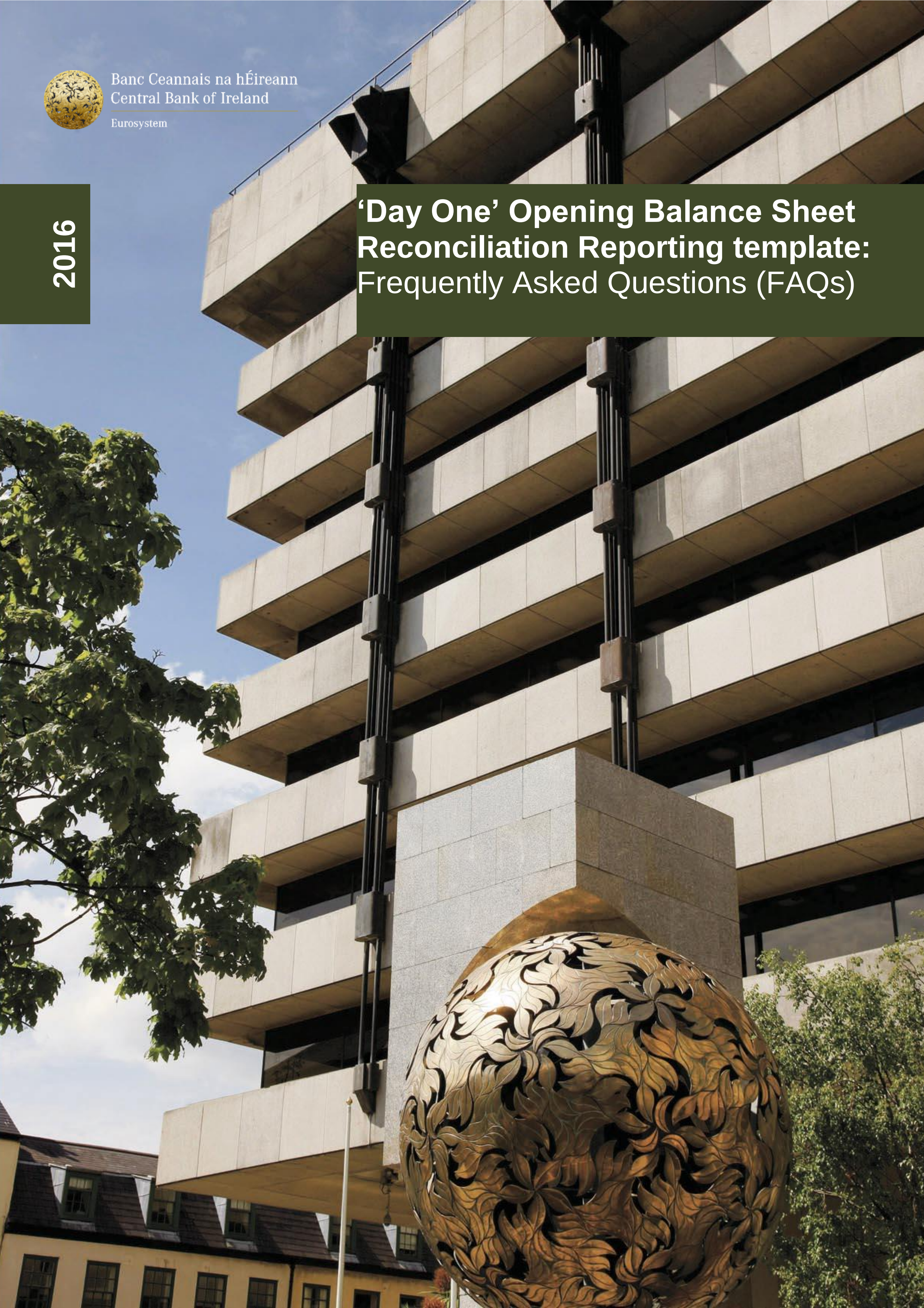
Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

2016

‘Day One’ Opening Balance Sheet Reconciliation Reporting template: Frequently Asked Questions (FAQs)



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Introduction

The Central Bank of Ireland (the "Central Bank") issued a data request and letter entitled "A quantitative analysis of main differences between opening valuation under Solvency II and those calculated according to Solvency I regime" to all Compliance Officers on 12 February 2016 and during the week commencing 15 February 2016. The Central Bank issued a subsequent correspondence on 16 March 2016 which provided clarification surrounding the Day One narrative reporting, as well as a small number of other queries.

