

**CEIOPS' Advice for  
Level 2 Implementing Measures on Solvency II:  
Supervisory Reporting and Public Disclosure  
Requirements**

(former Consultation Paper 58)

**October 2009**

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## 1. Introduction

- 1.1 In its letter of 19 July 2007, the European Commission requested CEIOPS to provide final, fully consulted advice on Level 2 implementing measures by October 2009 and recommended CEIOPS to develop Level 3 guidance on certain areas to foster supervisory convergence. In its letter of 12 June 2009, the European Commission suggested that CEIOPS work towards publishing fully consulted Level 3 guidance by the end of 2011.
- 1.2 This Paper provides advice to the European Commission for Level 2 measures on supervisory reporting and public disclosure, as requested in Article 35(6), Article 56, Article 254 and Article 256 of Solvency II Level 1 text<sup>1</sup> ("Level 1 text").
- 1.3 CEIOPS' intention is to develop supervisory reporting and public disclosure requirements that facilitate convergence between Member States to the appropriate extent. This paper covers reporting and disclosure requirements relating to solo undertakings and groups, either using the standard formula or internal models. CEIOPS has published responses to the feedback received on CEIOPS' Consultation Paper on Draft Level 2 advice on Supervisory reporting and Public Disclosure (CP58) on its website<sup>2</sup>. Feedback was also received on Annexes C to E of CP58, which included the provisional quantitative reporting templates: these comments will be addressed when Level 3 guidance is consulted on later.
- 1.4 CEIOPS' Advice contains the following sections:
  - Section 3.1: 'Overview' provides the contextual background of this document. It sets out CEIOPS' work to date and introduces the key concepts which will feature in the regular supervisory reporting and public disclosure requirements.
  - Section 3.2: 'High-level principles of information to be received by the supervisory authority' sets out an overview of supervisory reporting and public disclosure, with CEIOPS' thinking on the concepts of proportionality and materiality.
  - Section 3.3: 'Solvency and Financial Condition Report (SFCR)' sets out the information that is to be publicly disclosed.

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<sup>1</sup> See Latest version from 19 October 2009 available at <http://register.consilium.europa.eu/pdf/en/09/st03/st03643-re01.en09.pdf>

<sup>2</sup> <http://www.ceiops.eu/index.php?option=content&task=view&id=609>

- Section 3.4: 'Report to Supervisors (RTS)' sets out the information to be regularly reported to the supervisory authority. This report will not be publicly disclosed.
- Section 3.5: 'Quantitative reporting templates' includes references to the draft quantitative reporting templates which were included as Annex D of CP58, which will be incorporated into the RTS or the SFCR when the Level 3 guidance is issued.
- Section 3.6: 'Process of Reporting' explains what is envisaged in the process of reporting, frequency of reporting, submission dates and format of reporting and external auditing requirements. The reporting requirements under Solvency II are being designed to ensure an appropriate level of convergence between Member States, and this includes the process of reporting alongside the content.
- Section 3.7: 'Supervisory reporting and public disclosure following predefined events and supervisory enquiries' provides examples of when a predefined event or supervisory enquiry might arise and how undertakings should fulfil their reporting obligations.

## 2. Extract from Level 1 Text

### 2.1. Article 35 (Information to be provided for supervisory purposes):

*1. Member States shall require insurance and reinsurance undertakings to submit to the supervisory authorities the information which is necessary for the purposes of supervision. That information shall include at least the information necessary for the following when performing the process referred to in Article 36:*

*(a) to assess the system of governance applied by the undertakings, the business they are pursuing, the valuation principles applied for solvency purposes, the risks faced and the risk-management systems, and their capital structure, needs and management;*

*(b) to make any appropriate decisions resulting from the exercise of their supervisory rights and duties.*

*2. Member States ensure that the supervisory authorities have the following powers:*

*(a) to determine the nature, the scope and the format of the information referred to in paragraph 1 which they require insurance and reinsurance undertakings to submit at the following points in time:*

*(i) at predefined periods;*

*(ii) upon occurrence of predefined events;*

*(iii) during enquiries regarding the situation of an insurance or reinsurance undertaking;*

*(b) to obtain any information regarding contracts which are held by intermediaries or regarding contracts which are entered into with third parties; and*

*(c) to require information from external experts, such as auditors and actuaries.*

*3. The information referred to in paragraphs 1 and 2 shall comprise the following:*

*(a) qualitative or quantitative elements, or any appropriate combination thereof;*

*(b) historic, current or prospective elements, or any appropriate combination thereof; and*

*(c) data from internal or external sources, or any appropriate combination thereof.*

*4. The information referred to in paragraphs 1 and 2 shall comply with the following principles:*

*(a) it must reflect the nature, scale and complexity of the business of the undertaking concerned, and in particular the risks inherent in that business;*

- (b) it must be accessible, complete in all material respects, comparable and consistent over time; and*
- (c) it must be relevant, reliable and comprehensible.*

*5. Member States require insurance and reinsurance undertakings to have appropriate systems and structures in place to fulfil the requirements laid down in paragraphs 1 to 4 as well as a written policy, approved by the administrative, management or supervisory body of the insurance or reinsurance undertaking, ensuring the ongoing appropriateness of the information submitted.*

*6. The Commission shall adopt implementing measures specifying the information referred to in paragraphs 1 to 4, with a view to ensuring to the appropriate extent convergence of supervisory reporting.*

*Those measures, designed to amend non-essential elements of this Directive by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 301(3).*

## **2.2. Article 36 (Supervisory review process):**

*Member states shall ensure that the supervisory authorities review and evaluate the strategies, processes and reporting procedures which are established by the insurance and reinsurance undertakings to comply with the laws, regulations and administrative provisions adopted pursuant to this Directive.*

*That review and evaluation shall comprise the assessment of the qualitative requirements relating to the system of governance, the assessment of the risks which the undertakings concerned face or may face and the assessment of the ability of those undertakings to assess those risks taking into account the environment in which the undertakings are operating.*

## **2.3. Article 51 (Report on solvency and financial condition: contents):**

*1. Member States shall, taking into account the information required in paragraph 3 and the principles set out in paragraph 4 of Article 35, require insurance and reinsurance undertakings to disclose publicly, on an annual basis, a report on their solvency and financial condition.*

*That report shall contain the following information, either in full or by way of references to equivalent information, both in nature and scope, disclosed publicly under other legal or regulatory requirements:*

- (a) a description of the business and the performance of the undertaking;*
- (b) a description of the system of governance and an assessment of its adequacy for the risk profile of the undertaking;*
- (c) a description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity;*
- (d) a description, separately for assets, technical provisions, and other liabilities, of the bases and methods used for their valuation,*

*together with an explanation of any major differences in the bases and methods used for their valuation in financial statements;*

*(e) a description of the capital management, including at least the following:*

- (i) the structure and amount of own funds, and their quality;*
- (ii) the amounts of the Solvency Capital Requirement and of the Minimum Capital Requirement;*
- (iii) the option set out in Article 304 used for the calculation of the Solvency Capital Requirement;*
- (iv) information allowing a proper understanding of the main differences between the underlying assumptions of the standard formula and those of any internal model used by the undertaking for the calculation of its Solvency Capital Requirement;*
- (v) the amount of any non-compliance with the Minimum Capital Requirement or any significant non-compliance with the Solvency Capital Requirement during the reporting period, even if subsequently resolved, with an explanation of its origin and consequences as well as any remedial measures taken.*

*2. The description referred to in point (e)(i) of paragraph 1 shall include an analysis of any significant changes as compared to the previous reporting period and an explanation of any major differences in relation to the value of such elements in financial statements, and a brief description of the capital transferability.*

*The disclosure of the Solvency Capital Requirement referred to in point (e)(ii) of paragraph 1 shall show separately the amount calculated in accordance with Chapter VI, Section 4, Subsections 2 and 3 and any capital add-on imposed in accordance with Article 37 or the impact of the specific parameters the insurance or reinsurance undertaking is required to use in accordance with Article 110, together with concise information on its justification by the supervisory authority concerned.*

*However, and without prejudice to any disclosure that is mandatory under any other legal or regulatory requirements, Member States may provide that, although the total Solvency Capital Requirement referred to in point (e)(ii) of paragraph 1 is disclosed, the capital add-on or the impact of the specific parameters the insurance or reinsurance undertaking is required to use in accordance with Article 110 need not be separately disclosed during a transitional period ending no later than 31 October 2017.*

*The disclosure of the Solvency Capital Requirement shall be accompanied, where applicable, by an indication that its final amount is still subject to supervisory assessment.*

**2.4. Article 53 (Report on solvency and financial condition: applicable principles):**

*1. Supervisory authorities shall permit insurance and reinsurance undertakings not to disclose information where:*

*(a) by disclosing such information, the competitors of the undertaking would gain significant undue advantage;*

*(b) there are obligations to policy holders or other counterparty relationships binding an undertaking to secrecy or confidentiality.*

*2. Where non-disclosure of information is permitted by the supervisory authority, undertakings shall make a statement to this effect in their report on solvency and financial condition and shall state the reasons.*

*3. Supervisory authorities shall permit insurance and reinsurance undertakings, to make use of – or refer to – public disclosures made under other legal or regulatory requirements, to the extent that those disclosures are equivalent to the information required under Article 51 in both their nature and scope.*

*4. Paragraphs 1 and 2 shall not apply to the information referred to in point (e) of Article 51(1).*

**2.5. Article 54 (Report on solvency and financial condition: updates and additional voluntary information):**

*1. In the event of any major development affecting significantly the relevance of the information disclosed in accordance with Articles 51 and 53, insurance and reinsurance undertakings shall disclose appropriate information on the nature and effects of that major development.*

*For the purposes of the first subparagraph, at least the following shall be regarded as major developments:*

*(a) non-compliance with the Minimum Capital Requirement is observed and the supervisory authorities either consider that the undertaking will not be able to submit a realistic short-term finance scheme or do not obtain such a scheme within one month of the date when non-compliance was observed;*

*(b) significant non-compliance with the Solvency Capital Requirement is observed and the supervisory authorities do not obtain a realistic recovery plan within two months of the date when non-compliance was observed.*

*In regard to point (a) of the second subparagraph, the supervisory authorities shall require the undertaking concerned to disclose immediately the amount of non-compliance, together with an explanation of its origin and consequences, including any remedial measure taken. Where, in spite of a short-term finance scheme initially considered to be realistic, non-compliance with the Minimum Capital Requirement has not been resolved three months after its observation, it shall be disclosed at the end of that period, together with an explanation of its origin and consequences, including any remedial measures taken as well as any further remedial measures planned.*

*In regard to point (b) of the second subparagraph, the supervisory authorities shall require the undertaking concerned to disclose immediately the amount of non-compliance, together with an explanation of its origin and consequences, including any remedial measure taken.*



*Where, in spite of the recovery plan initially considered to be realistic, a significant non-compliance with the Solvency Capital Requirement has not been resolved six months after its observation, it shall be disclosed at the end of that period, together with an explanation of its origin and consequences, including any remedial measures taken as well as any further remedial measures planned.*

*2. Insurance and reinsurance undertakings may disclose, on a voluntary basis, any information or explanation related to their solvency and financial condition which is not already required to be disclosed in accordance with Articles 51 and 53 and paragraph 1 of this Article.*

2.6. Article 55 (Report on solvency and financial condition: policy and approval):

*1. Member States shall require insurance and reinsurance undertakings to have appropriate systems and structures in place to fulfil the requirements laid down in Articles 51 and 53 and Article 54(1), as well as to have a written policy ensuring the ongoing appropriateness of any information disclosed in accordance with Articles 51, 53 and 54.*

*2. The solvency and financial condition report shall be subject to approval by the administrative, management or supervisory body of the insurance or reinsurance undertaking and be published only after that approval.*

2.7. Article 56 (Solvency and financial condition report: implementing measures):

*The Commission shall adopt implementing measures further specifying the information which must be disclosed and the means by which this is to be achieved.*

*Those measures, designed to amend non-essential elements of this Directive by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 301(3).*

2.8. Article 112 (General provisions for the approval of full and partial internal models)

*7. After having received approval from supervisory authorities to use an internal model, insurance and reinsurance undertakings may, by means of a decision stating the reasons, be required to provide supervisory authorities with an estimate of the Solvency Capital Requirement determined in accordance with the standard formula, as set out in Subsection 2*

2.9. Article 254 (Access to information)

*[...]*

*2. Member States shall provide that their authorities responsible for exercising group supervision shall have access to any information relevant*

*for the purposes of that supervision regardless of the nature of the undertaking concerned. Article 35 shall apply mutatis mutandis.*

*[...]*

2.10. Article 256 (Group solvency and financial condition report)

*1. Member States shall require participating insurance and reinsurance undertakings or insurance holding companies to disclose publicly, on an annual basis, a report on the solvency and financial condition at the level of the group. Articles 51 and 53 to 55 shall apply mutatis mutandis.*

*2. Where a participating insurance or reinsurance undertaking or an insurance holding company so decides, and subject to the agreement of the group supervisor, it may provide a single solvency and financial condition report which shall comprise the following:*

*(a) the information at the level of the group which must be disclosed in accordance with paragraph 1;*

*(b) the information for any of the subsidiaries within the group which must be individually identifiable and disclosed in accordance with Articles 51 and 53 to 55.*

*Before granting the agreement in accordance with the first subparagraph, the group supervisor shall consult and duly take into account any views and reservations of the members of the college of supervisors.*

*3. Where the report referred to in paragraph 2 fails to include information which the supervisory authority having authorised a subsidiary within the group requires comparable undertakings to provide, and where the omission is material, the supervisory authority concerned shall have the power to require the subsidiary concerned to disclose the necessary additional information.*

*4. The Commission shall adopt implementing measures further specifying the information which must be disclosed and the means by which this is to be achieved as regards the single solvency and financial condition report.*

*Those measures, designed to amend non-essential elements of this Directive by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 301(3).*

2.11. Other relevant articles for the public disclosure of internal models are:

1. Article 120, which refers to the use test of internal model,
2. Article 121, which refers to the statistical quality standards for internal model,
3. Article 122, which refers to the calibration standards for internal model,
4. Article 123, which refers to the profit and loss attribution for internal model,

5. Article 124, which refers to the validation standards for internal model and
6. Article 126, which refers to the use of external models and data.

## 3. Advice

### 3.1. Overview

- 3.1. This Paper sets out CEIOPS' advice for the Solvency II Level 2 implementing measures on Pillar III issues. 'Pillar III' covers the supervisory reporting and public disclosure aspects of the regime. This is the information undertakings are required to report to the supervisory authority and the information to be publicly disclosed to the market.
- 3.2. Solvency II is designed around a '3 Pillar' structure where an effective Pillar III supervisory reporting and public disclosure regime is considered important to enhance market discipline and complement requirements under Pillars I and II to make undertaking's more transparent. As stated in CEIOPS' Advice to the European Commission, dated March 2007, on Supervisory Reporting and Public Disclosure in the Framework of the Solvency II Project<sup>3</sup> (paragraph 2.2):

*"Supervisory reporting requirements in the Solvency II framework should support the risk-oriented approach to insurance supervision while public disclosure requirements should reinforce market mechanisms and market discipline".*

- 3.3. Paragraph 2.4 of that Advice states that:

*"Public disclosure requirements under Solvency II shall work as a strong incentive to insurance undertakings to conduct their business in a sound and efficient manner, including an incentive to maintain an adequate capital position that can act as a cushion against potential losses arising from risk exposures".*

- 3.4. The importance of disclosure is also highlighted in the CRO Forum's recently issued Paper on "Insurance Risk Management Response to the Financial Crisis"<sup>4</sup>. The CRO Forum's paper states that:

*"Renewed market confidence requires accurate valuation and the prompt disclosure of relevant risk information."*

- 3.5. This Paper does not cover disclosure by supervisory authorities themselves. Disclosure by supervisory authorities, as defined by Article 30 (Transparency and Accountability) of the Level 1 text, is covered in CEIOPS' advice for Level 2 implementing measures on Solvency II: Transparency and Accountability.<sup>5</sup>

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<sup>3</sup> CEIOPS-DOC-03/07, see <http://www.ceiops.eu/media/files/publications/submissionstotheec/CEIOPS-DOC-03-07AdviceonSupervisoryReportingandPublicDisclosure.pdf>.

<sup>4</sup> See April 2009 publication at <http://www.croforum.org/publications.ecp>

<sup>5</sup> See CEIOPS' Level 2 Advice on Transparency and Accountability CEIOPS-DOC-30/09, <http://www.ceiops.eu/index.php?option=content&task=view&id=582>

- 3.6. Article 35 (1) of the Level 1 text states that '*Member States shall require insurance and reinsurance undertakings to submit to the supervisory authorities the information which is necessary for the purposes of supervision*'. This information covers:
- a) Supervisory reporting requirements at predefined periods (regular reporting);
  - b) Supervisory reporting requirements upon occurrence of predefined events; and
  - c) Any other information that supervisory authorities might deem necessary during enquiries regarding the situation of undertakings, either off-site or on-site, using a wide range of methods and formats (through for example questionnaires sent to all undertakings, request for further information on a specific issue, access to any relevant documents during on-site inspections).
- 3.7. Article 51 of the Level 1 text establishes the minimum content of the SFCR as undertakings are free to voluntarily disclose further information as they see fit per Article 54(2), while Article 54 establishes some requirements on the updates to be provided on the disclosed information following major developments.
- 3.8. This Paper provides CEIOPS' advice on the Level 2 implementing measures and initial thoughts on envisaged Level 3 guidance material on both the information to be disclosed to the public (under Articles 51, 54 and 256) and the information to be sent to supervisors (under Article 35 and 254).
- 3.9. Regarding groups' reporting and disclosure, this Paper provides the advice on Level 2 implementing measures:
- Specific group-level information to be included in the SFCR at solo level (Article 51);
  - Information to be included in the SFCR at group level (Article 256(1));
  - Information to be included in the single group-wide SFCR (Article 256(2) and (3)); and
  - Information to be included in the RTS regarding group issues.
- 3.10. The Paper also includes the specific information to be disclosed and reported by those undertakings using approved internal models.
- 3.11. This Paper does not cover the distinction between requirements on EEA subsidiaries and third-countries subsidiaries, or specific information requirements on the non-insurance parts of a group (e.g. banks) as well as any adjustments to the accounting consolidated accounts.

### **3.1.1. CEIOPS' work to date**

- 3.12. In March 2007, CEIOPS published advice to the European Commission on Supervisory Reporting and Public Disclosure in the Framework of the Solvency II Project<sup>6</sup>. In this advice, CEIOPS set out its preliminary views on what the reporting and disclosure regimes could entail. These views have been used to inform this Paper.
- 3.13. Following this advice, CEIOPS published an Issues Paper in November 2007 entitled 'Policy on Harmonisation of Contents and Formats for Public Disclosure and Supervisory Reporting'<sup>7</sup> which set out the intended approach towards harmonisation.
- 3.14. In August 2008, CEIOPS published an Issues Paper 'Supervisory Review Process and Undertakings' Reporting Requirements'<sup>8</sup>. This Issues Paper set out CEIOPS' further thinking on the framework for supervisory review and reporting requirements.
- 3.15. In July 2009, CEIOPS published Consultation Paper 58 setting out its draft advice on 'Supervisory Reporting and Public Disclosure Requirements'<sup>9</sup> that has been used as the basis for this final advice.
- 3.16. The comments received from stakeholders on all of these publications have been carefully considered in the drafting of this advice and have helped to shape its contents.
- 3.17. In addition, CEIOPS launched a project on the lessons to be learnt from the financial crisis in August 2008. In March 2009, CEIOPS published a report setting out the "Lessons learned from the crisis (Solvency II and beyond)". These lessons have also served as a basis for discussion when developing this advice.

### **3.1.2. Impact Assessment**

- 3.18. Given the area of Pillar III supervisory reporting and public disclosure is a very important and significant part of the future Solvency II regime, CEIOPS considers it important that the costs and benefits of the proposals for all parties are assessed to influence the policy development. CEIOPS has therefore contributed to the impact assessment the European Commission is undertaking on certain issues<sup>10</sup>, and the options considered for them, as part of its advice to the

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<sup>6</sup> See footnote 3.

<sup>7</sup> The Issues Paper is available at [http://www.ceiops.eu/media/docman/public\\_files/consultations/CEIOPS-IGSRR-05-07%20Policy%20on%20Supervisory%20Reporting%20and%20Public%20Disclosure.pdf](http://www.ceiops.eu/media/docman/public_files/consultations/CEIOPS-IGSRR-05-07%20Policy%20on%20Supervisory%20Reporting%20and%20Public%20Disclosure.pdf)

<sup>8</sup> The Issues Paper is available at: [http://www.ceiops.eu/media/docman/public\\_files/consultations/CEIOPS-IGSRR-8-08%20Issues%20Paper%20on%20SRP%20and%20Reporting-final.pdf](http://www.ceiops.eu/media/docman/public_files/consultations/CEIOPS-IGSRR-8-08%20Issues%20Paper%20on%20SRP%20and%20Reporting-final.pdf)

<sup>9</sup> See <http://www.ceiops.eu/index.php?option=content&task=view&id=609>

<sup>10</sup> See the letter from the Commission to CEIOPS dated 1 April 2009 ([http://ec.europa.eu/internal\\_market/insurance/docs/solvency/letter\\_en.pdf](http://ec.europa.eu/internal_market/insurance/docs/solvency/letter_en.pdf)), and issues 5 and 6 in the List of Policy Issues ([http://ec.europa.eu/internal\\_market/insurance/docs/solvency/issues\\_en.pdf](http://ec.europa.eu/internal_market/insurance/docs/solvency/issues_en.pdf)).

European Commission. The European Commission have appointed consultants to assess the administrative burden of these proposals to feed into decisions made in the development of the implementing measures for Solvency II.

- 3.19. Therefore, in presenting the advice on Level 2 text, there are a number of separate aspects that are subject to impact assessment. In particular, one area covers the supervisory reporting that occurs under Article 35(2)(a)(i), while the other deals with public disclosure under Article 51. For issues subject to the impact assessment, more details are included, at the relevant sections within this advice, on the rationale for CEIOPS' preferred option.
- 3.20. The full details on the impact assessment for supervisory reporting have been included in Annex A, and for public disclosure in Annex B. These Annexes set out in greater detail the issues, and the options that are being considered for each issue, as part of the impact assessment. It should be noted that, unless expressly mentioned in the text, CEIOPS did not identify any impacts which would have considerably different effects on sub-sets of the stakeholders. Part of the impact assessment involves considering, in giving the advice on the Level 2 measures, the extent to which each option meets the particular objectives the European Commission considered most relevant. These are set out in Annexes A and B.

### ***3.1.3. The level of detail in the advice***

- 3.21. In setting out the information which CEIOPS would expect to be covered in the SFCR and in the RTS, CEIOPS has set out below some general level of detail. However, in formulating its Advice, it has only proposed at Level 2 (in the blue boxes) those items perceived to be the most important, with other details being included at Level 3. Of course, the SFCR and the RTS developed by the undertaking will have to take account of both the requirements at Level 1 and Level 2 and the guidance and recommendations at Level 3.

### ***3.1.4. Reporting to be undertaken by groups***

- 3.22. CEIOPS considers that all information required at a solo level, either within the public disclosure or the reporting requirements, should also be provided at group level within the group public disclosure (Group SFCR – Article 256) and group reporting requirements (Group RTS – Article 254). Therefore, all requirements set out in this advice for (re)insurance undertakings also apply to (re)insurance groups' reporting and disclosure unless specified otherwise. In addition, specific additional requirements are set out in this advice for groups, but also for solo undertakings belonging to groups. The content of quantitative reporting template for groups will however only be specified at Level 3.

3.23. In this Paper the word “undertaking” covers both solo undertakings and groups. The notion of a “group” is defined in the CEIOPS’ advice on “group solvency assessment” and concerns the prudential scope of the group and not the accounting scope of the group. For clarity, it has been indicated in CEIOPS’ advice (blue boxes) and in the green boxes in section 3.4 ‘Report to supervisors’ that the background text and advice apply to both, solo (insurance and reinsurance) undertakings and groups. For groups, the term “supervisor” should be understood as the group supervisor. A separate advice addresses the issue of co-operation and Colleges of Supervisors.<sup>11</sup>

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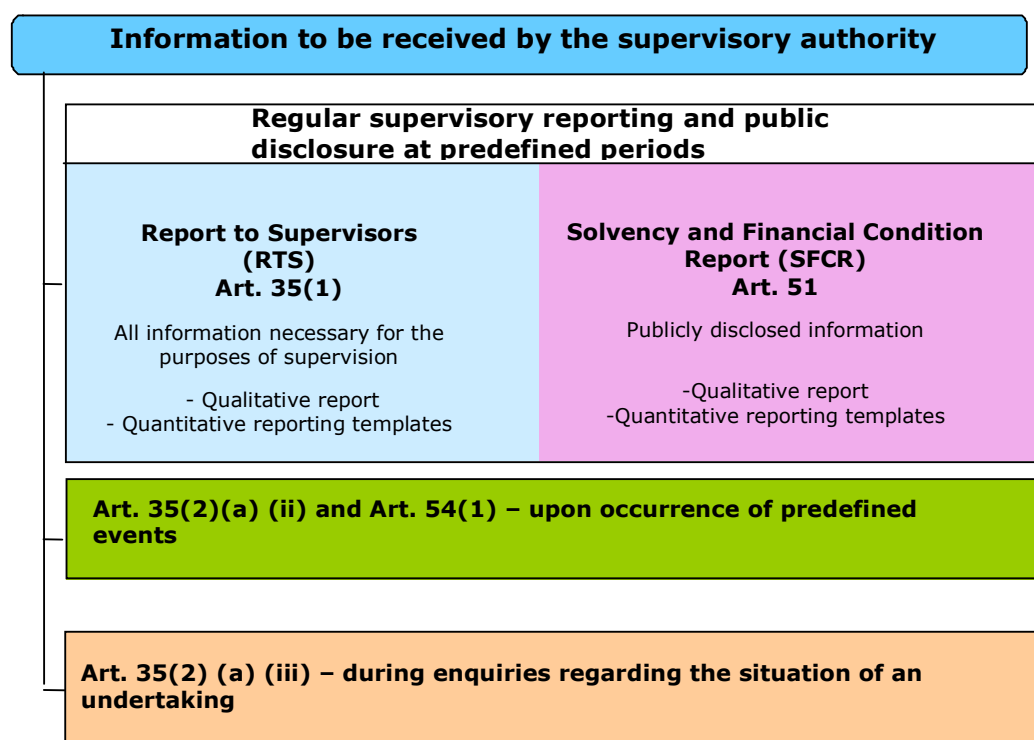
<sup>11</sup> See CEIOPS’ Level 2 Advice on Cooperation and Colleges of Supervisors CEIOPS-DOC-54/09 at <http://www.ceiops.eu/index.php?option=content&task=view&id=613>



## 3.2. High-level principles of information to be received by the supervisory authority

### 3.2.1. Background

- 3.24. CEIOPS considers it important to set out its view of requirements on information to be received by supervisors and that to be publicly disclosed. CEIOPS has developed reporting requirements based on the information that supervisors would need to receive in order to adequately supervise undertakings and disclosure requirements that will reinforce transparency and market discipline, while preventing undertakings from having to bear unnecessary administrative costs.
- 3.25. The diagram below illustrates CEIOPS' view of the components that constitute the supervisory reporting and public disclosure requirements.



- 3.26. The diagram is also relevant for group supervisory reporting and public disclosure in accordance with Articles 254 (2) and 256.
- 3.27. In relation to the above diagram, this advice also covers the information regarding contracts which are held by intermediaries or regarding contracts which are entered into with third parties (Article 35(2)(b)) and information from external experts, such as auditors and actuaries (Article 35(2)(c)).

### **3.2.2. Information to be received by the supervisory authority**

3.28. The Level 1 text sets out that Member States shall require undertakings to submit to supervisory authorities the information necessary for the purposes of supervision. As the diagram above shows, supervisory authorities will receive this information on three different occasions and therefore must be equipped with powers to require undertakings to submit this information.

#### **a) At predefined periods**

3.29. Information to be reported on a regular basis should be sent to the supervisory authority through the RTS. This document should contain all information necessary on a regular basis for the purposes of supervision, as provided for in Article 35(2)(a)(i) of the Level 1 text. Furthermore, in order to supervise the undertaking and the disclosure requirements under Article 51 of the Level 1 text, supervisors should receive the SFCR published by the undertaking.

3.30. Both the RTS and the SFCR should contain a qualitative report (including quantitative data where necessary) and quantitative reporting templates:

- The **RTS** is the private report through which undertakings submit regular information to the supervisory authority and it follows from Articles 35 and 254 of the Level 1 text. It should enable supervisors to carry out the Supervisory Review Process, and also forms the basis for the supervisory dialogue between undertakings and their supervisory authority. The supervisor will review the RTS to ensure that the RTS fulfils the established requirements for this document and is consistent with the SFCR. The RTS is a stand-alone document, which does not require reference to any other document in order to be understood, and will be aimed specifically at the supervisory authority. Section 3.3 of this advice presents the information that should be set out in the RTS.
- The **SFCR** is a central requirement within Solvency II to achieve transparency and it follows from Articles 51 and 256 of the Level 1 text. The SFCR is the public report through which undertakings disclose to the public, including supervisory authorities, information to be able to analyse their solvency and financial condition. The undertaking has responsibility to compile and publish this report. The supervisor will review the SFCR, using a risk based approach, to ensure that the SFCR fulfils the established requirements for this document, that the information presented in the SFCR is appropriate and consistent with the information provided under the RTS so that it allows a proper understanding of the solvency and financial condition of the undertaking.

The supervisor will take action if in its opinion the information is not appropriately informing the users on the overall solvency and

financial condition of the undertaking.<sup>12</sup> Sections 3.4 of this advice present the information that should be set out in the SFCR.

- 3.31. Although CEIOPS envisages that both reports will be stand-alone documents, they should follow a similar structure in order to facilitate both the tasks of undertakings and supervisors, increasing their efficiency and preventing unnecessary administrative costs.
- 3.32. For the purposes of this advice, quantitative reporting templates are being treated as separate from the RTS and SFCR. Once the quantitative reporting templates are defined at Level 3, CEIOPS will assess which quantitative forms should also be included in the SFCR (all of the quantitative reporting templates will be in the RTS). Section 3.5 of this advice and Annex D in CP58 presented information on the provisional quantitative reporting templates, which will be developed further by CEIOPS and then consulted on at Level 3.

### **CEIOPS' advice**

- 3.33. On a regular basis undertakings and groups shall submit to the supervisory authority the Report to Supervisors (RTS) and the Solvency and Financial Condition Report (SFCR).
- 3.34. The SFCR is the public report through which undertakings disclose to the public, including supervisory authorities, information to enable the public to analyse their solvency and financial condition. The undertaking has responsibility to compile and publish this report. The supervisor shall review the SFCR, using a risk based approach, to ensure that the SFCR fulfils the established requirements for this document, that the information presented in the SFCR is appropriate and consistent with the information provided under the RTS, so that it allows a proper understanding of the solvency and financial condition of the undertaking.
- 3.35. The RTS is the private report through which undertakings submit regular information to the supervisory authority. The RTS shall enable supervisors to carry out the Supervisory Review Process, and also forms the basis for the supervisory dialogue between undertakings and their supervisory authority. The supervisor shall review the RTS to ensure that the RTS fulfils the established requirements for this document and is consistent with the SFCR.
- 3.36. Both the RTS and the SFCR shall contain a qualitative report, including quantitative data where necessary, and quantitative reporting templates as appropriate.
- 3.37. Both the RTS and the SFCR shall be stand-alone documents and follow a similar structure.

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<sup>12</sup> CEIOPS may specify further details about this review when developing the Supervisory Review Process (SRP) at Level 3.

### **b) Upon occurrence of predefined events**

- 3.38. In addition to receiving regular information at predefined periods, supervisory authorities should also be provided with information upon the occurrence of predefined events.
- 3.39. Predefined events are considered those that can lead to material changes to an undertaking's solvency position or risk profile and may lead to supervisory authorities reassessing the Supervisory Review Process (SRP) on which the frequency and intensity of supervisory actions are based. Further detail is contained in section 3.7.1.

### **c) During enquiries regarding the situation of the undertaking<sup>13</sup>**

- 3.40. Supervisory authorities have the power to request information that is necessary for the purposes of supervision. These requests should balance the burden being placed on the undertaking with the supervisory need for information. Requesting information can be at any stage of the SRP and should be used to further understand whether undertakings are complying with the relevant laws, regulations and administrative provisions, including assessing potential threats to policyholders as deemed appropriate. Further details are contained in section 3.7.2.
- 3.41. Supervisory authorities should also be able to obtain information on any contracts entered into by the undertaking. These may be insurance or general business contracts. In addition, supervisors must be able to require information from external experts who work with or for the undertaking, such as auditors or actuaries. Further detail is contained in section 3.7.3.

### **3.2.3. Principles for the information**

- 3.42. CEIOPS has taken into account the type of information stated in Article 35(3) that supervisory authorities should receive and undertakings should disclose (under Article 51), and therefore considers these inherent in the material within this Paper. CEIOPS does not therefore propose any further advice at Level 2 in this area.
- 3.43. CEIOPS expects that all the information provided by undertakings for supervisory reporting and public disclosure (under Article 51) will meet the criteria of information reported under Article 35(4) (b) and (c). CEIOPS does not therefore propose any further advice at Level 2 in this area.

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<sup>13</sup> As mentioned previously it should be noted that the term "undertaking" refers to both solo undertakings and groups.

