

CEA Follow-up Response to CEIOPS' SRP and Reporting Requirements Issues Paper

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Referring to:	SRP and Reporting Requirements	Solvency II
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Related CEA documents:

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1. Background

- 1.1 CEIOPS published an issues paper on the Supervisory Review Process and Reporting Requirements in 2008. The CEA gave an initial high level answer to this paper soon after. (See paper at <http://www.ceiops.eu/media/files/consultations/Issues-paper/Comments%20CEA.pdf>). This current paper restates, enhances and details the initial CEA principles, while focusing mainly on the envisaged reporting requirements.
- 1.2 The CEA welcomes CEIOPS' paper and the debate on a possible supervisory and reporting framework. The CEA is keen to work on it with CEIOPS and the European Commission. Transparency in the way the information received by supervisors is assessed and how this information will be used is a key element to promote increased confidence in the supervisory activities.
- 1.3 This document represents the CEA's views at this stage of the project. We re-stress that this paper is not a full and final view of the industry on the reporting requirements. The ideas expressed below started from two initial questions on industry's capability on delivering the requirements of Annex 2 and on industry's thinking about the audience of the requirements of Annex 1. Many other questions, like the level of detail of the information, the frequency and form of reporting and so on, were tentatively answered under the framework of the principles detailed below. As CEIOPS's and the CEA's work on reporting requirements and supervisory review process develops, the CEA's position may evolve.
- 1.4 Please note that the paper is based on the European Commission's original proposal for Solvency II. Our position could change depending on the outcomes of political negotiations, in particular on those concerning the group support regime.
- 1.5 Finally, these views need to be considered in the context of the CEA's other publications, which can be found on the CEA's website www.cea.eu.

2. General Principles

Harmonization and proportionality

2.1 The CEA believes a good balance should be struck between the harmonisation and the proportionality principles.

On the side of beneficiaries of information, we think that the absolute quantity of information for supervisors/public is not the key in achieving pillar II and III aims but meaningful information at appropriate level. Too much information will lead to confusion of readers and making an assessment or a comparison of the information given quite difficult.

The comparability of the information provided could be achieved by using as reference the confidence level and the risk categories specified by the framework directive.

On the other side, the undertakings-providers of such reports present a rather wide range of capabilities in supplying the required info. Listed companies have extensive possibilities of offering the narratives and the quantitative figures, while smaller or unlisted companies have reduced capability of delivering such data.

It is important thus that all requirements are considered based on the scale and complexity of the undertaking. Specifically, the data from the Annex 1 and Annex 2 should be available to the undertakings, while its level of detail and frequency should depend on the nature, the scale and the complexity of the risks embedded in its business portfolio but also their materiality.

2.2 The CEA agrees that additional guidance is needed on the requirements for groups. In groups the risk management, the internal control and other key functions are typically carried out at group level. It is therefore important to take into account this reality when interpreting the solo reports of their subsidiaries, through correlation with the consolidated group reports or even using the groups' disclosures as reference. This becomes more important when the organizational structure of the undertaking is different than the legal one.

Reduction of burden to companies

2.3 The CEA believes that the benchmark for setting qualitative and quantitative disclosure requirements should be based on minimum requirements and not in best practice considerations.

2.4 For both public and supervisory disclosures, particular attention should be paid to other reporting requirements in place (IFRS and local GAAP reporting), in order to minimize duplication of information. Another point of concern is the different treatment of groups and their subsidiaries under different reporting requirements, which potentially increases the amount of info reported.

2.5 The CEA considers the requirements in Annexes 1 and 2 to be onerous enough and proposes a balance to be struck between the need to report them and the frequency and form of their reporting. Some of the data should only be delivered upon request in relation to supervisory inspections, in ORSA or by exception or following material changes.

2.6 The CEA attempted in Annex 1:

- to indicate existing IFRS and local accounting requirements which possibly overlap with the requirements of this Annex. The list is a high level guide with more detailed work possibly needed. The references are not meant to indicate complete overlap but to raise awareness of potential similarities. The CEA doesn't express, in any case, a preference of one reporting requirement on the other one. We stress finally the fact that such reporting standards (which are viewed as generally stable) may alter over time, with changes potentially impacting our current interpretations.

- to suggest pieces of information which could be moved into reports prepared at the moment supervisors ask for them, into ORSA or into reports which follow a significant change of policies, roles and responsibilities and so on.

Further, the reconciliations between the accounting basis and the solvency basis for various technical data should follow mainly the principle of materiality of the difference. The degree of details in the explanations should be influenced by the nature, scale and complexity of the business reporting this data.

