



26 January 2011

Our ref: ICAEW Rep 02/11

Your ref:

European Commission  
SPA2 4/29  
1049 Brussels  
Belgium

Dear Sir or Madam

**Solvency II, Level 2 Implementing Measures: Supervisory Reporting and Public Disclosure**

ICAEW is pleased to respond to your request for comments on *Level 2 implementing measures for Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Ian Michael  
Manager, Risk and Regulation

**T** +44 (0)20 7920 8412  
**E** [ian.michael@icaew.com](mailto:ian.michael@icaew.com)

## ICAEW REPRESENTATION

### SOLVENCY II: SUPERVISORY REPORTING AND PUBLIC DISCLOSURE

**Memorandum of comment submitted in January 2011 by the ICAEW, in response to the European Commission consultation paper on *Level 2 implementing measures for Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)* published in November 2010.**

Contents	Paragraph
Introduction	- 1
Who we are	2 - 4
Major points	5 - 12
Response to specific questions	13 59
Annex: Supervisory reporting - comments on individual factors which define possible scenarios identified in the consultation paper	60 75

## INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper *Level 2 implementing measures for Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)* published by the European Commission.

## WHO WE ARE

2. ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide. ICAEW is listed in the European Commission's Register of Interest Representatives (reference 7719382720-34).
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure these skills are constantly developed, recognised and valued.
4. ICAEW's Financial Services Faculty was established in 2007 to become a world class centre for thought leadership on issues and challenges facing the financial services industry. It draws together professionals from across the financial services sector and from the 25,000 members specialising in the sector. This includes those working for regulated firms, in professional service firms, intermediaries and regulators.

## MAJOR POINTS

5. We have restricted our comments to the parts of the consultation which relate to supervisory reporting (section 5) and public disclosure (section 6).
6. Many of the points made in this response were considered in further detail in previous ICAEW representations, which are available on our website ([www.icaew.com](http://www.icaew.com)). We have not repeated that level of detail within this response, but if further detail would be helpful, we would refer you to the following papers:
  - our response to CEIOPS on CP58 on supervisory reporting and public disclosure (REP 97/09);
  - our letters to Karel van Hulle on proportionality and materiality (REPs 21/10 and 33/10); and
  - our letter to Karel van Hulle on the audit of Solvency II information (REP 70/10).

REP 33/10 included examples of formats which could be used for the Solvency and Financial Condition Report (SFCR) by smaller, less complex insurers.

7. Overall we remain concerned that the volume and detail of reporting, both to supervisors and in public disclosure, is excessive and likely to impose a burden which is not justified by benefits to stakeholders. We are not sure that there will necessarily be sufficient resources in supervisory authorities or amongst private sector analysts to make effective use of the highly granular information envisaged. Notwithstanding the principle of proportionality, the reporting burden is most likely to be disproportionately borne by smaller insurance companies. All information is potentially useful, but it is important that there should be a real intent to use the data for an obvious purpose to justify requiring its production.

8. Especially against that background, in our view considerable emphasis needs to be given to minimising differences between accounting and Solvency II information, especially for detailed data – the costs of insurers having to produce highly granular information on two different bases are unlikely to be justified. Even where information is already produced for financial statements, or SCR calculations, a significant amount of time will be required to input large amounts of granular data into other returns in different formats, and to exercise due control over those processes.
9. In our view further consideration should be given to whether the information required for individual (regulated) companies – with which policyholders and others actually transact – is also needed for groups. Supervisors and other stakeholders might find reporting on groups by exception to be more informative – for example, significant changes in group risks, group solvency, intercompany transactions or other intercompany arrangements.
10. We welcome emerging indications that only a subset of the reporting templates (whatever they are ultimately determined to be) will be disclosed publicly, on an annual basis. This would seem to be a realistic appraisal of the appetite for Solvency II information outside the regulatory community.
11. We do not think that the consultation paper makes clear the scope of the audit or assurance work which is envisaged. Our interpretation of sections 5 and 6 is that any audit will be confined just to quantitative information, and only in relation to reports to supervisors. However, it is vital that the scope of assurance is clarified so that insurers can develop their reporting processes, factoring in the appropriate engagement with their auditors.
12. In that context, we would like to reiterate the importance of carefully considering the balance between costs and benefits before requiring any form of external assurance, and where it is required also carefully considering the precise nature of that assurance. It is also important to establish clearly who is intended to benefit from it.

