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Solvency II Practical Review Working Party GIRO 2018

Amrita Pattni, Guy Carpenter (Chair)
Shreyas Shah, KPMG LLP
Susan Yang, Tesco Underwriting Ltd

Agenda

- Introduction
- Pillar 3 Reporting: Recap
- Survey Results
- Proposed Solutions
- Conclusion





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Pillar 3 Recap

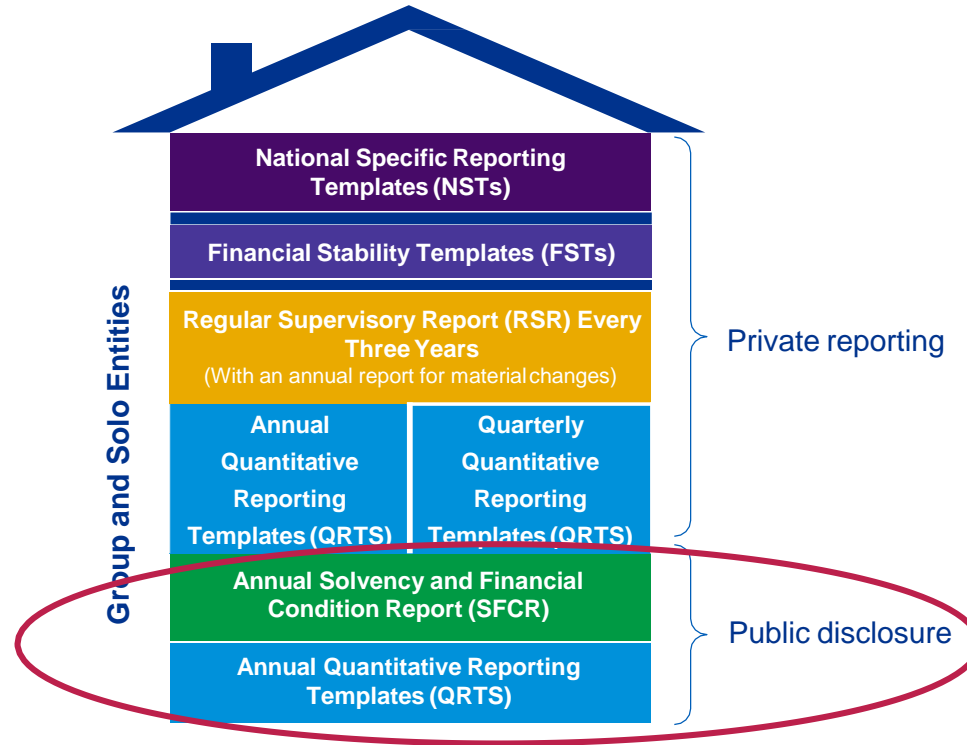
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Introduction

- 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

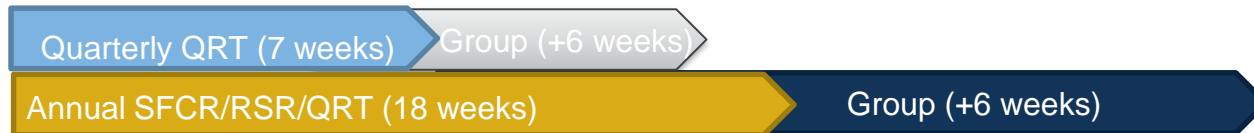


Pillar 3 Reporting: Recap



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.
 - **Solvency and Financial Condition Report (SFCR)** - highlights an insurer's business strategy, solvency and risk exposures. Submitted annually and disclosed publicly.
 - **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

