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MIMA conference
Evolution or revolution?
The changing face of reporting
under Pillar 3

02 Dec 2011



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Agenda

Introduction

The requirements

Areas of controversy and for consultation

What to do next?

Introduction

*Disclose, disclose
and disclose some
more*

A significant challenge

Source: PwC-Survey “Getting Set for Solvency II”, November 2010

... of the respondents see reporting to and dialogue with supervisors as one of the top three significant challenges to the successful implementation of the Solvency II programme.

75%

At what stage is preparation for Pillar 3?

On 8 November, EIOPA published its draft proposals on qualitative and quantitative reporting (“the proposals”).

The result of almost two years of discussions and consideration of the requirements. [During 2010 and 2011 EIOPA conducted two rounds of informal consultations with a number of key stakeholders]

These proposals define the content and format of insurers' Solvency II reporting both on a private basis to their supervisors, and for public reporting to all stakeholders.

The proposals are open for comment until 20 January 2012 and EIOPA plans to finalise reporting requirements in the summer of 2012.

An important milestone in the development of the Solvency II regime

Provide sufficient certainty for insurers to move their reporting workstreams forward

Open for comment until 20 January 2012

The public consultation will be on:

Quantitative

Draft **Proposal** on
Quantitative Reporting
Templates (QRTs)



*To define the fully
harmonised
content of these
templates*

Qualitative

Draft **Guidelines** on
narrative public disclosure &
supervisory reporting,
predefined events and
processes for reporting &
disclosure



*To further specify
elements from
Level 1 and Level 2,
in order to foster
convergence at the
European level*

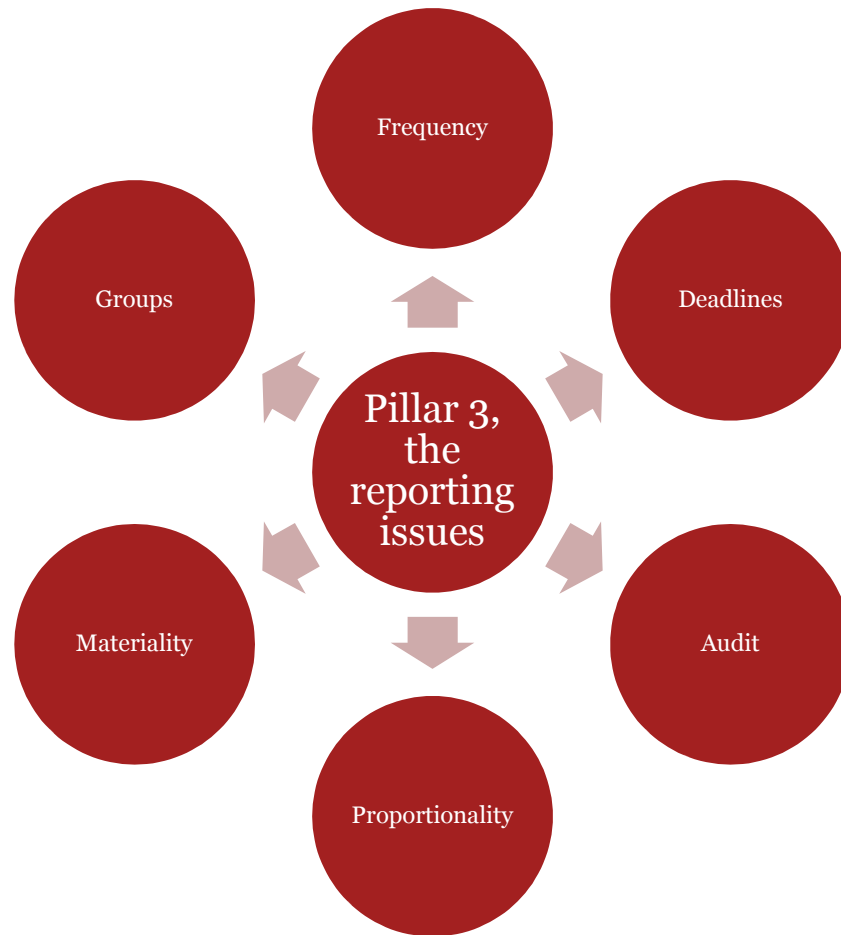
Data for financial stability purposes

EIOPA is also currently
working on additional data
to be collected for **financial
stability purposes** (not
covered by this set of
templates)



