

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Supervisory Reporting and Public Disclosure Requirements

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1 Introduction

The Malta Financial Services Authority (“*MFSA*”) is issuing its third guidance paper on the transposition and implementation of the Solvency II Directive - Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 (henceforth referred to as “*the Directive*”). This paper follows two earlier guidance papers on: [i] Internal Models¹ and [ii] the System of Governance² issued by the MFSA in 2009 and 2010 respectively.

Under the Solvency II regime, insurance and re-insurance undertakings (henceforth referred to as “*undertakings*”) shall be subject to a wider review of solvency requirements which are intended to reflect more closely an undertaking’s financial position, business profile and risk management strategy.

The Solvency II requirements are grouped using a three pillar approach: [i] **Pillar 1** covers the financial requirements of undertakings, and their ability to demonstrate that they have sufficient financial resources to cover their risks; [ii] **Pillar 2** requires an undertaking to adopt effective risk management and governance systems; and [iii] **Pillar 3** relates to disclosure requirements which are aimed at achieving greater levels of transparency by undertakings in their reporting to both their supervisors and the public. For the purposes of this paper the term “*supervisor*” refers to the national supervisory authority in a Member State, which in Malta is the MFSA.

This guidance paper covers the Solvency II Pillar 3 requirements and is structured to provide an overview of the public and supervisory reporting requirements for both solo undertakings and undertakings which are subject to group³ reporting requirements which either use a standard formula or internal model for the purpose of computing the SCR.

Under this framework, the supervisor is required to assess the adequacy of the reporting submissions by undertakings, taking into account the nature, scale and complexity of the risks. The supervisor should also ensure that all risks that the undertaking is exposed to are suitably dealt with and that all the general requirements in respect of Pillar 3 requirements within the Solvency II Directive are being met. The supervisor should put in place strategies, processes and reporting procedures in order to assess an undertaking’s compliance with the applicable reporting and disclosure requirements. It ought to be noted that the Supervisory Reporting Process (“*SRP*”) is not the main focus of this paper.

Although the public and supervisory reporting requirements will become effective after the Solvency II framework comes into force, it is strongly advised that undertakings consider the implications of the Solvency II Level 3 requirements, and start planning or implementing systems, processes and procedures on supervisory reporting and public disclosure requirements.

¹ The Guidance Paper was issued on 3 December 2009 and was titled “The Use and Approval of Internal Models for Regulatory Capital Purposes in Insurance”.

² The Guidance Paper was issued on 22 April 2010 and was titled “The System of Governance under Solvency 2”.

³ For the purposes of this paper, the term “group” generally means a group of undertakings which fall within the term “group” as contained in Article 212 of the Directive and are subject to group supervision under the Directive.

As part of the Pillar III reporting framework, undertakings are required to submit templates on a periodic basis. These templates are still being developed by European Insurance and Occupational Pensions Authority (“EIOPA”)⁴ at the time of publication of this paper. The MFSA is launching a pre-consultation exercise, starting with a presentation to the industry on these templates. This exercise aims to present and give a good understanding of these reporting requirements.

⁴ As of 1 January 2011, the European Insurance and Occupational Pensions Authority (“EIOPA”) replaces the Committee of European Insurance and Occupational Pensions Supervisors (“CEIOPS”).

2 Background

The new Solvency II provisions are adopted under the Lamfalussy process, which comprises of the following levels: [i] **Level 1** – the Framework Directive - Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 (henceforth referred to as “*the Directive*”); [ii] **Level 2** – Implementing Measures supporting the Framework Directive; [iii] **binding Level 3** – Implementing Technical Standards⁵; and [iv] **Level 3** guidance issued by EIOPA.

In addition, the European Commission published a proposal for the Omnibus II Directive on the 19th January, 2011. This proposal intends to amend the Directive: [i] by aligning it with the new supervisory structure and powers within the European Union; [ii] to give the Commission powers to specify transitional arrangements for the Directive; and [iii] to extend the implementation date of the Solvency II framework.

This paper highlights the articles in the Directive which contain the high level principles on undertaking supervisory and disclosure requirements. It also indicates any changes to these articles proposed through the Omnibus II Directive. The explanations are mainly based on CEIOPS’ Advice for Level 2 Implementing Measures on Solvency II: Supervisory Reporting and Public Disclosure Requirements. This advice forms the basis of Delegated Acts (formerly referred to as Level 2 Implementing Measures).

The Level 3 EIOPA guidelines on supervisory disclosure and reporting will *inter alia* include further details on narrative disclosure and reporting, pre-defined events, reporting and disclosure policies.

Section 3 of this paper explains the high level principles relating to supervisory reporting and disclosure requirements, including the various reports to be submitted by undertakings to their supervisor, and the events when supervisors may require information from undertakings they supervise. Sections 4 and 5 explain in detail the contents of the Solvency and Financial Condition Report (“*SFCR*”) and the Regular Supervisory Report (“*RSR*”). Section 6 provides a brief overview of the Quantitative Reporting Templates (“*QRT*”) while Section 7 explains the reporting requirements for undertakings forming part of a group. The supervisory review process on the information submitted by undertakings is explained in Section 8 while the process of reporting and disclosure is outlined in Section 9.

⁵ In terms of Article 2 (4) (b) of the Proposal for a Directive of the European Parliament and of the Council amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority, EIOPA shall develop draft implementing technical standards specifically with regard to the quantitative reporting templates for the submission of information to the supervisory authorities.

3 Supervisory Reporting and Disclosure Requirements under Solvency II

3.1 High Level Principles

Article 35 of the Directive stipulates that undertakings submit the following information to their supervisor:

1. Member States shall require insurance and reinsurance undertakings to submit to the supervisory authorities the information which is necessary for the purposes of supervision. That information shall include at least the information necessary for the following when performing the process referred to in Article 36:

- (a) to assess the system of governance applied by the undertakings, the business they are pursuing, the valuation principles applied for solvency purposes, the risks faced and the risk-management systems, and their capital structure, needs and management;*
- (b) to make any appropriate decisions resulting from the exercise of their supervisory rights and duties.*

2. Member States shall ensure that the supervisory authorities have the following powers:

- (a) to determine the nature, the scope and the format of the information referred to in paragraph 1 which they require insurance and reinsurance undertakings to submit at the following points in time:
 - (i) at predefined periods;*
 - (ii) upon occurrence of predefined events;*
 - (iii) during enquiries regarding the situation of an insurance or reinsurance undertaking;**
- (b) to obtain any information regarding contracts which are held by intermediaries or regarding contracts which are entered into with third parties; and*
- (c) to require information from external experts, such as auditors and actuaries.*

3. The information referred to in paragraphs 1 and 2 shall comprise the following:

- (a) qualitative or quantitative elements, or any appropriate combination thereof;*
- (b) historic, current or prospective elements, or any appropriate combination thereof; and*
- (c) data from internal or external sources, or any appropriate combination thereof.*

4. The information referred to in paragraphs 1 and 2 shall comply with the following principles:

- (a) it must reflect the nature, scale and complexity of the business of the undertaking concerned, and in particular the risks inherent in that business;*
- (b) it must be accessible, complete in all material respects, comparable and consistent over time; and*
- (c) it must be relevant, reliable and comprehensible.*

5. Member States shall require insurance and reinsurance undertakings to have appropriate systems and structures in place to fulfill the requirements laid down in paragraphs 1 to 4 as well as a written policy, approved by the administrative, management or supervisory body of the insurance or reinsurance undertaking, ensuring the ongoing appropriateness of the information submitted.

6. The Commission shall adopt implementing measures specifying the information referred to in paragraphs 1 to 4, with a view to ensuring to the appropriate extent convergence of supervisory reporting.

Those measures, designed to amend non-essential elements of this Directive by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 301(3).

The Solvency II framework outlines detailed and harmonised reporting requirements which should be submitted by the undertakings on a regular basis to its supervisor in order to enable a consistent supervisory review process, in terms of Article 36 of the Directive, to be carried out by the supervisors across all Member States. The information submitted by the undertaking to its supervisor includes both narrative reporting and quantitative templates. The qualitative reports should provide further detail and supplement where appropriate quantitative information reported by undertakings.

These reporting requirements are based on information required by the supervisor to assist them in exercising effective prudential supervision and to reinforce transparency and market discipline, whilst ensuring compliance costs are not unduly burdensome.

For the purpose of ensuring transparency in the market, undertakings are required to make available to the public at least annually, essential information on their solvency and financial condition. In turn, the supervisor shall have the power to require all information which is necessary for the purposes of supervision.

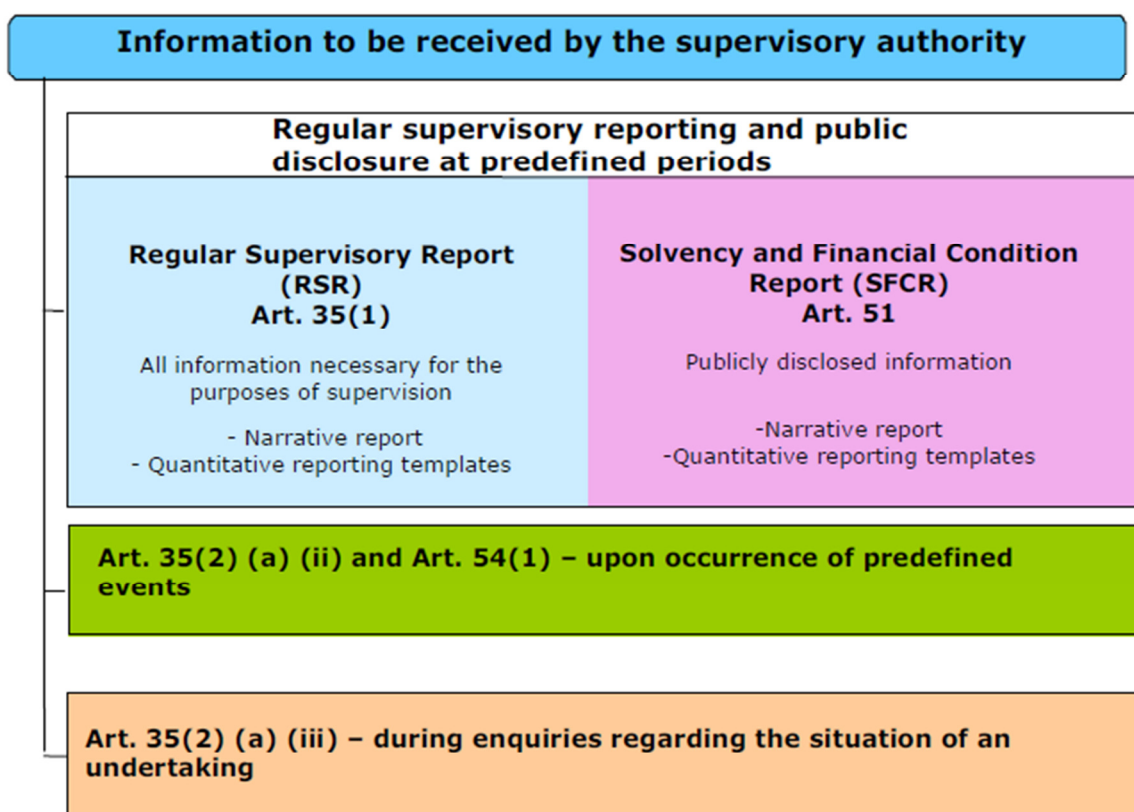
By virtue of the Omnibus II Directive, it is being proposed that paragraph 6 of this article will be amended to allow the European Commission to adopt Delegated Acts instead of Implementing Measures. Furthermore, the proposed new article allows EIOPA to develop Draft Implementing Standards. In terms of the proposed Omnibus II Directive, paragraph 5 of this article will be amended to make reference to the proposed article 308 (a) (1) in the Directive. In respect proposed transitional arrangements regarding systems and structures which an undertaking should have in respect of its RSR, including a written policy approved by its administrative, management or supervisory body.

