

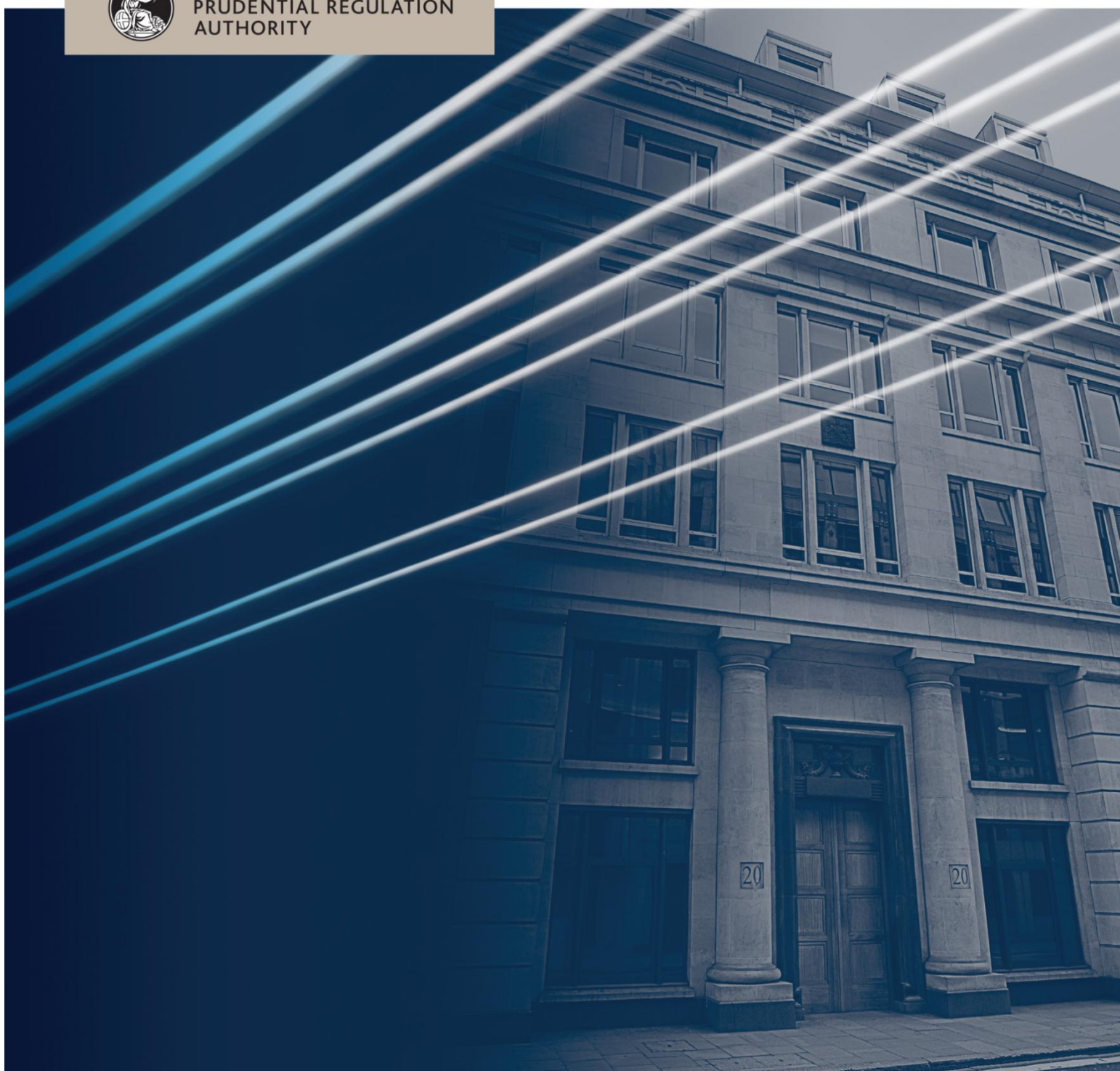
Supervisory Statement | SS40/15

Solvency II: reporting and public disclosure - options provided to supervisory authorities

October 2015



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1 Introduction

1.1 This supervisory statement is of interest to all UK insurance firms and groups within the scope of Solvency II, the Society of Lloyd's and, where applicable, to third country branches. For third country branches it should be read alongside the EIOPA Guidelines and the Prudential Regulation Authority's (PRA's) Rules¹ and supervisory statement² on third country branches.

