

**CEO Name** Insurance Undertaking Name Address1

Address4

Address5

16 April 2018

RE: Solvency II Regulatory Reporting

Dear CEO Name,

T +353 1 224 6000 F +353 1 671 5550 Bosca OP 559, Sráid Wapping Nua, Cé an Phoirt Thuaidh, Address2 Baile Átha Cliath 1, Éire. Address3 Po Box No. 559, New Wapping Street, North Wall Quay, Dublin 1, Ireland.

www.centralbank.ie

Since the introduction of Solvency II in 2016, the Central Bank has received one annual, and a series of quarterly Quantitative Reporting Templates (QRTs) and National Specific Templates (NSTs). The purpose of this letter is to share observations from our analysis of QRT/NST submissions to date and our observations from recent onsite inspections into the governance, controls and data quality around regulatory reporting.

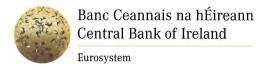
This letter should be shared with the Board of your regulated entity and be considered in the context of the directors' accuracy certificates. It is the Central Bank's intention to follow up directly with those that have signed the accuracy certificates on instances where inaccuracies are evident in the next annual submissions.

It is essential that (re)insurance undertakings have a robust regulatory reporting framework in place. Regulatory returns are used to inform the Central Bank's assessment of (re)insurance undertaking's risk profile and to assess the financial position of (re)insurance undertakings. All (re)insurance undertakings have an obligation, codified in conditions of authorisation, that they will not provide information to the Central Bank, which they know, or ought reasonably to know, is false or misleading.

It is evident from interactions and analysis of submissions that (re)insurance undertakings are still developing and embedding their processes and controls around regulatory reporting, with the quarterly reporting processes being more mature than that of the annual process. While the Central Bank has seen improvements in the quality of submissions, resubmission rates are still unacceptably high.

The responsibility for ensuring the accuracy of regulatory returns submitted to the Central Bank lies with the Board and Senior Management; in particular, in respect of the annual returns there is a requirement for a directors' accuracy certification.

In order to assist with (re)insurance undertakings understanding of regulatory reporting requirements under Solvency II, the Central Bank has provided industry briefings/workshops, published the detail of its internal checks, and communicated directly with (re)insurance undertakings following submissions received. Some of the themes identified in this letter have previously been raised at these fora.



### **Onsite Inspection**

Following the submission of the first set of annual returns in 2017, the Central Bank undertook a thematic onsite inspection of the regulatory reporting process in a sample of (re)insurance undertakings. The purpose of this inspection was to assess if (re)insurance undertakings had established a robust, documented and quality assured, end-to-end process for the creation, validation, sign off and transmission of the Solvency II returns. The review included an assessment of the policies and procedures; key controls in the regulatory reporting process; error reporting process; Board oversight; independent review of the regulatory reporting process; and overall data quality.

An assessment of quarterly and annual regulatory returns by the Central Bank, in conjunction with the thematic onsite inspection, into the governance and controls and data quality of QRT/NST submissions, has identified a number of recurring themes across (re)insurance undertakings, as well as good and poor practices. In an effort to improve the consistency of implementation of the Solvency II, Pillar III requirements, we are sharing examples of some good and poor practices with you. These are outlined in the Appendix to this letter.

The inspection identified that some (re)insurance undertakings are not Solvency II compliant for the following reasons:

### Supervisory Reporting Policy

Some (re)insurance undertakings have failed to meet the basic requirement of having a Supervisory Reporting policy in place. The purpose of the Supervisory Reporting Policy is to ensure the on-going appropriateness of information submitted to the Central Bank. Without clear expectations and accountabilities, there is a risk that (re)insurance undertaking's staff do not understand their role and responsibilities in relation to ensuring the on-going appropriateness of information submitted to the Central Bank.

## **Board Governance**

In respect of governance, the Board in some (re)insurance undertakings are not presented with the full suite of annual QRTs, but instead are presented with the QRTs that form part of the Solvency and Financial Condition narrative report (SFCR) only. This is despite the fact that the Board members are required to approve all annual QRTs prior to submission to the Central Bank.

#### Second and Third Line of Defence

It has also been observed that in some (re)insurance undertakings there has been minimal oversight or active engagement by the Risk and Compliance function of the QRT/NST regulatory reporting process. In addition, the Internal Audit functions of some (re)insurance undertakings have not considered a review of elements of the QRT/NST regulatory reporting process. Now that Solvency II has become part of business as usual, the expectation is that there is ongoing involvement by the second and third line of defence in the regulatory reporting process, and that Solvency II regulatory reporting risks, including data quality, are included on the risk register and form part of the Internal Audit universe.



