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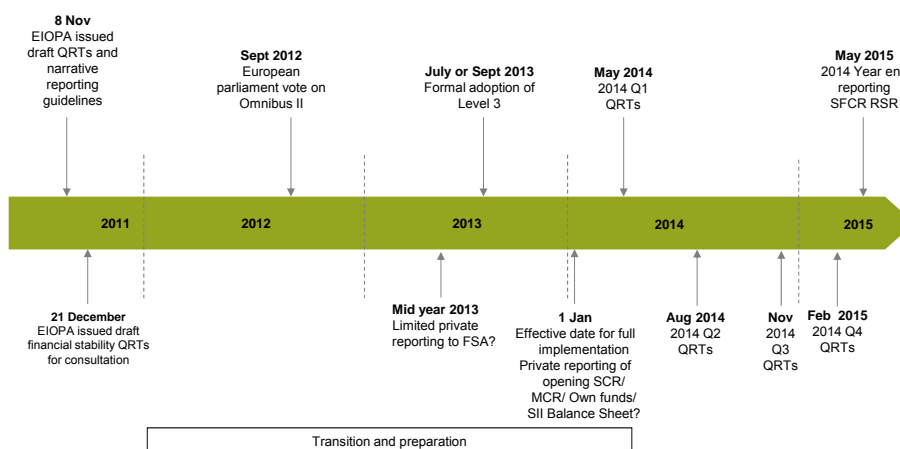
## Recent developments in Pillar 3

10 May 2012

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## Solvency II reporting timelines

Full implementation of Solvency II to commence from 2014



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## Reminder of Pillar 3 reporting requirements

The preparation of Pillar III presents many challenges including identification of sources of information, level of data granularity and level of data governance and timely processes to meet the pre-requisite reporting timetables for Solo and Group reporting

| Area            | Content   | Impacted business functions  | Potential Sources  |
|-----------------|---|--|--|
| <b>RSR/SFCR</b> | <ul style="list-style-type: none"> <li>► Business and performance</li> <li>► System of governance</li> <li>► Risk profile</li> <li>► Valuation for solvency purposes</li> <li>► Capital management</li> </ul>   | <ul style="list-style-type: none"> <li>► Finance and Actuarial functions</li> <li>► Company Secretarial</li> <li>► Compliance</li> <li>► Internal audit</li> <li>► Asset management</li> <li>► Investor relations</li> </ul> | <ul style="list-style-type: none"> <li>► Operating and financial Review</li> <li>► Directors' report</li> <li>► Company Registrar</li> <li>► Internal MI reporting</li> <li>► Financial statements</li> <li>► Internal/Standard model capital reporting</li> <li>► Risk reporting</li> <li>► Compliance reporting</li> </ul> |
| <b>QRT's</b>    | <ul style="list-style-type: none"> <li>A – Premiums, claims and expenses paid</li> <li>B – Own funds, MCR, SCR</li> <li>C – SII Balance Sheet and variance analysis of own funds</li> <li>D – Assets</li> <li>E – Non-life related forms</li> <li>F – Life insurance related forms</li> <li>J – Reinsurance including SPV</li> <li>G – Group specific templates</li> <li>K – Activity by country</li> </ul> | <ul style="list-style-type: none"> <li>► Finance and Actuarial functions</li> <li>► Asset management</li> <li>► Investor relations</li> <li>► Compliance</li> <li>► Internal audit</li> <li>► Company secretarial</li> </ul> | <ul style="list-style-type: none"> <li>► Financial statements</li> <li>► Internal MI reporting</li> <li>► Internal/Standard model capital reporting</li> <li>► Internal/Standard model technical reporting</li> <li>► Risk reporting</li> <li>► Compliance reporting</li> </ul>  |

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## Recent developments in SII reporting and disclosure

- Revised draft Level 2 Delegated Acts were submitted by the European Commission to the European Parliament on 31 October 2011
- EIOPA published draft proposals for Guidelines on Narrative Public Disclosures and Supervisory Reporting, Predefined Events and Processes for Reporting and Disclosure on 8 November 2011 for public consultation
- EIOPA also published draft proposals on Quantitative Reporting Templates on 8 November 2011 for public consultation and draft reporting templates for Financial Stability purposes on 21 December 2011

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## Recent developments in SII reporting and disclosure (contd.)

