

EIOPA Final Report on the proposal for the reporting and disclosure requirements



July 2012

EIOPA has published its final report on the reporting and disclosure requirements under Solvency II. EIOPA has responded to feedback received but overall the information required in the templates and reports has not changed significantly.

INTRODUCTION

On 10 July 2012, the European Insurance and Occupational Pensions Authority (EIOPA) published a package containing its final report on the draft guidelines for reporting and disclosure requirements for insurance undertakings and groups under Solvency II.

This follows the formal consultations released in November 2011 and includes:

- EIOPA's report on public consultations 11/009 and 11/011 on the proposal for the reporting and disclosure requirements
- Revised draft reporting templates for solo and group companies (both annual and quarterly)
- Draft public disclosure templates for solo and group companies (both annual and quarterly)
- Revised draft summary and LOG files

Gabriel Bernardino, Chairman of EIOPA, has commented that: *"The publication of this report is crucial because insurance undertakings and supervisors need to start as early as possible with the implementation of reporting and disclosure requirements. The proposed reporting templates are the result of a long effort by EIOPA and have benefited from contributions from the different stakeholders. This set of harmonized reporting templates represents a major step towards the consistency of supervisory practices in the EU".*

To assist you in digesting the report, Milliman has prepared this summary of the content of the report and of the changes made to the reporting package together with a brief analysis of what we expect this finalised package to mean for companies in the run up to Solvency II implementation.

FINAL REPORT

EIOPA's final report sets out a summary of concerns raised by participants during the formal consultation and EIOPA's response to these. These concerns focused on issues surrounding scope, thresholds, frequency of reporting, submission deadlines, and the granularity of information required.

While the report is referred to as a final report, EIOPA acknowledges that the package is expected to change further in order to reflect the final position of the Omnibus II Directive and Level 2 Implementing measures. However, it has commented that this package represents a *"stable view of the level of granularity of the information that supervisory authorities will need to receive"* and as such industry should use this package as a basis for implementation.

EIOPA expects that any further changes to the package on reporting and disclosure will be published in 2013 and may arise as a result of the following:

- Changes arising from discussions on the Omnibus II Directive including:
 - Scope of quarterly reporting
 - Own Funds templates
 - SCR specific risk modules templates
 - Life Technical Provisions templates
 - Activity by country templates
 - Templates applicable to ring-fenced funds
- Further clarifications for undertakings using simplifications on technical provisions and SCR calculations will be developed
- The application of the reporting and disclosure requirements to third country branches located in the EU will be considered

- The European Markets Infrastructure Regulation (EMIR) consultation package, expected in July 2012 may lead to a revision of the templates on derivatives
- Design or structural changes to the templates may be needed due to the development of the data point modelling and eXtensible Business Reporting Language (XBRL) taxonomy

EIOPA has commented that any further changes to the reporting templates are not likely to be major. However we note that the list of templates that may be amended represents a large proportion of the templates required for companies' liability reporting.

A number of these potential changes to the templates are expected to reflect on-going discussions within the Omnibus II dialogue, in particular in relation to provisions for products with long-term guarantees, which recent reports indicate may not be finalised by the end of 2012.

The templates in relation to non-life technical provisions, assets (other than derivatives) and reinsurance are not included in the list of templates requiring further amendments. So companies may take comfort that these can be effectively considered to be final and ensure that, for asset reporting in particular, due processes are in place to provide the required information on a timely basis.

QUANTITATIVE REPORTING TEMPLATES

The report highlights the concerns raised by firms in relation to the costs of implementing and maintaining compliance with the reporting requirements. These costs include the initial IT-related costs of adopting the reporting templates, as well as the permanent human costs associated with on-going compliance.

While EIOPA acknowledges these costs, it believes these requirements represent an *"appropriate balance between costs for the undertakings and the needs of the supervisory authorities to ensure the protection of policyholders and the assessment of financial stability"*. Furthermore, EIOPA points out that a proportion of these costs are necessary to ensure the adequate calculation of figures and proper management of the firm under Solvency II and should not be considered purely reporting costs.

Changes to the templates that have been included in this reporting package as a result of feedback received are:

- The threshold for undertakings required to provide additional **financial stability** information has been increased to €12 billion from €6 billion (total assets on the Solvency II balance sheet), with a requirement for 50% coverage on a national level.
- The deadline for group consolidation of financial stability reporting has been increased by 1 week to 6 weeks (solo undertakings still need to meet the 5 week deadline for items in the micro¹ solo package).

