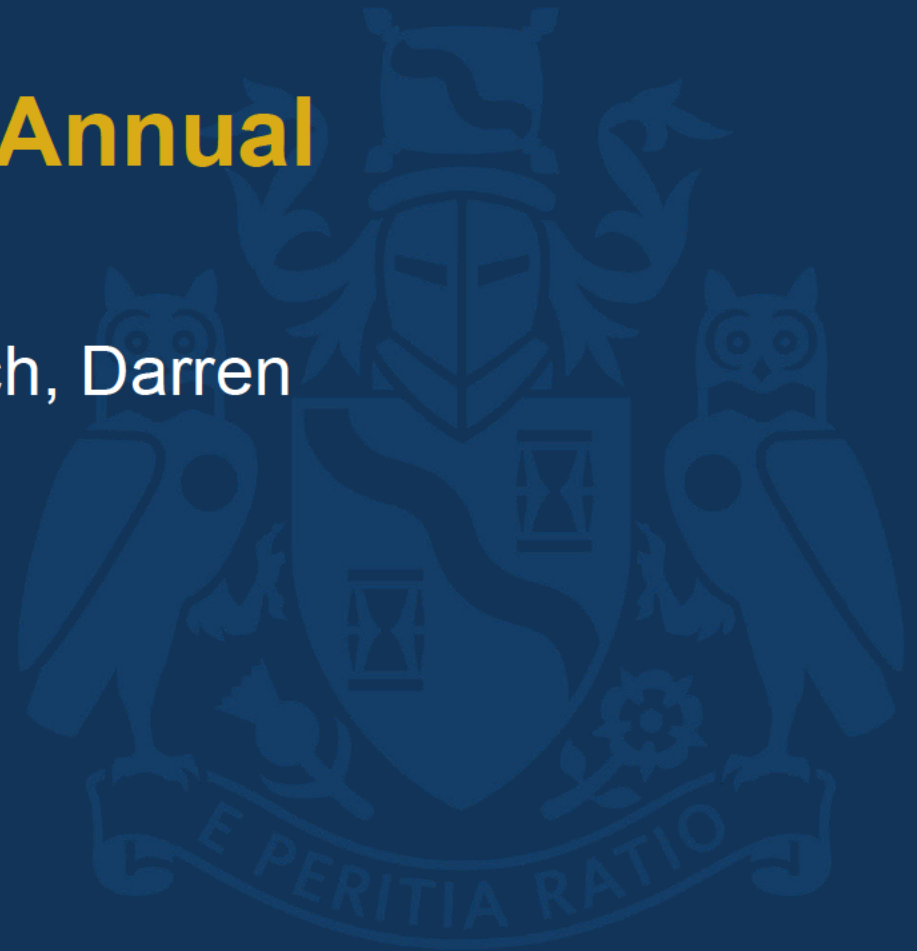




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Pillar 3 Reporting Getting Ready for Annual Reporting

Sinéad Kiernan, Carol Lynch, Darren
Shaughnessy





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A look at the past and the future

	Preparatory Phase Reporting	Day 1 Reporting	Quarterly Reporting	Annual Reporting
Quantitative Reporting	<ul style="list-style-type: none"> Annual and Quarterly templates 7-10 templates to typical firm. 	<ul style="list-style-type: none"> Balance Sheet, Own Funds and SCR/MCR templates 5-7 templates to typical firm. 	<ul style="list-style-type: none"> Overall 7-10 templates applicable to typical firm Selection of Day 1 templates + additional templates on Assets; premiums, claims and expenses; NSTs; and ECB add-ons. 	<ul style="list-style-type: none"> Full set of Annual QRTs 35-45 templates applicable to typical firm Significant increase in reporting from previous quarters.
Qualitative Reporting	<ul style="list-style-type: none"> Narrative Report (covering Systems of Governance, Risk Profile and Valuation for Solvency Purposes). 	<ul style="list-style-type: none"> Day 1 Qualitative Report (CBI Structured Template / Narrative information under Article 314 of Delegated Acts). 	<ul style="list-style-type: none"> No qualitative report required Narrative expected from companies not in full compliance with requirements of look-through. 	<ul style="list-style-type: none"> Reporting of the Solvency and Financial Condition Report (SFCR) on an annual basis and the Regular Supervisory Report (RSR) once every three years.