## RESPONSES TO SPECIFIC QUESTIONS

**Q9: Do you agree that the Commission Services' suggested approach would be the most efficient and effective in order to achieve the objectives of:**

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

**Please provide reasons and examples. If you do not agree, which combination of options in Annex 1 or alternative suggestion meets these objectives in a more efficient and effective way and why?)**

### Introducing proportionate requirements for small undertakings

13. We concur with the recommendation of Scenario 3, which overall is one of the less onerous options for all insurers. However, we do not consider there to be many concessions for small undertakings. In particular, we would note that Article 4 restricts the exclusion of small undertakings from the scope of Solvency II. In particular the exclusions do not apply to:
  - reinsurance undertakings; or
  - an insurance undertaking which falls under the thresholds but is part of a group where the group exceeds the thresholds in Article 4 paragraph 1(c).

14. We believe that there is scope for reduced reporting requirements, at least in respect of small group undertakings, certain captive (re)insurers, and (re)insurers in run-off (excluding reinsurers that entered run-off before 10 December 2007, which are outside the scope of Solvency II). It is not clear whether any regulatory discretion will be possible to reduce the detailed requirements to enable this.
15. The absence of clear articulations and examples of materiality and proportionality within the guidance to date are commented upon elsewhere in our response. We discuss the individual factors which define the different possible scenarios in the annex to this response (pp 10-12).

#### **Harmonising supervisory reporting**

16. We agree that there should be a harmonisation of supervisory reporting, which will flow from the standardisation of the requirements, provided that there are restrictions placed upon additional requirements being established by individual supervisory authorities.
17. However, this harmonisation does result in a 'one size fits all' approach to many of the requirements which we believe is a significant drawback, as noted in our previous responses, including our 17 September 2009 response to CP58 (REP 97/09) and our letter of 5 February 2010 to Mr van Hulle on proportionality (REP 21/10). The rigidity of the qualitative reporting formats of the Solvency and Financial Condition Report (SFCR) and Report to Supervisors (RTS) assists with this harmonisation, but we believe that the prescriptiveness of the required format proposed in CP58 is excessive and could be reduced without significant loss of harmonisation.

#### **Promoting compatibility of valuation & reporting rules with the international accounting standards elaborated by the IASB**

18. We agree that the current proposals go a long way towards providing consistency with IASB reporting and valuation rules, despite the fact that the IASB rules are in a state of uncertainty. Whilst recognising that there are legitimate and necessary differences between regulatory reporting and general purpose financial statements, we would recommend that this issue is kept under review. We believe firms are likely to want to eliminate differences as far as possible. As the IASB rules evolve, consideration should be given to whether there is a case to amend the related solvency rules to minimise emergence of differences between accounting and solvency rules where such differences are not justified. A particular area that we would highlight for early attention is any differences in the final definitions of contract boundary.
19. Reconciliation to the financial statements as part of quantitative reporting will assist in providing a further link to IASB valuation and reporting. It would help to minimise compliance costs for insurers if, where possible, financial reporting numbers could be used for some of the more granular quantitative solvency reporting in order to avoid insurers needing to produce parallel detailed data on a granular basis for both solvency and accounting purposes.
20. It should be borne in mind that for non-listed entities the deadlines for producing solvency information are likely to be earlier than those which apply to their statutory accounts. If this caused insurers to have to accelerate the production of their financial statements, that would be an additional burden on insurers flowing from Solvency II reporting.