Under this framework, undertakings shall develop a written policy, approved by their administrative, management or supervisory body⁶, to ensure the on-going appropriateness of the information to be reported to the supervisor. Such policy should ensure that the undertaking has appropriate governance procedures and practices in place so that the information reported to the supervisor is complete, consistent and accurate. The policy

⁶ Whilst throughout this paper we have used the term “administrative, management or supervisory body” as it is used in the Directive, this refers to the undertaking’s Board of Directors.

should include details of the individuals / functions responsible for the drafting of the information and those responsible for signing off of such information. The final sign-off should be made by the undertaking’s administrative, management or supervisory body. The written policy should set out the various deadlines for the completion of the various drafting components of the process and allow sufficient time for review by the undertaking’s administrative, management or supervisory body prior to publication.

The diagram hereunder illustrates the components making up the supervisory reporting and public disclosure requirements, which apply to solo undertakings and groups.



Source: CEIOPS Advice for Level 2 Implementing Measures on Solvency II: Supervisory Reporting and Public Disclosure Requirements

The supervisor may receive information from its undertakings in three different instances:

[a] At predefined periods

Information to be reported on a regular basis to the supervisor should be submitted through the RSR. The undertaking should also submit the SFCR to its supervisor as published by the undertaking.

The RSR is a private report through which undertakings submit regular information to their supervisor. It is a stand-alone document which does not require reference to any other document in order to be understood, and is specifically compiled for the supervisor. Through this report, the supervisor should be in a position to carry out the Supervisory Review Process (“SRP”) and forms the basis for the supervisory dialogue between undertakings and their supervisor.

The SFCR is a public report through which undertakings disclose to the public details *inter alia* about their business, system of governance, and their solvency and financial situation. The undertaking has the responsibility to compile and publish this report. The supervisor shall review this document applying a risk-based approach. Information presented in the SFCR should be consistent with the information provided in the RSR. The supervisor may take appropriate action to ensure that the contents of the SFCR adequately inform users on the overall solvency and financial condition of the undertaking.

The QRT include quantitative figures on the undertaking's financial and supervisory performance, and supplement, where appropriate, the information presented in the SFCR and the RSR. The full set of QRT is included as an annex to the RSR, while only those templates which are to be publicly disclosed are included in the SFCR.

[b] Upon occurrence of predefined events

The supervisor should also be provided with information upon the occurrence of an event/s which can lead to material changes to an undertaking's solvency position or risk profile and may require its supervisor to reassess its SRP (on which the frequency and intensity of supervisory actions are based).

Predefined events may include:

- a) changes in business strategy including delays to implementing strategy;
- b) internal organisational restructure - details of any significant reorganisation and reasons for change;
- c) significant lawsuits with a reasonable chance of success being brought against the undertaking. Information should be provided on the:
 - nature of the lawsuit and any legal opinion received by the undertaking; and
 - potential impact of the lawsuit on the undertaking and mitigation plans if the lawsuit ruling is against the undertaking;
- d) material changes in own funds levels, MCR, SCR or technical provisions:
 - the amount and reason for change; and
 - consideration of any potential or actual consequence of changes;
- e) newly emerging or crystallised material internal or external risks:
 - details of emerging or crystallised risks; and
 - information on its potential or actual impact and mitigation plans in place;
- f) emergence of new future material or significant claims (previously not included in the last reported technical provisions);
- g) significant governance failures:
 - details of the governance failure and the impact of failure on undertaking; and
 - action taken in response to governance failure.

[c] During enquiries regarding the situation of the undertaking

The supervisor may request information for the purpose of ensuring effective supervision, including information on products marketed by the undertakings. In ensuring compliance with applicable legislation and minimising potential threats to policyholders, the supervisor may consider obtaining additional information from external experts who work with or for the undertaking such as auditors or actuaries.

3.2 Proportionality Principle

The detail of information to be received by the supervisor should be commensurate with the nature, scale and complexity of the risks inherent in the business of the undertaking concerned. Undertakings with complicated risk profiles are likely to have more to report, disclose and explain to fulfil supervisory reporting and public disclosure requirements.

The application of the proportionality principle in the area of supervisory reporting should not result in undertakings having to submit any information which would not be relevant to their business or is not material.

The frequency with which an undertaking has to provide the full qualitative information through the RSR will be linked to the intensity of the SRP. Undertakings which are not required to submit a full qualitative RSR on an annual basis would be required to provide details of material changes to the full qualitative information, or report that no material changes have occurred to their supervisor.

3.3 Materiality

Undertakings are required to report on material issues (such as governance changes or risks) and therefore the concept of materiality should be considered when compiling both the RSR and SFCR. The information submitted to the supervisor should be considered as material if its omission or misstatement could influence the decision-making or judgement of the supervisor.

3.4 Supervisory role in supervisory reporting and public disclosure

The SRP requires an analysis by the supervisor of an undertaking's compliance with the applicable reporting and disclosure requirements. The supervisor shall use a risk based approach, to review the SFCR and the RSR in order to ensure that: [i] such documents comply with the established requirements; [ii] the information presented in them is appropriate and consistent with the information contained in other reporting documents. Where the supervisor determines that the undertaking failed to comply with either the SFCR or the RSR reporting requirements, then supervisory actions will be enforced such as requesting the undertaking to resubmit its RSR or SFCR.

The supervisor also has the power to require information to be submitted upon occurrence of a pre-defined event. These events, such as a material change in the level of regulatory capital or governance structure, may lead to material changes in the undertaking's risk profile. This information should be reported by an undertaking as soon as possible and, depending on the nature of the event, the supervisor may ask for undertakings to report information on a regular basis over a period of months or years to monitor the situation of the undertaking.

4 Solvency and Financial Condition Report

4.1 Introduction

With Solvency II being a pro-disclosure regime, the SFCR is considered as the primary tool for disclosing essential information on the solvency and financial condition of the undertaking, commensurate with the overriding proportionality and materiality principles.

4.2 Outline of the contents of the SFCR

Article 51 of the Directive stipulates the SFCR shall contain:

1. Member States shall, taking into account the information required in paragraph 3 and the principles set out in paragraph 4 of Article 35, require insurance and reinsurance undertakings to disclose publicly, on an annual basis, a report on their solvency and financial condition.

That report shall contain the following information, either in full or by way of references to equivalent information, both in nature and scope, disclosed publicly under other legal or regulatory requirements:

- (a) a description of the business and the performance of the undertaking;*
- (b) a description of the system of governance and an assessment of its adequacy for the risk profile of the undertaking;*
- (c) a description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity;*
- (d) a description, separately for assets, technical provisions, and other liabilities, of the bases and methods used for their valuation, together with an explanation of any major differences in the bases and methods used for their valuation in financial statements;*
- (e) a description of the capital management, including at least the following:*
 - (i) the structure and amount of own funds, and their quality;*
 - (ii) the amounts of the Solvency Capital Requirement and of the Minimum Capital Requirement;*
 - (iii) the option set out in Article 304 used for the calculation of the Solvency Capital Requirement;*
 - (iv) information allowing a proper understanding of the main differences between the underlying assumptions of the standard formula and those of any internal model used by the undertaking for the calculation of its Solvency Capital Requirement;*
 - (v) the amount of any non-compliance with the Minimum Capital Requirement or any significant non-compliance with the Solvency Capital Requirement during the reporting period, even if subsequently resolved, with an explanation of its origin and consequences as well as any remedial measures taken.*

2. The description referred to in point (e)(i) of paragraph 1 shall include an analysis of any significant changes as compared to the previous reporting period and an explanation of any

major differences in relation to the value of such elements in financial statements, and a brief description of the capital transferability.

The disclosure of the Solvency Capital Requirement referred to in point (e)(ii) of paragraph 1 shall show separately the amount calculated in accordance with Chapter VI, Section 4, Subsections 2 and 3 and any capital add-on imposed in accordance with Article 37 or the impact of the specific parameters the insurance or reinsurance undertaking is required to use in accordance with Article 110, together with concise information on its justification by the supervisory authority concerned.

However, and without prejudice to any disclosure that is mandatory under any other legal or regulatory requirements, Member States may provide that, although the total Solvency Capital Requirement referred to in point (e)(ii) of paragraph 1 is disclosed, the capital add-on or the impact of the specific parameters the insurance or reinsurance undertaking is required to use in accordance with Article 110 need not be separately disclosed during a transitional period ending no later than 31 October 2017.

The disclosure of the Solvency Capital Requirement shall be accompanied, where applicable, by an indication that its final amount is still subject to supervisory assessment.

Article 51 of the Directive requires undertakings to disclose the information contained in the SFCR on an annual basis, both at the solo and at the level of a group. Details of the contents of the SFCR are included in Section 4.6 of this report. In view that this is a public document widely available to a variety of stakeholders, undertakings should consider the potential audience of the SFCR and their particular information needs.

The Omnibus II Directive proposes to extend the transitional period for separate disclosure of any capital add-ons or the impact of specific parameters used by the undertaking in terms of Article 110 from the 31st October, 2017 to the 31st December, 2017.

Undertakings may, in terms of Article 54 of the Directive, disclose on a voluntary basis, any information or explanations related to their solvency and financial condition which is not already required to have been disclosed in terms of this article. Any additional information provided should be consistent with the information contained in the RSR.

The SFCR should not include any confidential information between the supervisor and the undertaking, such as findings or outcomes from the SRP, without prior permission from the supervisor.

Any capital add-ons imposed by the supervisor or the impact of the use of undertaking specific parameters in the computation of the SCR by standard formula should be disclosed separately in the SFCR, together with concise information on its justification by the supervisor.

4.3 Exemption from Reporting

Article 53 of the Directive states that:

- 1. Supervisory authorities shall permit insurance and reinsurance undertakings not to disclose information where:
(a) by disclosing such information, the competitors of the undertaking would gain significant undue advantage;
(b) there are obligations to policy holders or other counterparty relationships binding an undertaking to secrecy or confidentiality.*
- 2. Where non-disclosure of information is permitted by the supervisory authority, undertakings shall make a statement to this effect in their report on solvency and financial condition and shall state the reasons.*
- 3. Supervisory authorities shall permit insurance and reinsurance undertakings, to make use of – or refer to – public disclosures made under other legal or regulatory requirements, to the extent that those disclosures are equivalent to the information required under Article 51 in both their nature and scope.*
- 4. Paragraphs 1 and 2 shall not apply to the information referred to in point (e) of Article 51(1).*

The supervisor may allow an undertaking not to disclose information in the exceptional circumstances mentioned in paragraph 1 above of this article. Where a supervisor permits an undertaking not to disclose certain information, the SFCR shall contain a statement about the non-disclosed information, including the reasons. This permission shall remain valid only for as long as the reasons for non-disclosure persist.