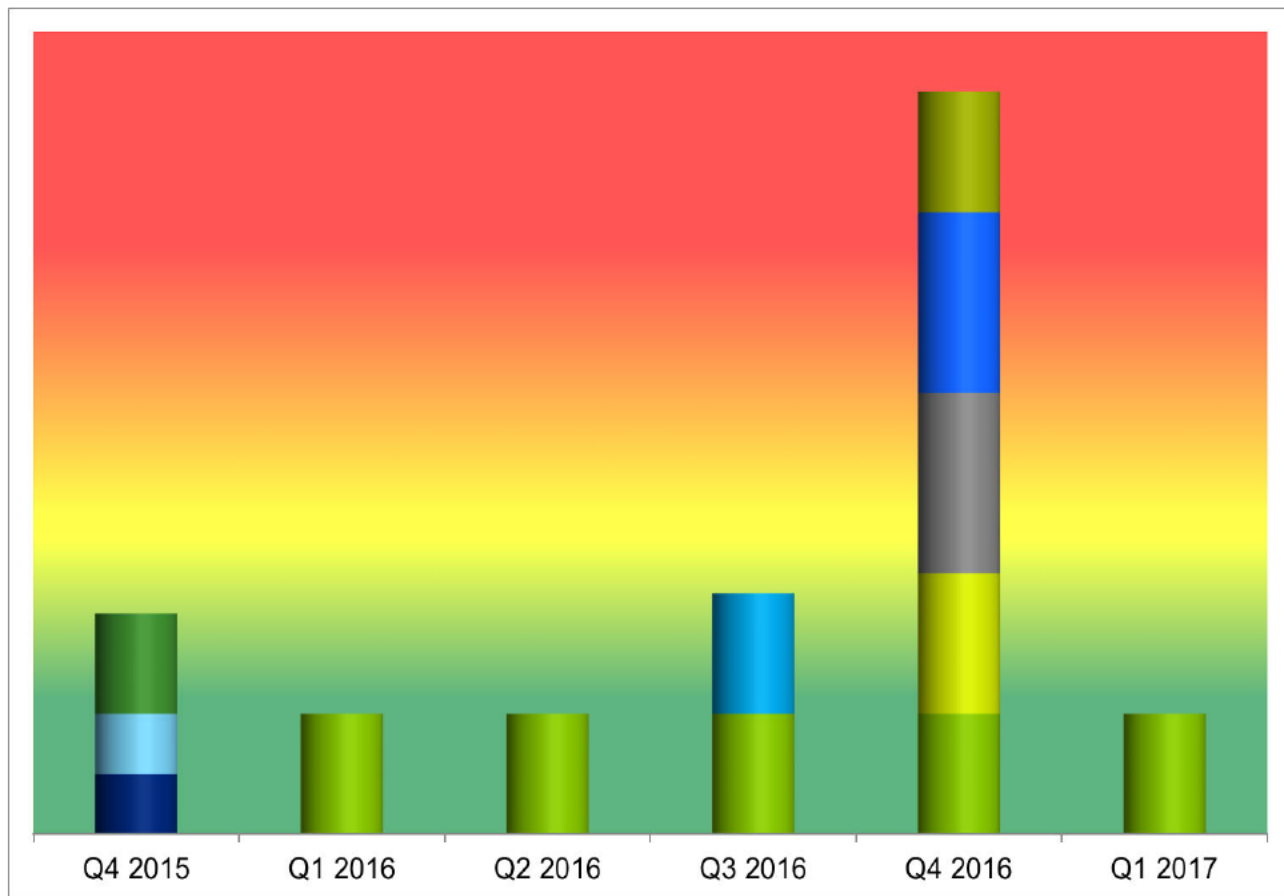
Solvency II reporting timetable

3 submissions within 83 days

25 / 02 / 2017: Quarterly Q4 2016 Reporting

19 / 05 / 2017: Quarterly Q1 2017 Reporting

20 / 05 / 2017: Annual Q4 2016 Reporting



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Pillar 3

Quantitative Reporting



Quantitative Reporting Templates

Annual Reporting (Solo)

Template Category	Day 1 Reporting	Regular Reporting		FS Reporting	
		Quarterly Reporting *	Annual Reporting	Quarterly Reporting *	Annual Reporting
General Information	3	2	3	2	2
Balance Sheet	1	2	10	1	1
Assets	0	4	9	0	0
Technical Provisions	0	2	15	1	2
Transitional Measures / LTGs	0	0	4	0	0
Own Funds	1	1	5	0	0
SCR	3	0	11	1	0
MCR	2	2	2	0	0
Variation Analysis	0	0	4	0	0
Reinsurance	0	0	6	0	0
Group (IGT)	0	0	4	0	0
Ring Fenced Funds	0	0	17	0	0
Special Purpose Vehicles	0	0	6	0	0
Total EIOPA Templates	10	13	96	5	5
Additional ECB Templates	0	4	6	0	0
National Specific Templates**	0	11	2	0	0
Statistical National Specific Templates	0	3	0	0	0
Total Templates	10	31	104	5	5

*Some templates are only needed for Q2 and Q4.

