EIOPA-CP-11/009g
8 November 2011

Impact assessment on the reporting package for Solvency II

1: Procedural issues and consultation of interested parties

1.1. Having regard to art. 10 of the EIOPA regulation[1], before submitting regulatory technical standards to the European Commission, the EIOPA shall conduct open public consultations on draft regulatory technical standards and analyse the potential related costs and benefits.

1.2. This Consultation Paper is a working document of EIOPA, for the purpose of receiving Stakeholders views on the requirements proposed and their impact on the Stakeholders. It does not purport to represent or pre-judge the views of the EIOPA and/ or the formal proposals of the EIOPA, regarding the matters covered in this consultation paper, which are expected to be submitted to the European Commission for the endorsement.

1.3. The discussions on the framework for Solvency II were concluded two years age and were adopted in the Solvency II Directive2. The development of the Solvency II Directive was subject to lengthy consultation and a thorough impact assessment, which concluded that the EU should adopt an economic risk-based approach to the supervision of insurance and reinsurance undertakings and insurance and reinsurance groups.

1.4. Solvency II follows the "Lamfalussy" approach, which means that the requirements of EU prudential framework can be found at three hierarchical levels. The Solvency II Directive (level 1) identifies a number of areas where the European Commission is developing implementing measures (level 2) to provide further technical detail to elaborate the level 1 principles.

1.5. Even if level 2 implementing measures developed by European Commission were not published yet, EIOPA decided to start public consultation of the whole reporting package, to give the undertakings and national supervisory authorities more time for the implementation of the new reporting requirements.

1.6. For the last 2 years EIOPA has been working intensively on the reporting requirements with the aim to establish the harmonised, effective and efficient reporting system in Europe.

1.7. To achieve the objectives a preliminary draft of the quantitative reporting templates was presented as work in progress to Stakeholders in CEIOP's Consultation Paper 58 in July 2009.

[1] REGULATION (EU) No 1094/2010 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC

[2] 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), published in the Official Journal on 17 December 2009

1.8. After that EIOPA has invited representative stakeholders at the European level (AMICE, CEA, CFO Forum, CRO Forum, FEE, Groupe Consultatif and ECB) to participate in two waves of informal consultation (pre-consultation) on the Solvency II quantitative reporting templates.

1.9. The first wave of informal consultation took place from April to September 2010 and focused on a "field-test", i.e. on the content of items and the technical feasibility of completion (in terms of data available within undertakings). The aim of the field-test was to receive feedback on:

- content of the templates (including difficulties with definitions);
- difficulties encountered on completion;
- time required to fill in the templates (noting that it may take longer in the first instance as a one-off exercise);
- possible proportionality or materiality issues;
- relevance of data produced for internal purposes; and
- data requirements not included that would be useful to include.

1.10. The second wave took place from January to March 2011 and focused on the reporting package as a whole. Moreover Stakeholders provided feedback on a draft cost benefit analysis, approximations for the data provided in quarterly templates etc.

1.11. The whole process was supported by several meetings with these stakeholders on the particular templates.

1.12. The current draft of the reporting requirements is based on the detailed analysis of all comments received during pre-consultation and during meetings with the industry as well as the analysis of public and supervisory needs under Solvency II regime. The main objectives for the current revision of the Solvency II reporting requirements are to collect data that are needed for supervisory purposes under the new regime, and to create a system that will not be too burdensome for small and less complex insurance undertakings. Moreover presented requirements should ensure that sufficient and clear information is provided to the public and is not misleading.

1.13. With regard to the principle of proportionality, although the consulted stakeholders have agreed that the proportionality principle is not on different requirements but on different ways to fulfil the requirements, they have expressed an interest in receiving more details on the application of the proportionality principle. However, as this principle should be reflected in the process and not on what is to be achieved it made it difficult to address the application issues in the templates. Nevertheless efforts have been made in this regard and EIOPA believes that the current draft reflects an improvement on the previous draft.

1.14. Proportionality could be applied for quarterly templates, with some of them (e.g. detailed list of investments) being applicable only to large or complex undertakings. Annual templates seem to be globally appropriate in terms of burden for undertakings and coverage of supervisory needs for an annual assessment of all undertakings. Smaller or less complex undertakings will have less to report due to their size or less complex risk profile and therefore, and there will be no exemption of annual templates for certain undertakings, since this would be difficult to implement at European level (e.g. definition of criteria) and could lead to uneven level-playing field if it were left to supervisory discretion at national level.

1.15. Harmonised Solvency II quantitative reporting templates should replace all present national quantitative reporting templates that supervisors collect for supervisory purposes, except for national-specific templates.

1.16. National-specific templates are characterized by the following:

- such templates stem from specific national legal requirements or specificities of local markets;
- national supervisory authorities are able to prove that the objectives stated in;
- are not covered by any of the Solvency II quantitative reporting templates.

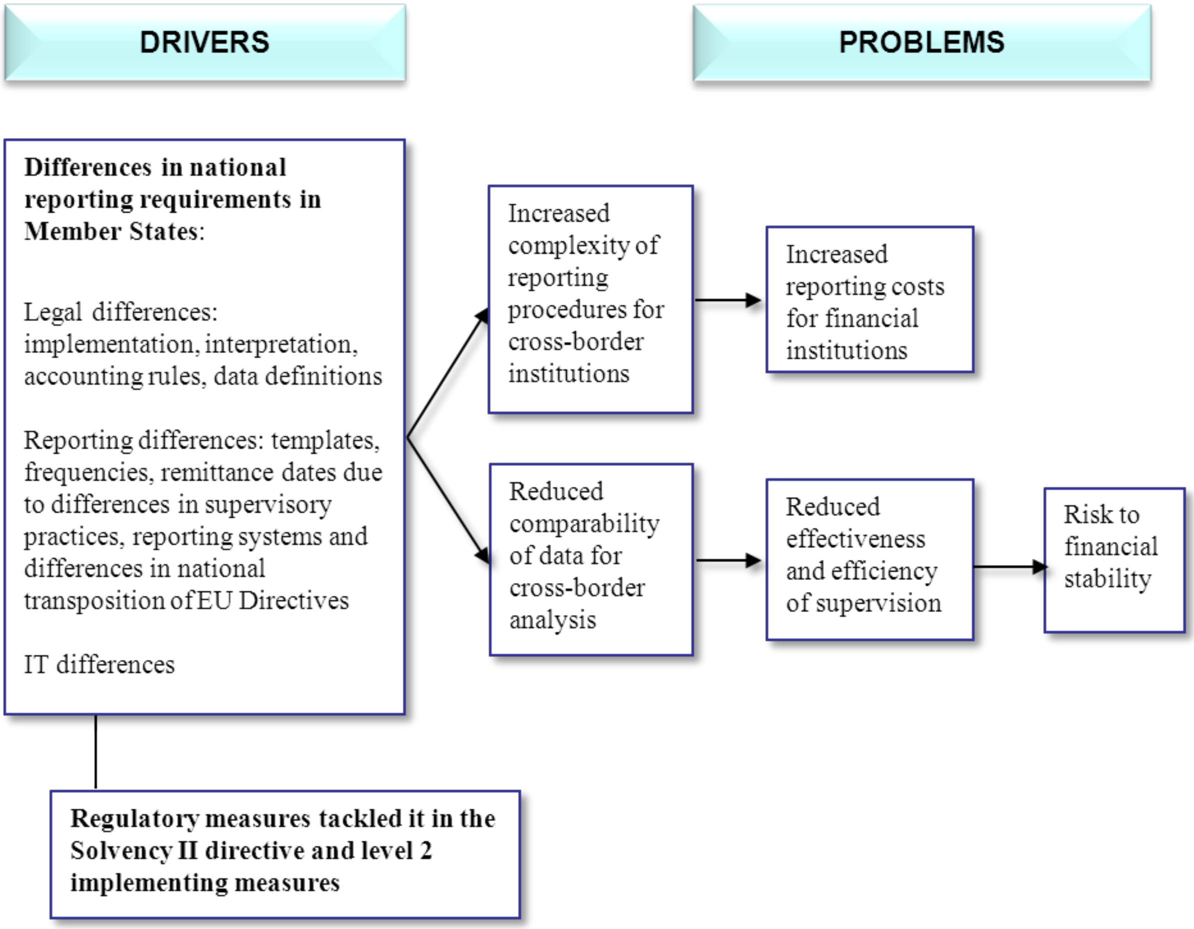
1.17. National-specific templates are likely to cover areas such as: accounting data (local GAAP), distribution of profits (life), specific lines of business (workers' compensation, construction, retirement products, etc.).

1.18. The guidelines and recommendations on the content of the Solvency and Financial Condition Report and the Regular Supervisory Reporting are aimed at harmonising narrative public disclosure and narrative supervisory reporting by prescribing the minimum content for selected sections in the reports. The guidelines aim to promote transparency and market discipline whilst preventing undertakings from having to bear unnecessary administrative costs.

2: Problem definition

2.1. In order to address the weaknesses of the current EU regime, Member States have introduced reporting requirements at national level that have resulted in widely diverging regulatory requirements and supervisory practices throughout the EU. The resulting lack of harmonisation undermines the proper functioning of the Single Market and imposes significant costs on insurance groups operating in more than one Member State and does not ensure level playing field for all European undertakings.