*Public consultation
scheduled from Dec
2011.*

The issues surrounding Pillar 3



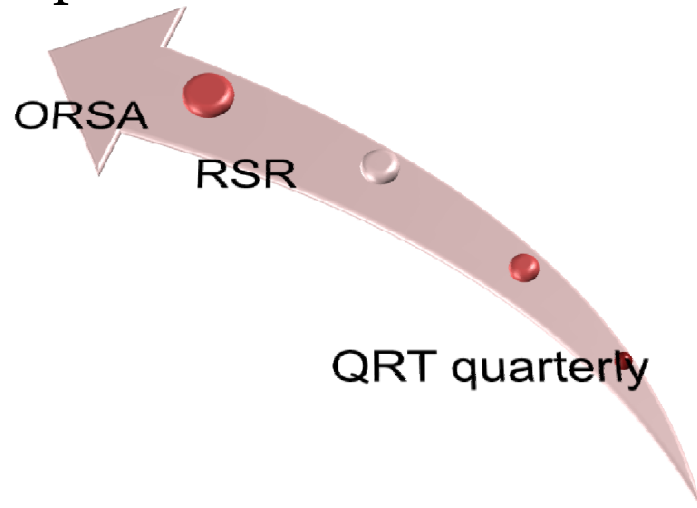
The Requirements

The disclosure requirements combine the results of work done under Pillars 1 and 2, and comprise both qualitative and quantitative aspects.

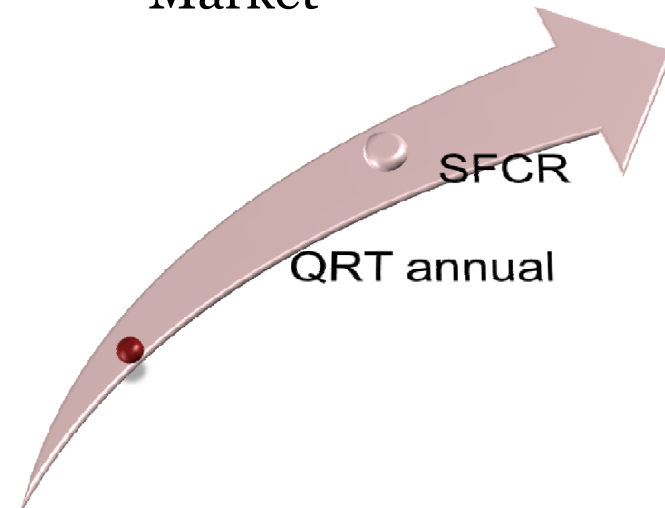
Pillar 3 – Requirements overview

- Reporting required at both group and solo level, (subject to supervisory approval, disclosure can be done only at group level).
- Current proposals require:
 - a mixture of both quantitative and qualitative reporting and disclosure,
 - much more extensive quantitative quarterly and annual reporting.