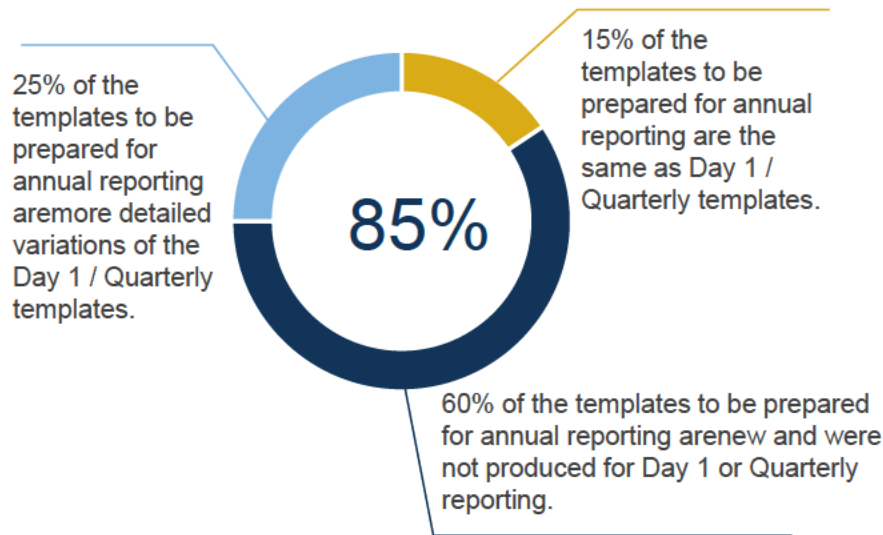
**CBI NST- The PRA has 11 NSTs



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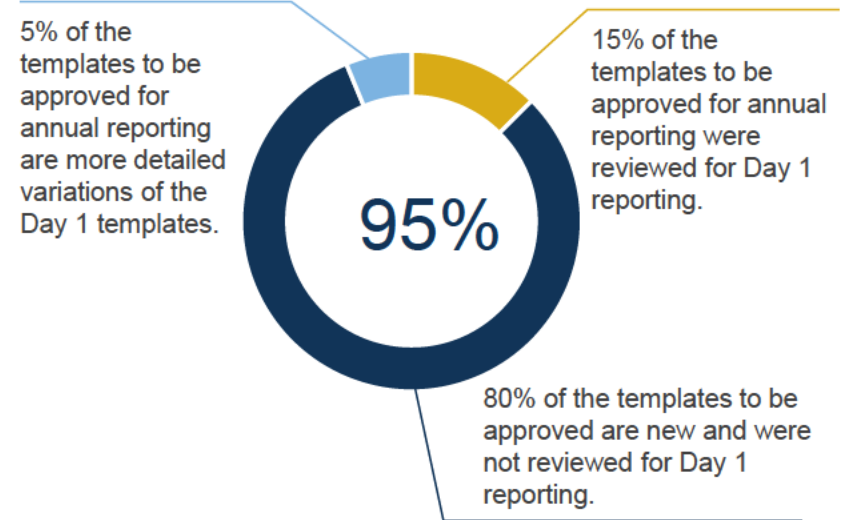
What's new in Quantitative Reporting?

Management Perspective



85 % of the templates to be prepared by the management for annual reporting will be completely new, or significantly more detailed than what was reported in Day 1 or Quarterly Templates.

Board Perspective



95 % of the templates to be approved by the Boards for annual reporting will be completely new, or significantly more detailed than what was reviewed for Day 1 reporting.



