Insurance Ireland Response to CP89 - Consultation on National Specific Templates for Insurers and Reinsurers under Solvency II

Insurance Ireland welcomes the opportunity to respond to this consultation and we appreciated the extension to the original deadline which facilitated fuller consideration of the proposals by our members.

Our submission covers all the proposed templates – Life, Non-Life and Variable Annuity (described in Sections 3, 4 and 5 of the consultation document).

On a general point we would suggest that insurers should have the option of providing the information in XPRL or Excel format.

Section 3 - Templates required for Groups, High and Medium Impact individual undertakings

<u>Non- Life Income Statement NST 01</u>

General Observations

a) Allocation of investment income and investment expenses by line of business will only ever be notional as non-life companies would not tend to manage their investment portfolio to line of business (Lob) level. Rather, this would be managed in aggregate.

b) While we appreciate that an income statement is currently provided quarterly i.e. Form 11, this is currently not required by lines of business. Only the technical income statement, i.e. Forms 1 and 2, are currently required to be split by Lob. Companies may not currently allocate the investment portfolio and non-technical income/expense by Lob. In order to produce this, it is anticipated that this income and expense would need to be apportioned on a notional basis, e.g. pro-rata by premium. We would suggest that this template is not provided by Lob as the technical account requirement is captured in NST 07.

c) There is an additional request to split commissions and management expenses by acquisition and renewal. This split may not currently be captured in financial systems and therefore there may be resources required to facilitate this. While commissions may be analysed by acquisition and renewal in other business systems, management expenses may not be recorded or analysed in this way. We would request clarification of the benefit in providing this level of granularity.

d) Please clarify if the income statement should also include movements in DAC, as is the case under Irish GAAP reporting.

<u>Life Income Statement NST.02</u>

General Observations

a) The template effectively requires quarterly IFRS / Irish GAAP accounts. This is not a current requirement and not all insurers will necessarily produce this information quarterly. Information should be on a Solvency II basis for consistency with other regulatory reporting requirements.

b) The template is split between “Insurance” and “Investment” contracts. Are these the same classifications as apply under IFRS? For ease of analysis, insurers would have a preference for using a similar categorisation to other Solvency II QRTs.
c) It is not clear what figure the template is trying to arrive at. Is it the operating profit for insurance contracts, with some information on the investment contracts shown separately? A surplus figure on a Solvency II basis may be a more informative result.
d) The domestic life Industry is in ongoing discussions with Revenue about the basis of taxation of the closed book of I-E business (Old Basis Business) under Solvency II. The starting point for the Notional Case I computation is the profit transferred to shareholders from the Long term business Funds and this should not change under Solvency II. However the profit transferred to shareholders is currently shown in the regulatory return in Form 28 and this Form will no longer be produced under Solvency II. It would be very helpful if the amount of the profit transferred to shareholders could be included as an input into the NST Life Income form as evidence of the amount of profit transferred to shareholders from the Long term Business Funds.

Comments on specific line items:

i. There is no line for individual pensions, group pensions or savings business (regular or single premium) under the insurance contract section of the template. Some of these contracts are classified as “insurance” under IFRS.
ii. The premium for business transfers in needs to be separated from other premiums. Does this include, for example, a group scheme that has been transferred from another insurance company? It could be difficult for companies to identify this separately. Also, it is not captured as new business. What is the rationale for this? Some more detail on this line would be welcome.
iii. The claims lines include death and critical illness. There are no line items for “other” claim types.
iv. What is meant by “surrender” in respect of annuity contracts? An example here would be useful.
v. The split of expenses is a lot more detailed than currently required on Form 2. In particular, claims management and investment management expenses will need to be separately identified. This may involve companies having to do a more granular expense analysis so it would be important to define these terms clearly.
vi. The line “Change in Investment Contract Provisions” needs to be defined more clearly. Is this the technical provisions under Solvency II (unit reserves, best estimate liability and risk margin) or does it just mean the unit reserves?
vii. It’s not clear why the “Change in <u>Investment</u> Contract Provisions” falls under the insurance contract section of the template. Where is the “Change in <u>Insurance</u> Contract Provisions” captured?
viii. The formula that arrives at the “Operating Profit” will not match the operating profit shown in a company’s accounts. It is not clear what this line is trying to achieve. For example, only the premium and claims on insurance contracts are captured. However, the investment income on all non-linked and unit-linked contracts (insurance and investment) is included. And the change in liability only seems to capture the investment contracts (insurance contracts excluded). This seems to be the key figure on the form and it would be important to get more clarity on what it is trying to achieve.
ix. There is no line item for single premium Group Pensions under “investment contracts”.
x. Some pension contracts have benefits other than life cover. There is no line item to capture these other claim types.
xi. For investment contracts, there are only entries for premiums and claims. There is no profit figure for this business. Is this intentional?