Based on data as at 31 December 2010, we expected six Irish life companies (from a total of 61 life companies in Ireland) would be required to provide financial stability information based on the €6 billion threshold. Only three of these six companies had assets exceeding €12 billion at 31 December 2010. So this increase in threshold is significant.

However the requirement for 50% national coverage means that more companies may need to participate. Also many Irish life companies will be required to produce this additional information for their insurance parents in Europe.

- A split of technical provisions by line of business is no longer required for financial stability purposes and instead the split of technical provisions on the balance sheet template will suffice.
- For the **assets** template D4 (look through on investment funds), the materiality threshold for quarterly reporting has increased from 20% to 30% (the ratio of investment funds to total investments). So quarterly reporting on look through is only required for undertakings where this ratio is 30% or higher (but annual reporting is still required by all firms).

¹ EIOPA uses the term "micro" to refer to the reporting requirements that are not related to financial stability.

EIOPA has pointed out that the Assets D4 template (look-through on investment funds) only requires look through by asset category, geographical zone (EEA, OECD and rest of world) and currency (local or foreign).

EIOPA notes that this is a not a full look-through of investment funds as required for the SCR calculation.

- The **statutory accounting** profit and loss figure is now required semi-annually instead of quarterly. Other statutory accounting items are no longer required.
- The statutory accounts balance sheet will no longer be publicly disclosed (only the Solvency II balance sheet will be disclosed, both at solo and group level).
- The exemption to providing the **balance sheet** quarterly was removed, so all undertakings must now complete the balance sheet template quarterly.
- The threshold for reporting on non EEA jurisdictions in the **country** template was removed.
- The **own funds** template has changed and a new annual template on participations was added (which is not publicly disclosed). Tier 1 capital is now required to be split according to categories given in the draft Level 2 text.
- The **variation analysis** templates were revised, including changes to the order of calculation and the removal of the detailed breakdown on reinsurance recoverables.
- The **counterparty default** risk SCR template had been modified to include the loss given default and probability of default as well as the solvency capital requirement. The top 10 single name type 1 exposures are now required to be listed.
- The “salvages and subrogation” triangles for **non-life technical provisions** were removed.
- The two **reinsurance** templates J1 and J2 have been split into four templates.
- Public disclosure of the **risk concentration** template for Groups is no longer required.
- The SCR templates now need to be completed by “material” **ring-fenced funds** only (and not all ring-fenced funds).

Some further clarifications have been provided in the log files.

Future developments include:

- EIOPA will make guidelines available regarding the use of estimations for “best effort” figures for financial stability reporting.
- EIOPA may produce a tool to help undertakings calculate the SCR, but have stated this will not be used for reporting purposes. It is not clear what this will mean in practice.

The templates are now split into six spreadsheets as follows:

- Annual reporting solo templates
- Quarterly reporting solo templates
- Annual disclosure reporting solo templates
- Annual reporting group templates
- Quarterly reporting group templates
- Annual disclosure group templates

A list of the templates in each spreadsheet is set out in Appendix 1 below for ease of reference so that a particular template may be more easily found.

The deadlines for submission are unchanged at 14 weeks for annual templates, 5 weeks for quarterly templates, 6 weeks for financial stability information, 20 weeks for group annual templates, 11 weeks for group quarterly templates (post the transitional period).

EIOPA's final report does not mention the national specific reporting templates. The public consultation in November 2011 referred to national templates stemming from specific national legal requirements or specificities of local markets. The general comments template includes some comments that these should be kept to a minimum and should not introduce a reporting burden for undertakings. EIOPA agrees with the comments but states that its role will be monitoring only and EIOPA will not pre-approve national templates.

The Central Bank of Ireland indicated in its July 2012 Solvency II Matters Newsletter that it will be communicating national specific templates to industry early in 2013. It states that there may be additional reporting requirements for profit and loss information (e.g. income statements by line of business).

SFCR AND RSR

The content of the public Solvency and Financial Condition Report (SFCR) was revised and some information was moved to the narrative part of the

private Regular Supervisory Reporting (RSR). Sections for solo undertakings and groups have now been separated so the extra sections for groups are clearer.