Supervisor



Market



Solvency and Financial Condition Report (SFCR)

SFCR should include description of:

- The business and the performance of the undertaking
- The system of governance and an assessment of its adequacy for the risk profile of the undertaking
- The risk exposure, concentration, mitigation and sensitivity
- Bases and methods used for the valuation of assets, technical provisions and other liabilities
- Structure and amount of own funds, and their quality
- SCR and MCR
- Information explaining the main differences between the underlying assumptions of the standard formula and those of any internal model
- Amount of any non compliance with the MCR or SCR

***Level 2 requirements expand upon Article 51 of Framework Directive:
Companies are required to disclose publicly, on an annual basis, a report
on their solvency and financial condition***

Regular supervisory report(RSR)

- RSR is a private report to supervisors
- Requires additional information to the SFCR including:
 - Business strategy
 - Legal and regulatory issues
 - Any variance against plan
 - Projections of future solvency needs
 - Future risk exposures

The narrative RSR

EIOPA proposes that:

- firms **summarise** the narrative element of the RSR annually, (with details of any material changes since the previous report, and explanation of the causes and effects of those changes).
- firms also produce a **full version** of the narrative element of the RSR at a frequency set by the national supervisor as part for the supervisory review process. This can be more frequent than the default period set by the EC.

*Level 2 requirements expand upon Article 35 of Framework Directive:
Companies are required to submit quantitative templates on an
annual/quarterly basis.*

Quantitative Reporting Templates (QRTs)

62 templates covering the following areas:

Balance Sheet

Assets

Own Funds

MCR & SCR

Variation Analysis, Country and cover

Technical Provisions (Life)

Technical Provisions (Non-Life)

Reinsurance & SPVs

Group Specific

*Some
templates will
be subject to
public
disclosure.*

Proposed QRTs Frequency and Disclosure requirements

QRT Category	Solo	Group	More than Annual	Public Disclosure
Balance Sheet	X	X	X	X
Assets	X	X	X	
Own Funds	X	X	X	X
MCR	X		X	X
SCR	X	X		X
Variation Analysis, Country & Cover	X	X		
Technical Provisions	X	X	X	X
Reinsurance & SPVs	X	X		
Group specific		X	X	X

This is a high level summary and not all templates in each of the indicated categories are subject to quarterly reporting or disclosure.

Proposed QRTs content

Template category	No. of templates	Summary of contents
Balance Sheet	3	<ul style="list-style-type: none">• Quarterly preparation of SII valuations for assets and liabilities.• Off balance sheet items, assets & liabilities by currency annually.
Assets (investments)	9	<ul style="list-style-type: none">• Detailed list of asset information by portfolio list and by look through.• Mapping to new CIC table required.
Own Funds	2	<ul style="list-style-type: none">• Detailed breakdown of own funds per tier sourcing information from both financial statements and from the Solvency II balance sheet.• Information on ring fenced funds.
MCR & SCR	12	<ul style="list-style-type: none">• Detailed breakdown of MCR and SCR calculations.• Potential disclosure of capital add-ons break down.

This is a high level summary and not all templates in each of the indicated categories are subject to quarterly reporting or disclosure.