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Quantitative Reporting Templates

Bridge from quarterly reporting to annual reporting (solo perspective)

Template Category	Templates for Quarterly Reporting	Templates not to be reported	Variation of Quarterly Templates	Existing Templates	New Templates	Templates for Annual Reporting
General Information	2	0	1	1	1	3
Balance Sheet	2	0	2	0	8	10
Assets	4	0	0	4	5	9
Technical Provisions	2	0	2	0	13	15
Transitional Measures / LTGs	0	0	0	0	4	4
Own Funds	1	0	0	1	4	5
SCR	0	0	0	0	11	11
MCR	2	0	0	2	0	2
Variation Analysis	0	0	0	0	4	4
Reinsurance	0	0	0	0	6	6
Group (IGT)	0	0	0	0	4	4
Ring Fenced Funds	0	0	0	0	17	17
Special Purpose Vehicles	0	0	0	0	6	6
Total EIOPA Templates	13	0	5	8	83	96
Additional ECB Templates	4	0	0	4	2	6
National Specific Templates	11	9	0	2	0	2
Statistical National Specific Templates	3	3	0	0	0	0
Total Templates	31	12	5	14	85	104

*Some templates are only needed for Q2 and Q4.



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Data Quality

Most common issues noted by supervisory authorities

- Incorrect values reported (e.g. 0% SCR coverage ratios)
- Collective investments – failure to report look-through for all existing collective investments
- Reported line-by-line derivatives do not reconcile to balance sheet
- Technical provisions on detailed tabs do not reconcile to balance sheet
- Incorrect reporting on long-term guarantee measures (matching adjustment, volatility adjustment etc.)
- Line-by-line investments:
 - Incorrect data formats (e.g. 10000% instead of 100%)
 - Assets reported with no currency
 - Large numbers of assets with negative values
 - Incorrect Complementary Identification Codes used
 - Invalid ISIN codes used.



Asset Templates

List of Assets Template (S.06.02)

- Extreme granularity of reporting. 16 columns for each position held, and 27 columns for each asset
- Certain ECB fields can be derived from Solvency II fields to ease reporting burden
- Links to Balance Sheet (S.06.02); Quarterly Aggregate Balance Sheet Statement (NST.12) and Quarterly Aggregate Reporting of Security Holdings (NST.13).

List of assets (with ECB add-ons) SE.06.02

Table 1: Information on positions held

Asset ID Code	Asset ID Code type	Portfolio	Fund number	Matching portfolio number	Asset held in unit linked and index linked contracts	Asset pledged as collateral	Country of custody	Custodian	Quantity	Par amount	Write-off/write-downs	Valuation method	Cont'd
C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	EC0141	C0150	
A4	A5	A1	A2		A3	A6	A12		A22		ECB add-on	A24	

Acquisition value	Total Solvency II amount	Accrued interest
C0160	C0170	C0180
A25	A26	A30

Table 2: Information on assets

Asset ID Code	Asset ID Code type	Item Title	Issuer Name	Issuer Code	Type of issuer code	Issuer Sector	Issuer Sector according to ESA 2010	Issuer Group	Issuer Group Code	Type of issuer group code	Issuer Country	Country of residence for collective investment undertakings	Cont'd
C0040	C0050	C0190	C0200	C0210	C0220	C0230	EC0231	C0240	C0250	C0260	C0270	EC0271	
A4	A5	A7	A8	A31	A33	A9	ECB add-on	A10	A32		A11	ECB add-on	

Currency	CIC	Instrument classification according to ESA 2010	Infrastructure investment	Holdings in related undertakings, including participations	External rating	Nominated ECAI	Credit quality step	Internal rating	Duration	Unit Solvency II price	Unit percentage of par amount Solvency II price	Issue date	Maturity date
C0280	C0290	EC0291	C0300	C0310	C0320	C0330	C0340	C0350	C0360	C0370	C0380	EC0381	C0390
A13	A15	ECB add-on		A16	A17	A18			A20	A23		ECB add-on	A28



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Solvency II Look Through

Three reasons to perform a look through

Pillar 3 Reporting

Under Solvency II companies are required to report their holdings in Collective Investment Units (CIUs) at least annually; or on a quarterly basis if their holdings amount to more than 30% of their total assets. For 2016, the Central Bank exempted companies rated medium-low and low from quarterly reporting of look through.

1

Pillar 3 reporting



Prudent Person Principle

Solvency II requires that companies shall only invest in assets and instruments whose risks the undertaking concerned can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs.

2

Prudent Person Principle



SCR calculation

The SCR calculation needs to be performed on a look through basis. If however companies are unable to obtain a look through of their investments, they may:

- Use prudent data groupings to calculate their SCR subject to the provisions set out in the Delegated Acts and EIOPA guidelines on look through.
- Classify CIUs as Type 2 equities that attract the highest capital charge.

