Need for high quality public disclosure: Solvency II's report on solvency and financial condition and the potential role of external audit

One of the cornerstones of the new supervisory regime (Solvency II) is transparency. In order to guarantee transparency, the Solvency II Directive requires insurance and reinsurance undertakings to publically disclose essential information on their solvency and financial condition.

For most parts of the European insurance and reinsurance market this is a novelty and a paradigm shift in terms of communication with the outside world, which previously - in terms of prudential information - was quite often limited to reporting to supervisory authorities.

EIOPA believes that public disclosure as required by the Solvency II Directive 2009/138/EC and herein by the report on solvency and financial condition (SFCR) is a unique opportunity for insurance and reinsurance undertakings to address stakeholders' perception on perceived opaqueness and inadequacy of publically disclosed information. We encourage insurance and reinsurance undertakings to embrace this opportunity and to actively engage in consistent, comparable and high quality communication with their stakeholders on their solvency and financial condition.

Whilst EIOPA fully appreciates the potential of such public disclosures, EIOPA is mindful of the challenges associated with them. EIOPA is convinced that only high quality disclosed figures and good public reports can fulfil the goals set out by Solvency II. Otherwise, stakeholders may be misguided in their judgements, in comparison to other public disclosure like financial statements, which are strictly regulated and scrutinised. Therefore, EIOPA and its members will be very attentive to the actual application of the Solvency II public disclosure by insurance and reinsurance undertakings and potentially divergent levels of quality in different Member States.

Some Member States currently require an external audit of supervisory reporting and regulatory public disclosures. EIOPA believes that to ensure high quality public disclosure for Solvency II purposes, external audit of that information can certainly be a powerful tool. In order to make best use of external audit in the context of SFCR, EIOPA is of the view that at individual and group level main elements of the SFCR (balance sheet, own funds and capital requirements) of all insurance and reinsurance undertakings could fall within the scope of an external audit.
EIOPA believes that statutory auditors, within the scope of the Audit Directive 2014/56/EU and Audit Regulation, are qualified to carry out an external audit of the main elements of the SFCR, also considering the application of international auditing standards or, where appropriate, of nationally accepted standards on auditing or assurance engagements to arrive at a reasonable assurance opinion on the information publically disclosed. In that case EIOPA is convinced it is of paramount importance for auditors to issue a public opinion and an audit report on whether the disclosed elements have been properly prepared, in all material respects, in accordance with the Solvency II regulatory framework.

When carrying out an external audit, auditors should take into account the rigorous system of authorisations, supervisory approvals and internal validations carried out in accordance with the Solvency II Directive, for example in relation to internal models approved to be used for the determination of capital requirements.