



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

2016

External Audit of Solvency II Regulatory Returns / Public Disclosures

Consultation Paper CP 104

Contents

Section 1: Overview	1
Section 2: Making a submission	2
Section 3: Introduction.....	3
Section 4: Background.....	4
Section 5: Costs and benefits of the proposal	5
Section 6: The Central Bank’s proposal on External Audit of Solvency II Regulatory Returns/Public Disclosures.....	7
Entities included in scope	7
Groups	7
Undertakings using approved full or partial internal models	7
Opening balances	8
Who shall undertake the review	8
Quantitative Reporting Templates (QRTs)	9
Level of assurance	10
General application and implementation	10
Timing & frequency of review	10
Appendix 1: Regulation 37 from S.I. 485 of 2015 – European Union (Insurance and Reinsurance) Regulations 2015.....	12
Appendix 2: Proposed elements of the SFCR to be included in scope at solo level	13
Appendix 3: Proposed elements of the SFCR to be included in scope at group level ..	15

Section 1: Overview

- 1.1 This Consultation Paper (“CP 104”) sets out the Central Bank of Ireland’s (“the Central Bank’s”) proposal regarding the external audit of elements of Solvency II regulatory returns/public disclosures.
- 1.2 The proposals apply to all undertakings in the scope of Solvency II. It is proposed that the Central Bank will impose the external audit requirement for financial years ending on or after 31 December 2016.
- 1.3 Under Solvency II, undertakings are required to prepare a Solvency and Financial Condition Report (“SFCR”) on an annual basis. This report forms part of a suite of regulatory returns and is also publicly disclosed by undertakings. Regulation 37 of S.I. No. 485 of 2015 (regarding the Auditor’s Report) (“Regulation 37”) enables the Central Bank, by notice in writing, to require that elements of the quantitative information submitted by insurance and reinsurance undertakings be audited, and that the audit report should include a reasonable assurance opinion on the elements of the SFCR relevant to the balance sheet, own funds and capital requirements (“the relevant elements”) as described in Regulation 52 of that S.I. (“Regulation 52”). In accordance with Regulation 37, the audit report shall be made to the Central Bank and, as such, it will not be publicly available.
- 1.4 This proposal is compatible with the Central Bank’s High Level Goals¹, particularly those which aim to support the stability of the financial system, the proper and effective regulation of financial institutions and markets, and the protection of consumers of financial services. This proposal is intended to give users of the SFCR, including investors, policyholders and the Central Bank, greater confidence in the quality of the information disclosed in the SFCR. In addition, this information may enable investors to make better informed investment decisions, which should in turn contribute to market discipline.

¹ <https://www.centralbank.ie/about-us/Pages/default.aspx#principles>

Section 2: Making a submission

- 2.1 The Central Bank invites comments on this Consultation Paper by email to CP104@centralbank.ie. Responses should be submitted no later than 29 July 2016. The Central Bank requests that submissions which put forward arguments for changes to the proposals be supported, where possible, by evidence which will aid its consideration of the issues.
- 2.2 To assist insurance and reinsurance undertakings and auditors in planning audit work associated with the financial year end 31 December 2016 the Central Bank is aiming to determine the final policy position by end September 2016. In order that stakeholder feedback can inform that decision, the Consultation Paper will be subject to an abridged comment period of eight weeks, in accordance with the Central Bank's Stakeholder Consultation Protocol².
- 2.3 The Central Bank is committed to clear, open and transparent engagement with stakeholders in fulfilling its financial regulatory and supervisory objectives, particularly when introducing new codes, regulations, standards or guidelines. It is the policy of the Central Bank to publish all responses to its consultations and as such responses will be made available on our website. Stakeholders should thus not include commercially confidential information in consultation responses and the Central Bank accepts no liability whatsoever for the content of stakeholder consultation responses that are subsequently published by the Central Bank. The Central Bank shall not publish any information which it deems potentially libellous or defamatory.
- 2.4 While the Central Bank will take full account of all submissions, it can be assumed that a regime broadly aligned to the type proposed in this document is likely to be introduced. With this in mind, undertakings are advised to take account of the likely introduction of such a regime now and begin to adapt their reporting practices in anticipation of its introduction.