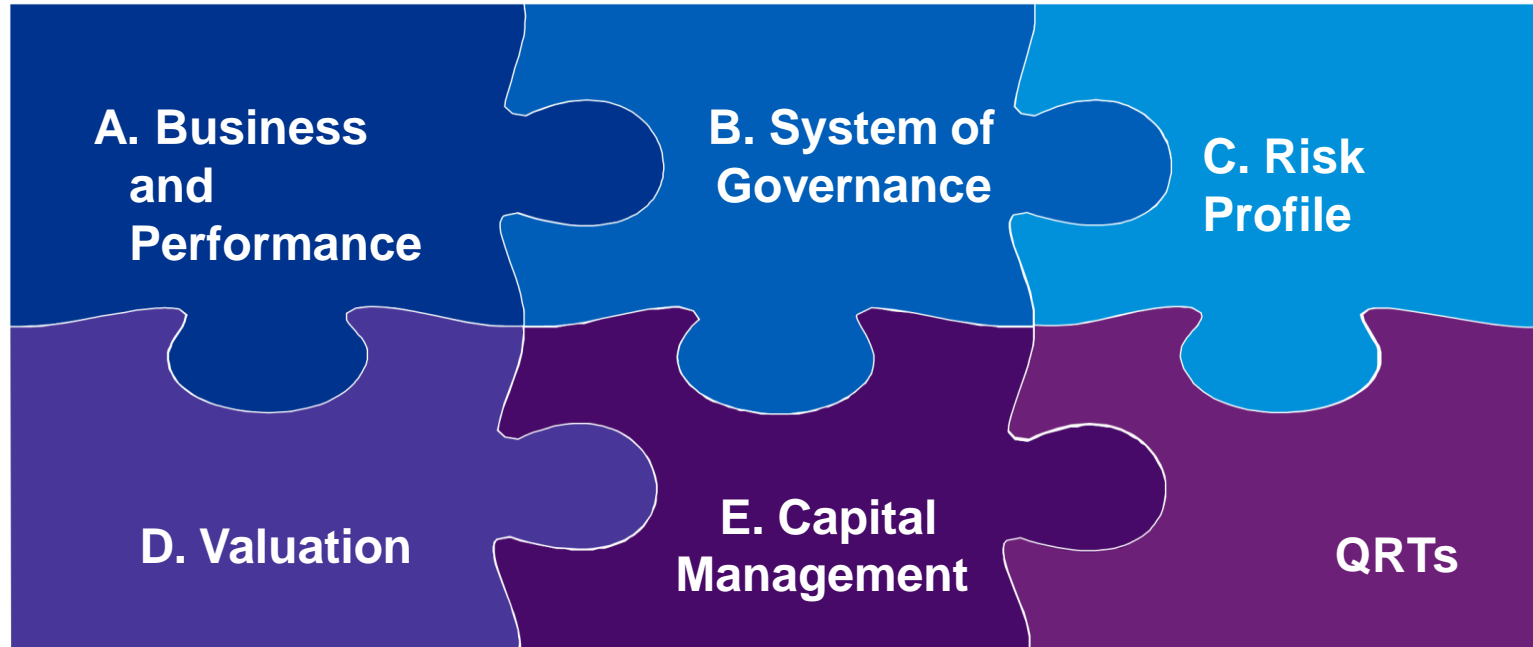
Private submission to PRA

Unaudited

RSR submitted in PDF
QRTs submitted as XBRL and subject
to validation