### 3.2.4. Proportionality principle

3.44. The Level 1 text establishes the proportionality principle as a general principle that applies throughout the Directive and all its implementing measures (see Article 29(3)). The advice on the Principle of Proportionality given to the European Commission in May 2008<sup>14</sup> stated:

*"CEIOPS places particular importance on the proportionality principle where supervisory reporting is concerned. In this regard CEIOPS proposes to fit the reporting to a level commensurate to the risk profile of the undertakings."*

3.45. The reporting requirements being developed will be applicable to all undertakings in accordance with the Level 1 text. However, the reference to the proportionality principle in Article 35(4)(a) and referred to in Article 51(1) introduces the following differentiation in the supervisory reporting and public disclosure requirements:

- The detail of information to be received by supervisors will be commensurate with the nature, scale and complexity of the risks inherent in the business of the undertaking concerned. Undertakings with complicated risk profiles are likely to have more to report and disclose and explain to fulfil supervisory reporting and public disclosure requirements than undertakings with less complex risk profiles. CEIOPS has aimed to keep the qualitative reporting and disclosure requirements principles-based and has aimed not to set out detailed requirements thereby providing a degree of flexibility in how these requirements are to be met. The principle of proportionality should be considered throughout the SFCR and the RTS.
- Undertakings will not be required to fulfil reporting or disclosure requirements that are not applicable to them (e.g. if undertakings do not write a particular line of business or are not exposed to a certain risk). In such cases it will suffice to state that the requirements are not applicable to them, so there is a degree of proportionality inherent in the supervisory reporting and public disclosure requirements; and
- As set out in further detail in section 3.6.2, the frequency with which an undertaking has to provide the full qualitative information<sup>15</sup> through the RTS will be linked to the intensity of the SRP. Those undertakings that are not required to submit a full qualitative RTS on an annual basis would be required to submit

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<sup>14</sup> Advice to the European Commission on the Principle of Proportionality in the Solvency II Framework (CEIOPS-DOC-24/08), [http://www.ceiops.eu/media/docman/public\\_files/publications/submissionstotheec/AdviceProportionality.pdf](http://www.ceiops.eu/media/docman/public_files/publications/submissionstotheec/AdviceProportionality.pdf)

<sup>15</sup> By "full qualitative information" CEIOPS is referring to the completion of all the requirements set out in section 3.4.3.

details of only material changes<sup>16</sup> to the full qualitative information or report that no material changes have occurred.

- 3.46. By nature, the concept of an internal modelling approach is closely linked to that of proportionality. Compared to the standard formula, the construction of an internal model should be driven directly by the type of business of the undertaking and by the nature, scale and complexity of the risks it faces. For example, more complex risk profiles will generally require more explanations and may therefore influence the volume of documentation and supervisory reporting and public disclosure.

#### **CEIOPS' advice**

- 3.47. In relation to qualitative supervisory reporting and public disclosure, the proportionality principle shall be applied in the following manner:

- The detail of information to be received by supervisors shall be commensurate with the nature, scale and complexity of the risks inherent in the business of the undertaking concerned;
- Undertakings shall not be required to fulfil reporting or disclosure requirements that are not applicable to them (e.g. if undertakings do not write a particular line of business or are not exposed to a certain risk). In such cases it will suffice to state that the requirements are not applicable to them, so there is a degree of proportionality inherent in the supervisory reporting and public disclosure requirements; and
- The frequency with which an undertaking has to provide the full qualitative information through the RTS shall be linked to the intensity of the SRP.

#### **3.2.5. The definition of materiality**

- 3.48. Under the reporting requirements being developed, undertakings will be required to report on material issues (for example governance changes or risks) and therefore the concept of materiality should be considered throughout the SFCR and the RTS. In order to clarify the meaning of materiality in this context for both undertakings and supervisors, CEIOPS proposes using as a reference the definition of materiality in International Accounting Standards (IAS)<sup>17</sup> as CEIOPS considers that by using this definition undertakings using these standards should be familiar with this concept. This definition states that:

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<sup>16</sup> By "material changes" CEIOPS is referring to material changes that have occurred in the undertaking in the requirements in section 3.4.3 over the reporting period and not the completion of all the requirements set out in section 3.4.3.

<sup>17</sup> Materiality is defined in the glossary of the [International Accounting Standards Board's](http://www.iasb.org/NR/rdonlyres/578562B5-2303-4F51-8D02-382A7CBDBA7E/0/AP4Materialityobnotes.pdf) "Framework for the Preparation and Presentation of Financial Statements" <http://www.iasb.org/NR/rdonlyres/578562B5-2303-4F51-8D02-382A7CBDBA7E/0/AP4Materialityobnotes.pdf>

*"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful".*

- 3.49. The expression "economic decisions of users" included in the above definition should be read in the context of the risk-based decisions to be taken by supervisory authorities when performing the SRP and also for the "economic decisions" of readers of the SFCR.

#### **CEIOPS' advice**

- 3.50. The following definition of materiality, based in International Accounting Standards (IAS), shall be used as a reference throughout the reporting and disclosure requirements:

*"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful".*

- 3.51. The expression "economic decisions of users" included in the above definition shall be read in the context of the risk-based decisions to be taken by supervisory authorities when performing the SRP and also for the "economic decisions" of readers of the SFCR.

#### **3.2.6. Supervisory role in supervisory reporting and public disclosure**

- 3.52. Article 36 (1) of the Level 1 text states that:

*"Member States shall ensure that the supervisory authorities review and evaluate the strategies, processes and reporting procedures which are established by the insurance and reinsurance undertakings to comply with the laws, regulations and administrative provisions adopted pursuant to this Directive".*

- 3.53. This brings under the SRP, inter alia, an analysis of the undertakings' compliance with the reporting and disclosure requirements. Undertakings are responsible in the first place for compliance with the Directive requirements. As previously mentioned, the supervisor will review, using a risk based approach, the SFCR and RTS to ensure that these documents comply with the established requirements, that the information presented in them is appropriate and consistent with the information provided under the other report, so that it allows a proper understanding of the solvency and financial condition of the undertaking. The supervisor will take action if in its opinion the information is not

appropriately informing the users on the overall solvency and financial condition of the undertaking. This review should occur after the publication of the SFCR and the submission of the RTS.

- 3.54. If supervisors consider that undertakings have failed to comply with either the SFCR or the RTS reporting requirements then supervisory actions, such as requiring the undertaking to republish the SFCR or resubmit the RTS, should be taken to ensure that compliance is maintained. CEIOPS will develop further details on the SRP in its Level 3 work on Article 36 of the Level 1 text, which may include the supervisory review of the undertakings' compliance with the reporting and disclosure requirements.
- 3.55. CEIOPS acknowledges that bringing Pillar III compliance under the supervisory regime is a new area for some supervisors and undertakings but considers it vitally important to a successful Solvency II regime.



### 3.3. Solvency and Financial Condition Report

#### 3.3.1. Introduction

- 3.56. CEIOPS views Solvency II as a pro-disclosure regime. Disclosure is primarily achieved through the SFCR which should contain essential information on the solvency and financial condition of the undertaking.
- 3.57. Nevertheless, supervisory authorities shall permit undertakings not to disclose confidential information as specified in Article 53(1) of the Level 1 text.
- 3.58. The principle of proportionality also applies to the qualitative disclosure requirements. The detail of information to be disclosed should be commensurate with the nature, scale and complexity of the risks inherent in the business of the undertaking concerned. As stated, above CEIOPS has aimed to keep the qualitative reporting and disclosure requirements principles-based and has aimed not to set out detailed requirements thereby providing a degree of flexibility in how these requirements are to be met. Undertakings with complex risk profiles are likely to have more to disclose to fulfil the disclosure requirements than undertakings with less complex risk profiles. CEIOPS wishes to reiterate that the principles of materiality and proportionality apply to the requirements to fulfil the qualitative SFCR as they do with the qualitative RTS.

#### 3.3.2. Background

- 3.59. Article 51 of the Level 1 text requires undertakings to publicly disclose, on an annual basis, a report on their solvency and financial condition, and sets out the high-level concepts to be covered by this SFCR.
- 3.60. The Level 1 text (Article 256) establishes that Member States shall require participating insurance and reinsurance undertakings or insurance holding companies to publicly disclose, on an annual basis, a SFCR at the level of the group, with Articles 51 and 53 to 55 applying *mutatis mutandis*. It is further foreseen that a participating insurance or reinsurance undertaking or insurance holding company shall be allowed to provide a single group-wide SFCR subject to the agreement of the group supervisor in accordance with Article 256(2).
- 3.61. Within the advice to the European Commission published in March 2007<sup>18</sup>, CEIOPS provided the following overarching principles on disclosure (paragraph 5.6):
- *Information required under Pillar III shall include the elements that are needed by the supervisor to perform an insurance*

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<sup>18</sup> See footnote 3.

*undertaking's solvency and financial condition assessment, namely the quantitative and qualitative information needed to perform the Pillar I solvency assessment and the Pillar II supervisory review process.*

- Information required under Pillar III shall include the quantitative and qualitative elements needed to support market transparency and market discipline.*
- Information required under Pillar III shall be provided on a timely and adequate basis and be relevant, accessible, meaningful, reliable and readily understandable.*
- Information required under Pillar III shall make use of figures and assumptions based on economic principles, be comparable and consistent over time.*
- Insurance undertakings shall adopt a formal policy to comply with the established Pillar III requirements and have policies for assessing the appropriateness of their reporting and disclosures, including their verification and frequency.*
- Where relevant, information required under Pillar III shall be provided on a solo as well as on a group level.*
- Disclosures made by insurance undertakings under financial reporting, listing or other legal or regulatory requirements may be relied upon to fulfil the equivalent Pillar III public disclosure requirements in order to avoid duplication.*
- Public disclosure under Pillar III shall be made on an annual basis at a minimum. However, more frequent disclosures may be deemed necessary in the light of the relevant characteristics of the insurance undertaking's business. For supervisory reporting, a combination of frequencies is most likely to be appropriate, depending on the nature of the information.*

### **3.3.3. Disclosure audience**

- 3.62. Given the SFCR is a public document, it could be read by a wide variety of stakeholders external to the undertaking. Undertakings should consider the potential audience of the SFCR and their information needs when compiling this document. Potential readers could include other insurance and reinsurance undertakings, intermediaries, trade associations, financial analysts, professional advisors, rating agencies, investors, shareholders, and policyholders, alongside of course supervisory authorities.

### **3.3.4. Undertakings' disclosure policy**

- 3.63. As set out in Article 55(1), undertakings are required to develop a written policy to ensure the on-going appropriateness of the information to be disclosed.
- 3.64. This written policy, as set out in Article 55(1) should be approved by the administrative, management or supervisory body, and should ensure that the undertakings have appropriate governance procedures and practices in place so that the information publicly disclosed is complete, consistent and accurate. The policy should detail who is responsible for drafting the disclosures along with those who are responsible for reviewing the disclosures.
- 3.65. The written policy should also ensure that the disclosure requirements are completed within the timeframes established (see section 3.6.1), hence the written policy should set out deadlines for completion of the various drafting components of the process and allow sufficient time for review and approval by the administrative, management or supervisory body before publication.
- 3.66. Undertakings should also use their disclosure policy to outline their view of information already available in the public domain that they believe is equivalent in nature and scope to the information requirements in the SFCR. The Level 1 text permits undertakings to make use of – or refer to – this equivalent information in the SFCR, as set out in Article 53(3). This should ensure that there is no duplication of effort for undertakings in producing these disclosures.
- 3.67. Supervisory authorities would expect that any equivalent information is replicated in full in the undertaking's disclosure document to avoid the situation where the SFCR contains a number of hyperlinks to the equivalent information. Including the information in full assists readers of the SFCR so they have all the information in one place and do not continually have to refer to other documents or find other sources of disclosure.
- 3.68. CEIOPS does not consider that it is appropriate to refer through hyperlinks to other documents because links made need to be very specific and this could present difficulties for readers having to find information that is located in various parts of other public disclosures. CEIOPS does not consider this to be an additional significant burden on undertakings. Undertakings could provide references in the SFCR to other public disclosures where information included in the SFCR has been derived from, if readers would like further information in addition to that required in the SFCR.
- 3.69. Article 54(2) of the Level 1 text also permits undertakings to disclose, on a voluntary basis, any information or explanation related to their solvency and financial condition which is not already required to be disclosed in accordance with Article 51. Therefore, if undertakings consider that they would like to publicly disclose further explanations or

details above the minimum required under Article 51, they are free to do so. The undertaking should ensure additional information provided under Article 51 is consistent with the information reported under Article 35 at the same date and is provided to the supervisor at the same time as being published.

- 3.70. Having said this, the SFCR, or any other public disclosure, should not contain any confidential information sent by the supervisory authority to the undertaking, such as the findings or outcomes from the SRP, without prior permission from the supervisory authority for the undertaking to disclose such information. However, where a capital add-on has been set and the undertaking should disclose the "*concise information on its justification by the supervisory authority concerned*" as provided for by Article 51(2) of the Level 1 text. Legal obligations to disclose arising from other Directives / Regulations would also need to be taken into account.
- 3.71. Undertakings should also use their disclosure policy to set out their view on the specific information they intend not to disclose, under the circumstances set out in Article 53(1) of the Level 1 text. In CEIOPS' view, the non-disclosure of information in the circumstances set out in Article 53(1) should be an exceptional event. As set out in Article 53(2), such non-disclosures should be permitted by the supervisory authority, and explicitly mentioned, along with the reasons for non-disclosure, in the SFCR. This permission, if the supervisory authority agrees, has to be granted following an explicit request by the undertaking. It should stay valid as long as the content of the non-disclosed information and the reasons for non-disclosure persist, provided that the undertaking shall be required to disclose this information if it loses its character of confidentiality or competitors would no longer gain a significant advantage from its disclosure.
- 3.72. Regarding the quantitative reporting templates undertakings are expected to develop, within their disclosure policy, a stable internal system through which the quantitative reporting templates are disclosed in order to facilitate the analysis and comparison throughout the years.

### **CEIOPS' advice**

- 3.73. The written policy, which shall be approved by the administrative, management or supervisory body, shall ensure that the disclosure requirements are completed within the timeframes established in the Directive<sup>19</sup> hence the written policy shall set out deadlines for completion of the various drafting components of the process and allow sufficient time for review and approval by the administrative, management or supervisory body before publication.
- 3.74. Undertakings and groups shall use their reporting and disclosure policy to outline their view of information already available in the public domain that they believe is equivalent in nature and scope to the

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<sup>19</sup> CEIOPS has set out its view of these deadlines within this paper.

information requirements in the SFCR.

- 3.75. The undertaking or the group shall ensure additional, voluntary information provided under Article 51 of the Level 1 text is consistent with the information reported under Article 35 at the same date.
- 3.76. Unless in relation to a capital add-on, the SFCR, or any other public disclosure, shall not contain any confidential information sent by the supervisory authority to the undertaking without prior permission from the supervisory authority for the undertaking to disclose such information.
- 3.77. Non-disclosure of information in specific cases, as provided for in Article 53 of the Level 1 text, shall be permitted by the supervisory authority, and explicitly mentioned, along with its reasons, in the SFCR. This decision on permission shall be made following an explicit request by the undertaking or the group to the supervisory authority. This decision on permission shall stay valid as long as the content of the non-disclosed information and the reasons for non-disclosure persist, provided that the undertaking shall be required to disclose this information if the reasons for non-disclosure no longer apply.

### ***3.3.5. Undertakings using an approved internal model***

- 3.78. The IAA guideline on internal models<sup>20</sup> state that failure to properly communicate the key assumptions, issues, results and insurer risk management to senior management and also through public disclosure will result in lost credibility for the models and perhaps even affect outside perception as to the value of the insurer.
- 3.79. Furthermore, the insurance undertaking may need to provide public disclosure of the purpose, results, key decisions taken, etc. as a result of the use of its internal model in the SFCR. Typically these public disclosures should aim for brevity, clarity as well as comparability and consistency with the disclosures from similar undertakings. Such disclosures might meaningfully include a statement confirming that the result was obtained by applying relevant professional standards. Generally the SFCR do not include commercially sensitive or confidential information about rates, reinsurance structures, or proprietary processes.
- 3.80. Subject to supervisory approval, an insurance undertaking may use an internal model to calculate its SCR under Pillar I. Here Pillar II plays an essential role as all qualitative requirements concerning an insurance undertaking's governance, risk management and implementation and also criteria for validating and analysing the model ongoing have to be determined and fed into Pillar I.

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<sup>20</sup> Guidance Paper on the Use of Internal Models for Risk and Capital Management Purposes by Insurers", IAA, draft, February 2008

- 3.81. Pillar III requirements of public transparency and disclosure of information related to the internal model when the internal model is used to calculate solvency capital requirement enhance market discipline and complement requirements under Pillars I and II. Different market participants could assess the internal model, make comparisons with peers and available (academic) literature and research, which would reinforce pillar I and II requirements.

### **3.3.6. Structure of the Solvency and Financial Condition Report**

- 3.82. The options considered by CEIOPS regarding the structure of the SFCR are included as Issue B within the impact assessment contained in Annex B. In conjunction with defining where the disclosures are made, CEIOPS had to consider whether or not to define a structure for the SFCR.
- 3.83. In considering this, CEIOPS was conscious that supervisory authorities and stakeholders would want to compare and contrast the disclosures of different undertakings. It was therefore clear that some common structure to the document was necessary. In CEIOPS' view, a consistent structure would make it easier to compare information relating to different undertakings and find specific information. Thus, of the three options presented in Issue B of Annex B, only Option 3, best delivers a common structure.
- 3.84. CEIOPS currently envisages the following structure to facilitate the review by supervisory authorities of the information alongside the RTS.

#### **CEIOPS' advice**

- 3.85. The Solvency and Financial Condition Report shall have the following structure:

##### **Executive Summary**

##### **Business and Performance (Article 51(1)(a))**

- A.1 Business and external environment
- A.2 Performance from underwriting activities
- A.3 Performance from investment activities
- A.4 Operating /other income and expenses
- A.5 Any other disclosures

##### **System of Governance (Article 51(1)(b))**

- B.1 General governance arrangements
- B.2 Fit and proper
- B.3 Risk management system
- B.4 ORSA
- B.5 Internal control system

B.6 Internal audit function

B.7 Actuarial function

B.8 Outsourcing

B.9 Any other disclosures

B.10 Reporting at group level

**Risk Profile (Article 51(1)(c))**

C.1 Underwriting risk – material exposure, concentration, mitigation and sensitivity

C.2 Market risk – material exposure, concentration, mitigation and sensitivity

C.3 Credit risk – material exposure, concentration, mitigation and sensitivity

C.4 Liquidity risk – material exposure, concentration, mitigation and sensitivity

C.5 Operational risk – material exposure, concentration, mitigation and sensitivity

C.6 Other risks – material exposure, concentration, mitigation and sensitivity

C.7 Any other disclosures

**Regulatory Balance Sheet (Article 51(1)(d))**

D.1 Assets

D.2 Technical provisions

D.3 Other liabilities

D.4 Any other disclosures

**Capital Management (Article 51(1)(e))**

E.1 Own funds

E.2 Minimum capital requirement and solvency capital requirement

E.3 The option set out in Article 304 used for the calculation of its Solvency Capital Requirement

E.4 Differences between the standard formula and any internal models used

E.5 Non-compliance with the minimum capital requirement and significant non-compliance with the solvency capital requirement

E.6 Any other disclosures

**Undertakings with an approved internal model**

F.1 Qualitative internal model information

F.2 Quantitative internal model information

F.3 Supplementary information

**Annex- Quantitative reporting templates**

***3.3.7. Contents of the Solvency and Financial Condition Report***

- 3.86. The content of the SFCR is one of the main issues considered in the impact assessment, which is set out in Annex B (Issue A). Obviously, defining the type of data and the degree of detail to which it should be reported will have an impact on undertakings.
- 3.87. Public disclosure requirements are one of the cornerstones of Solvency II and convergence should be achieved in order to guarantee a level playing field and assist comparability. CEIOPS believes that by defining the minimum content of the SFCR (i.e. Option 3 in Issue A of Annex B on the impact assessment), it delivers the best solution, not only for the public making use of the disclosures (in ensuring the topics are sufficiently comprehensive) but also for supervisors to review.
- 3.88. To provide an overview of the rationale for the contents of the SFCR, CEIOPS believes the information included in SFCR should provide sufficient information to the disclosure audience (described in section 3.3.3.) to understand the main characteristics of the business, the performance and risk profile of the undertaking, the processes to ensure the governance requirements are met, the valuation techniques and assumptions for different items of the balance sheet, the SCR and the MCR, and the amount and structure of own funds.
- 3.89. The information requirements outlined below do not specifically include quantitative information from the reporting templates. The quantitative reporting templates are work in progress (see section 3.5), and a decision as to which of the templates are public or private has yet to be made. However, some of the information provided within the SFCR may utilise or be based on certain of the data being provided in the quantitative reporting requirements and undertakings will be expected to make sure the data is consistent.
- 3.90. The following description of the contents of the SFCR should be read taking into consideration the principles of proportionality and materiality. CEIOPS' current view is that undertakings shall publicly report the following:

**Executive Summary**

- 3.91. In order to assist readers of the SFCR, a short and easily understandable executive summary aimed specifically at policyholders should be provided.



- 3.92. The executive summary should also highlight clearly any material changes that have occurred in the undertaking's or the group's business written, risk profile, solvency position or system of governance since the last reporting period. This information should provide the reader with a brief summary of the contents of the SFCR.

#### **CEIOPS' advice**

- 3.93. The description of the contents of the SFCR shall be read taking into consideration the principles of proportionality and materiality.
- 3.94. The SFCR shall include a short and easily understandable executive summary aimed specifically at policyholders.
- 3.95. The executive summary shall highlight clearly any material changes that have occurred in the undertaking's or the group's business, risk profile, solvency position and system of governance since the last reporting period.

#### **Business and Performance (Article 51(1)(a))**

- 3.96. The undertaking should provide a description of its business and its performance including the following:

##### **A.1 Business and external environment**

- 3.97. A description should be provided setting out the nature of the undertaking's business and external environment, any significant business or external events that have occurred over the year and general information regarding the undertaking, which should include:
- a) The undertaking's legal status and address of its registered office;
  - b) The undertaking's ownership and where the parent is located;
  - c) The undertaking's material business lines which it writes and which countries it writes those business lines in (specifically highlighting any material changes over the year);
  - d) Any significant business or external events that have occurred over the year that have had a material effect on the undertaking;
  - e) The main factors that have contributed positively or negatively to the development, performance and position of the undertaking since the previous financial year end (provided for example with loss ratios, underwriting ratios etc);
  - f) Information on any material related party transactions; and
  - g) Information about material transactions with shareholders and members of the administrative, management or supervisory body, intra-group transactions, distribution to shareholders and profit-sharing with policyholders.

3.98. For undertakings belonging to a group within the accounting definition of a group, a description of the legal and organisational group structure should be provided including:

a) The name of the undertaking's parent and the ultimate controlling party and other material participating undertaking as well as material participated undertakings; and

b) information on equivalence for third country undertakings.

3.99. For groups, the descriptions shall also include all material subsidiaries, participations and branches (significant branches both within the group and/or their local markets).

### **A.2 Performance from underwriting activities**

3.100. A description should be provided on the undertaking's underwriting performance, in accordance with the accounting regime, over the year which should include:

a) Information on the undertaking's underwriting performance by material line of business and material geographical area;

b) Information on underwriting expenses by material line of business and material geographical area occurred over the year compared to the prior year; and

c) For undertakings belonging to a group, the operations and transactions within the group relevant within the undertaking's financial performance from underwriting activities, including relevant underwriting activities with other group entities, transfers under finance arrangements (including loans and equity contributions in cash or in kind) and reinsurance programs<sup>21</sup>.

### **A.3 Performance from investment activities**

3.101. A description should be provided on the undertaking's financial performance, in accordance with the accounting regime, from investments over the year which should include:

a) Information on income or losses from investments and, where relevant, components of such income or losses from appropriate subsets of an undertaking's investments (e.g. investments relating to the undertaking's life insurance business, investments by statutory or notionally segregated portfolios, investments in assets backing a group of investment-linked contracts, investments grouped in the same asset class);

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<sup>21</sup> On intra group transactions and risk concentrations see CEIOPS' Level 2 Advice on Supervision of Risk Concentration and Intra-Group Transactions CEIOPS-DOC-53/09  
<http://www.ceiops.eu/index.php?option=content&task=view&id=612> .

- b) Information showing gains and losses recognised directly in equity (i.e. "other comprehensive income" according to the terminology in IAS1 amended September 2007);
- c) Information about transactions with shareholders and members of the administrative, management or supervisory body, intra-group transactions, distribution to shareholders and profit-sharing with policyholders;
- d) The impact of amortisation and impairment of intangible/tangible assets and financial instruments (e.g. derivatives) on investment performance;
- e) Information on investment expenses incurred over the year compared to the prior year, and reasons for movements; and
- f) For undertakings belonging to a group, the significant income and losses from investments from and in group entities, as well as operations and transactions within the group relevant for the undertaking's investment performance. This could include the intra-group transactions and outstanding balances necessary to understand the potential impact on the financial statements of the undertaking.

#### **A.4 Operating /other income and expenses**

3.102.A description should be provided on the undertaking's level of material non-underwriting (i.e. operational or other) income and expenses incurred over the year which should include:

- a) Non-underwriting income and expenses split by material income and expense type and/or function (e.g. management fees, salaries, tax, dividends); and
- b) For undertakings belonging to a group, a description of the undertaking's material income and expenses incurred over the year including and shown separately information on material income and expenses incurred with other group entities.
- c) The information under a) and b) should include explicitly income and expenses on intermediary activities, insourcing and other non-insurance activities.

#### **A.5 Any other disclosures**

3.103.Any other disclosures considered important to be made by the undertaking in this section.

#### **CEIOPS' advice**

##### **Business and Performance (Article 51(1)(a))**

3.104.The undertaking or the group shall provide a description of its business

and its performance including the following:

**Business and external environment:**

3.105.A description shall be provided setting out the nature of the undertaking's or the groups' business and external environment, any significant business or external events that have occurred over the year and general information regarding the undertaking or the group, which shall include, at least:

- a) The undertaking's ownership;
- b) The undertaking's or the group's material lines of business and material geographical area where it writes business (specifically highlighting any material changes over the year);
- c) Any significant business or external events that have occurred over the year that have had a material effect on the undertaking or the group;
- d) The main trends and factors that have contributed to the development, performance and position of the undertaking or the group since the previous financial year end ; and
- e) For undertakings belonging to a group, information of the legal and organisational group structure.

3.106.For groups, the descriptions shall also include all material subsidiaries, participations and branches (significant branches both within the group and/or their local markets).

**Performance from underwriting activities:**

3.107.A description shall be provided on the undertaking's or the group's underwriting performance over the year which shall include, at least:

- a) Information on the undertaking or the group's underwriting performance by material line of business and geographical area;
- b) Information on underwriting expenses by material line of business and geographical area incurred over the year, compared to the prior year; and
- c) For undertakings belonging to a group, information on relevant operations and transactions within the group.

**Performance from investment activities:**

3.108.A description shall be provided on the undertaking's or the group's financial performance from investments over the year which shall include, at least:

- a) Information on income or losses from investments and, where

relevant, components of such income from appropriate subsets of an undertaking or a group's investments;

- b) Information showing gains and losses recognised directly in equity;
- c) Information about transactions with shareholders and members of the administrative, management or supervisory body, intra-group transactions, distribution to shareholders and profit-sharing with policyholders;
- d) The impact of amortisation and impairment of intangible/tangible assets and financial instruments on investment performance;
- e) Information on investment expenses incurred over the year, compared to the prior year and reasons for movements; and
- f) For undertakings belonging to a group, information on relevant investment transactions and outstanding balances within the group.

**Operating/other income and expenses:**

3.109.A description shall be provided on at least the undertaking's or the group's level of material non-underwriting income and expenses incurred over the year.

3.110.For undertakings belonging to a group, a description shall also be provided on the undertaking's material income and expenses incurred over the year including information on material expenses incurred with other group entities.

**Any other disclosures:**

3.111.Any other disclosures considered important shall be made by the undertaking or the group in this section.

## **Systems of Governance (Article 51(1)(b))**

3.112. The undertaking should provide a description of its governance structure to facilitate the understanding of its business and the assessment of the governance structure's adequacy for the risk profile, which should include:

### **B.1 General governance arrangements**

3.113. The undertaking shall provide an overview of the governance structure including, at least:

- a) A description of the system of governance for the undertaking's risk profile, including a statement of its adequacy;
- b) Any material changes in the governance structure that have taken place during the year;
- c) The structure of the administrative, management or supervisory body, providing a description of their main roles and responsibilities and a brief description of their responsibilities where relevant committees exist (e.g. remuneration committee, audit committee, risk management committee), as well as the segregation of responsibilities;
- d) If the undertaking is part of a group or financial conglomerate, a high-level description regarding the corporate structure of that group; and
- e) Explanation of how the administrative, management or supervisory body have considered remuneration policies - including the relationship between remuneration and risk - and the relevant controls to ensure that remuneration policies are in line with risk management.

3.114. Relevant information on the remuneration policy should also be disclosed in a clear and easily understandable way to relevant external stakeholders, along with the remunerations of the administrative, management or supervisory body. In particular, the following information related to the remuneration policy should be disclosed:

- a) Principles of the remuneration policy, in particular sufficient information on the linkage between remuneration and performance;
- b) Explanation of the relative importance of the variable and non-variable components of remunerations;
- c) Sufficient information on the performance criteria on which any entitlement to share options, shares or variable components of remuneration is based;

A description of the main characteristics of supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body or senior managers.

## **B.2 Fit and proper**

- 3.115. The undertaking should provide general information on the process for assessing the fitness and propriety of the persons effectively running the undertaking and the persons responsible for other key functions<sup>22</sup>.
- 3.116. The undertaking should provide a description of its specific minimum requirements concerning skills, knowledge and expertise applicable to the persons effectively running the undertaking and the persons responsible for other key functions.

## **B.3 Risk management system**

- 3.117. An undertaking should provide an overview of the structure and organisation of its risk management system.
- 3.118. An undertaking should also provide an overview of its risk strategy and policies in place to ensure compliance with its risk appetite. An undertaking should explain how the risk management system comprising strategies, processes and reporting procedures, is able to identify, measure, monitor, manage and report, on a continuous basis, the risks on an individual and aggregated level, to which they are or could be exposed, and their interdependencies.
- 3.119. Not only the management of the risks covered in Pillar 1 by the standard formula or internal model should be described but also material 'other risks' (e.g. strategic, reputation risk, contagion risk and risks arising from any off balance sheet transaction). Information should also be provided on its asset-liability management<sup>23</sup> procedures.
- 3.120. The undertaking should provide high-level information on the scope, frequency and requirements of the management information presented to the undertaking's administrative, management or supervisory body.
- 3.121. For undertakings belonging to a group, the group-specific information to be provided at solo level should reflect where risks are managed and overseen within the group. At solo level, undertakings should disclose the relevant arrangements at group level that influence the risk management decisions of the undertaking. The overview of any critical or important operational functions and activities should include information about outsourcing within the group.

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<sup>22</sup> This does not mean that undertakings are required to name persons effectively running the undertaking or the persons responsible for other key functions

<sup>23</sup> As set out in CEIOPS Level 2 advice on the System of Governance CEIOPS-DOC-29/09 <http://www.ceiops.eu/index.php?option=content&task=view&id=581> , asset-liability management (ALM) is the management of a business in such a way that decisions on assets and liabilities are coordinated in order to manage the exposure to the risk associated with the variation of their economic values.

## **B.4 ORSA**

3.122. An undertaking should provide information on the process<sup>24</sup> that it has undertaken to fulfil its obligation to conduct an Own Risk and Solvency Assessment (ORSA) as part of its risk management system. The requirements set out below are not designed to be prescriptive so that it would inhibit the undertaking's ability to conduct an ORSA as best it sees fit for its own circumstances. Although some level of flexibility in the reporting of the ORSA should be left to the undertakings, CEIOPS believes that this report should at least include the following:

- a) A description of how the ORSA process is integrated into the management process and decision making framework of the undertaking.
- b) A statement explaining how regularly the ORSA is reviewed and approved by the undertaking's administrative, management or supervisory body;
- c) A statement explaining how the undertaking has determined its own solvency needs given its risk profile and how its capital management activities take into account its risk management system; and
- d) A description of how the ORSA process and outcome is appropriately evidenced and internally documented as well as independently reviewed.

## **B.5 Internal control system**

3.123. An undertaking should provide an overview of its internal control system and describe why it considers this system appropriate to the nature, scale and complexity of its business.

3.124. Information should at least include the following:

- a) The administrative and accounting procedures in place within the undertaking that enable it to deliver in a timely manner financial reports;
- b) How the internal control system deals with the requirements on clear delegation of responsibilities, reporting lines and segregation of duties;
- c) How the compliance function operates including how it advises the administrative, management or supervisory body; and
- d) How the undertaking considers that it has appropriate data quality including a description of the processes in place for checking data quality.

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<sup>24</sup> CEIOPS' view is that the process to fulfil the ORSA requirements should be made public whereas the results of the ORSA should be privately reported in the RTS. This is because supervisors feel that the results of the ORSA should remain private (to ensure the undertakings provide a fully transparent analysis).



## **B.6 Internal audit**

- 3.125. An undertaking should provide a description of how the internal audit function operates including how it provides assurance on the adequacy and effectiveness of the internal controls within the undertaking.
- 3.126. An undertaking should also provide information on how the internal audit function maintains its independence and objectivity from the activities it reviews.

## **B.7 Actuarial function**

- 3.127. An undertaking should provide a description of how the actuarial function is implemented and outline its key areas of responsibility.
- 3.128. An undertaking should provide a description of how it ensures that the actuarial function is objective and free from influence of other functions or the administrative, management or supervisory body.

## **B.8 Outsourcing**

- 3.129. An undertaking should provide an overview and rationale of the outsourcing of any critical or important operational functions and activities including whether the service provider is located within the EU, EEA or in a third country, and whether it is an entity within the same group as the undertaking.

## **B.9 Any other disclosures**

- 3.130. Any other disclosures considered important to be made by the undertaking in this section.

## **B.10 Reporting at group level**

- 3.131. Groups should provide a description of the appropriate systems and structures in place at group level to fulfil the requirements laid down in the Level 1 text.

## **CEIOPS' advice**

### **System of Governance (Article 51(1)(b))**

#### **General governance arrangements:**

- 3.132. The undertaking or the group shall provide an overview of the governance structure, including at least:
- a) An description of the adequacy of its system of governance for the undertaking's or the group's risk profile, including a statement of its adequacy;
  - b) Any material changes in the governance structure that have taken place during the year;

- c) The structure of the administrative, management or supervisory body, providing a description of their main roles and responsibilities and a brief description of their responsibilities where relevant committees exist, as well as the segregation of responsibilities;
- d) If the undertaking is part of a group or financial conglomerate, a high-level description regarding the corporate structure of that group; and
- e) Explanation of how the administrative, management or supervisory body have considered remuneration policies - including the relationship between remuneration and risk - and the relevant controls;

3.133. Relevant information on the remuneration policy shall also be disclosed in a clear and easily understandable way to relevant external stakeholders, along with the remunerations of the administrative, management or supervisory body. In particular, the following information related to the remuneration policy shall be disclosed:

- a) Principles of the remuneration policy, in particular sufficient information on the linkage between remuneration and performance;
- b) Explanation of the relative importance of the variable and non-variable components of remunerations;
- c) Sufficient information on the performance criteria on which any entitlement to share options, shares or variable components of remuneration is based; and
- d) A description of the main characteristics of supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body or senior managers.