#### **Ensuring efficient supervision of insurance groups and financial conglomerates**

21. We agree that consistency of presentation of group and solo reporting should assist the efficient supervision of insurance groups.
22. However, we would highlight that the role of group supervision differs from that of solo supervision, and it is important that the solo requirements are only applied at group level where this is appropriate. In particular, there are no group policyholders as such (insurance policies reside with the individual regulated entities within the Group). Group supervision is more about

understanding what additional risks are posed to the policyholders of EEA insurers from the group's other activities. As such, disclosures should focus on both solvency and risk.

23. In particular, we believe that the frequency of the group quantitative reporting templates submission to the supervisors needs to be considered. We understood that the quarterly solo requirements were driven initially from Article 129(4), which requires a quarterly calculation of the minimum capital requirement (MCR), and Article 129(3), which sets the range within which the MCR must sit relative to the Solvency Capital Requirement (SCR). The latter therefore requires some roll-forward of the previously determined SCR and sufficient information for supervisors to assess the determination of the quarterly MCR.
24. By contrast, there is no group MCR requirement. The only reference to the MCR is to set the floor to the group SCR where the deduction and aggregation approach is applied (Article 230), but this is determined as the sum of the relative proportion of the solo MCRs. As such, no group MCR is required.
25. The cost to insurance groups of preparing group quantitative templates may be disproportionate to supervisors' needs if the solo templates are largely replicated at group level. We believe that efficient supervision of insurance groups requires supervisory needs and cost to the industry to be balanced, and in this regard we would welcome an alternative approach to informing supervisors of potential changes to the group risk profile or solvency concerns. For example, reporting by exception could be introduced to cover the risk of group positions deteriorating between year-end reporting periods. For example, this could be required if there is a material change in the group's financial position or risk relationships between the EEA regulated (re)insurance entities and the rest of the group alter significantly.

**Q10: The Commission Services are currently of the view that, in line with the proportionality principle, the level 2 implementing measures should only require material and/or relevant information to be provided. Do you agree with this approach?**

**(Please provide reasons, including specific suggestions on how to implement the proportionality principle with respect to reporting requirements, how and who should determine what information is material and/or relevant)**

26. We commented in detail on proportionality and materiality in our letter to Mr van Hulle of 5 February 2010 (REP 21/10). In the context of Solvency II there are some important differences between these concepts. Proportionality is a key feature of how the regulatory requirements are designed, particularly their impact on firms which pose a relatively low risk to supervisory objectives because of lesser scale, riskiness or complexity. Materiality, on the other hand, particularly concerns the judgements which firms will need to apply in making supervisory reporting and disclosure decisions.
27. In our view, judgements about the materiality or otherwise of particular items of information will always need to be made by firms. However, guidance on the making of such judgements in the context of Solvency II could be useful, and might best be developed by EIOPA. Reference to IASB guidance on materiality would be helpful, but if supervisors were able to give an indication of aspects of materiality that particularly concern them it would assist insurers' decision making.

**Q11: Do you have any suggestions on which specific quantitative data should be subject to external audit? (Please provide reasons)**

28. In this representation we use the term 'audit' to refer to some form of external assurance, as opposed to statutory audit of financial statements. We have previously provided comments regarding the audit of Solvency II information in the various papers referred to in paragraph 6 of this letter. Within those responses we emphasised that we believed it was important from a proportionality perspective that excessive information should not be subject to audit. In particular we also drew attention to the need to resolve, dependent upon the information to be audited, what was an appropriate form of audit opinion.