Without independent review, the regulatory reporting process may not be fit for purpose, or may not function in a manner consistent with established policies. In addition, there may be insufficient review of data, leading to an elevated risk of errors in reported QRT/NST returns. (Re)insurance undertakings should have an appropriate second and third line of defence in place that considers the risks inherent in the QRT/NST regulatory reporting process and conducts reviews of the process on a regular or cyclical basis. It is difficult to understand how the Board and senior management can gain assurance over the integrity of the reporting process without such oversight from the (re)insurance undertakings second and third lines of defence.

#### **Key Controls**

It has been observed that key control points identified in the regulatory reporting processes are not being set out in detailed process documents and when control checks are conducted, the evidence of these checks are not always recorded.

The expectation is for all (re)insurance undertakings to submit signed directors' accuracy certificates to the Central Bank, where the directors attest to the accuracy of the information of all annual QRTs. If there is a lack of evidence of the control framework operating as intended or the director has not been presented with all QRTs, there is a concern that the directors cannot evidence the assurance process that was the basis for attesting to the accuracy of reporting.

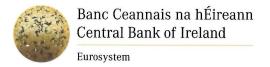
#### **Process Documentation**

It has been observed that there is a lack of documentation of the end-to-end regulatory reporting process. It is the expectation that the documentation includes but is not limited to, a data map; details of manual adjustment process; details of controls/inclusion of a control matrix; and prescriptive guidance for preparers and reviewers in relation to reconciliations and validation checks which must be conducted. Documentation of the regulatory reporting process should be to a standard that any individual should be able to read the document, and understand how the process and controls operate. Documenting the process to this standard will go some way in mitigating key person risk, which was a common theme identified during the inspection.

#### Error Management

In respect of error management for regulatory reporting, it has been observed that this process requires enhancement. (Re)insurance undertakings are not recording identified errors consistently. They are not conducting analysis of these errors and they are not conducting lessons learned to ensure that these errors do not recur. As a result, the Central Bank are observing the recurrence of errors that have previously been rectified. Further, without such error reporting, it is not obvious how the Board can be made aware of the issues arising with respect to the accuracy of the reporting over which they have oversight.

Please note that the matters raised in this letter should not be considered as an exhaustive list of good and poor practices relating to regulatory reporting within the insurance industry.



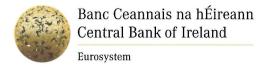
We hope that you have found this information beneficial and if you have any queries, please do not hesitate to discuss with your supervisory contact.

Yours sincerely

Sylvia Cronin

**Director of Insurance Supervision** 

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## Appendix: Examples of Good and Poor Practice observed

Area under review	Good Practice identified	Poor Practice identified
Board Governance	<ul> <li>Full suite of annual QRTs presented to the Board</li> <li>Evidence of discussion and challenge at Board of QRT/NSTs</li> <li>Board Packs include explanatory information for the Board members explaining key movements/changes within QRTS</li> <li>Formal training provided to Board members in advance of approving annual returns</li> <li>Board approved/Senior Management plan to enhance and embed the regulatory reporting processes to ensure data quality and accurate submissions</li> </ul>	<ul> <li>Directors Accuracy Certificate not signed by two directors and CEO, as required by Solvency II</li> <li>The Board are presented with and review only a selection of annual QRTs</li> <li>No Senior Management Review meeting held, prior to sign off of QRT/NSTs</li> <li>No formal training on QRT/NST regulatory reporting provided to the Board</li> <li>Inadequate evidence of the level of discussion and challenge, of the annual QRTs, by the Board</li> </ul>
Second & Third Line of Defence	<ul> <li>External review of the SFCR presented to the Audit Committee and detailed discussion evidenced in Audit Committee minutes</li> <li>Internal Audit conduct reviews of elements of the QRT/NST regulatory reporting process</li> <li>Internal Audit conduct review of the end-to-end regulatory reporting process to ensure it is fit for purpose</li> <li>Risk and Compliance are actively engaged in Solvency II regulatory reporting processes</li> <li>External review of the Non SFCR QRT templates</li> </ul>	<ul> <li>No independent review conducted by Internal Audit of the QRT/NST process or of any element of the QRT/NST regulatory reporting process</li> <li>No evidence of Risk or Compliance involvement in any stage of the QRT/NST regulatory reporting process</li> </ul>
Policies and Procedures	<ul> <li>Documentation of end-to-end process</li> <li>Board approved Supervisory         Reporting policy in place</li> <li>Consistent version control on all         relevant documentation</li> </ul>	<ul> <li>No Supervisory Reporting policy</li> <li>Poor version control on policies and procedures</li> </ul>
Key Controls	<ul> <li>Segregation of duties in respect of the tasks carried out by the Preparer and the Reviewer in the QRT/NST preparation process</li> <li>The checks to be performed by the Preparer and the Reviewer, as part of the QRT/NST preparation process, are documented (e.g. checklist)</li> <li>Evidence of the checks performed by Preparer and the Reviewer in the</li> </ul>	<ul> <li>Lack of segregation of duties between the Preparer and the Reviewer</li> <li>Lack of documented checks to be performed during the QRT/NST preparation process by the Preparer and the Reviewer</li> <li>Lack of evidence of review and sign off of individual QRT/NST templates by Preparer/Reviewer/Executive sign off (CFO)</li> </ul>