4.4 Updates and additional voluntary information

Article 54 of the Directive states:

- 1. In the event of any major development affecting significantly the relevance of the information disclosed in accordance with Articles 51 and 53, insurance and reinsurance undertakings shall disclose appropriate information on the nature and effects of that major development.*

For the purposes of the first subparagraph, at least the following shall be regarded as major developments:

- (a) non-compliance with the Minimum Capital Requirement is observed and the supervisory authorities either consider that the undertaking will not be able to submit a realistic short-term finance scheme or do not obtain such a scheme within one month of the date when*

non-compliance was observed;

(b) significant non-compliance with the Solvency Capital Requirement is observed and the supervisory authorities do not obtain a realistic recovery plan within two months of the date when non-compliance was observed.

In regard to point (a) of the second subparagraph, the supervisory authorities shall require the undertaking concerned to disclose immediately the amount of non-compliance, together with an explanation of its origin and consequences, including any remedial measure taken. Where, in spite of a short-term finance scheme initially considered to be realistic, non-compliance with the Minimum Capital Requirement has not been resolved three months after its observation, it shall be disclosed at the end of that period, together with an explanation of its origin and consequences, including any remedial measures taken as well as any further remedial measures planned.

In regard to point (b) of the second subparagraph, the supervisory authorities shall require the undertaking concerned to disclose immediately the amount of non-compliance, together with an explanation of its origin and consequences, including any remedial measure taken. Where, in spite of the recovery plan initially considered to be realistic, a significant non-compliance with the Solvency Capital Requirement has not been resolved six months after its observation, it shall be disclosed at the end of that period, together with an explanation of its origin and consequences, including any remedial measures taken as well as any further remedial measures planned.

2. Insurance and reinsurance undertakings may disclose, on a voluntary basis, any information or explanation related to their solvency and financial condition which is not already required to be disclosed in accordance with Articles 51 and 53 and paragraph 1 of this Article.

Where undertakings have to disclose publicly, any major developments in respect of non-compliance with the minimum MCR and significant non-compliance with the SCR, the SFCR should be updated accordingly. Any updated version of this report shall be disclosed as soon as practicable after the occurrence of any major development.

Where the nature and effect of any major development affects the information contained in the SFCR, the undertaking may issue a supplement to the initial printed copy of this report. The disclosure requirements of the SFCR are set out in Section 9 of this paper.

4.5 Written Policy and Approval Process

Article 55 of the Directive states:

- 1. Member States shall require insurance and reinsurance undertakings to have appropriate systems and structures in place to fulfill the requirements laid down in Articles 51 and 53 and Article 54(1), as well as to have a written policy ensuring the ongoing appropriateness of any information disclosed in accordance with Articles 51, 53 and 54.*
- 2. The solvency and financial condition report shall be subject to approval by the administrative, management or supervisory body of the insurance or reinsurance undertaking and be published only after that approval.*

As outlined above, undertakings are required to develop a written policy, inclusive of appropriate governance procedures and practices on public disclosure, which should be approved by the undertaking's administrative, management or supervisory body, in order to ensure the on-going appropriateness of the information to be disclosed. It shall be ensured that undertakings have appropriate governance procedures and practices so that the SFCR is complete, consistent and accurate and duly approved by the undertaking's administrative, management or supervisory body.

4.6 Structure and main contents of the Solvency and Financial Condition Report

The underlying principle for the structure of the SFCR is to provide a common basis which would enable comparison across different undertakings and identify specific information. The following structure of the SFCR has been devised:

4.6.1 Executive Summary

This section should provide a short and easily understandable executive summary, specifically aimed at policyholders, highlighting any material changes that have occurred in the undertaking's or the group's business, risk profile, solvency position and system of governance since the last reporting period.

4.6.2 Business and Performance

4.6.2.1 Business and external environment

In this section the undertaking should include a description of the nature of its business and external environment as well as any significant changes and general information regarding the undertaking. As a minimum, this information should include the undertaking's legal status and registered address, ownership structure, material lines of business ("LoBs") and the countries where the undertaking writes business, significant material business or external events that have occurred over the year, information on any material related party

transactions as well as any material transactions with shareholders and members of the administrative, management or supervisory body or profit-sharing with policyholders.

For undertakings which, for accounting purposes, belong to a group, a description of the legal and organisational group structure should be provided including the name of the undertaking's parent and the ultimate controlling party, names of other material participating undertakings and information on equivalence for third country undertakings. The description should also include all material subsidiaries, participations and branches.

4.6.2.2 Performance from underwriting activities

A description should be given on the undertaking's underwriting performance, in accordance with the applicable accounting regime, including: [i] underwriting performance by material LoB and geographical area; and [ii] information by material LoB on underwriting expenses, including comparative figures with the previous reporting period.

Undertakings forming part of a group should also disclose material operations and transactions within the group which are relevant to the undertaking's financial performance.

4.6.2.3 Performance from investment activities

This section should provide a description on the undertaking's financial performance, in accordance with the applicable accounting regime, including income or losses from investments, together with the components of such income or losses from appropriate subsets of investments (for example: investments relating to life insurance business, non-life insurance business and investments grouped in the same asset class).

Other information to be included are: [i] gains and losses recognised directly in equity; and [ii] information about transactions with members of the administrative, management or supervisory body or profit-sharing with policyholders shareholders. Information on the impact of amortisation and impairment of intangible/tangible assets and financial instruments as well as information on investment expenses incurred during the year, inclusive of prior year comparisons, should also be reported in the SFCR.

Undertakings forming part of a group, should also disclose significant income and losses on investments in and from group entities as well as operations and transactions within the group relevant for the undertaking's investment performance.

4.6.2.4 Operating / other income and expenses

A description on the undertaking's level of material non-underwriting income and expenses (including in an explicit manner, income and expenses on intermediary activities and other non-insurance activities) incurred during the last financial period, split by material income and expense type, should be outlined in this section of the SFCR.

When undertakings form part of a group, the SFCR should also disclose, in addition to the above, information on material income and expenses with other group entities.

4.6.2.5 Any other disclosures

Any other disclosures on the undertaking's business and performance which are deemed as material should be included in this section.

4.6.3 System of Governance

The SFCR should include a description of the undertaking's governance structure with the aim of facilitating the understanding of its business and allow the reader to ascertain whether its governance arrangements are adequate for its risk profile.

4.6.3.1 General governance arrangements

The overview of the governance structure disclosed to the SFCR should at least include a description of the system of governance for the undertaking's risk profile including a statement of its adequacy. Any material changes in the governance structure during the year as well as the structure of the administrative, management or supervisory body and, where relevant, the undertaking's board committees (for example: the investment committee, remuneration committee, audit committee and risk management committee), and a description of their main roles and responsibilities should also be included.

The undertaking's remuneration policy should be disclosed including the remuneration of the undertaking's administrative, management or supervisory body, namely:

- a) the general principles of the remuneration policy adopted by the undertaking, in particular the linkage between remuneration and performance;
- b) a clear explanation of the relative importance of the variable and non-variable components of remuneration; and
- c) information on any shares, share options, variable components of remuneration, supplementary pensions or early retirement schemes.

Undertakings are also required to provide an explanation of their remuneration policy, in particular the link between remuneration and performance in a way which is clear and easily understood by all stakeholders.

If the undertaking forms part of a group or financial conglomerate, a high level description of the corporate structure of that group is also required.

4.6.3.2 Fit and proper processes and procedures

An undertaking should provide general information on the process, including a description of the specific minimum requirements concerning skills, knowledge and expertise, for assessing the fitness and properness of the persons (names need not be identified) running the undertaking, and the persons responsible for other key functions.

4.6.3.3 Risk management system

The undertaking should provide an overview of the structure and organisation of its risk management system as well as an overview of its risk strategy and policies in place to ensure compliance with its risk appetite. An undertaking should also explain the effectiveness of its risk management system in the identification, measurement, monitoring, management and reporting of risks on an on-going basis, both on an individual and aggregate risk level. The risks described should include those risks covered under Pillar I as well as other material risks, such as strategic or reputational risks arising from any off-balance sheet transactions.

Undertakings forming part of a group should also disclose group-specific information reflecting where the risks are managed and overseen within the group. At solo level, undertakings should disclose the relevant arrangements at group level that influence the risk management decisions of the undertaking.

4.6.3.4 Own Risk and Solvency Assessment

An undertaking should provide information on the process that it has undertaken to fulfil its obligation to conduct an Own Risk and Solvency Assessment (“ORSA”) as part of its risk management system in this section of the SFCR. The results of the ORSA are not to be disclosed in the SFCR, and are only required to be disclosed in the RSR.

It is expected that the SFCR should at least include a description of how the ORSA process is integrated into the management process and decision-making framework of the undertaking. Disclosure should also include a statement: [i] describing how regularly the ORSA is reviewed and approved by the undertaking’s administrative, management or supervisory body; and [ii] explaining how an undertaking’s own solvency requirement has been determined, given the risk profile and how its capital management activities take into account its risk management systems. Moreover, it is expected that a description of how the ORSA process and outcome is appropriately evidenced, internally documented and independently reviewed, is also included in this section of the SFCR.

4.6.3.5 Internal control system

In this section, an undertaking should provide an overview of its internal control system and describe why it considers this system appropriate, given the nature, scale and complexity of its business.

An undertaking should provide information on the administrative and accounting procedures which it has in place to enable it to deliver financial reports in a timely manner. The undertaking should also disclose the manner in which: [i] its internal control systems deal with requirements on clear delegation of responsibilities, reporting lines and segregation of duties; and [ii] it has appropriate processes for checking data quality. Undertakings are also expected to provide a description on the manner in which their compliance function operates.

4.6.3.6 Internal audit function

The undertaking should provide a description of how its internal audit function operates including, *inter alia* the manner in which it provides assurance on the adequacy and effectiveness of the internal controls within the undertaking. The undertaking should also provide information on how the internal audit function maintains its independence and objectivity from the activities it reviews.

4.6.3.7 Actuarial function

In this section, an undertaking should provide a description of how the actuarial function is being implemented and an outline of the key areas of responsibility. Moreover, an undertaking should also provide a description of how it ensures that the actuarial function is objective and free from the influence of other functions or from the undertaking's administrative, management or supervisory body.

4.6.3.8 Outsourcing

This section should include an overview of the rationale of the outsourcing of any critical or important operational functions and activities, including information on: [i] whether the service provider is located within the EU, EEA or in a third country; and [ii] whether it is an entity within the same group as the undertaking or otherwise.

4.6.3.9 Any other disclosures

The undertaking may include any other disclosures which it deems important to disclose.

4.6.4 Risk Profile

An undertaking is expected to provide, separately for each material individual risk category (namely: underwriting risk, market risk, credit risk, liquidity risk and operational risk), a description of the risk: [i] exposure; [ii] concentration; [iii] mitigation; and [iv] sensitivity. An undertaking is also expected to provide information on material risks other than those listed above such as concentration risk, reinsurance/mitigation risk, reputational risk, strategic risk and risks arising from off-balance sheet transactions.

With respect to off-balance sheet transactions or similar arrangements, the undertaking is expected to provide additional information on material risks arising from any derivative and similar instruments and Special Purpose Vehicles (“SPVs”).

