

The count-down to Solvency II Pillar 3 reporting

The insurance industry prepares

Although there are still several months to go before full scope reporting begins under the new Solvency II Pillar 3 regime, the deadline for preparatory reporting is imminent for those insurance undertakings included in the first phase.

The focus of Pillar 3 of the Solvency II regime revolves around supervisory reporting and transparency requirements, and will mean a seismic shift upwards in the volume of data to be extracted and reported as well as the frequency of the report submissions.

Reporting formats

So that it can manage and analyse the large amount of data reported under Solvency II, EIOPA has specified XBRL (eXtensible Business Reporting Language) as the filing format. Although XBRL is only mandatory between National Competent Authorities (NCAs) and EIOPA, some NCAs are insisting that their regulated firms also submit their quantitative returns in XBRL, with narrative returns submitted in some other electronic format. For example, the Bank of England/PRA requires [quantitative reports in XBRL and narrative reports in PDF format](#). This will, however, vary from country to country.

Reporting phases

EIOPA recognises a three stage approach to Solvency II regulatory reporting, each with its own different requirements:

- The preparatory phase, the period before the full Solvency II regulatory reporting requirements that take effect on 1st January 2016;
- The transitional phase, the four years following implementation on 1st January 2016; and
- The period from 1st January 2020, i.e. the end of the transitional phase, where the provisions Solvency II apply in full.

[source: <http://www.bankofengland.co.uk/pr/pa/Pages/solvency2/reporting.aspx>]

Challenges faced by preparers

A survey conducted in March this year by business advisory company Grant Thornton revealed that although many insurers expect to be ready in time for the new filing regime that starts at the beginning of 2016, a significant number fear they will not.

[source: <http://www.grant-thornton.co.uk/en/Media-Centre/News/2015/Solvency-II-Nearly-one-quarter-of-insurers-could-be-unprepared-for-Pillar-3--Grant-Thornton-survey/>]

On a practical level, there are a number of challenges facing those now responsible for preparing the new reporting documents, not least of which is the need to produce many of the reports in XBRL format.

Other current issues can be summarised with the following questions:

- Do I need to report and when?
- What do I report?
- How do I report to my NCA?
- How do I keep up to date with taxonomy changes?

The count-down has begun and insurers need to be ready.

Do I need to report and when?

While all insurers are expected at least to start preparing for the full implementation of the Solvency II regime, only certain organisations meeting prescribed thresholds will need to report to their NCA during the preparatory phase, but this is due to begin in June 2015, so time is very short.

Interpretation of the EIOPA thresholds

The thresholds specified by EIOPA are

- Individual annual reporting for firms representing at least 80% of the national market share
- Individual quarterly reporting for firms representing at least 50% of the national market share
- Group quarterly or annual reporting for firms with more than EUR 12 billion (period ending during 2012)

However, each NCA is left to interpret these thresholds as it sees fit. For example, in the UK the Bank of England/PRA stipulates that reporting applies to firms in categories 1-3*, on both an individual and group basis, and such firms should already have been informed by the PRA of the impending reporting requirement, which applies from June 2015 to solo organisations and from July 2015 to groups. These thresholds will disappear with the arrival of full scope reporting in January 2016.

* The Bank of England/Prudential Reporting Authority recognises five different categories for the classification of deposit-takers, investment firms and insurers that it supervises; the five categories are determined by the disruption these firms might inflict on the UK financial system if they should fail or be found to conduct their business in an unsafe manner. Only category 4 and 5 firms are likely to have little impact. [source: <http://www.bankofengland.co.uk/pru/Pages/supervision/default.aspx>]

Reporting schedule

The full scope Solvency II reporting regime starts 1st Jan 2016, but from the beginning of June 2015 reporting under the preparatory phase is due to begin according to the EIOPA timetable. During this first phase annual information is submitted once and quarterly information must be submitted for third quarter.

The preparatory schedule is as follows, though dates may be subject to change:

Frequency	Reports	Application date	Reference date	Deadline
Annual Individual	Solvency II Preparatory	2014-01-01	2014-12-31	2015-06-13
Annual Group	Solvency II Preparatory	2014-01-01	2014-12-31	2015-07-15
Quarterly Individual	Solvency II Preparatory	2014-01-01	2015-09-30	2015-11-25
Quarterly Group	Solvency II Preparatory	2014-01-01	2015-09-30	2016-01-06

Note: Application Date is when the reporting period starts.
Reference Date is the reporting period.