#### **Fit and proper:**

3.134. The undertaking shall provide general information on the process for assessing the fitness and propriety of the persons effectively running the undertaking and the persons responsible for other key functions<sup>25</sup>.

3.135. The undertaking shall provide a description of its specific minimum requirements concerning skills, knowledge and expertise applicable to the persons effectively running the undertaking and the persons responsible for other key functions.

#### **Risk management system:**

3.136. An undertaking or the group shall also provide an overview of its risk strategy and policies in place to ensure compliance with its risk

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<sup>25</sup> This does not mean that undertakings are required to name persons effectively running the undertaking or the persons responsible for other key functions

appetite. An undertaking or the group shall explain how the risk management system comprising strategies, processes and reporting procedures, is able to identify, measure, monitor, manage and report, on a continuous basis, the risks on an individual and aggregated level, to which they are or could be exposed, and their interdependencies.

3.137.Undertakings belonging to a group shall disclose the relevant arrangements at group level that influence the risk management decisions of the undertaking.

**ORSA:**

3.138.The undertaking or the group shall provide information on the process that it has undertaken to fulfil its obligation to conduct an ORSA as part of its risk management system including at least:

- a) A description of how the ORSA process is integrated into the management process and decision making framework of the undertaking.
- b) A statement explaining how regularly the ORSA is reviewed and approved by the undertaking's administrative, management or supervisory body;
- c) A statement explaining how the undertaking or the group has determined its own solvency needs given its risk profile and how its capital management activities take into account its risk management system; and
- d) A description of how the ORSA process and outcome is appropriately evidenced and internally documented as well as independently reviewed.

**Internal control system:**

3.139.The undertaking or the group shall provide an overview of its internal control system and describe why it considers this system appropriate to the nature, scale and complexity of its business.

3.140.The undertaking or the group shall provide information on the administrative and accounting procedures in place, on how the internal control system deals with the requirements on clear delegation of responsibilities, reporting lines and segregation of duties and on how the compliance function is implemented.

**Internal audit:**

3.141.The undertaking or the group shall provide an overview of how the internal audit function operates including how it provides assurance on the adequacy and effectiveness of the internal controls within the undertaking or the group.

3.142.An undertaking or a group shall also provide information on how the

internal audit function maintains its independence and objectivity from the activities it reviews.

**Actuarial function:**

3.143. An undertaking or a group shall provide a description of how the actuarial function is implemented, outlining its key areas of responsibility and describing how it ensures that the actuarial function is objective and free from influence of other functions or the administrative, management or supervisory body.

**Outsourcing:**

3.144. The undertaking or the group shall provide an overview and rationale of the outsourcing of any critical or important operational functions and activities, including whether the service provider is located within the EU, EEA or in a third country.

3.145. Undertakings belonging to a group shall distinguish outsourcing inside the group to which they belong from external outsourcing when providing the above mentioned overview.

**Any other disclosures:**

3.146. Any other disclosures considered important shall be made by the undertaking or the group in this section.

**Reporting at group level:**

3.147. Groups shall provide a description of the appropriate systems and structures in place at group level to fulfil the requirements laid down in the Level 1 text.

**Risk profile (Article 51(1)(c))**

3.148. An undertaking should provide a description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity. This information should be provided by the material individual risk category below:

**C.1 Underwriting risk – material exposure, concentration, mitigation and sensitivity**

**C.2 Market risk – material exposure, concentration, mitigation and sensitivity**

**C.3 Credit risk – material exposure, concentration, mitigation and sensitivity**

**C.4 Liquidity risk – material exposure, concentration, mitigation and sensitivity**

### **C.5 Operational risk – material exposure, concentration, mitigation and sensitivity**

### **C.6 Other risks – material exposure, concentration, mitigation and sensitivity**

### **C.7 Any other disclosures**

3.149. For C.2, the undertaking should include how it considers that assets have been invested in accordance with the prudent person principle.

3.150. For C.4, the undertaking shall disclose a description of how the undertaking manages the liquidity risk (including maturity analysis).

3.151. For C.6, information should be provided on material risks other than those listed in C.1 to C.5 such as concentration risk, reinsurance/mitigation risk, risks arising from off balance sheet transactions, reputational risk and strategic risk.

3.152. Further under C.6, in relation to off balance sheet transactions or similar arrangements, the undertaking should provide:

- (i) Information on material risks arising from any derivative and similar instruments<sup>26</sup> used in the reduction of risk or facilitating efficient portfolio management; and
- (ii) Information on the risks from any material off balance sheet arrangements such as SPVs<sup>27</sup>. Full disclosure should include how any interests with an SPV are aligned, and any relationship between the parties. The undertaking should disclose information on the risk transferred, the amount of external finance raised from investors, the financial interests it has in SPVs (i.e. if it has invested in any notes of SPVs) and how SPVs are fully funded. Information should also be disclosed of liabilities that have been transferred to SPVs, whether it has invested in notes related to other SPVs that it has not established, and how the undertaking has satisfied itself any concentration risks are within its risk appetite.

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<sup>26</sup> In the context of derivatives, CEIOPS interprets the expression “similar instruments” to refer to financial instruments with attendant risks that are sometimes difficult to determine and for which proper management requires specific expertise.

<sup>27</sup> This definition is not restricted to SPVs defined in Article 13(26) but should encompass all off balance sheet arrangements.

3.153. For C.7, any other disclosures considered important to be made by the undertaking should be included in this section.

3.154. Information on the material risks should be classified by sub-module of risk (for example for non-life underwriting risk this should be split by reserve risk, catastrophe risk, premium risk etc).

3.155. When referring to the material exposure, concentration, mitigation and sensitivity for each risk category, the following should be disclosed:

- Material risk exposures

3.156. An undertaking should provide information on its material risk exposures for each risk category above which should include at least:

- a) Information on the nature of the measures (both qualitative and quantitative) used to assess this risk within the organisation including any material changes in the exposure from the previous reporting period. For risks which are not so readily quantifiable, information should be provided on the qualitative measures in the context of internal systems and controls and governance;
- b) If the quantitative data disclosed at the end of the reporting period is not representative of an undertaking's exposure to risk during the period, the undertaking should provide further information sufficient to give a true picture of its exposure;
- c) Information on the nature of the material risk exposures on the undertaking and how these have developed over the past year;
- d) A description of how movements in factors that determine the risk exposure would affect the undertaking's solvency position;
- e) A description of the homogeneous groups of risk product and investments that the undertaking manages that give rise to the most material risks (paying particular regard to derivative instruments and structured products);
- f) Information on how the undertaking manages material sources of operational risk including those arising from critical outsourcing arrangements;
- g) For groups, the same level of detail as at solo level should be provided for material group specific risks (e.g. strategic risks, concentration risk, and reputation risk)<sup>28</sup>; and
- h) Groups should provide a quantification and a description of the main sources of group diversification effects (influence on different risk exposures and on total risk exposure), including a description of how the effects are distributed among the undertakings of the group.

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<sup>28</sup> For groups, please see CEIOPS Level 2 Advice on Supervision of intra group transactions and risk concentrations CEIOPS-DOC-53/09 <http://www.ceiops.eu/index.php?option=content&task=view&id=612> .

- Material risk concentrations

3.157. An undertaking should provide information on its material risk concentrations for each risk category above which should include at least:

- a) A description of the kinds of risk concentration to which the undertaking is exposed and how significant these are both by type of risk and concentrations. This information should cover both assets and liabilities;
- b) A description of the methods used and assumptions made in arriving at the quantitative data on concentrations and a description of how management determines concentrations including an analysis of relevant and material contagion lines (for example, across the financial sector); and
- c) A description of the concentration of underwriting risk including information on concentration exposures (e.g. group life risks – sum assured for largest schemes, probable maximum losses/expected maximum loss information for non-life undertakings).

- Material risk mitigation

3.158. An undertaking should provide a description of its risk mitigation practices in relation to the material risk exposures that are being mitigated, in terms of the instrument or methodologies used. which should include at least:

- a) A description of the overall methodologies used for mitigating risk and the processes for monitoring the continuing effectiveness of these risk mitigation strategies (e.g. that risk mitigation instruments are regularly reviewed and not just rolled over, especially if the internal or external environments have changed);
- b) A description of whether and how it uses reinsurance or other methods of risk transfer (such as derivatives, securitisation and alternative risk transfer or mitigation mechanisms) to help to control its material risk exposures.

- Risk sensitivities

3.159. The undertaking should provide information on the sensitivities of its material risk exposures. This should cover information about the sensitivity of risks on solvency positions to changes in variables that may have a material effect on its business. Information should also be provided on stress and scenarios tests undertaken.

Sensitivity analysis

- a) Unless an undertaking complies with point b) below, it should disclose at least:

- (i) A sensitivity analysis for each type of risk to which it is exposed at the end of the reporting period, showing how its risk profile and the undertaking's solvency position would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
  - (ii) The methods and assumptions used in preparing the sensitivity analysis; and
  - (iii) Changes from the previous period in the methods and assumptions used, and the reasons for such changes; and
- b) If an undertaking prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in point a) above. The undertaking shall also disclose:
  - (i) An explanation of the method used in preparing such a sensitivity analysis; and
  - (ii) An explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.



## **CEIOPS' advice**

### **Risk profile (Article 51(1)(c))**

#### **Risk Categories**

3.160. The undertaking or the group shall provide a description, separately for each category of risk below, of the risk exposure, concentration, mitigation and sensitivity (where applicable):

#### **Underwriting risk exposure, concentration, mitigation and sensitivity**

#### **Market risk exposure, concentration, mitigation and sensitivity**

#### **Credit risk exposure, concentration, mitigation and sensitivity**

#### **Liquidity risk exposure, concentration, mitigation and sensitivity**

#### **Operational risk exposure, concentration, mitigation and sensitivity**

#### **Other material risks exposure, concentration, mitigation and sensitivity**

#### **Any other disclosures**

3.161. For C.2, the undertaking or the group shall include how it considers that assets have been invested in accordance with the prudent person principle.

3.162. For C.4, the undertaking or the group shall disclose a description of how the undertaking manages the liquidity risk (including maturity analysis).

3.163. For C.6, information shall be provided on material risks other than those listed in C.1 to C.5 such as concentration risk, reinsurance/mitigation risk, risks arising from off balance sheet transactions, reputational risk and strategic risk.

3.164. For C.6., in relation to material off balance sheet transactions or similar arrangements, the undertaking or the group shall provide:

- a) Information on material risks arising from any derivative and similar instruments used in the reduction of risk or facilitation of efficient portfolio management; and
- b) Information on the risks from any material off balance sheet arrangements such as SPVs. Full disclosure shall include how any interests with an SPV are aligned, and any relationship between the parties. The undertaking or the group shall disclose information on the risk transferred, the finance raised from investors, the financial interests it has in the SPV and how the SPV is fully funded;

#### **Material risk exposures**

3.165. For each of these risk exposures, the undertaking or the group shall disclose by risk category at least:

- a) Information on the nature of the measures used to assess this risk within the organisation including any material changes from the previous reporting period;
- b) Information on the material risks classified by sub-module of risk;
- c) If the quantitative data disclosed at the end of the reporting period is not representative of an undertaking's exposure to risk during the period, the undertaking or the group shall provide further information sufficient to give a true picture of its exposure;
- d) Information on the nature of the material risk exposures on the undertaking or the group and how these have developed over the past year;

3.166. Information on how the undertaking or group manages material sources of operational risks;

3.167. For groups, the same level of detail as at solo level shall be provided for material group specific risks (e.g. strategic risks, concentration risk, and reputation risk); and

3.168. Groups shall provide a quantification and a description of the main sources of group diversification effects, including a description of how the effects are distributed among the undertakings of the group.

#### Material risk concentration

3.169. The undertaking or the group shall provide information on material risk concentrations to which it is exposed, including at least:

3.170. A description of the kinds of risk concentrations to which the undertaking or the group is exposed and how significant these are;

3.171. A description of the methods used and assumptions made in calculating quantitative data on concentrations and a description of how management determines concentrations including an analysis of relevant and material contagion lines (for example, across the financial sector); and

3.172. A description of the concentration of underwriting risk.

#### Material risk mitigation

3.173. The undertaking or the group shall provide a description of its risk mitigation practices, including at least:

3.174. A description of the methodologies for mitigating risk, and the processes for monitoring the continuing effectiveness of these risk

mitigation strategies;

3.175.A description of whether and how it uses reinsurance or other methods of risk transfer to help to control its exposure;

#### Risk sensitivity

3.176.The undertaking or the group shall disclose information about the sensitivity of risks (where applicable) on its solvency positions to changes in variables that may have a material effect on their business, including any material changes from the previous period.

3.177.Any other disclosures considered important shall be made by the undertaking or the group in this section.

### **Regulatory Balance Sheet (Article 51(1)(d))**

3.178.The undertaking should provide information on its solvency balance sheet valuation within this section, including a description, separately for assets, technical provisions, and other liabilities, of the bases and methods used for their valuation, together with a quantitative and qualitative explanation of any major differences in the valuation bases and methods used in the financial statements.

3.179.Undertakings belonging to a group should indicate whether the valuation methods applied at solo level are the same as those applied at group level.

#### **D.1 Assets (including investments)**

3.180.The undertaking should provide information on assets held which should include at least:

- a) A description of the basis, methods and assumptions used for valuing assets including a quantitative and qualitative explanation of the material differences with the accounting valuation<sup>29</sup> used by the undertaking;
- b) Where asset types along with investment objectives, policies and management differ significantly between subsidiaries or funds of the undertaking, separate disclosures should be provided for each of these subsidiaries or funds;
- c) An overview of any assets, such as structured products, that are not regularly traded on a financial market and the bases and methods used for their valuation for solvency purposes;
- d) In disclosing fair values, an undertaking should group financial assets and financial liabilities into classes, but shall offset them only to the

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<sup>29</sup> In this context, "accounting valuation" should be read as the accounting principles used to draw published financial statements – either local GAAP or IFRS according to the applicable law.

extent that their carrying amounts are offset in the statement of financial position;

- e) The undertaking shall provide a description of financial instruments and how the economic value has been determined; and
- f) An undertaking shall disclose the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the undertaking shall disclose that change and the reasons for making it.

## **D.2 Technical provisions<sup>30</sup>**

3.181. The undertaking should provide information on technical provisions which should include at least:

- a) Solvency balance sheet information setting out the amount of technical provisions (split by best estimate and risk margin, both set out by material line of business);
- b) Relevant information on the determination of the technical provisions with key assumptions and methodologies (i.e. valuation techniques) used in measuring insurance liabilities and in the development of financial information (e.g. relevant information on discount rates, expenses, future margins, mortality and disability rates, taxation assumptions, participation features, guarantees and options, the effect of management actions<sup>31</sup>, policyholder behaviour, the rates of inflation, claims development patterns etc) to enable the user to understand how the amount of technical provisions was established by line of business / homogenous risk group;
- c) If undertakings have used any simplifications, compared to the recommended full CEIOPS specification, in calculating their technical provisions (including deriving their risk margin), these should include a justification of why they consider that these simplifications are appropriate;
- d) An indication of the level of uncertainty associated with the level of technical provisions to allow the users to judge whether estimates are likely to fall within a wider or a narrower range, including information on any sensitivity testing undertaken with a description of key assumptions;
- e) An overview of any material changes in the level of technical provisions since the last reporting period including, for example, an

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<sup>30</sup> The calculation of technical provisions at group level is addressed in CEIOPS' Level 2 Advice on assessment of group solvency. CEIOPS-DOC-52/09

<http://www.ceiops.eu/index.php?option=content&task=view&id=611&Itemid=18>

<sup>31</sup> See CEIOPS' Level 2 Advice on Technical Provisions – Assumptions about Future Management Actions CEIOPS-DOC-27/09 <http://www.ceiops.eu/index.php?option=content&task=view&id=580>

explanation of any changes in the key assumptions used to set technical provisions (on a gross and net basis) with information on the impact of these changes along with a justification which could be supported by recent experience. In addition the undertaking would be expected to highlight changes in the development patterns of existing claims, new material claims that have emerged over the year, those settled during the year, material changes in lapse rates, increase in new business etc;

- f) The impact of reinsurance in the assessment of technical provisions, (solvency balance sheet information on the amount of technical provisions both gross and net of reinsurance) according to homogeneous risk group / line of business;
- g) An explanation of the treatment of future premiums<sup>32</sup> within the calculation of technical provisions;
- h) A quantitative and qualitative explanation of any material differences between the accounting valuation used by the undertaking and their solvency valuation; and
- i) Specifically for life undertakings, some high-level qualitative information on the effect of management actions and policyholder behaviour according to homogeneous risk group / line of business.

### **D.3 Other liabilities**

3.182. The undertaking should provide information on material other liabilities (excluding any subordinated liabilities that are included in own funds). This should include the basis and assumptions upon which other liabilities are valued (measured) and include a quantitative and qualitative explanation of material differences to their accounting valuation.

### **D.4 Any other disclosures**

3.183. Any other disclosures considered important to be made by the undertaking in this section.

### **Reporting at group level**

3.184. The same level of detail as at solo level is expected, where applicable and appropriate, including specific assets managed at group level (e.g. cash pool, reinsurance pool).

3.185. For undertakings belonging to a group, the significant investments and intra-transactions from and in group entities should be disclosed, as well as operations and transactions within the group relevant for the undertakings. This could include the intra-group transactions and

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<sup>32</sup> See CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Technical Provisions - Treatment of Future Premiums CEIOPS-DOC-25/09 <http://www.ceiops.eu/index.php?option=content&task=view&id=578>

outstanding balances necessary for an understanding of the potential impact on the financial statements of the undertaking.

3.186. The reporting at group level shall include information and explanation on any material difference between valuation methods applied at group level and those applied at solo level by the undertakings belonging to the group.

### **CEIOPS' advice**

#### **Regulatory Balance Sheet (Article 51(1)(d))**

##### **Assets:**

3.187. The undertaking shall provide information on the types of material assets as well as a description of the basis, methods and assumptions used for valuing assets including a quantitative and qualitative explanation of any material differences with the accounting valuation used by the undertaking.

3.188. Disclosure shall include assets not regularly traded in financial markets and how these assets have been valued for solvency purposes.

3.189. The undertaking shall provide a description of financial instruments and how the economic value has been determined.

3.190. Undertakings belonging to a group shall indicate whether the valuation methods applied at solo level are followed at group level.

##### **Technical Provisions:**

3.191. The undertaking shall provide information on technical provisions which shall include at least:

- a) Solvency balance sheet information setting out the amount of technical provisions (split in best estimate and risk margin, both by line of business);
- b) Relevant information on the determination of the technical provisions with key assumptions and methodologies used in measuring insurance liabilities and in the development of financial information;
- c) An indication of the level of uncertainty associated with the level of technical provisions;
- d) An overview of any material changes in the level of technical provisions since the last reporting period, including reasons for material changes;
- e) The impact of reinsurance in the assessment of technical provisions;
- f) A quantitative and qualitative explanation of any material

differences between the accounting valuation used by the undertaking and the solvency valuation; and

- g) Specifically for life undertakings, high-level qualitative information on the effect of management actions and policyholder behaviour according to homogeneous risk group / line of business.

3.192.Undertakings belonging to a group shall indicate whether the valuation methods applied at solo level are followed at group level.

**Other Liabilities (excluding any subordinated liabilities that are included in own funds):**

3.193.The undertaking or the group shall provide information on other types of material liabilities, including the bases and assumptions upon which other liabilities are valued (measured) including a quantitative and qualitative explanation of material differences to their accounting valuation.

3.194.Undertakings belonging to a group shall indicate whether the valuation methods applied at solo level are followed at group level.

**Any other disclosures:**

3.195.Any other disclosures considered important to be made by the undertaking or the group in this section.

**Reporting at group level**

3.196.The group shall disclose the same level of detail as at solo level, where applicable and appropriate including specific assets managed at group level (e.g. cash pool, reinsurance pool).

3.197.Undertakings belonging to a group shall disclose information on significant investments from and in group entities as well as relevant operations and transactions within the group.

3.198.The reporting at group level shall include information and explanation on any material difference between valuation methods applied at group level and those applied at solo level by the undertakings belonging to the group.

**Capital Management (Article 51(1)(e))**

3.199.The undertaking should provide a general description of capital management within the undertaking and the interaction with the risk management function. This description should also include information on the planning horizon used and capital management methods employed, including any material changes from the previous period.

**E.1 The structure and amount of own funds, and their quality**

3.200.Undertakings should provide at least:

- a) Information on the objectives, policies and processes employed by the undertaking to manage its own funds;
- b) Information on its own funds structure, including summary information on the quantity and quality of each item – split by tier – and how it meets the characteristics and features set out in Articles 93 and 94 of the Level 1 text including, for example, for undertakings belonging to a group, hybrid instruments where the payoff is related directly or indirectly to the financial strength of the group;
- c) Regarding ancillary own funds<sup>33</sup>:
  - The amount and specification of each material ancillary own funds item;
  - The name of the counterparty for each material ancillary own funds item – or a description of the group of counterparties when there are many minor parties (e.g. for mutuals) – provided that there are no legal obstacles to disclosure, considering the form and nature of the instrument being called up, and, if relevant, an indication of whether the counterparty belongs to the same group; and
  - The methodology applied in arriving at each material amount.
- d) An analysis of significant movements in own funds over the period being reported on. This analysis would be expected to be more extensive if the movements in capital requirements or own funds signalled a deterioration in the undertaking's solvency position;
- e) A quantitative and qualitative explanation of material differences between own funds and equity according to the undertaking's or groups' financial reporting basis;
- f) Information on the availability of own funds within the undertaking (and group) highlighting restrictions on own funds where appropriate (e.g. pledged as collateral or held in a participating fund);
- g) Undertakings belonging to a group shall disclose information on the amount and quality (including tiering, availability, fungibility and transferability) of own funds covering the group SCR (and sub-group SCR).

3.201. Groups should provide information on the structure, amount and quality of own funds, together with information on its objectives, policies and processes for managing their own funds which should include at least information on own funds availability, including minority interests, within the group, highlighting restrictions on the movement of those own funds

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<sup>33</sup> See CEIOPS' Level 2 advice on Own funds – Criteria for supervisory approval of ancillary own funds. CEIOPS-DOC-24/09 <http://www.ceiops.eu/index.php?option=content&task=view&id=577>



## **E.2 The MCR and the SCR**

3.202.Undertakings should provide information on the amount of the MCR and the SCR which should include at least:

- a) Qualitative information on the results of the calculation of its MCR and SCR by risk module. The narrative should state whether the undertaking is using the standard formula, partial or full internal model or undertaking specific parameters used in the standard formula;
- b) When undertaking specific parameters in the SCR are used, the undertaking should identify the module (risks, sub-risks and/or line of business) and explain the reasons for using such parameters;
- c) The reasons for any material changes in the level of MCR and SCR since the last reporting date, outlining at least the impact of new business, the capital release from existing business and the impact of any undertaking-specific parameters used, or partial or full internal model approval during the year; and
- d) Information of any capital add-on applied to the SCR, together with information on its justification from the supervisory authority concerned.<sup>34</sup>

3.203.Undertakings belonging to a group should explain:

- a) Whether the undertaking is using a group-wide partial or full internal model;
- b) Whether the undertaking is using group specific underwriting parameters in the group standard formula at group (and sub-group) level;
- c) Information on the group SCR (and any sub-group); and
- d) Information on group capital add-ons (and any add-ons applied at sub-group level) subject to the transitional arrangements set out in Article 51.

3.204.Groups should provide information on the amount of the SCR which should include:

- a) A description of the undertakings which are covered by the group's internal model
- b) A description of the sources of diversification
- c) Requirements in place to maintain adequate group own funds; and

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<sup>34</sup> Whether or not this is disclosed will depend on the decision of the undertaking's Member State on the option under Article 51 (2) of the Level 1 text to exercise a transitional 5 year period in which disclosure can be delayed. This applies to all capital add-on disclosures in the SFCR.

d) Amount of the sum of the related undertakings' solo MCR.

### **E.3 The option set out in Article 304 used for the calculation of its SCR**

- 3.205.Undertakings should provide information on how they have calculated the equity risk sub-module in accordance with the SCR standard formula, including information on what equity capital charge the undertaking or the group has used in its SCR standard formula and how this charge has been derived.
- 3.206.Groups should provide information on how they have calculated the equity risk sub-module in accordance with the SCR standard formula.

### **E.4 The main differences between the standard formula and any internal model**

- 3.207.Undertakings should provide an explanation allowing an understanding of the main differences in the underlying assumptions, between the standard formula and an internal model used to derive the SCR which could include a justification of differing key assumptions from the standard formula, if appropriate<sup>35</sup>.
- 3.208.Groups should provide a quantitative and qualitative explanation on differences, if any, between the internal model used at group level and internal models that might be used in subsidiaries or at sub-group level.

### **E.5 Non-compliance with the MCR or the SCR**

- 3.209.Undertakings should provide information on the amount of non-compliance with the MCR and any significant non-compliance with the SCR during the reporting period, even if subsequently resolved, with explanations of its origins (i.e. reasons for non compliance), consequences and remedial actions taken. This information should include at least:
- a) The maximum amount of any non compliance during the year;
  - b) The amount of non compliance at the reporting date; and
  - c) The period of non compliance or, if the undertaking is in breach on the reporting date, the start date of the non compliance.
- 3.210.The undertaking should also explain the effects on remedial measures (for example the subsequent change in the MCR/SCR) as well as an assessment on the likely permanence of the remedial measures taken.
- 3.211.Undertakings belonging to a group should provide information on any significant non compliance with the group SCR during the reporting

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<sup>35</sup> This requirement should only be disclosed in line with the Directive requirement – see Article 112(7) - to submit the standard formula with internal model results. If the undertaking is not required to calculate the standard formula alongside its internal model, then it is not required to complete these parts of the report.

period, with brief explanations of its origin, consequences and remedial actions at group (and sub-group) level.

3.212.Undertakings will also have reporting requirements arising from Article 54.

## **E.6 Any other disclosures**

3.213.Any other disclosures considered important to be made by the undertaking in this section.

### **CEIOPS' advice**

#### **Capital Management (Article 51(1)(e))**

3.214.The undertaking or group shall disclose a description of its capital management activities in the undertaking or the group, including at least information on the planning horizon used and capital management methods employed, including any material changes from the previous period.

3.215.For undertakings belonging to a group, a description shall be provided of capital management within the undertaking and the interaction with the risk management function. This description shall also include certain forward looking information such as information on the planning horizon used and capital management including (the way of) refinancing.

#### **The structure and amount of own funds, and their quality**

3.216.The undertaking shall provide at least:

- a) Information on the structure, quantitative amount and quality of own funds – split by tier;
- b) Information on the objectives, policies and processes employed by the undertaking for managing its own funds;
- c) Regarding ancillary own funds<sup>36</sup>:
  - The amount and specification of each material ancillary own funds item;
  - The name of the counterparty for each material ancillary own funds item– or a description of the group of counterparties when there are many minor parties -, provided that there are no legal obstacles to disclosure, considering the form and nature of the instrument being called up, and, if relevant, an indication of whether the counterparty belongs to the same group;

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<sup>36</sup> See CEIOPS' Level 2 advice on Own funds – Criteria for supervisory approval of ancillary own funds. CEIOPS-DOC-24/09 <http://www.cejops.eu/index.php?option=content&task=view&id=577>

- The methodology applied in arriving at each significant amount;
  - d) An analysis of the significant movements in own funds over the reporting period by tier.
  - e) A quantitative and qualitative explanation of material differences between own funds and equity according to the undertaking's or group's financial reporting basis;
  - f) Information on the availability of own funds within the undertaking (and group) highlighting restrictions on own funds where appropriate (e.g. pledged as collateral or held in a participating fund);
- 3.217. Undertakings belonging to a group shall disclose information on the amount and quality (including tiering, fungibility and transferability) of own funds covering the group SCR (and sub-group SCR).
- 3.218. Groups shall provide information on the structure, amount and quality of own funds, together with information on its objectives, policies and processes for managing its own funds which shall include at least information on own funds availability, including minority interests, within the group highlighting restrictions on the movement of those own funds.

### **The MCR and SCR**

- 3.219. The undertaking or the group (only for the SCR for groups) shall provide at least:
- a) Information on the quantitative amount of the year end MCR and the SCR;
  - b) Qualitative information on the results of the calculation of its MCR and SCR by risk module and, whether this is still subject to supervisory assessment;
  - c) Information on the material movements of the MCR and SCR over the year and reasons for these movements; and
  - d) Information on whether it is using the standard formula, a partial or full internal model or undertaking specific parameters in the standard formula.
  - e) Information on any capital add-on applied to the SCR together with information on its justification from the supervisory authority concerned.<sup>37</sup>

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<sup>37</sup> Whether or not this is disclosed will depend on the decision of the undertaking's Member State on the option under Article 51 (2) of the Level 1 text to exercise a transitional 5 year period in which disclosure can be delayed.

3.220. For undertakings belonging to a group, information shall also be given on the amount of the group SCR on the use of a group wide internal models or specific group underwriting parameters at group (and sub-group) level, and on any capital add-ons applied at group (and sub-group) level.

3.221. Groups shall provide additional information on the amount of the SCR which shall include at least:

- a) A description of the undertakings which are covered by the group's internal model;
- b) A description of the sources of diversification;
- c) Requirements in place to maintain adequate group capital; and
- d) Amount of the sum of the related undertakings' solo MCR.

**The option set out in Article 304 used for the calculation of its SCR**

3.222. Undertakings shall provide information on how they have calculated the equity risk sub-module in accordance with the SCR standard formula, including information on what equity capital charge the undertaking or the group has used in its SCR standard formula and how this charge has been derived.

**Information allowing a proper understanding of the main differences between the standard formula and any internal model used by the undertaking for the calculation of its SCR**

3.223. The undertaking or the group shall provide an explanation allowing a proper understanding of the main differences between the standard formula and an internal model used to derive the SCR, which shall include an explanation (if possible), by risk module, of the material differences between the two different bases explaining qualitative and quantitative material differences in assumptions.

3.224. Undertakings belonging to a group shall also provide statements on differences, if any, between the internal model used at solo level and the internal model used at group (and sub-group) level.

**The amount of any non compliance with the MCR or any significant non compliance with the SCR during the reporting period, even if subsequently resolved, with an explanation of its origin and consequences as well as any remedial measures taken**

3.225. The undertaking or the group (only for the SCR for groups) shall provide information on the amount of non-compliance with the MCR and the SCR (if significant) during the reporting period, with an explanation of its origins (i.e. reasons for non compliance), consequences and remedial actions taken. This information shall include at least:

- a) The maximum amount of any non compliance during the year;
- b) The amount of non-compliance at the reporting date; and
- c) The period of non-compliance or, if the undertaking is in breach on the reporting date, the start date of the non compliance.

3.226. The undertaking or the group (only for the SCR for groups) shall also explain the effects of remedial measures (for example the subsequent significant change in the MCR / SCR) as well as an assessment on the likely permanence of the remedial measures taken.

3.227. Undertakings belonging to a group shall also provide information on significant non-compliance with the group SCR during the reporting period with an explanation of its origin, consequences and remedial actions at group (and sub-group) level.

#### **Any other disclosures**

3.228. Any other disclosures considered important shall be made by the undertaking in this section.

#### **Undertakings with an approved internal model**

3.229. Where the SCR has been referred to above, the undertakings should report these requirements on the basis that they use to derive their SCR, either for example through the standard formula or (full or partial) internal model. If an undertaking has an approved (full or partial) internal model then in addition to the above the following should be disclosed.<sup>38</sup>

3.230. There are various ways an internal model can be constructed, implemented and operated and therefore CEIOPS' view is that the public disclosure requirements on internal models shall to the extent possible be principle-based with appropriate considerations given to harmonization of reporting and comparability between undertakings.

3.231. In order to enable different market participants to assess the internal model and make use of the information the level and depth of information to be publicly disclosed shall be based on the principle that a knowledgeable person can get a reasonably good understanding of the design and operational details of the internal model as well as to the reliability of the internal model.

3.232. It should be highlighted, as stated in Article 53, that public disclosure is not required to the extent the information on internal models would give the competitors a significant undue advantage or if there are obligations

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<sup>38</sup> One CEIOPS Member considers that the requirements on disclosure for using an internal model are too burdensome compared with the standard formula.

to policyholders or other counterparty relationship that bind an insurance undertaking to secrecy or confidentiality.

3.233. However, where non-disclosure of information is permitted by the supervisory authority, undertakings shall state this in the SFCR and explain the reason for this.

3.234. The advice on the information the SFCR shall contain when a full or partial internal model is used for calculating the solvency capital requirement is divided into qualitative and quantitative information<sup>39</sup>. Public disclosure of some highly specific circumstances or issues is further required as supplementary information to the qualitative and quantitative information.

## **F.1 Qualitative internal model information**

3.235. If a full or partial internal model has been used to calculate the solvency capital requirement the SFCR shall contain a clear statement of this (as stated above) including the risk modules covered by a partial internal model.

-Governance and risk management

3.236. In order to get confidence that the internal model operates properly on a continuous basis and that the risk management process is effective in practice, insurance and reinsurance undertakings shall disclose a description of the governance structures and risk management related to the internal model.

3.237. The public information on internal model specific governance and risk management processes shall at least include a description of:

- a) Specific committees and personnel, their main roles and responsibilities;
- b) Design and application of major risk governance processes for each material risk category;
- c) Defined risk tolerance;
- d) The process by which risk tolerance is delegated to management;
- e) The process for monitoring actual risk assumed against risk tolerance;
- f) The process for ensuring the on-going appropriateness of the design and operations of the internal model, and that the internal model

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<sup>39</sup> Some quantitative reporting templates may be developed for internal models in the SFCR to supplement this disclosure at Level 3.

continues to appropriately reflect the risk profile of the insurance and reinsurance undertaking;

- g) Processes for accepting changes to the internal model; and
- h) Material changes to the governance or the risk management during the reporting period.

#### -Use

3.238. Article 120(1) states that insurance and reinsurance undertakings shall demonstrate that the internal model is widely used in and plays an important role in the system of governance, risk management system and their economic and solvency capital assessment and allocation processes, including the own risk and solvency assessment (referred to in Article 45).

3.239. The public information on internal model use shall at least include a description of:

- a) The use within the system of governance and risk management;
- b) The use within economic and solvency capital assessment and allocation processes;
- c) The use within the own risk and solvency assessment; and
- d) The possible use in other areas or processes.

