Moore Stephens Solvency II engine

Simplifying complex Solvency II Reporting

29 June 2016

Agenda

Pillar 3: regulatory requirements for

- Key requirements of Pillar 3 Q2 2016 and 2017
- Interaction with ORSA

Implementation of systems and process for Pillar 3

- Process definition
- Target design

Need for an effective P3 reporting solution technology?

- Speed and interconnectedness of submissions
- Typical P3 reporting project issues
- Desired P3 solution

Pillar 3 regulatory requirements

Key requirements of Pillar 3

- Pillar III requires insurers to publicly disclose, on an annual basis, a report on their solvency and financial condition (SFCR)

- Firms to submit to the supervisory authorities the information which is necessary for the purposes of supervision (RSR) to enable supervisors to conduct the supervisory review process

- Enhanced disclosure requirements to increase market transparency and act as a strong incentive to conduct business in a sound and efficient manner and maintain an adequate capital position

- Pillar III aims to harmonise external reporting and provide clear insight into actual risk and return profile of an insurer

Overview of the key requirements of Supervisory Reporting and Public Disclosure

Insurers will have to disclose private quantitative and narrative information to the supervisor and public quantitative and narrative information to the market.

	Quantitative	Qualitative	
Regular reporting	**Quantitative reporting forms (QRTs)** Quantitative data submitted quarterly and annually consisting of key financial and solvency information.	**Regular Supervisory Reporting (RSR)** Qualitative and quantitative information presented a private report to the supervisor containing information not appropriate for public disclosure.	**Solvency and Financial Condition (SFCR)** Qualitative and quantitative information presented in an annual public report aiming to achieve market transparency and foster market discipline.
Frequency	**Annual (SFCR and RSR), Quarterly (RSR)**	**Annual summary, Triennial**	**Annual**
Event driven reporting	**As required**	Updated information required by the supervisor upon occurrence of predefined events or during enquiries to assess a situation. Predefined events are those that can lead to material changes to an insurer's risk profile.	

Quantitative reporting templates (QRTs)

- Solo and group
    - Balance sheet
    - Own funds/Variation analysis
    - Capital requirements (SCR/MCR)
    - Activity by country
    - Assets
    - Technical provisions, projected cash flows
    - Reinsurance and SPVs

- Group specific QRTs
    - Scope of group
    - Summary of solo figures by entity
    - Intra group transactions
    - Risk concentration

There are over 60 quantitative templates, although NOT all will apply to all firms.

Annual QRTs – *YE 31st December*

Annually - *19/5/2017*

Template name	Template Code
Basic Information - General	• S.01.02.01
Balance Sheet	• S.02. (Balance Sheet/ Assets and Liabilities by currency)
	• S.03. (Off-balance sheet items)
	• S.04.01. (Activity by country)
Premium claims and expenses	• S.05. (Premiums, claims and expenses by line of business/ Premiums, claims and expenses by country)
Own funds/ Variation analysis	• S.23. (Own funds/ Detailed information by tiers on own funds / List of items on own funds)
SCR	• S.25. (Solvency Capital Requirement - Only SF)
	• S.26. (Solvency Capital Requirement – Risk modules)
	• S.27. (Non-life catastrophe risk)
MCR	• S.28.01.01
Assets	• S.06. (Summary of assets/ List of assets/ Collective investment undertakings - look-through approach)
	• S.07. (Structured products)
	• S.08. (Derivatives)
	• S.09. (Income/ gains and losses in the period)
	• S.10. (Securities lending and repos)
	• S.11. (Assets held as collateral)