'Preparatory scope' taxonomy

It is worth noting that insurance companies subject to reporting during this first phase must report against the 'preparatory scope' taxonomy (version 1.5.2.c), but when the 'full scope' taxonomy (currently version 1.6) comes into force on 1st January 2016, the reporting burden will increase substantially. Full scope reporting includes many more templates, so even insurers that report during the preparatory phase will need to gather and submit much more data to comply with the full scope reporting mandate.

What do I report?

Even firms that begin reporting during the Solvency II preparatory phase will notice a hefty increase in the number of templates they need to complete when full scope reporting arrives in January 2016.

Quantitative and qualitative reporting

Solvency II Pillar 3 brings a huge increase in the amount of data that needs to be reported. For example, for the first time detailed asset data must be included. Firms will also need to take into account a new set of reporting requirements, relating to both quantitative and qualitative disclosures. Under Pillar 3, the main focus is on two particular reports, which require both qualitative and quantitative data:

SFCR – Solvency and Financial Condition Report

RSR – Report to Supervisors

Public vs private reporting

Reporting also occurs on two levels – public and private. For example, a few of the quantitative templates and qualitative data will be made public in the SFCR, whereas all quantitative templates and a detailed set of qualitative data must be reported privately to the regulator in the RSR.

The frequency with which both the narrative reports and the quantitative reporting templates are to be submitted also varies. For example, the PRA requires Public qualitative narrative reports to be submitted annually, whereas Private qualitative narrative reports can be submitted annually, but in summary form, though they must be sent in full every three years. Public quantitative reporting templates are to be submitted annually, whereas Private quantitative reporting templates are required both quarterly and annually. National Specific templates (NSTs) are submitted privately on an annual basis. [Source: PRA]

Which templates?

Solvency II reporting contains a large number of templates, and filers need to know which templates relate to their individual situation. Under the EIOPA Delegated Acts, some firms may even be exempt from submitting quarterly or annual reports, for example the List of Assets and Open Derivatives. NCAs can waive quarterly reporting partially or entirely, and also some of the annual reporting for smaller undertakings. Exemptions are based on the scale, nature and complexity of the risk profile of undertakings and their investment funds.

QRTs in XBRL

All Quantitative Reporting Templates (QRTs) must be submitted in XBRL format. These include Balance Sheet, Asset list, Own Funds, Premium Claims & Expenses, Variation analysis, SCR & MCR, Technical provisions, Reinsurance and Group Reporting. It should be noted that although these represent different templates, they all form part of a single XBRL report.

Narrative reports, such as Business and Performance, System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management, may be submitted in another electronic format, e.g. PDF.

Filers have a lot to consider when determining the data that should be reported.

How do I report to my NCA?

Although it remains at the discretion of the individual NCA, many regulated firms will find that they must now submit their quantitative reports in XBRL, which may be an unfamiliar format presenting a new set of challenges, particularly since there is now so much more data to be handled (at a recent conference estimates were quoted at over 10K data items for solo reporting, and 200K for group reporting during the preparatory phase, increasing to around 40K and 800K data items respectively when full scope reporting arrives in January 2016).

Integration or standalone?

How to handle the data is a key issue. Many insurers will have existing workflow and security processes in place, but must now integrate them with the less familiar requirements of XBRL preparation, validation and rendering, so both the IT department and the business will need to engage to ensure that the relevant data can be captured and turned into the required reports.

Decisions need to be made: whether to create a standalone environment or embed reporting into current architecture; whether to rely on process professionals to provide the specialist XBRL capabilities (which may be outside their core competence), or to seek help from a dedicated XBRL technology company.

Coping with XBRL taxonomy changes

Systems need to be flexible enough to cope with changes. For example, the EIOPA taxonomy, the list of concepts supporting the XBRL reporting, has already been subject to frequent updating. EIOPA has, however, now published its preparatory taxonomy (version 1.5.2.c at the time of writing), and to help facilitate seamless integration with different XBRL solutions, EIOPA issues pre-packaged taxonomy versions as so-called Taxonomy Packages**, providing the correct entry points.

Nevertheless, taxonomy amendments are likely to continue once the taxonomies are in full use, adding to the challenges faced by report preparers, and testing the flexibility of their report production software.

** Note that the Taxonomy Packages may be found on the EIOPA website. CoreFiling also offer a handy taxonomy package repository from where the Solvency II taxonomy packages can easily be downloaded [see <http://taxonomies.corefiling.com/>].

Conforming to mandatory business rules

Once the reporting templates are completed they can be uploaded via the regulatory portal, together with an accompanying coversheet identifying what has, or has not, been reported. Note, however, that these two elements will form part of a single XBRL document.

However, to be accepted by the regulator, not only are report submissions expected to conform to the XBRL 2.1 specification, but also to be valid against the many additional business rules imposed by the regulator, and which are also likely to be subject to change over time.