The FAQs below provide further information for life and non-life (re)insurance firms on the 'Day One' Opening Balance Sheet Reconciliation Reporting template following queries received directly from companies via their supervision teams and the Solvency II email address. It also includes the points that were clarified in the correspondence dated 16 March 2016. Please note that the FAQs do not supersede or replace legal requirements nor do they constitute legal advice. The FAQs should be read in conjunction with the relevant legislation that applies in respect of 'Day One' reporting requirements as outlined in Article 314 of Commission Delegated Regulation (EU) 2015/35.

Versioning of this FAQ Document

As further queries are received we will update this document on an ad-hoc basis. The version of the document published on the Central Bank of Ireland website should be deemed as the most up-to-date version.

Frequently Asked Questions

General

1. **Clarification was requested as to whether the Opening Balance Sheet reconciliation excel template suffices as the qualitative explanation required for Day 1 reporting under Article 314 (1)(b).**

   The Central Bank provided clarification on this point in a letter to all Compliance Officers on 16 March 2016 which stated:

   Within the requirements of the Directive[1], the Central Bank is accommodating two options with respect to the Day 1 narrative reporting:

   - *if a firm submits a completed Opening Balance Sheet reconciliation excel template within 20 weeks of the financial year end starting on or after 1 January 2016 (e.g. by 20 May 2016 for firms with a financial year starting on 1 January 2016), it will suffice as their qualitative explanation required for Day 1 reporting and there is no need for firms to submit any further documentation as the narrative is embedded in the template; or*

   - *alternatively, if a firm does not submit its Opening Balance Sheet reconciliation excel template within 20 weeks of the financial year end starting on or after 1 January 2016 (e.g. by 20 May 2016 for firms with a financial year starting on 1 January 2016), then a qualitative narrative document that relates to the broad trends contained within the template is required within 20 weeks of the financial year end starting on or after 1 January 2016[2], and a completed Opening Balance Sheet reconciliation excel template to support the narrative is required to be submitted to the Central Bank at any stage within 20 to 25 weeks of the financial year end starting on or after 1 January 2016 (e.g. from 20 May to 24 June 2016 for firms with a financial year starting on 1 January 2016);*

2. **Clarification was also requested regarding who is required to sign off the Opening Balance Sheet reconciliation excel template.**

   The Central Bank provided clarification on this point in a letter to all Compliance Officers on 16 March 2016 which stated:

   The figures used to populate the Opening Balance Sheet reconciliation excel template directly relate to the qualitative explanation required by Article 314 (1)(b). Therefore the figures used to populate the Opening Balance Sheet reconciliation excel template should be signed off by the Board of Directors, regardless of whether it is submitted within 20 weeks of the financial year end starting on or after 1 January 2016 (e.g. by 20 May 2016 for firms with a financial year starting on 1 January 2016), or at some point during the window of 20 to 25 weeks of the financial year end starting on or after 1 January 2016 (e.g. from 20 May to 24 June 2016 for firms with a financial year starting on 1 January 2016).

3. **Why did our firm not receive the data request? The financial year for our firm commences on August 1.**

   Firms whose financial year commences between 1 July 2016 and 31 December 2016 are not subject to Day 1 reporting requirements and hence they did not receive the data request.

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[1] The Opening Balance Sheet reconciliation excel template supports the qualitative explanation required for Day 1 reporting under Article 314 (1)(b); the figures used to populate the Opening Balance Sheet reconciliation excel template directly relate to the qualitative explanation required. The deadline for Article 314 of Commission Delegated Regulation (EU) 2015/35 has a deadline of 20 weeks. The Central Bank does not have the legal authority to override this deadline.