Annual QRTs – *YE 31ˢᵗ December*

Annually - *19/5/2017*

Template name	Template Code
Non Life Technical provisions	• S.17.
	• S.18. (Projection of future cash flows)
	• S.19. (Non- Life insurance claims)
	• S.20. (Development of the distribution of the claims incurred)
	• S.21. (Loss distribution risk profile/ Non-life underwriting peak risks/ Non-life underwriting mass risks)
Life Technical Provisions	• S.12. (Life and Health SLT Technical Provisions)
	• S.13. (Projection of future gross cash flows)
	• S.14. (Life obligations analysis)
	• S. 15. (Description of the guarantees of variable annuities)
	• S. 16. (Information on annuities stemming from Non-Life Insurance obligations)
Reinsurance	• S.30. (Facultative covers / Outgoing Reinsurance program)
	• S.31. (Share of Reinsurer)
Excess of Assets over Liabilities	• S.29. (Excess of Assets over Liabilities)
IGT	• S.36

SFCR & RSR qualitative reporting

	Business & performance	System of governance	Risk profile	Valuation for solvency purposes	Capital management

SFCR	• High-level description of the business
	• Underwriting performance by COB/Geographical area
	• Performance of investment activities
		System of governance and changes
		• Description of key function holders & roles
		• Risk management system
		• ORSA process description
			• For each risk category:
			  – Assessment method
			  – Risk concentration
			  – Risk mitigation
			  – Stress testing
				• Amounts, methods and main assumptions for each asset class, technical provisions and other liabilities	• Details of own funds
					• SCR/MCR and change over period
					• Use of internal model

RSR	• Strategy • Performance against planning • Material risk mitigation purchased in period • Projections of underwriting and investment performance	• Details on fit and proper policy • Details of key functions • Material risks • Quantitative and qualitative information on ORSA outcome	• Forward looking • Techniques of risk mitigation • Methods and assumptions of stress testing scenario analysis	• Any other important information not already disclosed in SFCR	• Own funds, material terms and conditions • Forward looking • P&L attrition • Deviation of the risk profile from assumptions in the internal model

Interaction with ORSA

- The ORSA should be taken into account on an on-going basis in the strategic management of the business. Frequent updates, estimates and 'what-if' scenario capability may thus be required to support decision making. Processes are required to be in place to monitor and manage the short and long-term risks.

The ORSA needs to be submitted via the BEEDS portal on an annual basis

Interaction with ORSA

External reporting

SFCR disclosure Requirements – include details of ORSA process

Regular Supervisory Reporting – requires details of outcome of ORSA

ORSA

Internal reporting (MI)

Components of ORSA dashboard:
• Balance sheet
• Risk capital position
• Profit & Llss

Different dashboards for different entities/ committees

Annual & interim up dates

Projections
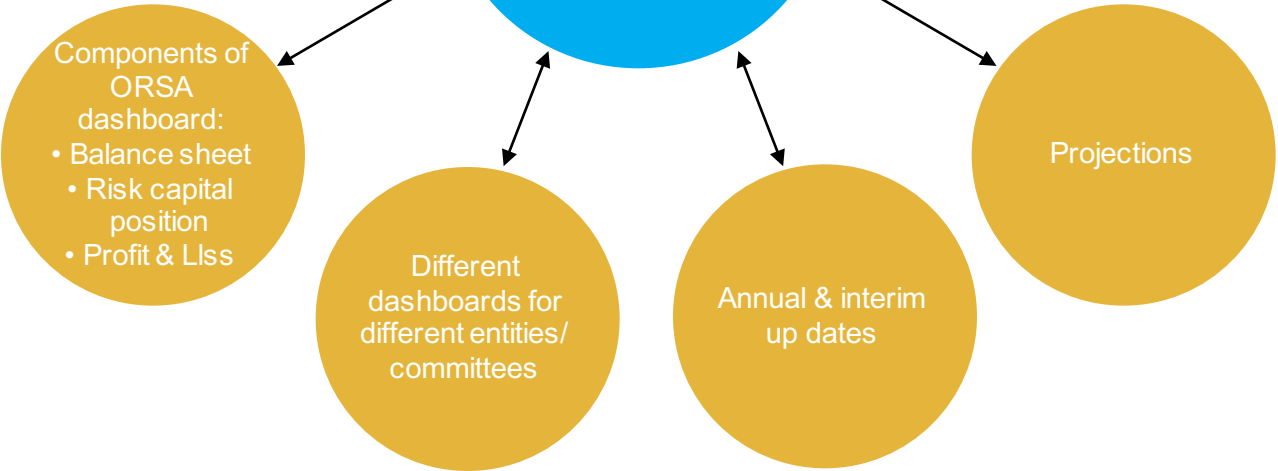
Solvency II: Pillar 3 Timeline

