

EIOPA Consultation Paper on the proposal for guidelines on submission of information to national competent authorities



April 2013

EIOPA's consultation paper on submission of information to national competent authorities proposes a significant level of disclosure of quantitative and narrative information to national supervisors in advance of the introduction of Solvency II

INTRODUCTION

On 27 March 2013 the European Insurance and Occupational Pensions Authority (EIOPA) launched a consultation on the guidelines for the preparation for Solvency II. The purpose of the consultation is to "support both National Competent Authorities (NCAs) and undertakings in their preparation for the Solvency II requirements" with the aim of ensuring a consistent and convergent approach in preparations.

The consultation covers guidelines for the phased introduction of specific aspects of the Solvency II requirements into national supervision from 1 January 2014, in advance of the full implementation of the Solvency II regime. The guidelines are set out in four consultation papers and accompanying explanatory text covering:

- System of governance;
- Forward looking assessment of the undertaking's own risk (based on Own Risk and Solvency Assessment (ORSA) principles);
- Submission of information to NCAs; and
- Pre-application for internal models.

The consultation will run until 19 June 2013 with final guidelines expected to be published by EIOPA in autumn of this year.

To assist you in digesting these consultation papers, Milliman has prepared a series of summary papers covering each of the consultation papers separately. This summary paper covers the guidelines on the submission of information to NCAs.

GENERAL OVERVIEW OF THE CONSULTATION PAPER

Article 35 of the Solvency II Directive states that "Member states shall require insurance and reinsurance undertakings to submit to the supervisory authorities the information which is necessary for the purposes of supervision".

However, EIOPA is concerned that, in the absence of political agreement over Omnibus II, different national approaches to supervision may emerge which could be detrimental to the functioning of a good internal market.

As a result, EIOPA's Consultation Paper on the submission of information to NCAs ("the Consultation Paper") proposes guidelines to be implemented from **1 January 2014**. These guidelines require NCAs to ensure that insurers and reinsurers have the systems and processes to provide high quality information to supervisors, and furthermore that undertakings should submit to NCAs the qualitative and quantitative information set out in the Consultation Paper.

EIOPA sets out in the Consultation Paper the information that it proposes should be submitted to NCAs on a quarterly basis and on an annual basis, the proposed reporting periods and deadlines for such submissions, as well as the thresholds for the submission of quarterly and annual information.

The information required by the Consultation Paper comprises a subset of the existing draft Solvency II reporting requirements, and would only be required to be submitted by a subset of insurers and reinsurers in each territory.

The Consultation Paper also proposes that NCAs should provide EIOPA with a progress report on the application of the guidelines. This progress report should be sent by the end of February following each relevant year, with the first report due by 28 February 2015 based on the 2014 calendar year.

PROCESS AND DATES

It is EIOPA's intention that the information required to be submitted annually should be submitted **once** before Solvency II is introduced, and the proposed quarterly information should be submitted in relation to the **two quarters** prior to the introduction of Solvency II.

The Consultation Paper therefore proposes that the annual quantitative information and the narrative reporting outlined in the Consultation Paper should be completed in relation to the financial year of the firm ending on or after **31 December 2014** and should be submitted to the NCA within twenty weeks of the firm's financial year end.

Those firms required to submit quarterly quantitative information should complete their first quarterly reporting submission in relation to the quarter ending on **30 September 2015**, and should submit this to the NCA within 8 weeks of the quarter end.

This rests on the assumption that Solvency II will be introduced on 1 January 2016, and as such, EIOPA states that submission dates will be reviewed at the end of 2013 in light of any developments around the Omnibus II Directive.

For reporting by groups, 6 weeks will be added to the annual and quarterly submission deadlines referred to above.

WHO WILL BE REQUIRED TO SUBMIT INFORMATION?

Solo Entities

NCAs will need to ensure that submissions of annual quantitative information represent at least 80% of the national market share, and submissions of quarterly information represent at least 50% of the national market share.

National market share should be measured separately for life and non-life business.

For life business, the market share of an undertaking would be measured by gross life technical provisions, and for non-life business by gross (direct and reinsurance accepted) non-life written premiums.

Taking life and non-life business separately, NCAs should identify those insurers and reinsurers at a solo level whose accumulated market share reaches at least 80% (or 50% for the purposes of quarterly reporting), classifying them from the one with the highest market share to the one with the lowest.

We note that the measure chosen by of 80% market share for annual reporting and 50% for quarterly reporting could in fact mean that only a relatively small number of solo entities are required to submit information under the provisions of the Consultation Paper.

