

Solvency II disclosures

It may feel like there's plenty of time before the Solvency and Financial Condition Report (SFCR) and Regular Supervisory Report (RSR) submission deadlines, but the scattered nature of the regulation and the high volume of information required make the task of preparing the reports far from trivial.

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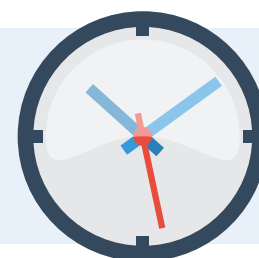
In this briefing note we:

- stress the need for firms to start thinking about these reports as soon as possible, if they have not done so already;
- outline the rules and guidance available; and
- highlight some of the key issues they are likely to face.

With firms starting to get more of a grip on the quarterly Solvency II submissions, eyes are now turning towards the first annual reporting requirements. While higher Prudential Regulatory Authority (PRA) category firms will have partly addressed the narrative reports in last year's preparatory phase submissions, those drafts will need to be updated and expanded to cover the full requirements. Many other insurers are only just starting to think about what they need to do.

The need to start focussing on the annual reports is perhaps most pressing for firms with a year-end on or after 30 June but before 31 December, with the earliest of these facing a submission deadline of 17 November 2016. Although the 20 May 2017 submission deadline for solo firms with a 31 December year-end may seem distant by comparison, a significant amount of work is required, and the effort and resource strain should not be underestimated. Let's not forget that the SFCR will be subject to external audit for year-ends falling on or after 15 November 2016 so the effective deadline, allowing for auditor deliberations, is earlier.

Regardless of an individual firm's year-end, we strongly recommend that all firms start their preparations as soon as possible – and there's no time like the present.



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Requirements

The SFCR is a public disclosure document that, in normal circumstances, should be updated annually. A subset of the quantitative reporting templates (QRTs) needs to be included in the SFCR alongside required narrative sections. Firms are required to publish the SFCR on their website and provide a printed copy upon request. It must also be submitted to the supervisor.

The RSR is a non-public document that, in normal circumstances, must be submitted to the supervisor every three years. In intervening years, a summary of material changes must be submitted.

Both the SFCR and RSR need to be prepared in accordance with multiple items of regulation and guidance, primarily:

- Articles 35 and 51 of Directive 2009/138/EC (the 'Directive') which set out high-level requirements
- Articles 290 to 313 of Commission Delegated Regulation (EU) 2015/35 (the 'Delegated Acts'), which provide some detail on the required content
- Annex XX of the Delegated Acts, which sets out the structure that must be followed by both the SFCR and the RSR
- EIOPA's guidelines on reporting and public disclosure (the 'Guidelines'), which provide further details of what to include in the SFCR and RSR along with additional governance requirements
- Commission Implementing Regulation (EU) 2015/2452 (the 'Implementing Technical Standards' or 'ITS') with regard to procedures, formats, and templates of the SFCR
- EIOPA's Q&A responses (on the Guidelines and on the ITS) – currently these provide little additional information, but they are updated from time to time so firms should be aware of them

With a range of sources to draw upon, care is needed to ensure that all requirements are met. Below are a few pointers to help get you started.

Process

The Guidelines clarify that insurance and reinsurance undertakings should have both a public disclosure policy and a supervisory reporting policy. Some firms may have overlooked these requirements.

It might be tempting to draft the narrative and put the policies in place retrospectively, but this is not necessarily the best approach.

Although 'yet more policies' might be seen as an irritant by many, it actually gets you thinking about some of the key questions you need to address at an early stage such as:

? Who will compile and who will review the text?

? What process will be followed?

? How will the Board sign-off work?

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The first of these questions is particularly important. The reporting requirements cover a wide range of topics and, while the regulations provide a steer as to the required content, ultimately you need to make decisions over what to say and how to say it. You therefore need to engage personnel with appropriate knowledge and seniority. Delegating to junior staff is likely to be a false economy in the long-run.

Most firms will need to involve a number of people or functions in drafting sections according to their expertise. This will inevitably lead to differences in drafting style that you may want to iron out and could potentially lead to inconsistent information being presented. In some cases 'collective responsibility' may also lead to delays in collating the information required.

Firms might consider:

- whether a co-ordinator should be appointed to manage the efforts of those involved and bring together a completed report; and
- if a common style is desirable, (for example referring to 'the Company' rather than the firm name), whether trying to define this up-front may save time.



It is also essential to ensure adequate time is allocated to combining, reviewing and potentially updating the various components of the reports.