- The FSA has started consultation on the transposition of the SII Directive into the FSA Handbook (SOLPRU). Proposals for national specific QRTs to be included in Part 2 of the FSA's transposition Consultation Paper in 2012.

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## Most recent draft Level 2 Delegated Acts – main effects on Pillar 3

- Results of ORSA de-coupled from RSR to form a separate ORSA Supervisory Report – to be submitted to supervisory authorities within two weeks of whenever an ORSA is concluded
- Deadlines for RSRs and SFCRs pushed back a year, for example, first full RSR for a December year end would be 20 weeks after 31 December 2014.
- Groups have an extra 6 weeks for quarterly and annual submissions to supervisors and Group SFCR (no extension for Single Group SFCR)

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## Most recent draft Level 2 Delegated Acts – main effects on Pillar 3 (contd.)

- Opening reporting of MCBS, SCR, MCR, etc for financial years commencing on or after 1 January 2014 but before 1 July 2014 to be submitted to supervisory authorities within 14 weeks of start of financial year by solo entities and 18 weeks for groups
- Need to disclose amount of Expected Profit Included in Future Premiums in the SFCR
- Need to disclose effect of Counter-Cyclical Premium and Matching Premium in the RSR

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## Draft guidelines on narrative reports and reporting process

- EIOPA are consulting on 55 draft guidelines on narrative reporting (was 38 in pre-consultation)

|  | SFCR | RSR | Pre-defined events | Disclosure and reporting processes | Total |
|--|------|-----|--------------------|------------------------------------|-------|
| Business and Performance                           | 3    | 5   |                    |                                    | 8     |
| System of governance                               | 2    | 4   |                    |                                    | 6     |
| Risk profile                                       | 1    | 2   |                    |                                    | 3     |
| Valuation for solvency purposes                    | 14   | 4   |                    |                                    | 18    |
| Capital Management                                 | 7    | 1   |                    |                                    | 8     |
| Supervisory reporting following pre-defined events |      |     | 2                  |                                    | 2     |
| Disclosure and reporting policies                  |      |     |                    | 2                                  | 2     |
| Other  |      |     |                    | 8                                  | 8     |
|  | 27   | 16  | 2                  | 10                                 | 55    |

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## **Draft guidelines on narrative reports and reporting process (contd.)**

- More detailed guidance on disclosures required regarding valuation of specific assets
- Significantly increased disclosure of composition and management of own funds in SFCR
- New requirements to disclose details of assets and technical provisions in RSR

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## **Proposed changes to QRTs since pre-consultation versions – main points for general insurers**

- Numerous tweaks to the pre-consultation versions but not many major changes
- Helpful reduction in TP and reinsurance solo forms to be completed by groups although 'infra-annual' reporting is now 'quarterly'
- Variation Analysis to explain movements in Basic Own Funds
- Accident year / underwriting year

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## Proposed changes to QRTs since pre-consultation versions – main points for general insurers (contd.)

- Quarterly balance sheets required if the reconciliation reserve cannot be explained sufficiently by the information on assets and liabilities that is reported in other quarterly templates (assets, TP, OF)
- Separate balance sheet, own funds, SCR (notional) and Technical Provisions templates for material Ring-Fenced Funds
- Detailed list of assets still required
  - at least annually for all solo undertakings and groups
  - quarterly for large undertakings / groups
  - although this could still change before finalisation

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## Proposed additional QRT information for financial stability purposes

- Applies to large groups or solo entities (balance sheet total > €6bn)
- Comprises a list of data items required for financial stability monitoring – most required quarterly and some annually
- Many of the financial stability data items are already required for QRT proposals issued in November.