[2] This should be submitted by way of a PDF document through the ONR online reporting system.

4. **Our firm has a 31 March 2016 year-end and so are not required to submit Solvency I returns. Can you advise how we should complete the analysis of the differences between the opening valuation under Solvency II and those calculated in the Solvency I regime?**

   The requirements of Article 314 of the Commission Delegated Regulation (EU) 2015/35 (which sets out the Day 1 reporting requirements, including the explanation of differences between Solvency II and the solvency regime previously in place) apply to all firms with a year-end between 31 December 2015 and 30 June 2016.

   While firms with a year-end after 31 December 2015 are not required to submit a complete Solvency I return to the Central Bank, the requirement for Day 1 reporting still applies. Hence we expect such firms to be in a position to provide the Solvency I information requested in the reconciliation template.

5. **Our firm previously reported in EUR but under Solvency II they will be reporting in USD. Can you please advise what would be the best approach for our firm to complete the template?**

   Please convert the Solvency I figures in the template into USD so that all results are comparable.

   When converting the Solvency I results to USD (for the Day 1 reconciliation spreadsheet), we would ask that they are converted using ECB rates as these rates are used internally when automatically converting returns, hence providing consistency.

6. **In relation to composite firms, which balance sheet worksheet do they complete?**

   In relation to composite firms, they can fill out each balance sheet that applies; 1, 2 and/or 3. These worksheets then automatically populate the total balance sheet on worksheet 4.

7. **Worksheets 1-3 are password protected, is it possible to remove this as we would like to manually insert figures in column L?**

   Worksheets 1-3 carry out an initial reclassification of the Solvency I return (before application of the valuation of asset rules) to the Solvency II balance sheet QRT (S.02.01). As noted in the 'Read me' worksheet, "this reclassification is not intended to be definitive or even purport to be the appropriate reclassification for each firm". If further reclassifications, revaluations or other adjustments are required, then these should be carried out in worksheet '4. S1 to SII Balance Sheet Rec' with comments outlining the changes being made.

8. **Worksheet '4. S1 to SII Balance Sheet Rec' cannot be filled properly as the technical provisions cannot be filled.**

   There are detailed reconciliations of the technical provisions in the remaining worksheets; the analysis in worksheet 4 is not required for the technical provisions, as noted in the worksheet 'Read me' of the Excel template. Instead the Solvency II technical provisions should be entered directly into column (5). Otherwise column (5) sums the previous four columns to obtain the final Solvency II value.

9. **When comparing Solvency I technical provisions to Solvency II technical provisions for our firm, the Solvency I technical provisions need to be shown net of DAC. Where should this reclassification be shown?**

   Under Solvency I for Non-life, DAC is an item on the asset side of the balance sheet and is also implicitly contained in the UPR calculation. Under Solvency II, it is no longer an asset item on the balance sheet and is implicitly contained in the cashflow model for net technical provisions. Therefore in the walk for Non-life, it will implicitly fall out of the net technical provisions due to the removal of the UPR provision under Solvency I and will reappear for Solvency II under the 'change in expense basis', particularly for policies which are written but not incepted.

Under Solvency I for Life, if the gross technical provisions figure shown on the Solvency I balance sheet is net of DAC, then the starting point for gross technical provisions in the Life walk in tab 8 will also be net of DAC. Please provide commentary to highlight this.

10. Please would you be so kind as to confirm the required format of the Day 1 Opening Balance Sheet Reconciliation data request, just Excel or XBRL?

The Day 1 Opening Balance Sheet Reconciliation data request comes in the form of an Excel spreadsheet. Please complete the template in this format and upload to the Central Bank via the Online Reporting System as part of the Day 1 Narrative submission.

11. Who do I contact in the Central Bank if I have further queries?

Please contact your supervision team within the Central Bank if you have any queries.

12. Can you please confirm if minutes from the Board meeting are sufficient or are the Board required to sign the Day 1 return?