In the Netherlands 80% of market share (i.e., the threshold for annual quantitative and narrative reporting) corresponds to less than 15% of solo life undertakings, and 50% of market share (i.e., the threshold for quarterly quantitative reporting) corresponds to less than 10% of solo life undertakings, using Solvency I prudent gross mathematical reserves as at end-2011 as a proxy measure.

For non-life companies in the Netherlands 80% of market share corresponds to less than 15% of solo undertakings (although more than 20 legal entities in total), and 50% market share corresponds to less than 5% of solo undertakings. This is based on gross premiums as reported under Solvency I at end-2011.

It should be noted that the DNB is free to require that more entities participate in this preparatory exercise than the minimum threshold outlined above.

Groups

For insurance or reinsurance groups, the Consultation Paper suggests that NCAs ensure that undertakings or insurance holding companies at the head of an insurance or reinsurance group must submit to the group supervisor **annual and quarterly** quantitative information provided that the group's consolidated assets exceed €12 billion (or equivalent).

In those territories without an insurance or reinsurance group of this size, the NCA should decide whether to request the annual and quarterly quantitative information from groups headquartered in that territory, having regard for the nature, scale and complexity of the risks inherent to the business of the group and its significance in the local market.

QUANTITATIVE INFORMATION TO BE SUBMITTED

A list of the quantitative information required to be submitted annually and quarterly by solo entities and groups is given in Annex 1 of this briefing.

The information required to be submitted annually by those solo entities falling within the annual reporting threshold includes:

- **Basic information;**
- **Balance sheet;**
- Assets and liabilities split by currency;
- **Detailed list of assets and derivatives;**
- **Technical provisions;**
- **Own funds;**
- Solvency Capital Requirement (SCR);
- Breakdown of the components of the SCR; and
- **Minimum Capital Requirement (MCR).**

The items above highlighted in **bold** are the items which are required to be submitted as part of the quarterly quantitative information, for those firms falling within the quarterly reporting threshold.

It should be noted that Technical Provisions – Best Estimate by Country (references **TP-E1 and TP-F1**) are **not** required items for this preparatory phase, but will be required under Solvency II.

Groups

The information required to be submitted annually at a group level by those insurance or reinsurance groups which fall within the relevant annual reporting threshold includes:

- **Basic information;**
- **Balance sheet;**
- **Detailed list of assets and derivatives;**
- **Own funds;**
- Solvency Capital Requirement (SCR);
- Breakdown of the components of the SCR;
- Entities in the scope of the group;
- Insurance and reinsurance solo requirements;

- Other regulated and non-regulated financial entities including insurance holding companies solo requirements; and
- Contribution to group technical provisions.

The items above highlighted in **bold** are the items which are required to be submitted at a group level as part of the quarterly quantitative information, for those insurance or reinsurance groups falling within the quarterly reporting threshold.

Consolidation Method for Groups

In the above list for groups, the Balance Sheet (reference **BS-C1**) and all SCR information need **only** be provided at a group level if the method of consolidation used within the group is the **accounting consolidation-based method** (as per Article 230 of the Solvency II Directive), either exclusively or in combination with the **deduction and aggregation method** (as per Article 233 of the Solvency II Directive).

Those firms exclusively using the deduction and aggregation method are not required to submit balance sheet and SCR information separately at a group level, as this information can easily be deduced from the solo-level information.

It is proposed that the NCA (in the role of group supervisor) should form a view on whether a group may apply the deduction and aggregation method or a combination of this method with the accounting consolidation-based method, where the exclusive application of the accounting consolidation-based method is not deemed to be appropriate.

The Consultation Paper also suggests that such a view on the use of the deduction and aggregation method would be applied without prejudice to any future decision of the group supervisor once Solvency II is in force.

Internal Model Firms

For those firms (solo entities and groups) who have been allowed to enter the pre-application process for an internal model, the items relating to the SCR in the above list should be submitted under both internal model **and** standard formula calculations. However, the breakdown of the SCR into its components on an internal model basis may be submitted according to specific templates agreed with the relevant NCA.

Ring-fenced Funds

For those firms with ring-fenced funds, the information on the aggregate SCR (references **SCR-B2A, SCR-B2B, SCR-B2C**) should comprise the SCR for the undertaking as a whole (solo entities and groups), taking due account of ring-fenced funds within the undertaking.