#### -Scope and model coverage

3.240. The modelling freedom in terms of the design of an internal model is high. This also concerns partial internal models, that can cover one or more risk modules, or sub-modules, of the Basic Solvency Capital Requirement, as set out in Articles 104 and 105 and may be applied to the whole business of insurance and reinsurance undertakings, or only to one or more major business units. Transparent information about scope and coverage and high level model design are hence vital for a reasonably good understanding of the internal model.

3.241. The public information on internal model scope and coverage shall at least include a description of:

- a) The risks and business units covered;



- b) Definition of risk categories and especially for the default setting of risk and sub-risk categories used in quantitative disclosure of solvency capital requirement;
- c) For groups, the entities covered by the internal model;
- d) The general model design; and
- e) The main differences in scope, coverage and general design between the standard formula and the internal model used for calculating the solvency capital requirement

-Risk measure, confidence level, time horizon and basic own funds

3.242. Article 122(1) states that insurance and reinsurance undertakings may use a different time period or risk measure than that set out in Article 101(3) for internal modelling purposes as long as the outputs of the internal model can be used by those undertakings to calculate the solvency capital requirement in a manner that provides policyholders and beneficiaries with a level of protection equivalent to that set out in Article 101.

3.243. The SFCR should include information on risk measure, confidence level, time horizon and basic own funds of the internal model including at least a description of:

- a) Risk measure, confidence level and time horizon used if not equal to the standard formula;
- b) Differences in the definition of basic own funds if not equal to the level 1 text; and
- c) If the risk measure, confidence level or time horizon differs from the standard formula, a justification that the output can be used to calculate the solvency capital requirement in a manner that provides policyholders and beneficiaries with a level of protection equivalent to that set out in Article 101.

-Methodologies including assumptions and aggregation

3.244. In addition to calculating the solvency capital requirement an internal model needs to form the basis for steering the business. The users of the information on internal models need ways to assess the quality of the information provided by the internal model and in particular the quality of the models on which this information is based. Model quality naturally extends to methodological, data and validation issues.

3.245. The public information on methodologies, including assumptions and aggregation methods of the internal model shall at least include a description of:

- a) The modelling methodology and assumptions for risks considered to be material;
- b) The aggregation of different risk categories;
- c) The integration of partial internal model results with standard formula results (if applicable); and
- d) The use of external models and the reasons for the choice.

-Data

3.246. For any internal model data quality is of crucial importance. Data quality affects the quality of the internal model's results and the value of their use in risk management. Hence data quality has a direct link to the reliability of the internal model.

3.247. The public information on data of the internal model shall at least include a description of:

- a) The processes in place for checking data quality;
- b) The key data that the internal model relies upon;
- c) The extent to which data are internal or external;
- d) The use of external data and the reasons for the choice; and
- e) The accurateness, completeness and appropriateness of the data

-Risk mitigation activities

3.248. The scope of risk mitigation activities techniques shall in addition to different risk mitigation techniques also include adjustment for the loss absorbing capacity of technical provisions and deferred taxes and management actions.

3.249. The public information on risk mitigating activities assumed in the internal model shall at least include a description of:

- a) The assumed risk mitigating techniques or instruments;
- b) The risks arising from the use of risk mitigation techniques and that are taken into account in the internal model;
- c) The eligibility in reduction of future discretionary benefits;

d) The assumed management actions; and

e) The risk mitigation practices, strategies and methodologies for mitigating risks and the processes for monitoring the continuing effectiveness of these.

-Operational performance

3.250. The internal model is to a large extent a complex IT implementation. Commonly different data management (integration, storage, flows etc.) practices are used and these are commonly connected with different interfaces to feed several different kinds of specialised internal and/or external risk modelling solutions (platforms or risk components) where after outputs are combined within a reporting portal. It should be highlighted that no internal model IT implementation are equal.

3.251. It is not only necessary for users of disclosed information to know that an insurance undertaking has an appropriate internal model defined and in use, but also that the internal model has been implemented in a sound IT-infrastructure with appropriate IT-governance structure.

3.252. The public information on operational performance shall include a general description of the IT infrastructure and of the security, contingency planning and recovery plans.

-Validation activities

3.253. The essential idea behind validation is to gain confidence over the results, design, workings and other processes within the internal model. It should be noted that the validation activity or the tools and processes used for validation will be quantitative as well as qualitative.

3.254. The public information on validation activities shall at least include a description of:

a) The validation governance;

b) The purpose, scope and methods of the validation;

c) The frequency of the validation process;

d) The limitations of the validation;

e) The use and credentials of independent reviews;

f) An overview of internal and external validation work performed; and

- g) The limits and triggers related to validation outcomes and the escalation process

-Documentation

3.255. Documentation is the prime way to communicate about internal models with supervisory authorities so that a judgment to internal model's appropriateness and reliability can be formed on a continuing basis. Furthermore, an appropriate documentation practise is an important aspect for key personal risk management.

3.256. The public information on documentation shall at least include a description of:

- a) The documentation governance; and
- b) Undertakings principles and practices to ensure that the documentation of the design and operational details of the internal model is timely and up to date.

## **F.2 Quantitative internal model information**

3.257. According to Article 121(4) the internal model shall cover all of the material risks to which insurance and reinsurance undertakings are exposed. As a minimum, internal models shall cover the risks set out in Article 101(4) notwithstanding with the limited scope of partial internal models.

3.258. For the purpose of comparison between undertakings, solvency capital requirements shall be disclosed for the equivalently calibrated internal model that is at the confidence level and time horizon assumed for the standard formula. The reported risk categories shall to the extent possible be based on the categories defined by the level 1 text. Any differences to these standard definitions shall be made transparent.<sup>40</sup>

-Solvency Capital requirement

3.259. The public information on solvency capital requirement shall at least include:

- a) The amount of fully diversified solvency capital requirement calibrated to the confidence level and time horizon assumed in the standard formula (see Article 122);
- b) The fully diversified solvency capital requirement split by stand alone risk categories each calibrated to the confidence level and time horizon assumed in the standard formula and which by default setting equals non-life underwriting risk, life and health underwriting risk, market risk, credit risk, operational risk and other risk categories;

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<sup>40</sup> CRO Forum Public risk disclosure under Solvency II, Draft CRO Forum Proposal, November 2008, see <http://www.croforum.org/publications.ecp>

- c) The fully diversified capital requirement for market risk split by stand alone sub-risk categories each calibrated to the confidence level and time horizon assumed in the standard formula and which by default setting equals interest rate risk, equity risk, real estate risk, currency risk credit spread and other sub-risk;
- d) The fully diversified capital requirement for insurance risk split by stand alone sub-risk categories each calibrated to the confidence level and time horizon assumed in the standard formula and which by default setting equals lines of business for non-life insurance and risk drivers for life and health business;
- e) In circumstances where the default setting of risk and sub-risk categories is not possible, the amount of fully diversified solvency capital requirement calibrated to the confidence level and time horizon assumed in the standard formula split by material risk derivable from the internal model accompanied with explanations stating the reasons why the default setting of risk and sub-risk categories cannot be applied;
- f) The diversification effect, which shall represent the difference between fully diversified required capital and the sum of stand-alone risk both calibrated to the confidence level and time horizon assumed in the standard formula, that is the diversification effect shall reflect the diversification between the stand-alone risk categories and not the diversification within the individual stand-alone risks; and
- g) In the case of groups, the diversification effect, which shall represent the difference between the sum of the Solvency Capital Requirements of all the related insurance or reinsurance undertakings of the group adjusted for intra-group transactions, and the diversified group consolidate Solvency Capital Requirement., both calibrated to the confidence level and time horizon assumed in the standard formula.

#### -Comparison and reconciliation

3.260.A proper comparison of relevant figures with prior period figures with additional explanation of change drivers and providing relevant reconciliation between different accounting regimes provides the necessary building blocks to increase the understanding of the internal model and which events and factors that drive the changes.

3.261.The public information on comparison and reconciliation shall at least include:

- a) Comparison to prior period risk figures, in which the main change drivers are identified and briefly explained for all categories of risks and diversification effects; and

- b) In circumstances where the definition of basic own funds applied in the internal model differs from the standard formula reconciliation between the two amounts.

-Validation analysis

3.262. The solvency capital requirement calculated on the basis of for instance a stochastic model is capable of capturing all relevant effects, including accumulation and diversification, but does not provide a concrete or intuitive idea of the type of circumstances that undertakings can (or cannot) withstand. Validation analysis in the form of sensitivity testing and scenario analysis can also reveal the exposure of an undertaking to severe events and serve as a plausibility check for the results generated by the stochastic models.

3.263. The public information on validation analysis shall at least include:

- a) Outcomes of performed quantitative validations for risks considered to be material; and
- b) Outcomes of sensitivity testing and scenario analysis for risks and events considered to be material

### **F.3 Supplementary information**

3.264. Supplementary information shall consist of information that is not relevant at all times and for all undertakings.

3.265. Insurance and reinsurance undertakings shall publicly disclose information about the following issues, where relevant:

- a) Proportionality principle implications;
- b) Partial internal model implications and the integration to the standard formula;
- c) Information about possible ongoing internal model approval process;
- d) Information about possible conditions and transitional plan related to the internal model approval;
- e) Information about pending major model changes approvals;
- f) Information about non compliance of the internal model requirements set out in Articles 120 to 126;

- g) Information on any capital add-on applied to the SCR together with information on its justification from the supervisory authority concerned<sup>41</sup>; and
- h) Overview of the difference between the internal model used for internal capital adequacy and the regulatory capital adequacy.

**CEIOPS' advice:**

3.266. The level and depth of information to be publicly disclosed shall be based on the principle that a knowledgeable person can get a reasonably good understanding of the design and operational details of the internal model as well as to the reliability of the internal model.

3.267. The undertaking or group shall publicly disclose the following information related to the internal model in their solvency and financial condition report:

**F. 1 Qualitative information**

3.268. If an internal model has been used to calculate the solvency capital requirement the SFCR shall contain a clear statement of this.

Governance and risk management

3.269. The SFCR on internal model specific governance and risk management processes shall at least include a description of:

- a) Specific committees and personnel, their main roles and responsibilities;
- b) Design and application of major risk governance processes for each material risk category;
- c) Defined risk tolerance;
- d) The process by which risk tolerance is delegated to management;
- e) The process for monitoring actual risk assumed against risk tolerance;
- f) The process for ensuring the on-going appropriateness of the design and operations of the internal model, and that the internal model

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<sup>41</sup> Whether or not this is disclosed will depend on the decision of the undertaking's member state option under Article 51 (2) to exercise a transitional 5 year period in which disclosure can be delayed.

continues to appropriately reflect the risk profile of the insurance and reinsurance undertaking;

g) Processes for accepting changes to the internal model; and

h) Material changes to the governance or the risk management during the reporting period.

#### Use

3.270. The public information on internal model use shall at least include a description of:

- a) The use within the system of governance and risk management;
- b) The use within economic and solvency capital assessment and allocation processes;
- c) The use within the own risk and solvency assessment; and
- d) The possible use in other areas or processes.

#### Scope and model coverage

3.271. The SFCR on internal model scope and coverage shall at least include a description of:

- a) The risks or business units covered;
- b) Definition of risk categories and especially for the default setting of risk and sub-risk categories used in quantitative disclosure of solvency capital requirement;
- c) For groups, the entities covered by the internal model;
- d) The general model design; and
- e) The main differences in scope, coverage and general design between the standard formula and the internal model used for calculating the solvency capital requirement.



#### Risk measure, confidence level, time horizon and basic own funds

3.272. The SFCR on risk measure, confidence level, time horizon and basic own funds of the internal model shall at least include a description of:

- a) Risk measure, confidence level and time horizon used if not equal to the standard formula;
- b) Differences in the definition of basic own funds if not equal to the level 1 text; and
- c) If the risk measure, confidence level or time horizon differs from the standard formula, a justification that the output can be used to calculate the solvency capital requirement in a manner that provides policyholders and beneficiaries with a level of protection equivalent to that set out in Article 101.

#### Methodologies including assumptions and aggregation

3.273. The SFCR on methodologies, including assumptions and aggregation methods of the internal model shall at least include a description of:

- a) The modelling methodology and assumptions for risks considered to be material;
- b) The aggregation of different risk categories;
- c) The integration of partial internal model risk categories with standard formula (if applicable);
- d) The use of external models and the reasons for the choice; and
- e) The main methodological differences between the standard formula and the internal model used for calculating the solvency capital requirement

#### Data

3.274. The SFCR on data of the internal model shall at least include a description of:

- a) The processes in place for checking data quality;

- b) The key data that the internal model relies upon;
- c) The extent to which data are internal or external;
- d) The use of external data and the reasons for the choice; and
- e) The accurateness, completeness and appropriateness of the data.

#### Risk mitigation activities

3.275. The SFCR on risk mitigating activities assumed in the internal model shall at least include a description of:

- a) The assumed risk mitigating techniques or instruments;
- b) The risks arising from the use of risk mitigation techniques and that are taken into account in the internal model;
- c) The eligibility in reduction of future discretionary benefits;
- d) The assumed management actions; and
- e) The risk mitigation practices, strategies and methodologies for mitigating risks and the processes for monitoring the continuing effectiveness of these.

#### Operational performance

3.276. The SFCR on operational performance shall include a general description of the IT infrastructure and of the security, contingency planning and recovery plans.

#### Validation activities

3.277. The public information on validation activities shall at least include a description of:

- a) The validation governance;
- b) The purpose, scope and methods of the validation;

- c) The frequency of the validation process;
- d) The limitations of the validation;
- e) The use and credentials of independent reviews;
- f) An overview of internal and external validation work performed; and
- g) The limits and triggers related to validation outcomes and the escalation process.

#### Documentation

3.278. The SFCR on documentation shall at least include a description of:

- a) The documentation governance; and
- b) Undertakings principles and practices to ensure that the documentation of the design and operational details of the internal model is timely and up to date.

### **F.2 Quantitative information**

3.279. Solvency capital requirements shall be disclosed for the equivalently calibrated internal model that is at the confidence level and time horizon assumed for the standard formula.

3.280. The reported risk categories shall to the extent possible be based on the categories defined by the level 1 text. Any differences to these standard definitions shall be made transparent.

#### Solvency capital requirement

3.281. The SFCR on solvency capital requirement shall at least include:

- a) The amount of fully diversified solvency capital requirement calibrated to the confidence level and time horizon assumed in the standard formula;
- b) The fully diversified solvency capital requirement split by stand alone risk categories each calibrated to the confidence level and time horizon assumed in the standard formula and which by default setting equals non-life underwriting risk, life and health underwriting risk, market risk, credit risk, operational risk and other risk categories;

c) The fully diversified capital requirement for market risk split by stand alone sub-risk categories each calibrated to the confidence level and time horizon assumed in the standard formula and which by default setting equals interest rate risk, equity risk, real estate risk, currency risk credit spread and other sub-risk;

d) In circumstances where the default setting of risk and sub-risk categories is not possible, the amount of fully diversified solvency capital requirement calibrated to the confidence level and time horizon assumed in the standard formula split by material risk derivable from the internal model accompanied with explanations stating the reasons why the default setting of risk and sub-risk categories cannot be applied;

e) The diversification effect, which shall represent the difference between fully diversified required capital and the sum of stand-alone risk both calibrated to the confidence level and time horizon assumed in the standard formula that is, the diversification effect shall reflect the diversification between the stand-alone risk categories and not the diversification within the individual stand-alone risks; and

f) In the case of groups, the diversification effect, which shall represent the difference between the sum of the Solvency Capital Requirements of all the related insurance or reinsurance undertakings of the group adjusted for intra-group transactions, and the diversified group consolidate Solvency Capital Requirement., both calibrated to the confidence level and time horizon assumed in the standard formula.

#### Comparison and reconciliation

3.282.The SFCR on comparison and reconciliation shall at least include:

a) Comparison to prior period risk figures, in which the main change drivers are identified and briefly explained for all categories of risks and diversification effects; and

b) In circumstances where the definition of basic own funds applied in the internal model differs from the standard formula reconciliation between the two amounts.

#### Validation analysis

3.283.The SFCR on validation analysis shall at least include:

a) Outcomes of performed quantitative validations for risks considered to be material; and

- b) Outcomes of sensitivity testing and scenario analysis for risks and events considered to be material

### **F. 3 Supplementary information**

3.284. Supplementary information shall consist of information that is not relevant at all times and for all undertakings.

3.285. Insurance and reinsurance undertakings shall publicly disclose information about the following issues, where relevant:

- a) Proportionality principle implications;
- b) Partial internal model implications and the integration to the standard formula;
- c) Information about possible ongoing internal model approval process;
- d) Information about possible conditions and transitional plan related to the internal model approval;
- e) Information about pending major model changes approvals;
- f) Information about non compliance of the internal model requirements as set out in Articles 120 to 126;
- g) Information on any capital add-on applied to the SCR together with information on its justification from the supervisory authority concerned; and
- h) Overview of the difference between the internal model used for internal capital adequacy and the regulatory capital adequacy.

### **Annex - Quantitative reporting templates**

3.286. All quantitative templates to be publicly disclosed shall be included within an annex to the SFCR. CEIOPS intends to define at Level 3 which quantitative templates should be publicly disclosed, and an indication of the provisional templates was included in Annex D of CP58.

**Additional information to be provided at solo level by undertakings belonging to a group**

- 3.287. The group-specific information provided at solo level should reflect where risks are managed and overseen. Any relevant arrangements at group level that influence the decisions and management of the solo undertaking should be clearly described in the solo SFCR. Risks within the group that may affect the solvency and financial condition of the solo undertaking should be properly described.
- 3.288. According to the principle above, and bearing in mind that any centralisation of functions (e.g. risk management functions carried out centrally at group level) is necessarily disclosed under the requirements set out at solo level, the additional information should include specific data related to the inclusion of the undertaking in the group (when comparing with other undertakings that are not members of a group).
- 3.289. Where information is disclosed at group level, article 53 (3) is applied, which means that undertakings may make use of – or refer to – public disclosures made by the parent undertaking, to the extent that those disclosures are equivalent to the information required under article 51 at solo level.
- 3.290. However, in full consistency with CEIOPS advice for other disclosures, para. 3.64 have also to be considered. Supervisory authorities would expect that any equivalent information is replicated in full in the solo undertaking's disclosure document to avoid the situation where the SFCR contains a number of hyperlinks. As previously referred, including the information in full assists readers of the SFCR so they have all the information in one place and do not continually have to refer to other documents or find other sources of disclosure. The exception shall then be the single group-wide SFCR, since in this case all the information is included within the same document.

### **Specific information to be provided at group level**

- 3.291. Article 256 (1) of the Level 1 text states that *"Member States shall require participating insurance and reinsurance undertakings or insurance holding companies to disclose publicly, on an annual basis, a report on the solvency and financial condition at the level of the group. Articles 51 and 53 to 55 shall apply mutatis mutandis."*
- 3.292. CEIOPS believes information required at solo level should also be provided at group level in the Group SFCR and the Group RTS.
- 3.293. The requirements at group level are also applied to sub-group level where sub-group supervision is exercised in accordance to Article 215 or 216. Indeed, in such a case, articles 217 to 258 apply mutatis mutandis (included articles 254 and 256). CEIOPS will develop Level 3 guidance on the application of Articles 215 and 216.
- 3.294. Group-specific issues should be addressed only in the group SFCR given the specificities of certain issues that arise at the level of the group. These include the group solvency assessment and diversification effects, group specific risks (e.g. reputational risk, contagion risk), risk

concentration and intra-group transactions and the transferability of group own funds.

### **CEIOPS' advice**

#### **Information to be provided at solo level by undertakings belonging to a group**

3.295. The group-specific information provided at solo level shall reflect where risks are managed and overseen. Any relevant arrangements at group level that influence the decisions and management of the solo undertaking shall be clearly described in the solo SFCR. Risks within the group that may affect the solvency and financial condition of the solo undertaking shall be properly described.

3.296. Where information is disclosed at group level, undertakings may make use of public disclosures made by the parent undertaking, to the extent that those disclosures are equivalent to the information required under article 51 at solo level. Undertakings and groups shall ensure that equivalent information is replicated in full in the solo undertaking's disclosure document, except when adopted a single group-wide SFCR.

#### **Specific information to be provided at group level**

3.297. Information required at solo level shall also be provided at group and sub-group level where sub-group supervision is exercised in accordance to Article 215 or 216. Indeed, in such a case, articles 217 to 258 apply mutatis mutandis (included articles 254 and 256).

3.298. Group-specific issues shall be addressed only in the group SFCR given the specificities of certain issues that arise at the level of the group. These include the group solvency assessment and diversification effects, group specific risks (e.g. reputational risk, contagion risk), risk concentration and intra-group transactions and the transferability of group own funds.

### **3.3.8. A single group-wide SFCR**

3.299. The optional single group-wide SFCR (Article 256(2) and (3)) shall comply with both solo (Article 51) and group level (Article 256(1)) disclosure requirements.

3.300. The single group-wide SFCR allows groups to replace the various solo SCFR and the group SCFR by a single report. This report shall however include, in accordance with article 256 (2), the information required under article 51 at the level of the group, as well as for any subsidiary which must be individually identifiable and disclosed.

3.301. On the other hand, CEIOPS considers that care should be taken to ensure that this requirement shall not result in an aggregation exercise too burdensome for groups. Consequently, for the single group-wide SCFR in cases where the information required under article 51 at solo level is already being described at group level (e.g. business and

external environments, explanation of the reinsurance programs, operations and transactions within the group, systems of governance, risk management, regulatory balance sheet valuation criteria and capital management related issues), information should not need to be duplicated, meaning that clear references should be allowed as well as should be clearly identified the scope of the descriptions provided in the single group-wide SFCR. CEIOPS expects that this is applicable to the qualitative data only.

- 3.302. CEIOPS further underlines that this provision is only applicable to public disclosure, given that the level 1 text does not foresee the adoption of the feature of the single group-wide RTS.
- 3.303. On the language issue, also the establishment of a minimum language requirement for the report shall aim not only to have readily understandable information but also to avoid duplication and make optimal use of the information developed by undertakings for internal management purposes.
- 3.304. Accordingly, CEIOPS considers that the information required under article 51 at the level of the group, for cross-border groups, shall be available, at a minimum, in an official language of the Member State of the group supervisor, and, if needed after coordination within the College, in a language commonly understandable by the other supervisory authorities concerned.
- 3.305. The information required under article 256 (2) for any subsidiaries within the group which must be individually identifiable and disclosed in accordance with articles 51 and 53 to 55 of EEA (re)insurance undertakings would have to be available, at a minimum, in the official language(s) of the undertaking and if so coordinated through the College, in a language commonly understandable by the other supervisory authorities concerned.
- 3.306. In the case of national groups, the single group-wide SFCR is only required to be available, at a minimum, in the official language(s) of the participating (re)insurance undertaking or insurance holding company and its subsidiaries.
- 3.307. The minimum language requirements established in the previous two paragraphs do not prevent undertakings from complying with national legislation that may require the use of further languages for the purposes of disclosure.

#### **CEIOPS' advice**

- 3.308. The optional single group-wide SFCR shall comply with both solo (Article 51) and group level (Article 256) disclosure requirements.
- 3.309. In cases where the information required under article 51 at solo level is already being described at group level (e.g. business and external environments, explanation of the reinsurance programs, operations and transactions within the group, systems of governance, risk



management, regulatory balance sheet valuation criteria and capital management related issues), information should not need to be duplicated, meaning that clear references should be allowed as well as should be clearly identified the scope of the descriptions provided. CEIOPS expects that this may be applicable to both qualitative and quantitative data.

3.310. The establishment of a minimum language requirement for the report shall aim not only to have readily understandable information but also to avoid duplication and make optimal use of the information developed by undertakings for internal management purposes.

3.311. Accordingly, CEIOPS considers that the information required under article 51 at the level of the group, for cross-border groups, shall be available, at a minimum, in an official language of the Member State of the group supervisor, and if so coordinated through the College,, in a language commonly understandable by the other supervisory authorities concerned.

The information required under article 256 (2) for any subsidiaries within the group which must be individually identifiable and disclosed in accordance with articles 51 and 53 to 55 of EEA (re)insurance undertakings would have to be available, at a minimum, in the official language(s) of the undertaking and if so coordinated through the College in a language commonly understandable by the other supervisory authorities concerned;

3.312. In the case of national groups, the single group-wide SFCR is only required to be available, at a minimum, in the official language(s) of the participating (re)insurance undertaking or insurance holding company and its subsidiaries;

3.313. The minimum language requirements established in the previous paragraphs do not prevent undertakings from complying with national legislation that may require the use of further languages for the purposes of disclosure.

## **3.4. Report to Supervisors**

### **3.4.1. Background**

- 3.314. The RTS will contain all the regularly reported information necessary for the purposes of supervision, within a private document sent to the supervisory authority. This section sets out the envisaged structure, frequency and contents of the RTS.
- 3.315. The principle of proportionality also applies to the qualitative reporting requirements. The detail of information to be reported should be commensurate with the nature, scale and complexity of the risks inherent in the business of the undertaking concerned. As stated, above CEIOPS has aimed to keep the qualitative reporting and disclosure requirements principles-based and has aimed not to set out detailed requirements thereby providing a degree of flexibility in how these requirements are to be met. Undertakings with complex risk profiles are likely to have more to disclose to fulfil the disclosure requirements than undertakings with less complex risk profiles. CEIOPS wishes to reiterate that the principles of materiality and proportionality apply to the requirements to fulfil the qualitative RTS as they do with the qualitative SFCR.
- 3.316. The RTS is a stand-alone document, which does not require reference to any other document in order to be understood by the supervisor. The information should be specifically aimed at the supervisor, including all elements set out in the SFCR. However, these elements might be presented with a greater level of detail or with a different wording.
- 3.317. In fact, CEIOPS considers that information on similar elements may need to be presented differently to the supervisor in the RTS than to the public in the SFCR, most notably because the RTS is part of a supervisory dialogue between undertakings and their competent supervisory authority. For instance, if an on-site inspection has led to comments from the supervisor on the risk management system of the undertaking (the description of which is to be included in the SFCR, as set out above), CEIOPS would expect that the way these comments have been addressed by the undertaking be dealt with specifically in the RTS, as it is part of the supervisory dialogue, but not in the SFCR, even if it concerns information that is also addressed within in the SFCR.

### **3.4.2. Undertakings' reporting policy**

- 3.318. As set out in Article 35(5) of the Level 1 text, undertakings are required to develop a written policy, approved by the administrative, management or supervisory body, to ensure the on-going appropriateness of the information to be reported to the supervisory authority.
- 3.319. This written policy should ensure that the undertakings have appropriate governance procedures and practices in place so that the information

reported to the supervisor is complete, consistent and accurate. The policy should detail the individuals or functions that are responsible for drafting the information along with those individuals who are responsible for reviewing and signing it off. The final sign-off should be made by the administrative, management or supervisory body.

3.320. The written policy should also ensure that the reporting requirements are completed within the timeframes established. Hence the written policy should set out deadlines for completion of the various drafting components of the process and allow sufficient time for review and approval by the administrative, management or supervisory body before publication.

3.321. Given the information in the SFCR also needs to be replicated in the RTS, supervisory authorities would expect that any equivalent information is replicated in full in the undertaking's RTS document to avoid the situation where the RTS contains a number of hyperlinks to the equivalent information. Including the information in full assists supervisors reading the RTS so they have all the information in one place and do not continually have to refer to other documents or find other disclosures. CEIOPS does not consider that it is appropriate to refer through hyperlinks to other documents because links made need to be very specific and this could present difficulties for supervisors having to find information that is located in various parts of other public disclosures. Undertakings could provide references in the RTS to other public disclosures where information included in the RTS has been derived from, if supervisors would like further information in addition to that required in the RTS.

3.322. In the specific case of undertakings using internal models there will also be, as part of governance of the internal model, a policy on supervisory reporting based on the internal model. Undertakings shall be able to explain the reasons for preferring external models or data to internal ones, and shall demonstrate a thorough understanding of external models and data used in their internal model processes.

3.323. Regarding the quantitative reporting templates undertakings are expected to develop, within their reporting policy, a stable internal system through which undertakings are able to accurately complete the quantitative reporting templates requested by supervisors in order to facilitate the supervisory analysis and comparison throughout the years.

#### **CEIOPS' advice**

3.324. The undertaking's or group's written policy shall ensure that the undertakings have appropriate governance procedures and practices in place so that the information reported to the supervisory authority is complete, consistent and accurate.

3.325. The written policy shall also ensure that the reporting requirements are completed within the timeframes established in the Directive<sup>42</sup>.

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<sup>42</sup> CEIOPS has set out its view of these deadlines within this paper.

3.326.Regarding the quantitative reporting templates undertakings are expected to develop within their reporting policy a stable internal system through which undertakings are able to accurately complete the quantitative reporting templates requested by supervisors in order to facilitate the supervisory analysis and comparison throughout the years.

### **3.4.3. Structure of the Report to Supervisors**

3.327.Consistent with the structure of the SFCR, the structure of the qualitative RTS is another area where the proposals from CEIOPS can have an impact on the costs of the undertaking, and therefore this is an area that has been chosen to be subject to an impact assessment. The options, which covered both qualitative and quantitative reporting, as well as the rationale behind CEIOPS' preference, are set out in Annex A (Issue D).

3.328.CEIOPS' preference is for Option 3 described in this Annex, because, consistent with the SFCR, having a standardised structure would make it simpler and more efficient for supervisors to find the information they are seeking, and allow easier comparison with other undertakings. It will also ease the review which has to be undertaken by the supervisory authority of the SFCR against the RTS to ensure the information included in the SFCR is compliant with the requirements. This should also be of benefit to undertakings in compiling this information.

3.329.The SFCR and the RTS should follow a similar structure and this is set out below.

#### **CEIOPS' advice**

3.330.The Report to Supervisors shall have the following structure:

##### **Executive Summary**

##### **Business and Performance**

A.1 Business and external environment

A.1A Objectives and strategies

A.2 Performance from underwriting activities

A.3 Performance from investment activities

A.4 Operating / other income and expenses

A.5 Any other disclosures

##### **System of Governance**

B.1 General governance arrangements

B.2 Fit and proper processes and procedures

B.3 Risk management system

B.4 ORSA

B.5 Internal control system

B.6 Internal audit function

B.7 Actuarial function

B.8 Outsourcing (excluding what is covered elsewhere)

B.9 Any other disclosures

B.10 Reporting at group level

### **Risk Profile**

C.1 Underwriting risk – material exposure, concentration, mitigation and sensitivity

C.2 Market risk – material exposure, concentration, mitigation and sensitivity

C.3 Credit risk – material exposure, concentration, mitigation and sensitivity

C.4 Liquidity risk – material exposure, concentration, mitigation and sensitivity

C.5 Operational risk – material exposure, concentration, mitigation and sensitivity

C.6 Other risks – material exposure, concentration, mitigation and sensitivity

C.7 Any other disclosures

### **Regulatory Balance Sheet**

D.1 Assets

D.2 Technical provisions

D.3 Other liabilities

D.4 Any other disclosures

### **Capital Management**

E.1 Own funds

E.2 MCR and SCR

E3. The option set out in Article 304 used for the calculation of its SCR

E.4 Differences between the standard formula and any internal models used

E.5 Non-compliance with the MCR and significant non-compliance with the SCR

E.6 Any other disclosures

#### **Undertakings with an approved internal model**

F.1 Qualitative internal model information

F.2 Quantitative internal model information

F.3 Supplementary information

#### **Annex- Quantitative reporting templates**

### ***3.4.4. Contents of the Report to Supervisors***

3.331.CEIOPS considers it important to explain why the information listed below would be required for the purposes of supervision. For that reason, green boxes have been added in each of the following sections, explaining why the information is considered necessary for the purposes of supervision.

3.332.Stakeholders should note that the RTS should also include the information required to be publicly disclosed in the SFCR, but these requirements have not been stated explicitly again. The section concerning the specific content of the RTS presents the elements that should be specifically addressed in the RTS because this information is deemed confidential or proprietary and hence is not to be disclosed in the SFCR but is required for the purposes of supervision.

3.333.Stakeholders should also note that supervisors consider that forward-looking information is an important part of supervising undertakings but that any forecast data provided within the RTS will be treated as estimates by the supervisors. Undertakings will be expected to be able to explain the main reasons why the actual results differ from what was forecast previously if material differences have arisen.

3.334.CEIOPS wishes to reiterate that the principles of materiality and proportionality apply to the requirements to fulfil the qualitative RTS as they do with the qualitative SFCR.

### **Executive Summary**

3.335.The undertaking should include an Executive Summary listing those sections of the RTS which have been subject to a material change since the previous report.

## **Business and Performance**

### **A.1 Business and external environment**

3.336.A description should be provided setting out the nature of the undertakings' business and external environment which should include:

- a) The main future trends and factors that are expected to contribute positively or negatively to the development, performance and position of the undertaking (over its business planning time horizon);
- b) Any material changes in the business and external environment from the previous period;
- c) The number of full time equivalent employees;
- d) The undertaking's perceived competitive position, the main perceived strengths and weaknesses of the business, and its business model (examples are the undertaking's approach for acquiring new business, dealing and settling claims, outsourcing etc);
- e) A description of its activities and sources of profits or losses by legal entities across the group their material subsidiaries, whether these are insurance undertakings or not, and regulated entities or not;
- f) A list of all subsidiaries, including an organisational structure chart where possible;
- g) Significant features of any potential regulatory and legal issues affecting the business; and
- h) Recent important market developments that have or are expected to affect its business.

#### **A.1A. Objectives and strategies**

3.337.A description should be provided detailing the objectives and strategies of the undertaking which should include:

- a) Details on the financial and non-financial objectives of the undertaking and a summary of the business and risk strategies in place to achieve them (including the expected timeframes involved);
- b) An explanation of the significant changes in the undertaking's strategy compared to the prior year; and
- c) Details on the undertaking's business planning time horizon.

## **A.2 Performance from underwriting activities**

3.338.A description should be provided detailing the undertaking's underwriting performance, in accordance with the accounting regime, reported by material business line and geographical area which should include:

- a) Administrative, management or supervisory body's discussion and analysis<sup>43</sup> of the undertaking's overall underwriting performance (premiums and claims) along with an analysis by material line of business and material geographical area<sup>44</sup>;
- b) Details of the undertaking's underwriting performance by line of business against plan and significant factors affecting deviations from plan (e.g. large unexpected claims, premium volumes);
- c) Details on underwriting expenses incurred over the year compared to past and expectations of future years including assessment of claims leakage and policyholder fraud;
- d) Projections of the undertaking's underwriting performance over the business planning period with details of significant factors that might affect underwriting performance such as known or anticipated material claims payments;
- e) Details of any reinsurance, ART and finite reinsurance programmes purchased including those currently not being claimed on; and
- f) Administrative, management or supervisory body's discussion and analysis of the undertaking's overall underwriting performance.