2.2. Regulatory measures tackled this problem in the Solvency II directive and draft level 2 implementing measures. However further details on reporting requirements, incl. reporting templates, are needed to ensure harmonisation and streamline supervisory reporting requirements among Member States.



Baseline

2.3. EIOPA has considered the potential related costs and benefits from the proposed reporting requirements against the baseline, which is the current practice for reporting purposes applied by national supervisory authorities.

2.4. The assessment of the potential related costs and benefits from the draft technical standards developed by EIOPA, uses as a starting point previous and current impact assessments undertaken by the European Commission.

2.5. The reporting requirements under Solvency II have already been assessed for impact on stakeholders in the Impact Assessment: Possible macroeconomic and financial effects of Solvency II (DG ECFIN/C-4(2007) REP 53199) from March 2007:
http://ec.europa.eu/internal_market/insurance/docs/solvency/impactassess/annex-c06_en.pdf

2.6. Following the level 1 impact assessment, level 2 reporting requirements have been assessed for impact on stakeholders in an External Study by Deloitte for the Impact Assessment of Solvency II (Level 2) from the 2 March 2010:
http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Industries/Financial%20Services/EU_FS_ExternalStudyofSIILevel2.pdf

2.7. With regard to the analysis of the impact for Level 2 implementing measures, the European Commission has collected at the beginning of 2011 additional evidence for their impact assessment:
http://ec.europa.eu/internal_market/consultations/2010/solvency-2_en.htm

3: Objective pursued

3.1. The Solvency II project has three sets of objectives; general, specific and operational objectives.

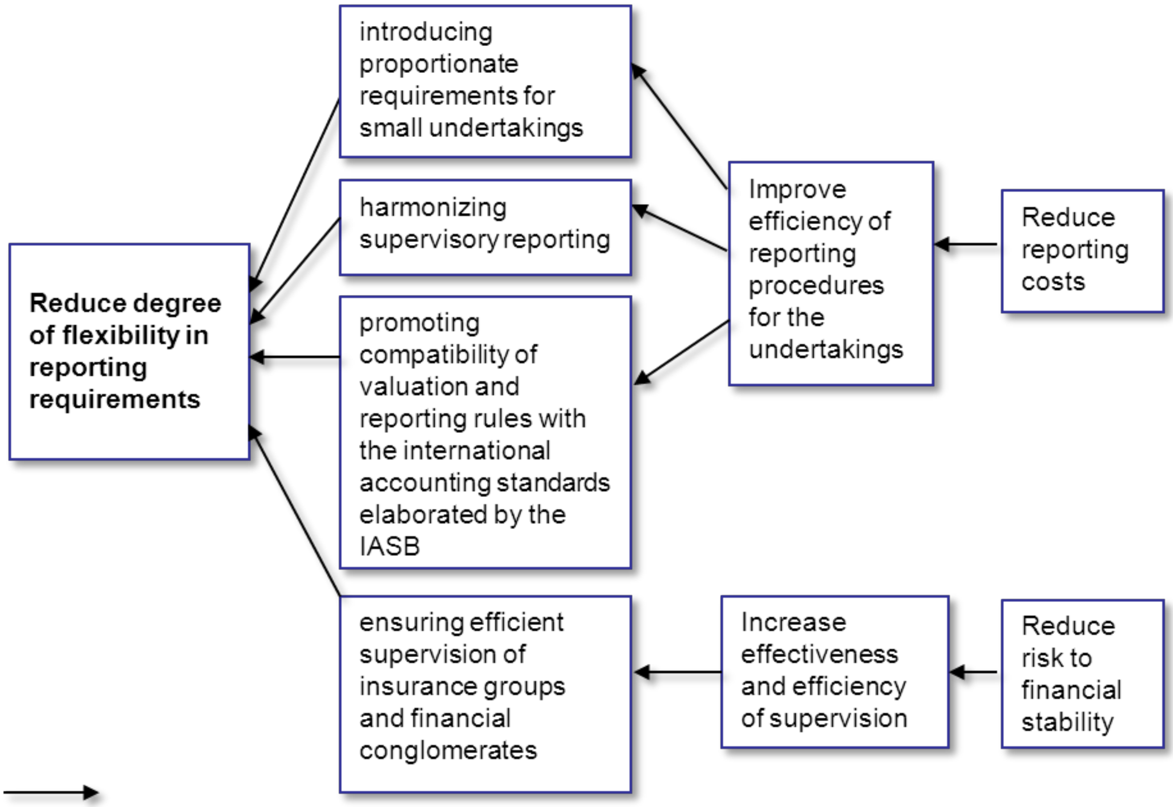
3.2. The four general objectives of the Solvency II project are to deepen the integration of the EU insurance market, enhance the protection of policyholders and beneficiaries, improve the competitiveness of EU insurers and reinsurers and promote better regulation.

3.3. Consequently, when assessing the merits of the various policy options and approaches the aim is to deliver a system that addresses the weaknesses of the current regime, in particular with respect to removing obstacles to the proper functioning of the single market, whilst achieving an appropriate balance between the objectives of enhancing the protection of policyholders and beneficiaries and improving the International competitiveness of EU insurers and reinsurers.

3.4. While analysing the **specific** objectives for the Solvency II reporting requirements, the new regime requires and provides sufficient incentives to advance supervisory convergence and co-operation.

3.5. 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. Small insurance undertakings play an important role in the economic environment and should not be subjected to unnecessary regulation. Therefore the proposed policy requirements introduce proportionate requirements for small undertakings.

3.6. Supervisory reporting requirements vary widely across Member States. These differing requirements impose unnecessary costs on the undertakings and does not provide level playing field. Therefore new requirements should harmonise and streamline supervisory reporting requirements. As one of the operational objectives is to promote compatibility of valuation and reporting rules with the International accounting standards elaborated by the IASB, the new requirements should ensure that valuation rules, supervisory reporting and public disclosure requirements are compatible with the International accounting standards elaborated by the IASB. Insurance undertakings are not being required to make full use of IAS/IFRS, however certain prudential valuation rules, as well as reporting and disclosure rules are similar to IAS/IFRS rules.



Preferred option: Apply uniform formats, frequencies and dates of reporting – formats should be proportionate to the nature, scale and complexity of undertakings' activities

Two constraints for the refinement of the characteristics of the preferred option (the same as operational objectives):

- Avoid that compliance costs (infrastructure and reporting) for undertakings will not exceed the benefits for the whole market
- Avoid that data which is key to effective supervision is not collected

4: Policy options and analysis of impacts

4.1. In the Solvency II project policy-makers have already considered, analysed and compared a number of policy options. Based on the impact assessment already done for the requirements set in the directive and in the draft level 2 implementing measures, EIOPA has considered a wide range of policy options referring to the concrete solutions set out in technical standards and guidelines and recommendations. In this section EIOPA would like to show the policy alternatives which were considered, the preferred policy options that have been analysed, as well as the discarded options.

4.2. During the analysis, the principle of proportionality was always taken into account as the European Community action should not go beyond what is necessary to achieve satisfactorily the objectives which have been set. With regard to SMEs, due to their size and scarce resources, they can be affected by the costs of regulations more than their bigger competitors. At the same time, the benefits of regulations tend to be more evenly distributed over companies of different sizes. SMEs may have limited scope for benefiting from economies of scale. SMEs in general find it more difficult to access capital and as a result the cost of capital for them is often higher than for larger businesses. Therefore the principle of proportionality was always taken into account while considering different policy options.

4.3. The analysis was also closely linked to the principle of subsidiarity which state that Community action should be as simple as possible and leave as much scope for national decision as possible, and should respect well established national arrangements and legal systems.

4.4. EIOPA proposes to approach the analysis of the impact by addressing the following specific areas:

A. Detailed list of assets
B. Underwriting vs. accident year for reporting of claims development
C. Triangles in TP-E3
D. Quarterly BS-C1
E. Scope of disclosure
F. Ring-fenced funds (RFF)
G. Variation Analysis
H. Narrative reporting
I. Risk Concentration

For each of these areas the respective proposed policy options are outlined including the developments following the pre-consultations, where applicable.

A. Detailed list of assets

Why supervisors need the information on assets?

4.5. The Prudent Person principle allows more freedom to undertakings. Higher freedom to invest needs to be balanced, to guarantee policyholders protection, with two main requirements: an adequate system of governance ensuring a high level of responsibility and accountability, and an adequate level of reporting to supervisors. Consequently undertakings must have in place a system that ensures a proper identification, measurement, monitoring, management, control and reporting their investments. This can contribute to guarantee that assets are invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Therefore information on assets available at the insurance undertaking should encompass such requirements.

4.6. The proposed Assets D1 template provides information that is essential for both micro and macro-supervisory in the form of a detailed list of investments. This detailed list will be used to give a full vision of the risks in the investment portfolio, to reduce the need for ad hoc requests to assess specific exposures of certain undertakings, to perform any necessary aggregation and analysis at undertaking level, to enable market-wide analysis

4.7. The benefits for supervisory purposes and policyholder protection come from the fact that the detailed list of investments provides the means of properly assessing financial risks, and this is all more important in Solvency II as undertakings will have freedom for investment choices under the prudent person principle.

