Solvency II Practical Review Working Party
GIRO 2018

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Agenda

• Introduction
• Pillar 3 Reporting: Recap
• Survey Results
• Proposed Solutions
• Conclusion
Pillar 3 Recap
Objective

• Working Party set up to identify practical issues with Solvency II

Year 1:

• Focus on Pillar 1 – Capital & Pillar 2 – Technical Provisions

Year 2:

• Focus on Pillar 3 – Reporting
Pillar 3 Reporting: Recap

- National Specific Reporting Templates (NSTs)
- Financial Stability Templates (FSTs)
- Regular Supervisory Report (RSR) Every Three Years (With an annual report for material changes)
  - Annual Quantitative Reporting Templates (QRTS)
  - Quarterly Quantitative Reporting Templates (QRTS)
- Annual Solvency and Financial Condition Report (SFCR)
- Annual Quantitative Reporting Templates (QRTS)

Private reporting
Public disclosure
Pillar 3 Reporting: Recap

• Pillar 3 covers both quantitative and qualitative requirements including:
  – **Quantitative Reporting Templates (QRTs)** - submitted both annually and quarterly, with the annual requirements being more onerous.
  – **Regular Supervisory Report (RSR)** – submitted privately to the regulator every three years, with annual updates in the intervening years.

• Pillar 3 has tight reporting deadlines as shown below:
Annual Reporting

Solvency and Financial Condition Report (SFCR) – Public disclosure
- Published on company website
- Certain elements are audited
- Submitted in PDF, including QRTs
  Not subject to validation checks on submission

Regular Supervisory Report (RSR) – Public reporting to PRA
- Private submission to PRA
- Unaudited
- RSR submitted in PDF
  QRTs submitted as XBRL and subject to validation
Pillar 3 reporting: SFCR components

- A. Business and Performance
- B. System of Governance
- C. Risk Profile
- D. Valuation
- E. Capital Management
- QRTs
Survey Results
Survey Results
Participants - firm

- London: 71%
- Elsewhere in the UK: 21%
- EU country exc UK: 7%
- Rest of the World: 0%
- Not Working: 0%

- Between £50m and £250m: 38%
- Between £250m and £1bn: 38%
- >£1bn: 15%
- <£50m: 8%

- Insurance firm: 50%
- Lloyd's syndicate: 14%
- Composite firm: 14%
- Other: 14%
- Professional services firm: 7%
- Reinsurance firm: 0%

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Survey Results
Participants - role

- Actuarial support, 71%
- Non board senior management (C-suite), 14%
- Department head, 14%
- Board member (exec), 0%
- Board member (non exec), 0%
- Other, 0%

- Capital, 30%
- Reserving, 22%
- Reinsurance, 19%
- Pricing, 19%
- ERM, 5%
- Other, 5%
- Non board senior management (C-suite), 14%
- Department head, 14%
Survey Results

Benefits and disadvantages of regulatory reporting

Disadvantages -

• Unnecessarily detailed
• Spurious accuracy
• Danger: Lack of understanding within the firm
• Onerous & time-consuming
• Minimal useful information
• Where is the data being used?! 

Benefits +

• Consistency of information
Survey Results
Benefits and disadvantages of regulatory reporting

Main benefit is consistency of information supplied however, the granularity of the disclosure requirements and the volume of reporting is far too great. Requirements for reconciliations to the cent/pence are unreasonable.

Reporting is onerous, time-consuming, overly detailed and with increasingly challenging timescales. There appears to be very limited benefit to much of the reporting.

I think that the complexity of Pillar 3 reporting creates a danger that too few people in an organisation will really understand what is being submitted. It encourages actuaries and finance teams to get bogged down in detail and spend less time looking at the big picture.

Regulators require relatively detailed reporting to dispense their responsibilities. However, information required should be proportionate and useful to the regulator rather than a 'wish list' concocted by EU bureaucrats which has resulted in huge amounts of complex information being produced which is of no value to companies or regulators.

Very onerous filling out of forms, particularly at opening for 2016 YE. Shortening timelines is challenging. Most are not public anyway, not clear where all this data is going to get used.

The publicly available reports are almost of no use when compared with the pre-Solvency II PRA/FSA returns. Those gave details by line of business and gave details of reinsurance. Solvency II reporting gives minimal useful information.

Reporting to the penny leads to spurious accuracy. For a large insurer reporting to the nearest 100k would be more than sufficient. Also the level of granularity of information is far too onerous.
Survey Results
Quantitative reporting template

Have you prepared QRTs before?