1.2 This supervisory statement has been subject to public consultation³ and reflects the feedback that was received by the PRA. It sets out the PRA's expectations of firms where the Solvency II supervisory reporting Implementing Technical Standards (ITS) and the Solvency II public disclosure ITS⁴ allows supervisory authorities to specify different approaches to the default set out in the standards, or requires supervisory authorities to issue instructions. This supervisory statement sets out the PRA's expectations of how firms are to comply with the standards when options are provided to supervisory authorities in the following areas:

- Solvency II reporting currency.
- Exchange rates.
- Accident or underwriting year reporting.
- Claim size brackets for loss distribution risk profile.
- Sum insured size brackets for non-life distribution of underwriting risks by sum insured.
- Lines of business to be reported for non-life distribution of underwriting risks by sum insured.
- Reporting of annuities stemming from non-life obligations by currency.
- Development of the distribution of reported but not settled (RBNS) claims - reporting number of claims.
- Reporting external credit ratings.
- Group reporting where the PRA is the group supervisor and there are no consolidated financial statements at the head of the insurance or reinsurance group.

1.3 The PRA has consulted with the Financial Conduct Authority (FCA) on this supervisory statement.

2 Solvency II reporting currency

2.1 Article 1 of the Solvency II supervisory reporting ITS and Article 1 of the Solvency II public disclosure ITS allows supervisory authorities to specify the reporting currency to be other than that used for the preparation of financial statements.

¹ PRA PS2/15 'Solvency II: a new regime for insurers' March 2015
<http://www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps215.aspx>

² PRA SS10/15 'Solvency II: third country branches', March 2015
<http://www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss1015.aspx>

³ PRA CP25/15, 'Solvency II: reporting and public disclosure - options provided to supervisory authorities', August 2015;
<http://www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp2515.aspx>

⁴ Please note: as at 30 October 2015, the Solvency II supervisory reporting ITS and the Solvency II public disclosure ITS had been published in EIOPA final reports on public consultations 14/052 and 14/055 respectively and were awaiting formal adoption by the European Commission. This supervisory statement will only be updated if there are substantive changes to the ITS on their formal adoption.

2.2 For individual reporting the PRA expects firms to use the currency used for the preparation of the insurance or reinsurance undertaking's financial statements as their reporting currency.

2.3 For group reporting where the PRA is the group supervisor and where consolidated financial statements are prepared, the PRA expects the reporting currency to be the currency used for the preparation of the consolidated financial statements. Where consolidated financial statements are not prepared, see section 11 of this supervisory statement.

3 Exchange rates

3.1 Article 3(4) of the Solvency II supervisory reporting ITS and Article 3(4) of the Solvency II public disclosure ITS allows supervisory authorities to specify the conversion to the reporting currency to be other than the exchange rates used in the firm's financial statements.

3.2 For individual reporting the PRA expects firms to apply the exchange rates from the same source as used for the insurance or reinsurance firm's financial statements for conversion to the reporting currency.

3.3 For group reporting where the PRA is the group supervisor and where consolidated financial statements are prepared, the PRA expects firms to apply the exchange rates from the same source as used for the insurance or reinsurance firm's consolidated financial statements for conversion to the reporting currency. Where consolidated financial statements are not prepared, see section 11 of this supervisory statement.

4 Accident or underwriting year reporting

4.1 Articles 11(g), 11(k), 11(l) and 11(m) of the Solvency II supervisory reporting ITS require firms to submit claims information on templates S.16.01.01, S.19.01.01, S.20.01.01 and S.21.01.01 of Annex I following instructions set out in S.16.01.01, S.19.01.01, S.20.01.01 and S.21.01.01 of Annex II respectively. Article 4(f) of the Solvency II public disclosure ITS requires firms to disclose claims information in S.19.01.21 of Annex I following the instruction set out in S.19.01 of Annex II.

4.2 These instructions allow supervisory authorities to specify whether the information for a line of business (LoB) is to be reported by accident (i.e. the information within a LoB is aggregated by the year the claim event occurred) or reported by underwriting year (i.e. the information within a LoB is aggregated by the year the insurance or reinsurance obligations were recognised), and whether the information is to be disclosed on template S.19.01.01 by accident year or by underwriting year.

