REPORT ON THE USE OF LIMITATIONS AND EXEMPTIONS FROM REPORTING DURING 2019 AND Q1 2020

European Insurance and Occupational Pensions Authority

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REPORT ON THE USE OF LIMITATIONS AND EXEMPTIONS FROM REPORTING DURING 2019 AND Q1 2020

EXECUTIVE SUMMARY

The limitations and exemptions on reporting foreseen in Article 35 of the Solvency II Directive are a concrete proportionality measure in reporting requirements. However, they should not be seen as the only proportionality measure. Reporting requirements also reflect a natural embedded proportionality directly connected to the nature, scale and complexity of the business. In addition, risk-based thresholds are included in the reporting Implementing Technical Standard (ITS).

This report focuses on the limitations and exemptions as applied by the national competent authorities (NCAs) in different markets in 2019 year-end and the first quarter of 2020 and highlight the difference with regard to the last year's report.

Compared to the previous report, one NCA less, in total 12, granted limitations to 833 solo undertakings for first quarterly reporting in 2020 (compared with 13 NCAs and 838 solo undertakings in Q1 2019).

Regarding annual reporting for solo undertakings, five NCAs (five in 2018) granted limitations and exemptions from reporting using the item-by-item templates to 125 solo undertakings in 2019 (136 in 2018).

With regards to groups, four NCAs (five in Q1 2019) granted limitations and exemptions to 55 groups for the quarterly reporting of 2020 (compared to 37 in Q1 2019) and one NCA (two in 2019) granted limitations and exemptions from annual reporting to six groups in 2019 (for six groups in 2018).

Information in terms on the average number of templates to be submitted by small, medium-sized or large insurance undertakings varies substantially. Nearly twice as many templates are reported from large undertakings than from smaller ones for quarterly reporting and on an annual basis, the 10 largest undertakings by total assets had to fill in on average 36 templates, while the 10 smallest undertakings had to complete 26 templates. However, it should be noted that the number of reported templates does not take into account the complexity of the business. If considered it would increase the gap in the number of templates to fill even further.

The majority of NCAs reported in 2019 no major changes in granting the authorisation to use limitations and exemptions from reporting. Formal policies are not in place and NCAs continue granting limitations and exemptions on a case by case basis.

I. BACKGROUND

1. According to Article 35 of the Solvency II Directive, NCAs may limit regular quarterly supervisory reporting (paragraph 6) and limit and exempt certain undertakings from item-by-item reporting (paragraph 7) where the submission of that information would be overly burdensome in relation to the nature, scale and complexity of the undertaking's risks and where the information is reported at least annually. Article 35 only allows exemptions for undertakings until a maximum of 20% of the Member State's markets (measured separately by non-life and life markets respectively) and prioritising the smallest undertakings.
2. The limitations and exemptions foreseen in Article 35 of the Solvency II Directive are a concrete proportionality measure in reporting requirements:

- Limitation: According to Article 35(6), undertakings can be authorised to submit quarterly reporting information of reduced scope, where this information is reported at least annually. Any template, except for minimum capital requirement (MCR)[1], can be subject to a limitation with regard to regular reporting;
- Exemptions: according to Article 35(7), undertakings can be exempted from both quarterly and annual reporting in case of reporting templates on an item-by-item basis when some conditions are met.

3. Under Article 254(2), paragraphs 2 and 3, groups can benefit from limitations or exemptions from reporting only in cases in which all insurance or reinsurance undertakings within the group would benefit from the limitation or exemption. A third-country insurance undertaking should be granted a limitation or exempted from any regular supervisory reporting requirement where the submission of the reporting information would be unduly burdensome in relation to the nature, scale and complexity of the risks inherent to the business of the branch.[2]
4. According to the Regulation (EU) 2015/2450[3], undertakings reporting information on their list of assets (S.06.02) and their open derivatives (S.08.01) may be exempted from reporting of credit rating information when some conditions are met.
5. In addition to the above reported proportionality measure, additional proportionality measures are embedded in the reporting framework, namely:

- Embedded proportionality: the extension of reporting is directly connected to the nature, scale and complexity of the risks inherent to the business. As an example, the types of investments or the lines of business have a direct impact on the type of reporting to be submitted to NCAs.
- Risk-based thresholds: the risk profile is the main trigger for proportionality reporting, as a number of thresholds were included in different templates.