However, the Consultation Paper proposes that the information on the components of the SCR (references **SCR-B3A to SCR-B3G**) should comprise the SCR in respect of the ring-fenced fund which has the largest SCR, **and** the SCR in respect of the rest of the business of the entity or group, ignoring other ring-fencing arrangements.

We note that the requirement to submit the components of the SCR only for the largest of a firm's ring-fenced funds is less burdensome than the proposed Solvency II rules which are likely to require separate reporting for each ring-fenced fund.

It remains to be seen whether this requirement has arisen out of practical considerations in respect of the level of work which would be required within firms to report on every ring-fenced fund, or whether EIOPA is testing the water ahead of a relaxation in the existing draft Solvency II rules around reporting on ring-fenced funds.

NARRATIVE INFORMATION TO BE SUBMITTED

In addition to the annual and quarterly quantitative submissions to NCAs, the Consultation Paper also requires narrative information to be provided at the same time as the annual quantitative information. However, this narrative information is only required on the following areas:

- Systems of governance;
- Capital management; and
- Valuation for solvency purposes.

This is a subset of the narrative reporting requirements under existing draft Solvency II rules. For example, disclosures around the ORSA are covered by separate requirements in another consultation paper.

The Consultation Paper states that the threshold for providing this information in the preparatory phase should be the same as the threshold used for the quantitative information.

System of Governance

The narrative report provided by firms should give information to the NCA on:

- General governance requirements;
- Fit and proper requirements;
- The risk management system;
- The internal control system; and
- Governance structure.

The information on **general governance requirements** should allow the NCA to gain a good understanding of:

- The system of governance within the firm and its appropriateness to the firm's business strategy and operations;
- Delegation of responsibilities, reporting lines and allocation of functions; and
- The structure of the firm's administrative, management or supervisory body, including a description of main roles and of the segregation of responsibilities within these bodies.

The information on **fit and proper requirements** should include a list of people within or external to the firm who are responsible for key functions, as well as the policies and processes of the firm which were established to ensure that those people are fit and proper.

The information on the firm's **risk management system** should include:

- A description of the firm's risk management system, including information on strategies, processes and reporting procedures, as well as information on how the firm effectively identifies, measures, monitors, manages and reports its risks on a continuous basis;
- A description of how the risk management system (including the risk management function) is implemented and integrated into the organisational structure and decision-making process of the firm;
- Information on the firm's risk management strategies, objectives, processes and reporting procedures for each category of risk;
- Information on how the firm invests all its assets in accordance with the prudent person principle; and
- Information on how the firm verifies the appropriateness of credit assessments from external credit assessment institutions.

The information on the **internal control system** should include information on the key procedures that the internal control system includes, and a description of how the compliance function is implemented.

The information on **governance structure** should include an organisational chart indicating the positions of key function holders within the firm.

In addition to the information outlined above, groups are required to provide information on:

- How the risk management and internal control systems and reporting procedures are implemented consistently in all the undertakings included in the scope of group supervision;
- Whether the group is providing assessments of the group and its individual solo undertakings within a single document (an option provided for by Article 234(4) of the Solvency II Directive);
- Any material intra-group outsourcing arrangements; and
- Qualitative and quantitative information on material specific risks at group level.

Capital Management

The narrative report provided by firms should give the following information to the NCA:

- A quantitative and qualitative explanation of any material differences between equity as shown in the undertaking's financial statements and the excess of assets over liabilities as calculated for solvency purposes;
- Information on the structure, amount and quality of basic own funds and ancillary own funds;
- Information on how the group's own funds have been calculated net of any intra-group transactions (groups only); and
- The nature of any restrictions to the transferability and fungibility of own funds in other undertakings within the group (groups only).

Valuation for Solvency Purposes

The narrative report provided by firms should give information on the following:

- The valuation of assets;
- The valuation of technical provisions; and
- The valuation of other liabilities.

The information on the valuation of assets should include:

- For each material asset class, the value of assets and a description of the bases, methods and main assumptions used for valuation for solvency purposes; and
- For each material asset class, a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used for the valuation for solvency purposes and those used for their valuation in financial statements.

The information on the valuation of technical provisions should include:

- For each material line of business, the value of technical provisions including a split between the best estimate liability and the risk margin, as well as a description of the bases, methods and main assumptions used for their valuation for solvency purposes;
- A description of the level of uncertainty associated with the amount of technical provisions;
- For each material line of business, a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used for the valuation for solvency purposes and those used for their valuation in financial statements; and
- A description of the recoverables from reinsurance contracts and special purpose vehicles.