4.3 The PRA is giving firms the choice of whether to report in these templates all information for a LoB by accident year or by underwriting year, and whether to disclose the information on template S.19.01.21 by accident year or by underwriting year. However, once a choice of reporting and disclosure basis is made, the PRA expects that choice to be applied for future reporting periods.

4.4 The PRA expects a firm's choice to report a line of business by accident or underwriting year, and to disclose the information on template S.19.01.21 by accident or underwriting year, to be consistent with how the firm manages its business and reports data internally.

4.5 Firms are expected to discuss any change to reporting of a LoB between accident and underwriting year, and any change to disclosing on template S.19.01.21 between accident and underwriting year, with their usual supervisory contact prior to making the change.

5 Claim size brackets for loss distribution risk profile

5.1 Article 11(m) of the Solvency II supervisory reporting ITS requires firms to submit in template S.21.01.01 of Annex I non-life loss distribution information aggregated by claim incurred size brackets within an accident or underwriting year within a LoB. The instructions set out in S.21.01 of Annex II require supervisory authorities to define the start and end point of each bracket where the reporting currency is not Euro. These instructions also allow supervisory authorities to specify claim size brackets where incurred losses are small.

5.2 When the reporting currency is GBP, EUR, USD, CAD, CHF, AUD, NZD or SGD the PRA expects firms to select one of the following six base options of claims incurred size brackets for a specified LoB with the 'start claims incurred' and 'end claims incurred' items of each bracket being in the reporting currency:

- 20 brackets of 250 plus 1 extra open bracket for incurred losses => 5,000.
- 20 brackets of 5,000 plus 1 extra open bracket for incurred losses => 100,000.
- 20 brackets of 50,000 plus 1 extra open bracket for incurred losses => 1 million.
- 20 brackets of 250,000 plus 1 extra open bracket for incurred losses => 5 million.
- 20 brackets of 1 million plus 1 extra open bracket for incurred losses > 20 million.
- 20 brackets of 5 million plus 1 extra open bracket for incurred losses > 100 million.

5.3 When the reporting currency is other than GBP, EUR, USD, CAD, CHF, AUD, NZD or SGD the PRA expects firms to select one of the following six base options of claims incurred size brackets for a specified line of business with the 'start claims incurred' and 'end claims incurred' items of each bracket multiplied by a PRA specified fixed exchange rate factor and rounded to the nearest integer:

- 20 brackets of 250 plus 1 extra open bracket for incurred losses => 5,000.
- 20 brackets of 5,000 plus 1 extra open bracket for incurred losses => 100,000.
- 20 brackets of 50,000 plus 1 extra open bracket for incurred losses => 1 million.
- 20 brackets of 250,000 plus 1 extra open bracket for incurred losses => 5 million.
- 20 brackets of 1 million plus 1 extra open bracket for incurred losses > 20 million.
- 20 brackets of 5 million plus 1 extra open bracket for incurred losses > 100 million.

5.4 The PRA fixed exchange rate factor referred to in 5.3 is the European Central Bank EUR to reporting currency exchange rate as at 31 December 2015. The PRA has chosen a fixed exchange rate in order to have consistent brackets over time. The PRA may choose in the future to amend the fixed exchange rate factor for a specific currency if the value of that currency relative to the EUR changed to the extent that the claim size brackets defined in 5.3 was no longer appropriate.

5.5 An example of how 5.2 to 5.4 might be applied is shown in Appendix 1 of this supervisory statement.

5.6 The PRA also expects firms to:

- (i) use only the claims incurred size brackets set out in 5.2 to 5.4 (i.e. not use firm specific brackets);

- (ii) select the base option of claims incurred size brackets for a LoB:
 - (a) that provides the best insight into the distribution of claims incurred for that line of business and;
 - (b) that avoids, where possible, nearly all the number of claims for a LoB falling into bracket 1 or bracket 21 (if all the claims for a LoB are of a very small size or a very large size this might not be possible).
- (iii) discuss any change to the base option of claims incurred size brackets for a LoB with their usual supervisory contact prior to making the change; and
- (iv) only change the base option of claims incurred size brackets for a LoB if the current selected base option would give inadequate insight into the distribution of claims incurred.

6 Sum insured size brackets for non-life distribution of underwriting risks by sum insured

6.1 Article 11(o) of the Solvency II supervisory reporting ITS requires firms to submit in template S.21.03.01 of Annex I information on non-life underwriting risks aggregated by sum insured size brackets within a LoB. The instructions set out in S.21.03 of Annex II require supervisory authorities to define the start and end points of each bracket where the reporting currency is not Euro. These instructions also allow supervisory authorities to specify sum insured size brackets where sums insured are small.