- 2.7 It's important to have in mind the impact of using internal models on reporting. Certain IFRS's ask disclosures such as segment information on "how the business is managed". A convergence of the supervisors' reporting requirements with the already existing IFRS requirements would help in reducing the admin burden for these companies.

Confidentiality and public disclosures

- 2.8 In addition to the principles defined in article 35 and articles 50 to 55 of the Framework Directive, it is necessary to include the principle of materiality and appropriateness in judging the need for public disclosure. Information on risks would be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions or if the undertaking considers them large enough to threaten the operation. Information is appropriate for public disclosure if it is relevant to both the risk involved and the needs of an informed knowledgeable audience.
- 2.9 Further, the confidentiality principle should prevail over the need of public disclosure. To this end article 52 of the Framework Directive recognised the possibility of not disclosing information under some circumstances. A company should not disclose information on business conditions or business situations if it is of vital economic importance for the company that the information is not disclosed. For example disclosures should not normally reveal individual pricing decisions on exposures.

Annex 1

The CEA suggests in Annex 1 a possible application of the above stated principles:

- Columns 2 and 5 give our current view on the split public/supervisor and the level of information to be delivered correspondingly. The int'l financial and the local reporting standards don't normally require forward looking information. This proxy was also used in the interpretations below, along the need of information for the different audiences.
- Column 3 contains our interpretation of what the Directive requires to be publicly disclosed. Column 4 tries to give the overlaps between the CEIOPS reporting requirement and requirements under other regimes (IFRS and local regimes).

Some of the interpretations below reflect significant uncertainty in how to interpret their content, their usage and judgement by the various audiences and so on. With the discussion on reporting requirements moving forward such uncertainties should transform into clear guidance, accepted both by the supervisors and the industry.

Note.

The links to IFRS and local reporting regimes should be considered as live references and are meant to raise awareness. The CEA would undertake a second, more in-depth, round of checks of overlaps between Solvency II and IFRS's in the near future, if needed.

We ask CEIOPS to let us know if they consider this to be a worthwhile exercise.

General comments

1. Systems, processes and skills will need to be developed in order to fulfil many of the reporting requirements of Annex 1.
2. It would be useful to build a set of definitions for the items which need to be reported. This would enhance comparability between insurers and would allow a quick mapping of these requirements to requirements existing under various other reporting regimes.

A. BUSINESS OVERVIEW AND PERFORMANCE	PUBLIC DISCLOSURE - scope and level of detail	FD article asking for public disclosure	IFRS/ local disclosures overlapping FD requirement?	SUPERVISORY DISCLOSURE - scope and level of detail	Comments /notes
A.1 Business and external environment					
Main business lines and jurisdictions where these lines are written	Yes	Art 50.1.(a)	Possibly Y (IAS1,IFRS7)/ Y	Yes	
Main factors contributing to company's position in the past and future	Only the main factors having contributed to the company's position in the past, which would also be publicly disclosed in the annual reports.	Art 50.1.(a)	/ Y	All info. The information on future main factors is very commercially sensitive and is for supervisor use only.	
Business model	Yes; high level information		/ Y	Yes; detailed information	
Legal and regulatory issues	No, but some info already under IFRS or local GAAP		Possibly Y (IAS1)/ Y	Yes	Legal issues are already required to be disclosed in financial statements under IFRS if they could have an impact on future earnings. Regulatory issues have to be reported under IFRS if they have an effect on required capital.
Market developments affecting the business	Yes	Art 50.1.(a)	/ Y	Yes	This information would also form part of the ORSA
A.2 Objectives and strategies					
Information on the financial and non-financial objectives of the undertaking	Yes, high level information		Possibly Y (IAS1,IFRS7) for some limited info/ Y	Yes, detailed information. SUPERVISORY REPORTING through the ORSA process	
Explanation of the significant changes in the undertaking's strategy	Yes, high level information			Yes; detailed information. SUPERVISORY REPORTING through the	

				ORSA process	
A.3 Investment performance (qualitative)					
Management discussion and analysis of investment performance	Yes, high level information (description of investment performance only)	Art 50.1.(a)	Possibly Y (IFRS7) / Y	Yes, detailed information	
Returns on investments	Yes (under the heading-description of investment performance)	Art 50.1.(a)	Possibly Y (IFRS7) / Y	Yes	
Gains and Losses recognized in equity	See comment		Possibly Y (IAS39)	See comment	Mark to market approach in regulatory reporting results in gains/losses in equity reporting being most probably irrelevant for Solvency II purpose. We ask CEIOPS to provide further guidance on this requirement.
Transactions with shareholders, profit-sharing	No		Possibly Y (IAS1,IAS24)/ Y	Yes	
Impact of amortization and impairment of intangible/tangible assets on investment performance	See comment		Possibly Y (various standards)/ Y	See comment	The impact of amortization and impairment of tangible/intangible assets have generally no effect on the investment performances. Any of these is normally included in the income statement of the parent company or in expenses which are not related with the investments. This information isn't really useful as a consequence.
					If this information is to be delivered for participations within investments than the administrative burden would be seriously increased especially for the mutual funds and open end investments funds.

