



EIOPA-IRSG-12-04

27 February 2012

**OPINION of the EIOPA Insurance and
Reinsurance Stakeholder Group
regarding EIOPA Consultation on
Reporting Package (part 1)**

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

Table of Contents

Introduction and legal basis:..... 3
General observations regarding EIOPA consultation on Reporting Package: 3
Annex 1: Detailed list of assets 6
Annex 2: Quarterly reporting..... 7
Annex 3: Disclosure..... 9
Annex 4: Local requirements 10
Annex 5: Proportionality and materiality 11
Annex 6: Audit – quality assurance..... 12

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
- b. content of these templates;
- c. 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.
- d. 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 first 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:

- a. Detailed list of assets
- b. Quarterly reporting
- c. Disclosure
- d. Local requirements
- e. Proportionality and materiality
- f. Audit – quality assurance

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.

Regarding **quarterly reporting**, IRSG supports the proposed requirements to provide quarterly reporting information to the regulators albeit in a significantly reduced extent to that required on an annual basis. IRSG also supports the option 3 (no full balance sheet) within the EIOPA consultation paper, since the information already required will explain the largest elements of the reconciliation reserves. Furthermore, the cost impact of quarterly reporting on smaller undertakings with simple risks has to be taken into consideration.

The additional consultation for financial stability purposes requires the submission on a **quarterly basis of a detailed list of assets** for companies with a total balance sheet higher than EUR 6 bn. The benefits to supervisors of the availability of detailed lists of assets do not outweigh the cost to insurers of providing them and IRSG questions the relevance to micro-prudential and macro-prudential supervision. Moreover, given the dynamic nature of investment portfolios, in the event of specific holdings facing rapid reductions in value or exhibiting extreme volatility IRSG would expect microprudential and macroprudential supervisors to request ad hoc reports if annual or even quarterly reports were provided. IRSG believes that delivering a more suitable aggregation of assets will give more relevant information, sufficient to eliminate the need for the proposed detailed lists. We recognise that EIOPA believe a detailed list of assets would meet their supervisory requirements, and some stakeholders would prefer this approach since, notwithstanding the initial cost, it would be more straightforward to provide once operationalized. If such a detailed list of assets is requested for financial stability purposes this reinforces that it is not necessary for either micro-prudential or financial stability purposes for a company to provide a full balance sheet on a quarterly basis as the information already required is sufficient.

Financial stability and statistical needs should be satisfied through the QRTs package at the same date with a single basis for reporting at Eiopa level.

In cases where proxies are used to produce quarterly reporting (particularly important for information which derives from technical provisions), it should be assessed if those proxies could give rise to a material error, the materiality remaining a key judgment. IRSG agrees with the definition of materiality in the level 2 implementing measures (the information is material if its omission or misstatement could influence the decision-making or the judgement of the users of that document, including the supervisory authorities) and believe that threshold should be limited to specific requirements. IRSG also notes that the size or the nature of the insurer and risk to the policyholder are not well correlated and that thus threshold based on the size of the entity may not be appropriate in all cases. (for example, captive insurers of non insurance undertakings).

EIOPA INSURANCE AND REINSURANCE STAKEHOLDER GROUP – OPINION

CONSULTATION – REPORTING PACKAGE (PART 1) – FEBRUARY 2012

Consistently with the Framework Directive (Article 51 para 1), IRSG agrees that an appropriate level of **public information**, in an understandable format, should be made available on an annual basis. Public disclosure of Solvency II information should be set at the right level so as not to mislead and confuse the various audience. As at present certain companies may choose to publicly disclose some information on a more frequent basis but this should be permitted and not required.

IRSG notes that some stakeholders have concerns that since information will be disclosed to the public, the Solvency II balance sheet should be audited by an external firm. IRSG does not see benefits from adding an **external audit** to the existing requirements regarding the quality of the data, the process and the comparison where required between Solvency II figures and reported figures which are in themselves sufficient. Also, under Solvency II, undertakings would implement effective governance and risk management and control systems which will provide numerous lines of defence when substantiating Solvency II calculations. Market discipline will also have an important role to play with much improved disclosure. This should provide the management and supervisors with adequate assurance on Solvency II data.

Regarding the **local requirements**, they should be limited to specificity of the local market if the information is not covered by any Solvency II reporting. IRSG would welcome a harmonization among the supervisors for similar types of local specificities. IRSG believes that an approval by EIOPA of these requirements could help achieving a real harmonization of reporting.

Finally, it is crucial that the industry and supervisors have sufficient time to implement the necessary processes and systems to support Solvency II reporting.

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Adopted by the EIOPA Insurance and Reinsurance Stakeholder Group at Frankfurt am Main, 27 January 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: Detailed list of assets

The benefits to supervisors of the availability of detailed lists of assets do not outweigh the cost to insurers of providing them in IRSG's opinion. IRSG believes this applies to annual reporting as well as quarterly reporting. IRSG believes that the combination of suitably detailed levels of aggregation plus the identification of concentrations should meet both microprudential and macroprudential objectives. The second policy option being considered by EIOPA (paragraph 4.10 of "Impact assessment on the reporting package for Solvency II") seems appropriate for quarterly reporting, but could apply to annual reporting as well.