6.2 When the reporting currency is GBP, EUR, USD, CAD, CHF, AUD, NZD or SGD the PRA expects firms to select one of the following six base options of sum insured size brackets for a specified LoB with the 'start sum insured' and 'end sum insured' items of each bracket being in the reporting currency:

- 20 brackets of 1,250 plus 1 extra open bracket for sum insured => 25,000.
- 20 brackets of 25,000 plus 1 extra open bracket for sum insured => 500,000.
- 20 brackets of 50,000 plus 1 extra open bracket for sum insured => 1 million.
- 20 brackets of 250,000 plus 1 extra open bracket for sum insured => 5 million.
- 20 brackets of 1 million plus 1 extra open bracket for sum insured > 20 million.
- 20 brackets of 5 million plus 1 extra open bracket for sum insured > 100 million.

6.3 When the reporting currency is other than GBP, EUR, USD, CAD, CHF, AUD, NZD or SGD the PRA expects firms to select one of the following six base options of sum insured size brackets for a specified line of business with the 'start sum insured' and 'end sum insured' items of each bracket multiplied by a PRA specified fixed exchange rate factor and rounded to the nearest integer:

- 20 brackets of 1,250 plus 1 extra open bracket for sum insured => 25,000.
- 20 brackets of 25,000 plus 1 extra open bracket for sum insured => 500,000.
- 20 brackets of 50,000 plus 1 extra open bracket for sum insured => 1 million.
- 20 brackets of 250,000 plus 1 extra open bracket for sum insured => 5 million.
- 20 brackets of 1 million plus 1 extra open bracket for sum insured > 20 million.
- 20 brackets of 5 million plus 1 extra open bracket for sum insured > 100 million.

6.4 The PRA fixed exchange rate factor referred to in 6.3 is the European Central Bank EUR to reporting currency exchange rate as at 31 December 2015. The PRA has chosen a fixed exchange rate in order to have consistent brackets over time. The PRA may choose in the future to amend the fixed exchange rate factor for a specific currency if the value of that currency relative to the EUR changed to the extent that the sum insured size brackets defined in 6.3 was no longer appropriate.

6.5 An example of how 6.2 to 6.4 might be applied is shown in Appendix 1 of this supervisory statement.

6.6 The PRA also expects firms to:

- (i) use only the sum insured size brackets set out in 6.2 to 6.4 (i.e. not use firm specific brackets);
- (ii) select the base option of sum insured size brackets for a LoB:
 - (a) that provides the best insight into the distribution of sums insured for that line of business;
 - (b) that avoids, where possible, nearly all the number of underwriting risks for a LoB falling into bracket 1 or bracket 21 (if all the sums insured for a LoB are of a very small size or a very large size this might not be possible); and
 - (c) so that if the LoB contains risks of unlimited sum insured, where possible only those risks with unlimited sum insured are allocated to bracket 21.
- (iii) discuss any change to the base option of sum insured size brackets for a LoB with their usual supervisory contact prior to making the change; and
- (iv) only change the base option of sum insured size brackets for a LoB if the current selected base option would give inadequate insight into the distribution of sums insured.

7 Lines of business to be reported for non-life distribution of underwriting risks by sum insured

7.1 Article 11(o) of the Solvency II supervisory reporting ITS requires firms to submit information on non-life underwriting risks in template S.21.03.01 of Annex 1 following instructions set out in S.21.03 of Annex II. These instructions give the supervisory authority some discretion on the LoBs to be reported.

7.2 The PRA expects firms to report non-life distribution of underwriting risks by sum insured in template S.21.03.01 for each of the following LoBs:

- Other motor insurance.
- Marine, aviation and transport insurance.
- Fire and other damage to property insurance.
- Credit and suretyship insurance.
- Motor vehicle liability insurance.
- General liability insurance.
- Medical expenses insurance.
- Income protection insurance.

- Worker's compensation insurance.
- Miscellaneous financial loss.
- Legal expenses insurance.
- Assistance.

8 Reporting of annuities stemming from non-life obligations by currency

8.1 Article 11(g) of the Solvency II supervisory reporting ITS requires firms to submit information on annuities stemming from non-life obligations in template S.16.01.01 of Annex I following the instructions set out in S.16.01 of Annex II. These instructions allow supervisory authorities to specify currencies other than the original currency of the contracts.