2015	2016	2017

Solvency I Submissions

March 2015
Solvency I submission

March 2016
Last Solvency I submission

Solvency II Submissions

Preparatory phase returns
Cat 1-3 firms only

Day 1 returns
All directive firms and groups

SII returns

Solos

1 Jul	25 Nov		20 May		26 May	25 Aug	25 Nov		25 Feb	20 May
Annual	Qrtly		One off		Q1	Q2	Q3		Q4	Annual + NST

Groups

15 Jul	6 Jan 2016		1 Jul		7 Jul	6 Oct	6 Jan		8 Apr	1 Jul
Annual	Qrtly		One off		Q1	Q2	Q3		Q4	Annual
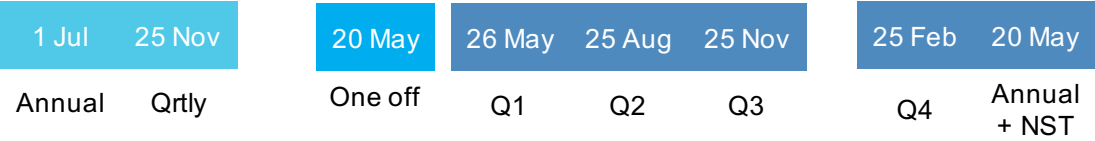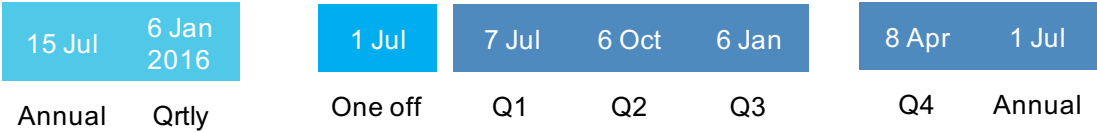
Source: PRA

Implementation of systems and process for Pillar 3

Implementation of Solvency II reporting will have an impact across all pillars

A — Development of new management information and internal reporting systems

B — Update existing cash flow valuation and modelling systems in business units

Pillar 1

Quantitative capital requirements

Capital resource (own funds)