Firms will no longer be required to report the following in the SFCR:

- Information on the extent to which asset valuations are based on an economic value provided by an external independent valuation expert (previously under Guideline 8)
- An explanation of the general approach to contract boundaries used for technical provisions (previously under Guideline 14)
- Evidence in support of the recognition of deferred tax liabilities (previously under Guideline 19)
- Information on high level differences in the methodologies used in the standard formula and any internal models (previously under Guideline 25)

A small level of additional information is required under the revised draft Guidelines, including:

- Details of the principal loss absorbency mechanism used to qualify own funds as high quality, including details of the trigger point and its effect (Guideline 19)
- A new guideline for the RSR, in relation to structured products, requiring firms to provide at least a description of the risk factors when investing in such products, including any elements which may negatively affect the “evolution of value or return of the structured products” (Guideline 34)

Guideline 53 on the RSR now also states that the quarterly quantitative templates reported to the supervisor should be approved either by the administrative, management or supervisory body or by persons who effectively run the undertaking.

SUMMARY

Some changes have been made to the reporting templates to help address concerns around the reporting burden and compliance costs. However the changes fall short of many of the industry requests made during the consultation process.

The comments templates included in EIOPA's reporting package set out the responses and comments raised during the public consultation. EIOPA has responded to all the comments received in these comments templates. Some additional

clarifications are provided so these may be worth reviewing if there is a particular area of concern.

EIOPA has commented that this package represents a “stable view of the level of granularity of the information that supervisory authorities will need to receive” and as such industry should use this package as a basis for implementation.

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APPENDIX 1

Annual reporting solo templates

TEMPLATE	DESCRIPTION	TEMPLATE	DESCRIPTION
BS – C1	Balance Sheet	TP (L) – F3A	Variable Annuities – Description of guarantees by product
BS – C1B	Off-balance sheet items	TP (L) – F3B	Variable Annuities – Hedging of guarantees
BS – C1D	Assets and liabilities by currency	TP (L) – F4	Information on annuities stemming from non-life insurance obligations
Country – K1	Activity by country	TP (NL) – E1	Non-Life Technical Provisions
Cover – A1A	Premiums, claims & expenses	TP (NL) – E2	Projection of future cashflows (Best Estimate – Non Life)
OF – B1A	Own funds	TP (NL) – E3	Non-Life insurance claims information
Participations	Participations	TP (NL) – E4	Movements of RBNS claims
VA – C2A	Summary analysis of changes in Basic Own Funds (BOF)	TP (NL) – E6	Loss distribution profile non-life
VA – C2B	Analysis of changes in BOF due to investments	TP (NL) – E7A	Underwriting risks (peak risks)
VA – C2C	Analysis of changes in BOF due to technical provisions	TP (NL) – E7B	Underwriting risks (mass risks)
SCR – B2A	SCR (standard formula or partial internal model)	Re - J1 Basic	Facultative covers non-life & life
SCR – B2B	SCR (partial internal model)	Re - J1 Shares	Facultative covers non-life & life
SCR – B2C	SCR (full internal model)	Re - J2 Basic *	Outgoing reinsurance program in next reporting year
SCR – B3A	SCR – market risk	Re - J2 Shares *	Outgoing reinsurance program in next reporting year
SCR – B3B	SCR – counterparty default risk	Re - J3	Share of reinsurers
SCR – B3C	SCR – life underwriting risk	Re - SPV	Special Purpose Vehicles
SCR – B3D	SCR – health underwriting risk	Profit or Loss sharing *	Average profit (or loss) sharing
SCR – B3E	SCR – non-life underwriting risk	Duration of Liabilities *	Duration of Liabilities
SCR – B3F	SCR – non-life catastrophe risk		
SCR – B3G	SCR – operational risk		
MCR – B4A	MCR (except for composites)		
MCR – B4B	MCR (for composites)		
Assets – D1S	Structured products data		
Assets – D3	Return on investment assets		
Assets – D4	Investment funds (look-through approach)		
Assets – D5	Securities lending and repos		
Assets – D6	Assets held as collateral		
TP (L) – F1	Life and Health SLT Technical Provisions		
TP (L) – F2	Projection of future cashflows (Best Estimate – Life)		
TP (L) – F3 *	Life obligations analysis		

