EIOPA-IRSG-12-05
24 February 2012

OPINION of the EIOPA Insurance and Reinsurance Stakeholder Group regarding EIOPA Consultation on Reporting Package (part 2)

(EIOPA-CP-11/009, 8 November 2011; CP EIOPA-CP-11/2011, 21 December 2011)

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Introduction and legal basis:

In November 2011, EIOPA initiated the public consultation on the Reporting package which covers the following:

a. Draft proposal on Quantitative Reporting Templates, that define the fully harmonized content of these templates;
b. Draft Guidelines on Narrative Public Disclosure & Supervisory Reporting, Predefined Events and Reporting & Disclosure Processes, that further specify elements from the Solvency II Directive ("Level 1") and draft delegated act ("Level 2") on these issues, in order to foster convergence at the European level.
c. Draft Add-on Quantitative Reporting Requirements for financial stability purposes.

This consultation follows the delivery of EIOPA's final advice for the implementing measures to the Commission in June 2010 and the fifth QIS exercise in March 2011. Since then, EIOPA has been preparing the final steps of the implementation of Solvency II in Europe. Under the Regulation establishing EIOPA, EIOPA has the power to develop standards as well as to issue guidelines and recommendations. The standards will become binding after endorsement by the Commission. The guidelines and recommendations are non-binding tools which should ensure the consistent, efficient and effective supervisory practices within the European System of Financial Supervisors as well as the common, uniform and consistent application of Union Law. It is expected that current proposals included in the Reporting Package will be used for the purpose of future technical standards and guidelines.

The current opinion is the second and last part of the input to be provided by the IRSG to EIOPA consultation on the Reporting Package and it covers in particular the following items:

d. Underwriting vs accident year triangles and triangles size
e. RFF (ring-fenced funds)
f. Narrative guidelines
g. Overview on SCR/MCR templates
h. Overview on TP/Reinsurance/Variation analysis templates
i. Overview on Group/Risk concentration templates

The EIOPA Insurance and Reinsurance Stakeholder Group competence to deliver an opinion towards EIOPA consultation on the reporting package is based on Article 37 of EIOPA Regulation (1094/2010/EC), as the outcome of this consultation will be used for the drafting of future technical standards and guidelines.

General observations regarding EIOPA consultation on Reporting Package:

IRSG considers that consistent ongoing reporting to the regulator is a key aspect of a risk based supervisory regime and is an important element of Solvency II. IRSG would also agree that such requirements should be proportionate to the nature, scale and complexity of the insurer and its operations and needs to be balanced with policyholder protection. However, IRSG notes that

some proposed reporting requirements are overly detailed for the purposes of microprudential and macroprudential supervision. The objective of reporting should be to enable regulators, who are now utilising a risk based supervisory approach under Solvency II, to identify whether there are specific issues which need discussion with individual companies they are supervising. It needs to be closely aligned with Pillar 2 and how companies are internally managing the risks. The objective is not to provide data so as to re-perform but to gain comfort that appropriate risk management is being undertaken by management to protect policyholders. Therefore it is important that data requests are relevant to this and not produced solely for regulatory data collection but leverages wherever possible how companies manage the business. This should ensure that the right balance is drawn in terms of granularity, materiality and proportionality. At present IRSG think the EIOPA requirements remain overly prescriptive and burdensome in this regard.

Similarly to our concern for the detailed list of assets, the level of details required for the **reinsurance and technical provisions reporting templates** (detailed list of the reinsurance treaties, information at product level in TP-F3) is particularly burdensome and costly beyond the benefit of such analysis.

Regarding **claims triangles**, IRSG believes that insurers should report claims triangles to the supervisor using the same basis (accident or underwriting year) applied by management to determine the technical provisions. It would be inappropriate to impose a basis at a European or a National supervisory level that is not used by management itself.

IRSG recognises the importance of providing an explanation of year on year movement but believes that the **variation analysis** reporting templates proposed do not correspond to how Solvency II results are analysed. In particular, IRSG notes that the proposal is far from the current practice for MCEV purposes and analytical tools and systems used by the majority of undertakings will not enable the completion of the templates to the high level of granularity proposed. The proposed templates combine accrual basis, cash flow basis and best estimates and therefore are more similar to profit and loss information which as such would introduce new requirements under Solvency II at this very late stage in the process. Moreover, the Variation Analysis templates should only be completed by solo entities and should remain private, and IRSG propose to develop with EIOPA a template that works for Industry and EIOPA. For internal model users, IRSG would suggest an option could be open which permits companies to use their own way of producing variation analysis, for example P&L attribution analysis.