Pillar 3 reporting: SFCR components





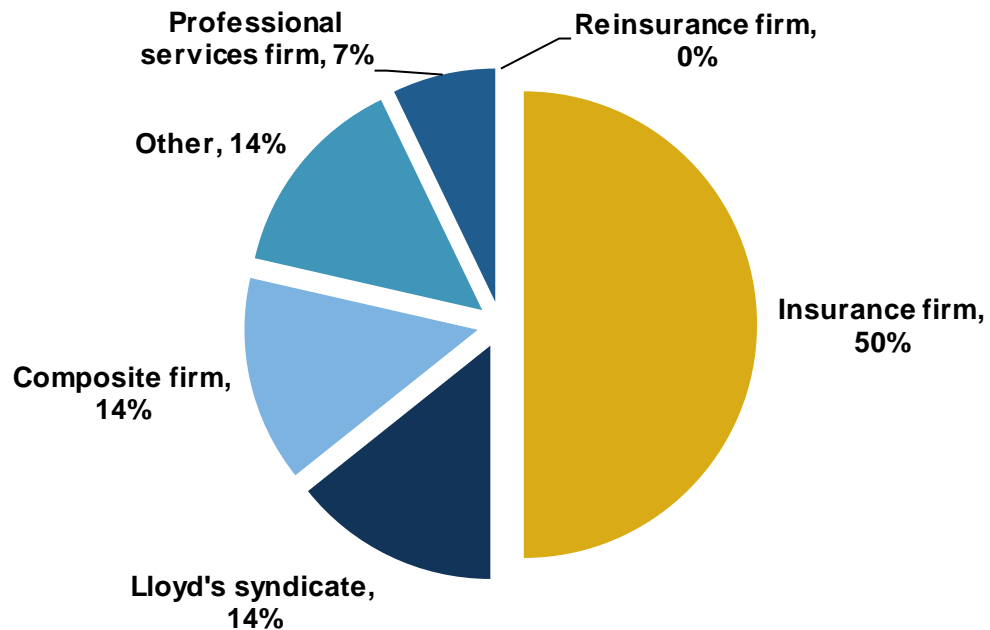
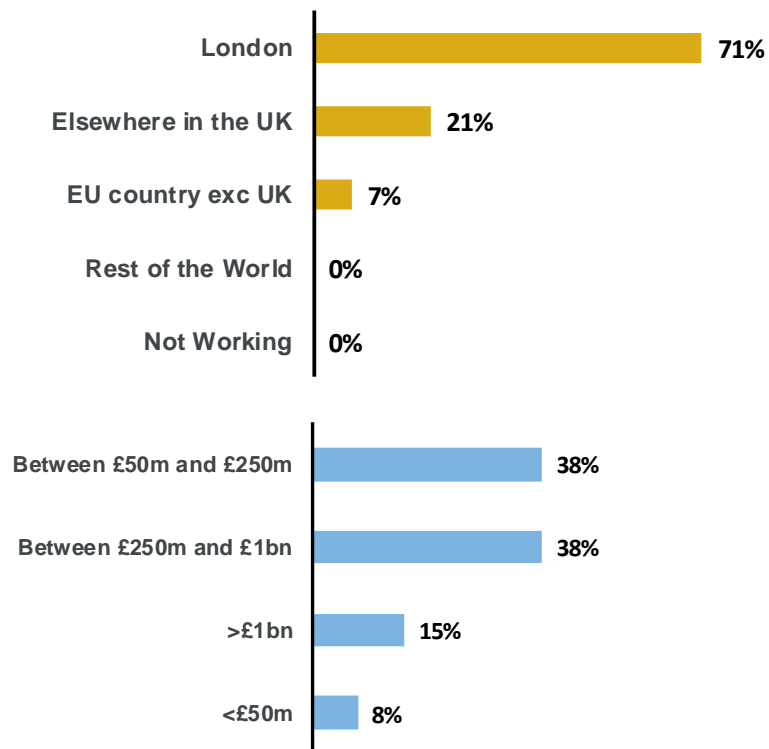
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Survey Results