Investment expenses (past and future)	Yes; only past data.		Possibly Y for past data only (IAS40,IFRS7)/ Y	Yes	
Key assumptions (interest and exchange rates)	Yes, high level key assumptions	50.1.(d)	Possibly Y (IFRS7,IAS1)/ Y	Yes, detailed information	
A.3 Investment performance (quantitative)					
Income statement from investments activities	Yes		Possibly Y (IAS7)/ Y	Yes	Some difficulties might arise in the process of calculating a Solvency II income statement for some markets/categories of undertakings. See Annex 2.
Changes in values, total interest income and expense	Yes		Possibly Y (IAS39)/ Y	Yes	
With-profits bonus payouts	Yes		Y / Y	Yes	
A.4 Performance from underwriting activities (qualitative)					
<i>General comment: Most of these requirements would not be relevant for Life firms.</i>					
Management discussion and analysis of underwriting performance by line of business	Yes, high level information. (description of underwriting performance only). See comment also	Art 50.1.(a)	local disclosure	Yes, detailed information. See comment also.	The presentation of information according to and material business lines and geographical area could be not in line with the manner in which management is analyzing the data. According to IFRS 8 an insurer is required to present segmental information according to the view of management e.g. organizational lines. An insurer should not be required to present a different segmentation solely for the purpose of the regulator esp. if management does not use this segmentation.
Deviations underwriting performance against plan	Potentially high level information		local disclosure	Yes, detailed information	

Projections underwriting performance over business planning period	No		local disclosure	Yes	
Underwriting expenses prior and future years	No		local disclosure	Yes	
A.4 Performance from underwriting activities (quantitative)					
For Non-Life Undertakings					
Premiums, claims and underwriting expenses by LoB gross and net	No		Possibly Y (IFRS 4)/ local disclosure	Yes, detailed information	See Annex 2, points 14-16 on non-life insurance premiums/expenses/claims for difficulties in reporting such info.
Details reinsurance programs	No		local disclosure	Yes	
Multi-year contracts, information on part premium provisions relating to policies more than one year old	No		local disclosure	Yes	
Current incurred claims split between existing and new contracts	Yes, high level information		local disclosure	Yes, detailed information	See Annex 2, point 16 on non-life insurance claims for difficulties in reporting such info.
Claims incurred split between current year claims and movements on prior year claims	Yes, high level information		local disclosure	Yes, detailed information	See Annex 2, point 16 on non-life insurance claims for difficulties in reporting such info.
A.4 Performance from underwriting activities (quantitative)					
For Life Undertakings					
Annual Premium Equivalent split between single and regular premium	Yes		/ Y	Yes	
Analysis of surplus comparing experience with prior expectations	No		local disclosure	Yes	
A.5 Operating / Other expenses (qualitative)					
Expenses split by material expense type and/or function	Yes, high level data		Possibly Y (IFRS4)/ Y	Yes, detailed information	
Comparison of expense levels compared to prior and future years	Yes, high level data for prior years		Possibly Y for past data only / Y	Yes, detailed information	

A.5 Operating / Other expenses (quantitative)					
Amount of expenses incurred by material type/line of business	No		Possibly Y (IFRS 8)/ Y	Yes, detailed information	
B. QUANTITATIVE REQUIREMENTS	PUBLIC DISCLOSURE - scope and level of detail	FD article asking for public disclosure	IFRS/ local disclosures overlapping FD requirement?	SUPERVISORY DISCLOSURE - scope and level of detail	Comments /notes
B.1 Assets, technical provisions and other liabilities (quantitative)					
B.1.1 Assets (including investments) (qualitative)					
Basis, methods, assumptions for valuation of assets	Yes	50.1.(d)	Possibly Y (IAS16,IFRS7)/Y	Yes	
Description how assets match liabilities through ALM (nature expected claims, discretionary elements, embedded options and guarantees...)	No		/ Y	Yes	
Description of policies to ensure security, quality, liquidity and profitability of investments	Yes, qualitative high level information		Possibly Y (IFRS7)	Yes	
Overview of - derivative instruments, - assets not traded on a financial market and - investment concentrations	Overview of investment concentrations only. Public disclosure, except point g, would seem excessive detail for public and could cause undue market panic (e.g. in current market conditions)	50.1.(d)	Possibly Y (IFRS4 for concentrations, IFRS7,IAS39,IAS32)/ Y	Yes	

