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Unlocking Pillar III

Solvency II Pillar III Reporting requirements

With Solvency II finally here, (re)insurance entities are now working to meet the Pillar III reporting requirements, with the first submission of Day 1 information due on the 20th May 2016. The Day 1 submission includes both quantitative and qualitative information. Additional QRTs, particularly asset QRTs, are required in the first set of quarterly reports due on the 26th May 2016 based on financial information as of 31st March 2016. Below, we provide a brief overview of Pillar III reporting requirements.

Day 1 reporting

Day 1 reporting comprises both quantitative and qualitative information reported by undertakings as at 1st January 2016.

The quantitative information includes QRTs on:

» Balance sheet; and

» Own funds; and

» SCR and MCR.

The qualitative information includes the need to provide explanations of the differences between the Solvency I and Solvency II figures reported. The Central Bank of Ireland (CBI) has issued standardised templates for Day 1 qualitative reporting which include a quantitative Solvency I to Solvency II reconciliation of Assets, Technical provisions and other liabilities. Entities can choose to either submit this template to the CBI by:

» 20th May 2016, with nothing further required; or

» 24th June 2016, if they have already provided a qualitative report to the CBI which meets the requirements of Article 314 of the Directive by 20th May 2016.

Quarterly reporting

The same Day 1 Balance Sheet and Own Funds quantitative information is required for quarterly submissions. In addition to these QRTs, entities are required to submit information on:

» Assets held and asset look through;

» Derivatives held and derivative transactions;

» Premiums, claims and expenses by line of business;

» Quarterly National Specific Templates (NST); and

» Financial Stability Templates.

Note, certain entities may be exempt from some of the above QRTs due to size and materiality thresholds.

Annual reporting

The full suite of annual QRTs are due in May 2017 in respect of the year ending 31st December 2016. This will involve reporting substantially more QRTs than for Day 1 and Quarterly Reporting; the publicly available Solvency and Financial Condition report (SFCR); and the privately disclosed Regular Supervisory Report (RSR).

Board approval

The Board is responsible for the review, challenge and approval of the Day 1 qualitative and quantitative information as well as the annual submissions. Therefore, it is important for the Board to understand the Solvency II disclosures required and be confident in the accuracy of the submissions being made.

Key challenges and risks

In the following sections, we outline some of our observations of the key challenges and risks entities are having in meeting their Pillar III requirements. You may wish to consider these challenges and risks and whether they impact your entity.

Identifying the applicable templates

EIOPA, the ECB and the CBI have published approximately 30 templates for quarterly reporting and Day 1 reporting; and 125 templates for annual reporting. However, most entities will only need to do 5-8 templates for quarterly reporting, 5-7 templates for Day 1 reporting; and 35-45 templates for annual reporting. A key step in fulfilling the Pillar III requirements is identifying the templates which are applicable to you.

Data quality

EIOPA and the CBI have published 1000+ data validations on the quantitative templates, many of which also apply to quarterly and Day 1 submissions. These validations include business validations, syntax validations and technical validations. There is a considerable amount of effort required to satisfy all of these validations. If these validations are not met, the CBI's online reporting system (ONR) may not accept your QRT submission.

Reporting on multiple bases

Certain annual QRTs and the SFCR require reconciliations to be performed between the Financial Statements and the Solvency II Balance Sheet on a quantitative and qualitative basis. This will be a challenge for entities who will need to consider what additional processes they will need to put in place to ensure consistency.

Public disclosures of information

Though entities are not mandated to provide comparatives to prior year-end in their first SFCR, many entities are choosing to provide this information because it provides a better understanding of the closing position; and it keeps the format of the SFCR consistent over the following years. Consequently, it is important that Day 1 figures are accurate.

In addition, entities are mindful that the Solvency II public disclosure will be scrutinised not just by policyholders, but also by investors, shareholders, rating agencies and investment analysts. Though the content of the SFCR is largely prescriptive, judgment is required on the level of detail that should be provided in these reports. Additionally, entities may benefit from the provisions within the Solvency II requirements for "non-disclosure" of sensitive information, or disclosure of additional voluntary information.

Meeting the resource challenges

(Re)insurers will be under immense pressure to produce financial information on multiple bases this year, increasing operational risks in relation to reporting. Entities will need to consider how their processes can be made more efficient and how they can realise synergies in the production of their SFCR, RSR, QRTs and local accounting disclosures.

For example, (re)insurers may be able to make their quarterly reporting less burdensome, for example:

- by using simplifications allowed for in the calculation of technical provisions on a quarterly basis;
- by not recalculating their SCR for quarterly reporting, where appropriate to do so. Note that (re)insurers within scope for financial stability reporting are required to recalculate their SCR on a quarterly basis for the volatile risk modules.

Conversion to XBRL

(Re)insurers that were planning on using T4U for XBRL conversion are being forced to purchase an XBRL solution for their Q1 reporting. Besides being decommissioned by EIOPA in second half of 2016, the T4U tool does not convert the National Specific Templates to XBRL. All entities are required to populate NST12 and NST13 in XBRL format for Q1 reporting.

Industrialising of the Pillar III process

Industrialising your Pillar 3 process is extremely important in managing your working day timetable and meeting reporting timelines that shrink over the years. Entities are becoming more aware of this now as deadlines approach and the current processes they have in place are beginning to creak due to lack of industrialisation. Whilst this may be sustainable in the short term, going forward it is critical that management time is released to focus on analysis rather than on reporting.

Sourcing and validation of asset data

One of main challenges that most entities are facing in implementing Pillar III is developing the process for populating the asset QRTs. Failure to complete the QRTs with data of adequate quality could result in the CBI's ONR system rejecting your submission. The key to resolving these issues is early identification and communication of these issues to the respective data provider. The key consequences of not solving these issues are additional costs, higher capital charges and the potential impact of a regulatory breach.

Asset QRTs at a glance

The two key asset QRTs which entities are facing challenges in populating are S.06.02 and S.06.03.

S.06.02 contains very detailed information on your assets with 27 pieces of information on each individual security and 16 pieces of information on each position held.

S.06.03 is the collective investment undertakings' look through QRT. Entities have to provide information on a look through basis on the underlying asset category, country of issue and currency.

Asset data challenges

The main challenges we have observed in the population of the asset QRTs are:

- Entities are encountering serious challenges regarding the availability and the quality of data. The data received from internal sources or third party providers often have issues with regard to accuracy, completeness, consistency or timeliness. Entities sourcing their asset data from external providers need to remain mindful that they retain the responsibility for the quality of data submitted to the regulator.
- Entities are facing a number of challenges with the consolidation of data from multiple sources. This includes the process of converting data from a number of different formats into a format suitable to populate the QRTs, and with the lack of consistency in the data provided by different asset managers.
- Some entities are finding it difficult to get support from their asset managers because they are asking for too much information. For example, the "Tripartite" template contains significantly more information than is needed for the "look through" reporting. Requesting information at the correct level could increase your chances of obtaining the necessary data.
- Entities are expending considerable effort in performing cross template validations between asset templates, and between the asset templates and the balance sheet. Failing to satisfy these validations could result in failure to submit the information to the CBI via ONR.
- Entities need to develop processes to use look through information for the calculation of the SCR and demonstrate the use of look through information for the management of their investment risks under the prudent person principle. The consequences of not doing this are potentially higher capital charges and/or a regulatory breach.

Contacts

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