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Latest Developments in the Quantitative Reporting Templates

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Summary

In this paper, we look at the latest developments in the Quantitative Reporting Templates. We consider how insurers can address the challenge of maintaining Solvency II reporting systems to keep pace with the changing and emerging regulatory requirements.

The European Insurance and Occupational Pensions Authority (EIOPA) published the second set of Implementing Technical Standards and Guidelines (ITS), including final templates to the European Commission on July 6, 2015.

The standards and guidelines provide technical requirements applicable directly to insurers across all three pillars of Solvency II. These also provide guidance for local regulators implementing Solvency II, and are a major step toward finalizing the regulatory framework for Solvency II. Most importantly, the standards and Guidelines provide an updated set of Quantitative Reporting Templates outlined in the CP-14 Consultation Paper documents.

Introduction

In December 2014, the European Insurance and Occupational Pensions Authority (EIOPA) issued a public consultation document on its second set of Implementing Technical Standards (ITS). The consultation is now closed. EIOPA provided final versions of the ITS (including final templates) to the European Commission (EC) by the end of June 2015. Final Guidelines were published in July 2015. The ITS comprised several documents:

CP-14-052 - ITS on regular supervisory reporting	CP-14-044 – Guidelines on methods to determine the market share for the purpose of exemptions to supervisory reporting	CP-14-050 – Guidelines on exchange of information on a systematic basis within colleges
CP-14-055 - ITS on public disclosure: procedures, formats and templates	CP-14-047 – Guidelines on reporting and disclosure	
CP-14-045 – Guidelines on financial stability reporting	CP-14-048 – Guidelines on third country branches	

The ITS and Guidelines provide technical requirements applicable directly to insurers across all three pillars of Solvency II. These also provide guidance for local regulators implementing Solvency II, and are a major step toward finalizing the regulatory framework for Solvency II. Most importantly, the ITS and Guidelines provide an updated set of Quantitative Reporting Templates (QRTs) outlined in the Consultation Paper (CP) documents shaded blue in the preceding table.

The LOG files associated with the QRTs have been updated, and should help answer some of the issues and misunderstandings. The LOG files do not address all the issues and the consultation period should have given insurers the chance to raise their concerns and seek clarification.

The updated version of the QRTs requires insurers to adapt their reporting systems to the European Central Bank (ECB) statistical data requirements, and any nation-specific template published by National Competent Authorities (NCAs).

Challenges for existing Solvency II Reporting Projects

While there are many challenges relating to Solvency II, data collection and reporting, and in particular the production of the annual and quarterly QRTs, is one of the most pressing problems for many insurers. Insurers have undertaken dry-runs in their reporting systems and are planning for interim reporting in 2015 based primarily on the QRTs issued by EIOPA in 2012. This exercise provides a valuable learning experience, helping to identify data sources, data quality issues, refine processes and clarify interpretations of the regulation.

The 2016 introduction of CP 14 and ITS requirements combined with the ECB and NCA templates means that insurers must update their Solvency II reporting systems and processes. The key challenges are likely to be changes to multiple templates, and additional data requirements relating to these template changes. Coupled with the demands of quarterly reporting and potential integration of systems for IFRS 9 and 4 reporting, most insurers will need to "industrialize" and automate their reporting processes.

CP14 and ITS Changes

Upgrading data sources and reporting systems to reflect changes in the QRTs may not be a simple exercise. In particular for those insurers with systems that are spreadsheet based or those which have not been designed for upgrade. Insurers who have systems based on database structures which automatically generate the QRTs may find the process much more straightforward.

Upgrading involves at least six factors that must be considered.