4.8. In jurisdictions where the detailed list of assets is currently used, it has often proved very effective to provide early warning indicators on potential excessive risk-taking or deficiencies in risk management of assets. In practice, this concerned all types of undertakings, regardless of the size or type of activity

Options

4.9. Concerning the detailed list of investments EIOPA has considered two following options. First option was to collect the detailed list of assets: Assets – D1, hereafter “D1”, and the detailed list of derivatives: Assets – D2, hereafter “D2” from all the undertakings on quarterly basis.

4.10. Second policy option proposed by EIOPA concerns the submission of these templates on a quarterly basis, but only by “bigger” or more complex undertakings, without further detail.

4.11. The expected benefits and costs from the respective policy options are outlined below.

4.12. The benefits for supervisory purposes and policyholder protection come from the fact that the detailed list of investments provides a means for properly assessing financial risks, which is all the more important under Solvency II as undertakings will have freedom for investment choices under the prudent person principle.

4.13. In order to take into account proportionality, some undertakings can be exempted from the quarterly requirement. However, such exemption should be done within a harmonised framework to guarantee a minimum coverage of the market at the national and European levels, and also a convergence of supervisory assessment of risks related to investments. In any case, national supervisory authorities are free to decide to have a coverage that goes further than the minimum harmonised thresholds.

4.14. Concretely, the exemption of quarterly detailed list of investments should not undermine covering at least undertakings representing 90% of the total value of investments at European level, defined with their Solvency II valuation of the previous year, with an additional threshold set by national supervisory authorities and overriding the exemptions set at European level, assuring the coverage of at least 75% of the same criteria at national level[3]. This would ensure having a sufficient coverage at both national and European levels, which necessary from a macro-supervisory and financial stability perspective. National supervisory authorities will have the possibility to set a higher coverage threshold at the national level and/or reduce the number of exemptions from quarterly reporting based on the nature and complexity of the risk profile of undertakings (for the latter possibility, a list of indicative criteria should be set out in the relevant guidelines and recommendations).

4.15. In jurisdictions where the detailed list of assets is currently used, it has often proved very effective to provide early warning indicators on potential excessive risk-taking or deficiencies in risk management of assets. In practice, this concerns all types of insurance undertakings, regardless of the size or type of activity.

4.16. The template is applicable to groups in case of default or combination methods.

4.17. The Level 1 text states that insurance undertakings should have assets of sufficient quality to cover their overall financial requirements and that all investments held by insurance undertakings should be managed in accordance with the prudent person principle. The Level 1 text and the draft Level 2 text set out requirements for the risk management framework, in particular with regards to investments and ALM, ensuring that the interdependence between assets and liabilities is recognised, along with assessing the dependence of risks between the different asset classes and between the risks of different insurance and reinsurance obligations.

4.18. Also the Level 1 text and the draft Level 2 provide for undertakings an obligation to have in place a system comprising strategies, processes and

[3] Based on a survey from a sample of European countries, between 5 and 17 % of undertakings are required to meet that 75% threshold at the national level. These figures roughly double to get to the 90% threshold at the national level.

reporting procedures to identify, measure, monitor, manage and report, on a continuous basis the risks, at an individual and at an aggregated level, and their interdependencies.

4.19. When defining the nature, scope and format of the information supervisory authorities should take into consideration the information undertakings need to manage their business in order not to create information requirements that are only used for reporting purposes.

What are costs to undertakings of the detailed information on assets?

4.20. To comply with the requirements as defined in the Solvency II framework, undertakings need to have in place strategies, processes and reporting procedures that enable them to measure, monitor, manage, control and report the risks underlying the investments portfolio. This necessarily requires undertakings to hold a detailed list of all its investments. It is not possible to have such a system in place, guaranteeing a proper application of the prudent person principle without an adequate level of information on each investment of the portfolio.

4.21. Therefore, it is expected that undertakings will perform the necessary system changes in order to comply with Solvency II requirements, taking into consideration that granular information on assets provides the most flexible way for undertakings to monitor different aspects of investment risk. Reflecting this assumption, EIOPA is developing a reporting framework on assets that consist of a detailed list of assets.

4.22. The availability by the undertaking and consequent reporting will bring, in some cases, additional initial set-up costs. However, in fact the major part of these costs will be consistent with the implementation of a proper risk management system. In this context, additional costs have to be compared to additional benefits for undertakings and supervisors, considering risk management practices in light of the new regulatory framework.

4.23. Initial cost might exist for undertakings, but not on an on-going basis; besides, it is essential for undertakings to properly manage the risk of their assets, which implies that they will have to bear the cost anyway. For quarterly reporting of the detailed list of investments, proportionality aspects are taken into account.

Periodic submission

4.24. Concerning the detailed list of investments (Assets – D1) and the detailed list of derivatives (Assets – D2 ; the name « D2 » is here used to represent both templates D2O on open positions and D2T on historical trades), it was proposed to stakeholders to have these templates submitted quarterly, but only by “larger” or more complex undertakings.

4.25. During the pre-consultation the feedback from stakeholders was mixed: some stakeholders favoured such an approach, while others opposed it, being in favour of a less constraining requirement.

4.26. D1 & D2 are a basic supervisory tool to ensure monitoring of the compliance, on an on-going basis, with the prudent person principle. Market risks monitored through D1 and D2 can be volatile, and can evolve significantly from one quarter to another. From the financial stability objective of supervision (art. 28 in the Level 1 text), it is essential to have an overview of at least a large part of the market at frequent enough intervals.

4.27. Besides, the main costs involved with setting up D1 and D2 are initial, so the burden of producing these figures on an on-going basis is reduced, all the more as the information required are basic data for proper risk management of assets and should be available on a continuous basis within undertakings.

4.28. However, in order to take into account proportionality, some undertakings could be exempted from this quarterly requirement. This possibility of exemption should take into account the following elements:

- The exemption of certain undertakings to report D1 & D2 quarterly must not undermine the need to cover a large share of the market, in order to provide a meaningful overview from a financial stability perspective, on the assets side (*"size" dimension*);
- This dimension assures that a minimum number of undertakings are covered, without prejudice that due to other dimensions the overall exempted undertakings are in a smaller number *("share" dimension*);
- The exemption of certain undertakings with fewer complexes or without specific risk profiles in terms of investments to report D1 & D2 quarterly is also considered, insofar as they aren't particularly subject to market risk ("*nature & complexity*" dimension).

4.29. Such criteria should be respected in order to determine a floor for the minimum application for quarterly D1 & D2. In order to address the element "size" dimension, the main questions are:

At what level should the "market" be defined?

4.30. **Option A1:** define the market at European level only; this enables to cover the main undertakings subject to Solvency II but many national supervisors might then not get any information.

4.31. **Option A2:** define the market at national level only, with a threshold defined at national level; this would lead to diverging supervisory practices and would not guarantee a sufficient coverage at European level.

4.32. **Option A3:** define the market at national level only, with a harmonised threshold; this leads to undertakings of the same size being covered in a smaller country but not in a bigger one, hence a level-playing field issue.

4.33. **Option A4:** define the market at European level, with the possibility to have an additional national threshold (with a harmonised minimum); this would enable national supervisors which feel they do not have enough companies covered by the European threshold (e.g. smaller markets) to override the exemption of quarterly reporting under the European threshold in order to obtain a relevant threshold on their national market, with harmonisation of a minimum threshold to make sure we have minimum policyholder protection at a national level.

4.34. **EIOPA believe that option A4 can contribute to achieving the objectives described in section 3.**

At what criteria should the 'market' be defined in order to be relevant from an investments perspective?

4.35. **Option B1:** total value of the balance sheet; this might exclude undertakings with a ratio of investments / balance sheet higher than average (i.e. large investments, but small balance sheet)

4.36. **Option B2a:** total value of investments for D1 and of derivatives for D2, taken separately. This might lead to excluding undertakings, which have large amounts invested in a specific type of product, but this could be covered under the "nature and complexity" dimension. Concerning derivatives, their value might not fully represent the position concerned. By appreciating the criteria for D1 and D2 separately, this enables to be closer to risk (an undertaking with relatively large amounts of derivatives, but relatively small amounts of investments will provide D2 quarterly but not D1)

4.37. **Option B2b:** total value of investments for D1 and of derivatives for D2, taken together; compared with B2a, this considers derivatives as any other investment;

4.38. **Option B2c:** total value of investments for D1 and notional amounts of derivatives for D2, taken separately. This is the same as B2a, except that derivatives are based on notional amounts, which might give excessive weight to certain types of coverage with large notional amounts but limited risk. In the case of an undertaking, which meets the threshold for D2 but not the threshold for D1, hence it would still need to report D1 as the exposure to derivatives is related to the portfolio being hedged or not (however, undertakings meeting the threshold for D1 but not for D2 will only have to report D1);

4.39. **Option B3:** total premiums written (or earned or received). This does not make much sense here, as we are dealing with balance sheet items; but the consequence would be that non-life insurers are more likely to be covered than in options B1 or B2.

