
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General

The European (re)insurance industry will require approximately 18 months, following finalisation of the reporting templates, to implement the necessary systems and procedures to support Solvency II reporting.

We very much support EIOPA's initiative to work in advance of these timelines to determine the content of the quantitative reporting templates (QRTs) which forms the bulk of Pillar III requirements. We would like to note that while significant progress has been made in terms of developing draft templates, there are many outstanding issues with regards to LOG definitions which are vital in ensuring that (re)insurers correctly understand the information to be reported and how to obtain data within their organisations.

In November 2011, EIOPA launched a public consultation on the draft QRTs and draft guidelines on narrative reporting (RSR)/public disclosure (SFCR). In December 2011, EIOPA launched a subsequent consultation to consider additional reporting requirements for financial stability purposes.

Now that industry has had the opportunity to view the entire reporting package in parallel (quantitative reporting templates, financial stability templates, narrative reporting, and public disclosure requirements), we would like to make some comments and highlight some outstanding issues of concern.

With particular reference to quantitative and financial stability templates, we understand the benefits of incorporating all reporting requirements into one package however the industry is becoming increasingly concerned as to how this would work in practice within the framework of Solvency II.

Quarterly templates

- **The use of approximations and simplified calculations are essential in order to deliver quarterly reports.**

We support EIOPA's move towards simplifying the QRTs required for quarterly reporting. We also express support for the accepted use of approximations and simplified calculations in quarterly reporting as without such methods, quarterly reporting will be almost impossible to achieve within the proposed timelines.

Insurance Europe aisbl • rue Montoyer 51, B-1000 Brussels
Tel: +32 2 894 30 00 • Fax: +32 2 894 30 01
E-mail: ecofin@insuranceeurope.eu
www.insuranceeurope.eu

- **Financial stability reporting should be integrated into a single reporting process for undertakings.**

EIOPA recently consulted upon data sets to be used for monitoring financial stability of the largest undertakings with more than EUR 6 bn in balance sheet total and groups with assets with more than EUR 6 bn in balance sheet total. This would require additional quarterly reporting of financial stability indicators and subsets of the QRTs. Undertakings and groups should submit this Financial Stability information within the same deadlines applying to solo undertakings as defined under Solvency II reporting. As a result, groups would have 5 weeks instead of 11 weeks to report, as currently foreseen for Solvency II reporting.

Insurance Europe has major concerns with these proposals. Firstly, the information will be very difficult to collect and present at group level without first being available at the underlying solo level. Secondly, any accelerated timeframe for reporting of information will reduce the overall quality of data and we therefore question its usefulness for Solvency II supervision.

We also have strong concerns against quarterly reporting of the SCR. The Solvency II framework directive only foresees recalculating the SCR if the risk profile of a (re)insurance undertaking deviates significantly from the assumptions underlying the last reported SCR. It should therefore be possible to report the last available SCR for anything more than annual reporting. The SCR calculations require a lot of time and would be incredibly burdensome for all undertakings, regardless of size.

Duplicate reporting should be avoided, it is a consequence of having many stakeholders interested in the same information however it is very costly for the industry and can be avoided if cooperation between stakeholders is agreed in advance.

Information held by 3rd party providers

- **Availability of information is reliant on cooperation with 3rd part service providers, any delays in the data chain will impact supervisory reporting.**

Reporting a look-through of the assets portfolio will be very problematic and should be reconsidered as a systematic reporting requirement. Representatives from this industry, the Third Party Administrators (TPAs), acknowledge this as being an issue and in a letter to EIOPA, identified the many third parties that exist within the data chain. To collate this kind of information may take weeks and sometimes months and within the deadlines anticipated by EIOPA, will be a huge challenge.

- **(Re)Insurers may incur additional fees for passing data on to third parties (supervisors).**

Rating agencies and other data disseminators will charge additional fees for information to be passed on to third parties (supervisors) therefore the cost to the industry will be large. Supervisors should ensure that undertakings do not incur a direct financial charge as a result of reporting information required for supervisory purposes which may be obtained by supervisors from their own shared data sources more efficiently.
We note that many of the information requirements stemming from the QRTs do not originate from the Solvency II framework directive and as such, would not be required to assess the solvency situation of an undertaking. We appreciate that in the current economic climate, financial stability is a priority for supervisors and policy makers. We would however ask that EIOPA consider the practicalities of how this might be integrated into Solvency II reporting.

Public disclosure

- **Templates for public disclosure should be simplified and should not contain undertaking sensitive data.**

We support EIOPA's proposals to use simplified templates for disclosure of Solvency II QRTs and while this principle has been applied in most cases, we believe that the revised own funds templates are much too detailed for public disclosure purposes. The QRTs should be pitched at the right level enabling all stakeholders to understand the information. For own funds, we believe this means focusing on the following items:

- Basic own funds;
- Subordinated liabilities;
- Ancillary own funds;
- The above 3 items split by tier – similar to a double entry table;
- High level basic own funds/subordinated liabilities reconciliation.