IRSG supports EIOPA's current proposal to require **SCR templates** on an annual basis only. In IRSG's view, it would be preferable to have standard templates that follow the layout of the standard formula but allow firms to indicate whether each risk has been internally modelled or not.

IRSG believes that the Article 69 of the Level 2 delegated acts defining the **ring-fenced fund** should be clarified especially to confirm that conventional unit linked and reinsurance business do not fall within the scope of ring-fenced funds and that ring fencing of insurance obligations without a designation of own funds doesn't constitute ring fenced funds. IRSG also believes that the level of information that shall be required should depend on a level of materiality consistent with the level that will be proposed to avoid calculating a notional SCR. In that sense, IRSG

supports a high threshold that would assure consistency between the Pillar 1 and Pillar 3 requirements.

IRSG welcomes the removal of some of the **Group reporting templates** and believe that the information requested at Group level should be limited. IRSG has concerns around the granularity of the requirements to report at group level at the level of the legal entity for non EEA entities.

In IRSG's view, any requirement regarding **narrative guidelines** should be limited to the Solvency II framework.

In relation to the implementation costs, any effort from EIOPA to make easy the development of software applications will be welcomed; especially for small undertakings cost could be very high and with no added value.

Finally, the IRSG is of the view that there must be at least an 18 months period between achieving sufficient certainty on the content of the reporting requirements and full implementation of Solvency II. This would ensure that supervisors and the (re)insurers have sufficient time to implement the necessary systems and process in time before a full entry into force of Solvency II.

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Adopted by the EIOPA Insurance and Reinsurance Stakeholder Group at Frankfurt am Main, 24 February 2012.

The Chairperson of the EIOPA Insurance and Reinsurance Stakeholder Group

Michaela KOLLER

Annexes: These appendices contain more detailed opinions expressed by EIOPA IRSG.

Annex 1: Underwriting vs accident year for reporting of claims development

The IRSG believes that insurers should report claims triangles to the supervisor using the same basis applied by management to determine the insurer's technical provisions. Taking into account the stated objectives of proportionality, harmonisation and the efficiency of supervision of groups, the IRSG's preferred option in the "Impact assessment on the reporting package for Solvency II" is a variation of Option 1 (para 4.64 - undertakings to choose). IRSG believes that the choice should not be at the insurer's option but should reflect management's own basis (i.e. through the eyes of management). Option 2 (para 4.65 - specified standard by line of business) is the least favoured option. However, if option 1 is chosen, groups should be free to adopt a European consistent approach for their European subsidiaries enabling them to limit costs and facilitate an EU level of supervision of their activities.

Although accident year reporting is generally preferred to underwriting year reporting where the date of loss is consistently available, insurance companies should have the option to use either underwriting year or accident year reporting in accordance with the basis used by management to determine technical provisions.

Claims are recorded by most insurers (particularly those involved in primary insurance) on the basis of the year in which an accident occurs. However, claims are recorded by many insurers (particularly those involved in writing retrocession, proportional reinsurance, marine, aviation and transport insurance, credit and bond insurance and insurance written under delegated authorities), on an underwriting year basis since the policies are written on a 'risks attaching' rather than a 'losses occurring' basis. Although the latter insurers are likely to be aware of (and record) the date of loss for all of its large claims (so that it can make recoveries from its ceded reinsurance treaties), for small claims, typically the insurer is unaware of the date of loss involved. Where this is the case insurers typically project their technical provisions using underwriting year claim triangles. Several insurers write business that falls into both categories and would therefore use both approaches for the relevant lines of business. IRSG believes it would be inappropriate to impose a basis that is not used by management itself and that would involve duplicate IT systems.