² <http://www.centralbank.ie/regulation/poldocs/documents/consultation%20protocol%20final.pdf>

Section 3: Introduction

- 3.1 Regulation 37 enables the Central Bank, by notice in writing, to require that elements of the quantitative information submitted by insurance and reinsurance undertakings be audited, and that the audit report should include a reasonable assurance opinion on the elements of the SFCR relevant to the balance sheet, own funds and capital requirements as described in Regulation 52.
- 3.2 Solvency II came into force from 1 January 2016 and has three main areas. Pillar 1 consists of quantitative requirements (for example, the amount of capital undertakings should hold). Pillar 2 sets out requirements for the governance, risk management and effective supervision of undertakings. Pillar 3 focuses on requirements at a solo and group level for public disclosure and private reporting to the Central Bank. Regulation 52 states that an undertaking shall make publicly available an annual report on its solvency and financial condition - the SFCR.
- 3.3 The SFCR will consist of quantitative and qualitative information on the business and performance, the system of governance, the risk profile and exposure to risk, the valuation for solvency purposes and capital management of the undertaking. The public disclosure is intended to enhance the quality and comparability of undertakings' public disclosure across the EU.
- 3.4 The European Insurance and Occupational Pensions Authority ("EIOPA") stated³ that "EIOPA believes that to ensure high quality public disclosure for Solvency II purposes, external audit of that information can ... be a powerful tool. In order to make best use of external audit in the context of the SFCR, EIOPA is of the view that at individual and group level, the main elements of the SFCR (balance sheet, own funds and capital requirements) of all insurance and reinsurance undertakings could fall within the scope of an external audit."

3

https://eiopa.europa.eu/Publications/Other%20Documents/EIOPA_high%20quality%20public%20disclosure_Solvency%20II.pdf

Section 4: Background

- 4.1 The Central Bank advised in the September issue of Solvency II Matters that our intention was to “engage with stakeholders in early 2016 to discuss the scope of auditing requirements for regulatory returns for periods ending on or after 31 December 2016”.
- 4.2 Regulatory reporting to the Central Bank under Solvency II will cover the strategy, projections and expected risks of undertakings as well as additional Quantitative Reporting Templates (“QRTs”). In addition undertakings will provide to the Central Bank their own risk and solvency assessment (“ORSA”) supervisory report, which will provide insight into the undertaking’s view of the future development of the solvency and financial condition of the undertaking.
- 4.3 In Ireland, some insurance regulatory returns are currently subject to external audit by the statutory auditor under the pre-Solvency II regime. S.I. No. 360/1994 - European Communities (Life Assurance) Framework Regulations, 1994 and S.I. 202/1995 European Communities (Non-Life Insurance Accounts) Regulations 1995 (S.I. 202 of 1995) set out the requirements in relation to the regulatory return audit requirements for Life and Non-Life insurers respectively.
- 4.4 Following the consultation period it is expected that external audit guidance, including the format of the audit report, will be developed by CAI in consultation with the Central Bank.

Section 5: Costs and benefits of the proposal

- 5.1 The publication of the SFCR will provide useful information to investors and other stakeholders as much of the information in the SFCR is not otherwise publicly available. For example, the technical provisions calculated for the Solvency II balance sheet may be substantially different from those in the audited International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Practice in Ireland (Irish GAAP) financial statements.
- 5.2 In addition the SFCR will be prepared by undertakings on a consistent basis thereby enabling comparison that is not currently available. It is expected that, until such a time as the new Insurance Contracts Accounting Standard, IFRS 4, has been finalised and becomes effective, the SFCR will be used by investors and others for these purposes.
- 5.3 The cost of an external audit of the relevant elements of the SFCR will be impacted by:
- the type of business – technical provisions and the asset side of the balance sheet tend to be more complex for life insurers than for non-life insurers;
 - whether the undertaking calculates its Solvency Capital Requirement (“SCR”) using an approved internal model or the standard formula;
 - the extent to which the auditor can rely on the systems, controls and processes in place at the undertaking when determining the type and level of evidence required to give an opinion; and
 - the group structure from a Solvency II perspective.
- 5.4 It is the Central Bank’s view that external audit can bring discipline to the disclosure preparation process and underpin the quality of the information reported. Solvency II public disclosure will be important for investors’ analysis and decision-making at a solo and group level. Confidence that the information has been prepared on a consistent basis and verified will aid decision making and contribute to market efficiency.