Structure

In our opinion the regulations are clear in that the report structure should follow that set out in Annex XX of the Delegated Acts. However, we are aware that some firms have missed this requirement, forcing them to re-structure their initial drafts. Hopefully anyone reading this article will not fall into the same trap!

That said, the Delegated Acts' discussion on what to include in each section does include some ambiguities. For example, in places it is unclear as to whether certain required information should be included in the 'any other information' section or whether it should be slotted in elsewhere. Firms will need to exercise judgement here.

The devil is in the detail

Perhaps the biggest challenge is ensuring the reports, especially the SFCR, contain an appropriate level of detail. There will undoubtedly be a lack of consistency across the industry in 2016/2017, with some firms being more 'generous' than others with the information presented. It will be interesting to see how the reports evolve over time and whether there is convergence.

One particular area requiring thought is how much detail to include in the Summary section of the SFCR. Article 292 of the Delegated Acts, says that this should be clear, concise and understandable to policy holders and beneficiaries. It is therefore important that firms avoid using technical language.

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With this in mind, firms may wish to consider using plain language in the rest of the report, or at least defining technical terms, to improve readability and usefulness.

The RSR follows the same structure as the SFCR. Ostensibly it exists to complete the picture for the supervisory authorities by including information not disclosed in the publicly available SFCR.

However, as is far too often the case with Solvency II, things aren't quite that simple and the dividing line is blurred.

- Although the idea seems to be for the RSR to only include information not already covered in the SFCR, following Delegated Acts articles 307 to 311 to the letter appears to necessitate replication of some information.
- Where information is split between the RSR and the SFCR, judgement will often be required to assess where to place the divide.



Firms also need to consider the detail of the regulations. It is quite easy to misinterpret requirements or miss something completely, especially as the requirements are not confined to a single document. For example, the ITS requires that monetary amounts reported in the subset of QRTs included in the SFCR should be shown in thousands as opposed to the pounds and pence required in the regulatory QRT submission. Points like this can be easily overlooked.

Avoid duplication

While the annual submissions will contain a large volume of information, if firms are compliant with other aspects of Solvency II, a significant proportion of this will already exist in some form. This might be in the Own Risk and Solvency Assessment (ORSA), in risk management documents or in the report from the Actuarial Function, for example. Firms will need to consider whether the information can be lifted from such sources in its current form and dropped into the SFCR/RSR, or whether it first needs some tweaking.

Ideally, firms should try to avoid maintaining multiple versions of essentially the same information. By spending some additional time now, firms could make the process a lot more manageable and efficient going forwards.

There are various ways that this might be achieved, including:

- i. identifying content common to multiple documents (e.g. SFCR and ORSA);
- ii. drafting text that can be used for all relevant documents, (making sure the requirements for each document are addressed); and
- iii. maintaining and updating a single version of the relevant text that is pulled into the relevant documents as required.

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Barnett Waddingham's understanding of the regulations coupled with the assistance we have already given our clients in this area means that we are perfectly placed to help you complete the SFCR and RSR.

Final thoughts

Our discussions with firms indicate that the level of detail included in the SFCR and RSR will vary quite widely between undertakings, but in all cases it is clear that a substantial amount of work will be involved.

There are a number of pitfalls that firms should be wary of.

- It is easy to miss or misinterpret the requirements. This is particularly the case when a number of people are involved as things can 'fall between the cracks'. You need to make sure that everyone involved has the regulations and guidance at their disposal and is fully briefed as to their roles and responsibilities. It is key that the reviewer, or reviewers, take a holistic approach.
- There is a danger that those involved in the preparation of the reports are overly familiar with the information being communicated. What appears sensible to an internal audience might not make sense to an external party. A fresh pair of eyes and a clear head in the review phase can significantly improve readability.
- It might be tempting to rush in and start drafting the reports without thinking about what you already have available. This approach leads to 'multiple versions of the truth' and, as mentioned earlier, should be avoided if possible by re-using what you currently have available.

While we hope most firms have already started addressing the requirements, any that haven't really should start now. If they don't, they could find themselves up against significant time pressures closer to the reporting deadline.

How we can help

Barnett Waddingham's understanding of the regulations coupled with the assistance we have already given our clients in this area means that we are perfectly placed to help you complete the SFCR and RSR.

We can help you interpret the requirements and assist with the review of your draft reports. In particular, we will check that all of the requirements have been covered and that the documents are internally consistent. If required, we can also review the drafts for clarity and readability.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact John Hoskin via the following:

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