3

SCR calculation



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Technical Provisions - Non-life

Quantitative Reporting Templates

Template Number	Template Name (description)
S.17.01	Non-Life Technical Provisions
S.17.02	Non-Life Technical Provisions - By country
S.18.01	Projection of future cash flows (Best Estimate - Non Life)
S.19.01	Non-life insurance claims
S.20.01	Development of the distribution of the claims incurred
S.21.01	Loss distribution risk profile
S.21.02	Underwriting risks non-life
S.21.03	Non-life distribution of underwriting risks - by sum insured

Key		
Same as Quarterly Template	Variant of Quarterly Template	New Template

- Reporting of the non-life technical provisions, including risk margin, gross and net of reinsurance, by line of business and by country
- Three set of triangles are required regarding claims paid, best estimate of claims provisions and RBNS claims, both gross and net of reinsurance
- Need to provide an overview about the run-off/movement of non-life claims portfolios, in terms of both claims paid (split by different type of claims) and RBNS claims. This relates to direct business only
- Need to report on the distribution of incurred claims grouped into 20 appropriate claim size brackets.

- Granular information on the top 20 underwriting risks are required. Need descriptions of the nature of the risk, sum insured, type of underwriting model and more
- The underwriting risk portfolio is the distribution, in (predefined) brackets, of the sum insured of each and every single underwriting risk which have been accepted by the undertaking, by line of business.



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SCR and MCR

Quantitative Reporting Templates

Template Number	Template Name (description)
S.25.01	SCR for undertakings on Standard Formula
S.25.02	SCR for undertakings using the Standard Formula and Partial Internal Model
S.25.03	SCR - for undertakings on Full Internal Models
S.26.01	SCR - Market risk
S.26.02	SCR - Counterparty default risk
S.26.03	SCR - Life underwriting risk
S.26.04	SCR - Health underwriting risk
S.26.05	SCR - Non-Life underwriting risk
S.26.06	SCR - Operational risk
S.26.07	SCR - Simplifications
S.27.01	SCR - Non-life and Health catastrophe risk
S.28.01	MCR - Only life or only non-life insurance or reinsurance activity
S.28.02	MCR - Both life and non-life insurance activity

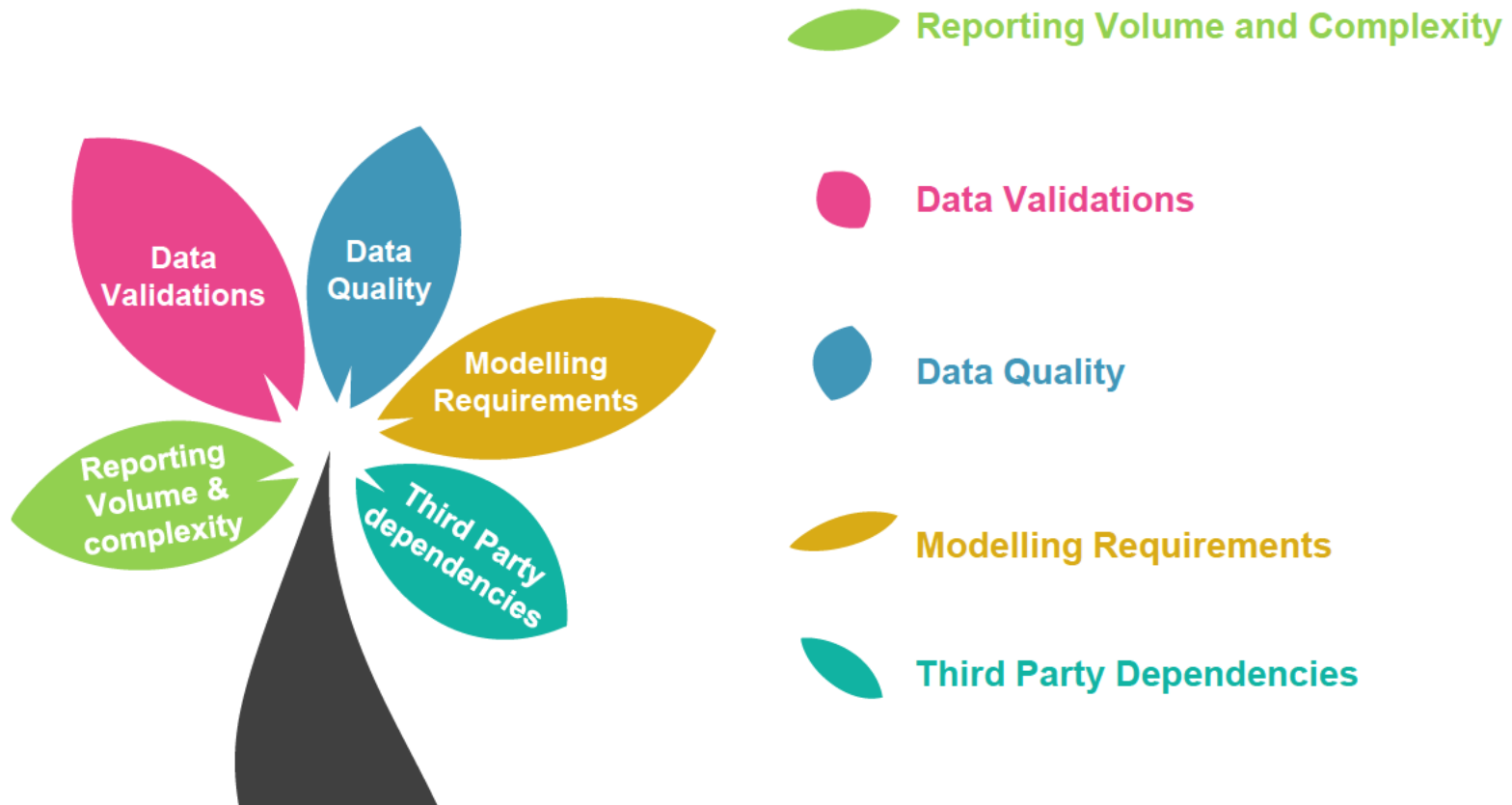
Key		
Same as Quarterly Template	Variant of Quarterly Template	New Template