MCR - minimum capital requirements

SCR- Solvency capital requirement

Valuation rules for assets and liabilities

Pillar 2
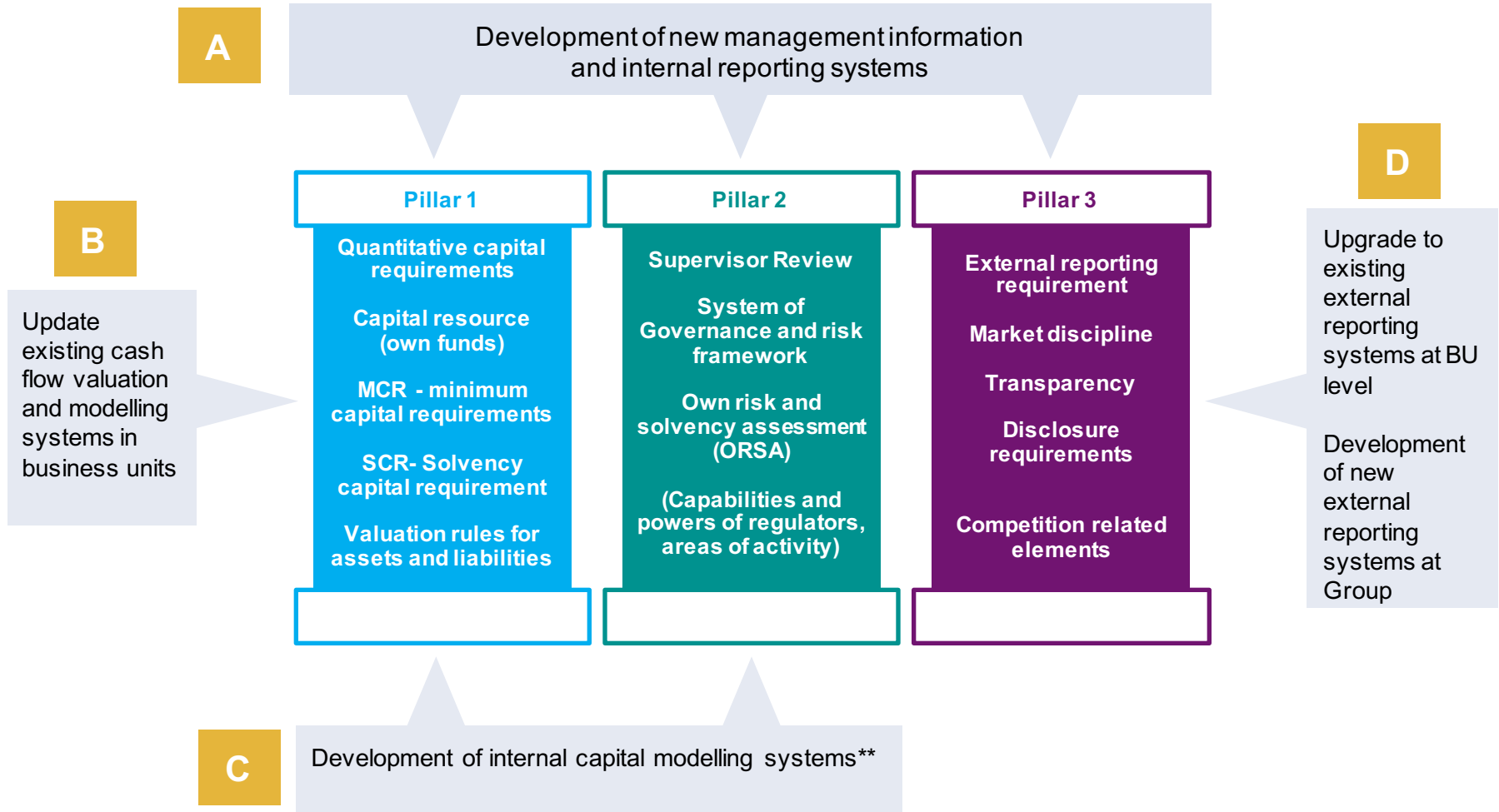
Supervisor Review

System of Governance and risk framework

Own risk and solvency assessment (ORSA)

(Capabilities and powers of regulators, areas of activity)

Pillar 3

External reporting requirement

Market discipline

Transparency

Disclosure requirements

Competition related elements

D — Upgrade to existing external reporting systems at BU level

Development of new external reporting systems at Group

C — Development of internal capital modelling systems**

Implementation areas: Check List

Pillar 3 reporting solution implementation project:

- Have your carried out the following?

    - Data source: Analysed your data collection ability given that data could be held in multiple sources.

    - Documented SII data governance and processes.

    - What SII data validation exercise have you carried out: Data quality management tools, what built-in-check are there.

    - Analysis of asset data requirements and communication with third-party suppliers

    - Have you prepared a communication strategy for external parties (rating agencies, investors policyholders etc.)

    - What automation processes is required and do your have the capability?

    - XBRL understanding and possible training

    - What "As-Is" vs. "Target state" reporting system analysis has been carried out

Our approach for process definition

Process Definition

- **First pass with key business stakeholders in workshops. As-is documentation as part of this.**

- **Risk, Finance and Actuarial input map out the TP and SCR process and data input steps**

- **Develop business requirement catalogues by considering each process step against Data, People, Governance, Toolset / Model reqs, Requirements**

- Socialise, review and finalise within business
- Stakeholder communication and training

P3 reporting system – target design?

