EIOPA Consultation Paper on the proposed add-on quantitative financial stability reporting templates

January 2012

The public consultation paper on the proposed additional templates for reporting information for Financial Stability purposes extends the reporting requirements for large companies and groups

INTRODUCTION

On 21 December 2011, the European Insurance and Occupational Pensions Authority (EIOPA) published a public consultation on the additional reporting requirements for financial stability purposes.

EIOPA's on-going future financial stability work requires additional information beyond the existing proposed Solvency II Pillar 3 reporting requirements. This consultation paper sets out the proposed additional information that large solo and group companies would be required to submit to the supervisory authorities.

The consultation consists of three documents relating to the Pillar 3 reporting requirements including:

- A consultation paper on the proposed reporting add-on;
- Quantitative Reporting Templates containing the additional template (FS-1) and justification for the additional information; and
- Reporting instructions (LOG file) to accompany the new template.

EIOPA has commented that, while this consultation is separate to the consultation paper on supervisory reporting and public disclosure, published in November 2011, the content is highly related.

To assist you in digesting the draft guidelines, Milliman has provided this short summary of the content of the paper and a brief analysis of what we expect these documents to mean for companies.

EIOPA has commented that it welcomes feedback and views on the impact, costs and benefits from this proposal, and in particular on the specific questions detailed at the end of the paper.

GENERAL REPORTING REQUIREMENTS FOR FINANCIAL STABILITY ANALYSIS PURPOSES

The consultation paper states that only large solo and group entities are required to provide the additional information requested in the template. These are defined as companies with more than EUR 6 billion in balance sheet total. Where a company exceeding the threshold is also part of a group, only a group submission would be required.

In order to maintain a stable sample of companies providing information, and to prevent companies with balance sheets close to the threshold amount from switching in and out on a yearly basis, entries and exits from the group will be phased over time by EIOPA.

Under this proposal, any company with a total balance sheet of over EUR 7 billion will be included automatically while other companies will only be included once the threshold of EUR 6 billion has been exceeded for two consecutive years. Where the total balance sheet of a company drops below EUR 5 billion for two consecutive years, it will automatically be removed from the sample.

Under the current proposals, companies would be given 6 months' notice that they are required to provide such additional information to allow them time to prepare.

We note that a threshold of EUR 6 billion is consistent with that used previously by EIOPA for the application of the Financial Conglomerates Directive.

Based on data as at 31 December 2010, it appears around 31% of major UK life firms, and 4% of major non-life firms, would be required to provide this additional information.*

*including UK-subsidiaries of non-UK domiciled groups

CONTENT AND FREQUENCY OF REPORTING

Under the current proposal, companies in the sample would be required to provide the information set out in template FS-1 by the reporting deadline applying to solo undertakings for other supervisory reporting requirements. This template pulls together information already provided in the other quantitative reporting templates (QRTs) as well as additional information specifically requested for financial stability purposes. Information will be collected by national supervisors who will then forward this on to EIOPA to monitor financial stability at a European level.

The frequency at which the information is required is set out in the covering overview tab to the templates. For the majority of the items already covered by the QRTs, the reporting frequency remains the same. However, it is proposed that a number of items which are only required on an annual basis in the QRTs would be required quarterly for financial stability purposes, including:

- SCR for both standard formula and internal model users;
- Realised investment returns, per portfolio, per asset class; and
- Share of reinsurers.

In addition to these, there are a number of new items requested specifically for financial stability purposes, including:

- Lapse rate for contracts;
- Statutory profits or losses before taxes;
- Balance sheet total from the statutory accounts;
- Capital and reserves from the statutory accounts;
- Profit sharing ratio over the period; and
- Duration of liabilities (separately for Life and Non-Life products).

The impact assessment included at the end of the paper states that quarterly information provided on the SCR may be calculated using simplified techniques.

Under the current proposal, all undertakings, solo and group, would need to provide the required information by the regulatory reporting deadline for solo undertakings. We note that this timescale may prove challenging for many groups, particularly those needing to collate data from numerous subsidiaries.

For firms using the standard formula, full calculations should be performed at a minimum for the most volatile risks (including interest rate risk, spread risk, equity risk, property risk and currency risk). All other sub-modules can be extrapolated from the last full SCR calculation, unless the risk profile of the firm has changed significantly since the last full SCR calculation.

We note that providing quarterly information on the SCR could potentially represent a significant strain to many companies, both in terms of the costs involved and the timescale for providing this information. As such, it is important that appropriate approximations and simplifications are permitted in accordance with the principles of proportionality and materiality. The paper acknowledges the additional burden this requirement may place on firms and highlights that, as such quarterly SCR figures will not be used as a trigger for supervisory intervention, extrapolation from the last full SCR calculation for all but the most volatile risk categories would be acceptable.

Despite this, it is not clear from the paper what this simplification would mean for internal model users and whether this requirement could be met by the current processes many companies already have in place for monitoring their solvency position on a more frequent than annual basis, such as those based on replicating portfolios.

SUMMARY

This consultation paper and accompanying templates set out the additional reporting requirements that large firms will be required to provide for financial stability purposes.

Financial stability is detailed as one of EIOPA's key objectives and, as such, the paper states that it believes the scope and frequency of the requested information is required to allow EIOPA to monitor market developments and spot risks and vulnerabilities to the insurance sector. This, in turn, should strengthen protection for policyholders.

While the requirement to provide SCR information on a quarterly basis may appear onerous to many firms, we are pleased to note EIOPA's comments that this information will not be used as a trigger for supervisory intervention and appropriate simplifications can therefore be used for less volatile risk categories.

Despite this, it is not clear from the paper the level of granularity at which such a simplification must be applied, nor how such a simplification would affect firms using internal models to calculate their SCR, and whether systems used for more regular monitoring of firms' solvency positions could be used to meet this requirement.

EIOPA has commented that it welcomes feedback and views on the impact, costs and benefits from this proposal, and in particular on the specific questions detailed at the end of the paper.

Any comments on this consultation paper should be provided directly to EIOPA, using the template on its website, by 20 February 2012.

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