4.40. **EIOPA believes that option B2c can best contribute to the objectives described in section 3.**

What valuation basis should the criteria used for the "share" of the market is based on?

4.41. **Option C1:** solvency II basis using average over the 5 previous years; this reduces the volatility and is Solvency II consistent; however, it might not cover undertakings which size has recently increased (e.g. due to transfer of portfolio). Undertakings which size has recently decreased might be covered without necessity.

4.42. **Option C2:** statutory account basis during the previous year; this is likely to be less volatile than the Solvency II basis in certain jurisdictions

4.43. **Option C3:** Solvency II basis during the previous year; this is consistent with the overall Solvency II framework and enables to cover recent increases without unnecessarily covering recent decreases; however, it is likely to be volatile from one year to another (e.g. fair value of investments), leading to undertakings being submitted for a reporting period, and not for the following one; the criterion should be based on the investments as reported in the last quarter[4], with the decision being implemented as of the beginning of the next quarter (i.e. if an undertaking falls within the threshold with its 2014 figures, it has to report its quarterly D1 or D2 as of Q1 2015).

4.44. **Option C4:** same as C3, but with a longer time lag. The decision would be implemented as of the beginning of next year (i.e. Q1 2016 in the example above)

4.45. **EIOPA believes that option C3 can best contribute to the objectives described in section 3.**

What represents a "large" share of the European market and what should be the minimum floor at national level (as defined in option A4)?

4.46. **Option D1a:** 90 % of the market submitted to Solvency II at European level, with a 75 % minimum floor at national level; it is considered that 90 % is a proper threshold to have a good overview of the market in financial stability terms; however, this might mean that thousands of undertakings will be concerned at European level (and up to hundreds of undertakings in larger countries)

4.47. **Option D1b:** same as D1a but 75 % at European level; in this case, it is more likely than only hundreds of undertakings will be concerned at European level (and up to tens of undertakings in larger countries) Concentration of investments – example of the some of the markets were analysed

4.48. **Option D2:** Same as D1a or D1b, including (re)insurance undertakings that are excluded from the scope of Solvency II (but excluding pension funds). This would give an overview of the insurance market as a whole and not just undertakings submitted to Solvency II, but would raise the

[4] This means that the reevaluation of the undertakings concerned would only take place annually, but based on quarterly figures for Q4 because they are more quickly available.

problem of the valuation basis to use for those undertakings. In addition to that undertakings out of scope might not represent a significant share of the European market.

4.49. **EIOPA believes that option D1a can best contribute to the objectives described in section 3.**

4.50. The main question under the "nature & complexity" dimension, is whether the ability to reduce the number of exemptions considered (i.e. which could be exempted under the "size" dimension) should be left to national supervisory discretion or not?

4.51. **Option F1:** leave complete discretion to national supervisory authorities to reduce the number of exemptions, with no further criteria; this would leave the full possibility for supervisors to adapt to the specificities of their national market, but could also lead to different practices and uneven level-playing field

4.52. **Option F2:** leave complete discretion to national supervisory authorities to reduce the number of exemptions, with indicative criteria set out in Level 3. This would leave sufficient flexibility to adapt to specific cases, while providing a common framework for assessment of such cases.

4.53. The indicative criteria could contain the following: complexity of investments held, large concentration on certain types of investments, need for specific monitoring of asset risk management due to governance failures (the list of criteria should not be exhaustive to allow for flexibility)

4.54. **Option F3:** leave no discretion to supervisory authorities to reduce the number of exemptions and set thresholds with regards to the nature & complexity of risks. This would create difficulties in setting thresholds for these criteria, which are mainly assessed qualitatively, and would not provide the necessary flexibility to address specific cases.

4.55. **EIOPA believes that option F2 can best contribute to the objectives described in section 3.**

4.56. **Question:**

Do you agree that the EIOPA's suggested approach would be the most efficient and effective in order to achieve the objectives of:

- **introducing proportionate requirements for small undertakings;**
- **harmonising supervisory reporting;**
- **promoting compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB; and**
- **ensuring efficient supervision of insurance groups and financial conglomerates.**

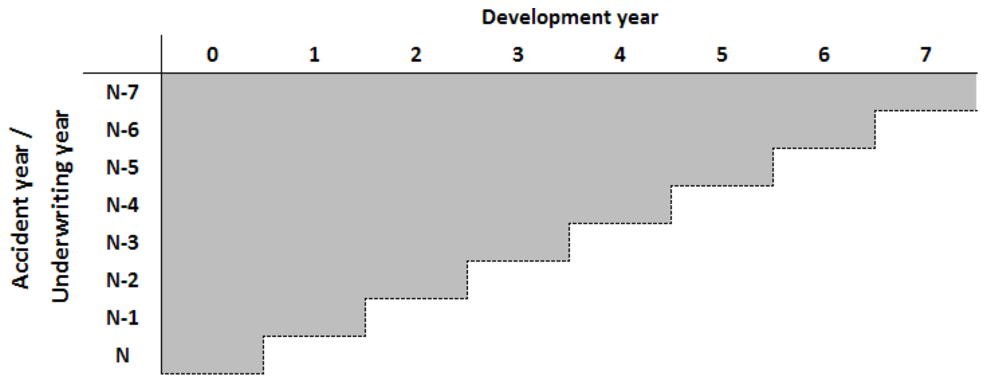
(If you do not agree, which options or alternative suggestion meets these objectives in a more efficient and effective way and why?)

B. Underwriting vs. accident year for reporting of claims development

4.57. Solo templates are based on seven categories; one of those is referred to Technical Provisions Non-Life templates, for which EIOPA already consulted informally with key stakeholders.

4.58. In particular, template TP-E3 (i.e. “Non-life Insurance Claims Information”) requires data on claims development, i.e. sets of tables related mainly to claims paid and claims provisions. These tables, known also as triangles, are important because: they are usually used by undertakings for reserving estimates and can be used by supervisors in order to assess if the provisioning is sufficient. They give users insights into the uncertainty surrounding estimates about future claims and also indicate whether a particular insurer has tended to overestimate or underestimate ultimate payments[5].

A typical triangular table is shown below:



4.59. In the triangle table the rows represent the years when the claims originated (e.g. accident year or underwriting year) and the columns represent how the claims have developed over time.

4.60. The most important open issue concerning TP-E3, and other TP Non-Life templates, is the standard to be used for reporting of claims development, i.e. accident year (AY) or underwriting year (UWY). In particular, AY refers to the year when the claims are incurred while UWY refers to the year when the contract covering the claims was underwritten.

4.61. During the informal consultation, EIOPA explicitly asked stakeholders the following questions:

- What is the most appropriate approach (AY or UWY) to monitor claims development in the Solvency II framework? and
- What is standard currently used (with details of market share by country)?

The stakeholders’ feedback:

[5] For that reason the disclosure of claims development is a specific requirement of international accounting principle for insurance contracts (IFRS 4.39(c)(iii)) and of the US Securities and Exchange Commission in the financial statements.

4.62. **Concerning question 1:**

- The majority of stakeholders answered that this is essentially a business decision and reporting requirements should not impact on an undertaking's ability to choose the best way of monitoring their business. In their views undertakings should be free to maintain the standards they currently use internally (whether this is based on AY or UY).
- One stakeholder supported Accident year.

4.63. **Concerning question 2:**

- Stakeholders did not give any specific data, but they pointed out that most direct insurers currently report under AY, but in some lines of business and in the reinsurance business UWY is more appropriate/used.

EIOPA considered the following 3 options to deal with this issue:

4.64. **Option 1:** not requiring any specific standard for claims development, and letting undertakings choose the standard they use (i.e. follow the industry's feedback)

- ✓ **Pros (+):** undertakings are free to maintain the current standard without any cost for modifying the IT systems to change their existing format; according to FEE, reallocation of data from one standard to the other usually is associated with poor data quality;
- ✓ **Cons (-):** no harmonisation obtained on that issue, with no possibility to compare data between undertakings.

4.65. **Option 2:** choose a specific standard for claims development (i.e. not follow the industry's feedback). For example, this would mean requiring AY for most LoBs and UWY for some others.

- ✓ **Pros (+):** harmonisation obtained also on that issue;
- ✓ **Cons (-):** some undertakings must modify their current system; in certain cases, standards might differ within a given LoB[6]

4.66. ***Option 3****:* not require any specific standard for claims development at European level but keep flexibility at national level (i.e. national supervisors could decide to impose a specific requirement)

- ✓ **Pros (+):** undertakings are free to maintain the current standard in the case their approach is compliant with the (possible) current requirement of the national supervisor; it could be possible that undertakings in some countries have already modified their system to comply with existing national requirements;
- ✓ **Cons (-):** possible problems in the case of different national supervisors choosing different standards (i.e. AY and UWY) for the same insurance group with cross-border activities.

4.67. EIOPA thinks that the above mentioned possible problem for groups could be dealt with through a closer interaction among the supervisors involved in the college of supervisors.