IRSG would question the relevance of detailed reporting for microprudential and macroprudential objectives. Given the dynamic nature of investment portfolios, in the event of specific holdings facing rapid reductions in value or exhibiting extreme volatility IRSG would expect microprudential and macroprudential supervisors to request ad hoc reports if annual or even quarterly reports were provided.

This restriction does not mean that each undertaking should not follow carefully the precise composition of its assets which should be in line with the prudent person principle as adopted by each insurer. However, the provision by the undertaking to the supervisor could be more efficient and effective if the undertaking delivers a more suitable aggregation of assets will give more relevant information, sufficient to eliminate the need for detailed lists of assets.

In paragraph 4.14 of the impact assessment IRSG sees no reason why national supervisory authorities should be able to raise the stated thresholds.

In IRSG's view, the list of investments held in Investment Funds in "Assets - D1 LOG" should be aggregated to reflect the underlying risk shown in "Assets - D4 LOG". Such funds include diverse categories of investments with diverse risks so, for example, direct equity investments should be aggregated with indirect equity investments held in these funds.

In IRSG's opinion, assets backing unit-linked contracts should be removed from all asset templates where the assets are closely matched to liabilities and where insurers bear no financial risk on such contracts. In many ways unit linked funds are analogous with mutual funds and other collective investment schemes which are not subject to the same disclosure requirements.

Annex 2: Quarterly reporting

IRSG believes 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. IRSG therefore supports the proposed requirements to provide quarterly reporting information to the regulators albeit in a significantly reduced extent to that required on an annual basis. IRSG also supports the proposed balance between Group and Solo quarterly reporting.

IRSG understands that a proposal has been made in the Parliament to limit the requirement for quarterly reporting based on size of the insurer. While IRSG understands that this is worthy of consideration from the point of view of proportionality, in IRSG's view, the size of the insurer and risk to the policyholder are not well correlated. If quarterly reporting forms part of the regime under Solvency II, then it should apply to all insurers proportionally to the scale, nature and complexity of their risks, in IRSG opinion.

IRSG support any efforts to provide legal certainty on how the principle of proportionality could be applied to supervisory reporting. Further work is needed in this area, as full quarterly reporting may be problematic for many small/medium sized undertakings. We would support an approach whereby quarterly reporting would be limited to information that has changed significantly during the course of the reporting period as a basis for articulating how the principle of proportionality can be applied in practice.

IRSG acknowledges that EIOPA has responded to stakeholder feedback from the pre-consultation exercises in this regard and in particular removed the requirement for a full balance sheet on a quarterly basis. IRSG fully supports this which would otherwise have imposed a significant burden for limited regulatory benefit. IRSG would agree that for ongoing monitoring purposes the quarterly provision of simplified information on own funds, technical provisions and assets is sufficient. This information will explain the largest element of the reconciliation reserve. IRSG would expect that regulators should be able to rely on the ongoing company monitoring and governance in this regard. To the extent that further information is requested this should not lead the requirement for a full quarterly balance sheet. Therefore IRSG supports option 3, (no full balance sheet) within the EIOPA consultation paper.

EIOPA have issued a separate consultation document on disclosures in its "financial stability" capacity. As IRSG stated elsewhere in this response, the benefits to supervisors of the availability of detailed lists of assets do not outweigh the cost to insurers of providing them and IRSG question the relevance to micro-prudential and macro-prudential supervision. If such a list of assets is requested for financial stability purposes (which IRSG would question) then this reinforces that it is not necessary for either micro-prudential or financial stability purposes for a

EIOPA INSURANCE AND REINSURANCE STAKEHOLDER GROUP – OPINION

CONSULTATION – REPORTING PACKAGE (PART 1) – FEBRUARY 2012

company to provide a full balance sheet on a quarterly basis. This would be very onerous, beyond the Transparency Directive requirements and unnecessary for financial stability purposes. The information proposed in the extant QRTs on own funds, assets and technical provisions is sufficient and hence IRSG disagrees with the additional proposal for a full quarterly balance sheet. The deadline for financial stability QRT should be in line with the deadline applicable all other quarterly QRTs.

One aspect to which further consideration should be given is the fourth quarter QRT reporting requirements. The annual reporting requirements will be supplied at this time and on expanded levels of detail. Consideration should be given to what, if any fourth quarter information should be provided, acknowledging that quarterly reporting would normally have a higher level of estimation and roll forward. It would be overly burdensome to report two sets of Solvency II reports and would lead to onerous governance and reconciliation procedures to explain any differences between the fourth quarter and annual reporting.