Some overriding aims and objectives of a P3 reporting solution program is to

- Reduce the cost and effort of financial reporting, through optimized processes (people, systems, technology) and reduced manual intervention and workarounds

- Increase the value that finance and actuarial function delivers to the business through faster, more accurate MI aligned to the various reporting standards (IFRS, GAAP, SII)

- Optimize time and input with value added analysis from Finance, Actuaries, Risk and other functions (e.g. underwriting and claims management)

P3 reporting solution scope		
Technology	**Process**	**Business areas**
• Core business applications • Data management, e.g. data warehouse • Financial Management, e.g. general ledger • Data & Interfaces • Off system resources, e.g. spreadsheets	• Business planning • Data & modelling • Results production & review • General accounting	• Finance management • Financial reporting • Actuarial • Reinsurance • Underwriting • Investment reporting

Some key requirements for P3 reporting solution

Reporting	Key requirements
1. **Report content**	• Data repository • Data transformation (calculations and manual inputs) • Reporting layer • Data aggregation/consolidation • Data dissemination
2. **Report process**	• Workflow (draft reports for governance approval/publishing) • Report on automated processes (e.g. batch uploads) and manual process steps • report storage, data quality, data controls
3. **External reports** 4. **Internal reports** 5. **Business planning**	• Key question for many firms? Will new external reporting systems replace internal reporting tools? If so, how and when? Complexities of replication • Aggregation tool (risk agility, non-modelled numbers, narrative consolidation) • What-if scenario modeler
6. **Reconciliations**	• Systems to support data quality, data controls for reconciliation process

Integrated reporting tool that meets internal, Solvency II and other external reporting requirements

Need for an effective P3 reporting solution technology?

P3 reporting challenges –
Speed of Submissions

- By 2019, annual P3 submissions will be due 8 weeks after YE

- Quarterly submissions will required 3 weeks after the end of each quarter

- Stress / Scenario test results may be requested by the PRA 2-3 weeks after the end of each quarter (to maintain consistency with some of their regulatory counterparts in Europe)

- National Specific Templates (NSTs) will be required in addition to regular submissions annually

- Unless reporting process is optimised and automated it will result in a severe drain on resources and pose a real risk of regulatory breach

NOT possible to prepare these submissions within the allotted timeframes using existing methods without investment in INTEGRATION and AUTOMATION

Process Example:

Data TPs Premiums Reinsurance → Collate Data → Store Data → Transform Data → Validate Data → Adjust Data → Sign Off Data → Create XBRL

P3 reporting challenges
Interconnectedness of Submissions

- **Form Validation**
  - Submissions require that validation rules are 'passed'
  - EIOPA QRT submission is associated with over 500 validation rules / 3600 cross checks
  - Inter form validation rules will demand appropriate cross team co-ordination

NOT viable to adopt a segregated approach to Pillar 3 reporting process: Interdepartmental coordination and data validation imperative