Any other disclosures considered important to be made by the undertaking should also be included under this section.

Note: when referring to the material exposure, concentration, mitigation and sensitivity for each risk category a number of disclosures are required. These disclosures include, but not limited to:

(i) *Material risk exposures*

- a. Information on the nature of the measures used to assess the risk within the organisation;
- b. If the quantitative data disclosed at the end of the reporting period is not representative of an undertaking's exposure to risk during the period, the undertaking should provide further information sufficient to give a true picture of its exposure;
- c. Information on the nature of the material risk exposures on the undertaking and how movements in factors that determine the risk exposure would affect the undertaking's solvency position; and
- d. Information on how the undertaking manages material sources of operational risk including those arising from critical outsourcing arrangements;

It is expected that the same level of detail at solo level should be provided for material group specific risks. Groups are also expected to provide a description of the main sources of group diversification effects, and how these effects are distributed among the various group undertakings.

(ii) *Material risk concentrations*

- a. A description of the risk concentrations to which the undertaking is exposed and the significance of these, both by type of risk and by concentration;
- b. A description of the methods used and assumptions made in arriving at the quantitative data on concentrations as well as a description of how management determines risk concentrations; and
- c. A description of the concentration of underwriting risk including information on concentration exposures (for example: group life risks).

(iii) *Material risk mitigation*

- a. A description of the overall methodologies used, in terms of the instruments or methodologies used for mitigating risk, and the processes for monitoring the continuing effectiveness of these risk mitigation strategies.
- b. A description of the manner in which the undertaking uses reinsurance or other methods of risk transfer such as derivatives, securitisation or other mitigation mechanisms to help control its material risk exposures.

(iv) *Material Risk sensitivities*

- a. The undertaking should provide information on the sensitivities of its material risk exposures, which should cover information about the sensitivity of risks on solvency positions to changes in variables that may have a material effect on its business. It should at least disclose a sensitivity analysis for each type of risk to which it is exposed at the end of the reporting period, the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period in the methods and assumptions used, together with the reasons for such changes.

- b. Where the undertaking prepares a sensitivity analysis (for example: Value-at-Risk) that reflects interdependencies between risk variables (for example: interest rates and exchange rates) and uses it to manage financial risks, it may be used instead of the analysis specified in paragraph (a). However, it shall also include an explanation of the method used in preparing such sensitivity analysis and an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of assets and liabilities.

4.6.5 Regulatory Balance Sheet

In this section, an undertaking is expected to provide information on its solvency balance sheet valuation, including a description, separately for assets, technical provisions and other liabilities, of the bases and methods used for their valuation, together with a quantitative and qualitative explanation on any major differences in the valuation bases and methods used in the financial statements.

Undertakings belonging to a group should also indicate if the valuation methods applied at solo level are the same as those applied at group level.

4.6.5.1 Assets

The undertaking should provide the following details on its assets:

- a) a description of the basis, methods and assumptions used for valuing assets, including a qualitative and quantitative explanation of the material differences with the accounting valuation used by the undertaking;
- b) where asset types, along with investment objectives, policies and management differ significantly between subsidiaries or funds of the undertaking, separate disclosures should be provided for each of these subsidiaries or funds;
- c) an overview of any assets that are not regularly traded in a financial market (for example: structured products).
- d) in disclosing fair values, financial assets and financial liabilities should be grouped in classes – values may be offset to the extent that their carrying amounts are offset in the statement of financial position;
- e) a description of the financial instruments and how their economic value has been determined; and
- f) the methods and, where a valuation technique is used, the assumptions applied in determining the fair value of each class of financial assets or liabilities shall be disclosed (for example: information about interest rates or discount rates).

4.6.5.2 Technical provisions

The information to be provided on technical provisions should at least contain:

- a) solvency balance sheet information setting out the amount of technical provisions, split by the best estimate and risk margin for each material LoB;
- b) relevant information on the computation of the technical provisions with key assumptions and methodologies (i.e. valuation techniques) used in measuring insurance

liabilities and in the development of financial information (for example: relevant information on discount rates, expenses, future margins, mortality and disability rates, taxation, guarantees and options);

- c) disclosure and justification for the use of any simplifications applied by the undertaking in the calculation of technical provisions;
- d) an indication of the level of uncertainty of technical provisions, including information on any sensitivity testing undertaken and the key assumptions used, which should be disclosed in the SFCR thereby allowing users to form their own unbiased opinion on the appropriateness of technical provisions.
- e) an overview of any material changes in the level of technical provisions from the last reporting period - for example an explanation of the changes in the key assumptions used to set technical provisions on a gross and net basis, including information on the impact of these changes. The undertaking would be expected to highlight changes in the development patterns of: [i] existing claims; [ii] new material claims that have emerged over the year; [iii] those settled during the year; and [iv] material changes in lapse rates.
- f) information on the impact of reinsurance in the assessment of technical provisions for each homogeneous risk group / LoB;
- g) an explanation of the treatment of future premiums within the calculation of technical provisions;
- h) quantitative and qualitative information of any material differences between the accounting and solvency valuation of technical provisions; and
- i) in the case of life insurance undertakings, some high-level qualitative information on the effect of management actions and policyholder behaviour in respect of each homogeneous risk group / LoB.

4.6.5.3 Other liabilities

The undertaking should provide information on the basis and assumptions used for valuation of other material liabilities (excluding any subordinated liabilities that are included in own funds). A quantitative and qualitative explanation of any material differences between solvency and accounting valuations should also be reported.

4.6.5.4 Any other disclosures

Any other disclosures considered important to be made by the undertaking should be included under this section.

4.6.5.5 Reporting at group level

Undertakings which form part of a group are expected to report at the same level as for a solo undertaking including specific assets managed at group level such as reinsurance. Moreover, the following should be included in the SFCR: [i] significant investments and intra-transactions from and in group entities; [ii] operations and transactions within the group relevant for the undertakings (i.e. intra-group transactions); and [iii] outstanding balances necessary for an understanding of the potential impact on the financial statements of the undertaking.

Reporting at group level should also include information and explanation on any material differences between valuation methods applied at group level and those applied at solo level.

4.6.6 Capital Management

The SFCR should include a general description of the undertaking's capital management function, including: [i] the interaction with the undertaking's risk management function; [ii] information on the planning horizon used; [ii] capital management methods employed; and [iii] any material changes from the previous period.

4.6.6.1 Own funds

This section should contain:

- a) information on the objectives, policies and processes employed in managing the undertaking's own funds;
- b) information on the own funds structure, split by the tiers of own funds and how each item meets the respective characteristics, criteria and features set out in Articles 93 and 94 of the Directive;
- c) information on ancillary own funds, including the amount, name of the counterparty of each material ancillary own funds item, and the methodology applied in arriving at each material amount;
- d) a detailed analysis, of significant movements in own funds over the period being reported on a quantitative and qualitative explanation of material differences between own funds and equity according to the undertaking's or group financial reporting basis;
- e) information on the availability of own funds highlighting any restrictions in own funds (for example: amounts pledged as collateral).

Undertakings forming part of a group should also disclose information on the amount and quality (including tiering, viability, fungibility and transferability) of own funds covering the group SCR.

4.6.6.2 MCR and SCR

Undertakings should outline qualitative information on the results of the calculations on the MCR and SCR by risk module, clearly identifying whether the standard formula, or a partial or full internal model has been adopted. Where an undertaking is using Undertaking Specific Parameters (“USPs”) in the standard model, the particular module should clearly be identified (by risk, sub-risk or LoB) together with the reasons for using such parameters.

Reasons for any material changes in the level of SCR and MCR since the last reporting date and information on any capital add-on applied to the SCR, together with the justification from its supervisor, should also be disclosed.

Undertakings forming part of a group should also explain whether a group-wide partial or full internal model is used, and whether the undertaking itself is using group-specific underwriting parameters in the group standard formula. Information on the group SCR and group capital add-ons should also be disclosed.

Groups are also expected to provide information on the amount of the SCR, including: [i] a description of the undertakings which are covered by the group's internal model; [ii] a description of the sources of diversification; and [iii] the requirements in place to maintain adequate group own funds; and [iv] the amount of the related undertakings' solo MCR.

4.6.6.3. The option set out in Article 304 of the Directive used for the calculation of its SCR

An undertaking should provide a quantitative and qualitative explanation on the manner in which the equity risk sub-module has been calculated in accordance with the SCR standard formula, including how the charge has been derived. The same requirements apply for undertakings forming part of a group.

4.6.6.4 Differences between the standard formula and any internal models used

An undertaking should provide a quantitative and qualitative explanation on the main differences in the underlying assumptions, between the standard formula and the internal model used to derive the SCR, and in the case of undertakings forming part of a group, information on differences between the internal model used at group level and internal models that might be used at subsidiary or sub-group level.

4.6.6.5 Non-compliance with the MCR and significant non-compliance with the SCR

In this section an undertaking is required, where applicable, to provide information on the amount of non-compliance with the MCR and any significant non-compliance with the SCR during the reporting period (even if subsequently resolved within this period), together with the reasons for non-compliance, consequences and remedial actions taken. Such information, should at least include: [i] the maximum amount of any non-compliance during the year/at reporting date; [ii] the amount of non-compliance at the reporting date; and [iii] the period of non-compliance/start date of non-compliance.

Undertakings forming part of a group should also report any significant non-compliance with the group SCR during the reporting period with brief explanations for non-compliance, consequences and remedial actions at group (and sub-group) level.

4.6.6.6 Any other disclosures

Any other disclosures considered important to be made by the undertaking and not included in any of the other sections, should be included under this section.

4.6.7 Undertakings with an approved internal model

Disclosure on internal models is mostly principles-based, with appropriate consideration to the harmonization of reporting and comparability between undertakings. In order to enable different market participants to assess an undertaking's internal model, the level and depth of information to be publicly disclosed shall be based on the notion that a knowledgeable person can get a reasonably good understanding of the design, operational details and reliability of the internal model.

It should be clarified that public disclosure is not required to the extent that competitors are given a significant undue advantage. In this context, non-disclosure of certain information may be permitted by the supervisor in specific cases, such as in instances where undertakings are bound by secrecy or confidentiality. This notwithstanding, the SFCR should explicitly make a statement of confidentiality, explaining the reasons for non-disclosure.

4.6.7.1 Qualitative internal model information

Information provided by an undertaking under this title should at least cover the following areas:

a. Governance and risk management

The SFCR should indicate whether an undertaking has used a partial or full internal model to calculate its SCR, and where a partial internal model is used for some risk modules, such modules are to be mentioned in this document.