B.1.1 Assets (including investments) (quantitative)					
Amount of different categories of assets, exposures to counterparties and types of counterparties	Yes, high level information	Art 50.1.(c,d)	Possibly Y(IFRS7)/ Y	Yes, detailed information	See Annex 2 for difficulties in reporting data for certain assets, point 17 on counterparty data and points 19,20 on assets specific data
Mark-to-market changes in asset values	Yes, high level information		Possibly Y(IFRS7)/ Y	Yes, detailed information	
Reconciliation between solvency and accounting valuation	High level explanations for major differences	Art 50.1.(d)		Yes, detailed information	
B.1.2 Technical provisions (qualitative)					
Key assumptions and methodologies in calculation of TP - Discount rates, expenses, future margins, mortality and disability rates - Taxation assumptions, participation features, options and guarantees - Management actions, policyholder behavior, inflation rates - Mismatching provisions, claims development patterns	Yes, partly For market discipline and to ensure the comparability between insurers, it might be useful to publicly disclose some of these key assumptions (for further information, please refer to the CRO Forum paper on Market Value of Liabilities for Insurance Firms – 28 July 2008)	50.1.(d)	Possibly Y (IFRS7) / local reporting	Yes	Further CEIOPS guidance would be beneficial for making clearer how the effect of management actions and policyholder behavior should be disclosed.
Simplifications used in calculation TP and risk margin	No			Yes	
Level uncertainty TP, potential variability amount TP	No			Yes	

Overview material changes TP (changes key assumptions, changes claim development patterns, new material claims, material changes lapse rates...)	Yes, high level information		Possibly Y (IFRS 4)	Yes, detailed information	
Impact of reinsurance in TP	No		Possibly Y (IFRS4)	Yes	
Reconciliation between solvency and accounting valuation	High level explanations for major differences	50.1.(d)		Yes	
B.1.2 Technical provisions (quantitative)					
Solvency balance sheet information on:	Yes. All information detailed above can be publicly disclosed at a high level with the exception of "Triangulations for material LoB and Run off triangles for annuity reserving".	50.1.(d)		Yes, detailed information.	See Annex 2 for difficulties in calculating a Solvency II change in technical provisions and Annex 2, points 8,9 on technical provisions
Amount Technical Provisions (separating Best Estimate and Risk Margin)	Yes, high level information		Possibly Y (IFRS4)/N	Yes, detailed information	
Segmentation Technical Provisions by homogeneous risk, LoB and Category	Yes, high level information		Possibly Y (IFRS4,IFRS8)/N	Yes, detailed information	
Amount Technical Provisions Gross and Net Reinsurance	Yes, high level information		Possibly Y (IFRS4)	Yes, detailed information	
Quantitative changes in Technical Provisions	Yes, high level information		Possibly Y (IFRS4)/N	Yes, detailed information	

Reconciliation material differences solvency and accounting	High level explanations for major differences			Yes, detailed information	
Triangulations for material LoB	No		local disclosure	See note	"Triangulations for material LoB and Run off triangles for annuity reserving". The requirement to present as a minimum 10 years is very onerous. This requirement should be proportionate to the nature of the non-life insurance business (short tail, middle tail and long tail). Also the use of proxies should be included if that data is not existing for example with new business, changed regulations, etc.
Run off triangles for annuity reserving	No			See note	
Effect management actions and policyholder behavior	See note			See note	
Valuation principles of technical provisions	Yes, high level information		Possibly Y (IFRS4,IAS1)/N	Yes, detailed information	Further CEIOPS guidance would be beneficial for making clearer how the effect of management actions and policyholder behavior should be disclosed.
B.1.3 Other Liabilities (qualitative)					
Information on the basis and assumptions upon which other liabilities are valued	Yes, high level information	50.1.(d)	Possibly Y (IFRS7)	Yes, detailed information	
Explanation on the fact that the undertaking has dealt with any debt vs. equity issues	No		Possibly Y (IAS1,IAS32) / N	Yes	

