Pillar 3: Supporting Market
Understanding or Just Holding Us Up?

Cat Drummond
Laura McMaster
Agenda

• Background
• Constituents
• Areas of focus
• Key headlines
• Case study to improve your reporting
• Questions and further discussion
Background

1. Quantitative Disclosure
2. Governance

Articles 293-297

18 October 2017
100 non-life insurers across the UK and Ireland
Constituents

Gross written premium by SII LoB (non-life)

£65bn non-life gross written premium
Constituents

Gross best estimate technical provisions by SII LoB (non-life)

£87bn non-life gross best estimate SII TPs

£3bn gross best estimate SII TPs for annuities stemming from non-life
Constituents

Percentage of firms using SF/PIM/IM

- Standard formula: 80%
- Partial internal model: 14%
- Full internal model: 6%

18 October 2017
Areas of focus

✓ Capital strength
✓ Key risks faced by insurers
✓ Quality of reporting
✓ Tips and trip hazards
✓ Investments
✓ Risk margin
Capital strength

Eligible own funds ratio - top twenty

Ratio of eligible own funds to SCR

UK insurers
Irish insurers

427% average ratio of top twenty

206% average ratio

18 October 2017
Capital strength

Eligible own funds ratio - bottom twenty

109% average ratio of bottom twenty

206% average ratio

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Allocated to SII LoB if firm wrote more than 50% of GWP in that line, otherwise “Multi-line”
23% of firms had a 15% chance of breaching their SCR over a 1 year period.
Key risks faced by insurers

Percentage of firms by largest risk area

- Non-life insurance: 65%
- Health insurance: 15%
- Life insurance: 11%
- Market: 5%
- Counterparty: 2%
- Capital add-ons already set: 1%
- Operational: 1%

18 October 2017
Key risks faced by insurers

Undiversified risk as a proportion of diversified SCR
Key risks faced by insurers

- 23% see Brexit as a key risk
- 36% noted Ogden discount rate change
- Around a third had defined benefit pensions

18 October 2017
Quality of reporting

Look and feel

- Plain: 11%
- Some formatting: 27%
- Full corporate branding: 62%
Quality of reporting

Length of each section

45 pages average length

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Quality of reporting
Quality of reporting

The good
- Glossaries
- Specific not generic
- Branded
- Easy to find

The bad
- Compliance
- Uncertainty, S&S
- Outsourcing, EPIFP
- Errors in QRTs

The ugly
- File quality
- Legibility
### Case study

#### System of governance

1. **Para 1.** The solvency and financial condition report shall include all of the following information regarding the system of governance of the insurance or reinsurance undertaking:
   
   (a) the structure of the undertaking’s administrative, management or supervisory body, providing a description of its main roles and responsibilities and a brief description of the segregation of responsibilities within these bodies, in particular whether relevant committees exist within them, as well as a description of the main roles and responsibilities of key functions;

   **Possible improvements**
   - The structure of the AMSB and description of roles/responsibilities is generally well covered. The descriptions of the sub-committees could be improved as not all that are included in the main governance diagram are discussed in the supporting narrative.

2. **Para 2.** Any material changes in the system of governance that have taken place over the reporting period:

   **Pass**
   - Meets the requirements. Very clear.

3. **Para 3.** Information on the remuneration policy and practices regarding administrative, management or supervisory body and, unless otherwise stated, employees, including:
   
   (i) principles of the remuneration policy, with an explanation of the relative importance of the fixed and variable components of remuneration;

   **Possible improvements**
   - Current narrative explains that pay is split between a fixed and variable element, but does not explain the importance (weighting) given to each component (eg stating the limits of variable pay as a percentage of fixed pay).

   (ii) information on the individual and collective performance criteria on which any entitlement to share options, shares or variable components of remuneration is based;

   **Possible improvements**
   - Generally meets the requirements. Could be improved by explicitly stating that there are no share option elements of remuneration.

   (iii) a description of the main characteristics of supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders;

   **Pass**
   - Meets the requirements.

4. **Para 4.** Information about material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body.

   **Possible improvements**
   - This section could be improved by:
     - Explicitly stating materiality threshold referred to in supporting narrative.
     - Explicitly stating that there have been no material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, or with members of the AMSB.
     - Removing the first section in the narrative, which appears to be redundant.
**Case study**

*Summary by reporting area*

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<th>Significant improvements</th>
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*Percentages*

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**Overall summary**

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Provides a high level summary view

Helps you focus your efforts and to see which sections require improvements

18 October 2017
To answer the question...

Pillar 3: Supporting market understanding or just holding us up?
Answer: Both!
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