Institute and Faculty of Actuaries

SFCRs: the good, the bad and the ugly

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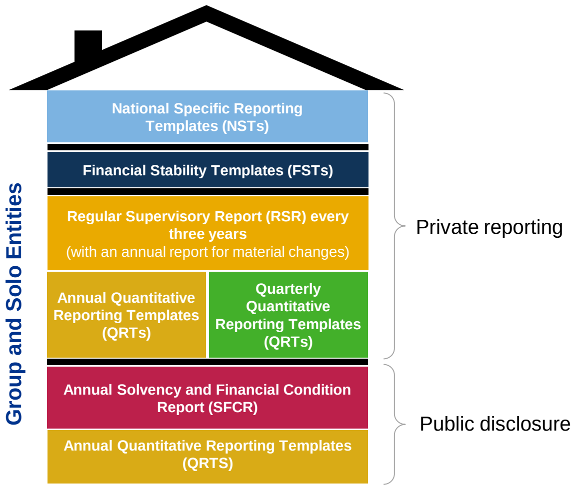
12 October 2017

Summary

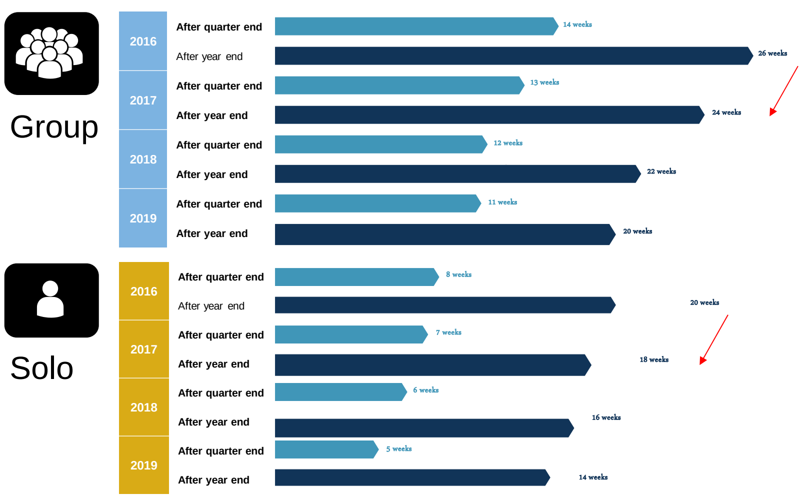
- Scope of Pillar 3 reporting and key challenges
- How useful is the SFCR?
- Approaches taken by insurers
- Where to next for regulatory reporting?

Scope of Pillar 3 reporting and key challenges

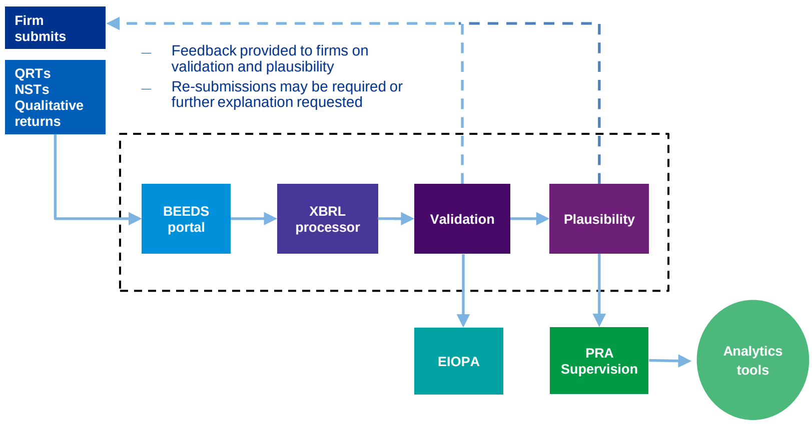


- Volume
- Detail
- Data quality
- Materiality
- Complexity
- Coordination and ownership
- Consistency

Reducing reporting timeframes

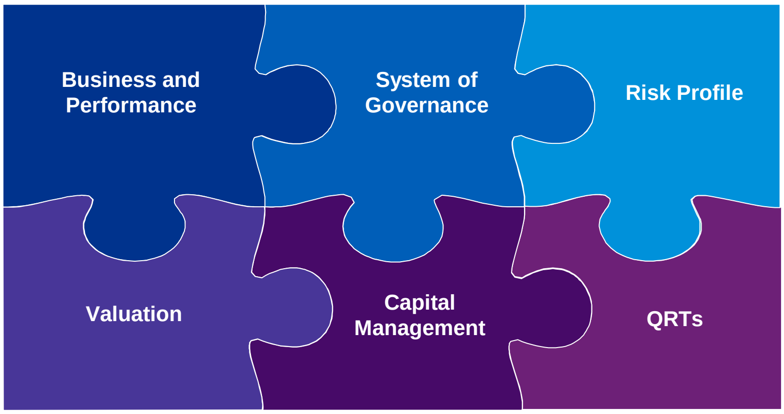


Post submission challenges



Source: PRA

SFCR components



How useful is the SFCR?