Market transparency is of utmost importance and external stakeholders should have access to the right level of information upon which to base their judgements.

Public disclosure of quantitative information should however not result in undertaking sensitive data being disclosed. In this respect, we believe further discussions are required with EIOPA on the Risk Concentration templates. In some countries, this level of detail would be given to external stakeholders such as rating agencies, however the intention to disclose this to the wider public is of concern. We believe this information to be undertaking sensitive and also, by the time the template would be disclosed, the information may no longer be relevant and therefore not representative.

- **The statutory accounting column should not be publically disclosed alongside the Solvency II valuation column.**

Due to differences between accounting and Solvency II valuation principles, further complicated by the diverse usage of IFRS and local GAAP principles, it will be incredibly difficult to present these two columns in an understandable and comparable manner. Solvency II QRTs should be presented in such a way which allows comparability and would not give rise to ambiguity.

For this reason, we do not believe that Article 287(1&3) of the draft Level 2 text should result in a full quantitative reconciliation of the Solvency II balance sheet being disclosed. We interpret the EC requirements being satisfied by a providing a qualitative reconciliation using some quantitative illustrations where necessary. We therefore propose to delete the Statutory Accounting valuation column of the public Solvency II balance sheet.

Historical data based on Solvency II definitions and methodologies will not be available upon entry into force.

Some reporting requirements in the QRTs package will require collection of information on a Solvency II basis before Solvency II has in fact entered into force. This will be particularly problematic for undertakings who have not participated in previous quantitative impact assessments whereby Solvency II methodologies have been tested. For non-life claims triangles, the QRTs propose a development year of 15 years; this would require a lot of effort/costs and in many cases is not appropriate. For example, for short tail business the following development years are more widely used:

- Motor insurance could be based on a development year of 3-4 years;
- Property insurance could be based on a development year of 5-8 years.

Historical data should be built up upon entry into force of Solvency II and should not be a requirement from the start. It should not be required to perform duplicate back calculations translating Solvency II data according to Solvency II valuations/methodologies.

Narrative reporting and QRTs should not contain duplicate information

EIOPA's draft guidelines on narrative reporting (RSR) and public disclosure (RSR) include some issues which are already covered in detail by the QRTs. For example information in EIOPA's draft Level 3 guidelines, there are many requirements for disclosure of quantitative information on Own Funds (eligibility, tiering) which are already included in the QRTs to be disclosed on Own Funds. It needs to be clarified whether or not undertakings have to provide additional information beyond the requirements defined in the QRTs, or if parts of the guidelines refer indirectly to the information already provided by the QRTs.

Double reporting of information already outlined in the QRTs should be avoided. If certain information needs can be fulfilled by the information provided by the QRTs, this information should not also appear in the qualitative parts of narrative reports. It should be possible to cross reference to the QRTs in narrative reports.

It should not be required to submit the quarterly template for Q4 of the financial year

During the closing period which follows a financial year end, undertakings will have to prepare, validate and submit Solvency II and financial reporting annual statements. This is an incredibly busy period for undertakings which would be further complicated by a requirement to report quarterly statements within the same period as annual statements. To meet quarterly requirements, undertakings will have to rely on simplification techniques therefore the additional benefit of a quarterly report, within the same quarter as an annual report, is not clear to us. For this reason, we do not support reporting of fourth quarter QRTs.

Proportionality/Materiality

- **We are uncertain as to how proportionality and materiality might apply in practice.**

We fully support that the principle of proportionality should be applied in a consistent way by supervisors taking into account the nature, scale and complexity of undertakings. For a large part of the market, this level of reporting will be a requirement for the first time. We note that EIOPA has consulted on materiality thresholds, we support any Initiative to clarify how the proportionality could be articulated in practice, however nature and complexity of risks should also be considered in line with the proportionality principle.

We are also concerned with the proposed threshold for determining undertakings which should report additional financial stability information. We believe the threshold of 6bn€ (total balance sheet and holding of assets) is too low and would capture many more (re)insurers than only the largest groups, or undertakings with large holdings of assets, as was EIOPA's stated purpose. Informed discussions with stakeholders should take place addressing how EIOPA arrived at this threshold and how many European (re)insurers they expect will fall under scope of this requirement.

- **Where the (re)insurer does not directly hold risk, detailed reporting should be reduced.**

Unit-linked and equivalent type contracts work in a similar way to a savings vehicle with the key characteristic being that financial risks are, in many cases, not borne by the undertaking. EIOPA have proposed extensive reporting on unit-linked contracts in the QRTs and we would ask that EIOPA consider the actual risk element when finalising the QRTs. In particular, asking for a total look-through approach (Assets D4) for all funds including those backing unit-link contracts appears too demanding when the (re)insurance undertaking is not exposed to the risk.

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