[6] e.g. construction insurance, where the standard is likely to be UWY since it is based on multi-year contracts, but which is not a LoB in itself, and is likely to be included in a LoB such as "general liability" or "fire & other damage" which are likely to be in AY.

4.68. EIOPA is in favour of Option 3 no requirement at European level between AY/UWY for claims development in the TP NL reporting templates but keep flexibility at national level.

4.69. **EIOPA believe that option 3 can best contribute to the achievement of the objectives described in section 3.**

4.70. **Question XX:**

Do you agree that the EIOPA's suggested approach would be the most efficient and effective in order to achieve the objectives of:

- **introducing proportionate requirements for small undertakings;**
- **harmonising supervisory reporting;**
- **promoting compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB; and**
- **ensuring efficient supervision of insurance groups and financial conglomerates.**

(If you do not agree, which options or alternative suggestion meets these objectives in a more efficient and effective way and why?)

C. RBNS triangles in TP-E3

4.71. This this section outlines the pros and cons of the different options for including / not including outstanding claims information in both column and triangle formats. Note that in this paper, outstanding claims means "RBNS - reported but not settled" claims (then excluding IBNR – incurred but not settled claims) according to a case-by-case reserve (i.e. not following the best estimate approach introduced by Solvency II).

Pre-consultation proposal

4.72. Claims outstanding data was requested in both E3 and E4, even if in a different layout (triangle in E3 vs. tabular layout in E4) and with regards to different split (i.e. in E3 were required data on gross, salvage/subrogation and reinsurance while in E4 was required data on provision referred to different reserves [e.g. reopened claims, etc] without data on reinsurance).

The following 4 options have been considered:

4.73. **Option 1:** No reporting of outstanding claims

4.74. **Option 2:** require outstanding claims to be reporting in just E4 (column of latest position)

4.75. **Option 3:** require outstanding claims to be reported in just E3 (triangles)

4.76. **Option 4:** require outstanding claims to be reported in both E3 and E4

Pros and cons of options

Feature	Comment	Option 1 (no reporting)	Option 2 (reporting in E4)	Option 3 (reporting in E3)	Option 4 (reporting in E3 and E4)
Easy for undertakings to produce	Undertakings should be able to access the data for the QRT from their systems to reduce the regulatory burden.	No data is produced, so there is no burden. Note that some u/t do not currently have this data available but they are supposed to start to collect this data to comply with SII requirements	Requires data at one point in time, so, if available, should be straightforward	Requires historical data. If available in the u/t will be more complex than option 2.	Requires data to be produced in two QRT, so least straightfo rward.
Inexpensive for u/t to produce	Note that the cost of producing the data will split into the initial costs of setting up the process and the on-going costs. These comments look at both.	No cost as no data produced	If the u/t has the data, the set up cost should be minimal, particularly if reporting software is used. If the data does not exist, the set up costs may be significant. Once set up, costs will be greater as outstanding claims will need to be estimated in some way.		
Useful for diagnostics on technical provisions	Outstanding claims estimates for notified outstanding claims are a useful tool for assessing the strength of technical provisions.	No diagnostics available	a) The supervisory authority will be able to look at the current notified outstanding claims compared to technical provisions. As time goes on, the supervisory authority will be able to compare the development of notified outstanding claims. b) This will give insight into some useful extra details, i.e. claims outstanding for different type of claims. Data on reinsurance are not available	a) The supervisory authority will be able to look at current notified outstanding claims compared to technical provisions and also be able to see the development of notified outstanding claims over time. This will give insight into the accuracy of claims estimation. b) Data on reinsurance will be also available c) Data on claims outstanding, referred to different type of claims, will be deleted from E4 and this will jeopardize the general purpose of E4 to follow-up the run-off of claims (E4 won't work without claims outstanding data)	a) The supervisory authority will be able to look at current notified outstanding claims compared to technical provisions and also be able to see the development of notified outstanding claims over time. This will give insight into the accuracy of claims estimation. b) This will give insight into some useful extra details, i.e. claims outstanding for different type of claims (in E4) and reinsurance data on claims outstanding (in E3)
Ease of use as a diagnostic tool	The supervisory authority will receive data electronically from the u/t and will presumably set up some automated analysis of the data in respect of technical provisions. The supervisory authority is likely to	No analysis available	Part of the analysis will be straightforward as data will be easily comparable. The supervisory authority will need to develop a tool to build the historical	The historical analysis will be straightforward, but the current analysis will require some manipulation of data. E4 won't work without claims outstanding data	The current and historical analysis will be straightforward.

Feature	Comment	Option 1 (no reporting)	Option 2 (reporting in E4)	Option 3 (reporting in E3)	Option 4 (reporting in E3 and E4)
	wish to compare the technical provisions to current notified outstanding claims estimates as well as review the development of outstanding claims estimates.		information on notified outstanding claims to perform further analysis	and a proper use of E4 for supervisory purposes will be jeopardized	
Cost of use as a diagnostic tool	The supervisory authority will require a tool to analyse the data. The more manipulation of data required from the QRT, the most complex, and hence costly, the tool.	No cost, as no analysis	Rebuilding historical information will require manipulation of data to produce triangles, as data will need to be pulled from past reporting submissions.	Deriving the latest position will required some manipulation of data as the latest diagonal of the triangle will need to be rearranged to produce a column.	No manipulation of data required as the QRT include both aspects
Reliable as a diagnostic tool	The notified outstanding claims estimates may be derived from individual case estimates or from a statistical algorithm based on the features of the claims. Both approaches result in an estimate, which will, of course, be wrong. However, monitoring these estimates over time gives insight into the accuracy of the u/t estimation and hence technical provisions, and thus a large element of the balance sheet	No analysis as no data	The data is estimates, and thus inherently incorrect. The information to be derived is about the reliability of the estimates and hence the u/t's technical provisions.		
Availability of historical information	Some u/t may not currently record or even estimate notified outstanding claims. This may be because claims are settled very quickly or because they consider it to be unnecessary.	Not relevant	Not relevant	It may be needed to oblige reporting of information from the implementation of S2 only (with other historical data on a best effort basis).	

4.77. In the following table, all the options with the estimated impact (in terms of both cost and benefits) for undertakings and supervisor are shown Scale of impact: Zero, Low, medium, High costs/benefits.

Option	Description of the option	Impact for	Costs (-)	Benefits (+)	Net
Option 1	*no reporting of claims outstanding in QRT*	**Undertaking**	**zero**	**na**	**Zero costs**
		Supervisor	**na**	**zero**	**Zero benefits → no analysis: worst case scenario**
Option 2	*Reporting of claims outstanding in **E4***	**Undertaking**	**Low**	**na**	**Low costs**
		Supervisor	**Low** *(need to store historical data)*	**Medium** *(more granular info available in E4 but **no data on reinsurance**)*	**Net benefit ++**
Option 3	*Reporting of claims outstanding in **E3***	**Undertaking**	**Low**	**na**	**Low costs**
		Supervisor	**zero** *(no need to store historical data)*	**Low** *(data on reinsurance available but **no possibility to proper use E4 for analysis**)*	**Net benefit +**
Option 4	*Reporting of claims outstanding in both **E3** and **E4***	**Undertaking**	**Medium** *(double reporting)*	**Na**	**Medium costs**
		Supervisor	**zero** *(no need to store historical data)*	**High** *(**more granular info available in E4 and data on reinsurance in E3**)*	**Net benefit +++**

Summary

4.78. **EIOPA believe that option 4 can best contribute to the achievement of the objectives described in section 3.**

4.79. Option 4 (reporting in both E3 and E4) gives the appropriate importance to the supervisors' needs (then excluding opt 1) and also taking into account the impact on the industry, option 4 can still be considered the best one since data in E3 and E4 are both needed (they cannot be seen as alternative but complementary ones) and, if undertakings hold the data, it does not make much difference to report it in two separate templates (taking into account the current IT-system).

4.80. **Question:**

Do you agree that the EIOPA's suggested approach would be the most efficient and effective in order to achieve the objectives of:

- **introducing proportionate requirements for small undertakings;**
- **harmonising supervisory reporting;**
- **promoting compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB; and**
- **ensuring efficient supervision of insurance groups and financial conglomerates.**

(If you do not agree, which options or alternative suggestion meets these objectives in a more efficient and effective way and why?)

D. Quarterly BS-C1

4.81. In the first pre-consultation on templates in 2010, it was suggested to require the BS-C1 template (balance sheet) on a quarterly basis (with a simplified version for certain undertakings depending on proportionality). However, stakeholders commented that a quarterly balance sheet was too onerous, but made no concrete suggestion on how to address this.

4.82. The concerns of stakeholders were acknowledged, but there were still views within EIOPA that a quarterly BS was necessary. It was also suggested that since undertakings will have to value items anyway, it might actually be simpler for undertakings to fill in quarterly the same full BS as they do annually, and therefore options 2, 3 and 4 including a simplified quarterly BS were potentially excluded.