Information on governance and risk management processes specific to the internal model, should include details of: [i] any specific committees and personnel (with their main roles and responsibilities); [ii] the design and application of major risk governance processes for each material risk category; [iii] the undertaking's defined risk tolerance; [iv] the process by which this risk tolerance is delegated to management; and [v] the process for monitoring of the actual risk assumed against the risk tolerance. The process for ensuring the on-going appropriateness of the design and operations of the internal model, the process for accepting changes to the internal model as well as any material changes to the governance of the risk management during the reporting period should also be disclosed.

b. Use of Model

The undertaking should demonstrate that the internal model is widely used, and is a key function in its: [i] system of governance; [ii] risk management system and [iii] economic and solvency capital assessment; and [iv] allocation processes, including its ORSA.

c. Scope and model coverage

Given that a partial or full internal model allows modelling freedom, public information on internal model should include a description of the risks and business units covered, a definition of the risk categories covered, the general model design and the main differences in scope and coverage between the standard formula and the internal model used to calculate the SCR. For entities forming part of a group, the entities covered by the internal model should be specified.

d. Risk measure, confidence level, time horizon and basic own funds

The undertaking should include a description of the risk measure, confidence level, time horizon and basic own funds including a description of:

- a) different risk measures, confidence levels and time horizons used instead of those of the standard formula, together with a justification that the output can be used to calculate the SCR which provides policyholders and beneficiaries with the level of protection set out in Article 101 of the Directive; and
- b) differences in the definition of basic own funds if not equal to that contained in the Directive.

e. Methodologies including assumptions and aggregation

Given that an internal model forms the basis for steering the business, public information on methodologies, including assumptions and aggregation methods of the internal model shall include a description of: [i] any material modelling methodology and assumptions for the undertaking's risks; [ii] the aggregation of different risk categories; [iii] the integration of partial internal model results with standard formula results; and [iv] the use of external models.

f. Data

Data quality is crucial in any internal model as it has a direct effect on the quality of the internal model's results and the value of the model's use in risk management.

The SFCR should contain a description of the processes in place for checking data quality, an overview of the key data that the internal model relies upon, the extent to which data is obtained from internal or external sources, and the accurateness, completeness and appropriateness of the data used in the model.

g. Risk mitigation activities

An undertaking should at least include a description on risk mitigating activities assumed in the internal model, the risks addressed, the eligibility in reduction of future discretionary benefits (if applicable), any assumed management actions, and the risk mitigation practices, strategies and methodologies for mitigating risks together with the processes for monitoring their continued effectiveness.

h. Operational performance

An internal model is constructed using a complex IT model using different interfaces to feed several specialised internal and/or external risk modelling solutions. Given that an IT model is usually customised to tailor the needs of the undertaking, the information contained in the SFCR should include a general description of the IT infrastructure and the security, contingency and recovery plans of the model.

i. Validation activities

Model validation is essential to ensure that the design, workings, results and other processes within the internal model are sufficiently robust. Public disclosure on validation activities shall include: [i] a validation of governance; [ii] the purpose, scope and methods of the validation; [iii] the frequency of the validation process; [iv] the limitations of the validation; [v] the use and credentials of independent reviews; [vi] an overview of internal and external validation work performed; and [vii] the limits and triggers related to validation outcomes.

j. Documentation

Public information on documentation should include a description of the governance, principles and practices which an undertaking has in place to ensure that the documentation of the design and operational details of the internal model are timely and up to date.

4.6.7.2 Quantitative internal model information

An undertaking using an internal model shall disclose solvency capital requirements for an equivalently calibrated internal model at the confidence level and time horizon assumed for the standard formula for computing the SCR. The information to be contained in the SFCR includes:

a. Solvency Capital Requirement

An undertaking should disclose information on the amount of the fully diversified solvency capital requirement calibrated to the confidence level and time horizon assumed in the standard formula. The information should be categorised by stand-alone risk categories assumed in the standard formula, i.e. non-life underwriting risk, life and health underwriting risk, market risk (i.e. interest rate risk, equity risk, real estate risk, currency risk credit spread and other sub risks), credit risk, operational risk and other risk categories.

In addition, where an undertaking forms part of a group, the group diversification effect shall also be disclosed. This represents the difference between the sum of the SCR of all the related insurance or reinsurance undertakings of the group, adjusted for intra-group transactions, and the diversified consolidated group SCR.

b. Comparison and reconciliation

Public information on comparison and reconciliation shall at least include a comparison between prior period risk figures for all categories of risks and diversification effects, and the circumstances where the definition of basic own funds applied in the internal model differs from the standard formula, including a reconciliation between the two figures.

c. Validation analysis

Sensitivity testing and scenario analysis are aimed to determine an undertaking's exposure to severe events and serves as a check on the results generated by stochastic models. The information in the SFCR should include the outcomes of: [i] performed quantitative validations for material risks; and [ii] sensitivity testing and scenario analysis for material risks and events.

4.6.7.3 Supplementary information

Supplementary information is defined as information which may not be relevant to all undertakings in all instances. Undertakings shall include the following issues in their SFCR:

- a) proportionality principle implications;
- b) partial internal model implications and the integration to the standard formula;
- c) information about possible on-going internal model approval process;
- d) information about possible conditions and transitional plan/s related to the internal model approval;
- e) information about pending major model changes approvals; and
- f) information about non-compliance of the internal model requirements.

4.6.8 Annex - Quantitative reporting templates

QRT that are to be publicly disclosed should be annexed to the SFCR. These are further explained in Section 6 of this paper.

5 Regular Supervisory Reporting

5.1 Introduction

The RSR is a document prepared by the undertaking to the supervisor presenting information in narrative form and where appropriate includes quantitative data. It is a stand-alone document, which does not require references to any other document and should aim to provide all the information required by the supervisor. Although some headings of the SFCR and the RSR are the same, the information contained in the latter may have to be disclosed in more detail.

The RSR shall contain the information required under Section 5.3 of this paper.

5.2 High level Principles

As the information in the SFCR also needs to be disclosed in the RSR, it is expected that equivalent information is replicated in full in the RSR, in order to: [i] avoid an excessive use of hyperlinks to get equivalent information (except for the purpose of including references to information contained in this document); [ii] assist the supervisor to have all the necessary information in one place and not having to refer to other documents or find other disclosures. This notwithstanding, any information which the supervisor has allowed an undertaking not to disclose in its SFCR, should be included in the RSR.

Where an undertaking uses an internal model to compute its Solvency Capital Requirement, it should have a policy on supervisory reporting based on the internal model, as part of its governance of this model.

Undertakings are also expected to develop within their reporting policy, a stable internal system through which they are able to accurately complete the quantitative reporting templates with the aim of facilitating both the supervisory analysis and the comparison over previous periods.

Forward looking information is an important part of supervising undertakings but any forecast data provided within the RSR should be treated as estimates by the supervisor. Undertakings should be able to explain the main reasons for differences between actual and previously forecasted figures, in particular if there are material differences between the two.

Supervisory authorities may require insurance undertakings to provide additional information in addition to the SFCR, RSR and the annual and quarterly QRT.

5.3 Structure and main contents of the RSR

5.3.1 Executive Summary

The RSR should include a summary of any material changes that have occurred in the undertaking's: [i] business and performance; [ii] system of governance; [iii] risk profile; [iv] valuation for solvency purposes and capital management over the reporting period. The summary shall also include a brief explanation of the causes and effects of such changes and the results of the undertaking's ORSA.

5.3.2 Business and Performance

5.3.2.1 Business and external environment

In this section, undertakings should include a description of the nature of their business and external environment including:

- a) the main future trends and factors that are expected to contribute positively or negatively to the development, performance and position of the undertaking (over its business planning time horizon);
- b) a description of the business objectives of the undertaking, including the relevant strategies and time frames;
- c) the undertaking's perceived: [i] competitive position, [ii] strengths and weaknesses of its business; and its business model (examples include: the undertaking's approach for acquiring new business, dealing and settling claims, outsourcing etc.);
- d) where an undertaking forms part of a group, disclosure requirements should include a description of its activities and sources of profits or losses by legal entities across the group, and indicating whether the members of the group are insurance undertakings and/or regulated entities;
- e) a list of all subsidiaries, preferably including an organisational structure chart;
- f) significant features of any potential regulatory and legal issues affecting the business; and
- g) recent important market developments that have or are expected to affect its business.

5.3.2.2 Objectives and Strategies

A description should be provided setting out the nature of the undertaking's business and external environment which should include:

- a) details on the financial and non-financial objectives of the undertaking and a summary of the business and risk strategies in place to achieve them (including the expected timeframes involved);
- b) an explanation of the significant changes in the undertaking's strategy compared to the previous reporting period; and
- c) details on the undertaking's business planning time horizon.

5.3.2.3 Underwriting activities

A description should be provided outlining the undertaking's underwriting performance, in accordance with the accounting regime, reported by material LoB and geographical area which should include:

- a) administrative, management or supervisory body's discussion and analysis of the undertaking's overall underwriting performance (premiums and claims) along with an analysis by material [i] LoB; and [ii] geographical area;
- b) details of the undertaking's underwriting performance by LoB against budgeted figures, and significant factors affecting deviations from the budgets (e.g. large unexpected claims, premium volumes);
- c) details on underwriting expenses incurred over the year compared to the past reporting periods and expectations of future years, including assessment of claim pay-out and policyholder fraud;
- d) projections of the undertaking's underwriting performance over the business planning period with details of significant factors that might affect the underwriting performance, such as known or anticipated material claims payments;
- e) details of any reinsurance, Alternative Reinsurance Techniques ("ART") and finite reinsurance programmes purchased, including those currently not being claimed on; and
- f) administrative, management or supervisory body's discussion and analysis of the undertaking's overall underwriting performance.

5.3.2.4 Performance from investment activities

A description should be provided detailing the undertaking's financial performance, in accordance with the accounting regime, in relation to the undertaking's investments in financial instruments, which should include:

- a) information on income and expenses with respect to investment activities during the last reporting period, a comparison of the information with that reported during the previous reporting period and reasons for any material changes;
- b) an analysis by the administrative, management or supervisory body of the undertaking's investment performance during the reporting period split by relevant asset class;
- c) projections of the undertaking's expected investment performance, with information on significant factors that might affect such investment performance, over its business planning time horizon;
- d) the key assumptions which the undertaking makes in its investment decisions with respect to the movement of interest rates, exchange rates, and other relevant market parameters, over its business planning time horizon; and
- e) information about any investments in tradable securities or other financial instruments based on repackaged loans, and the undertaking's risk management procedures in respect of such securities or instruments.

5.3.2.5 Operating / Other Income and expenses

The RSR should contain a description outlining any material future anticipated non-underwriting income and expenses over the next reporting period such as restructuring or

operating costs, including an analysis of the administrative, management or supervisory body's analysis of the undertaking's operating income and expenses.

5.3.2.6 Any other Disclosures

In this section, the undertaking may include any further information which cannot be included in any of the previous sections, which is deemed relevant to disclose to its supervisor.

5.3.3 System of Governance

The RSR should include the following information on the undertaking's governance structure, which is aimed at facilitating the supervisor's understanding of how its business operates:

5.3.3.1 General Governance Arrangements

The undertaking should in addition to the information contained about its overall system of governance, include sufficient detail to enable the supervisor to obtain a good understanding of the overall system of governance within the undertaking. It should demonstrate that policies on risk management, internal control, internal audit and, where relevant, outsourcing arrangements are in line with the undertaking's business strategy.

The information should also include transactions with shareholders and members of its administrative, management or supervisory body.

The undertaking should also include any details or developments which have been discussed with the supervisor, including actions taken (e.g. improvements to the system of governance) which are considered confidential to disclose in the SFCR.

5.3.3.2 Fit and Proper processes and procedures

This section should include details of the policies and procedures which the undertaking established to ensure that persons who run the undertaking or are responsible for running key functions within the organisation: [i] have sufficient professional qualifications, knowledge and experience to enable sound and prudent management of the undertaking; and [ii] are of good repute and integrity.