6. Finally, it is worth mentioning that proportionality of reporting requirements was also one of the focus of Solvency II 2020 review[4] and EIOPA Opinion includes proposals on the following amendments to the Solvency II Directive.[5]

- Amend Article 35 of the Solvency II Directive adapting it to the new proportionality framework proposed;
- Simplification of the quarterly submission;
- Deletion of several quantitative reporting templates and the simplification of a number of other quarterly and annual templates;
- Amend the RSR frequency adapting it to the new proportionality framework proposed;
- Amend Article 254 of the Solvency II Directive in the area of groups to allow for exemption of groups reporting without the condition of exemption of all solo insurance undertakings belonging to that group.

1 Template S.28.01 or S.28.02

2 Guideline 48 — Proportionality reporting

3 Under Annex II and III

4 https://www.eiopa.europa.eu/content/opinion-2020-review-of-solvency-ii_en

5 Discussing and analysing the existing and new potential risk-based thresholds in the templates, aiming to enhance further proportionality were initially planned to be included in Solvency II 2020 review. Concrete proposals will be included in the ITS amendments 2021.

II. DATA SOURCES

7. The analysis of this report is based on the Solvency II quantitative reporting templates (QRTs) with reference date 2019 year-end and first quarter of 2020, as submitted to EIOPA by solo undertakings or insurance groups from the 30 European Economic Area (EEA) and from the UK.
8. In addition, EIOPA launched a survey based on quantitative and qualitative information among national supervisors from the 30 EEA members and the UK.[6]
9. The quantitative information is obtained from the following reporting templates:

- Solvency capital requirement (SCR): from the 'Own funds' template (S.23.01);
- Gross written premiums (GWPs): from the 'Premiums, claims and expenses by line of business' template (S.05.01);
- Technical provisions (TPs): from the 'Balance sheet' template (S.02.01)
- Total assets: from the 'Balance sheet' template (S.02.01).

10. The survey also included a qualitative part focusing on changes compared with the previous survey to gain a better understanding of information across Member States about annual and quarterly use of limitations or limitations and exemption.
11. The graphs and tables with the number of undertakings and groups used in this report are based on the information obtained from the QRTs and complemented with the information collected in the survey.
12. Emphasis is put in particular on changes on the limitations and exemptions as applied by authorities in different markets with regard to the last year's report.[7]
13. The analysis in this report also involved some bilateral discussion with NCAs that led to the correction of some data submissions and, in some cases, also to change of some data from previous submissions.
14. The reporting information was converted to EUR based on the European Central Bank (ECB) exchange rates on the relevant dates, when necessary.

6 All but one NCA submitted the survey.

7 https://www.eiopa.europa.eu/content/report-use-limitations-and-exemptions-reporting-during-2018-and-q1-2019_en?

III. PROCESS FOR GRANTING LIMITATIONS AND/ OR EXEMPTIONS FROM REPORTING TEMPLATES

INTERNAL FORMAL POLICIES AND PROCESSES

15. Applications of exemption and limitation of reporting continue to be quite limited and if received they are included in the normal supervisory process.
16. Undertakings usually complete all due templates and don't consider the granting of limitations or limitations and exemptions for a variety of reasons:

- Markets are small and a coverage of 80 per cent of the market share would result in exemption of only a few undertakings;
- Possible smaller undertakings are unaware of the possibility to receive an exemption from item-to-item reporting;
- Undertakings are used to reporting and don't see any burden to do so.

17. After 4 years of implementation of Solvency II, the majority of NCAs confirmed no major changes in granting the authorisation to use limitations or exemptions from reporting and to withdraw such authorisation.
18. The NCAs also confirmed that no changes in this approach are expected for the future. This may suggest that the relevant articles of the Solvency II Directive, as complemented by the EIOPA guidelines[8], seem to be sufficiently clear.
19. It is important to note that with all reporting systems in place, some undertakings, even if allowed not to report, prefer to continue doing it.
20. This is not only due to the fact that the systems are already in place but also because the limitation/exemption may be withdrawn at the end of one year, which creates uncertainty and instability to undertakings.

8 Such as EIOPA Guidelines on the methods for determining the market shares for reporting.

AUTOMATIC VERSUS CASE-BY-CASE ASSESSMENT

21. The majority of NCAs in this survey confirmed that they continued to grant limitations and exemptions on a case-by-case basis, depending on the risk the undertaking faces, and that this is not considered too burdensome.

22. As in most cases no limitations or exemptions were granted, it is not surprising that in this year's survey no major changes were detected.

DOMESTIC AND CROSS-BORDER GROUPS

23. As in the previous report, most NCAs did not receive any requests for limitations or exemptions from solo undertakings belonging to cross-border groups.