- 29.** The wording of this question suggests that the Commission is now proposing that any required audit opinion should only address quantitative data, and not qualitative information. We support the exclusion of qualitative data from the scope of external audit and we would like this exclusion to be made entirely explicit by the Commission. As we have previously indicated, for qualitative data it can be particularly challenging to define clearly the criteria against which the information will be assessed, and thus the level of audit work to be undertaken and the reliance that can be placed on that work. Indeed, assurance work on qualitative data might have led to a different form of opinion, since only limited procedures would most likely be possible on such information leading to only limited assurance being given. Excluding qualitative disclosures from the information to be audited should make defining the extent of the audit work, and the level of reliance that can be placed upon the work, easier to complete, and reduce the scope for expectations not being fulfilled.
- 30.** In respect of audit work on the annual quantitative reporting templates (QRT), it is unclear where supervisors would most benefit from external assurance at a proportionate cost. It is also unclear whether any audit requirements are intended to be restricted to those elements of the QRT that will not be made publicly available (given the lack of reference to external assurance in section 6 of the consultation paper). Where supervisors wish to place reliance on external audit, we believe it would be helpful for supervisors to articulate how any audit work will be used to reduce supervisory work levels and provide a cost-benefit analysis which indicates how the cost of such audit work provides benefit (amongst other things) by reducing supervisors' costs.
- 31.** If the assurance sought also covers information that will be made publicly available, then it is unclear why any audit opinion would be provided solely for the benefit of supervisors. However, if it is only a subset of the audited forms that is made publicly available, then there is a risk that the audit report could be misleading if it was prepared in relation to a wider set of forms, only some of which are publicly disclosed.
- 32.** This is very different from the situation that applies where summary financial statements are produced. In that situation, the full documents are still available publicly. But in the situation which may be envisaged here, the public would not have access to the remainder of the information on which the audit opinion is based. If only some of the forms are made publicly available, then careful consideration would be required as to the form of audit report that can be provided, which will depend as much on the significance of the forms omitted from public disclosure as those presented.
- 33.** Overall, the question of private versus public reporting needs to be clearly articulated before auditor responsibilities can be defined. At the present time, the question regarding to whom any report is to be addressed, and the type of assurance required, remains to be resolved. We would be happy to assist, in conjunction with the Fédération des Experts Comptables Européens (FEE), in developing an appropriate form of opinion wording to provide a cost effective assurance report appropriate to the information to be audited and the reliance to be placed upon it.

#### **Assurance work for supervisors**

- 34.** In our previous responses we have emphasised that we consider the supervisors to be the prime beneficiaries of any audit opinion on solvency information. Whilst recognising the importance of solvency information to market confidence, it is unclear whether an audit opinion on this (additional to the disclosure itself) will increase confidence for most other stakeholders, who we suspect will continue to regard the audit of the financial statements as the prime source of audit comfort. The audit of solvency information should therefore primarily enable the supervisor to obtain additional confidence in certain information that is key to their supervision and will allow them to significantly reduce their detailed checking of such data, thereby reducing their costs and their demands upon insurers in exchange for the insurers incurring the additional cost of the audit.

35. Within the QRT, we believe that audit requirements should relate to overall information and not some of the more granular analyses proposed. In our view, supervisors should be seeking assurance on the comparability of the audited financial statements with the regulatory information reported in the QRT. We also believe the audit of an insurer's financial statements should be the prime source of audit comfort, and so a reconciliation of solvency information to the financial statements is of prime importance.
36. It is not clear what level of comfort supervisors would be seeking were they to request an audit opinion on the SCR calculation. This is an area where a proper cost-benefit analysis of possible audit work will be particularly important, as there is a risk that the level of work required to support any assurance given could be disproportionate to the potential benefit to supervisors. We are also unclear what value market participants would place on this opinion (as opposed to their reliance on the supervisor's work in this area).
37. If an audit is sought in respect of the SCR, then clarification will be required as to the exact nature of that assurance. Experience from QIS 5 has shown that intensive work may be needed to audit the SCR even where it is calculated using the standard formula. Where an internal model is used to calculate the SCR, there should be no duplication between the supervisor's work in relation to the approval of the model and the auditor's work. There needs to be clarity about whether any audit work is focused on reasonableness of assumptions, or the accuracy of calculation, or both.
38. We believe the auditor's involvement should be limited to expressing an opinion on the reasonableness of key assumptions, and on internal controls over completeness of data and model changes (to give supervisors comfort that they are aware of, and have approved, any major changes). Any additional comfort sought by the supervisors on the calculation could, we suggest, be better covered by requesting additional (free-form) reporting under Article 34 rather than by making this part of the annual reporting by all firms under the Report to Supervisors and supporting quantitative templates.
39. Any audit work on the MCR will be subject to similar considerations as that on the SCR and will, at most, be subject to annual audit scrutiny as the quarterly QRT is not expected to be subject to audit.