5.3.3.3 Risk Management System

The undertaking's risk management system including the processes in place to identify, measure, manage, monitor and report risks within its business, should be explained in this section of the RSR. This should include the objectives and policies of the undertaking for each separate risk module. Furthermore, information should also include details:

- a) on the objectives and policies for managing risk with evidence that clearly documented risk standards are monitored and enforced (e.g. underwriting guidelines, insurance cycle management policies, investment returns, claims processing);

- b) of the staffing and organisational structure of those responsible for the risk management system; and
- c) on the undertaking's asset and liability management.

5.3.3.4 ORSA

The purpose of this section in the RSR is to explain to the supervisor the manner in which the undertaking has complied with the requirement to conduct an ORSA and *inter alia* should include the following:

- a) description of the outcome of the ORSA, including the assumptions used and the undertaking's future overall solvency requirement that result from the ORSA process;
- b) details of all current and future events that the undertaking considers it may be exposed to over the lifetime of its existing contracts, and the manner in which these have been captured in its internal solvency needs. This should include those risks emanating from off-balance sheet financing activities;
- c) details to allow a comparison between the regulatory capital requirements generated from the SCR (both the standard formula and internal models) and the internal solvency needs resulting from the ORSA process, including the manner in which the undertaking's internal capital needs have been derived;
- d) for undertakings using the standard formula, details of any material risks that the undertaking has identified which are not included within its SCR, and the manner in which such risks have been quantified;
- e) undertakings should disclose how the ORSA takes into account the undertaking's strategy; and
- f) for undertakings belonging to a group, how the ORSA takes into account the group's strategy.

At the time of writing of this paper, there is an indication that the undertaking will be requested to report information on the outcome of the ORSA, in a separate report and submit it to its supervisor shortly after it has been concluded.

5.3.3.5 Internal Control System

The undertaking should explain how its internal control system is appropriate to the nature, scale and complexity of its business. The RSR should disclose the following:

- a) the administrative and accounting procedures which the undertaking has in place to enable it to deliver financial reports in a timely manner to the supervisor;
- b) the internal controls framework that the undertaking has in place, with clear delegation of responsibilities, reporting lines and segregation of duties, and the manner in which it fulfils its obligations with respect to the adequacy, access, period of retention and security of its recording systems;
- c) the reporting arrangements in place to provide its administrative, management or supervisory body with the information required to identify, measure, manage and control risks of regulatory concern (i.e. policyholder protection) in a relevant, reliable and timely manner; and
- d) the business contingency plans, including a confirmation that such plans are in place and approved by the undertaking's administrative, management or supervisory body.

The disclosures should also include relevant details on the undertaking's compliance function and whether it has: [i] the necessary authority, resources, expertise and access to all relevant information; and [ii] competent persons involved in the compliance functions. The RSR should also explain how this function advises the undertaking's administrative, management or supervisory body regarding compliance with the laws, regulations and administrative provisions adopted pursuant to the Directive, together with any changes in the legal environment in which the undertaking operates.

5.3.3.6 Internal Audit Function

The section on internal audit in the RSR should provide details on:

- a) the manner in which the internal audit function operates, including the manner in which this function provides assurance on the adequacy and effectiveness of the internal controls within the undertaking;
- b) how the internal audit function maintains its independence and objectivity from the activities it reviews;
- c) how the internal audit examines compliance of the undertaking's activities with its internal strategies as dictated by its administrative, management or supervisory body;
- d) the audits performed during the period and its plan for future reviews;
- e) the findings reported to the undertaking's administrative, management or supervisory body and the actions taken following the presentation of findings; and
- f) any action taken to improve the control framework and mitigate risk identified through internal audit work since the last reporting date.

5.3.3.7 Actuarial Function

The RSR should contain details of: [i] experience and expertise of the personnel in the actuarial function; and [ii] the activities undertaken in each of the following roles:

- a) co-ordinating the calculation of technical provisions;
- b) ensuring the appropriateness of the methodologies and underlying models used, including the assumptions made in the calculation of technical provisions;
- c) assessing the sufficiency and quality of the data used in the calculation of technical provisions;
- d) comparing best estimates against experience;
- e) informing the undertaking's administrative, management or supervisory body on the reliability and adequacy of the technical provisions calculation;
- f) overseeing the calculation of technical provisions where the undertaking has insufficient data of appropriate quality to apply a reliable actuarial method to a set or subset of data;
- g) expressing an opinion on the overall underwriting policy;
- h) expressing an opinion on the adequacy of reinsurance arrangements; and
- i) contributing to the effective implementation of the undertaking's risk management system, in particular with respect to the risk modelling underlying the calculation of the ORSA.

5.3.3.8 Outsourcing

An undertaking should provide relevant details on the outsourcing of any critical operational functions and activities (along with the service provider) and safeguards around the outsourcing arrangement that the undertaking has put in place. This should *inter alia* include:

- a) evidence that appropriate oversight and safeguards are in place (as the undertaking remains fully responsible for the outsourced function/s under the Directive);
- b) how the undertaking has considered the outsourcing arrangement/s as part of its business continuity plans;
- c) details of the service provider and how the undertaking satisfies itself that the service provider is competent to provide the undertaking with the services to be outsourced;
- d) whether the outsourced function has materially impaired the quality of the undertaking's system of governance; and
- e) how the undertaking has assessed the impact on its operational risk (including through its ORSA).

Where critical or important functions are outsourced to a member of the same group, the supervisor may also request details on such activity, for example any service level agreement/s.

5.3.3.9 Any other disclosures

The undertaking may provide information / details which is / are not covered under any other heading and which it considers relevant for disclosure to its supervisor.

5.3.3.10 Reporting at group level

Undertakings which fall within the definition of a group in terms of the Directive should provide a description outlining: [i] the objectives and strategies of the group; [ii] details on the group strategy and the role of each subsidiary within that strategy.

5.3.4 Risk Profile

For *each* of the risks outlined hereunder, the undertaking is required to provide to its supervisor, a description of the risk: [i] exposure; [ii] concentration; [iii] mitigation; and [iv] sensitivity:

- a) Underwriting;
- b) Market;
- c) Credit;
- d) Liquidity;
- e) Operational; and
- f) Other risks.

When reporting on risk modules, undertakings should also include information on any risk sub-modules in respect of the above mentioned risks. Any material future anticipated risks should also be reported to the supervisor.

The RSR should also contain the following information:

5.3.4.1 Material Risk Exposures

The RSR should explain the manner in which any material risk exposures are expected to develop over the next few years given the undertaking's business strategy, and how these are being/will be managed. It should also include details of the risk limits and risk appetite imposed by the undertaking in relation to its overall business objectives (e.g. chosen LoBs /products), setting out the level of risk the undertaking is prepared to accept, whether it has sufficient financial commitment to withstand exposures from each risk module and how these tolerances are enforced throughout the business. In performing such an analysis the: [i] undertaking's financial strength; [ii] nature, scale and complexity of its risks; [iii] liquidity considerations; and [iv] resources required to adequately manage its risks, should be taken into account.

This document should also include details which enable the supervisor to evaluate the nature and extent of risks arising from financial instruments to which the undertaking is exposed at the end of the reporting period, including any material changes from the previous period.

The undertaking should provide details of all current and future risks which it may be exposed to over the life time of its existing off-balance sheet contracts, and how these have been captured in its overall solvency needs. This should include those risks arising out of any off-balance sheet financing activities.

An overview of risks arising from any derivative and similar instruments used in the reduction of risk or facilitating efficient portfolio management and the strategies that the undertaking employs when using such instruments in its portfolio, should also be outlined.

In the case of operational risk, details should be provided on: [i] the gross operational loss amount suffered by undertakings; [ii] the number of operational loss events; [iii] the manner in which the undertaking monitors, classifies and collects data on operational loss events; and [iv] the undertaking's operational losses incurred compared to its own funds.

For each type of risk arising from financial instruments, an undertaking should disclose: [i] a summary of the quantitative data about its exposure to that risk at the end of the reporting period, which disclosure shall be consistent with the details provided internally to key management personnel of the undertaking, (for example: the board of directors or chief executive officer); and [ii] concentrations of risk, if not apparent from [i].

5.3.4.2 Material risk concentrations

A description should be provided detailing any material future risk concentrations anticipated over the business planning horizon, given the undertaking's business strategy and the manner in which these are/will be managed.

5.3.4.3 Risk mitigation techniques

This section of the RSR should explain the strategies used to mitigate risks and the processes for monitoring the continuing effectiveness of these risk mitigation strategies (for example: ensuring that risk mitigation instruments are regularly reviewed and not just rolled over, especially where the internal or external environments have changed between reporting periods).

Details of the techniques used to mitigate risks, and the effect that these tools have on the undertaking's risk profile, should also be outlined. This should contain details of the undertaking's: [i] reinsurance; [ii] ART mechanisms; and [iii] finite reinsurance cover and its adequacy, including the manner in which such cover is obtained together with a description of the undertaking's risk mitigation policy (scope, priorities and adequacy with respect to the undertaking's risk strategy, including procedures for choosing reinsurers). It should also cover any risk mitigating tools purchased or used (e.g. reinsurance, financial instruments).

A description should be provided detailing any material future risk mitigation practices that the undertaking is considering entering into over the next reporting period; given the undertaking's business strategy, the rationale, and effect for these risk mitigation practices.

A description should be provided detailing the carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities. When an undertaking holds collateral (for financial or non-financial assets), and in the absence of a default, it is permitted to sell or re-pledge the collateral, it should disclose:

- a) the fair value of the collateral held;
- b) the fair value of any such collateral sold or re-pledged, and whether the undertaking or the group has an obligation to return it; and
- c) the terms and conditions associated with its use of the collateral.

When an undertaking obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements, and where such assets meet the recognition criteria in financial reporting standards, the following should be disclosed:

- a) the nature and carrying amount of the assets obtained; and
- b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

5.3.4.4 Risk sensitivities

The undertaking should include details on any risk sensitivity analysis performed in respect of material risks to which it is exposed, which have not been publicly disclosed, and the manner in which the undertaking is monitoring such risk sensitivities.

5.3.4.5 Any other disclosures

Any other disclosures considered important by the undertaking should be included in this section.

5.3.5 Regulatory Balance Sheet

5.3.5.1 Assets, technical provision and other liabilities

The only information that should be provided in the RSR is information describing the bases and methods used for the valuation of assets, technical provisions and other liabilities considered to be proprietary or confidential in respect of which the undertaking obtained permission from its supervisor not to disclose publicly in the SFCR; and any details that have been the subject of supervisory dialogue which are not deemed appropriate to disclose publicly.

5.3.5.2 Any other disclosures

Information which could be included in this section may relate to ‘non-standard’ or specific to the undertaking, such as, valuation discussions with third parties (e.g. auditors or actuaries), which the undertaking considers as inappropriate to disclose in the SFCR.

5.3.6 Capital Management

5.3.6.1 The structure and amount of own funds, and their quality

In this section of the RSR the undertaking should include details on:

- a) the own funds structure, including terms and conditions of the main features of own fund categories held by the undertaking; and
- b) the forecast level of the undertaking's own funds over a suitable business planning period, including: [i] appropriately stressed capital plans; [ii] any replacement of own funds items approaching maturity; or [iii] plans to raise additional own funds.