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	QRT/NST preparation process are recorded  The checks to be performed by the Executive sign off (CFO), as part of the final submission process, are documented and evidenced.  System in-built EIOPA validation checks  Review and validation of manual changes to system generated data, or amalgamation of data from multiple sources  Internal Audit conduct a review of the design and test operational effectiveness of the regulatory reporting process  Senior Management review meeting held to discuss results and prior period deviations/exceptions  Scheduling document maintained ensuring clear timelines for functions to provide information for the QRT/NST regulatory returns	<ul> <li>No manual adjustment sign off process in place</li> <li>Lack of documentation of key controls</li> <li>Lack of evidence of operation of controls</li> </ul>
Error Management	<ul> <li>Documented errors handling process</li> <li>Log of errors to include errors identified by the Central Bank and errors identified internally by the (re)insurance undertaking throughout the regulatory reporting process</li> <li>Regular reporting of errors to Management</li> <li>Lessons learned exercises are conducted to ensure that errors do not recur</li> <li>Analysis of error patterns are conducted</li> <li>Errors are included as a standing agenda item at Senior Management review meetings</li> </ul>	<ul> <li>No log maintained to capture either internal or Central Bank identified errors</li> <li>No documented error handling process</li> <li>No analysis of error patterns conducted and reported to Senior Management</li> <li>No formal lessons learned log or sessions conducted</li> </ul>
Data Quality	<ul> <li>In-depth knowledge by Preparers and Reviewers of the regulatory reporting process. This ensures there is an understanding of the various steps involved in the preparation and review of the QRT/NSTs</li> <li>Fully documented end-to-end processes for the QRT/NST preparation</li> <li>The process around the XBRL tool is fully documented</li> <li>Mitigation of the operational risk around the QRT/NST preparation</li> </ul>	<ul> <li>Incorrect assumptions in some templates, e.g. errors in the S.04 template reporting 'FOS business' as 'home business'.</li> <li>No detailed documentation on the XBRL tool process</li> <li>Data input manually, without mitigating controls in place</li> <li>Overreliance on Group for certain aspects of regulatory reporting which could impede on the time taken by the local entity to submit returns to the Central Bank</li> </ul>



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	process by automating manual steps in the process  Consistent version control	Feedback provided by the Central Bank does not trigger changes in the QRT/NST process resulting in the same data quality issues recurring in later submissions
Key Person Risk	<ul> <li>Key person dependency monitored on an ongoing basis</li> <li>Key person risk noted on "top risks" matrix</li> <li>Evidence of cross-training as a mitigation strategy for key person risk</li> <li>Annual review of human resources and skillset base</li> <li>Key person dependency mitigated by having a clear and detailed underlying documentation of the preparation and review steps in the QRT/NST regulatory reporting process</li> </ul>	<ul> <li>Overreliance on key people for the generation of QRT/NST regulatory reporting</li> <li>Lack of documentation regarding roles and responsibilities of key individuals involved in the regulatory reporting process</li> <li>No evidence of key person dependency analysis performed for each stage of the QRT/NST reporting process</li> <li>Where (re)insurance undertakings have identified a key person risk, there is limited challenge of the effectiveness of the mitigation strategies that the (re)insurance undertakings have in place</li> </ul>
Training	<ul> <li>Training delivered to the regulatory reporting teams involved in the QRT/NST regulatory reporting process</li> <li>Formal training in the area of regulatory reporting provided to the Board</li> </ul>	<ul> <li>No formal training for new starters in the area of regulatory reporting</li> <li>No formal ongoing training plan for current staff in the area of regulatory reporting</li> <li>No formal training provided to Board members in the area of regulatory reporting</li> </ul>