**Q12: Do you have background information or evidence that groups are approaching the reporting requirements from a centralised, top-down group perspective? (Please also provide views on whether groups should be encouraged to adopt this approach)**

40. Our understanding is that there is diversity of practice. While in all groups there has to be an element of 'top down' perspective, we believe this is much more prevalent in some groups than others.
41. While a top-down, group-wide perspective may be the most practical way to undertake this process, it should be noted that entities in particular countries may have quite different reporting requirements which can conflict with, or challenge, the Level 2 requirements, with expected cost and resourcing implications. In addition, where European groups have material third-country subsidiaries there may be substantial challenges in generating and delivering the information required for the proposed supervisory and public disclosure. For non-EEA groups that have material European subsidiaries we would expect the EEA insurance subsidiary entities to lead on the development of the appropriate reporting and disclosure, supported by the parent company, subject to the application of the proportionality principle.

**Q13: Do you agree that the Commission Services' suggested approach would be the most efficient and effective in order to achieve the objectives of:**

- introducing proportionate requirements for small undertakings;
- harmonising supervisory reporting;



- promoting compatibility of valuation and reporting rules with the international accounting standards elaborated by the IASB; and
- ensuring efficient supervision of insurance groups and financial conglomerates?

Please provide reasons and examples. If you do not agree, which option in Annex 1 or alternative suggestion meets these objectives in a more efficient and effective way and why?)

42. Overall, many of the issues raised here in the context of public disclosure are similar to those which arise in the context of supervisory reporting on which we comment above.
43. We are concerned by the apparent lack of emphasis on materiality and proportionality in the proposals. On the assumption that the minimum content of the SFCR is framed to be appropriate to larger, more complex insurers, it may require an excessive amount of disclosure for smaller or less complex businesses, particularly if a highly prescriptive format is adopted, with a requirement to make a disclosure under every mandated heading.
44. While prescription of the minimum content of the SFCR will promote considerable harmonisation in public disclosure, this comes at the price of taking a 'one size fits all' approach that is probably disproportionate for smaller or less complex firms. Moreover, in the context of disclosure to the public at large, as opposed to supervisory experts, there is perhaps a risk that harmonised formats could make different insurers appear to be more similar than is in fact the case.
45. Whilst we agree in principle that efficient supervision of insurance groups is likely to be fostered by harmonisation of reporting requirements, in reality this may not be achievable especially where a group is headquartered outside the EEA. We would stress that requirements should be framed so as to minimise duplication of reporting at different levels, and careful consideration should be given to the likely level of stakeholder interest in public reporting at different levels. For example, there is likely to be minimal interest in public reporting by small subsidiary entities.
46. As noted earlier in this response, the format of group reporting will not be uniform across all insurance groups/conglomerates. Whilst it is possible to adopt a uniform approach in respect of EEA-headed groups, there are a number of variables that will determine the approach for non-EEA (third country) groups. These include:
- Whether the group reporting requirements are determined by Solvency II or an equivalent third country group regulator.
  - How transitional arrangements will be applied in respect of group equivalence considerations, which could potentially result in no overall group supervision during the transitional period while the affected third country regulator develops or enhances its groups regime.
  - How Article 262 will be applied in respect of third country groups, which could (for example) result in a different calculation method, using a combination of other locally reported information or even restricting group supervision to a newly created EEA sub-group.
47. The range of different options, together with the need to ensure that EEA-headed groups are not put at a disadvantage, means that care will need to be given to the level of public disclosure proposed. Without a clear understanding on this we are unable to comment further at this stage.
48. We agree that wherever possible firms/groups should disclose the SFCR on a firm's website or, if that is not possible, on that of a trade association or similar body.

