Key lessons from Taxonomy 2.8.0 and recommendations for enhanced implementation

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Introduction

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With the widespread adoption of Solvency II Taxonomy 2.8.0 by all insurers for their annual and quarterly reporting, now is the right moment to assess companies' experience so far, and to take stock of the various impacts, lessons, and opportunities arising from the implementation process.

This paper outlines key lessons learned and provides specific recommendations for future improvements.

Overview

Improved quality control of instructions and related information before publication

The final published texts/documents often contain inconsistencies and errors, highlighting the need for enhanced quality control measures prior to publication. Addressing these issues promptly is essential to avoid unnecessary costs and burdens for undertakings. The examples in the annex further substantiate the need for improved quality control in this regard.

Recommendation:

- EIOPA should conduct thorough quality checks prior to publishing texts to ensure accuracy and reliability.
- Swiftly addressing the inconsistencies between the ITS on reporting and disclosure and the templates, related instructions and taxonomy.
    - Inform stakeholders transparently if errors or inconsistencies cannot be immediately addressed.
    - Maintain a single, central document for all errors/changes/inconsistencies/updates.
- Propose feasible IT solutions when it comes to reporting templates, including a focus on clear reporting instructions

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Enhanced documentation structure/governance

Information on adjustments is dispersed across multiple documents with varying iterations of track changes, causing confusion and hampering efficient understanding and implementation of (updated) requirements. Enhanced documentation and a more robust governance structure is needed. The examples in the annex further substantiate this.

Recommendation:

- **Improve documentation structuring and clearer mapping of changes** to facilitate understanding and implementation, ultimately ensuring compliance with the reporting requirements.
- Maintain the current comprehensive excel format of the **annotated templates**, these should not be replaced by an ATOME format only.
    - Highlight changes, replacements, or new QRTs. Include deleted templates/cells for reference. EIOPA should retain the excel sheet “Versioning” that indicates the type of changes using a colour system as this has served as a useful aid to the annotated templates.
    - Helpful for undertakings would also be if EIOPA could:
        - indicate whether the change involves the reporting table, the instructions of individual cells or the validation rules.
        - provide the templates log instructions in track changes (as previously done for 2.8.0).
- **Ensure corrections to published documents are consultable in one central area** and specifically for Q&As, each addressing a single error (currently the Q&As contain multiple answers for some errors, and these are not always consistent)
- **Clearly indicate subversions** (e.g., "2.8.0.1", "2.8.0.2") with supporting documentation for better **version management**. And retain links to different published versions on the EIOPA website, currently only the latest version is provided.
- **Enhance log instructions** for clearer understanding of (newly) requested data.
- **Avoid that instructions lead to additional mandatory reporting requirements** that go beyond the requirements defined in the ITS. Ensure that instructions, especially for newly introduced reporting templates, are published well in advance of the reporting deadlines and not afterward.. For example, EIOPA could also consider publishing known sums and other calculations that are not clearly shown/described in the log instructions.
- **Make the logs available in a more user-friendly format**, for example by following the EIOPA single rulebook for SII, by dedicating one page per QRT, that would include the references/links to the relevant logs, Q&As, ECB addons, guidelines.

Legal binding nature of the regulation:

Currently, certain legal requirements of the implementing regulation, including the technical specifications from the appendices, deviate from the regulation in terms of technical implementation. The ITS becomes leading and contradicts the legally binding implementing regulation of the Commission. Consequently, a technically correct reporting file that does not match the ITS specifications cannot be produced. This may result in a technically correct notification being rejected by the NSA.

For example, in the K-sector in templates S.37.01 and S.37.02, Annex III notes for the reporting forms of the groups for S.37.01 and S.37.02 expect the “first hierarchical level – letter” of the sector. However, in the technical tests, an alphanumeric 5-digit sector code is expected. This discrepancy highlights differences between the technical description in the regulation and the technical implementation.

Recommendation:

- Ensure the legally binding nature of Commission Implementing Regulation (EU) 2023/894, especially the technical requirements from Annexes I to VI.

- Alternatively, ensure clear communication regarding the binding documents for upcoming reporting. If EIOPA is aware of errors in officially published documentation, it should clearly indicate additional documents to consider preventing misreporting)

Proactive information dissemination

Information sharing is perceived as being rather passive, requiring companies to actively monitor EIOPA's relevant webpages for updates. Although there is an RSS feed available on the EIOPA DPM/XBRL page, it appears difficult to install and does not capture all the changes and elements, notably Q&A revisions are excluded. This reactive approach can lead to delays in accessing important information and may result in missed opportunities for timely action.