## **A.3. Performance from investment activities**

3.339.A description should be provided detailing the undertaking's financial performance, in accordance with the accounting regime, from investments which should include:

- a) The administrative, management or supervisory body's discussion and analysis of investment performance by segment (e.g. by fund, type of asset);
- b) Details on investment expenses occurred over the year compared to expectations of future years; and
- c) Key assumptions the undertaking is making with respect to interest rates, exchange rates, and other relevant market indices.

## **A.4 Operating / other income and expenses**

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<sup>43</sup> CEIOPS does not envisage that to comply with this and similar requirements undertakings need to submit the minutes from their meetings on a regular basis.

<sup>44</sup> This should be the undertaking's view on what it considers its material lines of business are and the geographical areas where it writes material amounts of business.



3.340. Administrative, management or supervisory body's analysis of the undertaking's operating/other income and expenses.

3.341. A description should be provided detailing any material future anticipated non-underwriting income and expenses over the coming reporting period such as restructuring or operating costs.

#### **A.5 Any other disclosures**

3.342. Any other disclosures considered important to be made by the undertaking in this section. This section provides the undertaking with the opportunity to note any further information not covered above that it considers relevant for the purposes of supervision. Such information could be 'non-standard' or specific to the undertaking hence may not fall under the above headings.

#### **A.1 Business and external environment**

3.343. The supervisor should understand the business the undertaking or the group writes. With this information, the supervisor has the possibility to analyse trends on the main business lines to be aware of the undertaking or the group's main profit areas and the potential risks to them. Adverse changes to the trend could be noted and if appropriate, discussed with the undertaking or the group's senior management.

3.344. It is also important that the supervisor is aware of the jurisdictions in which the undertaking or the group writes its business. This will enable the supervisor to have knowledge of obligations to other supervisory authorities and a greater understanding of the undertaking's customer base.

3.345. A detailed description of activities and sources of profits or losses by legal entities is useful information for the supervisors, in order to assess what activities are executed under what supervisory regime. For instance, undertakings or groups may have sourced out certain activities to less regulated entities or entities that are not regulated at all.

3.346. Supervisors should be aware of external environment developments that could impact the undertaking. This could be from regulatory or legal changes or market developments.

##### **A.1A. Objectives and strategies**

3.347. The supervisor should have an awareness of the strategy that the undertaking or the group has set itself to understand the objectives of the undertaking or the group. This should include the financial and non-financial objectives as well as the undertaking's business continuity plan. This would give the supervisor an idea of possible future developments.

## **A.2. Performance from underwriting activities**

3.348. The supervisor should have knowledge of the underwriting performance by business line and geographical area. The supervisor should be satisfied with how senior management make underwriting decisions and how the performance matches the undertaking or the group's projections. This should help the supervisor's understanding of profitability and how well the undertaking or the group is managed in this area. This will also help supervisors identify outliers and threats to profitability for the undertaking or the group, as well as the market as a whole.

## **A.3. Investment performance**

3.349. Supervisors should have knowledge of the undertaking or the group's financial performance from investments. The supervisor should be satisfied with how senior management make investment decisions as well as the key assumptions made with respect to interest rates, exchange rates and market indices. It is important that the supervisor has an idea of profitability and how well the undertaking is managed in this area.

## **A.4 Operating / other income and expenses**

3.350. The supervisors should be made aware of any material future anticipated non-underwriting income and expenses over the coming reporting period to ensure that the undertaking covers these payments in its liquidity risk and capital management activities.

## **A.5 Any other disclosures**

3.351. This section provides the supervisors with any further relevant information that the undertaking considers would be useful for the purpose of supervision.

## **System of Governance**

3.352. Details on the undertaking's governance structure to facilitate understanding of its business which should include:

### **B.1 General governance arrangements**

3.353. The undertaking should provide any further relevant details that it consider appropriate, in addition to that provided within the SFCR, to ensure the supervisor has a good understanding of the overall system of governance within the undertaking. It should demonstrate that policies on risk management, internal control, internal audit and, where relevant, outsourcing, are in line with the undertaking's business strategy.

3.354. Information should also be provided detailing transactions with shareholders and members of the administrative, management or supervisory body.

3.355. The undertaking should also include any details or developments here that have been the subject of supervisory dialogue in this area including actions that have been taken (for example, improvements in the system of governance) that is not deemed appropriate to publicly disclose.

## **B.2 Fit and proper processes and procedures**

3.356. An undertaking should provide details on policies and processes it has established to ensure that it is satisfied that all persons subject to Article 42 are fit and proper. Undertakings should also provide a list of persons subject to Article 42 and the functions they perform as of the reference date.

## **B.3 Risk management system**

3.357. An undertaking should provide relevant details on its risk management systems including the processes it has in place to identify, measure, manage, monitor, and report risks within its business including the objectives and policies of the undertaking for each separate module of risk. It should provide evidence of key decisions made on the basis of management information presented to the undertaking's administrative, management or supervisory body.

3.358. Information should also include:

- a) Details on the objectives and policies for managing risk with evidence that clear documented risk standards are monitored and enforced (e.g. pricing disciplines, underwriting guidelines, insurance cycle management policies, investment returns, claims processing). (This should cover each category of risk mentioned from sections C.1 to C.6)
- b) Details of the staffing and organisational structure of those responsible for the risk management system; and
- c) Details on the undertaking's asset and liability management.

## **B.4 ORSA**

3.359. The undertaking should provide relevant details on the ORSA in addition to the information provided in the SFCR to explain to the supervisor how the undertaking has fulfilled the ORSA requirement including the following:

- a) Description of the outcome of the ORSA, including the assumptions used and the undertaking's future overall solvency needs that result from the ORSA process compared to own funds;
- b) Details of all current and future exposures that the undertaking considers it may be exposed to over the life time of its existing contracts and how these have been captured in its internal solvency needs. This should include those risks arising out of any off-balance sheet financing activities;

- c) Details to allow a comparison between the regulatory capital requirements generated from the SCR (standard formula and internal models) and the internal solvency needs resulting from the ORSA process along with how the undertaking's internal capital needs have been derived;
- d) Where applicable for undertakings using the standard formula, details of any material risks that the undertaking has identified that are not included within its SCR and how it has quantified these risks;
- e) Undertakings should disclose how the ORSA takes into account the undertaking's strategy; and
- f) For undertakings belonging to a group, how the ORSA takes into account the group's strategy.

### **B.5 Internal control system**

3.360. An undertaking should provide relevant details on its internal control system and describe why it considers this system appropriate to the nature, scale and complexity of its business. These disclosures should include details on:

- a) The administrative and accounting procedures in place within the undertaking that enable it to deliver in a timely manner to the supervisor financial reports which reflect a true and fair view of its financial position;
- b) The internal controls framework in place, clear delegation of responsibilities, reporting lines and segregation of duties, and how it fulfils its obligations with respect to the adequacy, access, period of retention and security of records;
- c) The appropriate reporting arrangements in place to provide its administrative, management or supervisory body with the information it needs to play its part in identifying, measuring, managing and controlling risks of regulatory concern (i.e. policyholder protection) in a relevant, reliable and timely manner; and
- d) The business contingency plan, including a confirmation that the business contingency plans are in place and approved by the administrative, management or supervisory body.

3.361. The disclosures should also include relevant details on the compliance function and how it:

- a) Has the necessary authority, resources, expertise and access to all relevant information;
- b) Has the relevant persons involved in the compliance functions; and

- c) Advises the administrative, management or supervisory body on compliance with the laws, regulations and administrative provisions adopted pursuant to the Directive along with any changes in the legal environment that the undertaking operates in.

## **B.6 Internal audit function**

3.362. An undertaking should provide relevant details on:

- a) How the internal audit function operates including how the internal audit function provides assurance on the adequacy and effectiveness of and the internal controls within the undertaking;
- b) How the internal audit function maintains its independence and objectivity from the activities it reviews.
- c) How the internal audit examines compliance of the activities of the undertaking with its internal strategies as dictated by the administrative, management or supervisory body;
- d) Summary of audits performed during the period and its plan for future reviews (with rationale for those future audits);
- e) An overview of the findings reported to the administrative, management or supervisory body and their use of internal audit and audit reports (i.e. actions taken or recommendations made); and
- f) Evidence of any action taken to improve the control framework and mitigate risk identified through internal audit work since the last reporting date.

## **B.7 Actuarial function**

3.363. An undertaking should provide relevant detail on the actuarial function including the personnel in the actuarial function and their experience and expertise (if not covered in the Fit and Proper narrative). The undertaking should detail the activities the actuarial function has undertaken in each of the following areas:

- a) Coordinating the calculation of technical provisions;
- b) Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- c) Assessing the sufficiency and quality of the data used in the calculation of technical provisions;
- d) Comparing best estimates against experience;

- e) Informing the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- f) Overseeing the calculation of technical provisions in the cases set out in Article 82;
- g) Expressing an opinion on the overall underwriting policy;
- h) Expressing an opinion on the adequacy of reinsurance arrangements; and
- i) Contributing to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements and the assessment as referred in Article 45.

## **B.8 Outsourcing**

3.364. An undertaking should provide relevant details on the outsourcing of any critical operational functions and activities (along with the service provider) and safeguards around the outsourcing arrangement that the undertaking has put in place. These details should include:

- a) Evidence that appropriate oversight and safeguards are in place (as the undertaking remains fully responsible for the outsourced function and discharging all of its obligations under the Directive);
- b) How the undertaking has considered the outsourcing arrangement as part of its business continuity plans;
- c) Details of the service provider and how the undertaking satisfies itself that the service provider is competent to provide the undertaking with the services to be outsourced;
- d) How outsourcing the function has not materially impaired the quality of the undertakings system of governance; and
- e) How the undertaking has fully assessed the impact on its operational risk (including through its ORSA).

3.365. Supervisors may also request details on any outsourcing to a member of the same group, which may take the form of service level agreements, if they relate to critical or important functions.

## **B.9 Any other disclosures**

3.366. Any other disclosures considered important to be made by the undertaking in this section. This section provides the undertaking with the opportunity to note any further details not covered above that it considers relevant for the purposes of supervision. Such information could be 'non-standard' or specific to the undertaking hence may not fall under the above headings.

## **B.10 Reporting at Group level**

3.367.Groups should provide a description detailing the objectives and strategies of the group which should include details on the group strategy and the role of each subsidiary within that strategy.

### **B.1 General governance requirements**

3.368.In relation to general governance requirements, the supervisory authority needs to be satisfied that it has a good understanding of the overall system of governance within the undertaking or the group.

### **B.2 Fit and proper**

3.369.The supervisor needs to be satisfied that the undertaking or the group has sufficient policies and processes in place to ensure that those persons that subject to Article 42 are fit and proper.

### **B.3 Risk management**

3.370.The supervisor needs to be satisfied that the undertaking or the group has a robust risk management system which is:

- a) Capable of identifying, measuring, monitoring, managing and reporting both current and future risks (like possible changes in economic conditions) in line with its set risk tolerance/risk appetite. Stress testing and scenario analysis could be used to determine the effect of these risks materialising under extreme but still plausible conditions. Supervisors should assess whether this process is adequate and delivers a prudent picture of the risk profile of the undertaking or the group;
- b) An integral part of the business strategy and the undertaking's management information;
- c) Subject to regular internal review and challenge of the risk analysis. The review by the administrative, management or supervisory body should generate a continuous feedback loop within the undertaking (both at group and solo level); and
- d) Proportionate to the nature, scale and complexity of its business and therefore fit for purpose.

### **B.4 ORSA**

3.371.The supervisor needs to be satisfied that the undertaking or the group has fulfilled its ORSA requirements.

3.372.Supervisors should compare capital and risk management between undertakings of a similar nature or size to identify

undertakings or groups whose capital and risk management processes could be considered inappropriate.

### **B.5 Internal control system**

3.373. The undertaking or the group is required to demonstrate to the supervisor that it has an effective internal control system in place, appropriate to the nature, scale and complexity of the undertaking's business.

3.374. Supervisors need to be satisfied that the internal control system includes at least administrative and accounting procedures, data handling, an internal control framework, an appropriate remuneration policy that supports long-term strategies, appropriate reporting arrangements and a compliance function.

### **B.6 Internal audit**

3.375. The supervisor needs to be satisfied that the undertaking or the group has an effective and permanent internal audit function in place that is objective and independent from its operational functions.

### **B.7 Actuarial function**

3.376. The supervisor needs to be satisfied that within the undertaking or the group there is a permanent and effective actuarial function that is staffed with persons of appropriate experience and expertise for the role that the actuarial function is required to perform.

### **B.8 Outsourcing**

3.377. When undertakings or groups outsource critical operational functions, the supervisor needs to be satisfied that appropriate oversight and safeguards are in place.

### **B.9 Any other disclosures**

3.378. This section provides the supervisors with any further relevant details that the undertaking considers would be useful for the purpose of supervision.

### **B.10 Reporting at Group level**

3.379. Groups should provide a description detailing the objectives and strategies of the group which should include details on the group strategy and the role of each subsidiary within that strategy.



## **Risk profile**

3.380. Consistent with the SFCR, an undertaking shall provide a description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity. This information should be provided by material individual risk category below (except where specific risks are mentioned):

**C.1 Underwriting risk – material exposure, concentration, mitigation and sensitivity**

**C.2 Market risk – material exposure, concentration, mitigation and sensitivity**

**C.3 Credit risk – material exposure, concentration, mitigation and sensitivity**

**C.4 Liquidity risk – material exposure, concentration, mitigation and sensitivity**

**C.5 Operational risk – material exposure, concentration, mitigation and sensitivity**

**C.6 Other risks – material exposure, concentration, mitigation and sensitivity**

**C.7 Any other disclosures**

3.381. In the RTS, the undertaking should provide further details, to explain to the supervisor the undertaking's risk exposure, concentration, mitigations and sensitivity for the above risk categories. This information should include any material future anticipated risks.

3.382. Details on the material risks classified by sub-module of risk (for example for non-life underwriting risk this should be split by reserve risk, catastrophe risk, premium risk etc), including any material changes in the level of exposure from the previous reporting date.

3.383. In addition, the undertaking should disclose the following in the RTS:

- Material risk exposures

3.384. Details on how the administrative, management or supervisory body expects material risk exposures to further develop over the next few years (including the process for identifying emerging risks) given the undertaking's business strategy and how these are being/will be managed.

3.385. Details of the risk limits and risk appetite imposed by the undertaking in relation to its overall business objectives (e.g. chosen lines of business/products), setting out the level of risk the undertaking is prepared to accept and is financially able to be exposed to for each risk module and how these tolerances are enforced throughout the business.

This analysis should take into account its financial strength and the nature, scale and complexity of its risks, the liquidity and the resources it needs to adequately manage its risks.

- 3.386. Details that enable supervisors to evaluate the nature and extent of risks arising from financial instruments to which the undertaking is exposed at the end of the reporting period, including any material changes from the previous period.
- 3.387. In relation to off balance sheet transactions or similar arrangements, the undertaking should provide details of all current and future risks that the undertaking considers it may be exposed to over the life time of its existing off balance sheet contracts and how these have been captured in its overall solvency needs. This should include those risks arising out of any off-balance sheet financing activities.
- 3.388. An overview of risks arising from any derivative and similar instruments<sup>45</sup> used in the reduction of risk or facilitating efficient portfolio management and the strategies that undertakings employ when using such instruments in its portfolio.
- 3.389. For operational risk, details should be provided on the gross operational loss amount suffered by undertakings, the number of operational loss events, how the undertaking monitors, classifies and collects data on operational loss events and some detail of operational losses suffered compared to own funds.
- 3.390. For each type of risk arising from financial instruments, an undertaking should disclose:
- (i) Summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be consistent with the details provided internally to key management personnel of the undertaking, for example the board of directors or chief executive officer; and
  - (ii) Concentrations of risk, if not apparent from (i).
    - Material risk concentrations
- 3.391. A description should be provided detailing any material future anticipated risk concentrations anticipated over the coming reporting period given the undertaking's business strategy and how these are/will be managed.
- Risk mitigation practices

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<sup>45</sup> In the context of derivatives, CEIOPS interprets the expression "similar instruments" to refer to financial instruments with attendant risks that are sometimes difficult to determine and for which proper management requires specific expertise.

- 3.392. A description of the strategies used to mitigate risks and the processes for monitoring the continuing effectiveness of these risk mitigation strategies (e.g. that risk mitigation instruments are regularly reviewed and not just rolled over, especially if the internal or external environments have changed). It should also cover any risk mitigating tools purchased or used (e.g. reinsurance, financial instruments).
- 3.393. Details of the techniques used to mitigate risks and the effect that these tools have on the undertaking's risk profile. This should include details of the undertaking's reinsurance, alternative risk transfer and finite reinsurance cover and its adequacy, how this cover is obtained (through brokers or directly) along with a description of the undertaking's risk mitigation policy (scope, priorities and adequacy with respect to the undertaking's risk strategy, including procedures for choosing reinsurers).
- 3.394. A description should be provided detailing any material future risk mitigation practices that the undertaking is considering entering into over the coming reporting period given the undertaking's business strategy and the rationale and effect for these risk mitigation practices.
- 3.395. A description should be provided detailing the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities;
- 3.396. When an undertaking holds collateral (of financial or non-financial assets), and in the absence of a default is permitted to sell or repledge the collateral, it should disclose:
- (i) The fair value of the collateral held;
  - (ii) The fair value of any such collateral sold or repledged, and whether the undertaking or the group has an obligation to return it; and
  - (iii) The terms and conditions associated with its use of the collateral; and
- 3.397. When an undertaking obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements, and such assets meet the recognition criteria in financial reporting standards, an undertaking should disclose:
- (i) The nature and carrying amount of the assets obtained; and
  - (ii) When the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.
- Risk sensitivities
- 3.398. The undertaking should provide relevant details on any risk sensitivity analyses that it considers to be proprietary or confidential information

along with a rationale of why this information was not considered appropriate to disclose, and how the undertaking is monitoring these sensitivities.

### **C.7 Any other disclosures**

- 3.399. Any other disclosures considered important to be made by the undertaking in this section. This section provides the undertaking with the opportunity to note any further information not covered above that it considers relevant for the purposes of supervision. Such information could be 'non-standard' or specific to the undertaking hence may not fall under the above headings.

#### **Risk categorisation**

C.1 Underwriting risk exposure, concentration, mitigation and sensitivity

C.2 Market risk exposure, concentration, mitigation and sensitivity

C.3 Credit risk exposure, concentration, mitigation and sensitivity

C.4 Liquidity risk exposure, concentration, mitigation and sensitivity

C.5 Operational risk exposure, concentration, mitigation and sensitivity

C.6 Other material risks exposure, concentration, mitigation and sensitivity

C.7 Any other disclosures

3.400. Supervisors need to understand the risks facing the group and those that the undertaking may be exposed to in the future. Risk management is a cornerstone of the Solvency II and hence a focus of supervisory review.

- **Material risk exposures**

3.401. The supervisor needs to understand how material risks to which the undertaking or the group is, or may be, exposed to.

- **Material risk concentrations**

3.402. The supervisor needs to understand how material risks concentrations which the undertaking or the group is, or may be, exposed to and how the undertaking is managing these concentrations.

- **Risk mitigation practices**

3.403. The supervisor needs to understand the techniques employed

by the undertaking or the group to mitigate risk and the effect that these tools have on the undertaking's risk profile.

- **Risk sensitivities**

3.404. The supervisor needs to understand the sensitivities to material risks which the undertaking or the group is exposed to and how the undertaking is monitoring these sensitivities.

**Any other disclosures**

3.405. This section provides the supervisors with any further relevant details that the undertaking considers would be useful for the purpose of supervision.

## **Regulatory Balance Sheet**

### **D1-3 Assets, technical provision and other liabilities**

3.406. The only information that should be provided in the RTS (in addition to that publicly disclosed in the SFCR) is information describing the bases and methods used for the valuation of assets, technical provisions and other liabilities that:

- a) That has been accepted as confidential or proprietary; and
- b) Any details that have been the subject of supervisory dialogue that is not deemed appropriate to publicly disclose.

### **D.4 Any other disclosures**

3.407. Any other disclosures considered important to be made by the undertaking in this section. This section provides the undertaking with the opportunity to note any further details not covered above that it considers relevant for the purposes of supervision. Such information could be 'non-standard' or specific to the undertaking such as that resulting from valuation discussions with third parties (e.g. auditors or actuaries) which the undertaking considers would not be appropriate to disclose.

### **D1-3 Assets, technical provision and other liabilities**

3.408. Supervisors need details of assets, technical provisions and other liabilities to assess the financial strength of the undertaking.

### **D.4 Any other disclosures**

3.409. This section provides the supervisors with any further relevant details that the undertaking considers would be useful for the purpose of supervision.

## **Capital Management**

### **E.1 The structure and amount of own funds, and their quality**

3.410.Details on:

- a) The own funds structure including terms and conditions of the main features of own fund categories held by the undertaking; and
- b) The forecast level of the undertaking's own funds over a suitable business planning period including appropriately stressed capital plans and any intentions to replace any own funds approaching maturity or plans to raise additional own funds.

### **E.2 Minimum capital requirement and solvency capital requirement<sup>46</sup>**

3.411.Any further details of the MCR and the SCR in addition to that required under the SFCR which the undertaking considers would be useful for supervisory purposes, including:

- a) The forecast level of the undertaking's MCR and SCR over a suitable business planning period; and
- b) Details of any allowance for financial mitigation techniques and management actions used in the SCR calculation and how these have met the criteria for recognition<sup>47</sup>.

### **E.3 The option set out in Article 304 used for the calculation of its Solvency Capital Requirement**

3.412.Undertakings should also disclose the capital effect on the SCR of selecting this option.

### **E.4 Differences between the standard formula and any internal models used**

3.413.According to Article 112(7), after having received approval from supervisory authorities to use an internal model, undertakings may, by a decision stating the reasons, be required to provide supervisory authorities with an estimate of the Solvency Capital Requirement determined in accordance with the standard formula, as set out in subsection 2 of section 4 Chapter 6 of the Level 1 text.

3.414.The SCR estimate according to the standard formula will only occur upon supervisory request. However this calculation may be required for an indefinite period of time, even though CEIOPS expects it, as rule to be required for a limited period of time or until certain supervisory

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<sup>46</sup> The information for undertakings using an internal model for SCR calculation is further developed in the next section.

<sup>47</sup> See CEIOPS' Level 2 Advice on SCR Standard Formula- Allowance of Financial Mitigation Techniques CEIOPS-DOC-26/09 <http://www.ceiops.eu/index.php?option=content&task=view&id=579>

concerns are overcome (e.g. model approval with terms and conditions, risk profile capital add-ons imposition or assessment). If this requirement is not a one-off situation then will have to be reported on an annual basis as long as it is applicable, being an effective part of RTS. Supervisory authorities may require undertakings to present the results of that calculation, at a more granular level.

#### **E.5 Non-compliance with the minimum capital requirement and significant non-compliance with the solvency capital requirement**

3.415. The undertaking should include any details or developments here that have been the subject of supervisory dialogue in this area that are not deemed appropriate to publicly disclose.

3.416. The undertaking should also include details of plans for ensuring that compliance with the capital requirements is maintained.

#### **E.6 Any other disclosures**

3.417. Any other disclosures considered important to be made by the undertaking in this section. This section provides the undertaking with the opportunity to note any further details not covered above that it considers relevant for the purposes of supervision. Such information could be 'non-standard' or specific to the undertaking hence may not fall under the above headings.

### **E.1 The structure and amount of own funds, and their quality**

3.418. The supervisor should be satisfied that an undertaking or a group holds own funds, sufficient in both quantity and quality, to cover their solvency requirements (SCR and MCR) over the long term. The undertaking is expected to meet its capital requirements at all times.

### **E.2 Minimum capital requirement and solvency capital requirement**

3.419. The supervisor should be provided with all necessary details to understand and make a judgement on the adequacy of calculation of the capital requirements. This should include ensuring that the undertaking has a good understanding of its future capital requirements.

### **E.3 The option set out in Article 304 used for the calculation of its Solvency Capital Requirement**

3.420. The supervisor needs to understand those undertakings that have selected this option and what the effect on capital is.

### **E.4 Differences between the standard formula and any internal models used**

3.421. The supervisor need to understand the differences between the internal model and the standard formula if this has been asked for by the supervisor.

### **E.5 Non-compliance with the minimum capital requirement and significant non-compliance with the solvency capital requirement**

3.422. The supervisor need to understand any non-compliance with the capital requirements that occurred over the reporting period and non-compliance anticipated.

### **E.6 Any other disclosures**

3.423. This section provides the undertaking with the opportunity to note any further details not covered above that it considers relevant for the purposes of supervision. Such information could be 'non-standard' or specific to the undertaking hence may not fall under the above headings.

## **Undertakings using an internal model for the SCR calculation**

### **F.1 Qualitative internal model information**

3.424. The minimum qualitative information requirements in the RTS in addition or instead of those required for undertakings using solely the standard formula for SCR calculation, as applicable in the SFCR are



outlined in points a to i below. Undertakings may provide additional information important to assist the understanding of their internal model.

- a) Disclosure of the activities performed during the year to verify the ongoing compliance with regulatory requirements for internal models (including external reviews and audits findings);
- b) Explanation of the comparison with last year results and its reconciliation, presenting the reasons for any material changes in the level of the SCR;
- c) Explanation of the causes and sources of profits and losses, as determined in Article 123 of the Level 1 text, for each major business unit and how the categorisation of risk chosen reflects those causes and sources;
- d) The significance to which the risk profile of the undertaking deviates from the assumptions underlying the SCR calculated with its internal model;
- e) Plans for future developments steps of the internal model;
- f) Details on the overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking;
- g) Reconciliation between the Economic Capital and the SCR for the undertakings that use a different time period or risk measure than that set out in Article 101(3) for SCR calculation;
- h) Details on how capital allocation is done, both for regulatory capital and for the economic capital; and
- i) Details about future management actions used in the SCR calculation.

3.425. In the specific case of partial internal models point a) would refer to the ongoing “general” compliance with SCR as well as the specific regulatory requirements for internal models.

3.426. For the purposes of point f), the undertaking concerned shall have in place processes, which are proportionate to the nature, scale and complexity of the risks inherent to its business, and which enable it to properly identify and assess the risks it faces in the short and long term and to which it is or could be exposed. The undertaking shall demonstrate the methods used in this assessment.

## **F.2 Quantitative internal model information**

3.427. As for quantitative information<sup>48</sup> in the RTS (not the quantitative reporting templates – see section 3.5.3) in addition or instead of those required for undertakings using solely the standard formula for SCR calculation, as applicable, the minimum reporting requirements are expressed below.

- a) SCR as calculated by the internal model;
- b) Estimate of the SCR according to the standard formula when applicable;
- c) A split of undiversified capital charges and adjustment for the loss absorbing capacity of technical provisions and deferred taxes (where applicable);
- d) Capital add-ons;
- e) Economic capital as calculated by the internal model;
- f) Comparison and reconciliation with last year results (information of paragraphs a to e above);
- g) SCR and economic capital forecasts; and
- h) Summary report of the validation results performed during the year (e.g. back testing, stress testing and sensitivity analysis).

3.428. The level of the detail provided by the SCR result as calculated using the internal model should be the lowest level at which the model is used. For internal models with a modular structure, undertakings will only have to report figures at risk level (as in the grouping classes: modules/sub-modules/risks) and/or business unit level, as applicable. Group internal models should provide results by legal entity as well.

3.429. These considerations are also valid for the “split of undiversified capital charges and adjustment for the loss absorbing capacity of technical provisions and deferred taxes”, “capital add-ons”, “comparison and reconciliation with last year results”, “economic capital” and “forecasts”, when applicable. The required forecast will further be developed in Level 3 guidance.

3.430. In the specific case of partial internal models points a), c), g) and h) of the quantitative information will naturally encompass also the results modelled by the standard formula with same level of granularity as required for the RTS for undertakings using only the standard formula to calculate the SCR.

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<sup>48</sup> As mentioned, regarding the referred quantitative requirements undertakings are expected to develop within their reporting policy a stable format through which this information is reported in order to facilitate the supervisory analysis and comparison throughout the years.

3.431. Unless the capital add-on is removed before the year end, undertakings shall provide information on capital add-ons as part of the RTS as long as the capital add-on remains.

### **F.3 Supplementary information**

3.432. Any other information that the undertaking considers it should report to the supervisor in relation to its internal model.

### **Annex- Quantitative reporting templates**

3.433. All quantitative reporting templates to be reported to supervisors shall be included within an annex to the RTS. However, from a technical point of view, different means of submission of quantitative reporting templates could be used to enable automated processing compared to the qualitative information. CEIOPS intends to define at Level 3 which quantitative templates should be in the RTS. Further information on quantitative reporting templates is set out in section 3.5.

### **CEIOPS' advice**

#### ***Contents of the Report to Supervisors***

3.434. Supervisory authorities shall require undertakings and groups to submit regularly reported information necessary for the purposes of supervision within a Report to Supervisors (RTS).

3.435. The RTS is a stand-alone document, which does not require reference to any other document in order to be understood by the supervisor, and shall contain information specifically aimed at the supervisor, including elements also set out in the SFCR.

3.436. The document shall follow the structure below to facilitate review and understanding.

#### **Executive Summary**

3.437. The undertaking or the group shall include an Executive Summary listing those sections of the RTS which have been subject to a material change since the previous report.

#### **A.1 Business and external environment**

3.438. The undertaking or the group shall provide a description setting out the nature of the undertakings' business and external environment which shall include the main future trends and factors which are expected to contribute to the development of the business:

- a) The main future trends and factors that are expected to contribute positively or negatively to the development, performance and position of the undertaking (over its business planning time horizon);
- b) The undertaking's perceived competitive position, its perceived strengths and weaknesses, and its business model (examples are the

undertaking's approach for acquiring new business, dealing and settling claims, outsourcing etc);

- c) A list of all subsidiaries, including an organisational structure chart where possible;
- d) A description of activities and sources of profits or losses by legal entities across the group; and
- e) Significant features of any potential regulatory and legal issues affecting the business.

#### **A.1A Objectives and strategies**

3.439. The undertaking or the group shall provide a description of the objectives and strategies of the undertaking or the group. This shall include the objectives of the undertaking, a summary of the business strategies in place to achieve them, the time frame and the risks involved.

3.440. For undertakings belonging to a group, the description shall include how the ORSA takes into account the group's strategy.

3.441. For groups shall provide a description detailing the objectives and strategies of the group which shall include information on the group strategy and the role of each subsidiary within that strategy.

#### **A.2 Performance from underwriting activities**

3.442. The undertaking or the group shall provide a description of the undertaking or the group's underwriting performance reported by material business lines and geographical area including at least:

- a) Administrative, management or supervisory body's discussion and analysis of the undertaking or the group's overall underwriting and investment performance;
- b) Details of the undertaking's or group's underwriting performance by line of business against plan and significant factors affecting deviations from plan (e.g. large unexpected claims, premium volumes);
- c) Projections of the undertaking's or group's underwriting performance over the business planning period with details of significant factors that might affect underwriting performance such as known or anticipated material claims payments; and
- d) Details of any reinsurance, ART and finite reinsurance programmes purchased including those currently not being claimed on.

#### **A.3 Performance from investment activities**

3.443. The undertaking or the group shall provide a description of the undertaking's financial performance from investments which shall include

details on investment expense over the year compared to expectations of future years as well as key assumption made when making investment decisions, including at least:

- a) The administrative, management or supervisory body's discussion and analysis of investment performance by segment (e.g. by fund, type of asset); and
- b) Key assumptions the undertaking is making with respect to interest rates, exchange rates, and other relevant market indices.

#### **A.4 Operating /other income and expenses**

3.444.A description shall be provided detailing any material future anticipated non-underwriting income and expenses over the coming reporting period such as restructuring or operating costs.

#### **A.5 Any other disclosures**

3.445.Any other disclosures considered important to be made by the undertaking in this section.

#### **B.1 General governance arrangements**

3.446.The undertaking shall provide relevant details to ensure the supervisor has a good understanding of the overall system of governance within the undertaking. Information shall allow the supervisor to assess if the overall system of governance is appropriate and that policies on risk management, internal control, internal audit and, where relevant, outsourcing, are in line with the undertaking or the group's business strategy.

#### **B.2 Fit and proper**

3.447.The undertaking or the group shall provide details of policies and process it has established to ensure that it is satisfied that those persons subject to Article 42 are fit and proper. Undertakings shall also provide a list of persons subject to Article 42 as of the reference date.

#### **B.3 Risk management system**

3.448.The undertaking or the group shall provide details on its system of governance including the risk management objectives and policies of the undertaking or the group for each separate module of risk (this shall reflect sections C.1 to C.7 of the Solvency and Financial Condition Report).

#### **B.4 ORSA**

3.449.The undertaking or the group shall provide details on the ORSA in addition to the information provided in the SFCR, to explain to the supervisor how the undertaking or the group has fulfilled the ORSA requirement, including the outcome of the ORSA and the undertaking or the group's future overall solvency needs that result from the ORSA

process compared to own funds, including at least:

- a) Description of the outcome of the ORSA, including the assumptions used and the undertaking's future overall solvency needs that result from the ORSA process compared to own funds;
- b) Details of all current and future exposures that the undertaking considers it may be exposed to over the life time of its existing contracts and how these have been captured in its overall solvency needs;
- c) Information to allow a comparison between the regulatory capital requirements generated from the SCR (standard formula and internal models) and the overall solvency need resulting from the ORSA process along with how the undertaking's internal capital needs have been derived;
- d) Where applicable for undertakings using the standard formula, details of any material risks that the undertaking has identified that are not included within its SCR and how it has quantified these risks; and
- e) For undertakings belonging to a group, how the ORSA takes into account the group's strategy.

#### **B.5 Internal control system**

3.450. The undertaking or the group shall provide a description of the internal control system as well as details on key procedures in place.

#### **B.6 Internal audit**

3.451. The undertaking or the group shall provide a description of how the internal audit function operates including information on how the internal audit function provides assurance on the adequacy and effectiveness of the internal controls within the undertaking or the group, including at least:

- a) A summary of audits performed during the period and its plan for future reviews (with rationale for those future audits); and
- b) An overview of the findings reported to the administrative, management or supervisory body and their use of internal audit and audit reports (i.e. actions taken or recommendations made).