Guideline 37 of EIOPA's Guidelines on reporting and public disclosure (EIOPA-BoS-15/109 EN) state the follow:

Guideline 37 – Approval of information submitted to the supervisory authorities
1.52. Insurance and reinsurance undertakings should ensure that the transitional information, the RSR and the annual quantitative reporting templates have been approved by the AMSB before submitting them to the supervisory authority concerned.
1.53. Insurance and reinsurance undertakings should ensure that the quarterly quantitative templates has been approved either by the AMSB or by persons who effectively run the insurance or reinsurance undertaking before submitting them to the supervisory authority concerned.

Point 1.52 covers Day 1 reporting.

AMSB stands for "administrative, management or supervisory body of the insurance or reinsurance undertaking".

13. In relation to this reconciliation and sign off by the Board, we would be grateful if you could tell us the format that the sign off is required in?

There is no stated format for sign off from the Board in relation to the Day 1 Opening Balance Sheet Reconciliation excel template; this is unique to every firm. As stated in the correspondence from the Central Bank on 16 March 2016:

"The figures used to populate the Opening Balance Sheet reconciliation excel template directly relate to the qualitative explanation required by Article 314 (1)(b). Therefore the figures used to populate the Opening Balance Sheet reconciliation excel template should be signed off by the Board of Directors, regardless of whether it is submitted within 20 weeks of the financial year end starting on or after 1 January 2016 (e.g. by 20 May 2016 for firms with a financial year starting on 1 January 2016), or at some point during the window of 20 to 25 weeks of the financial year end starting on or after 1 January 2016 (e.g. from 20 May 2016 to 24 June 2016 for firms with a financial year starting on 1 January 2016);"

14. After completing the template provided by the Central Bank, ONR will not upload the file.

The template provided by the Central Bank included a macro to allow firm to create the required tabs for country specific reporting. The ONR system does not accept macro enabled files (i.e. files with a ".xlsm" extension) and hence the macro must be removed before uploading the file. After running the macro to create the required country tabs for your undertaking the file should be saved as a ".xlsx" file (using the "Save As" functionality in MS Excel and selecting "Excel Workbook" as the file type).

Non-life insurance

15. The technical provisions walk for Non-life and Reinsurance firms contains a 'change in expense basis' component. The 'change in expense basis' component is split by line of business for High and Medium-high impact firms, while it is required at a total level for Medium-low and Low-impact firms. Clarification was sought on whether this information would be readily available under Solvency II as it was felt that firms would not have a detailed split of expenses by line of business and where they did, detailed expenses would only relate to the major lines of business with the remaining lines of business being bundled together.

The Central Bank provided clarification on this point in a letter to all Compliance Officers on 16 March 2016. This stated:

The availability of this information is covered by EIOPA-BoS-14/166 EN, Guidelines on the valuation of technical provisions contains Guideline 29 - Granularity of allocation of expenses. This states:

"1.64. Insurance and reinsurance undertakings should allocate the expenses into homogeneous risk groups, as a minimum by line of business, according to the segmentation of their obligations used in the calculation of technical provisions."

The Central Bank confirmed its intention to comply with these guidelines on 30 March 2015. Therefore, the request for this information as per the original template has not been amended.

Life insurance

16. **The technical provisions walk for Life insurance firms follows a specific order in the Opening Balance Sheet reconciliation excel template, and so clarification was sought on whether there is scope to allow life firms to choose the order of the walk.**

    The Central Bank provided clarification on this point in a letter to all Compliance Officers on 16 March 2016 which stated:

    The Central Bank requires that the order of the walk for Life insurance firms remains as outlined in the Opening Balance Sheet reconciliation excel template. The reason for this is two-fold; firstly by following a standardised approach, meaningful analysis can be performed across different types of firms and risk categories, and secondly by ensuring the order applies to all firms, this analysis can be communicated back to the industry, allowing benchmarking and peer review by firms themselves.