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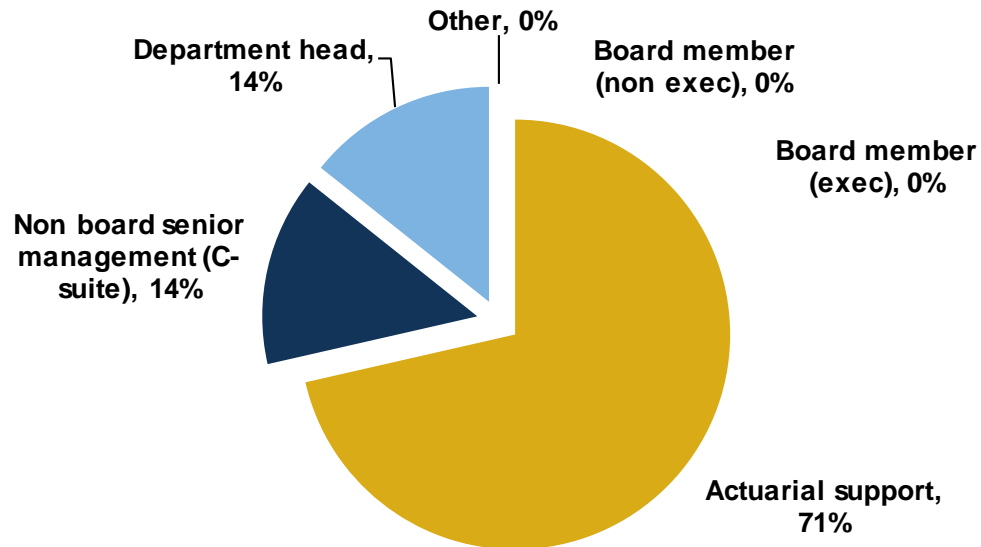
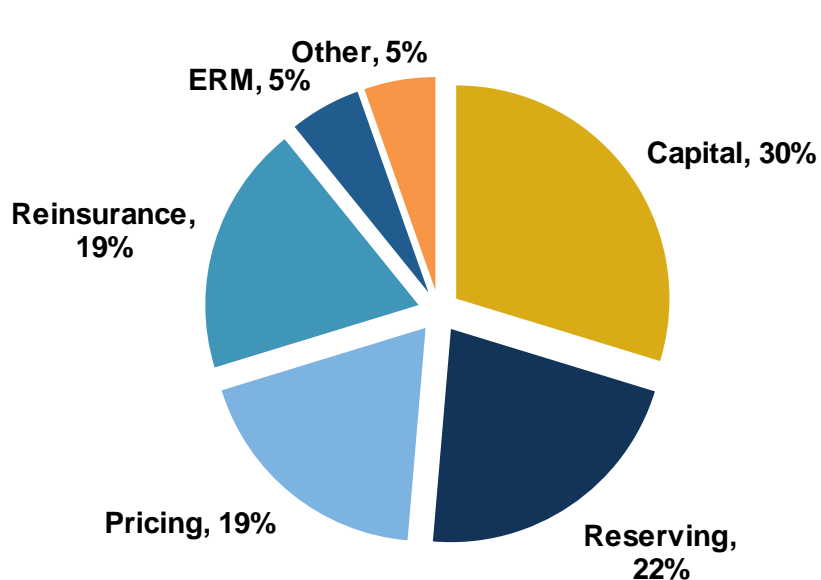
Survey Results

Participants - firm



Survey Results

Participants - role



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.

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**.

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**.

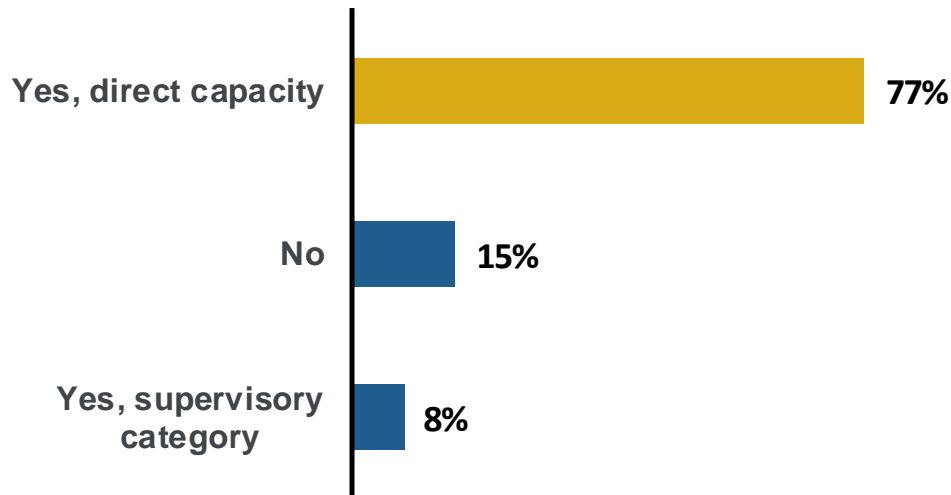
Regulators require relatively **detailed reporting** to dispense their responsibilities. However, **information required should be proportionate** and useful to the regulator rather than a **'wish list'** concocted by EU bureaucrats which has resulted in huge amounts of **complex information** being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