B.1.3 Other Liabilities (quantitative)					
Balance sheet information detailing the nature and value of other liabilities (non-insurance)	Yes, high level information	50.1.(d)	Possibly Y(IAS1)/Y	Yes, detailed information	
Reconciliation of material differences in the solvency valuation basis of their liabilities to their accounting basis	High level explanations for major differences	50.1.(d)		Yes	
Details of off balance sheet items such as exposures to SPVs	Yes, high level information.		Possibly Y (IAS27/28)/Y	Yes, detailed information	See Annex 2 for difficulties in reporting such information, point 6 on off-balance sheet items
B.2 Solvency capital management					
<p><i>General comment: The SCR being the normal target level of capital for a firm and therefore being a “softer” regulatory target than the MCR, detailed information on the SCR should remain private information between the regulator and the firm.</i></p>					
B.2.1 Own funds (qualitative)					
Methods to manage its own funds	No		/N	Yes	
Own funds structure and summary information on the loss-absorption capacity of each item	Yes, high level information	Art 50.1.(e i) for structure	Possibly Y(IAS32,IAS1)	Yes, detailed information	
Analysis significant movements own funds over the period (especially in a deteriorating solvency position)	Yes, high level information	Art 50.2 para 1		Yes, detailed information	
Material differences between accounting and solvency	High level explanations for major differences				Potentially overlaps with requirement B.2.1(quantitative) point 2
Amount own funds covering MCR and SCR	Yes, high level information	Art 50.1.(e i) for amounts		Yes, detailed information	
Own funds transferability within the undertaking	Yes, high level information	Art 50.2 para i	Possibly Y (IFRS7)	Yes, detailed information	

B.2.1 Own funds (quantitative)					
Level of own funds split by tiers (quarterly when backing MCR)	Yes, high level information	Art 50.1.(e i)		Yes, detailed information	See annex 2 for difficulties in classification of certain instruments.
Reconciliation of material differences between regulatory eligible own funds and own funds reported in financial statements	Yes, high level information	Art 50.2 para 1		Yes, detailed information	
Own funds projection forecast	No			Yes	More explanations are needed in interpreting this requirement. Is there an overlap with the projection of own funds in ORSA? (See also Annex 2, point 7 on key forecast numbers)
B.2.2 Regulatory capital requirements (qualitative)					
Narratives on results of calculation of MCR and SCR using standard formula or internal model	Yes	Art 50.2 para 2		Yes	
Non-compliance with MCR and SCR during reporting period	Yes (only significant non-compliance with SCR)	Art 50.1.(e iv)		Yes	
If using entity-specific parameters, these should be provided along with a justification	No			Yes	
Capital add-ons applied to SCR	Yes, as in Directive	Art 50.2 para 2, 3	Possibly Y (IAS1)	Yes	
B.2.2 Regulatory capital requirements (quantitative)					
The result for MCR and SCR using the standard formula or internal model by risk module	Yes	Art 50.1.(e ii), Art 50.2 para 4		Yes	

Comparison of TP, MCR and SCR to own funds	No			Yes							
B.2.3 Standard formula vs. internal model (qualitative)											
Reconciliation by risk module explaining qualitative material differences in assumptions	Yes, high level information	Art 50.1.(e iii)		Yes, detailed information							
Justification of differing key assumptions from the standard formula	No			Yes							
B.2.3 Standard formula vs. internal model (quantitative)											
Comparison by risk module between the results of the standard formula and internal model	No, public disclosure could be misleading where the internal model does not follow the exact structure of the standard formula (as is most likely for firms using an internal model)	Art 50.1.(e iii)		Yes							
<p>C. SYSTEM OF GOVERNANCE</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%;"></th> <th style="width: 15%;">PUBLIC DISCLOSURE - scope and level of detail</th> <th style="width: 15%;">FD article asking for public disclosure</th> <th style="width: 15%;">IFRS/ local disclosures overlapping FD requirement?</th> <th style="width: 15%;">SUPERVISORY DISCLOSURE - scope and level of detail</th> <th style="width: 20%;">Comments /notes</th> </tr> </thead> </table> <p><i>General comment: The CEA believes most of this section to be reported to supervisors through the ORSA process and therefore kept private between the supervisor and the firm as public disclosure in these aspects could erode competitive advantage.</i></p>							PUBLIC DISCLOSURE - scope and level of detail	FD article asking for public disclosure	IFRS/ local disclosures overlapping FD requirement?	SUPERVISORY DISCLOSURE - scope and level of detail	Comments /notes
	PUBLIC DISCLOSURE - scope and level of detail	FD article asking for public disclosure	IFRS/ local disclosures overlapping FD requirement?	SUPERVISORY DISCLOSURE - scope and level of detail	Comments /notes						
C.1 General Governance requirements											
Material changes in the governance structure	Yes, high level information	Art 50.1.b	/ Y	Yes, detailed information							
Assessment adequacy system of governance to undertaking's risk profile	Yes	Art 50.1.b	/ Y	Yes							