17. **Solvency I technical provisions include the surplus carried forward per lines 3 and lines 17 of Form 16. To get the Solvency I technical provisions, only lines 1 and 5 of Form 16 should be used.**

    Please correct any error in Column G of the worksheet ‘4. S1 to SII Balance Sheet Rec’.

18. **Why does Solvency I to Solvency II walkthrough block out technical provisions in liabilities, but includes the reinsurance recoverable TPs in assets?**

    Worksheet ‘4. S1 to SII Balance Sheet Rec’ is used by all firms i.e. life, non-life and reinsurance. Not all of these have a walk of the reinsurance asset from Solvency I to Solvency II in the same way that life firms do. Please put the sum of column (D) to column (Q) from sheet ‘8.Life TPs Walk from SI to SII’ in column (3) of worksheet ‘4. S1 to SII Balance Sheet Rec’.

19. **On worksheet 3, the Solvency I Balance Sheet using Solvency II format is derived from Solvency I forms (form 15, 16, 17 and 20). Will the CBI be doing checks between these forms and the Solvency I BS using Solvency II format? The presumption is that this will not happen as the instruction per the template refers to this not being the definitive / appropriate reclassification and that there is further reclassification allowed on worksheet 4.**

    As noted in the worksheet ‘Read me’ of the Excel template, “this reclassification is not intended to be definitive or even purport to be the appropriate reclassification for each firm”.

20. **Column D is the assets values, and column E is the asset values after adjustment for admissibility etc. as required under Solvency I. Column L, which produces the assets in the same categories as the Solvency II QRT reads from column D. However, column E is the value that ultimately feeds into Form 20 (statement of solvency). Therefore the assets less liabilities shown in cell L90 will not balance with the free assets shown in Form 20 of the Solvency I returns. Is it the assets in the Solvency I returns (column E) that is required here?**

    Yes, it is intentional that Column 1 of Form 15 is used as the starting point of the reconciliation. Any differences between Column 1 and Column 2 of Form 15 will be considered separately using the data in the ‘3. Life S1 Bal Sheet’ worksheet.

21. **The Solvency I liabilities are being picked up from Form 16. However, Form 16 line 3 which is the full life assurance fund (mathematical reserves + balance in life fund) is being brought into the technical provisions in the template on the right. This will overstate the technical provisions and I think Form 16 line 1 (mathematical reserves) is what should be taken in to the calculation. Based on the calculations in the sheet**

currently, the liabilities are being overstated and the assets less liabilities are being understated. This is another reason why the balance sheet will not match that set out in the annual returns under Solvency I.

Please correct any error in Column G of the ‘4. S1 to SII Balance Sheet Rec’ worksheet.

22. **The subordinated debt in the Solvency I returns is in Form 17, line 3. However in the “Life SI Bal Sheet” it is being brought into the “Debts owed to credit institutions” and subordinated liabilities line is blocked out. Therefore “Assets less Liabilities” (cell L90) will not equal Form 20, line 10 (cell 92) which has the subordinated debt added back. Is the intention to show the A-L net of the subordinated debt liability because this is added back in the own funds QRT? If so, this is not consistent with the “SI to SII Balance Sheet Rec” where the subordinated debt is shown on the Solvency II balance sheet but not on the Solvency I one.**

    It was intended that cell E92 would equal cell E89, with any adjustments required to be entered in cell E88 explained in ‘11. Explanations of "Other"’ worksheet. For most firms we would expect that this would equal cell I90 as well but if this is not the case please provide an explanation in the final worksheet. The A-L sheet is shown net of the subordinated debt liability as this is how it is presented in the SII balance sheet in the QRTs. If the initial classification of the Solvency I forms to the Solvency II presentation that we have provided doesn’t fit the classification you are using then this should be corrected in column G of the ‘4. S1 to SII Balance Sheet Rec’ worksheet. Subordinated liabilities are not locked out on this worksheet. In this instance you could reclassify R0800 to either R0860 or R0870 as appropriate.