**Q14: The current approach favoured by the Commission Services would be to list a number of items which would need to be put in the public domain. Some stakeholders argue that the SFCR should contain much less information, so that it is understandable by policy**

holders, while others support disclosure of information directed at a much wider audience. Do you have views on:

- a. what stakeholders should be addressed?
- b. what are the areas on which stakeholders need information?
- c. how detailed has it to be?

49. This issue again highlights the need carefully to consider proportionality and materiality – because the extent of stakeholder interest and engagement with publicly disclosed information is highly likely to depend on the nature of the insurance company in question.
50. For publicly listed companies (and perhaps unlisted ones of a similar size), detailed information is likely to be directly relevant to wholesale markets – for example market counterparties – and so to market discipline, which is a factor supporting supervisory objectives. That may point to public disclosure of quite detailed Solvency II information. However, it is not as clear that financial markets are as engaged with the business of non-listed, smaller insurance companies. Although intermediaries have some regard to the financial strength of insurers with whom they place business, it is not clear whether this is derived from publicly available financial information or from private discussion with the companies concerned. In either case, it is not apparent how much additional comfort they would gain from anything other than minimal statements on solvency levels. Rating agencies also have access to a range of information obtained directly from the companies they are rating.
51. Overall we do not believe it is currently clear what level of public disclosure will be helpful for the various market participants. As stated in paragraph 54 below, we would recommend that the Commission seeks direct feedback from representatives of the various classes of market participant before concluding on the level of public disclosure required.
52. Aside from market counterparties, the main stakeholders are policyholders. In general policyholders (with a few possible exceptions eg sophisticated financial institutions) will not be in a position to assess detailed Solvency II information. This suggests that a concise summary report, which makes clear the significance of the figures presented, would best serve the needs of most policyholders. In our view, it is likely to prove challenging to persuade most policyholders (or potential policyholders) to engage even with a summary report. The main factors in sales of insurance to retail and small business customers tend to be price, brand recognition and quality of customer service, and not security, particularly where a compensation scheme exists.
53. An overarching consideration – as noted above – is that if a fully harmonised approach is to be taken to public disclosure by all insurers it will be important to restrict the volume and detail of the requirements, so as to minimise the risk of a disproportionate regime for the large number of smaller insurance companies in Europe. It will also be important not to mandate public disclosure at a level of granularity which could lead to the inappropriate disclosure of commercially confidential information, for example on particular policyholders or reinsurers.
54. We recommend that the Commission satisfies itself that it has obtained sufficient input from stakeholders to form a robust judgement regarding the information which can most appropriately be disclosed to the public.

**Q15: Solvency II will be based on an economic valuation of all assets and liabilities. The current approach favoured by the Commission Services would be to require public disclosure of a number of aggregated key figures arising from solvency valuation and their material differences with the accounting valuation. Do you support that approach?**

**(Please provide reasons and suggestions on how precise such information should be and how it should be presented to be understood well by markets)**