#### **B.7 Actuarial function**

3.452. The undertaking or the group shall provide a description of the actuarial function and detail the activities the actuarial function has undertaken in each of its areas of responsibility.

#### **B.8 Outsourcing**

3.453. The undertaking or the group shall provide details of any outsourcing of

any critical or important operational functions and activities (along with the service provider). This shall include evidence of appropriate oversight and safeguards arrangements, including at least:

- a) Evidence that appropriate oversight and safeguards are in place;
- b) Details of the service provider and how the undertaking or group satisfies itself that the service provider is competent to provide the undertaking with the services to be outsourced; and
- c) How the undertaking or group has fully assessed the impact on its operational risk.

## **B.9 Any other disclosures**

### **Risk profile**

3.454. Any other disclosures considered important to be made by the undertaking in this section.

C.1 Underwriting risk exposure, concentration, mitigation and sensitivity

C.2 Market risk exposure, concentration, mitigation and sensitivity

C.3 Credit risk exposure, concentration, mitigation and sensitivity

C.4 Liquidity risk exposure, concentration, mitigation and sensitivity

C.5 Operational risk exposure, concentration, mitigation and sensitivity

C.6 Other material risks exposure, concentration, mitigation and sensitivity

3.455. In the RTS, the undertaking shall provide details to explain to the supervisor the undertaking's risk exposure, concentration, mitigations and sensitivity for the above risk categories. This information shall include any material future anticipated risk.

### Material risk exposures

3.456. Details on how the administrative, management or supervisory body expects material risk exposures to further develop over the next few years (including the process for identifying emerging risks) given the undertaking's business strategy and how these are being/will be managed.

3.457. An overview of risks arising from any derivative and similar instruments<sup>49</sup> used in the reduction of risk or facilitating efficient portfolio management and the strategies that undertakings employ when using such

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<sup>49</sup> In the context of derivatives, CEIOPS interprets the expression "similar instruments" to refer to financial instruments with attendant risks that are sometimes difficult to determine and for which proper management requires specific expertise.

instruments in its portfolio.

3.458. For each type of risk arising from financial instruments, an undertaking or a group shall disclose:

- (i) Summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be consistent with the information provided internally to key management personnel of the undertaking or the group;
- (ii) Concentrations of risk if not apparent from (i) above;

Material risk concentrations

3.459. A description shall be provided detailing any material future anticipated risk concentrations anticipated over the coming reporting period given the undertaking's business strategy and how these are being/will be managed.

Risk mitigation practices

3.460. Information in addition to that disclosed in the SFCR on the techniques used to mitigate risks and the effect that these tools have on the undertaking's risk profile.

3.461. A description shall be provided detailing any material future risk mitigation practices that the undertaking is considering entering into over the coming reporting period given the undertaking's business strategy and the rationale and effect for these risk mitigation practices.

3.462. A description shall be provided detailing the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities;

3.463. When an undertaking or a group holds collateral (of financial or non-financial assets), and in the absence of a default is permitted to sell or repledge the collateral, it shall disclose:

- (iv) The fair value of the collateral held;
- (v) The fair value of any such collateral sold or repledged, and whether the undertaking or the group has an obligation to return it; and
- (vi) The terms and conditions associated with its use of the collateral; and

3.464. When an undertaking or a group obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements, and such assets meet the recognition criteria in financial reporting standards, an undertaking or a group shall disclose:

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<sup>50</sup> This requirement is dependant on the supervisor requesting this per Article 112(7).



(iii) The nature and carrying amount of the assets obtained; and

(iv) When the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Risk sensitivities

3.465. The undertaking or group shall provide details of any risk sensitivity analyses and how the undertaking or group is monitoring these sensitivities.

C. 7 Any other disclosures

3.466. Any other disclosures considered important to be made by the undertaking in this section.

**D1-3 Assets, technical provision and other liabilities**

3.467. The only information that shall be provided in the RTS describing the bases and methods used for the valuation of assets, technical provisions and other liabilities that the undertaking considers to be confidential or proprietary.

**D.4 Any other disclosures**

3.468. Any other disclosures considered important to be made by the undertaking in this section.

**E.1 The structure and amount of own funds, and their quality**

3.469. Details on at least:

- a) The own funds structure including terms and conditions of the main features of own fund categories held by the undertaking; and
- b) The forecast level of the undertaking's own funds over a suitable business planning period including appropriately stressed capital plans and any intentions to replace any own funds approaching maturity or plans to raise additional own funds.

**E.2 Minimum capital requirement and solvency capital requirement**

3.470. Any further information on the MCR and the SCR in addition to that required under the SFCR which the undertaking considers would be useful for supervisory purposes, including at least:

- a) The forecast level of the undertaking's MCR and SCR over a suitable business planning period.

**E.3 The option set out in Article 304 used for the calculation of its Solvency Capital Requirement**

3.471. The undertaking or group shall include any information or developments

here that have been the subject of supervisory dialogue in this area that are not deemed appropriate to publicly disclose.

#### **E.4 Differences between the standard formula and any internal models used**

3.472. The undertaking or group shall include any information or developments here that have been the subject of supervisory dialogue in this area that are not deemed appropriate to publicly disclose<sup>50</sup>.

#### **E.5 Non-compliance with the minimum capital requirement and significant non-compliance with the solvency capital requirement**

3.473. The undertaking or group shall include any information or developments here that have been the subject of supervisory dialogue in this area that are not deemed appropriate to publicly disclose.

3.474. The undertaking or group shall also include any information on anticipated future non-compliance with the capital requirements and its plans for ensuring that compliance is maintained.

#### **E.6 Any other disclosures**

3.475. Any other disclosures considered important to be made by the undertaking in this section.

### **Undertakings or Groups with an approved internal model**

#### **F.1 Qualitative internal model information**

3.426. The minimum qualitative information requirements in the in addition or instead of those required for undertakings using solely the standard formula for SCR calculation, as applicable, will encompass:

- a) Disclosure of the activities performed during the year to verify the ongoing compliance with regulatory requirements for internal;
- b) Explanation of the comparison with last year results and its reconciliation, presenting the reasons for any material changes in the level of the SCR;
- c) Explanation of the causes and sources of profits and losses, as defined in Article 123 of the Level 1 text, for each major business unit and how the categorisation of risk chosen reflects those;
- d) The significance to which the risk profile of the undertaking deviates from the assumptions underlying the SCR calculated with its internal model;
- e) Plans for future developments steps of the internal model;
- f) Information on the overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy;

- g) Reconciliation between the Economic Capital and the SCR for the undertakings that use a different time period or risk measure than that set out in Article 101(3) for SCR calculation;
  - h) Information on how capital allocation is done, both for regulatory capital and for the economic capital; and
  - i) Information about future management actions used in the SCR calculation.
- 3.476. In the specific case of partial internal models point a would refer to the ongoing “general” compliance with SCR as well as the specific regulatory requirements for internal models.

## **F.2 Quantitative internal model information**

- 3.477. For quantitative information included within the RTS (not in the quantitative reporting templates) addition to those required in the SFCR are the minimum reporting requirements are expressed below.
- a) SCR as calculated by the internal model;
  - b) Estimate of the SCR according to the standard formula (if applicable);
  - c) A split of undiversified capital charges and adjustment for the loss absorbing capacity of technical provisions and deferred taxes;
  - d) Capital add-on;
  - e) Economic Capital;
  - f) Comparison and reconciliation with last year results (information of paragraphs a to e above);
  - g) Forecasts; and
  - h) Summary report of the validation results performed during the year.

3.478. The level of the detail provided in points a, c, d, e, f and g shall be the lowest level at which the model is used. Group internal models shall provide results by legal entity as well. In the specific case of partial internal models points a, c, g and h of paragraph will encompass also the results modelled by the standard formula with same level of granularity as required for the RTS for undertakings using only the standard formula to calculate the SCR. When applicable supervisory authorities may require undertakings to present the information in point b at a more granular level.

## **F.3 Supplementary information**

3.479. Any other information that the undertaking considers it shall report to the supervisor in relation to its internal model.

### ***3.4.5. Reporting of undertakings own internal reports***

3.480. Supervisory authorities may require a copy of undertakings' regular management information or internal reports or templates (e.g. audit reports, actuarial reports, compliance reports, finance reports) as they deem necessary for the purposes of supervision. These reporting requirements should be assessed on a case-by-case basis taking into account the principle of proportionality and the intensity of the SRP.

#### **CEIOPS' advice**

3.481. Supervisory authorities may require a copy of undertakings' regular management information or internal reports or templates as they deem necessary for the purposes of supervision. These reporting requirements shall be assessed on a case-by-case basis taking into account the principle of proportionality and the intensity of the SRP.

## **3.5 Quantitative reporting templates**

### ***3.5.1. Background***

- 3.482. An important part of the information which supervisors require to monitor and assess undertakings is the quantitative data. CEIOPS is therefore developing quantitative reporting templates to capture standardised quantitative information so that it can be readily understood and analysed. CEIOPS intends to specify at Level 3 the detail on these templates, all of which will be included in the RTS and some of which will also be disclosed in the SFCR.
- 3.483. Harmonisation of the quantitative reporting templates being developed by CEIOPS aims to enhance comparability between undertakings on a cross-border basis, and facilitate review by supervisors, and by the public for those templates included in the SFCR. Harmonisation also reduces the administrative burden for undertakings with cross-border activities.
- 3.484. Annex D of CP58 contained outline quantitative reporting templates. These were included in the consultation to assist the impact assessment contained in Annexes A and B of this Advice. Issues raised in the feedback to CP58 will be addressed when the templates are being reviewed for the Level 3 consultation.

### ***3.5.2. General considerations***

- 3.485. While some quantitative reporting requirements might appear capable of being finalised at this stage, CEIOPS does not believe that defining any of these quantitative reporting templates in detail at Level 2 would be beneficial. One reason is that the final Solvency II requirements depend to a significant extent on other decisions to be taken by the Commission at Level 2. A further reason is that it would limit CEIOPS' ability to respond to changes in the market and supervisors' requirements if the content and format of the quantitative reporting templates are defined at Level 2.
- 3.486. Although draft quantitative reporting templates were set out in Annex D of CP58, it is important that undertakings recognise that these are still subject to further consultation and change, especially following feedback to CP58. New templates or additional detail may be added, while some quantitative reporting templates or details might be removed as a result of further discussions and developments in Level 2 and later at Level 3.

### ***3.5.3. Level of harmonisation***

- 3.487. In order to ensure harmonisation of supervisory reporting and public disclosure requirements and a level playing-field between Member States, CEIOPS considers the quantitative reporting templates should be harmonised on a European level, and be similar and compulsory for all undertakings within the EEA. Besides, the quantitative reporting

templates described in this section and set out in Annex D of CP58 should replace all present national quantitative reporting templates that supervisors collect for supervisory purposes, except for national templates relating to national specificities, local regulations or accounting-specific information which is outside the scope of Solvency II. However, any additional national requirements could be discussed within CEIOPS to ensure a consistent and harmonized implementation of templates, and also an exchange of information on supervisory practices.

- 3.488. National specificities should relate to specificities of national markets or regulations and should be kept at the minimum extent possible. CEIOPS may develop guidance at Level 3 if considered necessary for harmonisation purposes. Examples of national specificities would include collecting data around certain products (e.g. distribution of profits, specific compulsory insurance, specific lines of business or types of insurance undertakings).
- 3.489. Also, on account of the different national GAAPs, which are outside of scope of Solvency II, it will not be possible to submit accounting information in a common template. Therefore, national supervisors should be able to receive information related to statutory accounts from undertakings. CEIOPS intends to further investigate this before delivering Level 3 guidance. In fact, at present many Member States either have specific powers (generally established by national laws) on general purpose financial statements or base the solvency reporting on the accounting balance sheet. The issue of the relationship between the Solvency II information and that based on an accounting basis needs to be further investigated.
- 3.490. CEIOPS is clear that the harmonisation of general purpose financial statements falls outside the scope of the Solvency II Directive, hence accounting valuations will remain ruled by the accounting regimes. Harmonisation of reporting templates concerns information that is specific to the Solvency II regime and should include information which are likely to contain more technical and granular information to allow a deep understanding of the solvency situation of the undertaking in order to appropriately carry out the SRP in a risk-based regime. The templates presented in Annex D of CP58 reflected that and would require information to be submitted on a Solvency II valuation basis<sup>51</sup> which is therefore data that undertakings are required to calculate to fulfil the Directive requirements. CEIOPS also included where appropriate quantitative data from financial statements (accounting figures) that supervisors consider is necessary to collect alongside Solvency II values.
- 3.491. As mentioned, CEIOPS is not harmonising accounting specific information and the limited accounting information suggested in Annex D of CP58 would be submitted by undertakings on the accounting

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<sup>51</sup> See CEIOPS' Level 2 advice on Valuation of assets and "other liabilities" CEIOPS-DOC-31/09 <http://www.ceiops.eu/index.php?option=content&task=view&id=583>.

basis that they use in their financial statement (either IFRS or local GAAP).

- 3.492. CEIOPS recognises that an explanation of the differences between figures in the accounting balance sheet and figures reported in the regulatory balance sheet is important for both public disclosure and supervisory reporting. Therefore, in line with the Solvency II Directive, CEIOPS deems reconciliations between figures in the Solvency II balance sheet and figures in the accounting balance sheet to be important to enable supervisors to properly assess items like the distribution of dividends and the quality and the nature of the equity components.
- 3.493. Furthermore, the Directive does mention in Recital 42 that there should be cooperation and exchange of information between supervisory authorities and national statistical authorities. However, in terms of drawing up harmonised reporting templates across Europe, these templates are nevertheless not meant to take into account, as such, information requirements other than those required for supervisory purposes. For instance, information required by the local taxation authorities is clearly outside the remit of these templates. However, where there are common statistical reporting requirements arising across all countries (for instance from other Directives), then it makes sense to incorporate them where possible (using supervisory data where it is on a consistent or acceptable valuation basis) and for the regulatory authorities then to exchange that data with the relevant bodies.
- 3.494. As mentioned, the quantitative reporting templates are primarily designed to provide information for supervisory purposes. Where the data in the quantitative reporting templates can be used by statistical authorities, this should be used to reduce any additional statistical reporting burden. Any additional statistical data may either be collected directly by national statistical authorities, or by development of the proposed templates (where the data is required across Member States) or otherwise as part of the national specificities data.
- 3.495. The potential burden of providing this statistical data falls outside the scope of the impact assessment as it does not arise as a result of the Solvency II Directive. At the time CEIOPS consults on its Level 3 advice, these items should be included and identifiable within the templates.
- 3.496. Annex C of CP58 explained in more detail why CEIOPS considered these templates as provisional. CEIOPS stresses that undertakings should not start to make any formal arrangements to provide that data, although they may want to start planning on what types of changes could be required to IT systems to extract that detail. It is however expected that much of the information reported on these templates will be information which management should themselves require for monitoring the business under Solvency II and therefore ought to be planning to undertake in any event. Consultation on the Level 3 guidance is expected later.

3.497. Early comments provided by some stakeholders in this area had suggested that CEIOPS look to base these templates on undertaking's own internal management information. As internal management information differs from undertaking to undertaking it will be impossible to produce harmonised templates that fit each undertaking. However, CEIOPS is still very interested to receive templates based on undertaking's own internal management information for Solvency II from stakeholders and consider how such proposals might be developed further.

#### **3.5.4. Quantum of data**

3.498. As set out in Annex A, the content of the quantitative aspects of the RTS is an important element of the impact assessment work that is required on supervisory reporting.

3.499. CEIOPS believes that Option 2 for Issue A in Annex A on quantitative reporting requirements, which would use data requirements similar to those in Annex D of CP58, would best meet the needs of supervisors while also being of relevance of the undertaking's own management of risk. More rationale for this decision is set out in Annex A of this Advice.

3.500. CEIOPS will set out in more detail what data it considers cannot be harmonised and under what conditions specific national reporting templates can exceptionally be set up in its Level 3 consultation.

3.501. In feedback to CP58, undertakings wanted to see how CEIOPS intends to utilise the principle of proportionality in setting the final reporting requirements at Level 3. At this stage, it is envisaged that although there will be some templates that all undertakings will have to complete, there will be (parts of) others that may only be completed for material lines of business. CEIOPS will discuss this further at Level 3.

3.502. At this stage undertakings may not fully understand exactly what each item on the templates covers. However, at the time the final Level 3 advice is consulted on, CEIOPS would also provide full guidance and definitions for each item on the final quantitative reporting templates.

3.503. As part of the quantitative reporting templates to be developed further at Level 3, CEIOPS considers that the quantitative reporting templates could contain a detailed list of individual investments. This solution, already in use in a number of Member States, would enable supervisors to rely on detailed data, in order to have easy and quick access to specific information in case of risks on a specific class or type of asset. In a prudent person principle regime this information is considered to be of important for proper risk-based supervision. Supervisors will thus be able to monitor risks associated with assets (market risk, credit risk, counterparty risk, etc.), both on an entity-specific and market-wide basis.

3.504. Stakeholder comments to CP58 raised the issue of the difficulty to report on performance in a Solvency II environment, especially from a



quantitative perspective, highlighting that a 'Profit and Loss' may not make sense in such a environment. Therefore, CEIOPS recognizes that it needs to reconsider thoroughly in that respect the content of some of the quantitative templates presented in Annex D of CP58, most notably template C2.

- 3.505.CEIOPS does not propose that undertakings should report comparative information within the quantitative templates hence for 2012 year end no previous year's figures are expected.

### **CEIOPS' advice**

3.506.Within reporting requirements, part of the data shall be collected through quantitative reporting templates.

3.507.The templates to be defined by CEIOPS at Level 3 shall be harmonised on a European level, and be compulsory for all undertakings within the EEA. They shall replace all present national quantitative reporting templates that supervisors collect for supervisory purposes, except for national templates relating to national specificities, regulations or accounting-specific information.

### **Internal models**

3.508.It is unlikely that quantitative reporting templates for the SCR figures of undertakings using an approved internal model for SCR calculation will be developed in Level 3 guidance. This is due to the multitude of internal models structures and scopes that may arise. CEIOPS believes the most effective way for undertakings to report the majority of quantitative information is through the RTS – hence the inclusion of quantitative information in the RTS. However, the quantitative reporting templates may be used to report some high level SCR figures. Below is provided the adaptations to be made for internal models for the quantitative reporting templates regarding the SCR calculation as presented in the SFCR.

3.509.With the exception of the SCR tables, all the other general reporting tables should be filled by undertakings using internal models for SCR calculation, when applicable.

#### Full internal models

3.510.For full internal models, the only figures that all undertakings need to report on the SCR<sup>52</sup> would be template B2B in Annex D of CP58, namely "Diversified SCR, excluding capital add-on", "Capital add-ons already imposed" and "SCR".

3.511.Nevertheless, as mentioned above, undertakings will have to report results from their internal models at a more granular level in the RTS.

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<sup>52</sup> If required under Article 112(7), however, certain undertakings may be required to provide additional detail on B2A and B3A to B3F.

### Partial internal models

- 3.512. For partial internal models the question of reporting the SCR becomes more complicated and will depend greatly on the structure of the internal model and how it is integrated in the standard formula, therefore a standard reporting template may not be possible as well. The most straight forward solution would be to ask only (as in template B2B in Annex D of CP58) for the "Diversified SCR, excluding capital add-on" "Capital add-ons already imposed" and "SCR" plus the risk modules results modelled using the standard formula. Nevertheless, as mentioned above undertakings will have to report results from their internal models at more granular level in the RTS.

## **3.6 Process of reporting and disclosure**

3.513. This section contains CEIOPS' proposed advice on Level 2 implementing measures and initial thoughts on envisaged Level 3 guidance material on the process of reporting and disclosure. CEIOPS considers that it is important to look at this process and to harmonise it as far as practical under Solvency II to facilitate convergence and comparability for all undertakings and supervisors.

3.514. In CEIOPS' view, the process of reporting and disclosure covers the following components:

- a) Frequency;
- b) Internal review;
- c) Submission dates;
- d) Format of reporting;

3.515. We consider each of the above in the context of the regular supervisory reporting components (i.e. SFCR, RTS and the quantitative reporting templates<sup>53</sup>).

3.516. In addition, as far as the SFCR is concerned, CEIOPS also has to consider:

- e) How public disclosure is to be achieved.

3.517. CEIOPS has yet to determine how the reports should be submitted to the supervisory authorities. It is likely that this will be in an electronic format, to allow for greatest flexibility. If that approach is adopted, it could have some knock-on effect to the way undertakings provide their public disclosure via the SFCR as it may be simpler to meet the requirements of the supervisory authorities and public disclosure. This may be dealt with in CEIOPS' consultation on Level 3 text later.

3.518. Note that section 3.6.1 and 3.6.2 below do not refer to the quantitative reporting templates which are covered in section 3.6.3 and as mentioned will be split between the SFCR and the RTS as CEIOPS work in this area develops.

3.519. Also in this section CEIOPS has included some initial thoughts on mandating an external audit requirement for disclosure and reporting that it will continue to consider in its Level 3 work.

### **3.6.1. Solvency and Financial Condition Report**

- a) Frequency of reporting<sup>54</sup>

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<sup>53</sup> The quantitative reporting templates would be part of the SFCR or RTS when this material is being further developed.

3.520. Article 51(1) of the Level 1 text requires the SFCR to be completed and disclosed annually. CEIOPS therefore proposes a requirement at Level 2 that undertakings provide the supervisory authorities with an electronic copy of the SFCR.

b) Internal review

3.521. Article 55(2) of the Level 1 text states that the SFCR should be approved by the administrative, management or supervisory body of the undertaking.

c) Submission dates

3.522. CEIOPS considers that the SFCR should be published, and submitted to the supervisor, within 14 weeks after the undertaking financial year end. CEIOPS recognises that such deadlines provide balance between the timeliness and relevance of the information and quality of information disclosed.

3.523. CEIOPS considers this period allows undertakings sufficient time to gather the necessary information as well as to attain sufficient internal and external sign off as appropriate.

3.524. Undertakings may publish this report earlier but supervisors should not require them to publish the report any earlier than mandated.

d) Format of reporting

3.525. CEIOPS believes that a similar structure of the SFCR between undertakings will benefit all who read the public data, as it will be easier to compare data between undertakings and find specific information when it is consistently presented. This was covered in section 3.3.4.

e) How public disclosure is achieved

3.526. In the case of the SFCR, the format of reporting covers not only how the data should be structured (which has already been referred to in section 3.3.4 above) but also how the public disclosure is achieved. This is part of the impact assessment for public disclosure and more detail on the options considered and the rationale underlying CEIOPS conclusions can be found in Annex B (Issue B).

3.527. CEIOPS concluded that most undertakings were likely to make their public disclosures on the internet and, as this is widely accessible, it seemed the best solution. However, recognising that not all undertakings have a website and the Directive's requirement (Recital 38) that paper copies be made available, CEIOPS proposes that:

a) Undertakings and groups that have a website should publish their SFCR and any changes to it on their website, within the timeframe

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<sup>54</sup> Information subject to agreement at Annual General Meeting should be stated in the SFCR and RTS as being conditional upon agreement.

established, and it should be clear from the home page on their website where stakeholders can find this document;

- b) In the case of undertakings which do not have a website but belong to a group or trade association that does have a website, their solo SFCR and any changes to it should be made available on the website of their group or trade association (which may require permission of the trade association). CEIOPS expects that trade associations will allow disclosures on their website if approved by their members. Again, it should be clear from the home page on the group's or trade association's website where stakeholders can find this document. In the case of a solo SFCR disclosed on the website of a parent company where the language of the parent is different to that of the solo undertaking, the solo information should be also described in the official language(s) of the country where that solo undertaking is established; and
- c) In the case of undertakings or groups that do not have a solo, group or trade association website, they should send free of charge a paper copy to any stakeholder who requests their SFCR (together with any changes to it) within 5 business days of receipt of such a request to the registered office of the undertaking or group. However, CEIOPS considers that having a solo, group or trade association website greatly enhances the transparency of the undertaking.

3.528. Irrespective of whether an undertaking discloses its SFCR on a website or not, a paper copy of the SFCR should be sent to any stakeholder who requests a printed copy within 5 business days of receipt of such a request to their registered office. CEIOPS considers this important for stakeholders who want public information to get it easily and on a timely basis.

3.529. The SFCR should remain available through the website and/or on paper for at least 5 years post-completion. If stakeholders require information dating back longer than this, they should make a request to the undertaking who should send them a printed version as soon as possible.

#### **CEIOPS' advice**

3.530. Undertakings and groups shall provide the supervisory authorities with an electronic copy of the SFCR annually following publication by the undertaking. Copies of disclosures under Article 54(1) shall also be submitted electronically.

3.531. The qualitative SFCR shall be approved by the administrative, management or supervisory body of the undertaking.

3.532. Undertakings and groups shall publish and submit to the supervisor their SFCR within 14 weeks after their financial year end.

3.533. Undertakings and groups that have a website shall publish their SFCR and any changes to it on their website, within the timeframe established. In the case of undertakings which do not have a website

but belong to a group or trade association that does have a website, their SFCR shall be made available on the website of their group or trade association.

3.534. Irrespective of whether an undertaking or group or trade association discloses its SFCR on a website, a send copy of the SFCR shall be delivered to any stakeholder who requests a printed copy within 5 business days.

### **3.6.2. Report to Supervisors**

#### **a) Frequency of reporting**

3.535. Article 35 states that Member States shall require undertakings to submit to supervisory authorities the information which is necessary for the purposes of supervision. CEIOPS considers an annual reporting requirement for the RTS best meets the objectives set by the European Commission.

3.536. The frequency of reporting is another area of supervisory reporting which is subject to the impact assessment and further details can be found in Annex A (Issue A\*). CEIOPS has sought to try and ensure that the annual qualitative RTS reporting requirements are proportionate for undertakings by aligning the reporting of the qualitative RTS with a detailed review of the undertaking under the SRP.

3.537. On the first financial year end after the Directive comes into force<sup>55</sup>, all undertakings will be required to complete a full qualitative RTS. In subsequent years, CEIOPS' view is that unless they are notified by the supervisory authority that they have to complete the full qualitative RTS annually, those undertakings should instead provide a qualitative RTS that sets out material changes that have occurred in their business over the reporting period from the reporting requirements of the RTS, or, state that no material changes have occurred<sup>56</sup>. The RTS that is submitted each year, whether full or containing material changes should however contain all the information provided annually in the SFCR.

3.538. The term 'full qualitative RTS' is used to signify the fact that undertakings will be required to complete all the reporting requirements set out in section 3.4.3. The term 'material changes' is used to signify that the undertaking is not required to comply with all the reporting requirements set out in section 3.4.3 but only to highlight to the supervisor those areas in section 3.4.3 where material changes have occurred in its business over the reporting period for the supervisor to note.

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<sup>55</sup> CEIOPS has asked the European Commission if these requirements come into force on 31 October 2012 i.e. if undertakings have to comply with these requirements on their first financial year end following this date.

<sup>56</sup> This is consistent with the CEIOPS' Issues Paper on the "Supervisory Review Process and Undertakings' Reporting Requirements" which states that the frequency and intensity of supervisory actions should be based upon the risk profile of each undertaking.

3.539. The frequency of submission of a full qualitative RTS for undertakings which are not subject to an annual detailed assessment as part of their SRP should be set by their supervisory authority. CEIOPS believes that the maximum period between full reports should not be more than five years.

3.540. For those undertakings which are not required to report a complete full qualitative RTS annually, CEIOPS considers that material changes to be reported annually on contents specific to the RTS are likely to include at least:

- A.1-5: Business and performance – CEIOPS expects that for most undertakings the business and external environment is likely to change over the reporting period, along with the underwriting performance and investment performance;
- B4: ORSA: CEIOPS expects that the results of the assessment to fulfil the ORSA requirement will change over the reporting period as the ORSA is a continuous process;
- C1-7: Risk management – CEIOPS expects that an undertaking's risk profile may change and for most undertakings is unlikely to be stable;
- D1-4: CEIOPS expects that the undertaking regulatory balance sheet will change over the reporting period;
- E1-6: Capital management – CEIOPS expects that the undertaking will be continually monitoring its solvency needs, both current and in the future, and that for most undertakings these will change over time as the undertakings' risk profile changes; and
- For groups: Intra group transactions (IGT) and risk concentration – CEIOPS expects that IGT and risk concentration will be continually monitored by groups.

3.541. In the majority of cases CEIOPS expects that an undertaking's system of governance will not materially change over the year. However, if an internal reorganisation occurs or an acquisition is made during the year, the supervisory authority would expect to receive details on any material changes to the system of governance (this could also be informed to the supervisor as part of pre-defined events).

3.542. It is worth noting that submitting material changes (or the absence of them) being reported at least annually does not prevent supervisors from requiring undertakings to report material changes as and when they happen. This is consistent with Article 35(1) requiring undertakings to submit information which is necessary for the purposes of supervision.

b) Internal review

3.543. The qualitative RTS should be approved by the administrative, management or supervisory body of the undertaking.

c) Submission dates

3.544. The RTS<sup>57</sup> should be submitted within 14 weeks after the undertaking's financial year end. As noted earlier, CEIOPS recognises that deadlines provide balance between timelines, relevance and quality of information provided. CEIOPS' intention is that the submission time will be consistent with that set for the SFCR as the two reports are related. Undertakings can submit this report earlier but supervisors should not require them to submit the report any earlier.

d) Format of reporting

3.545. As indicated in section 3.4.3, CEIOPS believes that harmonisation of the structure of the RTS will benefit the supervisory process, as it will be easier to compare data between undertakings and find specific information when it is consistently presented. The RTS should be submitted electronically to the supervisory authorities.

**CEIOPS' advice**

3.546. The full qualitative RTS shall only be provided on all the requirements specified for the RTS for undertakings or groups with a risk profile such that they are subject to an annual detailed assessment as part of their SRP. Unless they are notified by the supervisory authority that they have to complete the full qualitative RTS annually, those undertakings not required to complete a full qualitative RTS shall instead provide material changes that have occurred in their business over the reporting period from the reporting requirements of the RTS, or state that no material changes have occurred.

3.547. The frequency of submission of a full qualitative RTS for undertakings which are not subject to an annual detailed assessment as part of their SRP shall be set by their supervisory authority.

3.548. The maximum period between full reports shall be no more than five years.

3.549. Undertakings and groups shall provide the supervisory authorities with the qualitative RTS (whether full or providing only material changes) electronically.

3.550. Undertakings or groups shall provide the supervisory authority with an annual RTS within 14 weeks after the end of the undertaking's financial year.

3.551. The qualitative RTS shall be approved by the administrative, management or supervisory body of the undertaking.

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<sup>57</sup> This is either the full RTS, or if this is not requested, the RTS stating the material changes have taken place over the reporting period.



### **3.6.3. Quantitative reporting templates**

3.552. In the same way as for the qualitative RTS, the requirements for the quantitative reporting templates will have a significant impact for undertakings. It is worth mentioning that for some of the issues covered below, there clearly needs to be consistency with the conclusions reached for the SFCR and the qualitative RTS.

#### **a) Frequency of reporting**

3.553. The frequency of reporting the quantitative reporting templates is considered in the impact assessment in Annex A (Issue B). For undertakings, the frequency with which the data is required to be collated and submitted to the supervisory authorities represents a cost. CEIOPS' view is that a limited range of the total quantitative reporting templates would be required quarterly, along with annual submission of all the quantitative reporting templates that are appropriate for each undertaking.

3.554. As a minimum, for example information on the MCR has to be reported quarterly in line with the Directive (Article 129(4)). However the MCR can not really be looked at in isolation by supervisors. CEIOPS has therefore sought to outline which information would be required quarterly to allow the supervisory authorities to monitor the MCR and understand the circumstances of the undertaking at that time.

3.555. The data submitted quarterly is regarded as 'core' information, and would be augmented at the year end with additional data, some of which might be required to be externally audited.

3.556. Therefore this would mean:

- Annual quantitative reporting templates contain all the financial and solvency information; and
- Quarterly quantitative reporting templates would consist of 'core' financial and solvency information (i.e. a subset of the annual quantitative reporting requirements) such as the MCR, SCR<sup>58</sup>, liabilities including technical provisions, premiums and claims, data on assets including investments and own funds.

3.557. Most of these 'core' data will be required from all undertakings, but CEIOPS may consider at Level 3 the extent to which the proportionality principle might apply (but bearing in mind that, with the quarterly MCR being a Directive requirement and certain other information being required to understand the context of an MCR figure, there may be limited scope). Of course, CEIOPS may also be considering at Level 3 the extent to which the proportionality principle applies to the completion of the annual data.

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<sup>58</sup> CEIOPS considers that for undertakings using an approved internal model a sufficiently sophisticated quarterly calculation of the SCR would be acceptable.

3.558. At Level 3, CEIOPS will also provide details of which reporting templates it considers should be submitted annually and which should be submitted quarterly. At Level 2, CEIOPS does not believe it can define the precise information or templates that will form the 'core' data.

3.559. CEIOPS also considers it is essential that group reporting is consistent with the solo one and will provide consistent reporting at solo and group level in due time. CEIOPS will consult in a further stage on the quantitative requirements templates for groups.

b) Internal review

3.560. All quantitative reporting templates should be approved by the administrative, management or supervisory body of the undertaking.

c) Submission dates

3.561. In line with the SFCR and the RTS, undertakings should provide the annual quantitative reporting templates within 14 weeks of their financial year end. Undertakings would be permitted to submit this report earlier but supervisors should not require them to submit the report any earlier.

3.562. CEIOPS also proposes that those quantitative reporting templates which will be provided quarterly should be reported no later than 4 weeks after the every quarter end (including for the fourth quarter).

d) Format of reporting

3.563. This aspect of supervisory reporting is subject to impact assessment, and is dealt with as Issue D in Annex A. As has been stated earlier, although the templates are still provisional and will only be determined at Level 3, understanding the likely reporting requirements is a fundamental part of assessing the impact on undertakings of the decisions taken at Level 2. This is one of the reasons the quantitative reporting templates have been included in this paper. CEIOPS' preference is for the quantitative data to be in a harmonised format (Option 3).

3.564. At Level 3, CEIOPS may be consulting on the means by which undertakings will submit this harmonised information to the supervisory authorities. This should be submitted to the supervisory authorities electronically and it is likely that this will follow a harmonised approach for all Member States, allowing easier comparison and sharing of data across Europe. That method of submission is also likely to apply to any national data requirements which cannot be accommodated within the harmonised framework.

