

To: Supervisory Reporting Project Group, Solvency II Working Group  
From: Prudential Team  
cc:  
Date: 08-09-2020  
Reference: SLV-REP-20-002  
  
Subject: Alternative proposal for QRT S.06.04 (additional look-through template)

## Action requested

Members are invited to **provide feedback to the alternative proposal on the new QRT S.06.04** (additional look-through template), developed by GDV to [prudential@insuranceeurope.eu](mailto:prudential@insuranceeurope.eu) by **Wednesday 16 September**.

## Alternative proposal

### **Issue**

Following EIOPA's consultation last year on proposals for Solvency II 2020 Review regarding supervisory reporting and public disclosure ([here](#)), one of the areas of particular concern for the undertakings is the proposed new QRT S.06.04 on detailed funds look-through. The reporting requirements foreseen in this proposed QRT can hardly be met by undertakings and would in any case result in tremendous effort and cost for initial implementation and ongoing reporting.

### **Proposal**

An alternative approach to satisfy supervisory information needs and at the same time avoiding additional reporting burden due to a new QRT S.06.04 was developed by GDV. This approach builds on strengthened inter-institutional data sharing:

- The ECB is already collecting detailed information on funds which are used for the euro area investment fund statistics. Those data are reported by capital management companies which are the direct owners of this data. If supervisory authorities were granted access to these relevant European data, insurance undertakings would only have to report the ISIN and the funds unit to the supervisory authorities. The authorities could then - by using a simple technological solution - link the fund data which is reported by the capital management companies with the data provided by the insurance companies to receive very detailed data on investments in funds by insurance undertakings.
- This approach would not only lighten the future reporting burden for undertakings but also has numerous advantages for the supervisory authorities:
  - Increasing efficiency as data are already collected which eliminates additional administrative work for supervisory authorities when collecting the data.
  - Increasing data quality, as data are queried directly at source.
  - Fostering inter-institutional information exchange.

## Detailed Background and alternative proposal

The industry highlights that EIOPA's draft proposal to introduce a new QRT S.06.04 is one of the major concerns regarding the proposals on supervisory reporting for Solvency II Review 2020. This is also reflected in the joint industry response ([here](#)) to the "Consultation paper on proposals for Solvency II 2020 Review Package on Supervisory Reporting and Public Disclosure" ([here](#)), the reporting requirements foreseen in this proposed QRT can hardly be met by undertakings and would in any case result in tremendous effort and cost for initial implementation and ongoing reporting. As an alternative, it is recommended to strengthen inter-institutional data sharing in order to satisfy supervisory information needs.

### **Drawbacks of the proposed S.06.04**

- The proposed QRT S.06.04 is regarded as highly critical due to several reasons. Firstly, the proposed content of the S.06.04 requires a lot of additional data, which would have to be collected and processed in the system for reporting reasons. This requires setting up and continuously applying complex new processes. It would also significantly increase the data quality assurance activities involved. It needs to be considered that the data volume which would be required could be exceptionally high, reaching partly over 10.000 data points for some entities, which also makes it necessary to verify the data capacity of internal systems. It should be borne in mind that the insurers are not the owners of the required data. To fulfil their reporting requirements, they are dependent on fund-data supplied by the fund companies as the original data-owners.
- Another issue arises as, according to the proposal, a collective investment undertaking shall only be reported in S.06.03. if it is not reported S.06.04. This means that internal algorithms have to be set up which steer the scope of S.06.03 and S.06.04 for each company and each fund has to be examined and identified. The actual type of classification of a fund is not stable and must be re-examined each time. Hence, this requirement will further increase the workload for undertakings.
- Further concerns relate to the proposal that the new template shall be reported at least annually, regardless of the size of the undertaking or the amount of funds in relation to total investments. Especially for smaller companies the effort required with the new reporting requirements of template S.06.04 are likely to be disproportionately high, with the result that they would be forced to refrain from investing in funds. Therefore, if this QRT would be introduced, a threshold for annual reporting as well as quarterly reporting should be introduced.
- As well as with regard to QRT S.06.03, the fixed limit of one month for the usable reference date is seen as another very critical aspect which might not be feasible in practice for all funds. Indeed, insurance companies are dependent on the data supplied by the fund companies. Regularly fund managers do not have monthly reporting processes for the data deliveries but quarterly and therefore, current deliveries – e. g. via so called Tripartite Template TPT – are regularly based on a quarterly cycle. Besides that, not all data is available with a maximum delay of one month. As such, it does not seem to be feasible for insurance companies to use only fund data which is not older than one month for their reporting. Hence, if the proposed QRT was introduced, the requirement that only data with a fixed maximum delay of one month are allowed should be deleted. At least a maximum delay of three months should be possible.

### **Inter-institutional data sharing as an advantageous alternative**

The industry understands EIOPA's need to have more in-depth knowledge of the investments contained in investment funds. However, attention is drawn to the fact that the required data are already reported by capital management companies to European institutions and therefore are available at European level. For example, in Germany the capital management companies (KVG) supply a multitude of data for each fund to the Bundesbank for the "Statistics on Investment Assets". The statistics show among other things in which assets domestic funds are invested and to what extent. These data form the German contribution to the ECB's euro area investment

fund statistics. The ECB is also supplied with fund data by other national central banks accordingly. These data used for investment statistics could also be used to meet supervisory information needs.

In accordance with the principle of "collect data only once", the industry therefore recommends using these already collected fund data provided from the original data owners, the capital management companies, instead of requesting them from the insurers. **Insurers would then only have to report the ISIN and the fund units to the NSA.** The further linkage between fund data and Solvency II-data could be carried out by the national supervisors by using technical solutions. This approach would have numerous advantages for the NSAs:

- Increasing efficiency as data are already collected which eliminates additional administrative work for supervisory authorities when collecting the data.
- Increasing data quality, as data are queried directly at source.
- Fostering inter-institutional information exchange.

This approach would only require that the ECB and/or the national central banks grant NSAs access to the relevant European data available at the ECB and allow them to use these data for supervisory purposes.

### **Conclusion**

The industry understands the supervisory need to gain more insight on investments in investment funds by insurance undertakings. However, keeping in mind that the data required are already available at European level, this reporting burden would be disproportionate to the supervisory need. The tremendous effort the introduction and reporting of the new QRT would cause needs to be weighed against the simple approach of data sharing between ECB and / or the national banks and supervisory authorities. The industry therefore strongly advises to dismiss the proposed new QRT S.06.04 and to make use of existing data on investment funds instead. This would contribute to lean and efficient reporting regimes and provide supervisory authorities with the information needed.