Structure administrative and management body	Yes			Yes	
For groups, description of the corporate structure	Yes			Yes	
Description responsibilities relevant committees	Yes, high level information			Yes, detailed information	
C.2 Fit and proper					
Description process to ensure that persons running the undertaking are fit and proper	No			Such information could be provided through ORSA, at supervisor's request or when material changes occur	
Changes in persons running key functions should be notified	No			Yes	
Description process to employ skilled staff	No			Such information could be provided through ORSA, at supervisor's request or when material changes occur	
C.3 Outsourcing					
Evidence safeguards are in place	No			Such information could be provided through ORSA, at supervisor's request or when material changes occur	
Outsourcing arrangements as part of continuity plans	No			Such information could be provided through ORSA, at supervisor's request or when material changes occur	
Details service provider	No			Such information could be provided through ORSA, at supervisor's request or when	

				material changes occur	
How outsourcing has not affected the quality of system of governance	No			Yes	
Assessment impact operational risk through ORSA	No			Yes	
Level of policyholder protection	No			Such information could be provided through ORSA, at supervisor's request or when material changes occur	
C.4 Internal Audit					
Description operative internal audit function	Yes, high level information			Yes, detailed information	
How independence of internal audit function is achieved	Yes			Yes	
Examination compliance undertaking's activities with internal strategies	No			Yes, but see note too	This should only be reported by exception
Actions to improve the control framework	Yes, high level information			Such information could be provided through ORSA, at supervisor's request or when material changes occur	
Summary of audits performed and future audits	No			Such information could be provided through ORSA, at supervisor's request or when material changes occur	
Key risk exposures and management response	No			Yes	
Overview findings reported to management body	No			Yes	

C.5 Actuarial function					
Details personnel (experience and expertise)	No			Such information could be provided when material changes occur	
Areas of responsibility and areas of work	No			Such information could be provided when material changes occur	
Information about coordination calculation TP (and internal opinions provided management body)	No			Yes	
How actuarial function is independent from finance function	No			Yes	
Underwriting policy and reinsurance arrangements	No			Such information could be provided when material changes occur	
Risk management system	No			Yes	
C.6 Internal controls					
Administrative and accounting procedures	No			Such information could be provided when material changes occur	
Internal control framework	No			Such information could be provided when material changes occur	
Delegation of responsibilities					
Reporting lines and segregation of duties					
Reporting arrangements to provide management body with information					

C.7 Risk Management (qualitative)					
Scope and nature of risk and capital measurement systems including measurement tools	Yes, high level information			Yes, detailed information	
Scope, frequency and requirements of management information	No			Such information could be provided when material changes occur	
Structure and organization of key functions	No			Such information could be provided when material changes occur	
Integration internal model into risk management strategy	No			Such information could be provided when material changes occur	
Qualitative measures to monitor non-quantifiable risks	No			Such information could be provided when material changes occur	
Analysis of liquidity risk: potential effects of liquidating assets in stressing situations	No			Yes	
C.7 Risk Management (qualitative)					
C.7.1 Material risk exposures					
Nature of material risk exposures (past development and expected changes over next few years)	Yes, past information	Art 50.1.c	Possibly Y (IFRS7) / Y	Yes, all information	
Description most risky products and investments	Yes, high level information	Art 50.1.c	Possibly Y (IFRS7)	Yes	
Risk appetite in relation to business objectives	No		Possibly Y (IFRS7)	Yes	

Level of risk taking into account company's financial strength and nature, scale and complexity of risks					
Management asset-liability matching (including sensitivity tests)					
C.7.2 Material risk concentrations					
Description types of risk concentration and details of concentration exposures	Yes, high level information	Art 50.1.c	Possibly Y (IFRS7) / Y	Yes	
C.7.3 Risk mitigation					
Strategies and methodologies for mitigating risk	Yes, high level information	Art 50.1.c	Possibly Y (IFRS7) / Y	Yes, detailed information	
Use of reinsurance and other forms of risk transfer	Yes, under the heading of strategies for risk mitigation	Art 50.1.c	Possibly Y (IFRS7) / Y	Yes	
Reinsurance policy and Adequacy of undertaking's reinsurance cover	No			Such information could be provided when material changes occur	
C.7.4 Individual risk information					
Underwriting risk	Yes, high level information	Art 50.1.c	Possibly Y (IFRS4)/ Y	Yes, additional confidential information	
Market risk	Yes, high level information	Art 50.1.c	Possibly Y (IFRS4)/	Yes, additional confidential information	

