

## Insurance Europe comments on the EC Consultation document: Fitness check on supervisory reporting

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### General comments

Insurance Europe welcomes the opportunity to provide feedback to the Commission's consultation document on fitness check on supervisory reporting requirements. As stressed in its response to the 2015 EC call for evidence and to the EC roadmap on EU reporting requirements, Insurance Europe believes that several elements of the reporting requirements in the financial sector deserve a careful reconsideration and addressing by the EC, in order to meet its main goals of reducing compliance cost and burden for companies.

In their current state, reporting requirements in the financial sector are perceived as too costly and burdensome. This is, to a large extent, due to the vast amount of reporting requirements, exacerbated by duplications and overlaps among these. Other important factors are insufficient standardisation as well as a lack of clarity on what needs to be reported (eg lack of harmonised financial data definitions).

Insurance Europe supports the EC intention to examine reporting requirements across different sectors as it allows to establish uniform procedures for supervisory reporting. However, the most important factors contributing to cost and effort of supervisory reporting are the number and extent of reporting requirements rather than procedures. Further, it should be kept in mind that some of the reporting requirements have been newly introduced and their implementation implied high effort. Therefore, future amendments should focus on reducing the cost but also complexity of reporting requirements.

Insurance Europe appreciates that the EU assessment of the reporting requirements is being conducted in parallel with the [Financial Data Standardisation \(FDS\) project](#). However, Insurance Europe suggests adding the Financial Conglomerates Directive that is missing from the scope of the latter.

Insurance Europe had noted that according to the EC Roadmap, Level 1 legislation shall be examined. However, at least for Solvency II, many reporting requirements are set out on subordinated levels (eg Delegated Regulation). Therefore, Insurance Europe reiterates the comment made in response to the EC roadmap consultation that subordinated legislation should be covered by the assessment as well.

In the pursuit of its goal of reducing the cost and burden of reporting requirements, Insurance Europe calls on the EC to take into account whether the cost to industry of the EU reporting requirements is commensurate with the benefit to supervisors and consumers. Hence, the assessment should focus on the questions whether all data currently reported are essential for supervision and whether information needs can be satisfied with data which is already used for internal purposes.

### Detailed comments

Insurance Europe highlights below a number of concerns, which in its view prevent EU reporting requirements from achieving its key goals as set out in the EC fitness check, ie effectiveness, consistency and coherence, efficiency and added value, and thereby are not conducive to a reporting framework that reduces **compliance cost** and **burden**. For each concern, Insurance Europe provides a way to simplify the reporting requirements with the view to render these fit for purpose.

#### 1. Effectiveness and relevance

##### ■ Concerns over the duplication of reporting requirements for financial conglomerates

Due to lack of clarity on definitions and scope and/or supervisory discretion, currently insurance groups can be required to apply Solvency II, CRD4 and FICOD. This leads to significant unnecessary expense and effort and avoiding this should be a key aim. Insurance Europe believes it is necessary to clarify interactions between the banking, the insurance and the financial conglomerates related regulations, in order to avoid the duplication of reporting requirements. Besides, Insurance Europe points out that the [EC working document No.11329/17](#) mentions on page 29 that "*the range of entities listed in Article 5 of FICOD implies a huge administrative reporting burden, the supervisory effectiveness of which may be questionable*". It is not clear which additional risks would need additional supervision beyond Solvency II.

***In order for requirements to be effective and relevant, Insurance Europe believes Solvency II reporting should be the only group level reporting requirement for insurance-dominated financial conglomerates.***

#### 2. Consistency and coherence

##### ■ Overlap of reporting requirements from various regulations

Regulations such as EMIR, MiFID II, and Solvency II provide different reporting formats and differing taxonomies. This leads to a duplication of costs for implementing reporting requirements that in fact target identical objectives. As an example, insurers have to report on their derivatives exposure to supervisors under Solvency II and to trade repositories under EMIR – this overlap with EMIR reporting has been known about for some time. The reporting requirements under the two frameworks are not aligned, which increases the burden for insurers and the likelihood of inconsistencies in the data.

***Insurance Europe believes that the reporting formats should be standardised and reported to one competent authority or trade repository (single entry point). Key data should be clearly defined.***

##### ■ Problems relating to Solvency II reporting timetables

Solvency II reporting is an enormous task and is made more complicated and costly because of the current misalignment in scheduling and content of various reports. It is a big challenge for insurers to set up processes

to be able to fulfil all reporting requirements, eg annual financial statements, Solvency II, ECB statistics, financial stability reporting and tax statements, in a consistent and efficient way. This challenge is likely to become even more pronounced every year since, according to the Solvency II Directive, the deadlines for submission of quantitative reporting templates (QRTs) become shorter over four years<sup>1</sup>.

In addition, the overlap among different QRTs alongside the ambitious timeline for reporting in a steady state will prove to be problematic for insurance companies as the multiplication of reporting requirements within such a short time frame represents a real operating expense and risk.