1. New Templates and Data Sets

There are several new QRTs published by EIOPA, an extra 18 templates that require completion and some new data sets. These changes affect areas such as financial assets, off-balance sheet items, reinsurance treaties, and ring-fenced funds. In the following table we highlight several new templates as examples:

Template	Description
S.01.03 (four templates designated S.01.03 b, g, s & t respectively) Basic Information – Ring Fenced Funds and Matching Adjustment Portfolios	Provides information on any ring-fenced funds and/or matching adjustment portfolios reported by the insurer.
S.03.03 Off-Balance Sheet Items	List of unlimited guarantees provided by the undertaking.
S.22.01 Impact of long-term guarantees & transitional measures	Analyze the impact of the long-term guaranty and transitional measures on technical provisions, basic own funds, own funds eligible to meet the SCR by tier, and the SCR.
S.22.03 Information on the matching adjustment calculation	Provides information on the calculations supporting the matching adjustment, by matching adjustment portfolio.

These new templates must be built into the insurer's reporting system, and the data sets must be formulated and mapped to the underlying source system, files or spreadsheets.

2. National Competent Authorities Templates

In practice, local regulators like the PRA (UK), BAFIN (Germany) and the ACPR (France) implement the Technical Standards in their countries. Many regulators, as part of this process, have already issued several nation-specific templates which must be incorporated into the QRTs and reporting systems.

For example, the PRA has published 11 new QRTs, ACPR in France has published 24 new templates, and the IFSRA in Ireland has published 11 new templates that are in consultation paper phase. All these templates are subject to change. Some regulators require additional levels of granularity on certain classes of data. For example the PRA requires more detail around assumptions and the Irish regulator more granular claims data. For companies operating in multiple countries, it can be a real headache to maintain different templates for each country in which they have a regulated entity, in addition to consolidated group templates for the
country regulating the group entity. It can also be quite difficult to track and monitor EIOPA, ECB and local regulator requirements.

3. Reformatted EIOPA Templates

The number of EIOPA QRTs, compared to the existing 2012 set has also expanded from some 70 templates to over 200. This expansion is partly due to the new templates previously discussed, but is also due to renaming, restructuring and reformatting the solo/group, annual/quarterly templates. Some of the existing templates have extra cells and some minor rearrangements of cells, further complicating compliance. In terms of reporting systems the templates must be restructured, name changes reflected and some data remapped to the new cells.

The following table illustrates some of the templates that have been subject to fundamental changes and might require more data and/or reformatted data:

Existing Reference	New Reference	Brief Analysis
AS-D1: Summary of Assets	**S.06.01. – a, b, f & g**	More granular information on assets and split into two different templates (one each for quarterly and annual reporting).
BS-C1B: Guarantees Received or Provided	**S.03.01 and S.03.02**	Now two templates with the extra template listing unlimited guarantees received by the undertaking.
Cover-A1: Premiums, Claims and Expenses by Line of Business or By Country	**S.05.01 and S.05.02**	Now split into two different templates. The annual form requires a sub-analysis of expenses by type.
OF-B1: Own Funds	**S.23.01 and S.23.02**	Split into 'Detailed Information by Tiers on Own Funds',' Annual Movements on Own Funds ', 'List of Items on Own Funds'.
TP-E1: Non-Life Technical Provisions by Country	**S.17.02**	Split into Non-Life Technical Provisions (general information), Non-Life Technical Provisions-By Country, Best estimate by currency and country – Non- Life.
TP-F1: Life & Health SLT Technical Provisions	**S12.01 (new S.12.03)**	Split by Life Technical Provisions (general information), Life Technical Provisions-By Country, Best estimate by currency and country – Life.
SCR-B2A: Capital Requirements for undertakings using Standard formula	**S.25.02 and S.25.03**	Combined the information reported previously in SCR_B2B, and split on Standard Formula, Standard Formula and Partial Internal Model; New information required about Matching Adjustment Portfolio.
SCR-B3A: Solvency Capital Requirement – market Risk	**S.26.01**	More detail information around the 'Securitization Positions' and 'Currency Risk'.
All SCR_B3X	**S.26.07**	A specific template which must be completed when simplification is used.

4. ECB Templates

The ECB is interested in the balance sheets of insurers because collectively the industry forms a large part of the financial sector in the Euro area and European Union. This interest has been increasing as insurers compete with banks to lend directly to corporates and invest in infrastructure projects. While most of the information required by the ECB can be derived from the Solvency II QRTs the ECB has requested 10 more reporting items, including information about the original maturity of bonds and the classification of bond issuers.