Annex 3: Disclosure

The disclosure requirements are primarily focused on ensuring sufficient information is available to regulators to allow them to undertake their supervisory role which includes policyholder protection. IRSG agrees this is a critical aspect and should be the primary focus. IRSG also agrees that an appropriate level of public information, in an understandable format, should be made available on an annual basis. This is consistent with the Solvency II (Level 1) Framework Directive (Article 51 para 1) which requires public disclosure on an annual basis. IRSG therefore supports the proposed scope of public disclosure of the quantitative reporting templates. Commercial sensitivity of data is also an important factor when considering public disclosure

IRSG fully supports the objective to provide consistent basis for public reporting across Europe. IRSG recognises that this is a significant change for a number of jurisdictions and hence needs to be communicated and managed appropriately so as not to be misunderstood, particularly on initial application. In this context IRSG supports EIOPA's view that such public disclosure should only be required on an annual basis. As at present certain companies may choose to publicly disclose some information on a more frequent basis but this should be permitted and not required.

IRSG notes that some stakeholders have concerns that the guidelines for the Solvency and Financial Condition Report are overly detailed and not appropriate for disclosure to the public to this level of detail. IRSG is also conscious that it is important that companies have sufficient flexibility to explain how they manage the risks and in a manner they consider understandable to the public. Such flexibility is also necessary given that other Financial Reporting information is also released on an annual basis and it is important that public disclosures are coherent and comprehensive as a package, having regard to the wider user community beyond policyholders (including intermediaries, investors and analysts).

On the other hand and concerning public disclosure of the solvency balance sheet figures, EIOPA should be aware of the different level of technical knowledge among the potential users of this information in order to avoid misleading or confusion between Solvency II figures and accounting figures.

Annex 4: Local requirements

One objective of building Solvency II is to reach a harmonization in Europe of the prudential framework. Allowing regional variations, without sufficient justification, conflicts with this objective.

Nevertheless, the basic conditions of the national-specific templates are quite general: specificity of local requirements or local market; information not covered by any Solvency II quantitative reporting templates; and proof by national supervisory authorities that the objectives stated are met.

IRSG is concerned that this may leave open the possibility that some elements of existing reporting may be required at local level with the Solvency II reporting package.

In order to limit local reporting to real local specificities we believe that each local supervisor could be required to obtain an agreement from EIOPA before demanding local reporting of their undertakings. Alternatively, another possibility could be that, before demanding a new requirement, each supervisor would consult with EIOPA whether the proposed local requirement could be combined with the needs of other supervisors. Harmonisation among the supervisors who share the same kind of local requirements (for instance, the participation feature) would be useful.

Furthermore, information requested locally should not be available by any other means. For example much information is already disclosed in annual financial statements.

There is also the issue of local requirements based on local accounting rules or the consolidated accounting rules. As the solvency framework is supposed to be self-sufficient through a full prudential balance sheet approach, the local accounting data or the consolidated accounting data should only be addressed through reconciliation templates.

Annex 5: Proportionality and materiality

Proportionality

“Going further to operational objectives, the new requirements should ensure that all quantitative and qualitative regulatory requirements imposed on insurers are **proportionate to the nature, scale and complexity of the insurer** and its operations.” (§3.5 p.6 Impact assessment).

IRSG believes that, regarding the balance sheet, the principle to provide a balance sheet if the reconciliation reserve cannot be explained sufficiently by the information reported in other templates is in itself sufficient. No threshold should be defined in IRSG’s opinion.

IRSG believes that proxies for technical provisions and SCR components should be allowed for quarterly reporting where the use of annual processes are not justified based on a cost benefit analysis for quarterly reporting in IRSG’s view.

Defining options with a possible threshold for application would be complicated to justify. Any threshold, especially from local supervisors, should be avoided in IRSG’s view.

For annual templates, exemptions are less needed than for quarterly templates since small undertakings will have less to report due to their size. IRSG thus agrees with the principle that there will be no exemption of annual templates for certain undertakings.

Materiality

As proxies may be used to produce quarterly information (especially regarding the best estimates), it should be assessed if those proxies could give rise to a material error in IRSG’s view.

IRSG believes that the definition in the level 2 implementing measures is sufficient: “The information to be disclosed in the solvency and financial condition report should be considered as material if its omission or misstatement could influence the decision-making or the judgement of the users of that document, including the supervisory authorities.”

Materiality shall remain a key judgment.

For specific requirements (for instance, for ring-fenced funds or detailed list of assets), a level of threshold could be admitted in IRSG’s view.

Annex 6: Audit – quality assurance

Under Solvency II the emphasis is given to management responsibility and governance and the regulator responsibility to ensure that management have complied with the regulatory requirements. There is a requirement to reconcile the Solvency II calculations to statutory accounts reported figures at a high level. There is no external audit requirement for Solvency II in the Directive or any obvious role for an audit.

In a number of jurisdictions across Europe the existing regulatory basis is not subject to audit. IRSG emphasises the need of a harmonised EIOPA approach across Europe on this issue to ensure consistency (similar to the reporting requirements themselves).

IRSG does not support any requirement for a mandatory audit of regulatory reports. The potential differences with statutory accounts reporting of both assets and technical provisions combined with the related use of internal models for capital requirements (in some circumstances) means an audit and associated expense would be burdensome and of limited benefit. It is also unclear at this stage to whom an auditor would be reporting to and in what form would any audit opinion take.

This is therefore an important issue of cost/benefit since audit would be onerous and expensive. It is also unnecessary since the regulatory returns are already subject to close regulatory supervision and monitoring in contrast to the financial statements.