



# **EIOPA public event on reporting and disclosure**

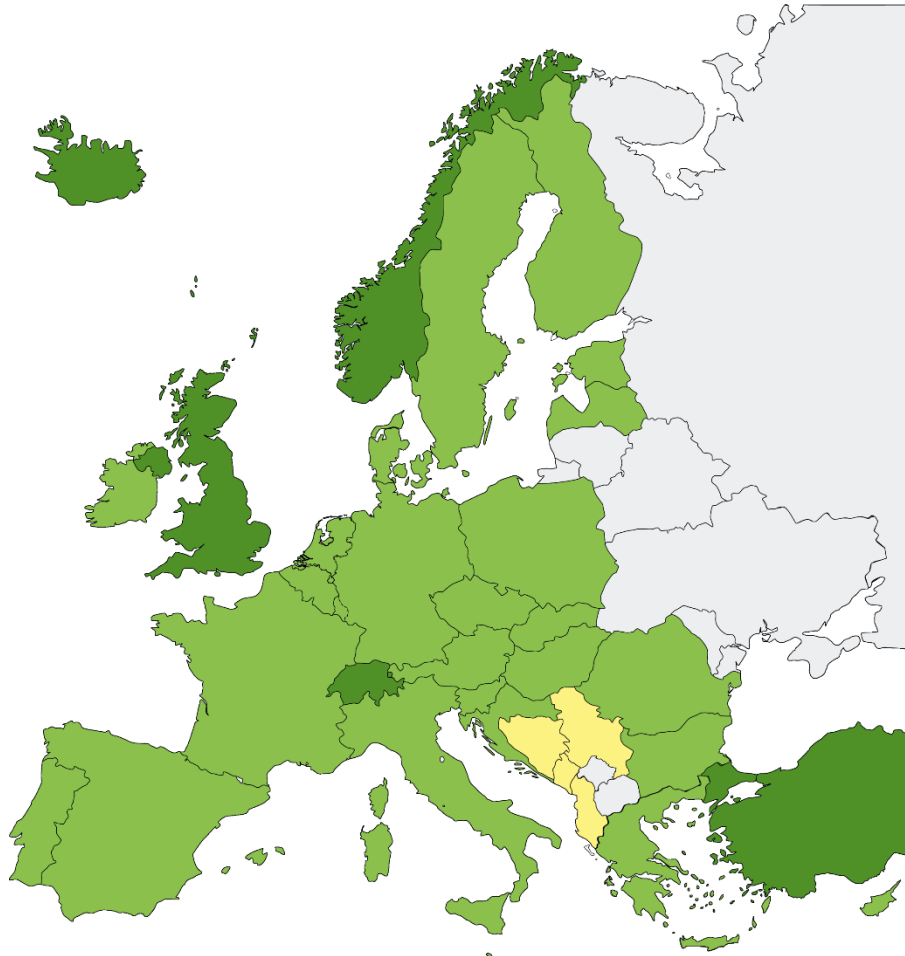
## **Industry presentation**



**October 2023**

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# Insurance Europe

Committed to achieving effective and efficient regulation and supervision at European and international level



- **European insurance and reinsurance federation, founded in 1953**
- **Represents 95% of market**
- **36 national associations**
  - 26 EU member states
  - 6 non-EU markets  

  - 4 associate members  


# Agenda

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- Introduction and approach
- Main Findings
- Status update – Where are we with the ITS
- Support and improvement – Logs
- Q&A process
- Concerns regarding specific templates
- NSA Accessibility
- Follow up questions and next steps

# Introduction & approach

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- **Conducted a Member Survey over the summer**
- **Topics covered**
  - Overall Reflections and Implementation progress
  - Support and improvement
  - EIOPA Q&As
  - Template issues
  - NSA accessibility
  - Other
- **Substantial response rate, indicating it is a topic our members care about**
- **Feedback shared/to be shared with EIOPA**