The information on the valuation of other liabilities should include:

- For each material class of other liabilities, the value of other liabilities as well as a description of the bases, methods and main assumptions used for their valuation for solvency purposes; and
- For each material class of other liabilities, a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used for the valuation for solvency purposes and those used for their valuation in financial statements.

The information provided on the valuation of assets and liabilities for solvency purposes should include a description of relevant assumptions about future management actions and future policyholder behaviour.

In addition, where a mark-to-model valuation technique is used, information should be provided which identifies the assets and liabilities to which

this approach applies and provides justification for the use of that valuation approach, as well as documentation of the assumptions underlying the approach and an assessment of the valuation uncertainty of the assets and liabilities which are valued under this approach.

Finally, for groups where bases, methods or main assumptions used for at the group level for assets, technical provisions or other liabilities differ materially from those used by any of the group's solo undertakings, the group should provide a quantitative and qualitative explanation of any material differences.

SUMMARY

EIOPA's publication of a consultation paper on the submission of information to NCAs in advance of the implementation of Solvency II is intended to ensure a consistent and convergent approach in preparations for Solvency II.

The Consultation Paper proposes the submission of a significant level of detailed quantitative and qualitative information to NCAs as at 31 December 2014, with the first set of quarterly information due as at 30 September 2015.

It remains to be seen whether these dates remain fixed in the light of continuing uncertainty over whether Solvency II will be implemented in full on 1 January 2016.

The information which will be required to be submitted to NCAs is unlikely to come as a great surprise to many, and, as a subset of the existing Solvency II reporting requirements with some notable omissions, it is unlikely to cause major difficulties in principle to firms who are on track with their Solvency II preparation.

However, it should be noted that firms who are in the pre-application process for an internal model will be required to submit information under both internal model and standard formula calculations.

We note that number of Dutch firms required to participate in this preparatory phase of reporting is likely to be relatively small. We estimate that less than 15% of entities will be required to provide the annual quantitative information and the narrative information, and less than 10% of entities will be required to submit the quarterly quantitative information. The DNB has the ability to require more firms to participate in this preparatory exercise than

the minimum thresholds outlined in the Consultation Paper.

For those firms who are required to submit information, these requirements will run in parallel with existing national reporting requirements, and therefore the fulfilment of existing reporting obligations as well as producing a dry run for Solvency II reporting could result in a strain on firms' resources during 2014 and 2015.

Annex 1 – List of reporting items required

Reporting requirement	Solo entities		Groups	
	Annual	Quarterly	Annual	Quarterly
BI - Basic information	✓	✓	✓	✓
BS-C1 - Balance sheet	✓	✓	✓	✓
BS-C1D - Assets and liabilities by currency	✓			
AS-D1 - Detailed list of assets	✓	✓	✓	✓
AS-D20 - Detailed list of derivatives (open positions)	✓	✓	✓	✓
TP-E1Q - Non-life technical provisions	✓			
TP-F1Q - Life and health similar to life techniques technical provisions	✓			
OF-BQ1 - Own Funds	✓	✓	✓	✓
SCR-B2A - Solvency Capital Requirement for undertakings on Standard Formula or Partial Internal Models	✓		✓	
SCR-B2B - Solvency Capital Requirement for undertakings on Partial Internal Models	✓		✓	
SCR-B2C - Solvency Capital Requirement for undertakings on Full Internal Models	✓		✓	
SCR-B3A - Solvency Capital Requirement for market risk	✓		✓	
SCR-B3B - Solvency Capital Requirement for counterparty default risk	✓		✓	
SCR-B3C - Solvency Capital Requirement for life underwriting risk	✓		✓	
SCR-B3D - Solvency Capital Requirement for health underwriting risk	✓		✓	
SCR-B3E - Solvency Capital Requirement for non-life underwriting risk	✓		✓	
SCR-B3F - Solvency Capital Requirement for non-life catastrophe risk	✓		✓	
SCR-B3G - Solvency Capital Requirement for operational risk	✓		✓	
MCR-B4A - Minimum Capital Requirement - Undertakings other than composites	✓	✓		
MCR-B4B - Minimum Capital Requirement - Composite Undertakings	✓	✓		
G01 – Entities in the scope of the group			✓	
G03 – Insurance and reinsurance solo requirements			✓	
G04 – Other regulated and non-regulated financial entities including insurance holding companies solo requirements			✓	
G14 – Contribution to group technical provisions			✓	

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