Section 4 - Templates required for Non-Life undertakings

General Observations

a) Our members are of the view that the proposed segmentation and frequency of reporting are very onerous. It is not clear to us in all cases what it is intended to achieve and the information required may be of little added value internally. We would suggest that consideration should be given to a cost/benefit analysis of the proposals. We would like to obtain a better understanding of why the CBI considers this level of detail and frequency of reporting to be appropriate and would be happy to meet with the CBI to discuss this further.
b) The additional reporting needs to be considered in the context of the particularly tight reporting timeframes for the Solvency II quarterly returns. We would request that the CBI might consider making the requirements annual rather than quarterly. In this regard, it is noted that the CBI is requesting more than is required by EIOPA on an annual basis, but expecting it within the quarterly reporting timeframe.
c) The classes of business are generally at odds with those set down in Solvency II reporting templates and resources would therefore be required in order to allocate reserves to different risk classes.
d) In order to report on the basis required under Solvency II and that required by the Central Bank (including risk margin allocation), high levels of granularity within reserving will be required. We would ask the CBI to clarify why this level of granularity is required.
e) Allocation of risk margin back to the level of granularity required in all of these templates would be extremely onerous.
f) Within the EIOPA 12 lines of business (Lobs), there is a split of Workers Compensation and General liability, with Workers Compensation being part of Accident & Health. CP89 requires a further split of General liability into Employers Liability (EL) and Public Liability (PL) and Other. Within the Solvency 1 forms Employers Liability is reported under General Liability, and Workers Compensation is reported under Accident & Health. Can you clarify within Solvency II if the intention is to distinguish between Workers Comp and Employers Liability and that Workers Compensation business will not be captured in this additional reporting requirement?
g) CP89 references CP73 as the basis for requiring the additional information on the technical provision QRTs. While the SAO, in compliance with the principles of CP73, is likely to contain granular data splits for Motor, this SAO is prepared on an Irish GAAP reporting basis. The request to now report this data on a Solvency II basis will require additional processes. Please clarify the benefit of this granularity above what will be reported in SAO on an Irish GAAP basis.
h) The request to produce these templates with a split for direct and intermediated business will require significant process changes. While we can see value in providing the distribution channel for particular lines of business for example Personal lines Motor and Property; we would question whether there is a benefit in providing a distribution split for all Lobs. We note that the PRA have requested a split by distribution channel within their NS.07 (Business Model Analysis) but have restricted the request to lines of business for which it would provide the most insight i.e. Income protection, Motor, Fire and Other property damage. It is not clear what benefit will arise from the split by distribution channel where direct business is a small proportion of the total book – e.g. liability lines. In addition the split is required for the risk margin within NST.04 which would need to be apportioned and may therefore provide little value to the reader. In summary we would recommend a revision of this requirement at least to restrict the scope of the request to split over distribution channel.
i) We note that for NST.01 there is a paragraph specifying that the accounting basis is IFRS or Irish GAAP, but that there is no corresponding paragraph for the remaining Non-

Life templates. We assume that the other templates are required on a Solvency II basis, in line with the EIOPA requirements, although this means that they will not be aligned with the SAO requirements mentioned in section 4.1. It would be helpful to clarify the accounting basis required.

Comments on specific templates

NST.03

The classes of business are generally at odds with those set down in Solvency II reporting templates and significant resources would be required in order to allocate reserves to different risk classes.

In order to report on the basis required under Solvency II and that required by the Central Bank (including risk margin allocation), high levels of granularity will be required. We would query why this level of granularity is required.

Allocation of risk margin back to the level of granularity required in all of these templates would require additional resources.

The country of risk may prove difficult for non-life reinsurers.

NST.04

There is a requirement to provide the location of risk for all lines of business. This issue of location of risk was previously addressed in feedback to EIOPA and EIOPA subsequently amended the requirements to location of risk required only for five lines of business: Medical Expense, Income Protection, Workers Compensation, Fire and other damage to property, Credit and Suretyship. For all other lines of business, information is to be reported by country where the contract was entered. Providing location of risk for all lines of business would require additional resources. In addition, location of risk is an annual requirement in the proposed EIOPA templates and is only required for the gross best estimate; this is now being requested quarterly and also for the full template which will be difficult in the tight timelines.

This template is currently requiring a breakdown by location of risk, by Lob and by distribution channel. In line with earlier comments, we would query the proposal to break down the template by location of risk and distribution channel. This also appears to be inconsistent with the paper itself which does not suggest a split by channel is required.

The headings for distribution channels are different to NST 03 i.e. NST 03 row 4 states 'Direct business and accepted proportional reinsurance' whereas NST 04 row 4 states 'Direct business and accepted proportional reinsurance' and 'Broker business and accepted proportional business'. Please clarify the requirement or align with NST 03.

NST.05

Companies would not tend to manage their cashflows to this level of granularity. Please clarify why this breakdown is required.

As noted above, companies would not manage their investments to a line of business level.