8.2 The PRA expects firms to report the information on template S.16.01.01 in the original currency of the contracts.

9 Development of the distribution of reported but not settled (RBNS) claims - reporting number of claims

9.1 Article 11(l) of the Solvency II supervisory reporting ITS requires firms to submit information on RBNS claims in template S.20.01.01 of Annex I following the instructions set out in S.20.01 of Annex II. These instructions allow supervisory authorities to specify the definition of number of claims.

9.2 The PRA expects firms to use their own definition for number of claims at items C0020, C0060, C0090, C0110, C0140, C0170 and C0200 in template S.20.01.01. However, where an insurance and reinsurance contract covers risks across lines of business and the firm has unbundled the obligations relating to that contract into the appropriate LoBs for the purpose reporting template S.17.01.01, then the PRA expects a firm's definition of number claims reported on template S.20.01.01 to be consistent with this unbundling. In particular, any obligation for which gross RBNS or gross payments made to date are included in template S.20.01.01 for a LoB should have a corresponding claim count for that LoB.

9.3 An example of how 9.2 might be applied is shown in Appendix 2 of this supervisory statement.

10 Reporting external ratings

10.1 Articles 10(b) and 10(e), of the Solvency II supervisory reporting ITS requires individual firms to submit individual asset data on template S.06.02.01 and individual open position derivative data on template S.08.01.01 of Annex 1 following the instructions set out in S.06.02 and S.08.01 of Annex II respectively. Articles 27(b) and 27(e) require groups to submit individual asset data on template S.06.02.04 and individual open position derivative data on template S.08.01.04 following instructions set out in S.06.02 and S.08.01 of Annex III.

10.2 These instructions allow supervisory authorities to exempt a firm from reporting external ratings and nominated external credit assessment institutions (ECAI) at individual asset or derivative level in specific circumstances. The PRA does not envisage exempting UK firms from complying with the instructions in the Solvency II reporting ITS set out in S.06.02 of Annexes II and III under items 'external rating' (C0320) and 'nominated ECAI' (C0330), or set out in S.08.01 of Annexes II and III under items 'external rating' (C0290) and 'nominated ECAI'

(C0300). This data is important for firms' understanding of their risks and for the PRA to use in the supervision of firms.

11 Group reporting where the PRA is the group supervisor and there are no consolidated financial statements at the head of the insurance or reinsurance group

11.1 There are various sections in the Solvency II supervisory reporting ITS and the Solvency II public disclosure ITS for groups that reference a group's consolidated financial statements. The PRA is aware that in some cases consolidated financial statements are not produced at the same level at which the PRA exercises group supervision under Solvency II. Where this is the case, the PRA expects a firm to discuss and agree with its usual supervisory contact how best to provide meaningful information for inclusion in the ITS templates. This discussion should include the agreement of the reporting currency and exchange rates to be used for its reporting and disclosure.

11.2 The PRA expects firms to consider at least sections 11.3 to 11.5 below before discussing the information to be reported and disclosed with their usual supervisory contact. Sections 11.3 to 11.5 are a non-exhaustive list.

11.3 Firms should analyse which templates may be impacted by not having consolidated financial statements at the level of the Solvency II reporting group. These will include:

- the balance sheet reporting template S.02.01.01 as required under Article 26(a) of the Solvency II supervisory reporting ITS. The "statutory accounts value" column in the template relates to financial statements produced by the group;
- the premiums claims and expenses reporting templates S.05.01.01 and S.05.02.01 as required under Articles 26(f) and 26(g) of the Solvency II supervisory reporting ITS;
- the premiums claims and expenses disclosure templates S.05.01.02 and S.05.02.02 as required under Articles 5(1)(c) and 5(1)(d) of the Solvency II public disclosure ITS;
- own funds reporting template S.23.01.04 as required under Article 30(a) of the Solvency II supervisory reporting ITS. The item at row R0220 relates to own funds from the financial statements;
- own funds disclosure template S.23.01.22 as required under Article 5(1)(f) of the Solvency II public disclosure ITS. The item at row R0220 relates to own funds from the financial statements; and
- own funds by tiers reporting template S.23.02.01 as required under Articles 30(b) of the Solvency II supervisory reporting ITS. The items at rows R0630 to R0650 relate to reserves from the financial statements.