4.83. It was finally decided to have an open issue for stakeholders on this in the second consultation in early 2011, which asked: "*Should the full Solvency II balance sheet be reported quarterly (however, the statutory column will in any case only be annual)? If the Solvency II Balance Sheet is not calculated & reported quarterly, how can own funds be calculated quarterly by undertakings? What is the impact of missing balance sheet items that are not reported on a quarterly basis?*"

4.84. *Stakeholders' feedback from the pre-consultation was very clear on that issue.* Most stakeholders are opposed to submitting BS-C1 quarterly. They also indicated that:

- only OF, assets and TP should be required quarterly, not a full BS;
- a full formal balance sheet is not needed to calculate own funds quarterly (possibility to use roll-forward calculation);
- changes in other BS items than OF, TP and assets (which are required in other quarterly templates) would require significant work for an impact that will not be material;
- the continuous analysis of own funds sensitivity would be part of the ORSA;
- IFRS statements are only subject to publication bi-annually;
- proxies should be allowed for quarterly reporting.

The following 3 options were initially considered:

4.85. **Option 1:** full BS-C1 submitted quarterly;

4.86. **Option 2:** simplified[7] BS-C1 submitted quarterly;

4.87. **Option 3:** no BS-C1 submitted quarterly.

4.88. EIOPA decided not to have any options with a possible threshold for application of the requirement as it is hard to justify a threshold for macro-supervisory purposes on BS items other than TP & assets. It may be considered that submission of a quarterly BS could be less burdensome for undertakings submitted to IFRS (especially those listed), but applying IFRS or not is not a relevant criteria for applying proportionality.

[7] A simplified BS would consist of larger aggregation of BS items than in BS-C1. This would mean that most of the items outside of OF, TP and investments would be in categories "other assets" and "other liabilities".

4.89. In any case, the following points have to be kept in mind:

- there will be quarterly reporting on own funds (simplified OF-B1), technical provisions (simplified TP-E1/F1) and assets (detailed list of assets for certain undertakings, investment list from BS-C1 for others);
- This is also related to the possible use of proxies for quarterly reporting (see other note for discussion).

	Pros	**Cons**
Option 1 : full BS	- Enables to have detailed calculation of OF to assess continuous coverage of MCR and SCR - Gives detailed information on all BS items quarterly - Full BS calculation has to be performed quarterly for IFRS publication or risk management purposes (this statement is questioned by several EIOPA members)	- More burdensome for undertakings (requires full quarterly closing) - No need for a full formal BS to calculate OF quarterly - The reconciliation reserve may be calculated as a “plug” - No material impact of BS items other than assets, TP & OF
Option 2: simplified BS	- Avoids detailed calculation of BS items other than OF, TP & assets, while still requiring detailed calculation of OF	- Since BS items will have to be valued anyways, burden is the same as full BS - Confusion and costs related to diverging presentations for quarterly and annual BS - “Other liabilities” and “other assets” may be calculated as plugs
Option 3: no BS	- Less burdensome for undertakings - Quarterly data should be provided on TP, OF and assets - Only TP & premiums are required for quarterly calculation of MCR - Facilitates the use of proxies for OF, assets & TP, as may allow for non-material differences between total assets & total liabilities	- No detailed information for other BS items than assets, TP and OF - No possibility to check whether OF calculated are consistent with TP & assets in a BS where total assets = total liabilities - Full BS is not available for detailed quarterly calculation of SCR, if required by supervisor

4.90. Bearing in mind the costs and benefits of each solution as well as comments received during the pre-consultation EIOPA decided to choose a compromise solution:

Undertakings shall submit a quarterly balance sheet only in cases where the reconciliation reserve cannot be explained sufficiently by the information on assets and liabilities that is reported in other quarterly templates (Assets, TP, OF).

This is the case when a significant part of the reconciliation reserve as reported in OF-B1Q cannot be explained out of the comparison with quarterly information on investments (Assets-D1Q), technical provision (TP-E1Q/F1Q) and specific own fund items (OF-B1Q), together with the most recent annual information on assets and liabilities that are not reported on a quarterly basis (latest annual BS-C1).

The information already available in quarterly templates is indeed expected to already explain the largest part of the reconciliation reserve; however, supervisors need the assurance that this difference can be explained. Therefore, undertakings have to determine each quarter by making the comparison above whether the quarterly balance sheet has to be submitted or not.

This part could be presumed to be significant if it is above a certain quantitative threshold. This threshold is to be defined: concrete suggestions from stakeholders would be welcomed.

4.91. EIOPA believe that this option the best reflect objectives described in section 3.

4.92. **Question:**
Do you agree that the EIOPA's suggested approach would be the most efficient and effective in order to achieve the objectives of:
- **introducing proportionate requirements for small undertakings;**
- **harmonising supervisory reporting;**
- **promoting compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB; and**
- **ensuring efficient supervision of insurance groups and financial conglomerates.**

(If you do not agree, which options or alternative suggestion meets these objectives in a more efficient and effective way and why?)

E. Scope of disclosure

4.93. As stated in the Technical Annex of the Implementing Technical Standards, the following approach was adopted with regards to public disclosure of quantitative reporting templates, at solo and group level.

DS = publicly disclosed templates (only applicable to annual templates), for solo undertakings
DG = publicly disclosed templates (only applicable to annual templates), for groups

X means that the template is applicable

Template	Content	DS	DG
BS - C1	Balance sheet	X	X
BS - C1B	Off-balance sheet items		
BS - C1D	Assets and liabilities by currency		
Country - K1	Activity by country		
Cover - A1A	Premiums, claims & expenses - Annual		
Cover – A1Q	Premiums, claims & expenses - Quarterly	X	X
OF - B1A	Own funds - Annual		
OF - B1Q	Own funds - Quarterly	X[8]	X
VA - C2A	Summary analysis of changes in BOF		
VA - C2B	Analysis of changes in BOF due to investments		
VA - C2C	Analysis of changes in BOF due to technical provisions		
VA - C2D	Analysis of changes in BOF due to own debt and other items		

[8] For OF-B1, quarterly template will include cells up to A51, whereas the annual publicly disclosed templates will include cells up to A55 (including SCR / MCR ratios).

Template	Content	DS	DG
SCR - B2A	Solvency capital requirement (for undertaking on standard formula or partial internal model)[9]		
SCR - B2B	Solvency capital requirement (for undertakings on partial internal models)[10]	X	X
SCR - B2C	Solvency capital requirement (for undertaking on full internal models)[11]		
SCR - B3A	Solvency capital requirement - market risk[12]		
SCR - B3B	Solvency capital requirement - counterparty default risk[8]		
SCR - B3C	Solvency capital requirement - life underwriting risk[8]		
SCR - B3D	Solvency capital requirement - health underwriting risk[8]		
SCR - B3E	Solvency capital requirement - non-life underwriting risk[8]		
SCR - B3F	Solvency capital requirement - non-life catastrophe risk[8]		
SCR - B3G	Solvency capital requirement - operational risk[8]		
MCR - B4A	Minimum capital requirement (except for composite undertakings)	X	
MCR - B4B	Minimum capital requirement (for composite undertakings)		
Assets - D1	Investments Data - Portfolio list (detailed list of investments) - Annual		
Assets - D1Q	Investments Data – Quarterly (Portfolio list or Quarterly summary)		
Assets - D1S	Structured products Data - Portfolio list		
Assets - D2O	Derivatives data – open positions		
Assets - D2T	Derivatives data - historical derivatives trades		
Assets - D3	Return on investment assets (by asset category)		
Assets - D4	Investment funds (look-through approach)		
Assets - D5	Securities lending and repos		
Assets - D6	Assets held as collateral		
TP (L) - F1	Life and Health SLT Technical Provisions - Annual		
TP (L) - F1Q	Life and Health SLT Technical Provisions - Quarterly	X	
TP (L) - F2	Projection of future cash flows (Best Estimate - Life)		
TP (L) - F3	Life obligations analysis		
TP (L) - F3A	Only for Variable Annuities - Description of guarantees by product		
TP (L) - F3B	Only for Variable Annuities - Hedging of guarantees		
TP (L) – F4	Information on annuities stemming from Non-Life insurance obligations		
TP (NL) - E1	Non-Life Technical Provisions - Annual		
TP (NL) - E1Q	Non-Life Technical Provisions - Quarterly	X	

[9] This will also be reported by undertakings and groups required under Article 112(7) to provide an estimate of the SCR using the standard formula.

[10] Where the calculation of the SCR is undertaken using a partial internal model, in which case both SCR-B2A and SCR-B2B shall be required.

[11] Where the calculation of the SCR is entirely undertaken using an approved internal model.

[12] Not applicable to undertakings or groups where the calculation of this module of the SCR is entirely undertaken using an approved internal model. However, it will have to be reported by undertakings and groups required under Article 112(7) to provide an estimate of the SCR using the standard formula.