The ECB and EIOPA have been working together since 2013 to align ECB reporting with Solvency II requirements, with the goal of avoiding duplication and minimizing filing burdens. Now the ECB has released updated templates with "add-ons" that include information that needs to be provided for statistical purposes over and above the supervisory requirements. These files only include those QRTs which contain the add-ons. The templates are based on the version of the QRTs released under the current consultation of Set 2 of EIOPA's ITS.

Some of examples of the ECB additional requirements:

» Asset Classification: Solvency II requires the use of a NACE code for asset classification, but NACE is not compatible with the statistical standards used by the ECB's statistics collection and monitoring system. This uses the European System of Accounts 2010 (ESA2010). Insurers will therefore have to provide the ESA2010 classification in addition to NACE for certain assets.

» Timelines: For those entities that have to report quarterly the timelines are identical: 8 weeks after quarter end in 2016, gradually reduced to five weeks by 2019. Annual reporting will have the same duration: 20 weeks in 2016, gradually reduced to 14 weeks by 2019. But the reference point for reporting the data is different. While Solvency II reporting begins after the undertaking's financial year end, the ECB timeline begins after year end.

» Maturities: The ECB is interested in original maturities (information about when the securities and loans were issued), which is not covered by the Solvency II reports. The issue date is required to derive the original maturity of the instrument in addition to the remaining maturity, which is what the Solvency II reports focus on.

The important point to consider is that there will almost certainly be specific changes in the future by the ECB which will also need to be reflected in reporting systems, in addition to EIOPA and local regulator changes.

In addition, the ECB has requested additional data from insurers for its financial stability analysis via Financial Stability templates (FST). Solvency II data will be able to be used for ECB statistics, however there are some differences and some FST-only templates. The Financial Stability add-on templates reflect the additional reporting requirements necessary for financial stability purposes. Information for financial stability is required for all undertakings with more than EUR 12billion in total assets in the Solvency II balance sheet.

5. SCR Calculation

Since July 2012, when the last set of QRTs was issued, there have been several changes to the SCR formula and calculation of Technical Provisions. These changes have led to further entries in the QRTs, which must be validated and with which firms must comply, as in the following examples.

1. Technical Provisions and Own Funds:

In 2012, insurers were not required to report on the benefit of transition measures, as they must do under the new requirements. The two transition measures with the largest impact are likely to be the "risk-free interest rates" and technical provisions. These two measures are mutually exclusive and both measures require disclosure of their impact in the calculation of technical provisions. Other transition measures relate to the equity risk charge and the concentration and spread risk charge.

Similarly, the volatility adjustment and matching adjustment did not exist in 2012. Under the new requirements, the amount of technical provisions subject to each adjustment must be reported.

The additional reporting of impacts from adjustments and transitional measures is required for both non-life companies and life companies.

The matching adjustment portfolio (MAP) has many similarities to a ring-fenced fund. Additional reporting is required for a MAP which mirrors the reporting for a ring-fenced fund.

Any transition measure that affects the technical provisions will also impact the own funds calculation.

2. Solvency Capital Requirements:

Adoption of transition measures could potentially affect the SCR. The Standard Formula SCR treatment of risk-free interest rates and technical provisions transition measures is specified (in draft form in CP-14-049) and the impact on the SCR should be limited. However, the SCR must be reported with and without transition measures and the effect of the adjustments.

Additional reporting is also required on the SCR impact of the matching adjustment premium.

In addition, there are numerous SCR reporting requirements involving more granular reporting of items such as market risk, counterparty risk, undertaking specific parameters and partial internal models.

We must also remember that several national regulators have made minor changes to the SCR formula to reflect local market conditions. Both the Israeli and South African regulators, who are implementing Solvency type regimes based on EIOPA, have changed their SCR calculation to reflect local product variations and local market conditions. For example, in Israel the longevity risk is different, as they have a significant amount of guaranteed annuity contracts, and consequently the EPIFP (Expected Profits Included in Future Premiums) has a higher impact on capital in Israel than in Europe.