Recommendation:
- To enhance communication effectiveness, implement mechanisms for proactive communication such as a changelog, or at a later stage a newsletter or mailing lists to keep stakeholders informed.
- Alternatively, the usability of the RSS feed on the EIOPA DPM/XBRL page could be expanded and made more user friendly, including the possibility to anonymously ask questions.

Validation management

In a number of cases, new validations to existing QRTs were added (*see annex for examples*), some of these validations were incorrect, resulting in unforeseen errors and error messages for certain data cells that were anticipated to remain unaltered during testing. Many of these errors are only discovered during testing procedures, necessitating undertakings to invest significant time in investigating the cause of these errors.

Recommendation:
- EIOPA should thoroughly check validations before including them to ensure accuracy and reliability, as well as comprehensively outlining changes in validations, cross-checks, etc., to assist companies in identifying and addressing potential issues.
- Exclude unimplemented validation checks from the list to avoid confusion.
- Given the dependency of the internal model reporting on the model architecture, the amount of validation checks should be reduced to a minimum and should only verify the consistency between QRTs, i.e. no validation checks should be applied to the formulas embedded in the templates.

Timely and clear communication

At times, there are delays in EIOPA's responses to undertakings' enquiries and although a Q&A tool/process is in place, the response delay is considerable and the responses are difficult to monitor. In fact, many undertakings have already implemented, in their IT systems, an interpretation (due to time constraints and the need to report) based on the information at their disposal at the moment of implementation. Any clarifications, provided by EIOPA at a later stage after the official publication, require new IT implementation of the specific data cells of the QRT.

Recommendation: Provide clear and timely instructions/logs from the outset to minimise the need for extensive Q&As, and to foresee a quick and swift response process for the Q&As.

Timely publication of new taxonomies

For major changes like Taxonomy 2.8.0 changed/new information requirements have been challenging for undertakings, given the tight deadlines provided from the publication of the final ITS drafts (March 2022) to the first submissions (Q1 2024). Therefore, new taxonomies must be published promptly. Implementing significant changes is very challenging, if not impossible, if publication occurs in July while implementation is scheduled to begin in Q4. Furthermore, in case of substantial changes to the QRTs, sufficient time should be given to companies to implement changes.

Recommendation:
- Publish any new taxonomy well in advance of the implementation date to reduce the burden.
- Limit major changes to the taxonomy to what is strictly needed, aiming to conduct them every 5 years or less frequently.
- In setting deadlines, also take the ingoing balances into consideration that companies have to prepare (e.g. annual reports, on first implementation in quarterly reports, etc)
- Avoid introducing ECB changes late in the process, as they often fall outside the main taxonomy framework and are difficult to find on the ECB website.

Targeted/improved workshop efficiency and frequency

Workshops on QRTs are generally perceived as providing valuable insights, however, they can be overwhelming at times due to mixed audiences. In particular, the events on 28 November 2022 and 22 February 2024, have been valuable. During these events, EIOPA addressed many unanswered questions, publishing comprehensive answers. The data and Q&A publications from the 28 November 2022 event, in particular, have been helpful supplements for understanding the logs.

Recommendation:
- Differentiate workshops based on audience segments (business vs. technical) to improve efficiency and relevance.
- Increase the frequency of workshops to address questions regarding new taxonomy developments.

Use of future mandates

The solvency II directive amendments foresee in a number of mandates. Efficient use of these could help to reduce the burden for companies and to streamline the reporting requirements.

Recommendation: In order to reduce the burden EIOPA should use the mandates provided in the Amended SII Directive, including the ITS on RSR reporting templates and the joint ESAs report on potential measures to develop an integrated data collection. In addition, changes should only be introduced in cases where there is a clear supervisory need.

Conclusion and next steps

Taking into consideration these recommendations will streamline processes and may potentially ease the burden for insurance companies.

EIOPA should consider these recommendations when preparing future taxonomies, such as Taxonomy 2.10.0.

Finally, EIOPA should take into account industry feedback on particular formulas, QRTs, validation checks which were problematic during the year-end 23 reporting.

Annex

Examples regarding erroneous validations

Incorrect validation due to incorrect ITS

While templates S.17.01.01 and S.19.01.01 remain unchanged under the new taxonomy, new validation rules have been added comparing fields in both templates:

BV1438 - BV1474; BV1439 - BV1475; BV1440 - BV1476; BV1441 - BV1477; BV1442 - BV1478; BV1443 - BV1479; BV1444 - BV1480; BV1445 - BV1481; BV1447 - BV1483; BV1449 - BV1485; BV1451 - BV1487

In these validations, EIOPA compares figures including costs with figures excluding costs. When these issues were raised with EIOPA, it responded that the ITS was incorrect, as EIOPA requires figures including expenses throughout.