* Financial Stability information

Quarterly reporting solo templates

TEMPLATE	DESCRIPTION
BS – C1 *	Balance Sheet
Cover – A1Q *	Premiums, claims & expenses
OF – B1Q *	Own funds
SCR B2A_B2C *	SCR
MCR – B4A *	MCR (except for composites)
MCR – B4B *	MCR (for composites)
Assets – D1 *	Investments Data – Portfolio List
Assets – D1Q	Investments Data – Summary
Assets – D2O *	Derivatives data – open positions
Assets – D2T	Derivatives data – historical derivatives trades
Assets – D3 *	Return on investment assets
Assets – D4 *	Investment funds (look-through approach)
TP (L) – F1Q *	Life and Health SLT Technical Provisions
TP (NL) – E1Q *	Non-Life Technical Provisions
Re - J2 Basic	Outgoing reinsurance program in next reporting year
Re - J2 Shares	Outgoing reinsurance program in next reporting year
Re - J3 *	Share of reinsurers
Lapses *	Lapses/ Surrender rate (contracts/ volume)
Profit and Loss *	Profit and loss

Annual disclosure reporting solo templates

TEMPLATE	DESCRIPTION
BS – C1	Balance Sheet
Cover – A1Q	Premiums, claims & expenses
OF – B1Q	Own funds
SCR – B2A	SCR (standard formula or partial internal model)
SCR – B2B	SCR (partial internal model)
SCR – B2C	SCR (full internal model)
MCR – B4A	MCR (except for composites)
MCR – B4B	MCR (for composites)
TP (L) – F1Q	Life and Health SLT Technical Provisions
TP (NL) – E1Q	Non-Life Technical Provisions
TP (NL) – E3	Non-Life insurance claims information

* Financial Stability information

Annual reporting group templates

TEMPLATE	DESCRIPTION
BS – C1	Balance Sheet
BS – C1B	Off-balance sheet items
BS – C1D	Assets and liabilities by currency
Cover – A1A	Premiums, claims & expenses
OF – B1A	Own funds
SCR – B2A	SCR (standard formula or partial internal model)
SCR – B2B	SCR (partial internal model)
SCR – B2C	SCR (full internal model)
SCR – B3A	SCR – market risk
SCR – B3B	SCR – counterparty default risk
SCR – B3C	SCR – life underwriting risk
SCR – B3D	SCR – health underwriting risk
SCR – B3E	SCR – non-life underwriting risk
SCR – B3F	SCR – non-life catastrophe risk
SCR – B3G	SCR – operational risk
Assets – D1S	Structured products data
Assets – D3	Return on investment assets
Assets – D4	Investment funds (look-through approach)
Assets – D5	Securities lending and repos
Assets – D6	Assets held as collateral
TP (L) – F3 *	Life obligations analysis
Re - J2 Basic_Shares *	Outgoing reinsurance program in next reporting year
Re - J3	Share of reinsurers
Re - SPV	Special Purpose Vehicles
Profit or Loss sharing *	Average profit (or loss) sharing
Duration of Liabilities *	Duration of Liabilities
G01	Entities in scope of group
G03	(Re)insurance solo requirements
G04	Non-(re)insurance solo requirements
G14	Contribution to group TP
IGT1	Equity type transactions, debt and asset transfer
IGT2	Derivatives

IGT3	Internal reinsurance
IGT4	Cost sharing, contingent liabilities, off BS items and other IGT
RC	Risk concentration

* Financial Stability information

Quarterly reporting group templates

TEMPLATE	DESCRIPTION
BS – C1 *	Balance Sheet
Cover – A1Q *	Premiums, claims & expenses
OF – B1Q *	Own funds
SCR – B2A_B2C *	SCR
Assets – D1 *	Investments Data – Portfolio List
Assets – D2O *	Derivatives data – open positions
Assets – D2T	Derivatives data – historical derivatives trades
Assets – D3 *	Return on investment assets
Assets – D4 *	Investment funds (look-through approach)
Assets – D5 *	Securities lending and repos
Re - J3 *	Share of reinsurers
Lapses *	Lapses/ Surrender rate (contracts/ volume)
Profit and Loss *	Profit and loss

* Financial Stability information

Annual disclosure group templates

TEMPLATE	DESCRIPTION
BS – C1	Balance Sheet
Cover – A1Q	Premiums, claims & expenses
OF – B1Q	Own funds
SCR – B2A	SCR (standard formula or partial internal model)
SCR – B2B	SCR (partial internal model)
SCR – B2C	SCR (full internal model)
G01	Entities in scope of group