Latent claims by their nature are uncertain and specific cashflows for them will only ever be subjective.

EIOPA states that the benefit of this template is to provide supervisors an overview of the cashflows of a company to help identify any Asset-Liability management issues. How will the further level of granularity being requested here improve this insight?

This template is requested annually by EIOPA; to prepare this template on a quarterly basis will increase the reporting burden beyond what is currently planned given the already tight quarterly deadlines. We note that the format of the template suggests that it is in fact annual.

There is a requirement to produce this template for General liability and Motor Lobs. EIOPA has stated that the purpose of this template is to provide an overview of asset/liability management issues and possible liquidity risk arising from the whole non-life portfolio. In general, GI companies write multiple lines of business which enables them to manage ALM and liquidity risks on a total portfolio basis thus realising benefits of diversification. What is the justification for requiring a Lob split?

This template requests a split for liability and motor latent claims. Please clarify what you mean by 'latent' in this instance in the eventual requirements. While companies do reserve for what may be deemed latent claims (i.e. APH) within the liability Lob, there is not currently any such issue in motor. Can you please clarify what is envisaged under motor in the eventual requirements? Additionally, the requirement to split latent claims by Lob will require process changes.

<u>NST.06</u>

We would not expect claims development to be different by channel, although we accept that ultimate loss ratios may be different. Companies may not reserve by distribution channel and we would question the need for this requirement quarterly.

This template is requested annually by EIOPA; to prepare this template on a quarterly basis will increase the reporting burden in the already tight quarterly deadlines. We note that the template appears to be on an annual basis.

<u>NST.07</u>

See general points on granularity above.

In Ireland, the UK and Portugal motor policies are priced and sold as one Motor premium. It is not therefore possible to split the premium by the granular motor lobs requested in this template. Due to the nature of how the business is written in these countries, we recommend that all motor business is recorded as Motor Liability and that there is no requirement to split further within this template. Any split would be a notional split, apportioned by claims incurred.

If required, we propose that the requirement to report distribution channel is restricted to premiums, claims and commission/acquisition expenses, and as stated previously, restricted to Lobs where it will provide the most insight.

NST 07 is the annual template now requested quarterly and with additional Lob and distribution splits. Can you please clarify the justification for requesting the annual template on a quarterly basis in the eventual requirements?

Section 5 - Templates for Variable Annuity business

General Observations

a) The proposals here follow on from the separate constructive discussions the Variable Annuity Working Group has had with the CBI on the VA Risk Monitor requirements for the interim period before full implementation of Solvency II. Subsequent to the issue of CP89, some further changes were agreed by the CBI to the Risk Monitor. In particular the CBI took on board industry concerns that the requirement for the full set of stresses on a quarterly basis was overly onerous and agreed that the requirement should be an annual one. We request that these requirements should continue to be on an annual basis following full implementation of Solvency II.

b) We gather that some providers may have received derogations from certain of the interim requirements based on the profile of their VA business and we would suggest that as a general principle these derogations should be carried over to the SII regime. We would expect that this would be progressed through bilateral discussions between the relevant companies and the regulator.

c) Not every line of every return may be relevant to all providers. We would welcome clarification that the sections need only be completed where they are material.

Issues for Consultation

VA Issue 1 – Basis for P&L attribution

This has been covered in the discussions about the Risk Monitor. The strong preference of the VA working group is to use the Company's own hedging basis as the alternatives would require a disproportionate amount of effort and the information produced would be of limited use to the provider itself.

VA issue 2 – Attribution for reinsured business

We note that for direct writers of VA who have reinsured guarantees and are rated High the CBI requires a look through basis for the P&L attribution. For the avoidance of doubt we would confirm our understanding that where there is reinsurance of guarantees and the rating is other than High then this does not apply.

It is also our understanding that that the scope of application of the requirements in 5.2 – 5.5 would be limited to those companies that carry out (dynamic) hedging.

VA Issues 3 – Split between VA and non-VA business

Our understanding is that the purpose of this exercise is to assess the impact of the stresses on the hedging programme and not to examine solvency. For this reason we would suggest that it should be done without consideration of excess shareholder assets, i.e. only assets (including hedge assets) allocated to the VA business would normally be included. The stressing of the overall balance sheet will be done as part of the SII requirements and will allow appropriately for the calibration of the risks as well as any diversification benefits. There was a concern among some members of the working group that inclusion of the shareholder assets in the way described could lead to capital requirements different to the capital required under Solvency II – something that they were keen to avoid. Adopting this approach then precludes the need for stressing the whole balance sheet which will result in considerable additional work for those affected.

VA Issues 4 and 5

On the one hand, the Solvency II ORSA approach of its nature will give rise to results which are specific to individual providers. On the other hand, there is the CBI's desire as regulator to have information in a standardised format from VA providers. We would suggest that, rather than seeking to see how these might interact, it might be more practical to view the proposed stresses as a standalone exercise.