Annex 2: Variation analysis templates

Whilst IRSG recognises the rationale for seeking an explanation in the movements in own funds year on year IRSG still have some significant concerns with the specific templates currently proposed. IRSG acknowledges the challenge in developing such an analysis and the efforts to engage with stakeholders on this but would strongly encourage the dialogue to continue to develop a practicable cost effective basis that reflects how companies manage and consider the business. IRSG would support a flexible 'though the eyes of management' approach as currently the proposed analysis does not reflect how companies themselves look to analyse such movements. In particular, for non-life business, the current templates are compulsory and ask for an underwriting year approach, distinguishing “old” and “new” business according the underwriting year. To be consistent with the template TP-E3 and with current industry best practices, it is vital that an option be set to allow undertaking to fill in those templates using an accident year approach.

The templates do not mirror how results are currently analysed and will be considered in a prospective Solvency II environment. Communication with the regulators should be based on how the business is managed and the underlying data is held, processed and reported. As examples -i) the split between new business and existing business represents a significant burden, ii) similarly the reporting of best estimate cash-flows on a gross rather than a net of reinsurance basis iii) movements in investments as currently analysed by insurance undertakings do not differentiate between assets held at the start of the year and acquired during the period. and iv) consistent with IFRS revenues are analysed on an accrual rather than a cash basis.

Forward-looking comparators for Own Funds are potentially more insightful than the historical analysis presented in the VA templates. For Life undertakings using an internal model, the requirements for the P&L Attribution is more relevant than the current VA QRTs to explain the movements in BOF related to the risks accepted by the undertaking.

The split by line of business which was removed in the previous consultation and is now reinstated will be costly and burdensome with limited added value. While line of business analysis is relevant for non-life insurance IRSG does not think it adds value in life insurance, and it is rarely used by management.

IRSG also wonders if the proposal to split the reinsurance recoverables into risks accepted during and prior to period adds any value. Unwinding effects and effects of changes in the discount rate might be shown separately, all other effects should be shown only as one figure.

Since the current proposals are not in line with how companies analyse such movements the value of such analysis is questionable and would lead to significant implementation costs since the extant systems do not produce the information in the breakdowns proposed. Overall IRSG considers further collaboration is necessary for to the development of appropriate and relevant movement analysis templates.

IRSG supports the current proposal that the Variation Analysis templates should only be completed by solo entities and should remain private.

Annex 3: Reinsurance

Regarding reinsurance templates (especially J2 and J3), the level of detail is particularly burdensome and costly beyond the benefit of such analysis. Consideration should be given to reducing the amount of treaty level detail and perhaps replacing it with graphical representations of the reinsurance programme at the balance sheet date.

Template J2 requires disclosure of individual reinsurance treaties, which is overly granular and burdensome for those territories that have not previously reported to this level of granularity. IRSG would recommend a threshold instead, consistent with the approach taken for template J1 facultative insurance.

IRSG also believes that similarly to the J1 template that only includes the 10 most important risks, a threshold at business level would be welcome. IRSG notes however that a significant amount of work would be required to identify the ten policies with biggest net share of risk capital across each line of business.

Template J3 requires broker details for outward reinsurance exposure. This is burdensome and would need the disaggregation of reinsurer counterparty exposures when business introduced through more than one channel / broker and IRSG wonder if this information is very useful. Consideration could instead be given to narrative disclosure on the insurers' dependence on individual brokers.

Annex 4: Technical Provisions

IRSG believes that the level of required detail is particularly burdensome and costly beyond the benefit of such analysis (templates E2, E3 & F2). A lot of effort would be required in the development and ongoing maintenance of such reporting requirements. For instance, it should be sufficient to report the gross best estimate total instead of per "cash in-flow" and "cash out-flow" for businesses modelled using simplifications and IRSG suggests removing the new requirement for the total amount of surrenders. Moreover, best estimate liabilities are evaluated using stochastic projections. It is unclear whether cash flows should be reported as deterministic cash flows based on one average scenario (certainty equivalent) or as the average of the stochastic projection. Giving an average deterministic scenario could be preferred as it enables one to understand the effect of the assumptions of the management in this average scenario.

The historical loss development triangles are key inputs for actuarial reserving methods but do not provide meaningful information just by themselves. A 15 year history is disproportionate for all but long-tail lines of business. The exact term of development year will be dependent on the specific line of business (e.g. a 5 year development term might be appropriate for short-tail business such as motor damage, as loss development beyond this point will be immaterial).

