What has Pillar III ever done for me?
Reporting and disclosure under Solvency II

Simon Sheaf and Stephen Kelly
20 September 2012
Agenda

Introduction
Narrative reporting
Quantitative reporting
Level 3 guidance
Lessons learnt

Let's begin with some acronyms …

Solvency and Financial Condition Report (SFCR)
Quantitative Reporting Templates (QRTs)
Regular Supervisory Report (RSR)
Pillar III reporting deadlines

Transitional reporting during first year

- 1 Jan 2014 - Opening Solvency II valuation of assets/liabilities, SCR and MCR
- Qualitative explanation of differences to Solvency I valuation at same date
- Submit 14 weeks after 1 Jan 2014; an additional 4 weeks is permitted for groups

Reporting deadlines

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017+</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFCR</td>
<td>20 Weeks</td>
<td>18 Weeks</td>
<td>16 Weeks</td>
<td>14 Weeks</td>
</tr>
<tr>
<td>RSR</td>
<td>20 Weeks</td>
<td>18 Weeks</td>
<td>16 Weeks</td>
<td>14 Weeks</td>
</tr>
<tr>
<td>Annual QRT</td>
<td>20 Weeks</td>
<td>18 Weeks</td>
<td>16 Weeks</td>
<td>14 Weeks</td>
</tr>
<tr>
<td>Quarterly QRT</td>
<td>8 Weeks</td>
<td>7 Weeks</td>
<td>6 Weeks</td>
<td>5 Weeks</td>
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<tr>
<td>ORSA Supervisory</td>
<td>In line with RSR and/or within 2 weeks of concluding the ORSA</td>
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</tbody>
</table>
Agenda

Contents of the SFCR and RSR

- Executive Summary
- Business and Performance
- System of Governance
- Risk Profile
- Regulatory Balance Sheet
- Capital Management
- QRTs
Contents of the SFCR and RSR

Executive Summary

- A short, easily understandable summary
- Include any material changes to:
  - business
  - risk profile
  - solvency position
  - system of governance since last reporting period

Business and Performance
- Business and external environment
- Objectives, strategies and prospects - including projections (RSR only)
- Performance of underwriting activities by material line of business
- Performance from investment activities
- Operating / other expenses

System of Governance

Risk Profile

Regulatory Balance Sheet

Capital Management

QRTs
Contents of the SFCR and RSR

Executive Summary
Business and Performance
System of Governance
Risk Profile
Regulatory Balance Sheet
Capital Management
QRTs

• General governance arrangements
• Fit and proper
• Risk management system
• ORSA
• Internal control
• Internal audit function
• Outsourcing
• Other material information
• Reporting at group level

Contents of the SFCR and RSR

Executive Summary
Business and Performance
System of Governance
Risk Profile
Regulatory Balance Sheet
Capital Management
QRTs

• Qualitative and quantitative information on:
  • underwriting risk
  • market risk
  • credit risk
  • liquidity risk
  • operational risk
  • other risks
• Material risk concentrations
• Risk mitigation techniques
• Stress and scenario testing
## Contents of the SFCR and RSR

- Executive Summary
- Business and Performance
- System of Governance
- Risk Profile
- Regulatory Balance Sheet
- Capital Management
- QRTs

### Description of the bases and methods used for the valuation of:
- assets
- technical provisions
- other liabilities

### Explanation of any major differences for the valuation in financial statements

### Own funds
- MCR and SCR
- Option set out in Article 304 used for the calculation of the SCR
- Differences between standard formula and internal model
- Internal model
- Non-compliance with MCR and SCR
SFCR and RSR - Challenges

- SFCR as a benchmarking tool
- Definition and scope of pre-defined events
- Role of Chief Actuary
- Internal communication
- Embedding the reporting process
- Accessing the required management information

Agenda

- Introduction
- Narrative reporting
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- Level 3 guidance
Overview