# Main findings

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- **Link with the EC's target to reduce reporting requirements by 25%**
  - The new QRTs introduce many new datapoints, eg around 6000 for Internal Model users.
  - **Question:** How can this development be regarded and interpreted in light of Commissioner McGuinness/Von Der Leyen announced intention to reduce reporting requirements by 25% to support EU's competitiveness?
- **Several companies flagged technical inaccuracies and inconsistencies in relation to the taxonomy templates, instructions.**
  - These inaccuracies/inconsistencies lead to unnecessary costs and efforts as companies need to read multiple documents in parallel (eg final ITS/list of known errors/Q&As/annotated templates)
  - **Recommendation:** There is a need for proper and swift correction process, given the many errors identified.
  - **Question:** What are EIOPA/EC's plans in this area?
- **The requirements often leave room for interpretation.**
  - **Recommendation:** The requirements should be made clearer, leaving no room for doubt and they could be enriched with examples, a track changed version could be added and all logs could be compiled into one document or made available in a more user friendly way.
  - **Question:** What are EIOPA's views on this?

# Main findings

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- Companies have a clear need for obtaining answers to their questions. They find value in tools like EIOPA public events, the Insurance Europe Q&A initiative (November 2022) as well as the EIOPA Q&As.
  - **Recommendation:**
    - Need for timely responses
    - Increasing the frequency of such events or opportunities to ask questions would be beneficial.
- Solvency II reporting should not be amended to include other topics which are already dealt with under specific legislation, eg sustainability reporting
- The cost and efforts of implementing the new QRTs is significant, in particular in relation to the amount of data, the IT Systems, also not all data is used in practice for real management of the company.
- **The recently announced delay in the hotfix publication is a major setback for companies**
  - The process of identifying and implementing necessary changes will be postponed, and the two additional weeks come at the expense of time insurers have to implement the changes.
  - Delay coincides with Q3 reporting work.
  - The substantial volume of feedback received stated as the reason for the delay, suggesting that there may be numerous modifications expected.
  - **Recommendation:**
    - a clear overview of what changes have been made would be appreciated

# Status update - where are you with ITS

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- We asked members: ‘How far along is your company in the ITS/Taxonomy implementation process?’
- Companies are at various stages of implementation, with test runs, data preparation, automation, and system building ongoing. The process involves addressing challenges, ensuring compliance, and adjusting internal processes to accommodate the new requirements.
- Question provided us with a good insight of where companies are with the ITS implementation, and what approaches they take and what struggles they face.
  - Struggles:
    - Several comments about the need for already automated processes that needed to be revised
    - Numerous mentions of the scarce resource availability of eg the actuarial/financial department, due to IFRS 9/17 requirements that needed to be fulfilled

# Status update - where are you with ITS

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- Examples of approaches taken by undertakings:
  - **Comprehensive Testing and Data Identification:** One company has proactively analysed new templates, assigned responsibilities, and is currently testing with Year-End 2022 data. They aim to fill new positions and ensure compliance with EIOPA validations. Challenges include precision in logs, modifications to automated processes, and a focus on understanding taxonomy content. They are automating reporting for efficiency.
  - **Advanced Technical Implementation:** Another company has completed technical analysis and is actively working on implementation, with infrastructure development underway. Professional tests are planned post-Q2, and they've received software updates. Clear responsibilities indicate a structured approach.
  - **Two-Phase Project Implementation:** A company has launched a two-phase project, focusing first on Taxonomy 2.8.0. They are reviewing ITS, defining business concepts, and testing using specialized software. This approach ensures a systematic compliance process.
  - **Gap analysis and automation:** During the past period, the organization focused on understanding taxonomy requirements. An initial inventory (GAP analysis) in mid-2022 identified necessary changes, with log file receipt in August 2022. Simultaneously, an automation process was initiated to streamline report delivery by Q4 2023.
  - **QRT analysis and dataflow preparation:** We have understood the overall concept of every QRT and are now preparing the new dataflows that are needed. Approximately we have done 70% of the work.



# Support and Improvement - Logs

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- We asked members:
  - ‘In what ways has the support provided for the ITS/Taxonomy implementation, in particular the logs, been helpful to your company?’
  - ‘Are the logs clear?’
  - ‘What could be improved, what would be helpful?’

# Support and Improvement - Logs

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- Overall respondents found that the logs, annotated templates, and EIOPA events have been helpful in understanding changes, data requirements, and implementation challenges.
  