5.3.6.2 MCR and SCR

This section should include information on the MCR and the SCR over and above that required under the SFCR which the undertaking considers useful for supervisory purposes, including:

- a) the forecast level of the undertaking's MCR and SCR over a suitable business planning period; and
- b) details of any allowance for financial mitigation techniques and management actions used in the SCR calculation, and the manner in which these have met the criteria for their recognition.

5.3.6.3 Duration-based equity risk sub-module

If an undertaking opts to apply the duration-based equity risk sub-module, it should disclose the capital effect on the SCR when selecting this option.

5.3.6.4 Differences between the standard formula and any internal models used

In terms of Article 112(7) of the Directive, the supervisor may require undertakings which received approval to use an internal model, to compute an estimate of the SCR in accordance with the standard formula.

Where the supervisor requires this estimate for over one year, it may require the undertaking to provide results of this computation at a more granular level in the RSR.

5.3.6.5 Non-compliance with the minimum capital requirement and significant non-compliance with the solvency capital requirement

The undertaking should include any details or developments that have been the subject of supervisory dialogue in this area, which are not deemed appropriate to disclose publicly. Any plans / measures which the undertaking intends to take to ensure compliance with regulatory requirements should also be outlined.

5.3.6.6 Any other disclosures

The undertaking may include other details / information which it deems relevant for the purposes of supervision, and which do not fall within any of the other sub-sections.

5.3.7 Undertakings using an internal model for the SCR calculation

5.3.7.1 Qualitative internal model information

Where undertakings use an internal model to compute their SCR, the minimum qualitative information to be included in the RSR are the following:

- a) disclosure of the activities performed during the year to verify the on-going compliance with regulatory requirements for internal models (including external reviews and audit findings). Where an undertaking uses a partial internal model, compliance shall include both the general compliance with the SCR as well as the specific regulatory requirements for internal models;
- b) explanation of the comparison and reconciliation with previous year results, presenting the reasons for any material changes in the level of the SCR;
- c) explanation of the causes and sources of profits and losses for each major business unit and the manner in which the categorisation of risk chosen reflects such causes and sources;
- d) the significance to which the risk profile of the undertaking deviates from the assumptions underlying the SCR calculated with its internal model;
- e) plans for development/s of the internal model;
- f) details on the overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking;
- g) reconciliation between the economic capital and the SCR for the undertakings that use a different time period or risk measure than that set out in Article 101(3) of the Directive for the purpose of the SCR calculation;
- h) details on how capital allocation is done, both for regulatory capital and for the economic capital; and
- i) details about future management actions used in the SCR calculation.

For the purposes of point (f), the undertaking should have in place processes, which are proportionate to the nature, scale and complexity of the risks inherent to its business, and which enable it to properly identify and assess the risks it faces in the short and long term and

to which it is, or could be, exposed. The undertaking shall demonstrate the methods used in this assessment.

5.3.8 *Quantitative internal model information*

In addition to the QRT, explained in Section 6 of this paper, undertakings have the following minimum reporting requirements:

- a) SCR as calculated by the internal model;
- b) estimate of the SCR according to the standard formula when applicable;
- c) a split of undiversified capital charges and adjustment for the loss absorbing capacity of technical provisions and deferred taxes (where applicable);
- d) capital add-ons;
- e) economic capital as calculated by the internal model;
- f) comparison and reconciliation with previous year's results outlined in paragraphs (a) to (e) above;
- g) SCR and economic capital forecasts; and
- h) summary report of the validation results performed during the year (e.g. back testing, stress testing and sensitivity analysis).

Undertakings should provide information about the model at the lowest level of risk. By way of example, where an internal model adopts a modular structure, the undertaking shall report figures at either risk level and/or business unit level. Group internal models should also provide results by legal entity.

In the specific case of partial internal models, points (a), (c), (g) and (h) of the quantitative information above, should also include the results modelled by the standard formula with same level of granularity as required in the RSR for undertakings using only the standard formula to calculate their SCR.

Unless the capital add-on is removed before the year end, undertakings shall provide information on capital add-ons as part of the RSR.

5.3.9 *Supplementary Information*

Any other information that the undertaking considers it should report to the supervisor in relation to its internal model should be provided here.

6 Quantitative Reporting Templates

6.1 Outline

Undertakings are required to report quantitative data on a periodic basis to their supervisor. Quantitative data is essential for supervision and constitutes a major input in off-site analysis. QRT includes information of a technical and granular nature in order to allow the supervisor to better understand the solvency situation of the undertaking so as to properly perform the SRP in a risk-based regime.

EIOPA is currently in the process of developing these templates which should be adopted by all Member States (“MS”). These are aimed to harmonise supervisory practices across MS and prevent diverging reporting requirements between jurisdictions. Although, this single format will be applied at European level, supervisors may develop national specific templates in areas not covered by the QRT or due to specificities of the local markets and national legal requirements. Harmonisation of reporting: [i] makes exchange of information between supervisors easier; [ii] makes data collection at European level easier; and [iii] reduces the burden for undertakings operating in different jurisdictions.

There are two sets of QRT; those aimed at undertaking level (referred to: “*Solo Reporting Templates*”) and undertakings subject to group supervision will be subject to additional reporting templates (referred to: “*Group Templates*”).

6.2 Solo QRT

Solo templates are based on seven categories which cover the main data elements that are deemed necessary for the regular supervision of an undertaking: [i] Balance Sheet; [ii] Own Funds; [iii] Capital Requirements (SCR / MCR); [iv] Assets; [v] Technical Provisions (Life and Non-Life); [vi] Reinsurance; and [vii] Variation Analysis. The whole set of templates should be submitted to the supervisor on an annual basis. A subset of the templates, referred to as “core templates” are to be submitted on a quarterly basis⁷. Some examples of core templates include: [i] Own Funds; [ii] MCR calculation; [iii] technical provisions by LoB; and [iv] asset data. In addition, undertakings should disclose a number of templates publicly, as an annex to the SFCR. It is expected that these templates include: [i] own funds; [ii] balance sheet; [iii] technical provisions by LoB; [iv] overall SCR calculation; and [v] MCR calculation.

6.3 Group QRT

Group templates are mostly derived from the solo templates and include specific reporting templates such as group own funds, group technical provisions, scope of the group, contribution to group figures by entity (including own funds), intra-group transactions and risk concentration. These templates are to be submitted on a yearly basis. However, at the

⁷ The “core templates” have not yet been finalised at the date of this paper.

date of this paper, EIOPA still has to decide which templates are to be reported on a quarterly basis.

6.4 *Internal Models*

The QRT contain specific worksheets which undertakings adopting full or partial internal models are required to compile, in particular the high level SCR figures. With the exception of the SCR worksheets, undertakings using partial or full internal models should complete the other general reporting templates. This notwithstanding, it is expected that quantitative information is reported at a more granular level in the RSR.

7 Group Supervisory Reporting

7.1 Introduction

The reporting requirements required at solo level, both for public reporting and reporting to supervisors apply to entities forming part of a group. However, in addition, specific additional requirements apply to insurance groups and for solo undertakings forming part of a group. Section 7.2 outlines the additional information to be contained in the group SFCR while Section 7.3 explains the additional information in the group RSR.

7.2 Group SFCR

Undertakings forming part of a group are in terms of Article 256 of the Directive required to disclose the following:

1. Member States shall require participating insurance and reinsurance undertakings or insurance holding companies to disclose publicly, on an annual basis, a report on the solvency and financial condition at the level of the group. Articles 51 and 53 to 55 shall apply mutatis mutandis.

2. Where a participating insurance or reinsurance undertaking or an insurance holding company so decides, and subject to the agreement of the group supervisor, it may provide a single solvency and financial condition report which shall comprise the following:

(a) the information at the level of the group which must be disclosed in accordance with paragraph 1;

(b) the information for any of the subsidiaries within the group which must be individually identifiable and disclosed in accordance with Articles 51 and 53 to 55.

Before granting the agreement in accordance with the first subparagraph, the group supervisor shall consult and duly take into account any views and reservations of the members of the college of supervisors.

3. Where the report referred to in paragraph 2 fails to include information which the supervisory authority having authorised a subsidiary within the group requires comparable undertakings to provide, and where the omission is material, the supervisory authority concerned shall have the power to require the subsidiary concerned to disclose the necessary additional information.

4. The Commission shall adopt implementing measures further specifying the information which must be disclosed and the means by which this is to be achieved as regards the single solvency and financial condition report.

Those measures, designed to amend non-essential elements of this Directive by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 301(3).

Where an undertaking forms part of a group, it is required to prepare an SFCR both at a solo undertaking level and on a group level. Information provided at solo level includes the disclosures outlined in Section 4 of this paper and details of any relevant arrangements at group level which may influence the decisions and management of the solo undertaking. Where information is disclosed at group level, an undertaking may make use of public disclosures made by the parent undertaking subject to ensure that the contents of the SFCR are as outlined in this paper. Where the undertaking forms part of a group, information required at solo level shall also be provided at group and sub-group level, while group specific issues shall only be addressed in the group SFCR (for example: group solvency assessment and group specific risks).

The Omnibus II Directive proposes to amend paragraph 1 of this article to make reference to a new article 308 (a) (4) in the Directive, regarding transitional arrangements in relation to the completion of the SFCR, and the information to be contained therein.

Undertakings forming part of a group may opt to compile a single group-wide SFCR which replaces the solo SFCRs and the group SFCR with a single report. If this option is chosen, the undertaking shall comply with both solo and group level disclosure requirements. Where the information at solo level is already being disclosed at group level, this information need not be duplicated. However, it should be ensured that clear references are to be allowed for both qualitative and quantitative data. This information shall be available, as a minimum, in an official language of the MS of the group supervisor, and if coordinated through a college of supervisors, in a language commonly understandable by the other supervisors concerned.

The group SFCR shall include the following additional information:

- (a) Business and performance:
 - a description of the legal and organisational group structure, with a description of all subsidiaries and material participations;
 - qualitative and quantitative information on relevant operations and transactions within the group, and their net value in quantitative terms over the reporting period;
- (b) System of governance:
 - information on any material intra-group outsourcing arrangements;
- (c) Risk profile:
 - qualitative and quantitative information on any significant risk concentration at the level of the group;
- (d) Valuation for solvency purposes:
 - where the bases, methods and assumptions used at group level for the valuation for solvency purposes of the group's assets, technical provisions and other liabilities differ materially from those used by any of its subsidiaries for the valuation for solvency purposes of its assets, technical provisions and other liabilities, a quantitative and qualitative explanation of any material differences;
- (e) Capital management:
 - qualitative and quantitative information on any significant restriction to the fungibility and transferability of own funds eligible for covering the group SCR;
 - where the accounting consolidation based method is used for the group solvency calculation, the amount of the consolidated group SCR should be disclosed;

- qualitative and quantitative information on the material sources of group diversification effects;
- where applicable, the sum of the own funds eligible to cover the SCR calculated on the basis of consolidated data and the SCR at group level calculated on the basis of consolidated data;
- where applicable, a description of the undertakings which are in the scope of any internal model used to calculate the group SCR; and
- a description of the main differences, if any, between any internal models used at individual undertaking level and any internal model used to calculate the group SCR.