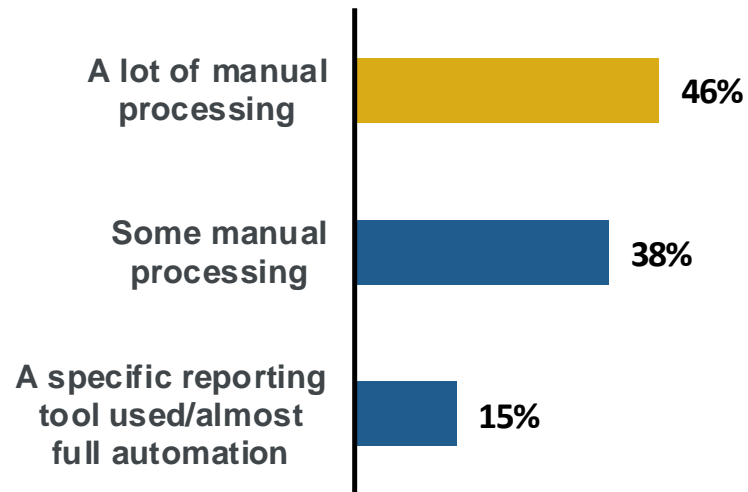
Survey Results

Quantitative reporting template

Have you prepared QRTs before?

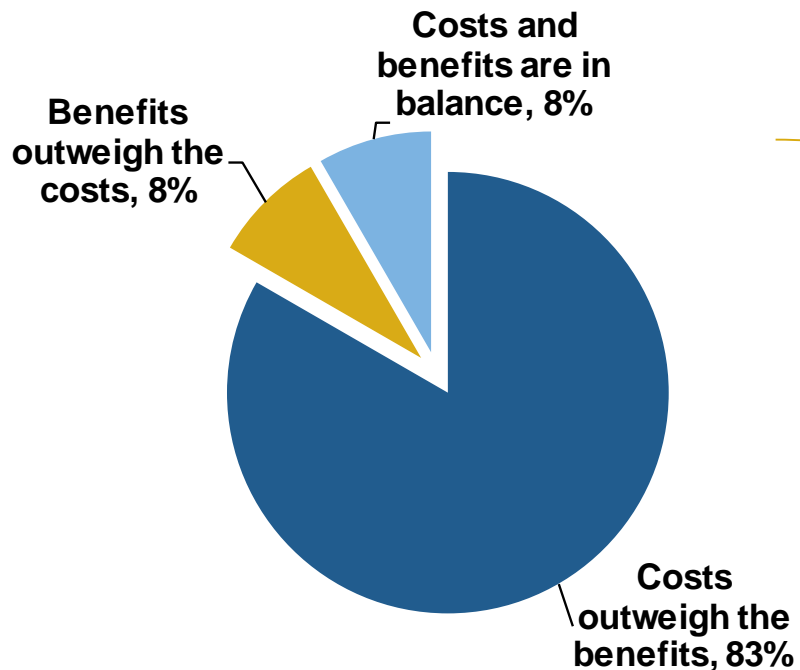


Level of automation in producing QRTs?



Survey Results

Quantitative reporting template – benefits vs. cost implication



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.

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

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.

Fewer forms, better alignment to existing reporting, clearer guidance

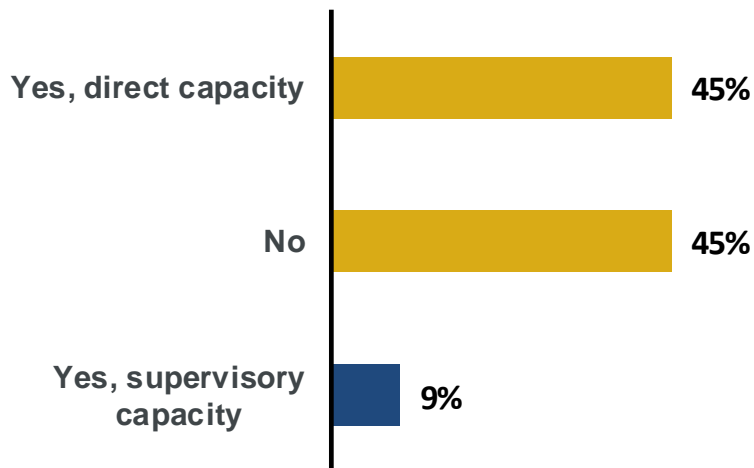
Public QRTs show data at such a high level not sure this adds much. Historic triangle analysis particularly onerous to produce and reconcile / explain reconciliation to the IFRS views presented in annual reports.