5.5 The Central Bank will use the SFCR, in conjunction with the audited financial statements and other regulatory reporting, to assist it in its supervision of undertakings. The audit of the relevant elements of the SFCR may also contribute to a more effective auditor-supervisor dialogue under the Auditor Protocol.

Section 6: The Central Bank's proposal on External Audit of Solvency II Regulatory Returns/Public Disclosures

Regulation 37 is prescriptive in relation to the scope of the review stating that a reasonable assurance audit opinion shall be sought, in a report made to the Central Bank, on “the elements of the report on the solvency and financial condition of the undertaking as referred to in Regulation 52 relevant to the balance sheet, own funds and capital requirements”. On that basis the Central Bank's proposal is set out below.

Entities included in scope

1. As per Regulation 37 certain information to be submitted to the Central Bank by insurance and reinsurance undertakings shall be in scope for this engagement. It is proposed that all insurance and reinsurance undertakings regulated by the Central Bank will be in scope given the value of an audit opinion to supervisors, investors and other stakeholders. This is a new requirement for reinsurers whose regulatory returns were not subject to review by auditors under the pre-Solvency II regime.

Groups

2. With regard to Solvency II groups for which the Central Bank is Group Supervisor, it is proposed that the SCR and own funds QRTs are included in scope.

Undertakings using approved full or partial internal models

3. It is proposed that the capital requirements templates, comprising the SCR and the Minimum Capital Requirement (“MCR”), of undertakings using approved full internal models will be excluded from this proposal, given the complexity of models, the high cost of audit, the limited additional value and that the internal model is already subject to an undertakings' internal validation and the Central Bank's approval. This proposal is consistent with the approach of a number of other EU national regulatory authorities.

4. Where undertakings are using partial internal models, it is proposed that the elements of the SCR template which are calculated using the standard formula modules will be included in the scope of Solvency II audit.

Opening balances

5. As part of their procedures to support a reasonable assurance opinion on the relevant elements of the SFCR, it is expected that the auditors will perform certain audit procedures in respect of opening balances under Solvency II as required. A separate audit report will not be required in this regard.

Who shall undertake the review

6. In accordance with Regulation 37, elements of the quantitative information to be submitted to the Central Bank by insurance and reinsurance undertakings under financial services legislation and other laws applicable in the State shall be audited by a person duly qualified under the Companies Act of 2014 (“the Companies Act”).
7. A “statutory auditor” under the Companies Act, means an individual or a firm (within the meaning of those Regulations) that stands approved as a statutory auditor or statutory audit firm, as the case may be, under the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 (S.I. No. 220 of 2010).
8. An auditor (defined as a statutory auditor under the Companies Act) is an independent professional person qualified to perform an audit. In practice, a firm of auditors will usually be appointed to act as auditors to a company. Currently auditors are regulated by their professional bodies, with independent oversight by the Irish Auditing and Accounting Supervisory Authority (IAASA)⁴.

⁴ <http://www.odce.ie/Portals/0/Information%20Booklets%202014%20Act/Auditors.pdf>.
Subject to change pending the implementation of Audit Regulation (EU) 537/2014 in Ireland.

9. It is the intention of the Central Bank, in line with the pre-Solvency II regime and taking costs into consideration, that the incumbent auditor would undertake the audit of Solvency II regulatory returns / public disclosures engagement.
10. As part of their audit, auditors shall determine whether they should use the work of an auditor's expert, for example an actuarial expert. In these instances the Central Bank understands that the work of the auditor's expert may be relied on in accordance with the requirements of the International Standards on Auditing (UK and Ireland) and the audit firm's own due diligence procedures. The Central Bank expects that auditors will obtain and pay due regard to advice from an independent actuarial expert as they deem necessary.

