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Solvency II: Solvency and Financial Condition Report roundtables

From 4-13 September 2017, the PRA hosted three roundtables inviting insurers, investors, credit analysts, and equity analysts to discuss the first round of Solvency and Financial Condition Reports (SFCRs) published by EU insurers in 2017. SFCRs are publicly disclosed narrative reports, alongside data in standardised reporting templates, which form part of insurers' Pillar 3 disclosure obligations under Solvency II. The roundtables were chaired by David Rule, Executive Director of Insurance Supervision. The objectives of the roundtables were to discuss:

- how UK insurers had approached their SFCR disclosures and what feedback they had received on them;
- whether the SFCR disclosures had provided insurance investors and analysts with the information they need to understand the solvency and financial condition of UK insurers; and
- if not, what are the most important missing elements?

The principal themes of these discussions are summarised below. The views expressed are those of the participants and are not guidance from the PRA.

Initial feedback on the 2016 SFCRs

- Most insurers had sought to publish stand-alone documents rather than cross referring to other publications, eg Annual Reports. As a result, SFCRs were often lengthy. But a lot of material duplicated other publications.
- Insurers said that they had disclosed key data in their preliminary results announcements. Insurers did not regard SFCRs as a primary mechanism for providing data to investors.
- Insurers had received little feedback on their SFCRs. None had evidence that policyholders were reading SFCRs.
- Investors and analysts said that Solvency II disclosures will be the main source of financial information about UK insurers for a while, given the decline of embedded value reporting, and the fact that it could be some time before International Financial Reporting Standard (IFRS) 17 disclosures are fully understood.
- Some analysts said that disclosure of financial information by insurers was inadequate and inconsistent. This reduced the attractiveness of the sector to investors.
- Analysts and investors said that group and solo-entity SFCRs were inconsistent, with many firms not providing reconciliations.
- Analysts and investors were focused on the financial data included in SFCRs. The narrative reporting was seen as providing little additional valuable information.

Views on how to improve SFCR disclosures

Investors and analysts said the following two areas were priorities for increased disclosure. They would value greater consistency in disclosures across insurers but were not pressing at this stage for regulatory intervention.

1. Sensitivity Analysis

- The most important priority was disclosure of the sensitivity of Solvency Capital Requirement (SCR) coverage ratios to changes in market and other key variables.
- Consistent disclosure of sensitivity results across insurers was desirable, both the range of market and other variables and the specification of the shocks.
- On interest rates, sensitivity to a wider range of possible yield curve movements than parallel shifts was preferable.
- Standardised stress and scenario testing results was also viewed as important information.

- Some insurers agreed that standardised templates could prove useful. Others said that it may be a challenge to agree standardised templates. They argued that application of management actions in the scenario analysis would also need to be captured.

2. Analysis of Movements in Solvency II SCR coverage

- Analysts and investors wanted more granular and consistent disclosures of the drivers of movements in SCR coverage. This would include a breakdown of the sources of capital generation, changes in risk assumptions and changes in modelling approach.
- Analysts and investors were anticipating analysis of change disclosures to be made for 2017 year-end reporting with the inclusion of comparative results for the first time in the reports. Both SCR and own funds movements were considered key for disclosures to be useful.
- One suggestion was to start from the format that had previously been commonly used for disclosure of movements in Market Consistent Embedded Value.

A number of other areas were mentioned in which more granular disclosure would be valuable to investors and analysts:

- More information on capital generation by product line.
- Reconciliation of group to solo entity SFCRs.
- A breakdown of the matching adjustment (MA), including splitting out the MA and fundamental spread by asset type, and how firms model the MA under stress. Firms considered that it would be challenging for firms to disclose this information on a consistent basis due to differences in assumptions and models between firms.
- The drivers of transitional measures on technical provisions.
- Loss-absorbing capacity of deferred tax.

Analysts said that they regretted the loss of some valuable disclosures from previous PRA returns, particularly around general insurance reserving and claims development.

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