7.3 Group RSR

Article 254 (2) of the Directive stipulates that:

Member States shall provide that their authorities responsible for exercising group supervision shall have access to any information relevant for the purposes of that supervision regardless of the nature of the undertaking concerned. Article 35 shall apply mutatis mutandis.

The supervisory authorities concerned may address the undertakings in the group directly to obtain the necessary information, only where such information has been requested from the insurance undertaking or reinsurance undertaking subject to group supervision and has not been supplied by it within a reasonable period of time.

Undertakings which are subject to group supervision shall, at group level, provide the information outlined in Section 5 of this paper to their group supervisor. In addition, the following information should be provided as part of the group RSR:

- (a) Business and performance:
 - a description of activities and sources of profits or losses for each material undertaking in the group;
 - a description of the contribution of each subsidiary to the group strategy;
- (b) System of governance:
 - qualitative and quantitative information on material specific risks at group level;
- (c) Capital management:
 - qualitative and quantitative information on the SCR and own funds for each insurance and reinsurance undertaking within the group, in so far as they are relevant to the calculation of the group solvency;
 - qualitative and quantitative information on the solvency requirements and own funds for each related undertaking which is a credit institution, investment firm, financial institution, or institutions for occupational retirement in so far as they are included in the calculation of the group solvency;
 - qualitative and quantitative information on the notional solvency requirement and own funds for each related undertaking which is a non-regulated undertaking

- carrying out financial activities, in so far as they are included in the calculation of the group solvency; and
- where relevant, qualitative and quantitative information on the own fund items referred to in Article 222(3) of the Directive that cannot effectively be made available to cover the SCR of the participating insurance or reinsurance undertaking or the insurance holding company for which the group solvency is calculated, including a description of how the adjustment to group own funds has been made.

In terms of the Omnibus II Directive, it is being proposed that the first sub-paragraph of this article will be amended to make reference to the proposed article 308 (a) (1) in the Directive, in respect of proposed transitional arrangements regarding systems and structures which an undertaking is to have in respect of its RSR, including a written policy approved by its administrative, management or supervisory body.

8 Supervisory Enquiries

8.1 *Outline of the SRP*

In addition to the regular reporting requirements outlined in this paper such as the RSR, SFCR, QRT and reporting after pre-defined events, the supervisor has the power to request information which is necessary for the purpose of supervision during enquiries regarding the situation of the undertaking. Depending on the nature of the request, the supervisor may request the undertaking to report information on a regular basis over a period of time so as to appropriately monitor the situation of the undertaking.

8.2 *Information regarding contracts and information from external experts*

During the course of the SRP, the supervisor may obtain any information regarding contracts held by intermediaries or regarding contracts entered into with third parties where this is necessary and important for the purposes of supervision.

Where contracts are held by third parties, e.g. a broker is writing business on behalf of an undertaking, the undertaking should either keep copies or has immediate access to contracts as part of its record management procedures.

Where a supervisor requests contracts from an undertaking, during on-site or off-site inspections, these are to be submitted on a timely basis and include full details of the contract.

The supervisor could make requests for information from third parties or external experts through the undertaking. This notwithstanding, there may be occasions when the supervisor considers it necessary to make requests directly to the third party or external expert, for example where the supervisor need information within a short time frame or where the undertaking is under investigation.

The supervisor may require information from external experts, such as auditors or actuaries (which may include actuarial sign-off on the level of technical provisions). This may include an external audit report setting out findings from an external audit review of the undertaking's internal controls or an external actuarial review of an undertaking's technical provisions calculation.

If the relevant information is held by the external experts, it is expected that the undertaking has immediate access to this information as part of its record management procedures. The request for this information should be made to the undertaking and not the external expert, unless the supervisor deems it appropriate to obtain the information directly.

9 Process of Reporting and Disclosure

9.1 SFCR – Reporting

Undertakings are required in terms of Article 51 (1) of the Directive to complete and disclose publicly their SFCR on an annual basis. This document should be approved by the undertaking's administrative, management or supervisory body. The undertaking is required to submit the SFCR as well as any updated version of this document to the supervisor immediately on publication, in electronic form.

It is expected that the SFCR should be submitted to the supervisor within fourteen weeks from the relevant financial year end for financial years ending on or after 1 January 2016. In the case of financial year ends between 1 July 2013 and 31 December 2015, it is expected that the fourteen week period is extended by a few weeks to allow undertakings more time to compile this document. The stipulated time frames allow undertakings sufficient time to gather the necessary information and internal sign-off as appropriate. Undertakings may publish this report earlier but their supervisor should not require them to publish the report earlier than mandated.

9.2 SFCR – Group Reporting

Undertakings which form part of a group, shall be subject to the same requirements outlined in the paragraph above in respect of their solo SFCR.

When compiling the group SFCR, the deadlines outlined in paragraph 9.1 of this paper shall be extended by six weeks. This document should be submitted by the undertaking to the supervisor in electronic format.

Where in terms of Section 7.2 of this document, a single group-wide SFCR is prepared by undertakings forming part of a group, the reporting deadlines shall be the same as those specified in Section 9.5 of this document.

9.3 SFCR – Public Disclosure

Undertakings are required to publish their solo SFCR, group SFCR or single group-wide SFCR on their own website. Where undertakings do not have their own website but are members of a trade association which has a website, this document should be uploaded on that website, if permitted by the trade association. This document should remain on that website for at least five years from the date of disclosure. The undertaking shall send a printed copy of this report to any person who requests it within two years from its date of disclosure by not later than twenty days from such request.

In the case of a company forming part of a group, where a solo SFCR is disclosed on a website of a parent company whose language of the parent is different to that of the solo undertaking, the solo information should also be described in the official language(s) of the country where that solo undertaking is established.

Where an undertaking does not disclose their SFCR on any website, it shall send an electronic copy of their report to any person who requests a copy within two years from the disclosure date. The report shall be sent within ten working days from that request.

9.4 RSR - Reporting

As outlined in Section 3.1 of this document, an undertaking shall submit to its supervisor the information necessary for the purposes of supervision. Undertakings are expected to submit the full qualitative RSR for financial year ends on or after 1 July 2013 but before 1 January 2014 by not later than twenty weeks from the undertaking's financial year end.

In subsequent financial years, the supervisor may either require a “*full qualitative RSR*”⁸ or “*summary qualitative RSR*”. It is expected that the full qualitative RSR should be submitted at least once every three years and by no later than fourteen weeks after the undertaking's financial year end.

The “*summary qualitative RSR*” should highlight to the supervisor those areas of the RSR where material changes have occurred in its business over the reporting period under review. It is expected that the summary RSR is likely to include details on:

- a) *Business and performance* – It is expected that the business and external environment, underwriting performance and investment performance is likely to change over the reporting period, for most undertakings;
- b) *ORSA* - The results of the assessment to fulfil the ORSA requirement are expected to change over the reporting period, given the ORSA is a continuous process;
- c) *Risk management* – Usually an undertaking's risk profile changes over financial years and therefore changes may have to be reported to the supervisor;
- d) *Other Disclosures: Regulatory Balance Sheet* - It is highly likely that an undertaking's regulatory balance sheet changes over the reporting period;
- e) *Capital management* – The undertaking should be continually monitoring its current and future solvency requirements, and that for most undertakings these will change over time as the undertakings' risk profile changes; and
- f) *For groups: Intra group transactions (IGT) and risk concentration* – Undertakings forming part of a group are expected to monitor IGT and risk concentrations on an on-going basis.

The above list should not be considered as exhaustive. By way of example, an undertaking's system of governance would not be expected to change over the financial year. This notwithstanding if an internal organisation occurs or an acquisition is made during the year, the supervisor would expect to receive details on any material changes to the system of governance.

It is expected that where the supervisor determines that a full quantitative RSR is required for the financial years between 1 January 2014 and 31 December 2014, this document should be submitted by not later than eighteen weeks after the undertaking's year end. The full

⁸ The term “*full qualitative RSR*” means a report containing all the information listed in Annex II of this document.

quantitative RSR related to financial years ending on or after 1 January 2015 should be submitted by not later than sixteen weeks after the undertaking's financial year end.

As outlined in Section 5.2 of this document, the submission of the RSR to the supervisor on an annual basis does not preclude the supervisor from requiring undertakings to report material changes as and when they happen.

The RSR should be submitted by the undertaking to its supervisor in electronic format.

9.5 Group RSR - Reporting

Where the RSR is to be submitted at a group level, the deadlines outlined in the previous section shall be extended by six weeks.

10 Way Forward and Conclusion

The Solvency II regime implies a change in the manner in which undertakings report information both to their supervisors and to the public.

The paper has been structured to provide an overview of the public and supervisory reporting requirements, for both solo undertakings and undertakings which are subject to group reporting requirements, which either use a standard formula or internal model for the purpose of computing the SCR. It is also aimed at assisting undertakings in adapting their strategies, processes and reporting procedures in order to assess their compliance with the applicable reporting and disclosure requirements

The MFSA will be updating the insurance industry with any developments regarding Pillar 3 requirements. In this regard, the MFSA has launched a pre-consultation process regarding the contents of the QRT.

Annex I - List of Abbreviations

ART	–	Alternative Reinsurance Techniques
EEA	–	European Economic Area
EIOPA	–	European Insurance and Occupational Pensions Authority
EU	–	European Union
IGT	–	Intra Group Transactions.
LoB	–	Line of Business
MCR	–	Minimum Capital Requirement
MFSA	–	Malta Financial Services Authority
MS	–	Member States
ORSA	–	Own Risk and Solvency Assessment
QRT	–	Quantitative Reporting Templates
RSR	–	Regular Supervisory Report
SCR	–	Solvency Capital Requirement
SFCR	–	Solvency and Financial Condition Report
SPV	–	Special Purpose Vehicle
SRP	–	Supervisory Review Process
USP	–	Undertaking Specific Parameters

Annex II – Main Sections of the SFCR and RSR

Executive Summary

Business and Performance

- A.1 Business and external environment
- A.1A Objectives and strategies
- A.2 Performance from underwriting activities
- A.3 Performance from investment activities
- A.4 Operating / other income and expenses
- A.5 Any other disclosures

System of Governance

- B.1 General governance arrangements
- B.2 Fit and proper processes and procedures
- B.3 Risk management system
- B.4 ORSA
- B.5 Internal control system
- B.6 Internal audit function
- B.7 Actuarial function
- B.8 Outsourcing
- B.9 Any other disclosures
- B.10 Reporting at group level

Risk Profile

- C.1 Material Risk Exposures
- C.2 Material Risk Concentrations
- C.3 Risk Mitigation Techniques
- C.4 Risk Sensitivities
- C.5 Any other disclosures

Regulatory Balance Sheet

- D.1 Assets
- D.2 Technical provisions
- D.3 Other liabilities
- D.4 Any other disclosures

Main Sections of the SFCR and RSR contd.

Capital Management

- E.1 Structure, Quality and Amount of Own funds
- E.2 MCR and SCR
- E.3 Option set out in Article 304 of the Directive used in the calculation of the SCR
- E.4 Differences between the standard formula and internal models used
- E.5 Non-compliance with the MCR and significant non-compliance with the SCR

Annex

Quantitative Reporting Templates