24. However, for cases in which NCAs plan to grant limitations or exemptions from reporting to an individual undertaking that is part of a cross-border group or to a cross-border group itself, processes have not been formalised yet.

25. Communication is mainly with the group supervisor and the College of Supervisors.

IV. QUANTITATIVE UPDATE[9]

26. A total of 2816 solo undertakings and 370 groups were supervised as of year-end-2019.

QUARTERLY LIMITATIONS FOR SOLO UNDERTAKINGS

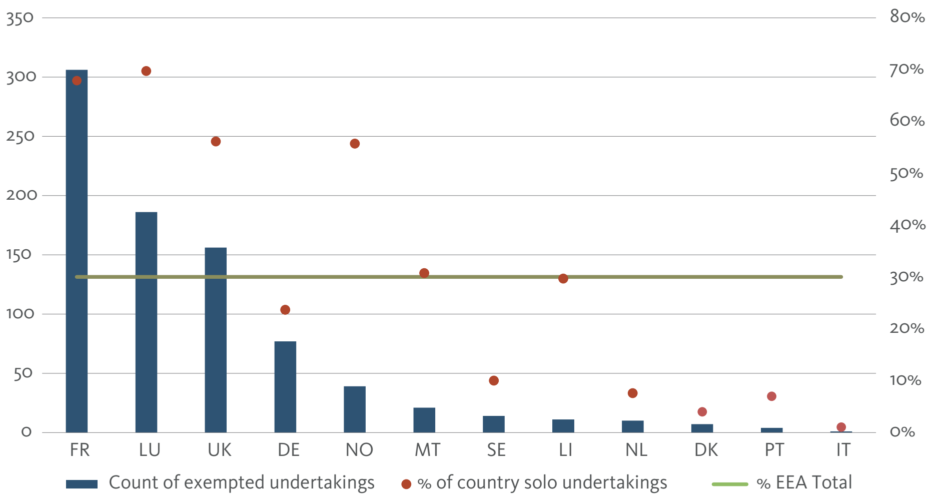
27. 12 NCAs granted limitations to 833 solo undertakings for first quarterly reporting in 2020, compared with 13 NCAs and 838 solo undertakings in the first quarter of 2019 (Table 1.1 and Figure 1.1).

9 Undertakings that are solely exempted from reporting credit rating information, but need to fulfil all other reporting obligations, are not included in the quantitative update chapter, but treated separately in the last chapter.

Table 1.1 — Summary of limitations to quarterly reporting for solo undertakings in Q1 2020 (compared to Q1 2019)

		Incidence in terms of:				
	Number of under-takings	**Total number of undertakings (%)**	**Total assets (%)**	**SCR (%)**	**Non-life GWP (%)**	**Life TP (%)**
Total for 30 EEA and UK	833 (838)	30%	3.70%	5.50%	6.70%	3.20%
FR	306 (315)	67%	5.90%	10.80%	19.00%	4.40%
LUX	186 (187)	69%	5.70%	25.00%	11.70%	0.50%
UK	163 (155)	65%	6.40%	8.20%	8.10%	6.30%
DE	77(80)	23%	3.30%	3.70%	3.60%	3.20%
NO	39 (39)	57%	1.30%	6.60%	6.00%	0.00%
MT	21 (20)	31%	6.40%	9.50%	8.70%	0.50%
SE	14 (14)	11%	0.20%	0.60%	0.70%	0.00%
LI	11 (11)	33%	8.10%	20.50%	4.90%	4.30%
NL	10 (10)	8%	0.10%	0.40%	0.30%	0.00%
DK	1 (3)	1%	0%	0%	0%	0%
PT	4 (2)	10%	1.20%	1.40%	2.10%	0.80%
IT	1(1)	1%	0.00%	0.00%	0.10%	0.00%
BE	0(1)	0	0	0	0	0

Figure 1.1 — Summary of limitations to quarterly reporting for solo undertakings in Q1 2020



28. Looking at the number of limitations in quarterly reporting for solo undertakings at country level in Q1 2020, a different picture emerges (Table 1.2).

29. Table 1.2 shows how many undertakings are exempted to report these specific templates, and also how approaches across countries differ.

30. For example, it shows that Luxembourg is exempting all templates, while Germany exempts almost all template except for the own funds template.

31. The numbers can vary as well for undertakings not requesting an exemption, if the template does not need to be reported according to the definition of the template. For example, an undertaking without any derivatives may not formally ask for exemption of this template. This leads in some countries to lower numbers of limitations for the derivative templates.