- SCR for each risk module, and by each ring fenced fund and remaining entity
- Separate reporting of impact on assets and liabilities.



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Annual Reporting – critical considerations



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Narrative Reporting – Overview of requirements

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Source of requirements

Solvency and Financial Condition Report (“SFCR”)

- Articles 292 – 297 of the Delegated Acts
- Guidelines 1-13 of the “Guidelines on reporting and public disclosure”.

Regular Supervisory Report (“RSR”)

- Articles 307 – 311 of the Delegated Act
- Guidelines 16-25 of the “Guidelines on reporting and public disclosure”.

Structure of the SFCR/RSR

- Annex XX of the Delegated Acts.



Structure of SFCR and RSR

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 Solvency Capital Requirement and Minimum Capital Requirement
- E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement
- 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 Solvency Capital Requirement
- E.6 Any other information

Annex of Public disclosure QRTs (for SFCR only)



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A – Business and Performance

Core content of the SFCR/RSR

- Basic details on the business (name, address, group structure, shareholders, supervisor, auditor etc.)
- Description of material classes of business and geographical areas
- Underwriting, investment and other performance will include statutory accounts results with commentary on the events during the year
- Allocation of underwriting performance by Solvency II classes of business and material geographical area
- Comparisons of performance against previous year

Additional content in RSR

- Details of objectives and strategic plan
- Expected future trends and market / regulatory developments
- Comparisons of performance against plan
- Projections of performance over the business planning horizon, identifying key assumptions and significant factors that may impact performance.



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B – System of Governance

Core content of the SFCR/RSR

- Explanation of the undertakings organisation and governance structure and adequacy considering the risk profile
- Information on the 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 ORSA and Risk Management (an overview of the governance processes involved, including committee structures and key function holders as Risk Management detailed extensively in section C)
- Material changes in governance during the reporting period.

Additional content in RSR

- How remuneration policies and practices promote sound and effective risk management
- Remuneration of board members, and comparison to prior periods
- Details of the ORSA results
- Description of the activities, findings and recommendation of the internal audit function
- Transactions with shareholders and management.



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C – Risk Profile

Core content of the SFCR/RSR

- The following quantitative and qualitative information, separately for each sub-module of risk:
 - Material risk exposures and concentrations
 - Description of risk mitigation techniques, their effectiveness and their impact on SCR
 - Description of the methods, assumptions and outcome of the sensitivity testing and stress and scenario testing
 - How assets are invested in line with the prudent person principle.

Additional content in RSR

- Anticipated changes over the business planning period in:
 - Risk exposures and concentrations, and how they will be managed.
 - Risk mitigation techniques
- Information on dependencies between risks covered in the calculation of the SCR
- A complete list of assets and how those assets have been invested in accordance with the 'prudent person principle'.