3. XBRL Taxonomy

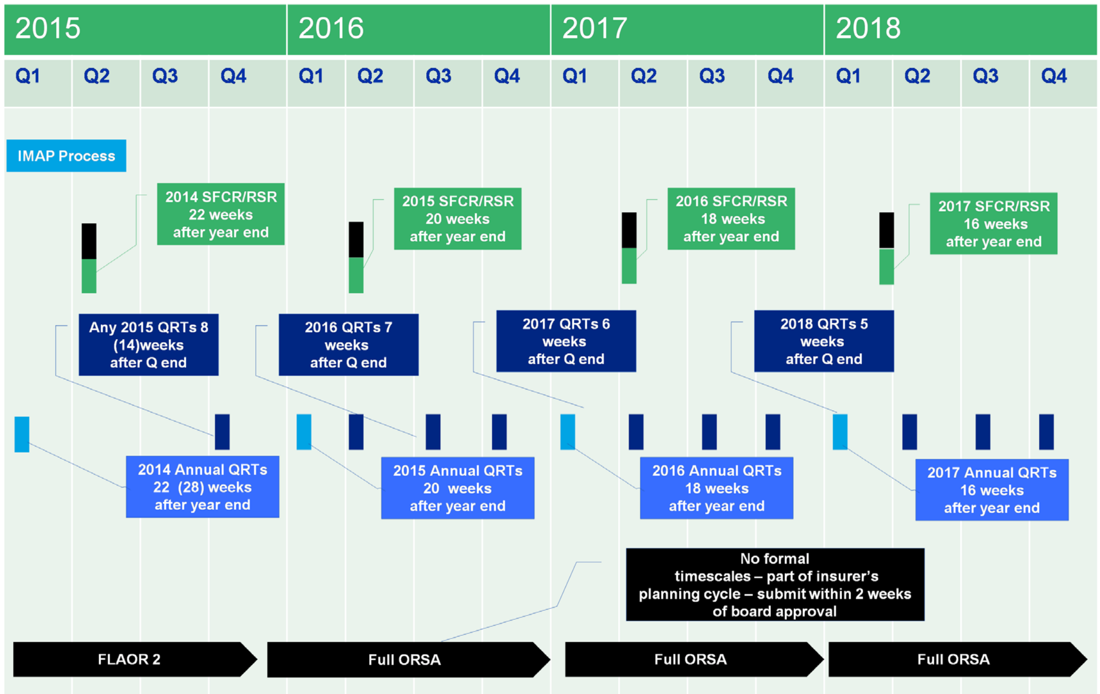
Most regulators require the QRTs to be delivered to them in an XBRL format. However, some are still specifying reporting in CSV formats. Clearly as the templates change, the XBRL taxonomy must be updated to reflect the changes. For most insurers, the development of a tool to generate and maintain XBRL formats is essential.

As an aside, EIOPA has also decided to implement XBRL as the standard for reporting data submission between EIOPA and the National Competent Authorities and to promote its use in the market by providing an EIOPA XBRL Taxonomy.

Meeting the New Requirements

Large insurers will likely be challenged to meet the new QRT reporting time scales. As the following illustration highlights, the requirement of eight weeks after period-end in 2015, reducing to five weeks in 2018, for quarterly reporting presents major challenges.

Thus reporting projects are critical and many insurers will need to upgrade their reporting systems and processes to cater for future demands. We have identified four critical areas that insurers should focus on:

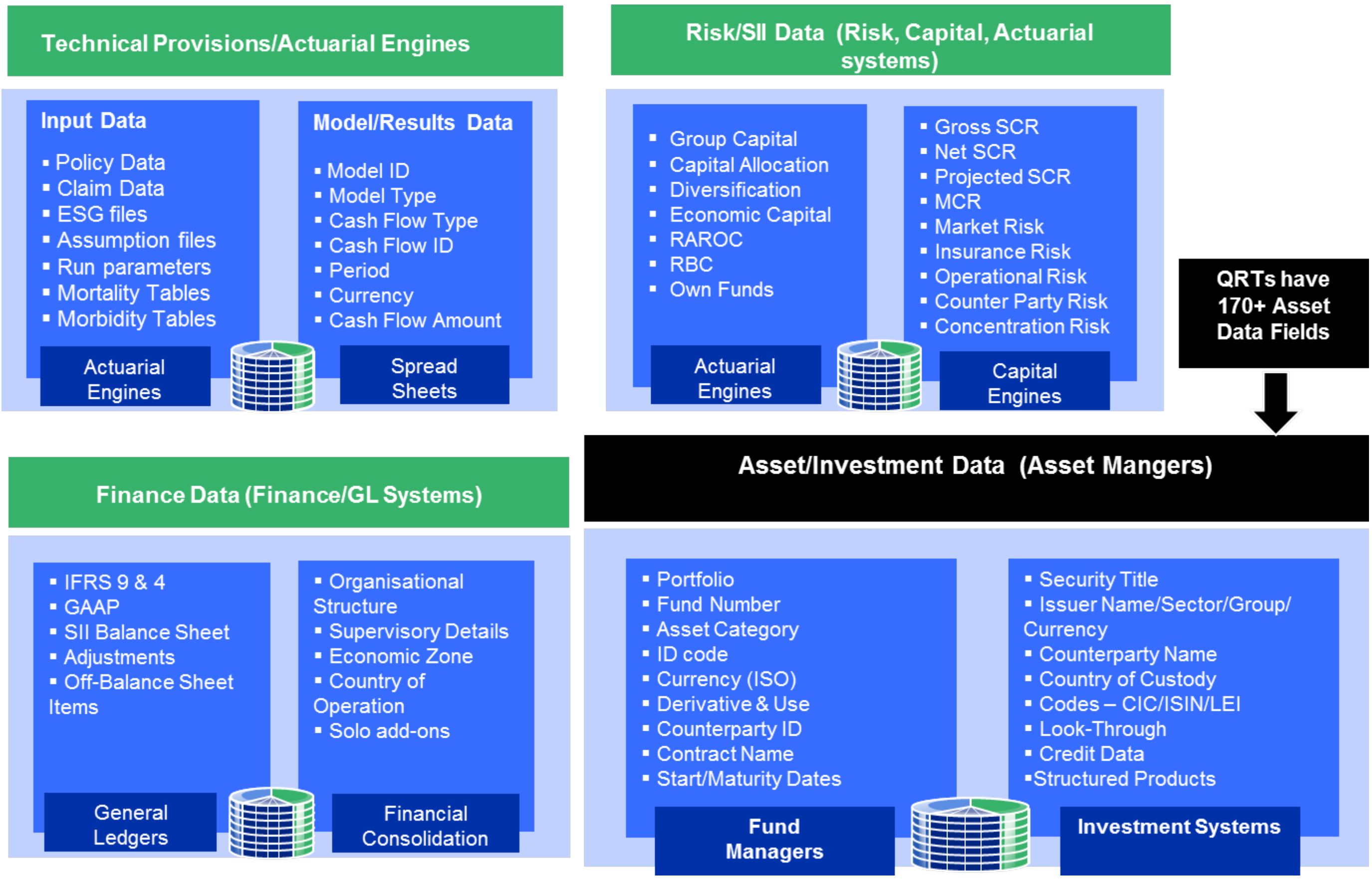


1. Analytical Data

Extracting, transforming and consolidating analytical data is the number one problem for most insurers in terms of their Solvency II reporting project. The quality and availability of data is paramount – data has to be available in the right level of granularity, right format and within the tight time scales. EIOPA requirements mandate data quality policies, tools and processes with full lineage and auditability controls. The following Illustrates the types of analytical data required for Solvency II.

