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# **EIOPA's Supervisory Statement**

## **Solvency II: Solvency and Financial Condition Report**

## Executive Summary

This statement outlines the outcome of the analysis of the European Insurance and Occupational Pensions Authority (EIOPA) of the first supervisory experiences regarding the application of the Solvency II rules on the Solvency and Financial Condition Report (SFCR) by insurance and reinsurance undertakings and insurance groups.

The SFCR has to be published annually, and is regulated under Articles 51, 53, 54 and 256 of Directive 2009/138/EC of the European Parliament and of the Council<sup>1</sup> (the "Solvency II Directive"). In addition, Articles 290 to 298 and Articles 359 and 365 of Commission Delegated Regulation (EU) 2015/35<sup>2</sup> (the "Delegated Regulation") provide further SFCR-related rules, in particular on its structure.

EIOPA's assessment is based on the observations from the analysis of a sample of published group SFCRs and observations regarding the 2016 group and solo SFCRs collected by the National Supervisory Authorities (NSAs) in the European Economic Area (EEA).

The analysis and this statement do not intend to capture all issues identified regarding the SFCR or to address the content of the full SFCR. The Statement focus only on key areas deemed as important for a first step to support stakeholders in the development of next year's SFCR content while also allowing for market discipline to be achieved.

EIOPA encourages insurance and reinsurance undertakings and groups to take into account, without prejudice of the principle of proportionality, the following key findings and areas for improvement concerning the SFCR:

- **The majority of insurance undertakings and groups published the (Solo/Group) SFCR on a timely basis and generally complied with the relevant Solvency II requirements. In some cases Groups went the extra mile to make the Group SFCR accessible to all stakeholders:** The SFCRs are generally easy to find in the websites of most of the disclosing entities. However, some undertakings still do not own a website. In the websites of the insurance groups, in general, in addition to the Group SFCR, the solo SFCRs of the major entities of the group are also available at the same address and versions in English are available which facilitates access regarding the full group. The reports follow the structure as of Annex XX of the Delegated

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<sup>1</sup> Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p. 1).

<sup>2</sup> Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) Text with EEA relevance (OJ L 12, 17.1.2015, p. 1).

Regulation, but for non-applicable items, it is important to have a clear indication that the information is not applicable.

- **The use of different language styles and different formats to disclose SFCR information makes difficult the definition of a common disclosure approach to all types of stakeholders:** EIOPA expects that care is taken when deciding the content and language style of the SFCR and in particular of the Summary of the SFCR. The Summary is the part of the SFCR that will most interest the policyholders. They should be the main addressees of this part of the Report. In the remaining sections of the SFCR it is not expected that the full content of EU or national legislation is reproduced in the SFCR. The Report should instead include relevant undertaking-specific information under each section to make it easy to efficiently identify and read the relevant specific information.
- **The need for a more fit-for-purpose 'Summary':** EIOPA encourages insurance groups/undertakings to improve the content and clarity of the Summary. The SFCR Summary should encompass relevant SFCR areas and briefly provide relevant information. Given the importance of the SFCR Summary for the policyholders and the range of different approaches EIOPA clarifies the expectations on its minimum content from a supervisory perspective.
- **Quantitative Reporting Templates (QRTs) in the context of the SFCR:** The placement of QRTs in an Annex to the SFCR, although a good practice, should not prevent undertakings/groups from providing quantitative and qualitative information into the body of the SFCR. Relevant information covered by the QRTs and additional information not covered by the QRTs in the Annex to the SFCR, such as background information that allows the reader to understand the information in the templates should be included in SFCR. If appropriate, parts of the QRTs should be repeated, or complemented through the narrative information of the SFCR.
- **Information on the own-risk and solvency assessment (ORSA) under the SFCR is by its very nature undertaking/group specific. This means that undertaking/group specific information needs to be included, even when referring only to the process and not to the outcome:** The information disclosed should go beyond repeating the laws, regulations and administrative provisions on how the ORSA needs to be integrated into the organisational structure and decision making process.
- **The information on the risk sensitivity to different scenarios or stresses, should be better structured and more comprehensive:** The information regarding the SCR and risk sensitivity is not comparable across different undertakings/groups. It is expected that the reporting of sensitivities to different scenarios or stresses is disclosed in a more structured format. The sensitivity to the different risks should be shown under the section 'Risk Profile'.

In addition under each risk section information on the overall impact should be provided.

