EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Gabriel Bernardino
Chairman

European Parliament
Mr. Burkhard Balz
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EIOPA/11/237

Reporting under Solvency II

Dear Mr. Balz,

As you are aware, EIOPA is following with the utmost interest the work that, under your leadership, the European Parliament is conducting, and wanted to congratulate you for the quality of the work done, and its ambition.

We share the objectives of the European Parliament regarding the role of EIOPA, the need to ensure the right level of protection to policyholders whilst, at the same time acknowledging the financial stability dimension of Insurance and the implications of the project to insurance companies, with a particular focus in SMEs and the need to avoid unnecessary burden.

On the basis of the commonality of objectives we share, and the benefits of working together to achieve them, following our informal contacts with you, we wanted to share our strong concerns with regards to one of the areas your proposal covers, namely the area of quarterly and line by line reporting to supervisors, as in our opinion, they would achieve precisely the opposite effects as the ones the European Parliament aims, namely reducing burden to undertakings, in particular SMEs without diminishing the level of protection to all policyholders.

We fear that, if such proposal is finally adopted, our capacity to deliver our tasks would be limited drastically, as the crisis has clearly demonstrated that, without proper and sufficient information, effective supervision is not possible. Recent years have shown that the likelihood of a casualty is higher in SMEs compared to larger enterprises. Therefore, in lack of regular information supervisors would have to increase the frequency of their on-site visits to fulfil such gap, and this would increase burden to insurers.

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At the same time, as we fully share your intention to minimize unnecessary burden, we are doing the following to achieve such aim, without reducing the level of protection of policyholders:

- Consult informally our proposals with the Industry, including SMEs representatives.
- Detail the rationale, including necessity and use to be made of all requested information.
- Formally consult on the reporting package.
- Ask the Stakeholders Group of EIOPA for their opinion, as it provides with the right balance of views between SMEs, large insurers, users, academics and, most importantly, consumers.
- Reduction of the required quarterly reporting to the essential needed for supervisory purposes (move from 58 templates yearly to only 11 quarterly; 59 and 18 when you add financial stability driven requests), to ensure proportionality.
- EIOPA to perform, 3 years after the implementation of these reporting requirements a full cost benefit analysis to identify ways to improve it, if needed.
- Work on the development of an IT solution to capture and forward the requested information. Such solution would be developed by EIOPA and provided free of charge to supervisory authorities so that they could do the same with their local insurers.

A formal request to EIOPA to take care of proportionality via measures such as the aforementioned, rather than setting thresholds, could be a better solution.

We remain at EIOPA fully at your disposal to explore other ways to enhance efficiency and ensure equal level of protection of all European policyholders.

I want to finalize by thanking you again for all the good work carried out, your compromise towards the Solvency II project, the Insurance sector and the European consumers.

With best regards,

Gabriel Bernardino

Copy to Sharon Bowles, Jonathan Faull, Nadia Calvino, Karel Van Hulle

Annex: Reporting needs for appropriate risk based supervision

Solvency II provides a risk based framework that, among other elements, introduces for the first time in Insurance the so called prudent person principle, that allows insurers to invest in any kind of assets they want, without any limits, only subject to capital requirements aligned to the risk profile of such assets, and to the necessary level of supervision.

The aforementioned principle can only work in practice with an increased focus in sound risk management practices by insurers, which demands the right level of information to be held by the insurer in order to understand the risks borne. Furthermore, it is paramount that part, but not all, of this information should then be reported to the supervisor to allow for the necessary monitoring and adoption of preventive actions needed for the appropriate protection of policyholders, and the preservation of the financial stability of the system.

Regarding information of assets item by item, although a threshold may be compatible with the financial stability dimension of the issue, it would certainly not be the case with regards to ensuring the same level of protection to all consumers, as in practice those consumers of companies under the aforementioned threshold would be less protected.

When it comes to quarterly reporting, supervisory reality indicates that the use of such frequency of reporting has allowed, contrary to what could be intuitively thought, for a reduction of administrative burden to small and medium size companies, as it permits supervisors, without reducing the effective level of protection of policyholders, to reduce the frequency of on-site inspections (always burdensome to SMEs) thanks to the enhanced off-site monitoring that quarterly reporting provides with. At the end, these requests are already fully implemented in most of the EU members, and SMEs recognize the benefits of such approach.

Not only this is a broadly applied practice in the field of Insurance, but quarterly reporting is also a cornerstone of banking supervision. By limiting it in Insurance, we may also open the door for small banks to claim the same treatment.

Because of that, if quarterly reporting would be reduced or even eliminated for SMEs, supervisors would need to increase again the frequency of their on-sites, and EIOPA, in order to ensure the right level of protection of policyholders, would certainly consider issuing a recommendation to increase the frequency of such visits.

All the aforementioned justify that, both for quarterly reporting and line by line asset reporting, no threshold is imposed, but alternative measures are provided.