EIOPA Data Requirements	
1.	Embedded a system of data quality management across the business & ensure data processing from sources to model is transparent and demonstrable
2.	Define objective metrics for completeness, accuracy and appropriateness of data and perform periodic data quality assessments, and implement a process for identifying and resolving data deficiencies
3.	Produce a Data Dictionary describing each data attitude used in an internal model with each attributes source, characteristics and usage
4.	Define a process for changes and updates to data that materially affects model results
5.	Establish a process to manage changes or data updates which materially impact model outputs
6.	Establish a data policy which sets out the entity's approach to managing data quality
7.	Document roles and process for both internal & external auditors in the data quality process
8.	Document instances where data quality may be compromised, including implications and mitigating actions
9.	Provide an audit trail and rationale for data updates when applying expert judgment in lieu of reliable internal or external data

We see that many insurers are investing in building a dedicated analytical repository to store and manage the analytical data required to support both business and regulatory reporting. The underlying data model of such a repository must be flexible enough to deal with new data sets, sources and re-mappings.



2. Flexible Reporting Systems

Most insurers are either adapting their existing financial reporting systems for QRT reporting, or implementing a dedicated QRT reporting system acquired from vendors such as Moody's Analytics. Regardless an insurer must ensure that their chosen system is capable of dealing with the constant regulatory changes quickly and efficiently. The more complex and diverse and insurer the greater the problem become.

3. Monitoring Regulatory Maintenance

Adapting reporting systems to deal with constantly evolving regulatory changes is challenging. Monitoring and evaluating EIOPA, ECB and NCA requirements for reporting is even more challenging. Larger insurers they will need to allocate dedicated resources to keep pace with changing legislation. For small- to mid-sized insurers, such resources may not exist.

4. Automation

With the advent of live quarterly reporting, automating the SCR calculation and QRT reporting processes will be essential for all but the smallest insurers. This process involves several tasks such as:

» Defining and documenting reporting processes, roles and responsibilities.

» Integrating with existing financial reporting processes (GAAP and future IFRS).

» Mapping data flows, and then automating data extraction and transformation.

» Identifying inefficiencies and bottlenecks that can slow down or prevent reporting.

Much of the information and data required will come from the insurer's actuarial systems which today are largely desktop/manual based systems. Solvency II and IFRS 9 and 4 will require more frequent model and systems runs, therefore including them in the workflow will be essential. In the following table, we highlight the EIOPA requirements on data quality.

Conclusion

Maintaining Solvency II reporting systems to keep pace with all the changing and emerging regulatory requirements represents a major challenge for most insurers. Monitoring multiple regulatory environments to identify changes and then analyze them is one aspect. Translating those changes to technical specifications for reporting systems, and building to those technical specifications requires significant effort and resources in a number of areas as we have already seen:

- Building and maintaining a dedicated analytical repository for data storage and management.
- Constantly monitoring, interpreting and analyzing regulatory changes.
- Identifying new data sets and corresponding source systems and re-mappings.
- Automating data management and reporting processes.

History shows us that regulations are constantly evolving and one can easily imagine today's Solvency II requirements turning into Solvency III in the next few years. Insurers need a strategic approach to addressing this changing environment for the long term. Such an approach would feature analytical data management, and a dedicated solution for Solvency II that includes the mechanics for both the SCR/ MCR calculation and QRT reporting.

Thousands of Templates

When one considers the EIOPA requirements, the ECB add-ons and the Local Regulator requirements the complexity and coverage of the QRTs is increasing rapidly. If you then consider that both annual and quarterly templates are required for each solo entity and the group entity then for large insurance groups literally thousands of templates must be produced each year. This presents not only problems of regulatory maintenance, but issues around consolidation, data and compliance.

Also with IFRS 9 and 4 on the horizon insurers are now considering how they integrate their Solvency II reporting systems and process to with IFRS 9 and 4 reporting.

A long-term platform for analytical data and reporting would produce both the QRTs specified by EIOPA and by the NCAs. The associated data management cycle would include data extraction and transformation, data validation and quality checks, approvals, and storage to provide the reporting.

Solvency II reporting requires a dedicated QRT engine, to generate the required reports in XBRL for transmission to the regulator. Finally, the long-term solution must also support full audit and compliance requirements.

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