23. **When comparing Solvency I technical provisions to Solvency II technical provisions for our firm, the Solvency I technical provisions need to include contract deposits (mapped to “Other creditors (includes brokers and agents)” in the Solvency I balance sheet). Where should this reclassification be shown? This reclassification only impacts Life.**

    With regard to contract deposits, for Solvency I purposes this is included under ‘Other Payables’ and mapped to ‘Other creditors (includes brokers and agents)’. If it is appropriate for your firm to hold this provision within net technical provisions under Solvency II, please include this provision in the result in column 5 in tab 4 ‘SI to SII Balance Sheet Rec’ and provide a narrative explanation as to why this is appropriate, referencing the relevant guideline. In relation to the walk for Life, the column titled ‘Other’ appears to be the most appropriate. Again please provide commentary around these adjustments.

24. **In the ‘3. Life S1 Bal Sheet’ tab we have Column D (Assets at Book Value) and Column E (Assets per Regulations). The “Solvency I value” which is actually the Book Value balances are carried through to Column F in the tab ‘4. S1 to SII Balance Sheet Rec’. This means that the reconciliation is effectively from Book Value to Solvency II value, rather than from Solvency I value to Solvency II value.**

    Yes, it is intentional that Column 1 of Form 15 is used as the starting point of the reconciliation. Any differences between Column 1 and Column 2 of Form 15 will be considered separately using the data in the ‘3. Life S1 Bal Sheet’ worksheet.

    The reconciliation in ‘4. S1 to SII Balance Sheet Rec’ is effectively a reconciliation of Book Value to Solvency II (given the changes made in ‘3. Life S1 Bal Sheet’) using the columns ‘reclassification / revaluation / other’ to produce a Solvency II result.

Reinsurance

25. **The technical provisions walk for Non-life and Reinsurance firms contains a 'change in expense basis' component. The 'change in expense basis' component is split by line of business for High and Medium-high impact firms, while it is required at a total level for Medium-low and Low-impact firms. Clarification was sought on whether this information would be readily available under Solvency II as it was felt that firms would not have a detailed split of expenses by line of business and where they did, detailed expenses would only relate to the major lines of business with the remaining lines of business being bundled together.**

    The Central Bank provided clarification on this point in a letter to all Compliance Officers on 16 March 2016 which stated:

    Clarification was sought on whether firms' would have available a detailed split of expenses by line of business to populate the walk of the technical provisions for Non-life insurance and Reinsurance firms. The availability of this information is covered by EIOPA-BoS-14/166 EN, Guidelines on the valuation of technical provisions contains Guideline 29 - Granularity of allocation of expenses which states:

    "1.64. Insurance and reinsurance undertakings should allocate the expenses into homogeneous risk groups, as a minimum by line of business, according to the segmentation of their obligations used in the calculation of technical provisions."

    The Central Bank confirmed its intention to comply with these guidelines on 30 March 2015. Therefore, the request for this information as per the original template has not been amended.

26. **Please clarify what information is required in worksheet 10 as our firm is a Medium-low PRISM rated firm. Does this rating mean that we are only required to complete rows 26, 52 and 78 for each of the tables?**

    As your firm is rated Medium-low, then the results in worksheet 10 are required at a total level; and yes that implies completing row 26, 52 and 78.

    The summation formula will not apply so please populate these rows with your results. The fields are not protected so you can over-write the formula.

27. **Do we need to use the "create required tabs" macro button in the 'Control' worksheet? Our firm is a reinsurance firm.**

    In relation to the 'control' worksheet, please note that results by country are not required for Reinsurance firms. This is noted in the 'Read me' worksheet in row 5: "The technical provisions walk and NL mapping is not required by country for reinsurance business."

28. **In worksheet 9, can you please confirm that the heading in cell D4 should read 'Solvency II'?**

    Cell D4 is correctly stating 'Solvency I'. This worksheet allows the reinsurance firms provide a mapping of Solvency I line of business to Solvency II line of business using <u>Gross (of retrocession) Technical Reserve result on a Solvency I basis.</u>

29. **We are a reinsurance firm; please confirm that we are required to complete the following forms: 2, 4, 9 and 10?**

    Yes worksheets 2, 4, 9 and 10 are required for Reinsurance firms.