11.4 The information groups propose to include in the templates, where consolidated financial statements are not available at the level at which the PRA exercises Solvency II group supervision, should:

- be a meaningful representation of the size and nature of the group in question;
- be consistent with the undertakings in the scope of the group as reported in template S.32.01.04;
- be linked (by reconciliation) to the relevant information included in the Solvency II group;
- enable a meaningful comparison between the template in question and other templates in the Solvency II supervisory reporting or disclosure ITS; and
- in cases where only specific items of a template are impacted, be meaningful in the context of the rest of the template.

11.5 Firms should consider the impact on public disclosure information in the group solvency and financial condition report (for example, Commission Delegated Regulation (EU) 2015/35 articles 293(2) to (4), 296(1)(b), 296(2)(c), and 296(3)(b) refer to financial statements). They should also consider the impact on the regular supervisory report (for example, Commission Delegated Regulation (EU) 2015/35 Articles 307(2) and (3) refer to financial statements).

Appendices

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- 1** Examples of how the PRA's expectations relating to claim size brackets and sum insured size brackets might be applied
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- 2** Examples of how the PRA's expectations relating to definition of number of claims (for the purpose of the RBNS claims reporting template S.20.01.01) might be applied
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Examples of how the PRA's expectations relating to claim size brackets and sum insured size brackets might be applied.

Examples of how claim size brackets referred to in sections 5.2 to 5.4 of the draft supervisory statement might be applied are:

- If the reporting currency is GBP and a firm chooses base option iii (brackets of 50,000) for a LoB, then the 'end claims incurred' of bracket 7 is GBP 350,000.
- If the reporting currency is EUR (or USD) and a firm chooses base option ii (brackets of 5,000) for a LoB, then the 'end claims incurred' of bracket 13 is EUR 65,000 (or USD 65,000).
- If the reporting currency is JPY a firm chooses base option iii (brackets of 50,000) for a LoB and the ECB exchange rate at 31 December 2015 is 1 EUR = 145.23 JPY, then the 'end claims incurred' of bracket 7 is JPY 50,830,500 ($=350,000 * 145.23$).
- If the reporting currency is CNY a firm chooses base option i (brackets of 250) for a LoB and the ECB exchange rate at 31 December 2015 is 1 EUR = 7.5358 CNY, then the 'end claims incurred' of bracket 1 is CNY 1,884 ($=250 * 7.5358 = 1883.95$; rounded to nearest integer gives 1,884).

Examples of how sum insured size brackets referred to in sections 6.2 to 6.4 of the draft supervisory statement might be applied are:

- If the reporting currency is GBP and a firm chooses base option iv (brackets of 250,000) for a LoB then the 'end sum insured' item for bracket 13 is GBP 3,250,000.
- If the reporting currency is EUR (or USD) and a firm chooses base option v (brackets of 1,000,000) for a LoB then the 'end sum insured' item for bracket 8 is EUR 8,000,000 or USD 8,000,000).
- If the reporting currency is JPY and a firm chooses base option iv (brackets of 250,000) for a LoB and the ECB exchange rate at 31 December 2015 is 1 EUR = 145.23 JPY then the 'end sum insured' item for bracket 13 is JPY 544,612,500 ($=3,250,000 * 145.23$).
- If the reporting currency is CNY a firm chooses base option i (brackets of 1,250) for a LoB and the ECB exchange rate at 31 December 2015 is 1 EUR = 7.5358 CNY, then the 'end sum insured' of bracket 1 is CNY 9,420 ($=1,250 * 7.5358 = 9419.75$; rounded to nearest integer gives 9,420).

Examples of how the PRA's expectations relating to definition of number of claims (for the purpose of the RBNS claims reporting template S.20.01.01) might be applied

An example of how definition of claims referred to in section 9.2 of the draft supervisory statement might be applied is where a motor insurance contract is unbundled into lines of business 4 (motor vehicle liability insurance) and 5 (other motor insurance). If obligations arise under the contract and firm allocates gross RBNS or gross payments made to both lines of business 4 and 5 then then the PRA would expect:

- the number of claims reported on template S.20.01.01 for line of business 4 to include the claim for gross RBNS or gross payments made allocated to line of business 4; and
- the number of claims reported on template S.20.01.01 for line of business 5 to include the claim for gross RBNS or gross payments made allocated to line of business 5.