"SFCR incremental value add, but limited insight on its own … more a compendium to the financial statements/notes (in the annual report) and/or a supplementary to the analyst presentations.

Source: Goldman Sachs

"It's not intended to be a detailed technical report but should be understood by policyholders and key interested parties,"

Kevin Borrett – Advantage Insurance Company

Source: InsuranceERM

"The Solvency II solvency and financial condition report (SFCR) is causing consternation among insurers. How do participants **balance the requirements of disclosure with confidentiality**, or interpret this **most loose fitting of regulatory diktats**? With the first set of reports already published, the answer seems to be**,** not very happily."

Source: InsuranceERM

"Solvency II has helped provide a **clearer picture of capital adequacy** for European insurers, providing some guidance as to when dividends may be a risk or additional capital may be returned. However, Solvency II disclosures have not always considered the investor perspective, **creating issues** for external users **in understanding performance and the dividend paying capacity**."

Andrew Crean, Autonomous Research

Source: Insurance Journal

SFCR: Market comments

Overall

Limited market reaction

Good

Better view of capital adequacy

More granular view of subsidiary capital ratios, gearing levels and quality of capital

Bad

Not helpful for understanding performance, cash generation

Unclear around dividend paying capacity

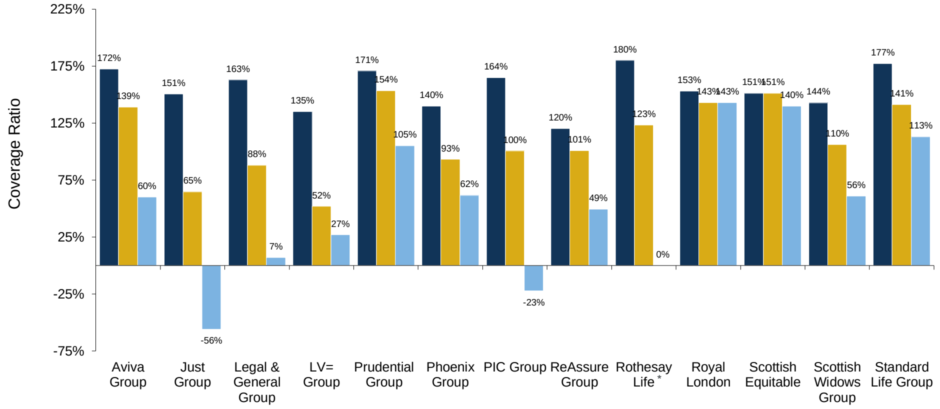
Other disclosures provide incremental value add

Ugly

Long-term guarantee measures distort ratios

Investors see TMTP capital as lower quality

TMTP and MA impacts on coverage ratios

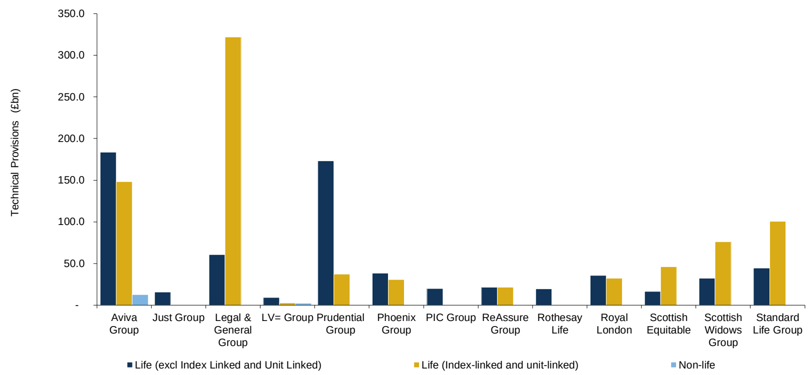


*** Note: Rothesay Life capped the impact of removing TMTP and MA such that eligible own funds do no go negative in S.22.01**

■ Solvency II coverage ratio ■ Solvency II coverage ratio without TMTP ■ Solvency II coverage ratio without TMTP and MA