### **CEIOPS' advice**

3.565. Quarterly quantitative reporting templates information shall be reported no later than 4 weeks after the every quarter end (including for the fourth quarter).

3.566. Annual quantitative reporting templates information shall be reported no later than 14 weeks after the year end.

3.567. All quantitative reporting templates shall be approved by the administrative, management or supervisory body of the undertaking.

3.568. All quantitative reporting templates shall be submitted electronically to the supervisory authorities.

#### **3.6.4. Summary Table – Process of Reporting**

	<b>SFCR</b>	<b>RTS</b>	<b>Quantitative reporting templates (to be included in the SFCR and RTS as CEIOPS' work develops)</b>
<b>Frequency</b>	Annually	Full RTS annually for undertakings subject to annual detailed assessment as part of SRP  Annual RTS on material changes to the full requirements for undertakings not subject to annual detailed assessment as part of SRP.	Quarterly <sup>59</sup> and Annually
<b>Submission date<sup>60</sup></b>	Within 14 weeks of an undertaking's financial year end.  Groups: Up to additional 4 weeks	Within 14 weeks of an undertaking's financial year end.  Groups: Up to additional 4 weeks	Within 4 weeks for quarterly quantitative reporting templates after the quarter end.  Within 14 weeks for the full quantitative reporting templates after undertaking's financial year end.
<b>Format</b>	Electronically, following a common structure as developed by CEIOPS.	Electronically, following a common structure as developed by CEIOPS.	Electronically, following a common standardised template format as developed by CEIOPS.

<sup>59</sup> At this stage, it is envisaged that all quarterly information will be private to the supervisor.

<sup>60</sup> Please see 3.571 for transitional extensions

<b>Internal approval by administrative, management or supervisory body</b>	Yes	Yes	Yes
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3.569.CEIOPS recognises that due to the timing of the Level 3 advice, expected to be finalised in Q4 2011, additional time may be needed in the first few years after the implementation of the Solvency 2 regime (October 2012) to embed the reporting and disclosure regime and meet the deadline above.

3.570.CEIOPS therefore proposes a transitional period of two years after the implementation of Solvency II where the annual deadlines for the SFCR and the qualitative and quantitative reports under the RTS and the deadlines for the quarterly quantitative reporting should be extended. Until the 31<sup>st</sup> October 2013 CEIOPS proposes to extend the annual deadlines for the SFCR and the qualitative and quantitative under the RTS by 6 weeks and the quarterly deadlines for the quantitative reports by 2 weeks. Between the 1<sup>st</sup> November 2013 and the 31<sup>st</sup> October 2014 CEIOPS proposes to extend the annual deadlines for SFCR and the qualitative reports and the quantitative reporting templates under the RTS by 4 weeks and the deadlines for the quarterly quantitative reports by 1 week. CEIOPS believes that this should assist undertakings in complying with the requirements immediately after implementation.

#### **CEIOPS' advice**

3.571.A transitional period of two years after the implementation of Solvency 2 shall occur where the annual deadlines for the SFCR and the qualitative reports and the quantitative reporting templates under the RTS and the quarterly deadlines for the quantitative reports shall be extended by CEIOPS. Until the 31<sup>st</sup> October 2013, the annual deadlines for SFCR and the qualitative and quantitative reports under the RTS shall be extended by 6 weeks, and the quarterly deadlines for the quantitative reports shall be extended by 2 weeks. Between the 1<sup>st</sup> November 2013 and the 31<sup>st</sup> October 2014, the annual deadlines shall be extended by 4 weeks, and the quarterly deadlines shall be extended by 1 week.

#### ***3.6.5. Submission dates for group reporting requirements***

3.572.CEIOPS Members consider that groups SFCR and groups RTS could be allowed to have an additional delay of at most 4 weeks. The exception should be when the group applies for the single SFCR, in which case solo requirement should apply given that this report includes the solo data. As to the single ORSA, that should not have any affect on the disclosure requirements, given that nevertheless the solo ORSA is developed at group level, the group should have to indentify each solo ORSA and report that to the solo undertaking to be used within its management, disclosed (if has not applied to the single SFCR) and reported within the RTS to the solo supervisor (the Directive does not foresee any single RTS). In all cases, groups should publish material information and report to their supervisor as soon as practicable and not later than deadlines set by like requirements in national law

#### **CEIOPS' advice**

3.573.CEIOPS consider that groups SFCR and groups RTS could be allowed to have an additional delay of at most 4 weeks. The exception shall be when the group applies for the single SFCR, in which case solo requirement shall apply given that this report includes the solo data.

### ***3.6.6. Considerations of mandating an external audit***

3.574.Without prejudice to the reporting duties of auditors as laid down in Article 72 of the Level 1 text, CEIOPS has had some tentative discussions to consider the question of whether there should be a mandated requirement to subject the supervisory reporting requirements to a sign-off by an external auditor. Discussions have also taken place with external stakeholders around what undertakings and external auditors consider appropriate to be subject to an external audit and what the scope of assurance provided by an external auditor should be.

3.575.A number of countries require existing supervisory reporting by undertakings to be subject to audit, and therefore the question of the extent of the supervisory reporting and public disclosure to be externally audited arose. This clearly has an impact on undertakings and is another issue on which an impact assessment is required which for the quantitative reporting templates only is addressed in the impact assessment in Annex A (Issue C). This does not mean that the qualitative data should not be subject to an external audit.

3.576.In CEIOPS' view it is difficult to provide firm conclusions at this stage on what should be subject to an external audit and what the level of assurance should be while the supervisory reporting and public disclosure requirements are still under development. However, CEIOPS considers it appropriate to subject some of the supervisory reporting and public disclosure requirements to an external audit but concrete proposals on this and on what level of assurance is required will be provided at Level 3. CEIOPS recognises that some of the information required to be reported may currently be under the scope of the statutory audit, so would be little extra effort to review for consistency in the supervisory reporting requirements. This may not be the case, however, where the basis for reporting is different from the accounting one. CEIOPS also recognises, and has had discussions around, the implications for requiring an external audit of an approved internal model.

3.577.At this stage, regarding the quantitative reporting templates only, CEIOPS that not all quantitative reporting templates should be externally audited, and its preference is to determine on Level 3 the quantitative reporting templates that should be externally audited (i.e. Option 2 in Annex A (Issue C)). CEIOPS does not propose that the quarterly quantitative reporting templates should be subject to any form of external audit (unless the undertaking deems it necessary to have

this additional assurance). CEIOPS may consider the level of assurance to be provided by external auditors further at Level 3.

3.578.To provide stakeholders with some tentative conclusions, CEIOPS considers that the following reporting requirements could be subject to an external audit:

CEIOPS considers the following could be subject to an external audit	Reference: In CEIOPS Draft Qualitative Reporting Requirements ("QRR") or in the Quantitative Reporting Templates ("QRT")
<u>Own funds disclosure</u>	
Structure, amount and quality of own funds	QRR
Own funds	QRT
Accounting reconciliation to regulatory own funds	QRR
Details on non compliance with MCR and significant non compliance with SCR	QRR
<u>Assets, liabilities and capital requirements</u>	
Balance sheet	QRT
Basis, methods and assumptions used for valuation of assets	QRR
Summary investments by class	QRT
Life - changes in own funds	QRT
Basis, methods and assumptions used for measurement of technical provisions	QRR
Life technical provisions	QRT
Life technical provisions roll forward analysis	QRR
Non-Life technical provisions	QRT
Non-life technical provisions roll forward analysis	QRR

Basis for measurement and other information on other liabilities	QRR
Expected maturities of assets and liabilities	QRR
MCR	QRT
SCR – standard formula	QRT
<u>Income, expenses, gains and losses</u>	
Basis and assumptions for revenue and expense recognition	QRR
Profit and loss account	QRT
Life revenue analysis	QRT
Life premiums and technical provision movements	QRT
Non-life technical account per class	QRT
Non-life development information	QRT
Profit distribution for with profit funds	QRT
Valuation basis non-life (quantitative assumptions)	QRT
Valuation basis life (quantitative assumptions)	QRT

### **CEIOPS' advice**

3.579. Some quantitative standardised templates and some quantitative elements of narrative reporting requirements, to be specified at Level 3, shall be subject to an external audit.



### **3.7. Supervisory reporting and public disclosure following pre-defined events and supervisory enquiries**

#### **3.7.1. Pre-defined events**

3.580. In line with Article 35 (2)(a)(ii), besides regular supervisory reporting (annual SFCR, RTS and annual or quarterly quantitative reporting templates), supervisors should have the power to require information to be submitted upon occurrence of pre-defined events that may affect the main objective of supervision namely the protection of policyholders and beneficiaries.

3.581. These are events that can lead to material changes in the undertaking or the group's risk profile, for example, material changes to its solvency level, capital requirements or governance structure. Undertakings should not be required to report this information if it has already done so as part of the approvals (including an internal model approval which is outside the scope of this paper), permissions, authorisations process, and any breaches of any law regulations or administrative measures which the undertaking is subject to. This information should be reported by undertakings as soon as possible after the event and depending on the nature of the event supervisors may ask for undertaking's to report information on a regular basis over a period of months or years to monitor the situation of the undertaking.

#### Predefined events affecting an undertaking

3.582. It would be impossible to predefine all possible future events that may affect undertakings. However, to provide stakeholders with an indication of what may be considered as such predefined events, it could include for example:

- a) Changes in business strategy including delays to implementing strategy;
- b) Internal organisational restructure:
  - details of any significant reorganisation and reasons for change;
- c) Significant lawsuits with a reasonable chance of success being brought against the undertaking, information should be provided on:
  - nature of the lawsuit and any legal opinion received by the undertaking; and
  - potential impact of the lawsuit on the undertaking and mitigation plans if lawsuit ruling is against the undertaking;
- d) Material changes in own funds levels; MCR, SCR or Technical Provisions:
  - amount and reason for change; and

- consideration of any potential or actual consequence of changes;
- e) New emerging or crystallised material internal or external risks:
  - details of emerging or crystallised risks; and
  - information on its potential or actual impact and mitigation plans in place;
- f) Emergence of new future material or significant claims (previously not included in the last reported technical provisions);
- g) Significant governance failures;
  - details of the governance failure and the impact of failure on undertaking; and
  - action taken in response to governance failure

#### **CEIOPS' advice**

3.583.Undertakings or groups shall report to supervisors any information that is necessary for the purpose of supervision following the occurrence of an event that could affect the protection of policyholders.

3.584.These are events that can lead to material changes in the undertaking or the group's risk profile as long as this is not already reported as part of the approvals, permissions or authorisations process.

3.585.This information shall be reported as soon as possible after the event and depending on the nature of the event supervisors may ask for undertaking's to report information on a regular basis over a period of months or years to monitor the situation of the undertaking.

3.586.In relation to the SFCR, Article 54(1) states that after a major event affecting significantly the relevance of the information publicly disclosed in the SFCR, undertakings shall publicly disclose appropriate information on its nature and effects. Such events shall include at least MCR non-compliance (including allowance for requirements around a short-term realistic finance scheme) or SCR non-compliance (including allowance for requirements around a realistic recovery plan). The Directive sets out detailed requirements around these two areas.

3.587.However, the undertaking should update its SFCR in the event of other significant developments affecting the relevance of the information disclosed. This should be published immediately following the occurrence of the event and should be sent to supervisors at the same time as the information is published.

### **CEIOPS' advice**

3.588.Undertakings shall update its SFCR in the event of any significant developments affecting the relevance of the information disclosed.

3.589.Undertakings shall submit any updated SFCR to the supervisor at the same time as it is published.

### **3.7.2. Supervisory enquiries**

3.590.As stated in Article 35(2)(a)(iii), besides regular supervisory reporting (annual SFCR, RTS and annual or quarterly quantitative reporting templates) and reporting after pre-defined events, supervisors should have the power to request information which is necessary for the purpose of supervision during enquiries regarding the situation of the undertaking. Depending on the nature of the enquiry, supervisors may ask for undertaking's to report information on a regular basis over a period of months or years to monitor a specific situation of the undertaking.

3.591.CEIOPS interprets 'enquiries' in Article 35(2)(a)(iii) as meaning any assessment of the undertaking made by the supervisor either during off-site analysis or on-site inspections. Enquiries do not have to be part of a formal assessment. Such enquiries could include, for example, questionnaires sent to all undertakings, request for further information on a specific issue or access to any relevant documents during on-site inspections.

3.592.These enquiries could be designed for one specific undertaking, to a specific segment of the market or to all undertakings and they may address specific information to be received by supervisory authorities regarding particular topics.

3.593.These enquiries should not place an undue burden on the undertaking and should be relevant to the protection of policyholder interests. Information from the undertaking should be reported to the supervisor in a clear and understandable manner, include all relevant information and be received by the supervisor on a timely basis following the request.

### **CEIOPS' advice**

3.594.Besides regular supervisory reporting and reporting after pre-defined events, supervisors shall have the power to request any information which is necessary for the purpose of supervision during enquiries regarding the situation of the undertaking. Depending on the nature of the enquiry, supervisors may ask for undertaking's to report information on a regular basis over a period of months or years to monitor a specific situation of the undertaking.

3.595.CEIOPS interprets 'enquiries' as meaning any assessment of the undertaking made by the supervisor either during off-site analysis or on-site inspections. Enquiries do not have to be part of a formal

assessment.

3.596. These enquiries could be designed for one specific undertaking or group, to a specific segment of the market or to all undertakings or groups and they may address specific information to be received by supervisory authorities regarding particular topics.

3.597. Information from the undertaking or group shall be reported to the supervisor in a clear and understandable manner.

### **3.7.3. Information on contracts and from external experts**

3.598. Article 35(2)(b) states that supervisors can obtain any information regarding contracts which are held by intermediaries or regarding contracts which are entered into with third parties. CEIOPS expects to obtain this information where it considers necessary and important for the purposes of supervision. Supervisors could request such information, as deemed necessary during the course of the SRP, as material insurance or reinsurance contracts (both written or accepted), details of financial arrangements such as committed borrowing facilities or debt raising, contracts relating to the outsourcing of critical or important functions etc.

3.599. If contracts are held by third parties, for example, if a broker is writing business on behalf of the insurer, CEIOPS expects that the insurer either has, keep copies of or has immediate access to, these contracts as part of its records management procedures.

3.600. Contracts requested by the supervisor from the undertaking, either during on-site inspections or off-site analysis, should be received on a timely basis following the request and include full details of the contract.

3.601. Supervisors would normally expect to obtain any information from third parties or external experts through requests made directly to the undertaking. However, there may be occasions when the supervisor considers it necessary to make these requests directly to the third party or external expert, for example, if the supervisor needs information in a very short timeframe or where the undertaking is under investigation.

#### **CEIOPS' advice**

3.602. The information to be obtained from undertakings on contracts which are held by intermediaries or regarding contracts which are entered into with third parties shall be requested where it is considered necessary and important for the purposes of supervision.

3.603. The undertaking shall have, keep copies of or have immediate access to, contracts held by third parties.

3.604. Article 35 (2)(c) states that supervisors can require information from external experts, such as auditors and actuaries (which may include an independent actuarial sign-off on the level of technical provisions). If this information does not already exist, supervisory authorities should

explain why they need this information. CEIOPS expects the nature of the information requested will vary from undertaking to undertaking depending on the work the external experts carry out with the undertaking. However, as an example, information that supervisors may request from external expert could include an external audit report setting out findings from an external audit review of the undertaking's internal controls or an external actuarial report setting out an opinion from an external actuarial review of an undertaking's technical provisions calculation.

- 3.605.If relevant information is held by the external experts, CEIOPS expects that the insurer either has or had immediate access to this information as part of its records management procedures. The request for this information should therefore be made to the undertaking and not the external expert unless the supervisor deems it appropriate to obtain the information direct from the external expert.

#### **CEIOPS' advice**

- 3.606.Supervisors expect that the undertaking or the group either has or had immediate access to the information from external experts, such as auditors and actuaries as part of its records management procedures.
- 3.607.Information requested by the supervisor from the undertaking or the group, either during on-site inspections or off-site analysis, shall be received on a timely basis following the request and include full details of the scope and findings of the work performed.

## **Annex A**

### **Impact assessment – Supervisory reporting**

#### **Background**

3.608. In its Call for Advice of 1 April 2009, the Commission has asked CEIOPS to contribute to the Commission's impact assessment of the Level 2 implementing measures<sup>61</sup>. To this end, a list of issues has been set up by the Commission and CEIOPS, identifying the Level 2 implementing measures that should be accompanied by an impact assessment. On 12 June 2009, the Commission issued an updated list of policy issues and options, to which reference is being made<sup>62</sup>. This impact assessment covers issue 5 of the list of policy issues and options.

3.609. Two summary tables accompany the impact assessment, published in a separate excel document<sup>63</sup>

3.610. In considering the requirements arising under Article 35, the operational objectives set out for supervisory reporting under Solvency II by the European Commission<sup>64</sup> are to (references after the objectives refer to the chapter in the EC Impact Assessment Report):

- a) Introduce proportionate requirements for small undertakings (objective 3.3.4);
- b) Harmonise supervisory reporting (objective 3.3.6);
- c) Promote compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB (objective 3.3.8); and
- d) Ensure efficient supervision of insurance groups and financial conglomerates (objective 3.3.10).

#### **Description of the policy issues**

3.611. Under Article 35 of the Directive, supervisory authorities shall require (re)insurance undertakings to submit to the supervisory authorities the information necessary for the purposes of supervision. Although the Article envisages reporting in three different situations (at predefined periods, upon occurrence of predefined events, and during enquiries regarding the situation of a (re)insurance undertaking), the impact assessment only relates to the collection of information at predefined periods.

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<sup>61</sup> <http://www.ceiops.eu/media/files/requestsforadvice/EC-april-09-CfA/EC-call-for-advice-Solvency-II-Level-2.pdf>

<sup>62</sup> <http://www.ceiops.eu/media/files/requestsforadvice/EC-June-09-CfA/Updated-List-of-policy-issues-and-options-for-IA.pdf>.

<sup>63</sup> See summary tables at <http://www.ceiops.eu/index.php?option=content&task=view&id=609>

<sup>64</sup> See Chapter 3 of the EC Impact Assessment Report at [http://ec.europa.eu/internal\\_market/insurance/docs/solvency/impactassess/final-report\\_en.pdf](http://ec.europa.eu/internal_market/insurance/docs/solvency/impactassess/final-report_en.pdf).

3.612. From the list of policy issues and options published by the Commission, CEIOPS has looked to further clarify the detail of these issues and options. The impact assessment for supervisory reporting covers five inter-related issues, for which a number of options have been considered. These options were considered by CEIOPS as it developed the policy contained within the main sections of this paper. The issues and options considered are:

#### **Issue A. Content of quantitative reporting templates in the RTS**

- Option 1. Collect QIS4 template data for supervisory reporting purposes going forward.
- Option 2. Collect the data listed in Annex D of CP58.
- Option 3. Collect the template data listed in Annex D of CP58, enriched with the data listed in Annex E of CP58.

#### **Issue A\*. Content of the qualitative aspects of the RTS**

- Option 1. The RTS on every occasion contains complete information on the subjects specified in section 3.4.3 of this paper.
- Option 2. Undertakings will provide a full report for the first year and thereafter on a frequency is to be established by the supervisory authority, depending on the risk profile of the undertaking. In the intervening years, undertakings will provide information only on those topics (specified in section 3.4.3 of this paper) where material changes have occurred, or state that no material changes have occurred.

#### **Issue B. Frequency of the RTS**

- Option 1. All data is provided quarterly.
- Option 2. 'Core' quantitative data is provided quarterly, while all quantitative reporting templates and all the qualitative data are provided annually.
- Option 3. All data is provided annually unless more frequent submission is required in the Directive.

#### **Issue C. Level of assurance on quantitative reporting templates**

- Option 1. All quantitative reporting templates are externally audited annually.
- Option 2. Specific quantitative reporting templates are externally audited annually, with the remainder unaudited.

#### **Issue D. Reporting format**

- Option 1. Standardised reporting formats for all information.

- Option 2. Free format reporting for all information.
- Option 3. Quantitative reporting templates in a standardised reporting format and qualitative data following a predefined order but in free format.

### **Analysis of issue A: Content of quantitative reporting templates in the RTS**

- Option 1. Collect QIS4 template data for supervisory reporting purposes going forward.
- Option 2. Collect the data listed in Annex D of CP58.
- Option 3. Collect the template data listed in Annex D of CP58, enriched with the data listed in Annex E of CP58.

### **Impact on industry, policyholders and beneficiaries and supervisory authorities**

#### **Interrelated issues**

3.613. The content of the qualitative supervisory reporting cannot be considered isolation. The impact on undertakings and supervisors, and policyholders as a consequence, is not merely a function of the quantity and complexity of the data to be collected, but also of the frequency of the data (a lot of data very frequently may overload supervisors as well as undertakings that have to produce the data). Similarly, the volume of data and the extent to which any data is required to be audited will have an impact on the costs for undertakings, and that may in turn impact upon the time allowed for submission of the data (and vice versa) and the format in which the data has to be submitted.

#### **- Policyholders and beneficiaries**

3.614. The impact of each of the options for this issue on policy holders is similar, although there may be differences in the size of the impact. In each case, the impact is likely to manifest itself in terms of the additional overheads that undertakings face in providing the data to the supervisory authorities, over and above those costs which the undertaking would face without regular reporting to the supervisory authorities. These costs are likely to feed through indirectly into either increased premiums or reduced benefits caused by higher costs. Of course, there will already be a degree of costs which the undertakings are already incurring under Solvency I and passing on indirectly to policy holders or other beneficiaries. On the other hand, the policyholders do get some indirect benefit of supervisory reporting. The information on the RTS will be received by supervisors as part of the



Supervisory Review Process, and that is likely to lead to enhanced policyholder protection.

- 3.615. Under option 1, this should involve the least cost to undertakings and therefore the best solution as far as policyholders and other beneficiaries are concerned from a cost perspective. On the other hand, as the data is designed for the QIS calibration exercises and not supervisory purposes, there is a greater risk that inherent issues within an undertaking may be missed, with a more damaging effect on policyholders and beneficiaries protection.
- 3.616. Option 2 will undoubtedly be more costly than option 1 for undertakings, meaning that the impact on premiums or benefits may be greater. However, given the level of detail of the quantitative data in that option which has much greater alignment with the risk profile than option 1, undertakings would be expected to have required that information for its own management to run the business in a prudent manner, and that would already be an impact of the Level 1 text (rather than as a result of this proposal). The greater detail available to supervisory authorities and the greater alignment with an undertaking's risk profile should lessen the likelihood of there being any adverse risk factors affecting the undertaking, thereby giving a greater degree of comfort to policyholders and beneficiaries.
- 3.617. The yet greater level of detail that would be required under Option 3 than under options 2 or 1 would inevitably lead to even greater costs for undertakings. Furthermore, as pointed out in Annex 3, the extra level of detail cannot be argued as easily to be wholly risk based and therefore aligned to the needs of management, suggesting that a greater proportion of the costs would be directly attributable to these requirements, with the consequently greater impact on policyholders and beneficiaries. There is unlikely to be a significant difference in terms of the risk of underlying issues being uncovered by supervisory authorities between this option and option 2, suggesting the extra data would not significantly change the level of comfort that can be assumed by stakeholders.

#### **- Industry/(re)insurance undertakings**

- 3.618. With each of the options, the most likely impact on the undertakings will be in terms of the direct costs of initially setting up systems to extract the data, then to subsequently verify the data and maintain the systems. However, regardless of the option chosen, the reporting systems will need to change with the implementation of Solvency II, so there will be initial costs whichever option is adopted.
- 3.619. A number of undertakings have contributed to the QIS exercises that have been run to date. The level of participation was very different among Member States but the overall participation, at least on a best efforts basis, was quite satisfactory. However, it is known already that QIS5 will introduce a large number of changes and it is difficult to know

at this stage what the 'QIS4 alike' data will be. Thus, if option 1 is adopted, there will be costs for almost all undertakings in developing systems to present the data in a formalised manner on a regular basis. Prima facie, this option is likely to incur the least costs for undertakings. However, this data on its own is unlikely to be sufficient for management for the running of the business, due to the high level of aggregation, and will need to be augmented by other management information. There is also likely to a greater number of ad hoc requests from supervisory authorities, if this option was adopted, at a cost to management time addressing them in a non-standard format.

3.620. Option 2 on the other hand has a greater focus on risk-based supervision in a more comprehensive manner and the information that is required by supervisory authorities and arguably by management to identify and understand the risks. To that extent therefore, it is thought that a much greater percentage of the data will be required by management to ensure they understand the risks being run within their undertakings, even if there was less reporting to the supervisory authorities. Thus the incremental cost in providing the data to the supervisory authority really depends upon the additional process that management will go through prior to providing the data to the supervisory authority. Even to the extent that an undertaking would not have used the data for internal management purposes initially, it is likely that the information will indirectly lead to improved management of the undertaking, to the benefit of all.

3.621. Option 3 requires the submission of more data than option 2, with much of the additional data appearing less risk-based. This is likely to mean that more of the costs of providing the additional data arise as a result of these requirements to the supervisory authority, and not their own risk management.

#### **- Supervisory authorities**

3.622. As option 1 is less risk-based, it suggests that there will need to be a greater supervisory involvement to collect other relevant risk-based data if this option was selected. Thus although there may be less regular data to process and analyse, it will require more data on an ad hoc basis, and in a non-standard format, which will increase the supervisory resources required to monitor undertakings. The fact the data is based on the QIS4 exercise, which was designed more for benchmarking and calibration than on-going risk-based supervision, will not reduce the overheads in setting up reporting systems or analysis tools – these would have to be developed from scratch to analyse the data in a different way from the QIS4 exercise.

3.623. Option 2 is more risk-based, suggesting that the cost incurred by supervisory authorities in on-going monitoring of undertakings from this package of data is likely to be lower than under option 1. On the other hand, while there may still be ad hoc reporting required, this should be significantly reduced over option 1, reducing overheads on that. The

costs of systems development and analytical tools are likely to be higher than under Option 1, although it will deliver more effective and efficient supervision.

3.624. Option 3 involves a greater quantity of detail being collected and analysed, requiring greater costs in setting up systems and developing the tools for analysis of the data. This is also likely to mean higher manpower costs as well, as the extra detail does not replace other supervisory actions but adds to the potential workload. There is an indirect impact on the supervisory authorities in that, if there are any issues that arise at an undertaking that could have been identified within the data provided but was not, there is a greater moral hazard.

### **Analysis of issue A\*: Content of the qualitative aspects of the RTS**

- Option 1. The RTS on every occasion contains complete information on the subjects specified in section 3.4.3 of this paper.
- Option 2. Undertakings will provide a full report for the first year and thereafter on a frequency is to be established by the supervisory authority, depending on the risk profile of the undertaking. In the intervening years, undertakings will provide information only on those topics (specified in section 3.4.3 of this paper) where material changes have occurred, or state that no material changes have occurred.

### **Impact on industry, policyholders and beneficiaries and supervisory authorities**

#### **Interrelated issues**

3.625. As with the quantitative data, the impact of the qualitative elements of the RTS depends on how frequently the data is to be provided, with what level of assurance, and in what format. For some information, it may be required in greater detail which would make regular provision of the data more time-consuming if the data was to change significantly between reporting dates. On the other hand, if the data is unlikely to change significantly, then it will be much easier to produce regularly, but may be of less benefit to the supervisory authority which still has to check what changes there are in their significance. In each case, it has to be decided how much weight should be applied to each variable to achieve the supervisory objective with reporting of delivering pertinent information of sufficient quality at an appropriate frequency in a format that allows comparison between different submissions.

#### **- Policyholders and beneficiaries**

3.626. The impact of option 1 is once again likely to be indirect, in terms of the cost to the undertaking which may be reflected either in the level of premiums or the benefits to policyholders. As the information under this

option always has to be complete and still identify changes, these costs are likely to be higher than under option 2 in aggregate although, for those undertakings providing a full RTS annually, there should be little difference. It is also unlikely to deliver any greater policyholder protection from supervision than under option 2.

3.627. In the case of option 2, the likely costs for undertakings that are not on an annual RTS should be lower than under option 1. While they still need to be able to identify material changes since the last RTS and provide details of these, they do not need to explain those issues that are unchanged, except insofar as the SFCR detail is concerned, which always has to be explained in detail. With this option, indirect costs are likely in aggregate to be lower than option 1, with perhaps a small downside risk that there may be issues (which by their nature cannot be material, otherwise they would be reported) that the supervisor is unaware of until the next full report that could impact on policyholders.

#### **- Industry/(re)insurance undertakings**

3.628. Option 1 involves undertakings in providing full details on every submission. Clearly this has an impact on the direct costs for undertakings in collating the data and identifying material changes, and then in ensuring an appropriate level of detail is provided. Costs are likely to be higher in the first year than in later years, as the scope of the report is developed. There is likely to be an indirect benefit however, in ensuring management are fully aware of their responsibilities and the circumstances of the business being reported to the supervisory authorities.

3.629. For certain undertakings that are required to provide a full RTS annually, there will be no real difference in the impact of option 2 over option 1. However, for undertakings that have a lower risk profile and do not have to provide a full report annually, costs will be lower to some degree, although they will still have to set out the full detail of the SFCR elements within the RTS. The indirect benefits for management seen in option 1 are likely to remain, as management have to ensure they identify material changes over since the last report.

#### **- Supervisory authorities**

3.630. Option 1 clearly leads to direct costs for supervisory authorities in resource requirements to review the RTS as part of the Supervisory Review Process, when they might not otherwise be doing so under a risk-based regime. There is also an indirect risk on the supervisory authorities in that, if there are any issues that arise at an undertaking that could have been identified within the data provided but was not, there is a greater moral hazard.

3.631. Option 2 however, is likely to lower costs than implied with option 1. There will still be a large overhead involved especially in the initial years

but, once the cycle of reporting levels is established, there should be a lower annual cost than under option 1, all other things being equal.

### **Analysis of issue B: Frequency of the RTS**

- Option 1. All data is provided quarterly.
- Option 2. 'Core' quantitative data is provided quarterly, while all quantitative reporting templates and all the qualitative data are provided annually.
- Option 3. All data is provided annually unless more frequent submission is required in the Directive.

### **Impact on industry, policyholders and beneficiaries and supervisory authorities**

#### **Interrelated issues**

3.632. Frequency of reporting cannot be looked at in isolation. It has to be set considering the ability of the undertakings to provide the quantum of data to the quality standards set, and also the supervisory authorities' ability to review the information in a timely manner. That implies that supervisory authorities should be able to review one submission before the following submission is received. It clearly also depends on the relative importance of the information, on the level of assurance and also any requirements set at Level 1.

#### **- Policyholders and beneficiaries**

3.633. Once again, the potential impact on policyholders arises from the costs incurred by undertakings being passed on indirectly by either higher premiums or reduced benefits. The act of reporting more frequently is unlikely of itself to lead to any greater confidence in the undertaking by policyholders. Although the extraction of quantitative data may be automated, there are likely to be additional checks and controls to go through before any of that data is passed to the supervisory authorities. The preparation of qualitative data by its very nature is a much more manual process.

3.634. Option 1 is therefore likely to lead to the greatest indirect impact on policyholders and beneficiaries. At worst, option 1 is therefore likely to be just under four times as costly as option 3. In a perfect world, it would also lead to the situation with the best protection of policyholders, but that would only be true with disproportionate resources from the supervisory authority. Even with those resources, the moral hazard involved would be high.

3.635. Option 2 on the other hand sets a default frequency of annually for qualitative and quantitative data, with a subset of quantitative data (called 'core' quantitative data) additionally required quarterly. The 'core' quantitative data will not be defined until Level 3. However, the 'core' data will clearly include information on the MCR, as the quarterly calculation and notification of that to the supervisory authorities is required by the Level 1 text. This option will be considerably less expensive than option 1 and the indirect impact on policyholders will still occur, but to a much lesser extent.

3.636. Option 3 also clearly can have an indirect impact on policyholders for the same reasons. In this case, the costs are likely to be slightly lower than under option 2 as the 'core' quantitative data would effectively be restricted to the MCR alone. To the extent that supervisory authorities then only receive the minimum data quarterly, there may be a slightly greater risk that issues at undertakings are not identified as quickly, to the potential detriment of policyholders and beneficiaries.

#### **- Industry/(re)insurance undertakings**

3.637. As mentioned above in relation to the potential impact on policyholders, option 1 will be the most costly for undertakings because of the greater frequency. This option is likely to be almost 4 times more expensive than option 3, even although undertakings are likely to attempt to automate the extraction of quantitative data as far as possible the more frequently data are required. Nevertheless, there will always be some data which have to be calculated or assessed either manually (because it involves an element of judgement) or will use non-current data because of the time taken to update. The quantum of information might also overwhelm management, distracting them from managing the business. Another difficulty resulting from this option is that the SFCR information, which has to be covered in full in the RTS, would only be prepared annually, against the RTS being prepared quarterly.

3.638. Option 2 would be significantly less costly for undertakings than option 1. This is because the qualitative data would only be collated once rather than four times annually and, as far as the quantitative data is concerned, would depend upon the components within the 'core' data. However, if the core data is deemed to be the most important data for regular monitoring of the undertaking by supervisory authorities, it is more likely to also contain data that will most of use to management.

3.639. Option 3 would obviously be least costly for undertakings, but would only provide supervisory authorities with the minimum set of data. There is also a risk that, with this option, it will remove the pressure on management to regularly assess the risks inherent in the business.

#### **- Supervisory authorities**

3.640. Clearly, option 1 will entail much greater overheads for supervisory authorities (than either of the alternatives) because of the volume of

data that will need to be analysed. As with the impact on the industry, there is the danger of information overload, meaning that although the volume of information goes up, so too does the risk that issues are overlooked in the mass of data because of the pressure to complete the previous period's reviews before moving on to the following period. The alternative would be to have disproportionate resources which would be more likely to lead to a higher cost for undertakings – either directly or indirectly – since they usually contribute to a supervisory authority's budget.

3.641. Option 2 is likely to be more manageable for supervisory authorities, with a focus on certain annual data, and 'core' quantitative data provided quarterly. Costs should therefore be substantially lower than for option 1, allowing supervisors a greater opportunity of identifying any issues at undertakings than under options 1, and a greater chance than under option 3 when the quarterly data is limited to only what is required by the Directive (i.e. the MCR data).

### **Analysis of issue C: Level of assurance on quantitative reporting templates**

- Option 1. All quantitative reporting templates are externally audited annually.
- Option 2. Specific quantitative reporting templates are externally audited annually, with the remainder unaudited.