Quantitative Reporting Templates (QRTs)

11. Under Solvency II an SFCR is required from solo undertakings and, where relevant, at group and sub group levels. Appendix 2 lists the QRTs to be audited where an SFCR is published at a solo level. Appendix 3 lists the QRTs to be audited in the case of those groups which are in scope.
12. In respect of QRT S19.01.21 (Information on non-life insurance claims in the format of development triangles for the total non-life business), the claims paid triangle in this QRT includes a 10 year "look back" period. In recognition of the cost and practicalities associated with obtaining a reasonable assurance opinion on a 10 year "look back" period the Central Bank has decided to limit the "look back" period subject to audit in the first year to 2 years (i.e. the first period audited for the purposes of the claims paid triangle will be the period ended 31 December 2014).
13. In order to enable the auditors to obtain an understanding of the valuation basis used to calculate the relevant quantitative information and assess consistency between the quantitative and qualitative information on the same items, it is expected that the auditors will review relevant qualitative elements of the SFCR. These may include, for

example, elements of the SFCR sections relating to valuation for solvency purposes and capital management.

14. The external auditor engaged by an undertaking must assess whether the information disclosed by the undertaking in its SFCR which is outside the scope of the audit engagement is consistent with the relevant elements of the SFCR and any other information to which the auditor has had access.
15. The publicly disclosed QRTs in scope will be subject to audit rather than the XBRL submissions of the same templates. However, it is the expectation of the Central Bank that there shall be no differences between the figures reported in either format.

Level of assurance

16. As set out in Regulation 37, a reasonable assurance opinion will be sought on the relevant elements of the SFCR. It is proposed that the QRTs relating to the balance sheet, technical provisions and claims, long term guarantees, own funds, the SCR (with the exception of those elements calculated using an approved internal model) and MCR, as set out in Appendices 2 and 3, shall be included in scope.

General application and implementation

17. The Central Bank intends to impose the requirements in respect of SFCRs relating to financial years ending on or after 31 December 2016.

Timing & frequency of review

18. It is proposed that the external audit of the relevant elements of the SFCR would be required on an annual basis in keeping with the frequency of audit for affected undertakings under the pre-Solvency II regime and given that the SFCR is required to be published, and submitted to the CBI at the same time, annually. The audit report shall be submitted in line with the deadlines for reporting to the Central Bank under Solvency II as follows:

Reference Year End	Deadline (Weeks)*	Deadline*
31/12/2016	20	20/05/2017
31/12/2017	18	06/05/2018
31/12/2018	16	22/04/2019
31/12/2019	14	08/04/2020

*The deadline will decrease by two weeks every year until it reaches 14 weeks as prescribed in Article 308b(5) of the Level 1 text⁵.

19. If an SFCR needs to be republished and therefore resubmitted to the Central Bank, it is proposed that such reports would be re-audited.

⁵ http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AJOL_2014_153_R_0001

Appendix 1: Regulation 37 from S.I. 485 of 2015 – European Union (Insurance and Reinsurance) Regulations 2015

Auditor's report

37. (1) Such elements of the quantitative information to be submitted by insurance undertakings and reinsurance undertakings under financial services legislation and other laws applicable in the State adopted pursuant to the Directive as may from time to time be specified by notice in writing by the Bank shall be audited by a person duly qualified under the Act of 2014 who shall make a report to the Bank in a form specified by the Bank from time to time.
- (2) The report referred to in paragraph (1) shall include a reasonable assurance opinion on the elements of the report on the solvency and financial condition of the undertaking as referred to in Regulation 52 relevant to the balance sheet, own funds and capital requirements.
- (3) Such elements of the quantitative information to be submitted by a participating insurance undertaking or participating reinsurance undertaking, an insurance holding company or a mixed financial holding company (as referred to in Regulation 216(3)(a) and (b)) under financial services legislation and other laws applicable in the State adopted pursuant to the Directive as may from time to time be specified by notice in writing by the Bank shall be audited by a person duly qualified under the Act of 2014 who shall make a report to the Bank in a form specified by the Bank from time to time.
- (4) The report referred to in paragraph (3) shall include a reasonable assurance opinion on the elements of the report on the solvency and financial condition of the participating insurance undertaking or reinsurance undertaking, insurance holding company or mixed financial holding company as referred to in Regulation 258 relevant to the balance sheet, own funds and capital requirements.