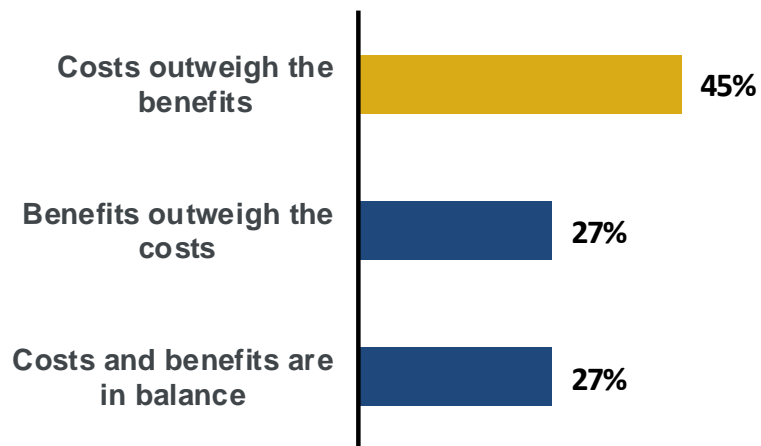
Survey Results

Solvency and Financial Condition Report

Have you prepared SFCRs before?



Costs vs. benefit of SFCRs?



Survey Results

Solvency and Financial Condition Report

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**

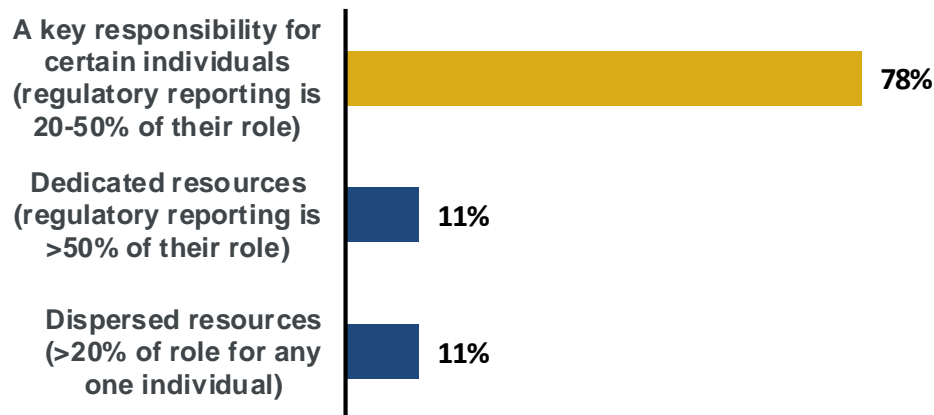
More useful detail for users of the report. Go back to PRA/FSA return format



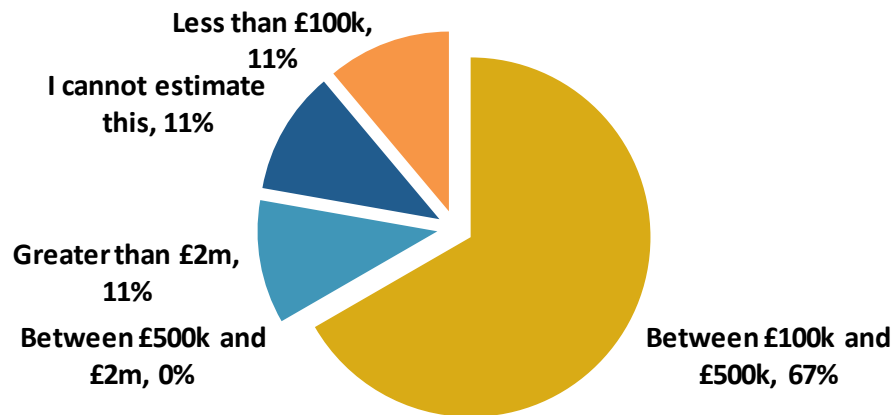
Survey Results

Regulatory Reporting (QRTs and SFCRs)