### **Impact on industry, policyholders and beneficiaries and supervisory authorities**

#### **Interrelated issues**

3.642. The options on this issue will have a direct consequence and impact on undertakings, depending on the quantum of data that needs to be reviewed and also the frequency with which that data has to be provided. Equally the reporting format will have a bearing – if the data subject to external audit has no standard format, then more time is likely to be spent by the auditors ensuring that information is comprehensive, which is likely to increase costs for the undertaking.

#### **- Policyholders and beneficiaries**

3.643. Policy holders see no direct impact of the options here and once again it is the indirect impact of the costs borne by the undertaking being passed on to policy holders by way of increased premiums or reduced benefits on the one hand, and the benefit of having their interests adequately protected on the other hand as the information provided to supervisors will be more reliable.

3.644. With option 1, the indirect impact of higher costs will be greatest. This is not merely because it would involve auditing all the data, but also because some of the data may be more difficult for auditors to review because it has involved a degree of judgement. An example of that may be some data on internal models. It is debatable whether the impact of those costs would be outweighed by the increased policyholder protection, but it is considered unlikely.

3.645. Option 2 on the other hand should be less costly for undertakings, and therefore have less indirect impact on policyholders or beneficiaries, than option 1, as the focus of the audit will be on a subset of the data. Clearly, in choosing which quantitative data should be audited, there will be greater scope to ensure that the data are suitable for auditing.

#### **- Industry/(re)insurance undertakings**

3.646. Both options have an impact on the undertakings in terms of direct costs arising from fees charged by auditors and management attention.

3.647. Option 1 in particular is more likely to lead to higher costs. This is because firstly the fees charged by auditors might rise if there is pressure on them to undertake further audit work, on top of their normal audit work, to a similar deadline, putting pressure on auditors' resources. But it may also put more pressure on management to provide, on a timely basis, the information necessary for the auditors to deliver their opinion and still comply with the established deadlines. In practice, undertakings would have less time to prepare information since they would have to allow the auditors' time to perform their work. While the submission times for the quantitative data could be set to reflect that, undertakings are likely to expect auditors to undertake the work at the same time as the annual audit, where there may be other legal requirements around timing. Furthermore, there may be practical difficulties in auditors reviewing outputs from internal models. However, audited figures may result in fewer ad hoc queries to undertakings.

3.648. Option 2 while still likely to lead to an increase in costs for undertakings, should be less costly for the industry than option 1. The ability of CEIOPS to identify which specific data are audited to give a greater degree of assurance should mean that it is more likely the auditing can be built around the work that is being undertaken for the normal audit of their accounts, further reducing the impact of this option.

#### **- Supervisory authorities**

3.649. Option 1 should mean that supervisory authorities can rely on the data with less need to either undertake further enquiries to assess the veracity of the data provided, or even specific on-site visits to assess that. Thus option 1 should reduce the costs of the supervisory authorities while giving them greater confidence in the data. On the downside, however, there may be a greater delay between the reporting



date and the date the supervisory authorities receive the data, impact on risk-based supervision.

3.650. Option 2 should largely deliver a similar impact, on the basis that the quantitative data chosen to be audited would be the data which the supervisory authority is most keen to be able to rely on without the need to spend supervisory time verifying the data. Of course, there may be some verification required of other data, but that is more likely to be a result of a supervisory review rather than a regular exercise undertaken when the data is received.

#### **Analysis of issue D: Reporting format**

- Option 1. Standardised reporting formats for all information.
- Option 2. Free format reporting for all information.
- Option 3. Quantitative reporting templates in a standardised reporting format and qualitative data following a predefined order but in free format.

#### **Impact on industry, policyholders and beneficiaries and supervisory authorities**

##### **Interrelated issues**

3.651. The impact of the options for this issue is affected not only by the underlying quantity of data being provided, but also by the frequency of that data. Also, which option is selected is likely to have an impact on the amount of work involved in the audit of the data, as information in an unstructured format is likely to take longer to check and ensure it is sufficiently comprehensive before it is signed off.

##### **- Policyholders and beneficiaries**

3.652. All of these options are again expected to impact policyholders and beneficiaries indirectly as overheads for undertakings are passed on either through changes to premiums or benefits on the one hand, and the benefit of having their rights adequately protected on the other.

##### **- Industry/(re)insurance undertakings**

3.653. For the industry, option 1 is likely to be the most costly to implement. This is particularly in respect of qualitative data, which may not easily fit into a standardised format, especially if the topic is complex and encompasses several issues. Thus there may be greater costs in compiling the data. For quantitative data, a standardised reporting format at least defines the data required and, although there may be an

up front cost in setting up the standardised format and populating that with data, the ongoing costs of maintaining that should be smaller on subsequent occasions.

3.654. Option 2 is likely to be less costly than option 1 for undertakings. It is likely that undertakings, once they have produced their first report, will follow that format for subsequent reports unless there are any major developments. Thus, although the format of quantitative data may not be defined by CEIOPS, it is likely that undertakings will extract the data in a consistent format which means they can more easily make any comparisons with earlier reports.

3.655. Option 3 is likely to involve costs for undertakings falling somewhere between options 1 and 2. For quantitative data, it defines the structure of the data required which, apart from initial set-up costs, is likely to have low systems costs, although management time will still be taken up ensuring the data is of sufficient quality to pass to the supervisory authority. For qualitative data, the formal structure should ensure undertakings cover all the aspects required (acting like a check-list), while still leaving undertakings free to use whatever format they choose.

#### **- Supervisory authorities**

3.656. Having all the data, both qualitative and quantitative, in a standardised format as proposed in option 1 makes processing the data by supervisory authorities more efficient. However, that may not necessarily be the cheapest solution when taking system development costs and supervisory staff costs into account. For quantitative data, the intention is to store the data on a database allowing automated early warning indicators and analysis of the data to be undertaken by supervisory authorities. While there will be development costs to set up that database, the processing of the data thereafter should require minimal manual input. For the qualitative data, there are also likely to be software costs to ensure the data received can be viewed. Standardising that ensures that this can be easily achieved. However, the content may not be in any particular order and therefore there would be more resourcing costs (rather than system costs) involved to analyse the data as a result.

3.657. Option 2 is likely to result in different costs from option 1. While there would be no or minimal systems costs, it is expected that the analysis of both qualitative and quantitative data would be more labour intensive, and would likely lead to a potentially lower quality of supervision.

3.658. Option 3 would have similar costs to option 1 at least in respect of quantitative data, the systems developed to store and analyse that data, and the staff resources required. As far as qualitative data is concerned, receiving the qualitative data in a pre-defined structure, although not in a standardised reporting format, is likely to be more efficient overall. Comparability of data would be enhanced and its exchange amongst supervisory authorities facilitated. It should require fewer resources to

analyse the data, although there may be marginally higher costs to be able to accept data that may be in a non-standard format. On the other hand, the quality of analysis of the qualitative data should be higher under option 3 than under either options 1 and 2, and be undertaken more effectively.

### **Assessing the impact of different scenarios**

3.659. Because there is an interplay between each of the issues discussed above, it was considered preferable to compare a series of scenarios to assess the overall impact of a range of options. Clearly, CEIOPS cannot consider all 72 combinations of options, and has instead limited this analysis to five scenarios encompassing all the options considered. From this, the overall impact of each of the scenarios is considered, and then they are assessed against the objectives set by the Commission. These scenarios, and the options selected for each, are:

	A. Content of quantitative reporting templates in the RTS	A*. Content of the qualitative aspects of the RTS	B. Frequency of the RTS	C. Level of assurance on quantitative reporting templates	D. Reporting format
Scenario 1	Option 1	Option 2	Option 3	Option 2	Option 3
Scenario 2	Option 2	Option 1	Option 2	Option 1	Option 2
Scenario 3	Option 2	Option 2	Option 2	Option 2	Option 3
Scenario 4	Option 2	Option 2	Option 1	Option 1	Option 1
Scenario 5	Option 3	Option 1	Option 1	Option 1	Option 2

### **Scenario 1**

#### **- Policyholders and beneficiaries**

3.660. As far as the costs of collecting and providing this information to the supervisory authorities by undertakings is concerned, which may be passed on to policyholders indirectly by way of higher premiums or reduced benefits, this scenario should have least effect. As the quantitative data provides the regulatory authority with limited risk-based information, and no more than the minimum of information on a quarterly basis, there would be a higher risk that there might be some risks that are not identified at the earliest opportunity. This would

expose the policyholders and beneficiaries to greater risk of either failure or increased premiums or reduced benefits at a later stage.

**- Industry/(re)insurance undertakings**

3.661. As indicated above, from a purely cost perspective, this is likely to be the cheapest overall scenario from an on-going perspective. There would however be initial costs in setting up the reporting formats. However, there would be more ad hoc requests from supervisory authorities or on-site visits as a consequence of the limited range of quantitative data.

**- Supervisory authorities**

3.662. There are two aspects here which are likely to increase the overheads for supervisory authorities. The first is that the quantitative data is limited, resulting in more ad hoc requests for further information or more on-site visits to better understand the business. Second, the quarterly quantitative data would only cover the minimum information required by the Directive, which on its own would be insufficient to adequately monitor the undertaking. It would be difficult for supervisors to maintain this scenario delivered an adequate level of protection to policyholders.

**Scenario 2**

**- Policyholders and beneficiaries**

3.663. On balance, the costs for undertakings with scenario 2 are likely to be higher than under the previous scenario, and these would indirectly feed through to increased premiums or reduced benefits. While much more complete data is being provided to the supervisor, the risk with this scenario is that the lack of format around the data would render the analysis and interpretation of the data more problematic for supervisory authorities. This would mean greater costs without a corresponding increase in the level of protection. It is expected that the risk of issues arising at undertakings and not being identified by supervisors will be less than under scenario 1.

**- Industry/(re)insurance undertakings**

3.664. Undertakings' costs are likely to be higher than under scenario 1. Although quantitative data may not be submitted to supervisors in a harmonised format, it is likely that each undertaking will provide its data in a consistent format, meaning there can be some standardisation of the data provision process at the undertaking. The need to have all quantitative data audited would add to the industry's direct costs, especially as the audit costs might be higher because the data would not be presented in a harmonised format.

#### **- Supervisory authorities**

3.665. With scenario 2, supervisors receive risk-based quantitative data annually and a sub-set quarterly. The fact the data would be fully audited would give greater reassurance that the figures are correct and therefore less time might be needed to follow up any data issues. However the fact that all the data is audited may have an impact on the timing to receive the data. However, as the data would not be in a harmonised format, it would make analysis of the data more complicated, and hinder any cross-undertaking or sectoral analysis. Similarly, with the qualitative data not having a format, it would be more time-consuming to ensure that the submission contained the relevant data but, as the full report would be provided each year, there should be less need to compare it with the previous year's submission. Fundamentally, supervisors would have the right type of data with this option but analysis would be more complicated and time-consuming.

### **Scenario 3**

#### **- Policyholders and beneficiaries**

3.666. Once again, the impact is a result of costs to undertakings being indirectly passed through to premiums or benefits. As with scenario 2, the risk of issues arising at undertakings and not being identified by supervisors is expected to be less than under scenario 1.

#### **- Industry/(re)insurance undertakings**

3.667. The main difference in costs to undertakings for this scenario over scenario 2 is likely to be the reduction in the cost of auditing quantitative data. The cost of presenting the quantitative data in a standardised reporting format is not expected to be particularly costly, especially as the main cost is likely to be a one-off mapping against data extracted from databases. Presenting the qualitative data in a harmonised format would make it easier for management to ensure they have covered all relevant aspects. Costs will also be reduced by only having to identify changes to the qualitative data between the full reports. On balance, costs are likely to be marginally less than under scenario 2.

#### **- Supervisory authorities**

3.668. In this scenario, the supervisory authorities would have comprehensive risk-based quantitative data, with the added reassurance of an audit only for certain data, and the data would be in a format that could be analysed by undertaking and across undertakings. With the qualitative data, they would only receive an RTS covering major changes for undertakings on a lower risk profile. This should enable them to review the qualitative data more efficiently and more easily identify issues at

undertakings. Compared with scenario 2, this should be less costly for the supervisory authorities.

#### **Scenario 4**

##### **- Policyholders and beneficiaries**

3.669. It is quite clear under this scenario that costs for undertakings will be higher than under scenario 3 as all quantitative and qualitative data will be provided quarterly, and this would feed through indirectly to premiums charged to benefits paid. Thus although undertakings may have automated some of this process for quantitative data, the figures would need some management oversight and also some of the numbers may need to be recalculated by experts, while the qualitative aspects would clearly require additional management input.

##### **- Industry/(re)insurance undertakings**

3.670. As indicated above, this scenario would impose a greater management burden as all data would be provided quarterly. The impact of the change to standardising the reporting format for qualitative data rather than just setting a predefined order is likely to be relatively insignificant, potentially being limited to the initial purchase and the maintenance of the appropriate software.

##### **- Supervisory authorities**

3.671. This scenario imposes a significantly greater overhead on the supervisory authorities. Thus although the data may all be risk-based, the frequency requires that supervisors analyse the information more frequently and in great depth. The fact the qualitative data may only encompass changes for some of these periods does not significantly offset the potential extra costs of supervisory authorities.

#### **Scenario 5**

##### **- Policyholders and beneficiaries**

3.672. As with the other scenarios, the impact on policyholders is really driven by the costs imposed on undertakings of meeting the supervisory requirements. The additional burden of the enhanced reporting requirements, not of all which would be in line with risk-based supervision, on a quarterly basis and audited would be likely to be significant, increasing the likelihood that this would be passed on to policyholders through even higher premiums or a reduction in benefits.

##### **- Industry/(re)insurance undertakings**

3.673. This scenario will impose even greater overheads on undertakings than scenario 4, mainly as a result of the provision of the enhanced quantitative data on a quarterly basis, fully audited. Also the provision of a full RTS on each occasion, again fully audited, will lead to greater costs for undertakings. The change to providing the quantitative and qualitative data in free format is unlikely to significantly reduce undertakings' overheads, as it is likely to require just as much management review and checking.

#### **- Supervisory authorities**

3.674. Compared with scenario 4, this imposes even greater requirements on supervisory authorities, increasing the cost for them while making the data provided less risk-based. There is the danger that the overall quantum of data at this level would obscure developments that might be of interest to supervisors, especially as the data would be received in free format. Thus costs for supervisory authorities are likely to be greatest with this scenario.

#### **Comparison and rankings of the different scenarios based on the effectiveness and efficiency of each scenario in reaching the relevant operational objectives**

3.675. In assessing the scenarios against the proportionality principle, the requirement for all data quarterly and all data being audited do not score highly. Also, the requirement for all undertakings to provide a complete RTS on every occasion does not score highly. Thus scenario 3 and 1 best meet that objective in terms of effectiveness, with scenario 3 being more efficient (the issue of what proportionality means in terms of which templates are completed in which circumstances will be addressed at Level 3) with scenarios 2, 4 and 5 following in order of ranking on both effectiveness and efficiency.

3.676. Having relatively little data in a harmonised format between undertakings scores poorly for efficiency of the harmonisation objective, so scenarios 2 and 5 rank at the bottom in relation to this objective. Scenario 4 best meets the objective in terms of effectiveness (by also having the qualitative data submitted in a standardised format) but is deemed less efficient overall (on the basis of the cost to undertakings against the benefits for supervisory authorities), with scenarios 1 and 3 overall showing the better balance between effectiveness and efficiency.

3.677. As regards the objective of promoting compatibility of accounting and valuation rules, CEIOPS does not believe there is any significant difference between the scenarios and therefore considers there is nothing to choose between the scenarios.

3.678. Similarly, as these scenarios are being considered with solo undertakings in mind initially, it is not possible to rank the scenarios specifically in regard to efficient supervision of groups and financial conglomerates, thus they score equally for effectiveness. However, if CEIOPS was purely considering efficient supervision, scenario 3 best

delivers that, followed by scenario 1 (marked down for non risk-based quantitative data and minimal quarterly quantitative data), scenario 2 (marked down because of complete RTS each year, full audit, free format for submission), scenario 4 (marked down for quarterly submission, fully audited) and finally option 5 (including non risk-based data, quarterly submission and fully audited).

3.679. In terms of sustainability, it is inevitable that whichever scenario is chosen, there will need to be some revisions over time to reflect experience in using the information. In terms of achieving consistency in supervisory reporting, all the scenarios deliver that in equal measure.

3.680. In overall terms, CEIOPS believes the effectiveness and efficiency of the objectives are best met by scenario 3, which balances the burden on the industry (and therefore indirectly on policyholders) and the supervisory authorities. Scenario 2 suffers from data not being in a harmonised format (and only the basic information quarterly), but is probably preferable to overloading the supervisory authorities with too much data as would happen in scenario 4. Scenario 1 would deliver inadequate information while scenario 5 would provide too much detail and too frequently (in other words, in sufficient information is preferable to too much information too frequently).

3.681. The hyperlink to the excel sheet on supervisory disclosure shows 2 templates providing greater detail on the perceived impact on stakeholders of each of the scenarios, and how well each scenario is considered to meet the objectives set by the Commission:

<http://www.ceiops.eu/index.php?option=content&task=view&id=609>



## **Annex B**

### **Impact assessment – Public disclosure**

#### **Background**

3.682. In its Call for Advice of 1 April 2009, the Commission has asked CEIOPS to contribute to the Commission's impact assessment of the Level 2 implementing measures<sup>65</sup>. To this end, a list of issues has been set up by the Commission and CEIOPS, identifying the Level 2 implementing measures that should be accompanied by an impact assessment. On 12 June 2009, the Commission has issued an updated list of policy issues and options, to which reference is being made<sup>66</sup>. This impact assessment covers issue 6 of the list of policy issues and options.

3.683. Two summary tables accompany the impact assessment, published in a separate excel document<sup>67</sup>.

3.684. In considering the requirements arising under Article 51, the operational objectives set out for public disclosure under Solvency II by the European Commission<sup>68</sup> are to (references after the objectives refer to the chapter in the EC Impact Assessment Report):

- a) Introduce proportionate requirements for small undertakings (objective 3.3.4);
- b) Harmonise supervisory reporting (objective 3.3.6);
- c) Promote compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB (objective 3.3.8); and
- d) Ensure efficient supervision of insurance groups and financial conglomerates (objective 3.3.10).

#### **Description of the policy issues**

3.685. Under Article 51 of the Directive, Member States shall require (re)insurance undertakings to publicly disclose annually a report on their Solvency and Financial Condition (SFCR). The article sets out at a high level the range of information to be disclosed, but there are two issues, for which a number of options have been considered by CEIOPS in its policy development, that are subject to impact assessment. The issues and options are as follows:

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<sup>65</sup> <http://www.ceiops.eu/media/files/requestsforadvice/EC-april-09-CfA/EC-call-for-advice-Solvency-II-Level-2.pdf>

<sup>66</sup> <http://www.ceiops.eu/media/files/requestsforadvice/EC-June-09-CfA/Updated-List-of-policy-issues-and-options-for-IA.pdf>.

<sup>67</sup> See excel sheet <http://www.ceiops.eu/index.php?option=content&task=view&id=609>

<sup>68</sup> See Chapter 3 of the EC Impact Assessment Report at [http://ec.europa.eu/internal\\_market/insurance/docs/solvency/impactassess/final-report\\_en.pdf](http://ec.europa.eu/internal_market/insurance/docs/solvency/impactassess/final-report_en.pdf).

### **Issue A. Content of public disclosure (Solvency and Financial Condition Report - SFCR)**

- Option 1: Level of detail of the SFCR is specified in a generic way (brief description of the information to be disclosed in each item of Article 51(1) of the Directive).
- Option 2: Level of detail of the SFCR is identical to the one requested under the RTS (save as non-disclosure allowed for in the Article 53).
- Option 3: Level of detail of the SFCR is specified in a concrete way (definition of the minimum content of the information to be disclosed in each item of Article 51(1) of the Directive).

### **Issue B. How public disclosure is achieved**

- Option 1. Specify where the SFCR will be disclosed and its structure.
- Option 2. Specify where the SFCR will be disclosed but not its structure.
- Option 3. The location of the disclosure of the SFCR is left to the undertaking, but its structure is specified.

3.686. Public disclosure is not undertaken for the direct benefit of the undertaking. Rather, it is for market consistency and transparency and to ensure other interested parties can understand the business in a general way and the management of it. It also instils an element of market discipline. Although undertakings should benefit indirectly from the publication of the SFCR, the benefits may be intangible eg the perception of the undertaking amongst its peers and investors.

3.687. As the requirement to produce the SFCR is included in the Level 1 text, this impact only looks at the incremental impact of specifying the level of detail and where or how the SFCR is published. As such, the impacts are generally likely to be small, unless otherwise stated.

### **Analysis of Issue A: Content of public disclosure (Solvency and Financial Condition Report - SFCR)**

- Option 1: Level of detail of the SFCR is specified in a generic way (brief description of the information to be disclosed in each item of Article 51(1) of the Directive).
- Option 2: Level of detail of the SFCR is identical to the one requested under the RTS (save as non-disclosure allowed for in the Article 53).
- Option 3: Level of detail of the SFCR is specified in a concrete way (definition of the minimum content of the information to be disclosed in each item of Article 51(1) of the Directive).

### **Impact on industry, policyholders and beneficiaries and supervisory authorities**

## **- Policyholders and beneficiaries**

3.688. In general, is it thought that policyholders and beneficiaries will not use all of the information published in the SFCR, which is targeted at many other stakeholders (other (re)insurance undertakings, intermediaries, trade associations, financial analysts, professional advisors, rating agencies, investors, and shareholders, amongst others). Thus the impact on policyholders and beneficiaries will only be indirect and small, through the market perception of the undertaking, and this is difficult to quantify. It is recognised however that the information in the SFCR may well be used by policyholders, beneficiaries and other stakeholders to gain a better understanding of the undertaking and make comparisons with others.

3.689. Option 1 would only provide, with any certainty, a generic description within the SFCR and may lack any detail. Even although the information might be more accessible and understandable to policyholders and beneficiaries, it will lack the level of detail that would enable the SFCR to be an efficient tool for transparency. This would therefore foster opacity on the solvency position of undertakings, thus threatening the protection of policyholders' interests through market discipline and leading to potential costs for policyholders and beneficiaries in case of default of their insures. This option is likely to result in the lowest potential impact on policyholders.

3.690. Option 2, which would replicate the RTS, would be much too detailed for the policyholders alone, and there would have difficulty in interpreting the implications of the level of detail there. Undertakings would have increased costs to gain approval under Article 53(1) for non-disclosure of the confidential information which would otherwise be included within the RTS, and it is likely that this would ultimately flow through to policyholders and beneficiaries through higher premiums or reduced benefits.

3.691. Option 3 would provide some guaranteed further level of detail beyond that set out in Article 51 and would therefore foster market discipline. This level of detail would allow for adequate protection of policyholders and beneficiaries, and thus limit the potential indirect costs to them, which are likely to be slightly higher than under option 1 but less than under option 2.

## **- Industry/(re)insurance undertakings**

3.692. The direct costs for undertakings arise mainly as a result of internal approval procedures (including discussions on non-disclosure and seeking permission of the supervisor under Article 53(1) where the level of detail gives rise to confidentiality issues), discussions and costs of publication. While the information has to be prepared for the RTS, the greater the level of detail required in the SFCR the greater is likely to be the additional overhead for undertakings in publishing the SFCR.

- 3.693. Option 1, which requires only a minimum level of information to be publicly disclosed, may sound less burdensome. But it is thought that over time there would be market pressure for a consistent level of disclosure, settling above the level of disclosure provided in option 1 (but probably not as much as set out in option 3). This will of course require management time to assess whether the level of disclosure will be adequate for other stakeholders, and inadequate disclosures might lead for instance to greater difficulty in the undertaking raising capital when required. This option is likely to have least impact on the industry's costs.
- 3.694. Option 2 might appear to be the least costly in that the RTS has already been prepared. But it is thought that there will be greater pressure on management with this option to seek consent to non-disclosure of certain information as much of the information in the RTS might be argued (rightly or wrongly) to be confidential. Thus the direct costs with this option are likely to be higher than with option 1.
- 3.695. Option 3 sets out the level of information to be disclosed and, while undertakings might still wish to argue against publication of certain information they consider confidential, the scope of these requirements will have removed most of the information likely to be deemed confidential by the supervisory authorities. Thus, while there will be a cost in determining the minimum level of information the undertaking needs to disclose, there should be fewer approaches for permission not to publish. There is also likely to be some overhead in management assessing whether their disclosures are adequate in the light of their peers. This option should be less costly than option 2 and generally similar to, but slightly higher than, those under option 1.

#### **- Supervisory authorities**

- 3.696. The main impact on supervisory authorities will be in the resources required in assessing after publication whether the level of disclosure is adequate, and in dealing with any requests prior to publication for non-disclosure of information deemed by the undertaking to be confidential. Also, supervisors should get some smaller benefit, in terms of resource requirements, from an adequate level of market discipline, because it should stimulate undertakings to be seen to have sound risk management which would therefore lead to less supervisory intervention.
- 3.697. Option 1 is unlikely to lead to many requests for non-disclosure as the requirements are set out in a generic way. Similarly, assessing whether the disclosures meet these generic requirements should be relatively simple. Thus this option would be the least costly for supervisory authorities, with least benefit from market discipline.
- 3.698. With option 2, it is likely that, to the extent that non-disclosure has not been set out in an undertaking's publication policy, supervisors are likely to face more requests for non-publication to a tight deadline. The

comparison then between the RTS excluding the confidential information, the undertaking's publication policy and the SFCR is likely to be more time consuming than option 1. It is likely, in the early years of operation, this would require additional resources. Additionally, while there might be some small benefit to supervisors from market discipline, as undertaking move to best practice picked up from an analysis of other undertakings' SFCRs that benefit may be no greater than that delivered under option 3 because of information overload for stakeholders.

- 3.699. With option 3, the benefit for the supervisory authorities is that there should be fewer requests for non-publication of confidential information. Although comparison between the RTS, the publication policy and any non-disclosures is still required (and is likely to take longer than under option 2, as greater judgement is required), overall costs are unlikely to be significantly less than under option 2. It is expected that the benefits of market discipline are greatest under this option, because the level of detail for the public disclosure will have been set with this in mind.

### **Comparison and rankings of the policy options based on the effectiveness and efficiency of each option in reaching the relevant operational objectives**

- 3.700. As far as introducing proportionate requirements for small undertakings is concerned, option 1 may appear to be more effective, only setting out requirements in a generic way. However, even in the detailed RTS proportionality will apply, as only those items that are relevant should be included, and at an appropriate level of detail. The same will therefore be true for option 2, which may initially seem less effective. Thus proportionate requirements would apply in with all three options, but option 3 is considered the most effective way of ensuring the level of detail is appropriate in all cases.
- 3.701. Turning to harmonising supervisory reporting, option 2 is the most effective way of doing that, but is less efficient than either of the other two options (this is because it is likely to result in many more requests under Article 53 for non-disclosure and, as these are likely to occur immediately before an undertaking has to make the disclosure, decisions are likely to be made under pressure and perhaps inconsistently). Option 3 is considered more effective than option 1 in delivering harmonisation although it may be marginally less efficient. Overall, option 3 best meets the objectives, followed by option 1 and option 2.
- 3.702. As far as promoting the compatibility of valuation and reporting rules with the international accounting standards of the IASB is concerned, CEIOPS considers that there is little difference between options 2 and 3, in effectiveness or efficiency. Option 1 is less efficient than options 2 and 3 because it is too generic and might incline undertakings to not link into other disclosures which are more likely to be compatible with international accounting standards.

3.703. With regard to ensuring the efficient supervision of insurance groups and financial conglomerates, these options were drawn up with solo reporting in mind. Nevertheless, options 2 and 3 will lead to comparable structures between undertakings and, when sharing data on group undertakings and the group between supervisory authorities, this option should be more effective and efficient in delivering efficient supervision of insurance groups and financial conglomerates.

3.704. In terms of sustainability, option 3 is the most sustainable (it is not considered that either a generic approach or a detailed approach can be sustained). In terms of consistency, this is achieved by being more specific in setting the requirements and therefore options 3 and 2 satisfy that more, with option 3 being preferred (the requests for non-disclosure that would arise with option 2 might be dealt with inconsistently, given the pressure on supervisory authorities to respond in what are likely to be short timelines as publication deadlines near).

3.705. Overall, CEIOPS considers that option 3 best meets the operational objectives set, with option 2 followed by option 1.

#### **Analysis of Issue B: How public disclosure is achieved**

- Option 1. Specify where the SFCR will be disclosed and its structure.
- Option 2. Specify where the SFCR will be disclosed but not its structure.
- Option 3. The location of the disclosure of the SFCR is left to the undertaking, but its structure is specified.

#### **Impact on industry, policyholders and beneficiaries and supervisory authorities**

3.706. Public disclosure is not undertaken for the direct benefit of the undertaking. Rather, it is for market consistency and transparency and to ensure other interested parties can understand the business in a general way and the management of it. It also instils an element of market discipline. Although undertakings should benefit indirectly from the publication of the SFCR, the benefits may be intangible eg the perception of the undertaking amongst its peers and investors.

#### **- Policyholders and beneficiaries**

3.707. With this issue, the main impact on policyholders will again be indirect, in terms of how easily can they find out the information that has to be disclosed in the SFCR. To the extent there is a formal structure for the SFCR, this would make it clearer to policyholders what the sections contain; it is not expected that they would be making any comparisons between undertakings.

- 3.708.Option 1 would give policyholders certainty on where the information would be published, and should make it easier to focus in on the information they are looking for.
- 3.709.With option 2, although they would again know where to find the information, they would have to go through the document to find the information they were seeking, which may not be in a logical order. To some extent, if they do that on a regular basis for the same undertaking, this might not be too much of an issue for them as the undertaking is likely to follow a similar structure each year. However, when stakeholders do want to compare information from different undertakings, a fixed structure will save time and improve the quality of the comparison.
- 3.710.Option 3 would mean policyholders would not have easy access to the information or necessarily know where to get the information. On the other hand, once they had the information and could see the SFCR, finding the information ought to be easier if the SFCR follows a common structure.

#### **- Industry/(re)insurance undertakings**

- 3.711.Specifying where the SFCR should be published under option 1 might incur an overhead cost for undertakings. The most likely place that undertakings would publish the SFCR would be on the internet, but not all undertakings may have a website. Similarly, suggesting that the SFCR is published with, say, the audited accounts assumes that these too are readily accessible. While requiring a structure may impose an overhead on undertakings, it is not thought that this would be a significant additional burden and might indeed make it simpler for undertakings to ensure that all relevant information is included.
- 3.712.On the other hand, not specifying the structure as in option 2 might be more efficient for undertakings in pulling the information together for publication. It would however make comparison between different undertakings more difficult.
- 3.713.Option 3 would avoid undertakings incurring additional costs for example to maintain a website if they do not already have one.

#### **- Supervisory authorities**

- 3.714.Supervisory authorities will receive their own copy of the SFCR from undertakings, so are ambivalent to where undertakings have to publish other than knowing where that will be so that they can view it. Thus supervisory costs are driven by two aspects – the ease of analysis of the document to ensure disclosures are sufficient, and the potential need to share the SFCR with other supervisors when group supervision is involved.

- 3.715. Option 1 would enable supervisors to review the actual disclosures, as disclosed. With the SFCR having a structure, it will be far easier for the supervisor to review the document. This is also likely to aid group supervision, when SFCRs may be shared amongst supervisory authorities. This is likely to be the option that is least costly for supervisory authorities.
- 3.716. If the SFCR did not have a structure, as in option 2, any comparison with other disclosures would be more complex and time-consuming. It would also make it more difficult for supervisors to assess whether undertakings have fulfilled the disclosure requirements. Costs are likely to be higher than under option 1 as a result. Sharing the SFCR amongst supervisory authorities as part of group supervision is however achieved at minimal additional cost.
- 3.717. Although option 3 may require marginally more overhead by supervisors to see the original disclosure, this is unlikely to be material, but there may be a slight increase in costs in sharing with other supervisors where the disclosure is made. As the document will have a structure, it will be easier to review and assess, to ensure that the disclosures are set at an appropriate level. This option is expected to be only marginally more expensive for supervisors than option 1.

**Comparison and rankings of the policy options based on the effectiveness and efficiency of each option in reaching the relevant operational objectives**

- 3.718. According to Recital 38 of the Directive, publicly disclosed information should be made available to the public either in printed or electronic format free of charge. The information needs to be easily accessible and all undertakings should be obliged to disclose either where the information can be viewed electronically or how a printed copy of the information can be obtained. Thus to a certain degree the location of the disclosures is already defined.
- 3.719. As far as introducing proportionate requirements for small undertakings is concerned, option 3 is the most effective way of doing that by requiring a structure but leaving where the disclosure is made up to the undertaking. Option 2 is considered to be less effective than option 3 but more effective than option 1, which is considered the least effective way. In terms of efficiency, there is little difference between them, with option 3 considered more efficient (by specifying the format rather than the location) over option 2, with option 1 the least efficient, potentially incurring costs for undertakings on both location and structure.
- 3.720. Turning to harmonising supervisory reporting, option 1 is the most effective way of doing that, although it is seen as less efficient than either of the other two options. Option 3 is considered more effective than option 2 in delivering harmonisation – the location of the disclosure is seen as less important – and is also more efficient. Overall, option 3 best meets the objectives, followed by option 1 and option 2.



- 3.721. As far as promoting the compatibility of valuation and reporting rules with the international accounting standards of the IASB, CEIOPS considers that all three options rank equally in meeting the objective, with nothing to choose between them.
- 3.722. With regard to ensuring the efficient supervision of insurance groups and financial conglomerates, CEIOPS considers that options 3 and 1 are more effective and efficient enabling comparison of the SFCRs across a group, with option 3 being more efficient.
- 3.723. In terms of sustainability, option 1 is considered the most sustainable, followed by options 3 and 2 in that order. Similarly, in terms of consistency, option 1 gives the greatest consistency followed by options 3 and 2 (in other words structure is considered more important than location).
- 3.724. Looking at the overall objectives, however, CEIOPS feels it is more important that public disclosure is achieved efficiently, and in as consistent a manner as possible. It therefore considers option 3 best meets the objectives (it considers the structure of the document to be more important than where the document is made public, which is partly covered by recital 38), followed by option 1 then option 2.
- 3.725. The hyperlink shows the excel sheet on public disclosure with 4 templates covering each of the options:

<http://www.ceiops.eu/index.php?option=content&task=view&id=609>