55. Yes, we agree with this approach.

56. Supervisors and other stakeholders are familiar with financial statements for insurers and these provide a suitable reference point for comparison between insurers on an accounting basis and, we would argue, also on a solvency basis (we acknowledge that the IFRS 4 Phase II project could temporarily reduce this familiarity to some degree). Although there are different bases of accounting around the world, EU-adopted IFRS provides the accounting basis for all listed insurers within the EU and is also the valuation basis which underpins balance sheet values for Solvency II purposes. Whilst European non-listed entities will not necessarily use IFRS for their accounting, there is likely to be increasing convergence over time of local reporting bases to IFRS, which should help to minimise adjustments to accounting treatments. Such an approach should help to minimise the additional time and cost for insurers to prepare solvency reporting and the cost of any additional auditing requirements in respect of Solvency II related disclosure. It will also assist readers' understanding by keeping differences between financial statements and regulatory disclosures to a minimum.
57. We believe the most helpful presentation for public disclosure to be a reconciliation between the financial statements and the solvency position at the reporting date, together with a high level analysis of significant factors that have caused the movement in the solvency position compared to the previous year. In order to avoid any potential confusion by readers, such a reconciliation should be prepared at no lower a level than the segmental analysis reported in the financial statements. Consideration should also be given to the level of disclosure of key methodologies and assumptions used to determine the solvency information, and an indication of the sensitivity to key variables.
58. For non-EEA groups, more challenges will arise, as locally reported accounting bases could differ significantly from the economic valuation bases underlying Solvency II. In addition, reporting segments could be significantly different, especially where European insurance business is not the dominant segment in a non-EEA group's accounts. Consideration therefore needs to be given to setting minimum disclosure requirements which do not significantly disadvantage comparable EEA insurance groups.
59. Consideration of the disclosure requirements for such non-EEA groups should, in our opinion, be made in conjunction with consideration of any disclosure requirements in respect of third country insurers that operate through a branch structure. From the directive, Article 168 enables supervisors to obtain the information they require for supervisory purposes, but there is no link in the branches chapter (Chapter IX) to the public disclosure requirements. Care needs to be taken to draw a balance between the disclosure requirements of non-EEA groups operating through subsidiaries and those operating through a branch network if meaningful information is to be available to consumers and other stakeholders.

## **ANNEX: SUPERVISORY REPORTING – COMMENTS ON INDIVIDUAL FACTORS WHICH DEFINE POSSIBLE SCENARIOS IDENTIFIED IN THE CONSULTATION PAPER**

60. Overall we agree with the selection of Scenario 3 from the five different scenario permutations considered. Where we do potentially disagree is with the exact detail within some of the options offered.

### **Factor A: qualitative aspects of the Report to Supervisors (RTS)**

61. We agree with the Commission's preference for Option 2 (full report in first year, with full reporting frequency determined by supervisors based on risk, with specified information provided in intervening years).
62. Full disclosure of the RTS every year does not seem necessary, although we note that much of this information will be required for the annual SFCR in any case, where no such option for reduced disclosure has been offered.

63. However, we believe that some additional guidance should be given regarding the level of detail to be provided in respect of material changes to ensure supervisors receive sufficient information for their needs without requiring insurers to undertake excessive amounts of reporting, and that this is consistently applied across the EEA.
64. We also however have reservations as to how much detail regarding solvency is required to be put into the public domain through the SFCR rather than being reported purely to regulators in the RTS, as we believe relatively few stakeholders other than the supervisors will place much reliance on the detailed analysis of qualitative and quantitative solvency information beyond information contained in financial statements. Most stakeholders will be concerned only with whether an insurer meets the requirements set by its regulator. (We recognise that if there was to be any significant reduction to the level of public disclosure suggested by CP58 there may need to be additional reporting to supervisors to cover this.)