Resources employed



Cost of producing Regulatory Reporting





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Proposed solutions

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Proposed Solutions

Key areas to address

Cost

- Cost outweigh benefits
- Onerous and time-consuming
- Public forms – Significant degree of review needed

Detail

- Unnecessarily detailed
- Spurious accuracy
- Minimal useful information
- Where is the data being used?!

Understanding

- Clearer guidance needed: QRT
- Lack of understanding of what is submitted

Forms

- Several forms
- Same information asked for in different ways
- Public QRTs very high level so doesn't add value



Proposed Solutions

What regulations should do

	Cost	Detail	Understanding
Engage	<ul style="list-style-type: none">Engage more with firms and specify exactly what needs to be populated and how		
Target	<ul style="list-style-type: none">Ask firms and users what information they would find useful and target that information		
Communicate	<ul style="list-style-type: none">Keep firms informed on the purpose of and where the information is being used		
Monitor & Refine	<ul style="list-style-type: none">Ensure information collected (private and public) is useful. Conduct regular surveys and refine requirements accordingly.		



Proposed Solutions

Reporting forms

Forms

Aggregate

- Should be aggregated to avoid repetition

Inhomogeneous

- Create inhomogeneous forms specific to companies

Public forms

- Appropriate level of detail to be more useful

Align

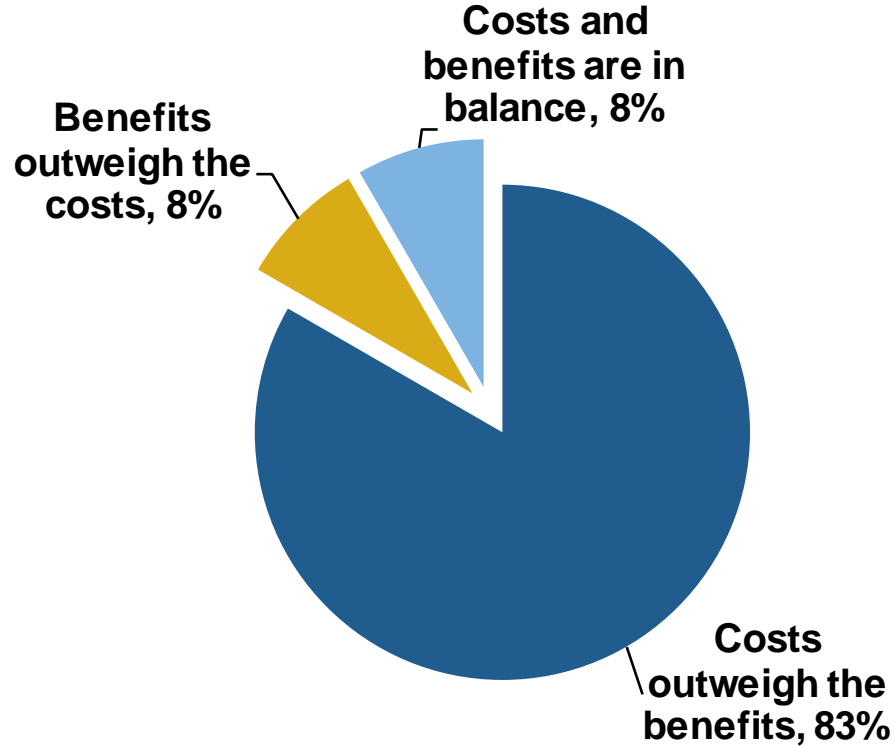
- Align with market practices e.g., UK GAAP



Conclusion

What is wrong?

How do we fix it?



Questions

Comments

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