Creating a suitable workflow and product infrastructure that offers enough flexibility to cope with changes, yet handles the XBRL conversion without undue disruption, is a vital element of the preparatory process.

How do I keep up to date with XBRL taxonomy changes?

The whole process of gathering relevant data and implementing an effective workflow to turn that data into valid XBRL reports is daunting enough, but the challenges do not stop there. What happens when the underlying XBRL taxonomy changes, as it undoubtedly will? What solutions are available to help smooth the reporting process?

The impact of Solvency II taxonomy changes

Without specialist insight into the taxonomy structure it is difficult to understand what changes have occurred from one version to the next and, more significantly, how the changes might impact both technical considerations and the preparation of XBRL reports.

Compliance with EIOPA business rules

The business rules imposed by EIOPA and the NCAs may also be amended from time to time, and this could have a profound effect on the data that needs to be reported. How will your reporting systems cope with frequent updates? How will you make sure that your systems remain current, producing totally valid XBRL documents that will not be rejected at the point of submission?

Some systems rely on hard-coding and may prove inflexible, so you would do well to make sure that you will not incur massive system and cost overheads just to bring your reporting into line each time.

Finally, here is a short review of the wide variety of solutions that CoreFiling provide to help insurance companies to file Pillar 3 reports with confidence.

CoreFiling XBRL solutions for Solvency II filers

CoreFiling offer a broad range of products and services to help insurance undertakings that now need to accommodate the new Solvency II regime, not only for XBRL reporting during the full scope phase next year, but also during the preparatory phase that is starting very soon.

Professional Services to support your reporting processes

Even organisations that have already made choices about how to generate their XBRL-based QRTs may need some help. As was found recently during the introduction of the EBA CRD IV filing programme for the banking industry, not all solutions produce valid XBRL reports, and the reasons are not always obvious.

XBRL Healthcheck

The service that CoreFiling provide encompasses much more than just a review of the XBRL documents that the firm is producing. It also carries out a full analysis of the filing processes adopted. Naturally, the Healthcheck contains a review of the XBRL, to ensure that the data has been faithfully transformed into XBRL format, but it also includes verification of the workflows, including final report sign-off, plus a commentary on the organisation's readiness for future changes in reporting requirements. At the end of the Healthcheck the client receives a full report that sets out the current state of their reporting processes, highlights any risk factors and makes appropriate recommendations.

Taxonomy impacting

The Solvency II taxonomy has been subject to constant change and every indication suggests that this will continue after the release of the 'final' taxonomy for full scope reporting. Understanding the differences between taxonomy versions requires specialist skill, particularly to work out what effect the changes may have. CoreFiling provide a Taxonomy Impacting service for our clients based on a review of the differences between new and old versions of the taxonomy, including full explanations of the technical impact on integration teams and filers.

Rapid response filing

The time for Solvency II filing is fast approaching. Even organisations that have already embarked on filing projects may not be ready in time for the first filing deadlines. To help such companies we can call upon our Rapid Deployment Team, who offer detailed XBRL expertise along with our range of specialist Connectors to facilitate integration with existing systems for the extraction of reporting data and its conversion into fully validated XBRL ready for filing submission. This proven service has already helped a number of organisations to file in due time to meet mandatory deadlines.

Bespoke training

We also offer in-depth training courses, for example a one-day course on the Solvency II taxonomy and a further one-day course on Solvency II Instances, though courses can be tailored to meet specific requirements.

A range of XBRL products to meet individual requirements

To provide maximum choice for our clients CoreFiling have aligned with several reporting specialists to whom we provide our professional XBRL expertise. Our tools can be embedded efficiently into other software such as Oracle, SAP, SAS and EMC to enhance your ROI.

- Run a standalone environment covering report creation, validation, workflow, security and versioning. As requirements mature then integrate into analytical and other processes using our True North® APIs.
- Use a SaaS environment (Software as a Service), for example our Seahorse® XBRL production system, for rapid deployment of specification-driven report creation, validation and review.
- Use your current reporting environment then embed True North® to handle the XBRL requirements, beginning simply by using bulk data transfer and gradually integrating further.

Solvency II XBRL taxonomy alignment

One of the key benefits of CoreFiling's Solvency II solutions is the fact that we keep our systems fully aligned with any changes to the underlying taxonomy and the business rules imposed by the regulator. This is done totally in the background, so users do not have to be concerned about missing any important changes, which could result in reports being rejected at the regulatory portal.

Whatever your current situation, CoreFiling have the products and services to help you to meet your Solvency II needs.