- **Information on the bases, methods and main assumptions used for the valuation for solvency purposes should include undertaking/group specific information and address the uncertainties around the valuation:** the SFCR should include more relevant, undertaking/group specific information, in particular regarding valuation of investments, valuation of deferred tax assets and deferred tax liabilities and valuation of technical provisions. Regarding the later the SFCR should provide a description of the level of uncertainty, by linking it at least to the assumptions underlying the calculation, such as economic and non-economic assumptions, expected profits in future premiums, future management actions and future policyholder behaviour.
- **Information on eligible own funds:** EIOPA encourages undertakings/groups to disclose information about the management of the own funds in the context of the undertaking's/group's strategy and business model, including information on the time horizon used for business planning and on any material changes over the reporting period. The information of the eligible own-funds items, classified by tiers should be complemented by explanations of the most material own-funds items, including the extent to which they are available, subordinated, as well as their duration and any other feature that is relevant for assessing their quality.
- **In next year's SFCR undertakings/groups should also include comparative information in certain areas of the SFCR.** EIOPA expects that when providing comparative information the format of tables is used as much as possible in the narrative part of the SFCR. These tables could include amounts for both reporting years or focus on the material differences between both reporting years. Qualitative information on material differences between two reporting years are also expected to be included in the report. Publication of QRTs for current and the previous reporting year as an Annex alone is not sufficient to be considered compliant with the comparison requirement.

## **1. Introduction**

- 1.1 Articles 51, 53, 54 and 256 of the Solvency II Directive require every insurance and reinsurance undertaking and insurance group in the European Union to publicly disclose its SFCR. Articles 290 to 298 and Article 359 of the Delegated Regulation as well as EIOPA's Guidelines on reporting and public disclosure regulate further the regime for SFCR disclosures.
- 1.2 EIOPA's overall objective is to achieve a high, effective and consistent level of regulation and national supervision guaranteeing a level playing field across the European Union.
- 1.3 This Supervisory Statement aims to present findings and areas for improvement on the basis of EIOPA's assessment of the publicly disclosed 2016 SFCRs and observations regarding the 2016 group and solo SFCRs collected by the National Supervisory Authorities (NSAs) in the European Economic Area (EEA).
- 1.4 In 2017, insurance and reinsurance undertakings and insurance groups had to publish SFCRs for the first time. This publication was expected by many stakeholders and dealt with carefully by the disclosing entities.
- 1.5 Considering the importance of the SFCRs that were publicly disclosed by the insurance and reinsurance undertakings and groups under the Solvency II Directive and the Delegated Regulation, EIOPA undertook scrutiny on them. The Solvency II framework is founded on three main pillars, one of them being a high level of transparency towards the supervisory authorities but also towards the market. The Solvency II regime is no longer based on accounting recognition, so the financial statements are not fit for assessing the solvency and financial condition of an undertaking and in some cases, the SFCR replaced the previous disclosures on embedded value.
- 1.6 The legally prescribed SFCR scope is comprehensive and covers a wide range of Solvency II areas. EIOPA is of the opinion that the SFCR should specifically focus on relevant fit-for-purpose information. The completeness of the SFCR should not be assessed by its volume but by the relevance, clarity and usefulness of the information included to evidence the solvency and financial condition of the undertaking.
- 1.7 When analysing the published SFCRs, EIOPA maintained active dialogue with the NSAs in each European Union Member State, and in each EEA EFTA State<sup>3</sup>, and considered various stakeholders' perspectives as well.
- 1.8 EIOPA acknowledges that market discipline can only be achieved with time and expects insurance and reinsurance undertaking and groups to analyse the differences between the published SFCRs and to do their own analysis of areas

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<sup>3</sup> Iceland, Liechtenstein and Norway.

for improvement for the 2017 SFCR. To this end, EIOPA, considers that it is important to provide guidance to the market on the supervisory expectations for the SFCR content to be considered when planning for the 2017 SFCR disclosures.

## **2. Findings and Areas for Improvement in the SFCR**

### **2.1 The majority of insurance undertakings and groups published the (Solo/Group) SFCR on a timely basis and generally complied with the relevant Solvency II requirements. In some cases some Groups went the extra mile to make the Group SFCR accessible to all stakeholders.**

2.2 The SFCRs are generally easy to find in the websites of most of the disclosing entities. However, some undertakings still do not own a website. In this case the broad access may be compromised despite the possibility to request the document in a physical format. The use of a website is seen as necessary to guarantee general access. Websites from the relevant trade association could be used if no individual website exists.

2.3 In the websites of the insurance groups, in general, in addition to the Group SFCR, the solo SFCRs of the major entities of the group are also available and versions in English are available which facilitates the access regarding the full group.