- The following **concerns** were flagged:
  - Respondents mention challenges in understanding information requirements for certain templates:
    - While some logs are generally clear, there are instances where logs are considered too concise/ambiguous and lack precision and clarity.
      - Some QRTs' logs are not specific enough about what is expected at solo/group levels, leading to interpretation challenges.
      - Some members noted it is specifically the case for new QRTs or those that have undergone significant alterations can pose difficulties in understanding requirements due to short, vague, or ambiguous log descriptions.
  
  - Errors and Improvements Needed:
    - Errors in logs, such as missing definitions and inaccurate cross-references, have been noted, and these can impact the accuracy of interpretation.
  
- **Recommendation:**
  - Addressing the abovementioned challenges could enhance the clarity of the implementation process.
  - Could be addressed through the addition of more detailed examples, clearer definitions/wording, and accurate cross-references.

# Support and Improvement – Logs – what could be improved what would be helpful?

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- Formalized Validation Updates:
  - implementing a formalized summary of validation changes to enhance transparency and simplify tracking updates and modifications.
- Suggestions for log clarity enhancement
  - Providing internal cross-references for clarification i.e. , where the same/similar data is requested elsewhere, a further definition provided there would be helpful.
  - Utilizing clearer wording and providing more illustrative examples in the logs.
  - Incorporating relevant EIOPA Q&As to address specific cases.
  - Implementing a "track changes" feature for documents.
  - Show also information that was deleted in the 'entry points' of the annotated template, beside changed and new information
  - Respondents express the need for more detailed explanations, especially for new templates.
  - A uniform presentation and compilation of all logs, including regular reporting, financial stability, and ECB add-on, is desired.

# Support and Improvement – Logs – what could be improved what would be helpful?

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- Improve group-level explanations:
  - Ensure that group-level explanations for filling QRTs are crystal clear
- Increased follow-up engagement:
  - It would be beneficial to have more follow-up events to effectively address questions and concerns stemming from new taxonomy developments.
- Clarification on simplifications and thresholds:
  - Suggestions to enhance clarity:
    - Explicitly listing all possible simplifications and clarifying these are optional.
    - Providing more detailed descriptions for newly introduced thresholds to minimize interpretation ambiguity.
- Improve consistency in terminology and abbreviations:
  - Maintaining uniform abbreviations and terms across QRTs, financial stability, and ECB templates.
  - Implementing a system to indicate when cells in different templates contain identical information.

# Q&A process

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- We asked members:
  - ‘In case you have submitted questions to EIOPA during the implementation process, could you share your experience with the responsiveness and helpfulness of EIOPA's responses?’
  - ‘Have the responses from EIOPA adequately addressed your concerns and provided the necessary guidance for the implementation?’
- Companies appear to be **finding value in the Q&A process** but highlighted a number of challenges related to **response times and clarity of answers**.
- A specific concern raised a few times was that given that the Q&A responses from EIOPA are not implemented in the Instructions, this could indicate a disconnect between the Q&A process and the actual implementation of guidance.
- Recommendation
  - Suggestion to implement the Q&A answers in the instructions
  - Need for quicker turnaround in case of questions, in particular needed when in the process of implementing the ITS.
  - Need to be as clear as possible
  - Following the change of numbering of QRTs/substantial changes to some QRTs, it would be helpful if EIOPA could indicate in the Q&As to which version of the QRTs reference is made.

# Zooming in on concerns regarding specific templates

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- We asked members:
  - ‘Are there specific templates you are encountering issues with during this implementation period?’
  - If possible, could you provide concrete examples?
  
- Most mentioned templates were:
  - by far the ‘**Standardized Internal model templates** (S.25.05 and S.26.01-16)
    - S.25.05 - SCR for undertakings using an internal model
    - S.26.08-16 (SCR information for IM, IM: Market and Credit risk - for financial instruments, IM: Credit event risk Portfolio view details, IM: Credit risk details for financial instruments, IM: Credit risk Non-Financial Instruments, IM: Non-life & Health NSLT Underwriting risk, IM: Life and Health underwriting risk, IM: Operational risk, IM: Model changes)
  
  - the **S.14 series of templates (S.14.01 – S.14.05)**
    - **S.14.01/02 – Life/Non-life obligations analysis**
    - **S.14.03 – Cyber underwriting risk**
    - **S.14.04/05 – Liquidity risk for life/non-life business**
  
  - followed by **S.06.04 - Climate change-related risks to investments**

# Concerns on specific templates: Internal Models

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- It is proving very challenging to populate the templates, as they are neither aligned with the internal model architecture nor the internal processes.
- The disclaimer that the new templates "*shall be reported based on availability according to the internal model architecture and risk profile, when possible with reasonable effort*" was welcome, but if followed closely, it would result in a decision of not populating a large part of the new data points.
- The legal text offers the possibility of introducing approximations and this is welcome conceptually, in practice it can make the new reporting rather meaningless as any basis for comparison between companies or as a basis for assessing the results over time.