32. The templates exempted vary from undertaking to undertaking indicating a risk-based approach.

Table 1.2 — Overview of limitations in number for solo undertakings in quarterly reporting in Q1 2020

	Number of under-takings	Balance Sheet	Premiums, claims, expenses	List of assets	Collective investment	Open derivatives	Derivatives Transactions	Life and Health SLT TP	Non-Life TP	Own funds
Total for 30 EEA and UK	833 (838)	737	769	776	764	689	686	599	714	670
DE	77(80)	63	75	70	69	73	73	62	70	
DK	1(3)		1	1	1	1	1	1	1	
FR	306(315)	295	295	264	290	241	239	269	288	291
IT	1(1)	1	1	1	1				1	1
LI	11(11)		9	11	4	3	3	4	8	
LUX	186(187)	186	186	186	186	186	186	186	186	186
MT	21(20)	19	21	19	10	9	9	5	16	19
NL	10(10)	9	9	9	9	4	4	5	9	9
NO	39(39)			38	36	32	32			
PT	4(2)	2	2	2	4	4	2	1	1	2
SE	14(14)	12	12	13	9	7	7	7	12	12
UK	163(155)	150	158	162	142	128	129	59	121	150

V. PROPORTIONALITY PRINCIPLE IN REPORTING

33. The scope of reporting also depends in part on the type of business the undertaking conducts.

34. To evidence how proportionality is implemented in quarterly reporting, EIOPA updated one example included in last year's report which confirms that results are similar to the previous year's results.

35. At solo level, quantitative reporting in principle includes 68 annual reporting templates and 12 quarterly templates.

36. Information in terms on the average number of templates to be submitted by small, medium-sized or large insurance undertakings is shown in Table 1.3. In particular, the table shows that:

- More quarterly templates are reported from large undertakings than from smaller ones;
- In total, in Q1 2020, large undertakings had to fill in on average nine templates, nearly twice as many as small undertakings;
- In total, on an annual basis, the 10 largest undertakings by total assets had to fill in on average 36 templates, while the 10 smallest undertakings had to complete 26 templates.

37. It should be noted that the number of reported templates do not take into account the complexity of the business. For smaller undertakings, for example, with very limited lines of business or only domestic business, the level of complexity of some templates is much lower than for undertakings with broader business structures (e.g. template S.19.01 is counted as one template and no consideration is given to the number of lines of business or currencies; if this was to be considered it would increase the gap in the number of templates even further).

Table 1.3 — Average number of templates provided by undertakings

	Q1 2020 (Q1 2019)	Annual 2019 (2018)
Large (10% largest by total assets)	9.2(9.3)	36.3(36.2)
Rest (80%, medium-sized by total assets)	6.8(6.75)	33.3(33.3)
Small (10% smallest by total assets)	5(5)	26.8(26.8)

ANNUAL LIMITATIONS AND EXEMPTIONS FOR SOLO UNDERTAKINGS

38. Four NCAs (five in 2018) granted limitations and exemptions from reporting item-by-item templates to 125 solo undertakings for 2019 (136 in 2018) (Table 1.4), showing a slight decrease in numbers compared with 2018.

39. Table 1.4 also shows the sum of total assets, the SCR, non-life GWP and life TP over the total for 30 EEA and UK.

Table 1.4 — Summary of annual limitations and exemptions for solo undertakings in 2019 (compared to 2018)

	Incidence in term of:				
	Number of under-takings	**Proportion of total number of undertakings (%)**	**SCR (%)**	**Non-life GWP (%)**	**Life TP**
Total for 30 EEA and UK	125 (136)	5%	4%	2%	6%
DE	64 (69)	19%	4%	4%	3%
NO	39 (41)	57%	7%	6%	0%
UK	13 (10)	5%	0%	1%	1%
LI	9 (11	27%	17%	3%	4%

40. For some undertakings, some templates are not applicable (e.g. derivatives) and hence no limitations and exemptions may be granted in these cases.

41. Table 1.5 shows how many undertakings are exempted to report these specific templates from annual reporting.

42. The templates exempted vary from undertaking to undertaking indicating, once more, a risk-based approach being taken.