2.4 The SFCRs usually follow the SFCR structure set out in Annex XX of the Delegated Regulation. For non-applicable items, it is important to have a clear indication that the information is not applicable. For example, if an undertaking does not have securitisations, off-balance sheet items or does not use undertaking specific parameters, the non-applicability should be clearly stated.

### **2.5 The use of different language styles and different formats to disclose SFCR information revealed difficulties in finding a common disclosure approach to all types of stakeholders.**

2.6 The SFCRs serves many types of stakeholders, with different levels of expertise and expectations, and with different objectives. Therefore, disclosing entities should take this into account when publishing SFCR information so as to strike the right balance between the needs and the capabilities of the different types of stakeholders.

2.7 EIOPA expects that care is taken when deciding on the content and language style of the SFCR and in particular of the Summary of the SFCR. This is the part of the SFCR that will mostly interest the policyholders and they should be the main addressees of this part of the Report.

2.8 The SFCR Summary should encompass relevant SFCR areas and briefly provide relevant information.

2.9 The remaining sections of the SFCR should be mainly addressed to analysts/investors. Although more informed policyholders could also be interested in the full report, the type and detail of information to be included

should not have them as main addressees. For this reason, it is not expected that the full content of EU or national legislation is reproduced into the SFCR, such as the legislative definitions of the system of governance requirements or a description of IFRS conditions to recognise a deferred tax. The Report should instead include relevant undertaking-specific information, under each section to make it easy to efficiently identify and read relevant specific information.

## **2.10 Need for a more consistent and fit-for-purpose SFCR Summary**

2.11 Given the importance of the SFCR Summary for the policyholders and the range of different approaches to it, it is important to specify the expectations on its minimum content from a supervisory perspective.

2.12 EIOPA expects the SFCR Summary to at least include:

- The key elements and drivers of the undertaking's business model and business strategy;
- Main indicators for the undertaking's underwriting performance and investment performance including material lines of business and material geographical areas where the business is carried;
- Any significant business or other events with material impact on the solvency and financial condition that have occurred over the reporting period;
- The key elements of the system of governance;
- Information about the undertaking/group key risks;
- Solvency ratio with and without volatility or matching adjustment;
- The approach towards the use of transitional arrangements, including the solvency ratio without the transitional adjustment to the relevant risk-free interest rate term structure or without transitional measure on technical provisions;
- The amount of the Solvency Capital Requirement (SCR) and the eligible amount of own funds to cover the SCR, classified by tiers;
- The amount of the Minimum Capital Requirement (MCR) and the eligible amount of basic own funds to cover the MCR, classified by tiers;
- Information about any non-compliance with the MCR or significant non-compliance with the SCR over the last reporting period.

## **2.13 Quantitative Reporting Templates (QRTs) in the context of the SFCR**

2.14 The placement of QRTs in an Annex to the SFCR, although a good practice, should not prevent undertakings/groups from providing quantitative and qualitative information in the narrative part of the SFCR. Relevant information covered by the QRTs and additional information not covered by the QRTs in the Annex to the SFCR, such as background information that allows to understand the information included in the templates should be included in SFCR.

2.15 If appropriate, parts of the QRTs should be repeated in, or complemented through, the narrative information of the SFCR. This approach is particularly important for the section "Capital Management" where quantitative and

qualitative details on the composition of the SCR and the eligible own funds should be provided. To understand whether it is appropriate to repeat or complement the quantitative information from the QRTs, one should consider if the SFCR can be understood by merely reading the narrative part of the report.

2.16 Some undertakings opted for including the QRTs in the narrative information of the SFCR. This is a feasible approach and could help to better structure the disclosed information. However this should not prejudice the layout of the templates. Minor changes to the layout such as deletion of columns for the non-applicable lines of business are possible but for example, all rows of the Balance sheet, Own Funds or SCR templates are expected to be disclosed even where the value is zero.

**2.17 Information on ORSA under the SFCR is by its very nature undertaking/group specific. This means that undertaking/group specific information needs to be included, even when referring only to the process and not to the outcome.**

2.18 ORSA information under the SFCR should go beyond repeating the laws, regulations and administrative provisions on how the ORSA should be integrated into the organisational structure and decision making process. EIOPA expects that at least the following is included into the SFCR:

- Process for performing and on-going monitoring of the ORSA, including involvement of the administrative, management or supervisory body;
- Link to the business strategy and how the main areas/risks of the business strategy are considered in the ORSA, namely in the overall solvency needs;
- ORSA timing and frequency and triggers for performing additional assessments.

**2.19 The information on the risk sensitivity to different scenarios or stresses, including the sensitivity of the SCR of the undertaking/group, should be better structured and more comprehensive.**

2.20 The information regarding the risk sensitivity, including the sensitivity of the SCR, is not comparable across different undertakings/groups, mainly with regard to the outcome of stress testing and sensitivity analysis for material risks and events.