Template	Content	DS	DG
TP (NL) - E2	Projection of future cash flows (Best Estimate - Non-life)		
TP (NL) - E3	Non-life Insurance Claims Information		
TP (NL) - E4	Movements of RBNS claims		
TP (NL) – E6	Loss distribution profile non-life		
TP (NL) – E7A	Underwriting risks (peak risks)		
TP (NL) – E7B	Underwriting risks (mass risks)		
Re - J1	Facultative covers non-life & life		
Re - J2	Outgoing Reinsurance Program in the next reporting year		
Re - J3	Share of reinsurers		
Re - SPV	Special Purpose Insurance Vehicles		
G01	Entities in the scope of the group		X
G03	(Re)insurance Solo requirements		
G04	Non-(re)insurance Solo requirements		
G14	TP by nature of obligations and contribution to group TP		
G20	Contribution to group SCR with D&A		
IGT1	IGT - Equity-type transactions, debt and asset transfer		
IGT2	IGT - Derivatives		
IGT5	IGT - Internal reinsurance		
IGT6	IGT - Cost sharing, contingent liabilities, off BS items and other IGT		
RC	Risk concentration - general		X

4.94. EIOPA believe that this option the best reflect objectives described in section 3.

4.95. **Question:**
Do you agree that the EIOPA's suggested approach would be the most efficient and effective in order to achieve the objectives of:
- **introducing proportionate requirements for small undertakings;**
- **harmonising supervisory reporting;**
- **promoting compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB; and**
- **ensuring efficient supervision of insurance groups and financial conglomerates.**

(If you do not agree, which options or alternative suggestion meets these objectives in a more efficient and effective way and why?)

F. Ring-fenced funds (RFF)

4.96. EIOPA further considered the quantitative threshold for material ring-fenced funds (RFF). Previously, elements on RFF were only requested in OF-B1 (adjustment for RFF) and assets related to given RFF were identified in the detailed list of assets (Assets-D1).

4.97. However, EIOPA believed that more extensive reporting could be required on RFF in order to accommodate for their specificities (separate SCR calculation, for instance) and also for potential relation to the latest possible developments of the draft Level 2 implementing measures.

4.98. A solution would be to require, for each material RFF, the following templates:

- BS-C1,
- TP-E1/F1,
- SCR-B2A/B/C,
- SCR-B3A to G,
- OF-B1.

4.99. **EIOPA believes that this approach can best reflect contribute to the achievement of the objectives described in section 3.**

4.100. **Question:**

Do you agree that the EIOPA's suggested approach would be the most efficient and effective in order to achieve the objectives of:

- **introducing proportionate requirements for small undertakings;**
- **harmonising supervisory reporting;**
- **promoting compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB; and**
- **ensuring efficient supervision of insurance groups and financial conglomerates.**

(If you do not agree, which options or alternative suggestion meets these objectives in a more efficient and effective way and why?)

G. Variation Analyses

4.101. The Variation Analysis (VA) templates aim at understanding the evolution of Solvency II balance sheet items and own funds over time[13]. This explanation is essential as Solvency II balance sheet items and own funds may be quite volatile over time and it is important from a supervisory perspective to distinguish in this volatility various possible causes. Such an explanation is not provided by any of the other categories of templates, which provide information at a particular point in time (financial year end), but do not allow for an analysis of the causes of variations in the Solvency II balance sheet since the last reporting period.

4.102. This evolution cannot be explained by statutory financial statements (e.g. P&L), as the valuation principles differ widely from that of Solvency II. Explanations provided in narrative reporting (SFCR or RSR) will not be sufficient for that specific purpose, as they will either only cover performance based on financial statements, or will explain changes over

[13] This concern has also been raised by several stakeholders, as early as the 2009 consultation on CP 58 which didn't include Variation Analysis templates: *"none of the proposed forms provide an analysis of movements between the opening and closing balance sheets."*.

the reporting period only for certain balance sheet items and possibly at a very low level of granularity. These variations need to be explained in a framework that is comparable among undertakings and consistent over time, hence the need for a quantitative template.

4.103. It is important to note that VA templates are not a Solvency II P&L. They explain the variation of basic own funds as a whole, without any distinction – as in financial statements – between what goes in the P&L or not. Neither do they aim at giving an indication of the performance of the undertaking.

4.104. During the process of development of Variation Analysis template following options were considered:
Option 1a: no template;
Option 1b: no specific template but additional info in TP templates & narrative reporting (IT position);
Option 2a: industry version (2nd informal consultation);
Option 2b: current version (public consultation);
Option 2c: EIOPA version (1st informal consultation)

4.105. Following the stakeholders' comments to Consultation Paper 58 in 2009, it was agreed within EIOPA that some templates should be developed to explain the evolution of the Solvency II balance sheet and own funds over time.

4.106. These templates, first called Margin Analysis and then Variation Analysis, were included in the package submitted by EIOPA for a first informal consultation in the summer of 2010. Following this proposal, some stakeholders made a counter-proposal, which was included in the pre-consultation carried out in early 2011, but without being endorsed by EIOPA.

4.107. A meeting was organised in February 2011 bringing together representatives of EIOPA Solvency II working groups and stakeholders to discuss VA templates. From the EIOPA side, the conclusion was that the original EIOPA proposal was too detailed but that the industry counter-proposal did not bring added value in terms of analysis, as it only gave high level elements that could be seen as a "black box" mainly based on MCEV calculations, without clear explanations. These concerns were also shared with stakeholders during a follow-up meeting.

4.108. Therefore, the following way forward was agreed upon within EIOPA:

- it consisted in making a clear link between VA templates and the own funds template (OF-B1) and developing the following building blocks within the VA templates: capital movements (C2A), impact of investments (C2B), impact of underwriting – risks during period / risks prior to period / changes in estimates (C2C), impact of other balance sheet items (C2D).

4.109. As this category of template has been extensively modified compared to the versions proposed for informal consultations, it should be highlighted to stakeholders for the public consultation that comments on VA templates will be of particular interest to EIOPA.

4.110.It is currently envisaged that VA templates will only be annual and reserved to the supervisor (no public disclosure). They will also not have to be submitted on the 1st year of implementation of Solvency II, as they require data from the Solvency II balance sheet of the previous reporting period.

4.111.The VA templates link back to Balance Sheet and Own Funds templates (BS-C1 and OF-B1) for reconciliation purposes.

4.112.The VA templates are articulated in 4 separate templates:

- VA C2A : Summary Analysis, which gives an overview of the changes in own funds (capital movements) and provides for the reconciliation with OF-B1 and BS-C1
- VA C2B : Variations related to investment
- VA C2C : Variations related to technical provisions
- VA C2D : Variations related to own debt and other balance sheet items

This template is for presentation purposes; cells in VA-C2A will not have to be filled in by undertakings, since they will be automatically derived from following templates:

- BS – C1 (year N and N-1)
- OF B1A (year N and N-1)
- VA C2B/C2C/C2D

4.113.The first aim of this template is to enable reconciliation with other templates and evidence the sources of variation in Solvency II own funds;

- The variation of capital items which is not directly influenced by the business carried on (e.g. issuance of share capital or subordinated debt); these variations are further analysed in detail within the template OF B1A;
- The variation related to business carried on, either related to the main elements on the assets side (investments), the main elements on the liabilities side (“underwriting”) or to other balance sheet items.

4.114.This second variation can be split into 4 sub-categories, which will be analysed in detail in templates VA C2B, VA C2C, VA C2D:

Change in BOF due to investment	VA C2B
Changes in BOF from technical changes	VA C2C
Change in BOF due to impact of own debt and other items	VA C2D

VA C2B: Variations related to investment

4.115.This template focuses on changes in BOF due to investments. Scope of investments corresponds to “investments” as defined in Balance Sheet. Note that as regards assets held for unit linked & index linked funds, the adjustment on BOF related to valuation is taken into account on template C2C.

VA C2C: Variations related to technical provisions

4.116. This template focuses on changes in BOF due to underwriting in a wide sense, notably covering the changes in BOF related to insurance liabilities, distinguishing 1. Risks captured under TP calculated as a whole and 2. Risks captured through BE and risk margin calculation.

4.117. For the latter risks, 4 sub-categories of changes are being analyzed, and are cumulative (i.e. they are independently analysed):

- impact of risks accepted during the period, that is to say the profit at inception, when considering actual cash flows (premiums written, claims paid) and related BE;
- impact from experience on risks accepted prior to period, that is to say the impact due to the development of items that were already on the balance sheet at the closing of the previous period, captured as the difference between actual cash flows and estimated cash flows (derived from the variation of BE strictly due to experience), net of reinsurance;
- Impact of changes in estimates, including changes in assumptions, changes in unwinding of discount rates, changes in discount rates, and changes in counterparty's default adjustment used for reinsurance recoverable calculation. (art 81 Directive);
- Impact of changes in risk margin.

4.118. This template also displays a breakdown of the variation of Best Estimate during the period, which is derived from the previous information.

VA C2D: Variations related to own debt and other balance sheet items

4.119. This template focuses on changes in BOF related to own debt (incl subordinated liabilities) and to other changes not explained in templates VA C2B or VA C2C.

4.120. **Question:**
Do you agree that the EIOPA's suggested approach would be the most efficient and effective in order to achieve the objectives of:

- **introducing proportionate requirements for small undertakings;**
- **harmonising supervisory reporting;**
- **promoting compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB; and**
- **ensuring efficient supervision of insurance groups and financial conglomerates.**

(If you do not agree, which options or alternative suggestion meets these objectives in a more efficient and effective way and why?)