30. **In worksheet '2. Rein S1 Bal Sheet', some of the fields in column K are empty and cannot be filled (as the sheet is protected), but should not be empty in our opinion; for instance cell K40 or cell K84.**

    In worksheet '2. Rein S1 Bal Sheet', the only fields to be populated are in column D; column K is populated automatically from column D. Column K contains the first summary of the Solvency I numbers in the Solvency II QRT format. If there are additional fields you would like to populate, then please use the reclassification column, column G, of worksheet 4 and give details of this reclassification in Column K (narrative explanation).

31. **When comparing Solvency I technical provisions to Solvency II technical provisions for our firm, the Solvency I technical provisions need to include provision for profit commission (mapped to "Other liabilities (includes investment contracts)" in the Solvency I balance sheet). How should this be allowed for?**

    In relation to the provision for profit commission which falls under "Other creditors (includes brokers and agents)" in the Solvency I balance sheet (so it does not appear in net technical provisions under Solvency I), this item may appear under the claims provision (expense cashflow) or premium provision under Solvency II for non-life depending on how profit commission is defined.

32. **How should 'net funds withheld against technical provisions' be allowed for?**

    In respect of 'net funds withheld against technical provisions', under the Solvency I balance sheet these were held under 'funds withheld from retrocessionaires' or 'funds withheld by cedents'. If it is appropriate for your firm to hold these provisions within net technical provisions under Solvency II, please include these provisions in the result in column 5 in tab 4 'SI to SII Balance Sheet Rec' and provide a narrative explanation as to why this is appropriate, referencing the relevant guideline.

    Following on from this, in respect of the walk for Non-life, the column titled 'Any other adjustments' can be used to allow for this change. In relation to the walk for Life, the column titled 'Other' appears to be the most appropriate. Again please provide commentary around these adjustments.

33. **In tab '2 Rein S1 Bal Sheet', the line of business mapping from the Solvency I to Solvency II is incorrect, technical provisions – non life (R0510) is automatically pulling in the unearned premium reserve, unexpired risk reserve and total outstanding claims provision from the Solvency I balance sheet. This worksheet is password protected; can we get these cells unprotected so that we can split the Solvency I technical provision into the correct line of business?**

    Please adjust for these provisions in worksheet '4. S1 to SII Balance Sheet Rec' by reclassifying them in column J; moving them into their correct line of business. Column J is not password protected. Please provide commentary in column K in relation to this.

34. **In the liabilities section of tab 4 'SI to SII Balance sheet reconciliation', cells G50 – I70 include a note 'see separate tabs for reconciliation of technical provisions' which I note is included in tab 9 (for a reinsurance company). However in tab 4 cells J50 onwards (which is the calculation of the SII value) this totals column F-I, however the option is not available to populate G50:I70 so how should this calculation work?**

    The values in these cells in col J should be hardcoded by the undertakings – the inclusion of the sum across cols G-I is an error and can be overwritten.

Groups

35. When is the Day 1 reporting deadline for groups?

The response to this query up until 1 April 2016 was as follows:

Under the Delegated Regulation (EU) 2015/35, the current deadline for groups for Day 1 reporting is 20 weeks (article 375). The proposed amendment to 26 weeks is still subject to the agreement of the European Parliament. If this amendment is agreed to, then the deadline will become 26 weeks.

However on 1 April 2016, article 2 'correcting provision' paragraph 10 states:

in Article 375, paragraph 2 is replaced by the following: '2.Participating insurance and reinsurance undertakings, insurance holding companies or mixed financial holding companies shall submit to the group supervisor the information referred to in paragraph 1 no later than 26 weeks after the reference date of the opening financial statement as referred to in Article 314(1)(a).';

Therefore the deadline for Day 1 reporting for groups has extended to 26 weeks (from 20 weeks).

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