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D – Valuation for Solvency Purposes

Core content of the SFCR/RSR

- For each material class of assets and liabilities:
 - Description of bases, methods and assumptions in valuation for Solvency purposes
 - Material differences in above used for valuation in Financial Statements.
- Description of key bases, methods and assumptions used in the calculation of technical provisions for each material class of business
- Uncertainty in value of technical provisions
- Impact of reinsurance on technical provisions.

Additional content in RSR

- Explanation of changes in Solvency II technical provisions since last reporting period, and rationale for changes in material assumptions
- Process in place for checking data quality, and details of data deficiencies and adjustments
- Details of simplifications used, including for allocation of risk margin to Solvency II lines of business
- Explanation of contract boundaries applied
- Assumptions about future management actions and policyholder behaviour.



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E – Capital Management

Core content of the SFCR/RSR

- Quantitative and Qualitative information on Own Funds (policies, structure, quality, analysis of change, eligible own funds to cover SCR/MCR, explanation of key elements of reconciliation reserve).
- Quantitative and Qualitative information on MCR and SCR (split by risk module).
- Differences between the standard model and internal model will be discussed in detail, on a risk sub-module level.
- Information about non-compliance with MCR/SCR during the period (origin, consequences, remedial actions).

Additional content in RSR

- Forecast level of own funds over business planning horizon.
- Forecast level of MCR and SCR over business planning horizon.
- Allowance for mitigation techniques, and management actions in MCR and SCR.



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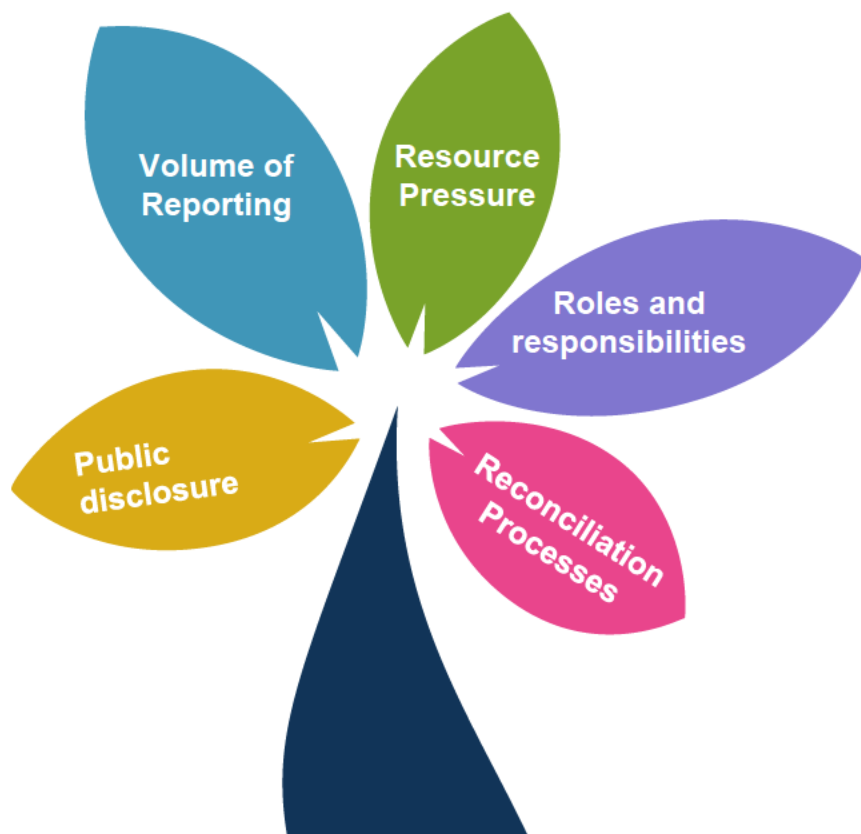
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Narrative Reporting – Challenges

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5 areas of focus



Public disclosure

Public disclosure of your SFCR means that it will be available for review by policyholders, shareholders, investors, rating agencies, analysts, distributors etc.



Volume of Reporting

The reports are very detailed. Medium / Large insurance companies have typically drafted over 100 pages individually for each of the SFCR and the RSR.



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5 areas of focus



Resource Pressure

The production of these reports could involve 70 - 100 man-days of resources across various departments.