H. Narrative reporting

With regard to narrative reporting EIOPA elaborated on three policy options as proposed below:

4.121. **Option 1:** Not to have a level 3 on narrative reporting

- ✓ **Pros (+):** Level 2 brings enough information on major topics, so avoid to be too prescriptive or to repeat the L1 & L2,
  - it could be confusing for undertakings to have a detailed L3 only on some topics, thus better have no L3 at all than only some items detailed in the L3.
- ✓ **Cons (-):** Even if level 2 is very detailed on some subjects, it is not the case for all the topics (for instance: valuation of assets & liabilities for solo undertakings, intra-group transactions, disclosure policy in the SFCR and undertaking's reporting policy for the RSR) which do need further detailed information,
  - Having a L3 enable a better understanding of the L2 requirements, thus undertakings will provide supervisors a better quality reporting.

4.122. **Option 2:** Have a level 3 which details every items of the L1 & L2

- ✓ **Pros (+):** help comparability between undertakings if they provide the same detailed information,
  - having a detailed L3 enable a better understanding of the L2 requirements, thus undertakings will provide supervisors a better quality reporting.
- ✓ **Cons (-):** Not necessary to have such a detailed framework as level 2 is already detailed on major topics (could lead to repetition of L1 & L2),
  - could be too much restrictive for undertakings and could lead to "narrow reports" in terms of content (idea of being too prescriptive).

4.123. **Option 3:** Have a level 3 only on some items of the L1 &L2 (when necessary)

- ✓ **Pros (+):** enable enough flexibility for undertakings, thus will reflect each undertaking's risk profile,
  - only items that need to be specified will be in the L3, will help undertakings to fill narrative reports requirements, some content for instance need additional granularity (for instance: valuation of assets & liabilities for solo undertakings, intergroup transactions, disclosure policy in the SFCR and undertaking 's reporting policy for the RSR), and at the same time won't be too prescriptive,
- ✓ **Cons (-):** It could be confusing for undertakings to have some items being specified in the Level 3 and others not.

4.124. **EIOPA believe that option 3 the best reflect objectives described in section 3.**

4.125. **Question:**

Do you agree that the EIOPA's suggested approach would be the most efficient and effective in order to achieve the objectives of:

- **introducing proportionate requirements for small undertakings;**
- **harmonising supervisory reporting;**
- **promoting compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB; and**
- **ensuring efficient supervision of insurance groups and financial conglomerates.**

(If you do not agree, which options or alternative suggestion meets these objectives in a more efficient and effective way and why?)

I. Risk Concentration

4.126. With regard to reporting of Risk Concentration (RC) EIOPA has developed a quantitative reporting template on Risk Concentration. This Risk Concentration template was further developed after the first and the second pre-consultation. The aim of this template at group level is to list the most important exposure by counterparty outside the scope of the re/insurance group.

4.127. Regarding the RC template there are two possible options:

4.128. **Option 1:** Combination of quantitative RC template complemented with qualitative narrative explaining the different exposures in detail:

- ✓ **Pros (+):** a quantitative template contributes to harmonise reporting and the possibilities for supervisors to monitor raw data,
  - a quantitative template may also facilitate any RC analysis with the possible use of automated tools which may not be possible if there is only narrative reporting.
- ✓ **Cons (-):** a quantitative RC template could be less meaningful than a reporting in a qualitative way complemented by additional figures.

4.129. **Option 2:** Only qualitative narrative for RC (with figures included). A risk concentration template can still be produced a few years after having gained experience with further risk concentration reports:

- ✓ **Pros (+):** information related to issues like exposure, sectors, underlying risk etc. seem to be difficult to harmonize in one template. In particular, Most of columns of the template are of qualitative nature, so there may be no need to develop a template which may create additional obstacles for supervisors instead of facilitating the reporting,
  - industry has commented on the complication to estimate the overall exposure of RC, and implications to the governance system. The assumptions on which such estimate is derived would be more efficiently provided in the narrative RSR.
- ✓ **Cons (-):** Analysis via automated tools would be more difficult.

4.130. **EIOPA believes that option 2 the best reflects objectives described in section 3.**

4.131. **Questions:**
Do you agree that the EIOPA's suggested approach would be the most efficient and effective in order to achieve the objectives ?
What should the corresponding narrative reporting contain and which figures should at least be asked for ?

(If you do not agree, which options or alternative suggestion meets these objectives in a more efficient and effective way and why ? Please provide further information about a quantitative RC template and what the complementing narrative reporting should contain.)

5: Result

4.132. Reporting is an essential part of the harmonisation effort within the Solvency II process and should greatly foster convergence of supervisory practices.

4.133. The current lack of harmonisation of Member States' reporting rules and the lack of convergence of supervisory practices, as well as the lack of risk sensitivity of the current EU regime, makes it difficult for prospective and existing stakeholders to properly understand and compare the financial position of the undertakings, and the risks they are subject to. New requirements should increase transparency.

4.134. The data currently proposed by EIOPA to be required on a quarterly basis needs to be held by undertakings for risk management purposes in a Solvency II environment. Reducing reporting as such would reduce the ability of supervisors to properly assess the compliance with Solvency II requirements and therefore ultimately will reduce the protection of policyholders.

4.135. Thus, supervisors will need sufficient information to have a view of the evolution of the risk profile from one quarter to the other, especially in the areas where it is likely to be volatile (e.g. investments). Appropriate and timely data is essential to have a risk-based approach, insofar as data enables supervisors to easily identify key risk drivers. Also, from a macro-supervisory perspective, quarterly data is of the utmost importance to properly monitor and anticipate emerging risks in the insurance sector (e.g. monitoring of investments or technical provisions is also necessary).

4.136. The supervisory authorities could better co-ordinate their supervisory activities, thus removing the obstacles to the proper functioning of EU market that will deepen the integration of the EU insurance market, enhance policyholder protection and improve the international competitiveness of EU insurers and reinsurers.

4.137. In addition, the scope of quarterly reporting templates currently drafted by EIOPA is limited to a core set of templates, already taking into account comments from stakeholders. This scope and content is actually less extensive than current quarterly requirements in some jurisdictions.

4.138. For the risk-based supervision under Solvency II, supervisors will need sufficient information to have a view of the evolution of the risk profile from one quarter to the other, especially in the area of investments. Reporting of a detailed list of assets is absolutely necessary particularly with regard to the monitoring of the principle based requirements concerning the prudent person principle.

4.139. Moreover, a detailed list of investments is basic data for proper management information system and risk management system and should be available on a continuous basis within undertakings.

4.140. In addition, the data on investments is one-button push ready once the according reporting systems had been set up. Hence, the burden of producing these figures on an on-going basis is mostly negligible. Actually, reporting all investments is less burdensome than having to perform an analysis and be ready to justify, within this data, what investments are material or not, in order to be reported. Finally, many of the supervisors have already in place reporting systems including a detailed list of assets, and have developed early warning indicators that enable them to monitor risks in a flexible way, both at the undertaking and market levels. This has proven to be extremely helpful during the recent crisis where some supervisors even asked the information monthly.

4.141. The European Central Bank (DG-Statistics and the ESRB) is currently of the view that a necessary condition for using for their own purposes data collected through Solvency II quantitative reporting templates and not collecting this data directly from undertakings is detailed quarterly reporting especially from groups. EIOPA and the ECB have been closely cooperating in order to streamline their data requirements and avoid duplications of requests to undertakings.

5. Questions for the Consultation

4.142. The purpose of this public consultation is not to revisit the conclusions drawn in the impact assessment undertaken on the Solvency II Directive. Instead, this public consultation aims at having valuable insights, supported by quantitative and qualitative evidence, on the impacts, costs and benefits to support the decision-making process for this consultation paper on guidelines and recommendations on ORSA. The consultation paper also seeks stakeholders' views on the potential impact ORSA could have on the pricing, design and availability of insurance products, the corresponding effects for consumers and the wider social or economic impacts even if indirectly. For this reason, we welcome views of consumers, investors and undertakings especially on the questions below.

Q1. Are the requirements clear and will they help the undertakings understand what they need to do?

Q2. Are there any aspects of the requirements which could be made clearer?

Q3. Are there any additional areas as to the scope of the reporting requirements that would be useful to be included?

Q4. Are there any practical or operational issues with the application process which undertakings can identify? If any, please describe undertakings' concerns and how they could be addressed.

Q5. What benefits may flow from the proposed requirements?

Q6. Do undertakings agree with the analysis of the costs for the implementation of the reporting requirements? Are there other costs and negative impacts EIOPA should consider?

Q7. Do undertakings agree with the proposed options in the analysis of the impact? Are there other options EIOPA should consider?

Q8. Do undertakings consider that the EIOPA's suggested approach described in section 4 provides for an efficient and effective way to achieve the objectives of:

- introducing proportionate requirements for small undertakings;
- harmonising supervisory reporting;
- promoting compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB; and
- ensuring efficient supervision of insurance groups and financial conglomerates.

(If you do not agree, please elaborate which options or alternative suggestions could meet these objectives in a more efficient and effective way and why?)

Q9. Do you have suggestions to whom and how the reporting of the undertakings and/or group on their compliance with the guidelines could be done efficiently?