- Standardised reporting templates - lots of them
- Draft QRTs issued by EIOPA in November 2011 and revised in July 2012 following consultation
- At Q4 - All templates
- At Q1, Q2 and Q3 - Core financial and solvency information
- All templates will be included in the RSR
- EIOPA have proposed which to include in the SFCR
- No comparative information will be required in the first set of templates

Contents of Quantitative Reporting Templates

- Balance Sheet
- Variation Analysis
- Capital Requirements
- Reinsurance
- Technical Provisions
- Assets
- Own Funds
### Contents of Quantitative Reporting Templates

<table>
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<tr>
<th>Balance Sheet</th>
<th>Variation Analysis</th>
<th>Capital Requirements</th>
<th>Reinsurance</th>
<th>Technical Provisions</th>
<th>Assets</th>
<th>Own Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Balance sheet – on a Solvency II basis</td>
<td>• Off-balance sheet items – risks not captured by the balance sheet</td>
<td>• Assets and liabilities by currency – to assess potential currency mismatches</td>
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</table>

**Variation Analysis**
- Analyses changes in own funds from one reporting period to the next

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**Capital Requirements**
- Reinsurance
- Technical Provisions
- Assets
- Own Funds
### Contents of Quantitative Reporting Templates

**Balance Sheet**
- The main outputs from the SCR and MCR calculations
- For undertakings using the standard formula, outputs are further detailed by module (market risk, counterparty risk etc.)
- Freedom of format for SCR reporting by risk categories for undertakings using an internal model (to be determined with supervisor)

**Variation Analysis**

**Capital Requirements**

**Reinsurance**

**Technical Provisions**

**Assets**

**Own Funds**

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**Contents of Quantitative Reporting Templates**

**Balance Sheet**

**Variation Analysis**

**Capital Requirements**

**Reinsurance**

**Technical Provisions**

**Assets**

**Own Funds**

- Templates cover:
  - the reinsurance programme
  - exposure to reinsurers
  - Specific template for SPVs
## Contents of Quantitative Reporting Templates

| Balance Sheet | • Separate templates for life and non-life business  
| Variation Analysis | • Give an overview of TP by line of business, split between best estimate and risk margin  
| Capital Requirements | • Also include information, amongst other things, on:  
| Reinsurance | • claim triangles  
| Technical Provisions | • claims run-off  
| Assets | • projection of future cash flows  
| Own Funds | • overview of largest risks  

## Contents of Quantitative Reporting Templates

| Balance Sheet | • Detailed list of investments  
| Variation Analysis | • Structured products  
| Capital Requirements | • Derivatives  
| Reinsurance | • Investment funds  
| Technical Provisions | • Assets held as collateral  
| Assets | • Investment performance  
| Own Funds |
Contents of Quantitative Reporting Templates

- Balance Sheet
- Variation Analysis
- Capital Requirements
- Reinsurance
- Technical Provisions
- Assets
- Own Funds

- Detailed schedule of own funds by:
  - instrument
  - tier

Quantitative Reporting Templates - Challenges

- Volume of data required
- Granularity of required data
- Data quality
- eXtensible Business Reporting Language (XBRL)
- IT systems implications
- Establishing an efficient process that enables you to meet deadlines
- National specific templates
Agenda

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Guidelines - SFCR - Solo undertakings

- Business and performance
- System of governance
- Risk profile
- Valuation for solvency purposes
- Capital management
Guidelines - SFCR - Group undertakings

- Business and performance
- System of governance
- Risk profile
- Valuation for solvency purposes
- Capital management

Guidelines - RSR - Solo undertakings

- Business and performance
- System of governance
- Risk profile
- Valuation for solvency purposes
- Capital management
Guidelines - RSR - Group undertakings

- Business and performance
- System of governance
- Risk profile

Valuation for solvency purposes

Capital management

Guidelines - Supervisory reporting following pre-defined events

Supervisory reporting following pre-defined events
Guidelines - Public disclosure and supervisory reporting - Processes

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Lessons learnt

Significant change
Substantial challenge
Early engagement essential
Discuss with data suppliers
IT system changes
IFRS 4 Phase 2

Questions and discussion

Questions are guaranteed in life; Answers aren’t.