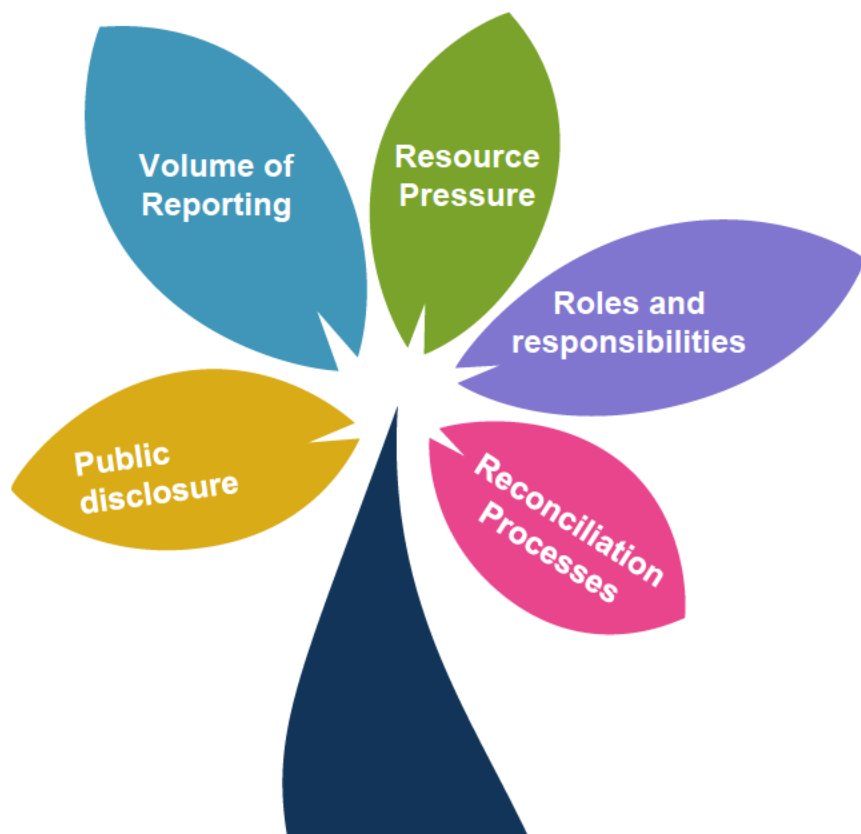
Roles and responsibilities

There will likely be multiple contributors to each report; timings and dependencies will need to be identified in advance.



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5 areas of focus



Reconciliation Processes

Reconciliation processes for differences in valuation, year-on-year changes, and actual versus expected will need to be set up and tested in advance of year-end reporting.



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Final thoughts on narrative reporting

- Don't underestimate the effort required to complete these reports.
- Start drafting early!
- Some companies considering legal / marketing reviews of the SFCR.
- Consideration of disclosure of non-voluntary information.
- Consideration of non-disclosure of sensitive or confidential information.
- Consideration of different valuation dates of projections (RSR vs. ORSA).
- Granularity required for reporting of performance and comparisons to plan could be onerous.
- Be cognisant of timelines and project plan!





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External Audit requirements

PRA's proposed audit requirements for the UK

SFCR	QRTs	Narrative report
Sections covered	<ul style="list-style-type: none"> • Balance Sheet • Premium claims and expenses • Technical provisions • Own funds • SCR and MCR • Variation analysis • Assets 	<ul style="list-style-type: none"> • Business and performance • System of governance • Risk profile • Valuation for solvency purposes • Capital management
Timing	<ul style="list-style-type: none"> • This is an annual audit, no quarterly audit required • Applies to years ending on or after 15 November 2016. 	
Additional info relevant to audit	<ul style="list-style-type: none"> • SCR is exempt if calculated using approved partial or full internal model • Information produced for group SFCR using sectoral rules are exempt from audit • External auditor should consider the use of specialists (e.g. actuaries) • All other information in SFCR not subject to the reasonable assurance opinion should be checked for consistency. 	
Difference with CBI proposal	<ul style="list-style-type: none"> • CBI has included elements of the PM calculated using standard formula in scope • CBI timing is for years ending on or after 31 December 2016 • CBI has included S.19.01.21 Non Life Claims Development information – the PRA has not • PRA has included the QRT on impact of long term guarantees and transitional measures – the CBI has not. 	



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Key messages for annual reporting

Quantitative Reporting

- Scoping templates
- Contributions from business functions
- Gap analysis of information available versus requirements
- Dry runs

Key messages

Narrative Reporting

- Public disclosure
- Contributions from business functions
- Synergies with existing reporting
- Reconciliations
- Dry runs.



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