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## Proposed additional QRT information for financial stability purposes (contd.)

- Additional reporting burden will arise in the following circumstances:
  - Data required annually for 'mainstream' reporting but quarterly for financial stability, for example, SCR for solo and groups,
  - Data not required from groups for 'mainstream' reporting, e.g., consolidated technical provisions (quarterly) and elements of group outward reinsurance programme (annually).
  - New data items for solo and group undertakings, e.g., lapse/surrender rates, statutory accounting profit and loss, duration of non-life liabilities.

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## Variation Analysis – VA C2C Observations and comments

- Understand the changes in Basic Own Funds, by source of change within the TP
- Group?
- Public – No
- Annual
- From end of 2015 (if full S2 annual reporting in place at end 2014)

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## Variation Analysis – VA C2C Observations and comments (contd.)

- Required at a Total level and for each LOB > 5% of TP (split Life and Non-Life)
- Split between
  - Risks accepted during the period
  - Risks accepted prior to the period
    - Changes in estimates (unwinding of + change in discount rates)
    - Changes in assumptions (economic/non-economic)
    - Experience

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## Other Issues

- Non Life cat risk (SCR-B3F)
  - No material additional calculations or changes in assumptions
  - But more disclosure of calculations, most elements now reported
- Profit/Loss attribution
  - Link to Internal Model
  - Overlap of model output with VA – C2C?

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## Other Issues (contd.)

- AY vs UY
  - According to the principle used internally by undertakings for grouping claims but subject to confirmation by National Supervisory Authority.
- XBRL
  - Reporting likely to be through XBRL

## Data Challenges arising from QRTs - Non Life

### Data Availability/Process Challenges

| QRTs                                     |   |
|--|---|
| Facultative covers non-life/life (Re-J1) | <ul style="list-style-type: none"> <li>▶ Current working assumption is that this template requires entities to report on a single risk level. Where facultative business covers more than one single risk (e.g., policyholder insures several buildings under one policy) this information might not be available.</li> </ul> |
| Solvency II Contract Boundaries          | <ul style="list-style-type: none"> <li>▶ New reporting requirements on Solvency II boundaries will affect many areas of the QRTs.</li> </ul>  |
| Country Cover K1/Cover A1A/TP-E1/TP-F1   | <ul style="list-style-type: none"> <li>▶ This template asks for a split by 'country'. Depending on how country is defined (e.g., where the risk is underwritten or where the risk is located) you may have problems to deliver the data.</li> </ul>   |
| Assets D1-D6                             | <ul style="list-style-type: none"> <li>▶ Where derivative trades for the local business are not executed through central system some local changes will probably be required to be able to produce the information in the required format.</li> </ul>   |

## Data Challenges arising from QRTs (cont'd)

### — Data Availability/Process Challenges

#### QRTs

Movements of RBNS claims  
TP-E4

Underwriting risks  
E7A/B

Salvage and Subrogation – TP – E3

Analysis of changes in BOF due to TP VA-C2C

- ▶ Required granularity poses a major challenge eg., holistic view on calendar year does not allow distinction between outstanding claims at the end of the year which were carried forward from the start of the year, those reported through the year and those which have been reopened during the year. Reporting of reopened claims during the year and closed at the end of the period seems to be a challenge. If claims functions outsourced, a challenge to renegotiate contracts to get the required data.
- ▶ Sufficient policy records may not be maintained on systems (eg. when business written under fully delegated authority) could cause data issues as third parties mainly send summary information. May have to renegotiate existing contracts to obtain the required information.
- ▶ Separating out salvage and subrogation from claims to produce the run-off triangle might be difficult. Especially for LoB's where it is material (e.g., motor) this becomes an issue.
- ▶ For the P&L attribution which should be aligned to the VA templates, the underlying information is based on accident year. For the VA templates accident year is required.

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## Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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