IRSG is particularly concerned about transitional requirements, as to restate historical data in Solvency II format will be costly, not necessarily accurate, and may well not be available especially for the full 15 years proposed. Many insurers did not collect the data in the discussed format neither in general nor over a 15-years horizon. IRSG therefore suggests that Best Estimate, Reinsurance, Salvage and Subrogation and RBNS triangles be filled in on a best effort basis for the years before the entry into force of Solvency II, and on a compulsory basis for the years after. The application of proportionality and materiality is particularly important in this regard when requesting retrospective information on first time adoption of Solvency II.

Regarding the split between the gross claim and the salvage or the subrogation, it will be very difficult for undertakings to reconstruct the information from the past if the information was not collected. It will also be expensive to organise processes and IT systems to be ready to present it in future.

IRSG recognises that the TP templates are now solo only, not Group. However, IRSG notes that much of the data from the TP templates are required by EIOPA for Groups for Financial stability purposes, and thus will still be required for non-EEA entities. For territories which might be granted transitional equivalence it is unclear how they would reported when the technical provisions are calculated on a completely different basis.

The reporting of gross best estimate by country for the Life template (F1 template) should be limited to direct business only in line with non-Life template (E1 template) in order to be consistent.

In the F3 template, as a general comment, the required data is currently not held nor matched at the product denomination level to this level of granularity. More importantly, calculations of

the best estimate at HRG level would be very onerous and costly for the industry both in terms of man-hours and IT requirements. It should be noted that the same product could be part of several HRGs e.g. products with different guaranteed rates during the life of a single contract. Consideration should be given to consolidating products into higher level categories or materiality limits.

In the E1 template, the line of business split according EEA member states as well as non EEA member states regarding technical provisions seems inappropriate due to the following reasons:

(1) Their calculation is usually performed on a higher aggregated level than on a single country basis, i.e. homogeneous risk groups cover more than one country (e.g. Germany and Austria might be seen as homogeneous risk groups),

(2) The split by country is not feasible for some segments. Especially for marine,, aircraft and goods in transit, a country cannot be specified and only worldwide exposure could be shown. Similarly for health insurance, the insured person might also be insured while travelling – with no country assigned. Regarding accepted non-life business from reinsures, the split by country where the risk is located, is much more difficult to determine than for direct business.

(3) The classification of risks as required is in most cases concerning non-life business more detailed than the minimum segmentation requirement for the calculation of technical provisions. The classes regarding sickness and accident as set out in the Annex 1 of the Framework Directive do not match with the required minimum segmentation for calculating the technical provisions.

Annex 5: SCR and MCR templates

IRSG supports EIOPA's proposal to require SCR templates on an annual basis only.

IRSG acknowledges that these templates are for standard formula users only. However, undertakings and Groups with an approved internal model will be required to complete these templates, if under Article 112(7) they provide an estimate of the SCR to their Supervisor using the standard formula. In IRSG's view, in this case, it should not be required to complete a full set of standard formula SCR templates as this would be unnecessarily costly and burdensome. Instead, it would be preferable to have standard templates that follow the layout of the standard formula but allow firms to indicate whether each risk has been internally modelled or not.

Annex 6: RFF (ring-fenced funds)

With respect to ring fenced funds, IRSG would stress that there is a difference between "ring fenced funds" and "ring fencing of insurance obligations". The latter should not be within the scope of these templates as there is only an impact on the technical provisions and not on the "own funds of an insurer". There is also no designation of the own funds towards these insurance liabilities.

A ring-fenced fund arises as a result of the restriction on a going concern basis of own funds items so that they can only be used to cover losses: (i) on a defined portion of the undertaking's insurance contracts, (ii) in respect of certain policyholders or beneficiaries, or (iii) arising from particular risks (Article 69 of the Level 2 delegated acts). IRSG believes that a clear definition of ring-fenced fund is necessary (i.e. a clarification that unit linked and reinsurance business do not fall within the scope of ring-fenced funds would be welcome).