Incorrect cross check

The following cross-check is part of the taxonomy:

Compare cells: "**S.26.13.01.03 (Reserve Risk Aggregate) - R0090 / C0070**" and "**S.26.08.01 (SCR for (partial) internal model) - R0350/C0010**"

The cross check in the taxonomy expects both values to be the same.

However, according to the ITS, in S.26.13.01 an undertaking should report information on their internal model for NL and Health NSLT. Specifically, in S.26.13.01 – R0090/C0070, undertakings are required to provide the **SCR Reserve Risk gross of Reinsurance on an aggregated level for the internal model scope**.

Template S.26.08.01 contains the overall SCRs as calculated by the undertaking. For S.26.08.01 – R0350/C0010 the ITS specifically mentions that it should equal **S.26.13.01 – R0090/C0050 plus the part calculated using the standard formula for undertakings using a partial internal model where relevant.**

While EIOPA clarified, by means of a Q&A that this reference to R0090/C0050 is incorrect and should in fact be R0090/C0070, **there remains a concern if an undertaking models only a part of the NL/NSLT scope via an internal model, and thus also has a non-zero SF part**. In that case, the reported SCR in S.26.08 can never be equal to the S.26.13.01 and therefore the values can in fact be different.

Inconsistent QRTs

- Maintaining consistency between QRTs, is important for example:
    - Asset class categorization in QRT 26.10 and 26.11
    - Keeping the same retrocession views within a single template; for instance QRT 26.08.01.01 mixes net and gross view.

Inconsistent instructions:

- Example from S.26.13 is that corrections from Q&A appear later in releases. The official Q&A list published before hotfix included clarifications and corrections not reflected within the hotfix in the later hotfix. For instance, field *R0670 Simulated (output) mean* was originally described as "the mean loss ratio of the probability distribution…" The Q&A process later clarified it should be "*the mean of the profit and loss distribution…*"

Unclear instructions:

- In S.14.05, a Financial Stability template, the instruction for "Unearned Premium" is unclear in the ITS. The undertaking interpreted this as lapse premium.
- The old QRT S.04.01.01.04 explicitly distinguished between EEA/non-EEA countries. The new template S.04.04 is interpreted as requiring only EEA countries, which one NSA pointed out as incorrect. Position R0010 in template S.04.04.01.02 requires only EEA countries. Undertakings also did not find a technical way to report non-EEA countries in this template.

Anecdotal example illustrating the need for consistent/concise and comprehensive information

In the context of reporting to EIOPA under taxonomy 2.8.0, companies face a highly complex and document-intensive process. One particular company, tasked with submitting over 50 QRTs, provides an example of the challenges involved. When changes are introduced to the ITS on reporting and disclosure, the company initially has to manually review all the changes. This involves meticulously going through the ITS logs to identify modifications and consulting the annotated templates provided by EIOPA.

However, since the ITS documentation is not always accurate, companies have to consult several documents manually, this includes the list of known issues and the EIOPA Q&As. Concurrently, as the company implements the changes, it also has to validate its updates against the required package validations. These validations not only often contain errors themselves but are also updated regularly requiring checks in a separate Excel sheet. This implies manually cross-referencing to ensure no additional changes were overlooked.

Adding to these difficulties, any discovered errors in the ITS, taxonomy or validations have to be queried with EIOPA through the Q&A tool. However, responses can take several months, leaving companies in a state of uncertainty, all the while under pressure to report timely.

Once the reporting package is finalized, it has to be submitted in XBRL format to the NSA. In this specific instance, the test environment was non-operational. Consequently, the final package was submitted without prior testing. This led to submission failures due to an incorrect filing rule. So companies also need to ensure that all cells in their submission adhere to these filing rules, requiring another layer of manual verification against a separate Word document.

Additionally, blocking errors can arise from minimal issues, such as extra spaces in descriptions (issuer name, internal identification, etc.). Uploading to the live environment was also considerably more difficult. While the upload time was usually about 30 minutes, this increased to about six hours for Q4 reporting. Consequently, submission failures required relaunching the entire time-consuming process multiple times.

Moreover, an insurance undertaking reported encountering false errors, necessitating the intervention of the NSA support team to unblock these errors and restart the time-consuming upload process.

Another example is QRT E.04.01. Instructions on QRT E.04.01, which should have been provided in the Log, were only provided late in the process through a Q&A. QRT E.04.01 is required if the materiality threshold is exceeded for activities outside the home country. It refers to QRT Life S.12.02 TP by country, which is not necessarily reported. Later, a Q&A was requested on this QRT, and EIOPA replied that QRT E.04.01 must also be reported even if the activities outside the home country are not reported, disregarding whether QRT S.12.02 by country is actually reported, which is contradictory. Undertakings could not have anticipated this answer by EIOPA and such an answer is perceived as a change rather than a clarification.