2.21 It is expected that the reporting of sensitivities to different scenarios or stress tests is disclosed in a more structured format.

2.22 EIOPA expects that it contains at least the following:

- Description of the methods used, i.e. scenario, stress-tests, sensitivity analysis for the different risks;



- Adequate information on the underlying assumptions of the methods used, including how the future management actions are taken into consideration;
- The impact of the sensitivity measured as an amount of the SCR for that specific risk and as a percentage points of the overall SCR ratio;
- An interpretation of the results considering the strategy and business model of the undertakings/groups and any impact on the management of the most material sensitivities.

2.23 The sensitivity to the different risks should be shown under section 'Risk Profile'. Information regarding the overall impact of the stress testing and sensitivity analysis on the SCR should also be provided.

**2.24 Information on the bases, methods and main assumptions used for the valuation for solvency purposes should include undertaking/group specific information and address the uncertainties around the valuation.**

2.25 Regarding the description of the bases, methods and main assumptions used for the valuation of assets, liabilities and technical provisions, the SFCR should include more relevant, undertaking/group specific information. In particular the following should be taken into consideration:

- Valuation of investments: an unspecific description of the valuation techniques hierarchy alone is not suitable; instead, the focus should be, on the entity's specific approaches to investments, the conditions under which each valuation method was applied, the type of investments to which the method was applied and the relative weight of investments valued by each method;
- Valuation of deferred tax assets and deferred tax liabilities: a description of the general principle from IAS 12 alone is not suitable. Information should at least include: the identified relevant differences between accounting standards and Solvency II and the reasons or sources for such differences, any unused tax losses, and the maturity date of any losses;
- Valuation of technical provisions: when referring to uncertainty associated with the value of the technical provisions, it is expected more than a statement referring to the existence of uncertainty or that the actuarial function stated the calculation to be appropriate. The SFCR should provide a description of the level of uncertainty, by linking it at least to the assumptions underlying the calculation, such as economic and non-economic assumptions, expected profits in future premiums, future management actions and future policyholder behaviour.

**2.26 Information on eligible own funds should address the management of the own funds in the context of the undertaking/group strategy and business model, explanation of material own funds items, including**

**movements of own funds over the reporting period and looking forward.**

- 2.27 The SFCR needs to include a description of the own funds management. This information should be described in the context of the undertaking's/group's strategy and business model, including information on the time horizon used for business planning and on any material changes over the reporting period.
- 2.28 The information of the eligible own funds items, classified by tiers should be complemented by explanations of the most material own-funds items, including the extent to which they are available, subordinated, as well as their duration and any other feature that is relevant for assessing their quality. This is expected in particular when material items are for example Surplus Funds, Reconciliation Reserve or Subordinated Liabilities:
- For the Surplus Funds, it is important to explain how the Tier 1 classification criteria are complied with, by clarifying the nature and the legal background of such funds instead of merely stating that the criteria are met;
  - For the Reconciliation Reserve, is important to reflect on its potential volatility and link to the asset-liability management of the undertaking. Interaction with the sensitivity analysis of the risks and SCR is advisable;
  - For the Subordinated Liabilities, a list of all instruments with specific information on the changes in their values should be provided.
- 2.29 The movements over the reporting period and a forward looking perspective for the material own-funds items should be provided.
- 2.30 In particular, the group SFCR should include qualitative and quantitative information on any significant restriction to the fungibility and transferability of own funds eligible to cover the SCR.
- 2.31 It is important to clarify the expectations regarding the forthcoming first-time provision of mandatory comparative information in 2017 concerning certain SFCR areas.**
- 2.32 Comparative information is expected at least in the following areas:
- qualitative and quantitative information on underwriting performance, at an aggregate level and by material line of business and material geographical areas where it carries out business over the reporting period;
  - qualitative and quantitative information regarding the performance of the investments over the reporting period;
  - other material income and expenses incurred over the reporting period;
  - any material changes in the relevant assumptions made in the calculation of technical provisions;
  - separately for each tier, information on the structure, amount and quality of own funds at the end of the reporting period.

- 2.33 From a quantitative-information perspective, it is expected that the format of tables is used as much as possible in the narrative part of the SFCR. These tables could include amounts from different reporting years or address the material differences between two reporting years. Qualitative information is also expected to be addressed in the report.
- 2.34 Publication of QRTs for the current and the previous reporting year as an Annex alone is not sufficient to be considered compliant with this comparison requirement.