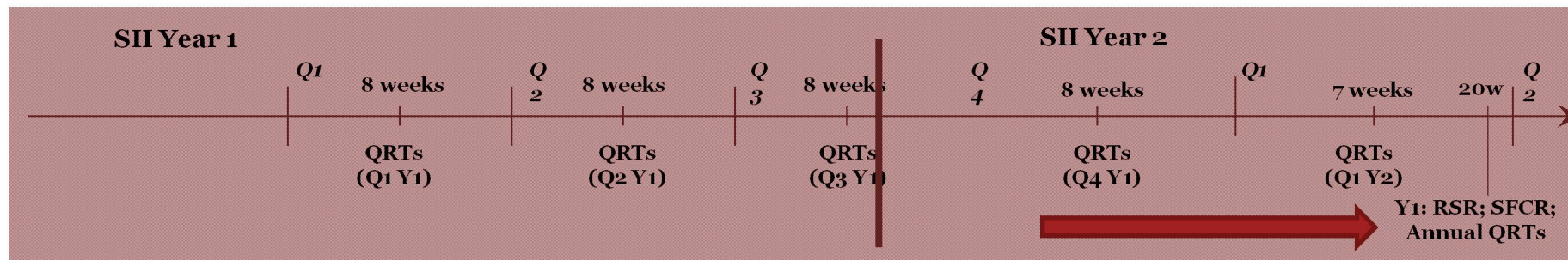
Proposed QRTs content

Template category	No. of templates	Summary of contents
Variation Analysis, Country and Cover	7	<ul style="list-style-type: none">• Variation analysis track changes in own funds over 1 year.• Activity by country.• Analysis of premium, claims and expenses by line of business and by country of localisation of risk.
Technical Provisions (L+NL)	15	<ul style="list-style-type: none">• Best estimate cash flows and risk margin by LoB.• Gross Best Estimate per country and LoB.• 10yr claims triangles (NL).• Information by LoB/currency combinations.
Reinsurance & SPVs	4	<ul style="list-style-type: none">• 10 most important risks in terms of reinsured exposure.• Information per SPV.
Group Specific	10	<ul style="list-style-type: none">• Solvency II information per entity in scope of the group.• Risk concentrations and IGTs.

This is a high level summary and not all templates in each of the indicated categories are subject to quarterly reporting or disclosure.

Expected requirements upon entry into force

Solo entities



- Phasing in:
 - Solo RSR/SFCR/Annual QRTs: 20 weeks, 18 weeks, 16 weeks, 14 weeks.
 - Solo QRTs: 8 weeks, 7 weeks, 6 weeks, 5 weeks.
 - Group RSR/SFCR/Annual QRTs: 26 weeks, 24 weeks, 22 weeks, 20 weeks.

Qualitative reporting – the guidelines

The proposals comprise:

- **27 guidelines dealing with narrative reporting in the SFCR**
- **16 guidelines specific to the RSR**

These are grouped under the standard headings to be used in the RSR and SFCR being:

- Business & performance
- Systems of governance
- Risk profile
- Valuation for solvency purposes
- Capital management

Areas of controversy and for public consultation

*You have until 20
January 2012 to
comment on the
proposals*

Proportionality and Materiality

Proportionality and Materiality in QRTs

- Proportionality should ensure that requirements are proportionate in terms of the **nature, scale and complexity** of the business.
- Materiality, in the context of the SFCR and RSR, states that the information to be disclosed/reported should be considered as material if its omission or misstatement could influence the decision-making or judgement of the users of that document/decision-making or judgement of the supervisory authority.

Stakeholders have previously commented on the lack of guidance on application of proportionality and materiality...

EIOPA has sought to address the issue by creating thresholds for detailed reporting on certain forms, and also by reducing public disclosure requirements on many forms.