Credit risk	Yes, high level information	Art 50.1.c	Possibly Y (IFRS4)/	Yes, additional confidential information	
Liquidity risk	Yes, high level information	Art 50.1.c	Possibly Y (IFRS4)/	Yes, additional confidential information	
Operational risk	Yes, high level information	Art 50.1.c	Possibly Y (IFRS4)/	Yes, additional confidential information	
Risk sensitivities	Yes, high level information	Art 50.1.c	Possibly Y (IFRS4)/	Yes, additional confidential information	
ORSA	No			No	Separate reporting requirement for supervisor use

Annex 2

Below are listed the capability and the difficulties undertakings might have in producing the required quantitative info. The capabilities are judged based on existing hard evidence but also with a view into the future, during which systems, processes and skills will need to be developed in order to fulfil many of the reporting requirements of this Annex. More caution is necessary in interpreting the capabilities of smaller undertakings with reduced reporting capacity.

General comments

1. The interpretation of Annex 2, on a stand-alone basis, might give an unbalanced view of undertaking's risk profile: the information on liabilities side seems to provide information which is more appropriate to understand the UW risk profile than the info on asset for market risks.
2. It's difficult to envisage how the proportionality principle could be applied here. The CEA invites CEIOPS to give more guidance on such an application.

There are several sources of difficulties in reporting of certain items which come from the treatment of those items in the technical calculations:

- Classification
 - More guidance is needed for classification of certain hybrid capital instruments
- Frequency
 - A too frequent calculation of SCR and MCR could raise difficulties
- Data
 - The identification of potential reinsurance exposure, especially for non-proportional reinsurance, raises some difficulties
 - Triangles of data for 10 years raise significant difficulties. Such requirements should be proportionate to the nature of the non-life insurance business (short tail, middle tail and long tail). Also the use of proxies should be included if that data is not existing for example with new business, changed regulations, etc
- Relative novelty:
 - Construction of market consistent income statement and the analysis of change in market consistent liabilities require methodology, systems and skills. Further, a split between gross and net reinsurance in the analysis of sources of profit/loss will require systems and skills, depending on the level of detail needed
 - Forecast of key numbers requires development of financial systems
- Valuation:
 - Significantly more guidance is needed to evaluate the risk absorbing property of future profit sharing;
 - More guidance on segmentation would help in calculating the technical liabilities;
 - More guidance is potentially needed for the market consistent valuation of reinsurance asset and other liabilities than technical provisions;
 - More guidance is potentially need for valuation of options and guarantees, to give a correct figure for best estimate liabilities
 - More guidance is potentially needed for the valuation of sophisticated assets off balance sheet
 - The assessment of the impact of liquidity shortage on the valuation of certain over the counter assets

Type of data	Example of data expected	Capability of delivering		Notes
		Listed large groups with extensive reporting capabilities	Smaller undertakings with reduced reporting capabilities	
<i>Key quantitative information</i>				
1. Own funds	Breakdown of own funds into tiers, by instrument.	easy to produce	easy to produce	
2. SCR (adjusted)	Similar to QIS 4 spreadsheet.	easy to produce	easy to produce	
3. MCR	Similar to QIS 4 spreadsheet.	easy to produce	easy to produce	
4. Balance sheet	Details of asset and liabilities (especially other liabilities than technical provisions) split between life, nonlife and pure reinsurance, and statutory account equivalent data.	easy to produce	easy to produce	
5. Income statement	Summary of income and expenses and movements on reserves. Further split for certain items into gross and reinsurers share.	easy to produce	easy to produce	
6. Off balance sheet items	Exposures to SPVs, and other commitments	easy to produce	difficult to produce	Analysis has potentially never been performed. (Valuation techniques for sophisticated assets might not be available for all entities. It may be difficult to assess liquidity shortage impact in valuation of certain over the counter assets.)
7. Key forecast numbers	Key SCR, MCR, own funds, balance sheet and income data	difficult to produce	very difficult to produce	Unlisted undertakings are not used to providing with strategic plan. High difficulties for companies that do not have an integral financial projection system that projects key risk drivers
<i>Breakdown of key quantitative information</i>				
8. Breakdown of life insurance technical provisions	Should include: movements in year; key assumptions; comparison to accounting value;	easy to produce	difficult to produce	Maybe some difficulties to provide with discounting of reserves. If the provisions need to be split according to where the actual risks are situated geographically

