

To: Solvency II SG  
From: Economics & Finance department  
cc: Economics & Finance Committee  
Date: 12 July 2012  
Reference: ECO-SLV-12-356

Subject: QRTs Final Package - High Level Overview of Changes

## Summary

On 10 July, EIOPA published its stabilised package on QRTs. This document provides a high level overview of changes in comparison to those issued for public consultation in November last year and January this year (financial stability templates).

QRTs are now split by 3 themes required for both solos and groups:

- Annual reporting;
- Quarterly reporting;
- Public disclosure.

Financial stability reporting has been incorporated into the package itself, undertakings have been advised to start preparing on the basis of these QRTs.

## High Level Observations

- New annual QRTs:
  - Participations (solo only);
  - Duration of liabilities (groups and solos) – reduced granularity for financial stability reporting;
  - Profit or loss sharing (groups and solos) – reduced granularity for financial stability reporting;
  - TP – F3 (groups only) - reduced granularity for financial stability reporting;
  - RE – J2 (groups only) - reduced granularity for financial stability reporting.
- New quarterly QRTs:
  - BS – C1 (groups and solos);
  - SCR – B2A and SCR – B2C (groups and solos)
  - RE – J2 (solos) and J3 (groups);
  - Lapses (groups and solos);
  - Profit and Loss (groups and solos);
  - Please see assets section for additional information.
- New Disclosure QRTs:
  - TP – E3: annual;
  - Group requirements regarding frequency remain unchanged.

For RE-J1 and RE-J2, there are 2 new QRTs each titled "basic" and "shares". It appears to be a split of the current QRTs however members are advised to look at these revisions as some cells may be missing/added. It is not clear why EIOPA have split information across extra QRTs.

Non-Life claims triangles must now be disclosed.

A quarterly SCR is required for financial stability purposes. The template SCR-B2A\_B2C is more detailed than the single figure which was first proposed.

There are new quarterly requirements for group reporting, this was previously set bi-annually.

There are increased reporting requirements for ring-fenced funds.

## Content

For the purpose of this initial analysis, it is assumed that group annual QRTs are the same/similar in content to the solo annual QRTs. It is also assumed that quarterly and disclosure QRTs are a simplified version of the annual QRTs. Unless otherwise stated, we are therefore using solo annual QRTs as the basis for analysing changes in content.

## Balance Sheet

### BS-C1:

- The breakdown in investment funds (assets) have been reduced, now only an aggregate figure is required.
- A quarterly requirement has been introduced for the full balance sheet. It is unclear how 'best effort' might apply.
- The statutory accounting column has been removed from the disclosure QRT.

BS-C1B, BS-C1D, Country-K1: remain unchanged.

Cover – A1A: "claims and expenses paid" now becomes "claims and expenses incurred".

Cover – A1Q: content unchanged but information required for financial stability purposes.

## Own Funds

### OF – B1:

- Tier 1 now split reflecting the treatment in draft Level 2 Article 58 i.e. restricted and unrestricted.
- New section detailing own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds.
- Sections on EPIFP and reconciliation reserve have been reordered.
- Adjustment for participations elaborated upon as a result of Level 2.

OF – B1Q: similar changes to the above changes reflected, some information reported for financial stability purposes.

## Variation Analysis

The changes below are based on the latest QRTs consulted upon during the counter proposal negotiations with EIOPA. If not familiar with the developments during these discussions, it is highly recommended to review all Variation Analysis templates as they have changed considerably since the public consultation (November 2011).

VA – C2A: new section providing a breakdown on “variation of components of reconciliation reserve”.

VA – C2B and VA – C2C: completely restructured. LoB split remains in VA – C2C, it is also not clear how to treat Health SLT and NSLT.

## **SCR and MCR**

SCR – B2A:

- Includes new cell for group SCR floor (this is a solo template);
- New cell for capital add-ons already set (note, this template will be publically disclosed).

SCR – B2B and SCR – B2C (when indicated below):

- There are now 2 columns for the SCR – Net/Gross (including/excluding the loss absorbing capacity of technical provisions and/or deferred taxes when applicable).
- The row “adjustment for deferred taxes” is now “LAC for deferred taxes”. This is also reflected in SCR – B2C.
- Includes a new section for “information only” requiring “notional capital requirement for ring fenced funds” and “diversification within ring fenced funds”. This section is also added to SCR – B2C.

SCR – B3A:

- Under spread risk “bonds” is now “bonds and loans”.
- Type 1 exposures are now listed per “single name” rather than pre-defined categories e.g. reinsurance; securitisations; derivatives; etc.
- Type 2 exposures are now split by “Receivables from Intermediaries due for more than 3 months” and “All type 2 exposures other than receivables from Intermediaries due for more than 3 months”.

SCR – B3B: there are 2 new columns “Loss Given Default” and “Probability of Default”.

SCR – B3C: the final 2 columns on liabilities and gross SCR now explicitly excludes LAC of TPs.

SCR – B3D and SCR – B3E: unchanged.

SCR – B3E:

- Man-made Cat Risk is often reduced to one line. In general, there is an overall reduction in requirements for man-made Cat risk.
- Reduction in cells to be completed on Health Cat-Risk.