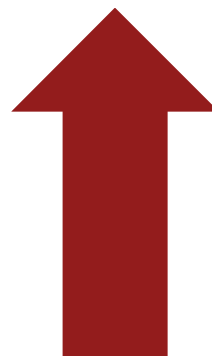
Proportionality & materiality applied

Policy area	Proposed approach									
Quarterly detailed list of assets	<p>Full quarterly reporting to cover at least 90% of the total value of investments at European level; and 75% at a national level. Insurers not required to produce full detailed assets lists, will instead have to submit a summary.</p> <p><i>But, how will individual insurers be selected to ensure that the European and national thresholds are met ?</i></p>									
Underwriting vs. accident year for claims development	<p>EIOPA is not proposing to mandate whether claims development triangles are prepared on an accident year or an underwriting year basis. Proposed allowing national supervisors the flexibility to specify the basis of reporting at a national level (for groups).</p>									
Reporting of reported but not settled (RBNS) claims	<p>RBNS claims will be reported both in claims triangles and in a columnar format.</p> <p>EIOPA believes that both forms of reporting are needed and that the marginal costs of reporting the data in two formats will not be significant.</p>									
Quarterly balance sheet reporting	<p>Insurers will be required to submit a quarterly balance sheet only in cases where the ‘reconciliation reserve’ cannot be explained sufficiently by the information on assets and liabilities that is reported in other quarterly templates.</p>									
Scope of public disclosure	<p>EIOPA is proposing that the following templates are disclosed annually as part of the SFCR:</p> <table border="0"> <tr> <td>Balance sheet</td> <td>Premiums, claims & expenses</td> <td>Own funds</td> </tr> <tr> <td>Solvency capital requirement</td> <td>Minimum capital requirement (solo only)</td> <td>Technical provisions (solo only)</td> </tr> <tr> <td>Entities in scope of the group (group only)</td> <td>Risk concentration (group only)</td> <td></td> </tr> </table> <p>The templates for public disclosure are either the versions used for quarterly reporting (less detail) or simplified versions, of RSR.</p>	Balance sheet	Premiums, claims & expenses	Own funds	Solvency capital requirement	Minimum capital requirement (solo only)	Technical provisions (solo only)	Entities in scope of the group (group only)	Risk concentration (group only)	
Balance sheet	Premiums, claims & expenses	Own funds								
Solvency capital requirement	Minimum capital requirement (solo only)	Technical provisions (solo only)								
Entities in scope of the group (group only)	Risk concentration (group only)									
Ring-fenced funds (RFF)	<p>EIOPA is proposing requiring reporting, at a solo level, for each material ring-fenced fund. <i>But no quantitative guidance is given to assist in determining whether a ring-fenced fund is material.</i></p>									
Variation Analysis	<p>Variation analysis templates will be privately reported to the supervisor on an annual basis. No reporting will be required in the first year following Solvency II implementation.</p>									
Risk Concentration	<p>The QRTs consulted on include a template in respect of risk concentration reporting.</p> <p>EIOPA’s initial preference is only to require qualitative narrative information (with figures included) in the early years of Solvency II’s implementation, (with a quantitative template being introduced at a later date in light of experience).</p>									

To audit or not to audit?

- The proposals do not include any mention of a potential assurance requirement.
- The consultation does NOT cover external audit of regulatory or public reporting.

Level 2 text requires inclusion of name and contact details of the auditor...



It is understood the European Commission is considering leaving the decision to impose any audit requirements over Solvency II reporting **at the discretion of each Member State.**



EIOPA are against this approach and would rather introduce some element of audit requirement.

Specific areas where EIOPA is seeking feedback

Feedback is expected on the whole set of templates. There are a few areas where EIOPA particularly expects feedback from stakeholders:

Variation analysis templates – these have been heavily revised since previous private consultation exercises

Own Funds – Reporting treatment of eligible own funds and treatment of reconciliation reserve

Balance sheet reporting – thresholds for exempting quarterly reporting of the balance sheet.

Reporting risk concentration for groups – should this be done in narrative reporting instead rather than through a quantitative template?

Format of reporting for **ring-fenced funds**

Design of **non-life catastrophe risk** templates

Content of guidelines on **narrative reporting**

What to do next?

Getting ready in time

What to do next?

1. Understand and assess proposals & consider giving feedback.
2. Do not underestimate the work required - Solvency II reporting will be much more detailed and exhaustive compared to current requirements.
3. Get ready in time... we think that it will be important to prepare Solvency II disclosure based on 2012 results. This will allow you sufficient time to identify divergences, if any, and to find solutions.