	<p>split by material line of business; net and gross figures;</p> <p>geographical split by Member State;</p> <p>discounting effect; and best estimate plus risk margin etc.</p>			and not according to the legal entity who owns the risk, systems will have to be developed.
9. Breakdown of nonlife insurance technical provisions	<p>Should include: movements in year; key assumptions; comparison to accounting value; split by material line of business; net and gross figures; geographical split by Member States discounting effect; and best estimate plus risk margin etc.</p>	easy to produce	difficult to produce	<p>Maybe some difficulties to provide with discounting of reserves. If the provisions need to be split according to where the actual risks are situated geographically and not according to the legal entity who owns the risk, systems will have to be developed.</p>
10. Valuation assumptions	Information including for example economic, mortality, lapse and expense assumptions	easy to produce	easy to produce	
11. Life insurance premiums	Split between direct business, reinsurance accepted and reinsurance ceded; single and regular premium business. May be split by different business locations.	easy to produce	easy to produce	
12. Life insurance expenses	May be split by business location, or material type such as administrative, operational or line of business.	easy to produce	easy to produce	
13. Life insurance claims	Analysis of the claims and reinsurance recoveries.	easy to produce	easy to produce	
14. Nonlife insurance premiums	Triangles of premiums over the previous 10 years split between gross and reinsurance, with	difficult to produce	very difficult to produce	Difficulties to collect information (gross and ceded) over previous 10 years especially for companies which do not apply IFRS.

	premiums in each of these years and undiscounted gross future premiums split similarly.			
15. Nonlife insurance expenses	Triangles of commissions and other acquisition expenses over the previous 10 years together with details of reinsurance commissions and profit participations etc. May be split by business location, or material type such as administrative, operational or line of business	difficult to produce	very difficult to produce	Difficulties to collect information (gross and ceded) over previous 10 years specially for companies which do not apply IFRS
16. Nonlife insurance claims	Claims triangles (split between claims paid, claims outstanding and undiscounted incurred but not reported (IBNR)), and reinsurance recoveries.	easy to produce	difficult to produce	Depending on number of years to cover (over 5 years) specially for companies which do not apply IFRS
17. Breakdown of counterparty data	Identify significant exposures via reinsurance and large asset exposures, including share of liabilities and type of assets held.	easy to produce	easy to produce	Difficulties may appear trying to identify potential reinsurance exposure (if required), specially for non-proportional reinsurance
<i>Specific data</i>				
18. Non linked assets	Analysis of assets with expected income, yield and mean term provided where relevant. Different data for life and pure reinsurers, from nonlife undertakings.	easy to produce	easy to produce	

19. Analysis of derivatives	Showing nominal exposures at reporting date, sensitivities and maximum in the exposure year, split by long and short positions as well as by type and risk category.	easy to produce	difficult to produce	<p>1 Difficulties to get the information, especially for companies which do not apply IFRS.</p> <p>2 Analysis of sensitivities of derivatives might be difficult.</p> <p>3 The use of 'the maximum exposure' needs careful consideration because of:</p> <ul style="list-style-type: none"> - Dynamics in operational policy in using derivatives (switching between two derivatives). - Impact on measurement date (Quarterly figures, daily figures?) <p>In order to be able to derive useful data much detail and expert judgment are needed to give a proper analysis</p>
20. Exposure to structured products	Exposure to ABS, CDO, etc.	easy to produce	difficult to produce	Difficulties to get the information, specially for companies which do not apply IFRS
21. Breakdown of property linked assets	Directly held assets and also via Collective Investment Schemes.	easy to produce	easy to produce	
22. Index linked assets	Further details of these by type, credit rating and instrument type, by solvency value.	easy to produce	easy to produce	
23. With profits asset performance	Return on assets in financial year that back with profits reserves.	easy to produce	easy to produce	
24. With profits payouts	Performance of specimen policies (at maturity, and for early surrenders)	easy to produce	easy to produce	
25. Unit linked fund performance	Price information for individual funds at year end and change on year	easy to produce	easy to produce	

About the CEA

The CEA is the European insurance and reinsurance federation. Through its 33 member bodies, the national insurance associations, the CEA represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. The CEA, which is based in Brussels, represents undertakings that account for approximately 94% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of €1 122bn, employ one million people and invest more than €7 200bn in the economy.