The proposal extends the reporting for RFF. The application of the templates to RFF would not generate extra cost as long as the information is already required for Pillar 1 requirements. The information required (that is SCR, Technical provisions, Own funds) is costly but since those information are used for the pillar 1, IRSG does not see any reason why those information should not be provided. However, the submission of a full balance sheet for all the material RFF is burdensome.

The ring-fenced fund framework provides the option for undertakings to avoid calculating a notional SCR if the ring-fenced fund is not material. The level of materiality has not been defined yet. IRSG believes that the level of information that shall be required depends on the level of proportionality:

- If a low threshold is defined (i.e. small ring-fenced fund captured): a unique reporting for the all the material or complex ring fenced fund shall be required. Criteria would specify the type of RFF considered as material and for which the reporting requirements would apply on an individual basis. For instance,

  - RFF which represent more than 5% of the total balance sheet (based on 31/12/N-1) would be considered as material and would thus be subject in itself to the requirements ; or

- If a high threshold is defined (i.e. large ring-fenced fund captured) and if this level of proportionality is consistent with the one described above, IRSG agrees that the reporting shall be provided for each material ring-fenced fund.

IRSG supports a high threshold that would assure consistency between the pillar 1 and pillar 3 requirements.

Annex 7: Comments on the group specific templates / Risk concentration templates

IRSG acknowledges that the group supervisor is responsible for assessing the level of influence exercised by the parent undertaking as either “dominant” or ”significant”. However, it would be helpful to have some guidelines, such as the thresholds outlined in QIS 5.

Concerning the entities belonging to the group (template G01) IRSG believes that the split of performance (cells J1 & K1) should be classified in accordance with the final Variation Analysis template. Furthermore, there may be cases where this split (as well as other detailed information) is only available at the level of segments and not at the level of entities. IRSG believes that it would be commercially sensitive, and therefore not appropriate, to publicly disclose information on underwriting/investment/total performance on a single entity level. The disclosure requirements in J1-L1 regarding “performance figures” should therefore be deleted.

Regarding G03, it is mentioned that data for non EEA entities should be gathered in any case (and even if Solvency II figures are used via D&A) as they will provide the group supervisor with assessment of difference between local and Solvency II figures. The requirement to complete local solvency information where equivalence has not been recognised may prove onerous. IRSG believe that the cost/benefits of such a requirement should be assessed.

Concerning the Solvency assessment for all regulated non-(re)insurers (template G04) IRSG has the following comments: this template corresponds formally to the template G03 that refers to special legal requirements. In contrast to template G03 template G04 does not seem to be linked with specific legal requirements, and IRSG wonders if a threshold could be introduced to allow that smaller immaterial non-(re)insurance undertakings be reported as a whole.

Regarding the intra-group transactions (template IGT1 till IGT4), in IRSG’s opinion, those templates are burdensome. The reporting of IGT at entity level is onerous requiring a large amount of data to be captured, so IRSG would support that some form of aggregate reporting be allowed. Indeed, a concentration on a bigger cluster of transactions with the most relevant transactions seems to deliver a better understanding of the transactions. It is important that the thresholds “significant” and “very significant” are defined in proportion to the scale and the complexity of the group and are balanced against additional reporting costs. Furthermore, we would like to note that the formats of the IGT templates are difficult to understand and are not user friendly.

On risk concentration (template RC), a full understanding of the complexity will not be achieved with a list of counterparties and exposures. Therefore IRSG doesn’t believe the Risk Concentration templates meet the purpose, despite the onerous effort that will be required to complete the information. IRSG would rather see qualitative disclosures and consideration of insurer’s Pillar 2 processes as the main means of considering insurers management of risk concentration. IRSG would note that other aspects of Solvency II such as the stress scenario testing of SCR ensure there is adequate monitoring of risk concentration. It should not be the case that disclosure of detailed information on risk concentrations should be limited as this

information is commercially sensitive and could have a significant impact on the financial situation of a (re)insurer.

Annex 8: Narrative guidelines

In IRSG's view, any requirement should be limited to the Solvency II framework. Especially the guidelines for the SFCR seem overly detailed and not appropriate for disclosure to the public in full. Moreover, the information should be submitted in a single reporting (double reporting should be avoided when practicable).

It seems that the narrative reporting guidelines are not structured in a clear manner i.e. it should be clearly stated if information is required at solo or group level.