Get ready in time

1 . Assess



Our proposed approach – Get ready in time

2. Reactive or proactive?



Transforming finance, systems and resources

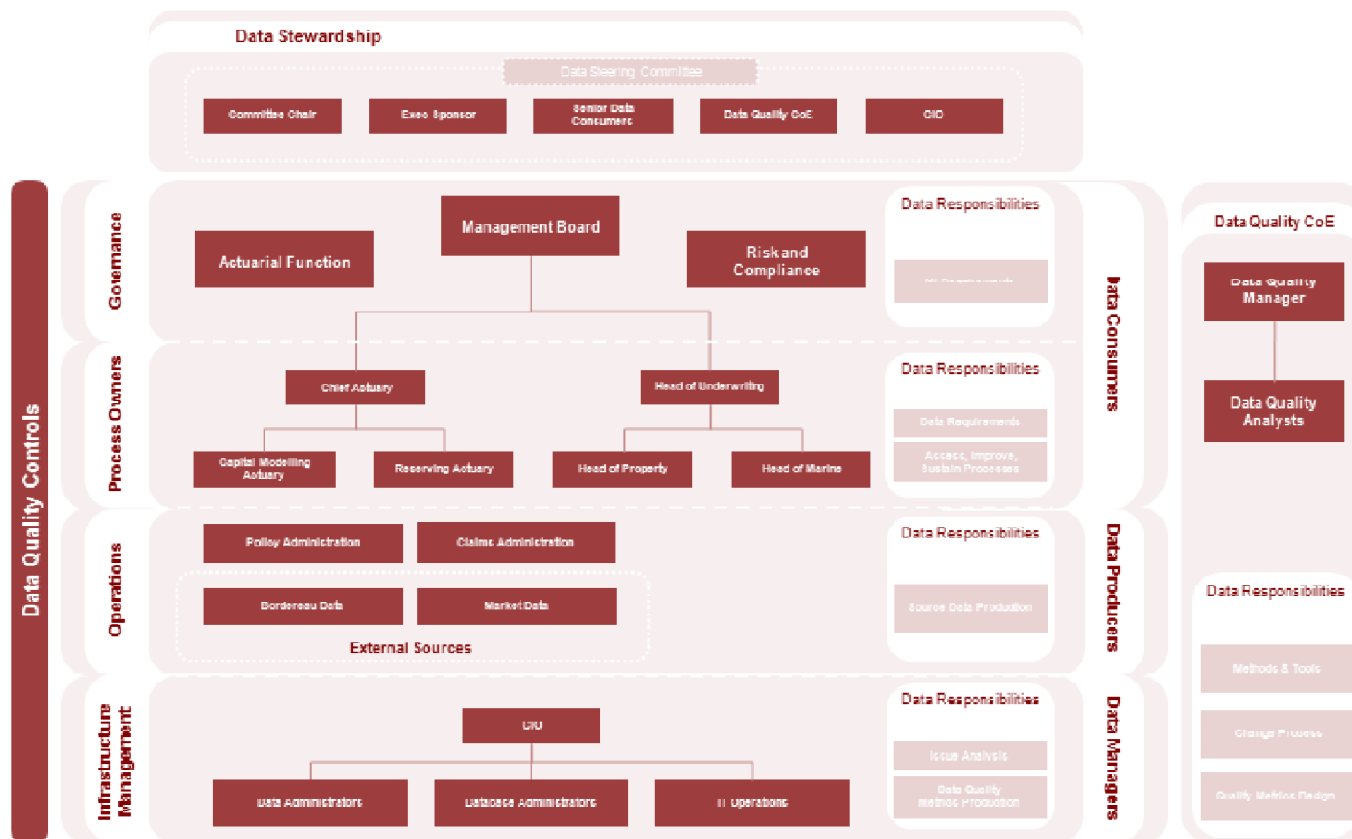
Some companies are taking this opportunity to transform their finance function and to re-evaluate systems, processes and resources.

Short term fix

Some companies may seek to address the compliance requirements without reassessing existing solutions.

Get ready in time

3. Data consistency



Data transcends all aspects of the business and has to be consistent with Pillar III reporting:

- Pillar I
- Pillar II
- IFRS
- MI
- Actuarial
- Risk management
- And more...

Let's get Pillar 3 on track...

Preparing for Pillar 3 has so far taken a backseat.

But with extensive transitional disclosure likely to be required in 2013, and full reporting in 2014 likely to require a huge step up in data, systems and governance, Pillar 3 CANNOT be put off any longer.



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