#### **Factor B: frequency of reporting to supervisors**

65. We strongly agree that not all data should be provided quarterly as this would result in an excessive reporting burden on firms/groups for limited benefit to supervisors and stakeholders other than in exceptional circumstances.
66. The choice between providing core quantitative data on a quarterly basis as a matter of course, or only to the extent required by the directive, is a more difficult decision. Although we can understand the need for regular monitoring of an insurer's solvency position (and in particular its coverage of the MCR) throughout the year, detailed analysis and reporting of this could be potentially quite burdensome depending upon the exact extent of the quarterly reporting.
67. If the extent of the (solo) reporting is limited to a relatively simple summary of the solvency position each quarter the detail would not be too burdensome. However, any requirement for insurers to calculate a full SCR as an input to the quarterly MCR calculation would be a significant task to undertake. It would be helpful if the requirements for calculating the quarterly 'sufficiently sophisticated' (as termed by CEIOPS) solo SCR and the MCR calculation itself could indicate what approximations would be acceptable to ensure the requirements are proportionate and not excessive. For example could the model results be updated only for material developments rather than changes in all factors each quarter?
68. In addition, as already expressed under 'Ensuring efficient supervision of insurance groups and financial conglomerates' above, we believe that the type of reporting for insurers and insurance groups throughout the year should be different. We would not welcome quarterly reporting via templates at a group level, as it is not clear what justification can be given for this level of detail. Instead we would prefer a more free-form principles based style of reporting to the group supervisor, covering any changes that have occurred or are anticipated in the group risk profile, together with:
- an indication of the impact on solvency;
  - a confirmation by the group that it remains solvent on its group regulatory reporting basis (recognising that the impact of equivalence decisions and differing applications of Article 262 to third country groups may mean that this is not necessarily on a Solvency II basis); and
  - a confirmation by the group that there has been no significant deterioration in its solvency position.
69. In order to address any concerns about the impact of changes in intra-group arrangements on the solo regulated entities, the reporting listed above should also include details of any changes to (or new) intra-group transactions which could have a material effect at a solo level, or confirmation that there has been no such change.

70. We believe that any such reporting should be provided on no more than a half-yearly basis unless there has been a significant deterioration, in which case this should be notified as soon as it is identified.

#### **Factor C: level of assurance**

71. We strongly agree that there should not be a requirement for all quantitative information in the annual quantitative templates to be externally audited. We also agree that any information provided during the year (for example solo quarterly templates) should not be audited.
72. As expressed elsewhere in this response and in our previous responses, we believe that external audit should only be required to the extent that it provides a cost effective solution for insurers to provide supervisors and stakeholders with useful additional confidence in reported numbers. The detail of which forms are to be audited is, however, still to be resolved and we comment on this within our response to Question 11.

#### **Factor D: reporting format**

73. For solo reporting we prefer Option 3 (standardised reporting templates for quantitative information but free-form within a predefined order for qualitative information) to the other two options. That is because we do not consider full standardisation is a realistic alternative for qualitative information, but at the same time a fully free format of information would make collation of data and comparisons difficult.
74. We do however feel strongly that the level of prescription set out in CP58 regarding the format of the qualitative reporting is excessive. While the six main headings are reasonable, the requirement to divide them into a further 35 sub-headings in a particular order is unnecessary. Although it provides greater consistency it allows little flexibility to provide what insurers may feel is an appropriate way to express their key risks and controls. It also reduces the ability for insurers to utilise elements of presentations they have used for other purposes, such as financial statements, model documentation or the ORSA, without major redrafting to fit the very detailed and prescriptive format suggested for both the SFCR and RTS. In addition the highly prescriptive order being applied to both the SFCR and RTS suggests that the reporting that is appropriate for supervisors and for public reporting is very similar: we feel this is not the case. The need to comment upon all of the sub-headings will potentially extend the level of disclosure and comment required even to aspects which are immaterial, and this may cause disproportionate reporting. In this regard, we would welcome any moves to simplify the level of prescription from that originally proposed.
75. In respect of groups, on balance we prefer Option 3. However, we would caveat this in respect of:
- Third country group reporting, which may not be on a Solvency II basis (due to equivalence or application of Article 262).
  - Non-annual reporting requirements (see comments under Factor B above).

**E** [ian.michael@icaew.com](mailto:ian.michael@icaew.com)

Copyright © ICAEW 2011  
All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is reproduced accurately and not used in a misleading context;
- the source of the extract or document, and the copyright of ICAEW, is acknowledged; and

- the title of the document and the reference number (ICAEW Rep 02/11) are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

[icaew.com](http://icaew.com)