# Concerns on specific templates: Internal Models

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- Concerns regarding instructions and consistency
  - S.25.05 - Overall missing instructions and consistency on the level of diversification.
  - S.26.08 - Discrepancy between dictionary and reporting instructions, for example in
    - Logfile displays for row C0140 (e.g. R0700-R0820/C0140) the following two options to report:
      - 1 – Modelled
      - 2 – Not modelled
    - The two options do not match the characteristics that are provided in the EIOPA\_DPM\_Dictionary\_2.8.0.PWD3(ATOME\_output):
      - 1 - Reported
      - 0 - Not reported (in this case special justification is needed)
  - S.26.11: Wrong header "Overall Exposure at Default" instead of "Overall Probability of Default" in 26.11.01.02.
  - S.26.10 and S.26.11: Inconsistent asset class categorization in Credit QRTs



# Concerns on specific templates: Internal Models

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- Further concerns:
  - **Interpretational divergences** - the content and the approach to completing QRTs have been inconsistent at times. Respondents noted instances where differences in interpretation exist between NSA and EIOPA on how to complete the QRT, for example regarding the number of percentiles (e.g. S.26.13 and S.26.14).
  - **Performance issue** - S.26.13 (and also S.04.04/05 and S.19.01) - ATOME output and performance issue: Certain specifications/inputs create a high number of excel sheets and workbooks within the excel report, causing significant performance issues.
  - **Complexity** - The requirements for catastrophe risk reporting are extremely complex and burdensome. For instance, detailed information for each man-made catastrophe scenario must be provided separately (S.26.13).
  - **Coordination intensive** - S.26.08 – Demands significant coordination between teams responsible for handling our internal models, particularly Non-Life and Market risk.
  - **Suitability** - Model change QRTs are not an ideal platform to report model changes, NSA is already included in quarterly reporting and these requirements only create additional effort. (S.26.16)

# Concerns on specific templates: S.14 series

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- **S.14** - New dimensions that require new processes and new intersections of data, which is very time consuming.
- **S.14.01 - Life obligations analysis**
  - the granularity of data requested and the fact that this data from different systems must be combined is an issue.
  - Enormous problems to fulfil the new requirements of template S.14.01 for life insurance products and for SLT-health products, major points being the required granularity of the data and some of the new data requirements. In the year-end calculation 2022 our company reported more than 6,000 lines of data for the questioned template S.14.01.
  - logs are confusing for example on the average age to consider for “remaining contractual maturity”

# Concerns on specific templates: S.14 series

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- **S.14.02/03 – Non-life obligations analysis and cyber underwriting risk**
- Challenge in terms of granularity and questions regarding added value.
  - Technical provisions and surrender values are not available on the product ID code level.
    - These data are not part of standard statutory reporting. The projection tool used for calculating the technical provisions provides only data on HRG level.
    - The same argument is valid for expected premiums and expected commissions. Furthermore, it is not possible to derive these data from existing figures. For lifelong health insurance there is a mechanism of premium adjustments depending on future payments for medical and long-term care treatments. It is unlikely that an appropriate assessment can be performed.
  - It is difficult to determine the effects of fiscal treatment in case of lapse. For some tariffs, there should be a negative effect to the policyholder, but in general tax data are not available.
  - Life products and SLT-health products may have a history of several decades. In many cases the original distribution channel is not available. Therefore, it is not possible to split the premiums according the distribution channel.
  - The number of contracts is used for reporting purposes only. It is cumbersome to determine the number of insured persons on PIDC level. In our opinion this information is not meaningful, because for example a person with ten contracts in ten different tariffs (PIDC) would be counted ten times.