Another issue is financial stability reporting for which the timelines for the quarterly and annual submissions are the same. In fact, financial stability reporting duplicates some of the data requirements under Solvency II but within a shorter timeframe than that of the already very challenging Solvency II annual reporting. Consequently, Insurance Europe believes that financial stability reporting deadlines cannot and must not be a reference for annual reporting. However, the pressure on the very tight deadlines of Solvency II quarterly reporting could be released by mimicking that of financial stability.

***Therefore, Insurance Europe recommends the EC to adjust the Solvency II solo quarterly reporting deadlines so that they mirror the financial stability reporting deadlines.***

### **3. Efficiency and added value**

- A streamlining of the reporting requirements within each sector would benefit enormously the goals of the EC cross-sectoral reporting requirements assessment

Insurance Europe understands that the EC assessment will focus on supervisory reporting requirements from a cross-sectoral point of view. However, there could be a general issue of duplication and relevance of the reporting requirements within each sector that would need to be tackled to eliminate undue costs. Also, even if each reporting requirement on its own seems to be reasonable and justified, the total scope of reporting requirements within a sector can be an excessive burden, especially for smaller undertakings. This is at least the case for Solvency II.

***Therefore, Insurance Europe believes that, the total scope of reporting requirements within each sector should be analysed and the overall burden stemming therefrom needs to be carefully considered.***

- Fourth quarter reporting requirements for solvency II add to the burden of insurers while not providing significant added value to supervisors

Insurance Europe deems the reporting of fourth quarter figures an unnecessary burden with very limited or no value added since year end QRTs reporting process is launched almost at the same time and provides more accurate figures.

***Therefore, Insurance Europe believes that the fourth quarter reporting for the insurance sector should be made optional and the option should be left at the discretion of the undertaking.***

- Ad-hoc reporting requirement from EIOPA or the national supervisors increase administrative burden for insurers

The Solvency II reporting framework already requires insurers to disclose a large amount of qualitative and quantitative information through the Solvency and Financial Condition Report (SFCR), the regular supervisory reporting (RSR) and the QRTs. In addition, insurance undertakings have to fulfill reporting demands from their national supervisors which differ from the regulatory Solvency II QRTs. It is worth noting also that the reporting of the 2016 insurance stress test exercise used ad-hoc templates.

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<sup>1</sup> At the onset of Solvency II, solo entities in the first year had 20 weeks to submit their annual QRTs and eight weeks for their quarterly QRTs

***Therefore, Insurance Europe believes that additional templates other than the Solvency II reporting ones should be forbidden/disallowed and the stress test exercise for the insurance sector should only make use of the existing QRTs to fulfil its reporting requirements.***

■ Reporting of ECAI ratings generate excessive costs

Solvency II demands the reporting of ratings from External Credit Assessment Institutions (ECAIs), for all insurers' assets. This poses a considerable financial burden on undertakings, who are subject to significant license fees for the use of ratings, as well as to extra fees related to undertakings passing information on asset ratings to a third party – eg a financial supervisor.

Insurance Europe believes that it is not essential for financial supervisors that ECAI ratings are part of undertakings' ongoing reporting. Since assets identified would be reported, national supervisors can implement systems to look-up ECAI ratings where they are needed. This would limit the need for every undertaking to pay for licenses.

***Insurance Europe suggests removing the ECAI rating reporting requirement from the general regulatory reporting requirements. Alternatively, EIOPA and the national supervisors could pay for a license to access such data, rather than each and every firm having to do so for reporting purposes, thereby reducing the overall cost to the industry.***

■ The proportionality principle should be consistently applied

While the Solvency II Directive does foresee the application of the proportionality principle in the area of reporting<sup>2</sup>, in practice there is very limited evidence that this is appropriately applied. According to the [2016 EIOPA report on proportionality](#), "twenty NCAs have not authorised limitations from reporting" (page 6) and only "eleven NCAs have used the power to grant limitations from reporting" (page 14).

***Insurance Europe suggests that these options to limit and exempt insurance undertakings from particularly burdensome reporting requirements on grounds of proportionality be made mandatory instead of optional, so that member states are forced to include it in their national legislation.***

■ Current requirements for double-sided reporting under EMIR create unnecessary burdens, complications and costs

The dual-side reporting obligation of EMIR is cumbersome, risks duplication, and results in significant avoidable expense. While the ongoing EMIR review puts on the table single-side reporting for traded derivatives, Insurance Europe believes that the scope of single-side reporting should be expanded to all derivatives.

***Insurance Europe believes that the EMIR obligation for dual-sided reporting (DSR) should be removed and replaced by one-sided reporting which offers the same, if not better, quality of data, while removing some of the practical and administrative challenges of DSR.***

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<sup>2</sup> See Articles 35(6-7) and 254(2) of the Directive