Appendix 2: Proposed elements of the SFCR to be included in scope at solo level

<p>The quantitative reporting templates (QRTs) in scope as set out in the SFCR – COMMISSION IMPLEMENTING REGULATION (EU) 2015/2452 of 2 December 2015</p>	<p>Auditors may also wish to consider relevant qualitative information as set out in the following sections of the SFCR per Annex XX of the Delegated Regulation (EU) 2015/35</p>
<p>Article 4 (a) - balance Sheet information, as specified in template S.02.01.02 of Annex I, according to the instructions in S.02.01 of Annex II;</p> <p>Article 4 (d) - information on Life and Health SLT Technical Provisions, as specified in template S.12.01.02 of Annex I, according to the Instructions in S.12.01 of Annex II, regarding each line of business as defined in Annex I of the Implementing Measures;</p> <p>Article 4 (e) - information on Non-Life Technical Provisions, as specified in template S.17.01.02 of Annex I, according to the Instructions in S.17.01 of Annex II regarding each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35;</p> <p>Article 4 (f) - information on non-life insurance claims in the format of development triangles for the total non-life business, as specified in template S.19.01.21 of Annex I, according to the Instructions in S.19.01 of Annex II.</p>	<p>D. Valuation for Solvency Purposes</p> <p>D.1 Assets</p> <p>D.2 Technical provisions</p> <p>D.3 Other liabilities</p> <p>D.4 Alternative methods for valuation</p> <p>D.5 Any other information</p>
<p>Article 4 (h) - information on own funds as specified in template S.23.01.01 of Annex I, according to the Instructions in S.23.01 of Annex II, including basic own funds and ancillary own funds.</p>	<p>E. Capital Management</p> <p>E.1 Own funds</p>
<p>Article 4 (i) - information on solvency capital requirement calculated using the standard formula, as specified in template S.25.01.21 of Annex I, according to the Instructions in S.25.01 of Annex II.</p>	<p>E. Capital Management</p> <p>E.2 Solvency Capital Requirement and Minimum Capital Requirement</p> <p>E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement</p> <p>E.6 Any other information</p>

<p>Article 4 (j) – information on the solvency capital requirement calculated using the standard formula and partial internal model as specified in template S.25.02.21 of Annex I, according to the instructions in S.25.02 of Annex II.</p>	<p>E. Capital Management</p> <p>E.2 Solvency Capital Requirement and Minimum Capital Requirement</p> <p>E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement</p> <p>E.4 Differences between the standard formula and any internal model used</p> <p>E.6 Any other information</p>
<p>Article 4 paragraph 1 (l) - information on the minimum capital requirement for insurance and reinsurance undertakings that pursue only life or non-life activity, as specified in template S.28.01.01 of Annex I, according to the Instructions in S.28.01 of Annex II;</p> <p>Article 4 paragraph 1 (m) - information on the minimum capital requirement for insurance and reinsurance undertakings that pursue both life and non-life insurance activity, as specified in template S.28.02.01 of Annex I, according to the Instructions in S.28.02 of Annex II.</p>	<p>E. Capital Management</p> <p>E.2 Solvency Capital Requirement and Minimum Capital Requirement</p> <p>E.6 Any other information</p>

Appendix 3: Proposed elements of the SFCR to be included in scope at group level

<p>The quantitative reporting templates (QRTs) in scope as set out in the SFCR – COMMISSION IMPLEMENTING REGULATION (EU) 2015/2452 of 2 December 2015</p>	<p>Auditors may also wish to consider relevant qualitative information as set out in the following sections of the SFCR per Annex XX of the Delegated Regulation (EU) 2015/35</p>
<p>Article 5(f) - information on own funds as specified in template S.23.01.22 of Annex I, according to the Instructions in S.23.01 of Annex II including basic own funds and ancillary own funds;</p>	<p>E. Capital Management E.1 Own funds</p>
<p>Article 5(g) - information on solvency capital requirement calculated using the standard formula, as specified in template S.25.01.22 of Annex I, according to the Instructions in S.25.01 of Annex II;</p>	<p>E. Capital Management E.2 Solvency Capital Requirement E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement E.6 Any other information</p>
<p>Article 5(h) – information on the solvency capital requirement calculated using the standard formula and partial internal model as specified in template S.25.02.22 of Annex I, according to the instructions in S.25.02 of Annex II.</p>	<p>E. Capital Management E.2 Solvency Capital Requirement E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement E.4 Differences between the standard formula and any internal model used E.6 Any other information</p>

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