# Concerns on specific templates: S.14 series

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## ■ S.14.04 - 05 - liquidity risk for (non) life business

- it is difficult to indicate the product level to report on and to what extent these templates should reflect what is reported in S.14.01 and S.14.02.
- Data, which includes several variables, including fiscal treatment is requested. Often contracts are under delegated management and the information is only available at an aggregated level, making it difficult to report the requested information in this template accurately.
- The log is insufficient to understand the expectations at group level. These templates should not be reported by reinsurers, but it's not clear what happens when a groups owns a solo reinsurance company.
- Requires data not used in daily business, eg 'cashd premiums' (different from written/earned premiums)
- Unclearity regarding the definitions of administrative expenses, regarding how and why to complete C0300 net reinsurance flows (receivables - payable).

# Concerns on specific templates: S.06.04

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- Concerns on consistency across regulation:
  - The climate change related KPIs, which takeover the ESG regulation, increase complexity to the extent that the methodology should be consistent across both regulatory frameworks, however, **the requirements are not exactly identical.**
- S.06.04 the KPI definition should be consistent across legislation.
- For S.06.04, we think the instructions are a bit vague regarding the KPI for transition risk in S.06.04.

# NSA accessibility

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- We asked members:
  - **‘How accessible and responsive has your NSA been when you've reached out to them for support or clarification? ’**
  - **‘Have you received satisfactory assistance from your NSA regarding any queries or concerns related to the ITS/Taxonomy implementation?’**
  
- In summary, some respondents express positive interactions with their NSAs, other respondents highlighted limited involvement in the ITS/Taxonomy implementation process. There is a clear need for more opportunities for industry discussions, particularly given the significant changes introduced by the new taxonomy.
  
- Some examples:
  - For new Internal Model QRTs, where alignment with local NSAs was requested, communication and exchange were constructive.
  - Some respondents indicate that their interactions with NSAs have been positive and satisfactory, with various meetings leading to agreements on how QRTs should be filled
  - A few mention that they have not asked their NSAs for advice or clarification.
  - Some noted that NSAs are not heavily involved in the implementation process, particularly compared to EIOPA's role in clarifying content and technical developments.

# Inconsistencies - further examples

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- Several companies flagged technical inaccuracies and inconsistencies in relation to the taxonomy templates, instructions.
  - These inaccuracies/inconsistencies lead to unnecessary costs and efforts as companies need to read multiple documents in parallel (eg final ITS/list of known errors/Q&As/annotated templates)
  - **Recommendation:** There is a need for proper and swift correction process, given the many errors identified.
- Further examples of inconsistencies:
  - QRT S.30.03 / C0245 – Discrepancy between QRT documentation and Logfile: The amount of maximum cover for a layer of a treaty. In the case of unlimited cover ‘– 1’ is to be reported. For XL or SL treaties the initial capacity has to be indicated (e.g. annual aggregate limits). In case the treaty only includes one layer, this cell will be equal to C0250. We would have expected that rather C0240 should apply here.
  - QRT S.36.07.08 – Discrepancy between LoB numeration: In the LogFiles for S.36.04 (now S.36.07) for cell C0210 reference is made to the Annex I to Delegated Regulation (EU) 2015/35 with regard to the identification of the LoB, as well as the individual LOBs. However, from the 29th digit onwards, the order of the list has changed compared to Annex I and is therefore contradictory.

# List of other issues/suggestions

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- A few examples from this list :
  - It would be helpful if EIOPA publish always a track changes version which compares the latest version of the new taxonomy with the current active taxonomy (in this case Taxonomy 2.7.0)
  - Validations implemented in the annotated templates
  - It would be very helpful to implement only z-Axis and not a mix of r-codes or c-codes. For example, the QRT S.04.02.01.02 the “EEA member” is an r-code, which behaves like a z-Axis. Or the QRT S.04.04.01: There are two “real” z-axis (“Line of business” and “underwriting entity code”), but country is again a r-code. If all of them would be a z-axis, the mapping and understanding of the structure of these QRTs are easier.



# Follow up questions & Next steps

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## Questions

- Questions on next steps regarding EIOPA's plans
  - Is in the context of the SII review taxonomy 2.10.0 still foreseen for 1 June 2024 (without validations) and for 15 July 2024 with validations.

## Next steps

- We will follow up with:
  - Overview of inconsistencies identified following the survey
  - Overview of questions/requests for clarification following the survey



## **For more information**

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