Typical Pillar 3 Reporting Issues

- No historical values for specific attributes

- Consolidating multiple data sources

- Data gaps where it was not possible to complete certain aspects of the return

- No formal control of data mapping

- No formal control of financial allocation rules

- Difficulty carrying out inter return validation

- Manual reconciliation only

- Large manual effort across many resources and multiple departments

- Low levels of automation

- High effort across multiple individuals
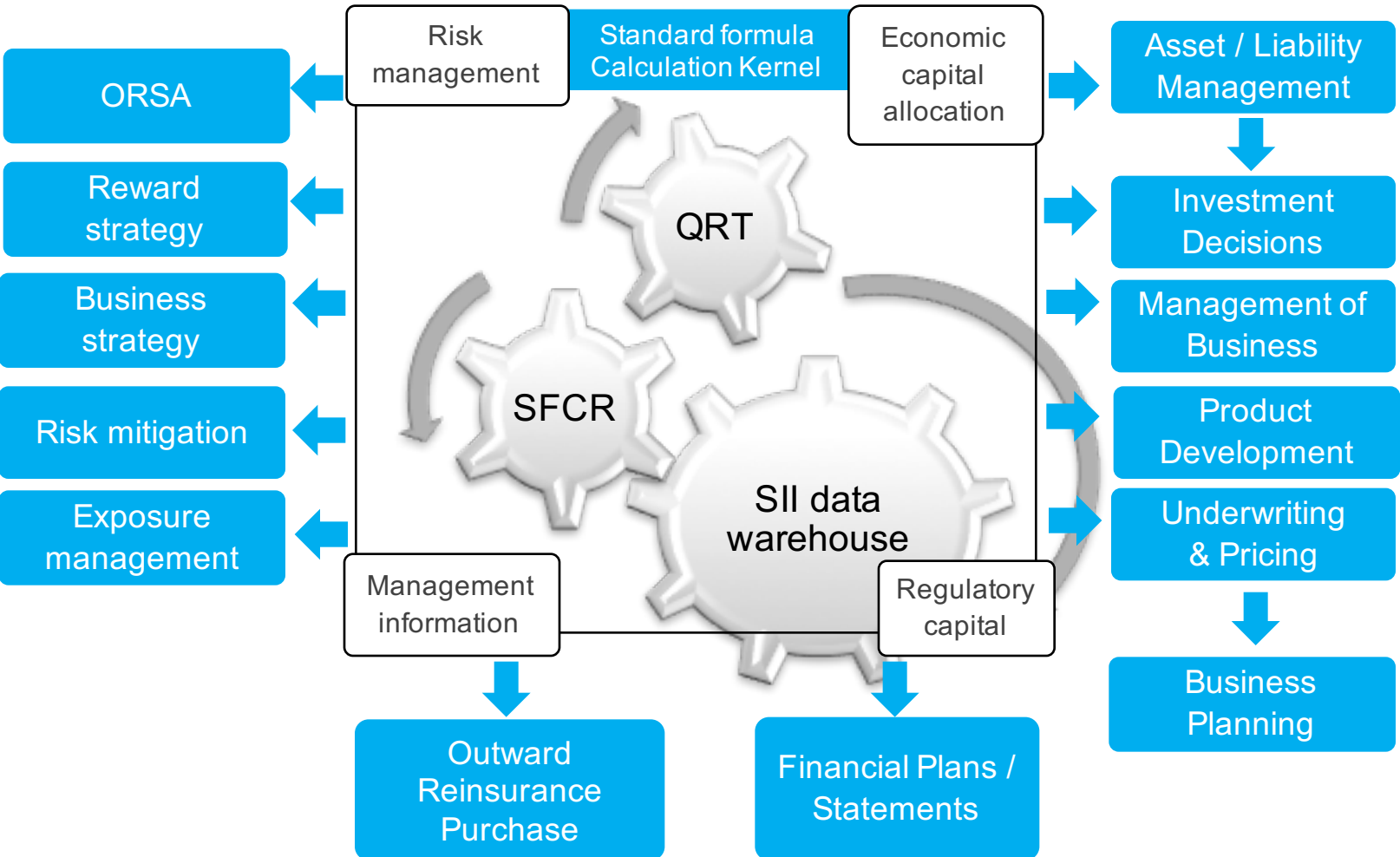
- Manual population of return templates

Pillar 3 Reporting – Desired Solutions

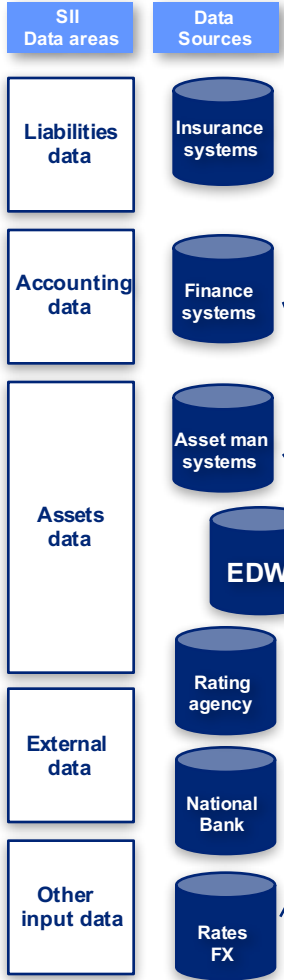## Major solution characteristics:

- Produces accurate results

- Highly automated & cost effective

- Covers end to end reporting process

- Highly auditable e.g. version control of business rules/allocations/mappings

- Transparent with clear data lineage

- Consolidates data from multiple sources

- Allows user entered SII adjustments

- Gives early site of populated templates

- Automated source to target reconciliation

- Compatible with financial return software e.g. FSAssist

- Reload capability

SII P3 reporting –
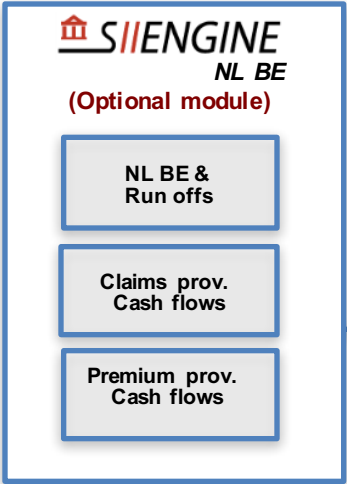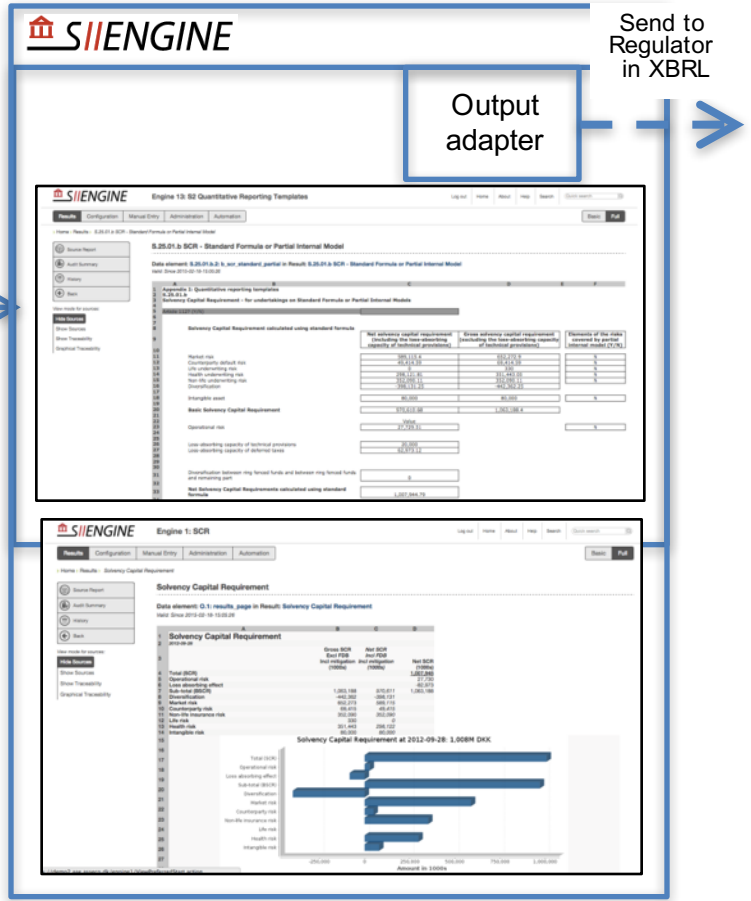# Same version of the truth

SII Engine Architecture

1. Data sources → **2. Collection and Preparation** → **3. Calculation** → **4. Reporting**

SII Data areas:
- Liabilities data
- Accounting data
- Assets data
- External data
- Other input data

Data Sources:
- Insurance systems
- Finance systems
- Asset man systems
- EDW
- Rating agency
- National Bank
- Rates FX

Manual Entry is also and option

Load/ Unload ETL

SIIENGINE
NL BE
(Optional module)
- NL BE & Run offs
- Claims prov. Cash flows
- Premium prov. Cash flows

SIIENGINE Data Mart
- Market Risk
- Counterparty Risk
- Health Risk
- Life Risk
- Own schemas

SIIENGINE

Output adapter

Send to Regulator in XBRL

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