- Yes, direct capacity: 77%
- No: 15%
- Yes, supervisory category: 8%

Level of automation in producing QRTs?

- A lot of manual processing: 46%
- Some manual processing: 38%
- A specific reporting tool used/almost full automation: 15%
Survey Results
Quantitative reporting template – benefits vs. cost implication

Benefits outweigh the costs, 8%
Costs and benefits are in balance, 8%
Costs outweigh the benefits, 83%

Areas that would benefit from reform:
• Aim of comparability has failed
• Benefit of several forms?
• Fewer forms
• Clearer guidance
• Aggregated disclosures
Survey Results
Quantitative reporting template – benefits vs. cost implication

The aim of comparability has failed and therefore the costs outweigh any perceived benefits.

It is unclear what the benefit of several of the forms is. E.g. the forms showing the change since the previous year end are hard to interpret. The same information is asked for on many forms but in different ways. Given market practice is to calculate UK GAAP reserves and convert to Sii, it would be more effective to align the reporting with that approach.

More aggregated disclosures around investments, look through, derivatives. Analysis of change forms (s29) are unclear and unhelpful.

Fewer forms, better alignment to existing reporting, clearer guidance

Public QRTs show data at such a high level not sure this adds much. Historic triangle analysis particularly onerous to produce and reconcile / explain reconciliation to the IFRS views presented in annual reports.
Survey Results
Solvency and Financial Condition Report

Have you prepared SFCRs before?

- Yes, direct capacity: 45%
- No: 45%
- Yes, supervisory capacity: 9%

Costs vs. benefit of SFCRs?

- Costs outweigh the benefits: 45%
- Benefits outweigh the costs: 27%
- Costs and benefits are in balance: 27%
The information contained in the report is not interesting to most people but the fact it is publicly available means it needs a significant degree of review is needed. It is hard to see what need it is satisfying.

Lengthy narrative reporting adds little value and is not read by anyone.

More useful detail for users of the report. Go back to PRA/FSA return format.
A key responsibility for certain individuals (regulatory reporting is 20-50% of their role) - 78%
Dedicated resources (regulatory reporting is >50% of their role) - 11%
Dispersed resources (>20% of role for any one individual) - 11%

Cost of producing Regulatory Reporting
- Less than £100k, 11%
- Between £100k and £500k, 67%
- Between £500k and £2m, 0%
- Greater than £2m, 11%
- I cannot estimate this, 11%

Resources employed
Proposed solutions
## Proposed Solutions
### Key areas to address

<table>
<thead>
<tr>
<th>Cost</th>
<th>Detail</th>
<th>Understanding</th>
<th>Forms</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cost outweigh benefits</td>
<td>• Unnecessarily detailed</td>
<td>• Clearer guidance needed: QRT</td>
<td>• Several forms</td>
</tr>
<tr>
<td>• Onerous and time-consuming</td>
<td>• Spurious accuracy</td>
<td>• Lack of understanding of what is submitted</td>
<td>• Same information asked for in different ways</td>
</tr>
<tr>
<td>• Public forms – Significant degree of review needed</td>
<td>• Minimal useful information</td>
<td></td>
<td>• Pubic QRTs very high level so doesn't add value</td>
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<td></td>
<td>• Where is the data being used?!</td>
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Proposed Solutions
What regulations should do

Engage
- Engage more with firms and specify exactly what needs to populated and how

Target
- Ask firms and users what information they would find useful and target that information

Communicate
- Keep firms informed on the purpose of and where the information is being used

Monitor & Refine
- Ensure information collected (private and public) is useful. Conduct regular surveys and refine requirements accordingly.
## Proposed Solutions

### Reporting forms

<table>
<thead>
<tr>
<th>Forms</th>
<th>Proposed Solutions</th>
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</thead>
<tbody>
<tr>
<td><strong>Aggregate</strong></td>
<td>- Should be aggregated to avoid repetition</td>
</tr>
<tr>
<td><strong>Inhomogeneous</strong></td>
<td>- Create inhomogeneous forms specific to companies</td>
</tr>
<tr>
<td><strong>Public forms</strong></td>
<td>- Appropriate level of detail to be more useful</td>
</tr>
<tr>
<td><strong>Align</strong></td>
<td>- Align with market practices e.g., UK GAAP</td>
</tr>
</tbody>
</table>
Conclusion

What is wrong?

How do we fix it?

Benefits outweigh the costs, 8%

Costs and benefits are in balance, 8%

Costs outweigh the benefits, 83%
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