Table 1.5 — Overview of countries with limitations and exemptions from annual reporting for solo undertakings in 2019

	Number of undertakings	List of assets	Collective investment	Structured products	Open Derivatives	Derivatives Transactions	Securities lending and repo	Assets held as collateral
Total for 30 EEA and UK	125 (136)	48	50	74	103	106	8	96
DE	64 (69)		2	62	59	61	2	59
NO	39 (41)	39	38	3	35	35		30
UK	13 (10)		9	7	7	8	6	6
LI	9 (11)	9	1	2	2	2		1

QUARTERLY LIMITATIONS AND EXEMPTIONS FOR GROUPS

43. Four NCAs (five in Q1 2019) granted limitations to reporting for 55 groups in Q1 2020 (37 in Q1 2019) (Table 1.6).

Table 1.6 — Summary of quarterly limitations and exemptions for groups in Q1 2020

	Number of groups	Proportion of total number of groups in %
Total for 30 EEA and UK	55(37)	15
FR	18 (1)	32
DE	7(6)	13
LUX	1(2)	11
DK	0(1)	0
UK	29 (27)	43

ANNUAL LIMITATIONS AND EXEMPTIONS FOR GROUPS

44. One NCA (two in 2018) granted limitations and exemptions from reporting for six groups in 2019 (six groups in total for two NCAs in 2018) (Table 1.7).

Table 1.7 — Summary of annual limitations and exemptions for groups in 2019

	Number of groups	Proportion of total number of groups in %
Total for 30 EEA and UK	6 (6)	2
FR	6 (5)	12
DK	0 (1)	0

VI. PROCESS FOR GRANTING LIMITATIONS (ALLOW NOT TO BE REPORTED) FROM CREDIT RATING INFORMATION (TEMPLATE S.06.02 AND S.08.01)

45. This section focuses on limitations from reporting the credit rating information.

46. The result of the previous survey was confirmed also this year with only a few limitations granted from reporting external credit assessment institutions (ECAIs).

47. This is due to the fact that the majority of NCAs do not grant limitations to reporting credit rating information on the one hand as they consider credit rating information as an important information.

48. Another reason might be that credit rating information is usually easily accessible as data is available.

49. In addition, investments are usually held until maturity by undertakings, which in turn explains there is no need for frequent change of the process nor requires formal processes at all.

50. There are hence no applications from market participants to benefit from the possibilities to submit a reduced scope of reporting.

51. According to Article 44 (4a) of the Solvency II Directive in order to avoid overreliance on external credit assessment institutions when they use external credit rating assessment in the calculation of technical provisions and the Solvency Capital Requirement, insurance and reinsurance undertakings shall assess the appropriateness of those external credit assessments as part of their risk management by using additional assessments wherever practicably possible in order to avoid any automatic dependence on external assessments.

52. The implementing technical standards of Commission 2015/2015 states that insurance undertakings should have procedures for assessing external credit assessments in place.

53. The information regarding the external rating and nominated External Credit Assessment Institutions may be limited (not reported) in the following circumstances:

- through a decision of the national supervisory authority ('NSA') under Article 35 (6) and (7) of the Directive 2009/138/EC; or
- through a decision of the national supervisory authority in the cases where the insurance and reinsurance undertakings have in place outsourcing arrangements in the area of investments that lead to this specific information not being available directly to the undertaking.

54. The survey confirmed that the granting of limitations or exemptions for the reporting of credit rating information is not considered a priority for a variety of reasons:

- the comparatively small market share in question (ensuring ad hoc transparency);
- the marginal additional effort and cost for undertakings (reported data are needed for management control anyway);
- the continuity of supervisory reporting data (the avoidance of incomplete time series).

55. Based on Q1 2020 data provided to EIOPA, the findings of last year's study can be confirmed (Table 1.8).

56. Exempted for assets based on Article 35 (6) and (7) of the Solvency II Directive were 8% in Q1 2020 (7% in Q1 2019), whilst 7% in Q1 2020 (8% in Q1 2019) were exempted for assets and derivatives.

57. All the other figures in the Table 1.8 remain unchanged. Once more 3%[10] are exempted to report credit rating information based on the use of outsourcing.

10 1% exempted for assets based on outsourcing plus 2% exempted for assets and derivatives based on outsourcing.

Table 1.8 — Overview of limitations for assets and derivatives based on Q1 2020 regarding credit rating information

Exempted for assets (based on Article 35(6) and (7))	8%
Exempted for assets (based on outsourcing)	1%
Exempted for assets and derivatives (based on Article 35(6) and (7))	7%
Exempted for assets and derivatives (based on outsourcing)	2%
Exempted for derivatives (based on Article 35(6) and (7))	0%
Exempted for derivatives (based on outsourcing)	0%
Not exempted	82%

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