SCR – B3G: unchanged.

MCR – B4A and MCR – B4B: under Overall MCR Calculation, changes “SCR without capital add-on” and “capital add-on” with “SCR with capital add-on”. Could insinuate a capital add-on is always applied as capital add-ons would be disclosed in a different template anyway.

## **Assets**

The following QRTs are now reported quarterly for both groups and solos, except Assets – D1Q which only applies to solo undertakings:

- Assets - D1 Investments data Portfolio List
- Assets – D1Q Investments Data Quarterly Summary; participations removed.
- Assets – D20 Derivatives Open Positions
- Assets – D2T Derivatives Data – Historical Derivatives Trades

- Assets – D3 Return on Investment Assets (by assets category); interest removed.
- Assets – D4 Investment Funds (look-through approach); level of look-through removed.
- Assets – D5 Securities Lending and Repos; weight in exposures removed.

The following QRTs are now reported annually for groups and solos:

- Assets – D1S: Structured Data Portfolio List; risk factors removed.
- Assets – D3: Return on Investments (by assets category); interest removed.
- Assets – D4: Investment Funds (look-through approach); level of look-through removed.
- Assets – D5: Securities Lending and Repos; weight in total exposures removed.
- Assets – D6: Assets Held as Collateral

For the cross over templates i.e. required for both annual and quarterly reporting, the granularity does not change except for Assets – D4 whereby the “total amount” is not required for quarterly QRT. It is important to note that for this template, it is no longer required to state the “level of look-through”.

Assets – D3; D4 and D5 are required for financial stability reporting.

### Technical Provisions

TP – F1: Cash in and out-flows under Gross Best Estimate moved to the bottom of the QRT.

TP – F1Q: “of which reinsurance ceded to IGT” has been removed.

TP – F2: unchanged.

TP – F3:

- “ID code” is new;
- Best estimate per HRG now required for financial stability reporting;
- “Total amount of claims paid” is new;
  - The following cells are now required by HRG:
    - Capital at risk;
    - Surrender value;
    - Annualised guarantee rate
- “Total amount of theoretical claims (according to table during year)” has been removed.

TP – F3A and TP – F3B: unchanged.

TP – F4:

- Flexibility to report by AY or UWY and therefore new requirement to indicate “reporting year”.
- “Prior years” increased to 14 years. The LOG states that for the first reporting year only first year need to be filled in, then one year is added each following year.

TP – E1: “use of simplified methods and techniques” i.e. closed answer response, replaced with “amount of gross technical provisions calculated using simplified methods”.

TP – E1Q: unchanged.

TP – E2: Best estimate premium provision (gross) now split out according to “cash in-flows” and “cash out-flows”. This now mirrors the structure used in the Best Estimate Claims Provisions column.

TP – E3:

- Flexibility to report by AY or UWY and therefore new requirement to indicate “reporting year”.
- Salvage and Subrogation triangles removed.

- Development year remains at 15 years however the LOG states that 15 years is the default but if an undertaking's claims settlement cycle is shorter, then reporting is only required according to the shorter internal development year.
- The "Gross Claims Paid (non-cumulative)" and "Gross undiscounted Best Estimate Claims Provisions" triangles will be disclosed annually according to a development year of 10 years.

TP – E4:

- Flexibility to report by AY or UWY and therefore new requirement to indicate "reporting year".
- The column "Claims Incurred During the Year" is changed to "Claims Reported During the Year".
- The development year extended to 15 years however the LOG provides for the same exemption as for TP – E3.

TP – E6: unchanged.

TP – E7A:

- "Line of activity" changed to "description of risk category covered".
- "Original deductible policyholder" and "net retention of insurer" are new cells.

TP – E7B: unchanged.

**Reinsurance**

Templates RE – J1 and Re – J2 are now each split across 2 QRTs - "basic" and "shares". As previously mentioned, we highly recommend that members review these templates as it is not clear if cells have been added or removed. It is not clear why EIOPA have split information across extra QRTs.

Re – J3 and RE – SPV: unchanged.

**Groups Specific**

G01:

- "Reference number" replaced by "identification code".
- Closed answer response indicating inclusion in Solvency II consolidated accounts is removed.

G03:

- A new breakdown per SCR risk-module is required i.e. market; counterparty default; life underwriting; health underwriting; non-life underwriting; operational risk.
- Information on Non-EEA entities changed to require "Local Capital Requirement", "Local MCR", "Eligible Own Funds according to Local Rules". Previously referred to "First Level of Capital Requirement" and "Final Intervention Point".

G04:

- New requirement to indicate whether other regulated entity is aggregated or not (closed answer).
- "First Level of Capital Requirement" and "Final Intervention Point" changed to "Notional SCR" and "Notional MCR".
- G14: "Reference number" changed to "Identification Code".
- G20: (Contribution to Group SCR with Deduction and Aggregation): removed.
- IGT1: "reference documents" removed.
- IGT2: "threshold" removed.
- IGT3: "threshold" and "reference documents" removed.
- IGT4: "threshold", "reference documents" removed.
- RC: unchanged. Requirement to disclosure RC template has been removed.