Source: S.22.01 QRT from SFCRs

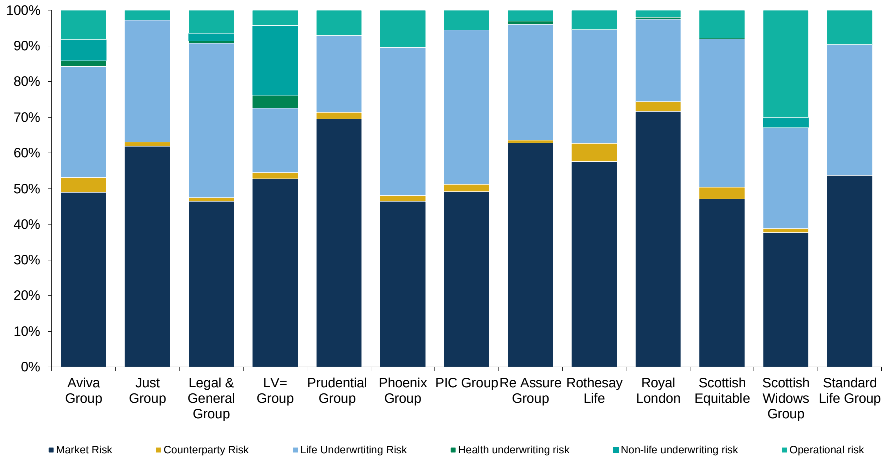
Technical Provisions by product



Technical Provisions (£bn)	Aviva Group	Just Group	L&G Group	LV= Group	Prudential Group	Phoenix Group	PIC Group	Re Assure Group	Rothesay Life	Royal London	Scottish Equitable	Scottish widows Group	Standard Life Group
Life (excluding UL and IL)	183.5	15.8	60.5	9.0	173.3	38.5	19.8	21.5	19.5	35.7	16.4	32.1	44.5
Life (IL and UL)	148.3	0.03	322.1	2.5	37.1	30.5	0.0	21.5	0.0	32.2	45.9	75.9	100.8
Non-Life	12.4	0.0	0.1	2.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0
Total TP's	344.2	15.8	382.8	13.4	210.5	69.0	19.8	43.1	19.5	67.9	62.2	108.3	145.3

Source: S.02.01 QRT from SFCRs.

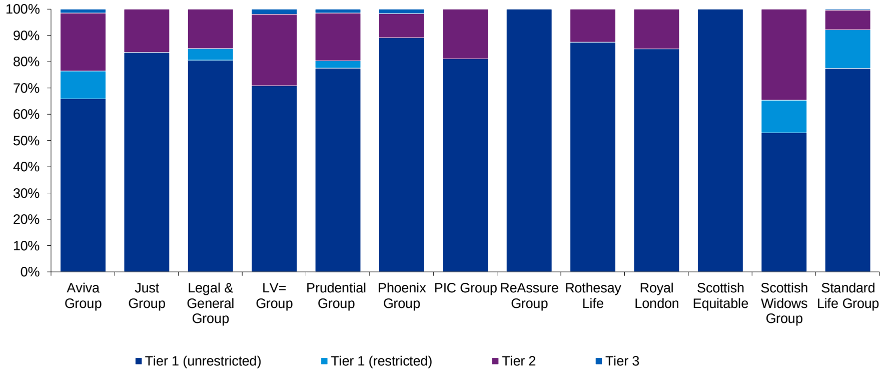
SCR by risk module



Source: S.25 QRTs from SFCRs

Own funds tiering

Quality of Solvency II capital



Source: S.23.01 QRTs from SFCRs

SFCR: KPMG observations

- Based on sample of SFCRs across life and non-life.

Business and Performance

— Majority do not have Brexit as a significant event

— Good level of disclosures about business without reference to other documents

Valuation

— Lack of quantitative explanation of differences between IFRS and SII

— Some confusion and lack of clarity around alternative valuation methods.

— Maximize the use of quoted market prices to determine fair value of assets and liabilities

SFCR: KPMG observations

System of Governance

— Good narrative disclosures on remuneration

— Few quantitative disclosures with focus on remuneration policies

— Clear distinctions of fixed and variable components

Capital Management

— Lack of disclosure around subordination and loss absorbency

— Availability of own funds around the group not well considered

— Minimum disclosure on capital management

SFCR: KPMG observations

Risk Profile

- Wide range of disclosures on stress testing and sensitivity analyses
- More thorough disclosures by large firms
- Sensitivity analysis on large unit-linked portfolios could be improved

QRTs

- Some confusion regarding private vs public QRTs
- Lack of cross-referencing between narrative sections and QRTs
- Signposting of audited and unaudited sections -particularly a challenge for internal model firms

SFCR – How useful is it?

Complexity

Size

Relevance

Too Long or complex

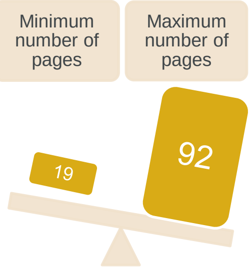
- Duplication
- Technical jargon
- 'Lifting' disclosures from elsewhere e.g. ORSA and accounts

- Lack of quantitative information
- Actuarial assumptions too brief/ barely covered
- Vague around valuation basis and methods

Too short and vague

SFCR – size of solo submissions

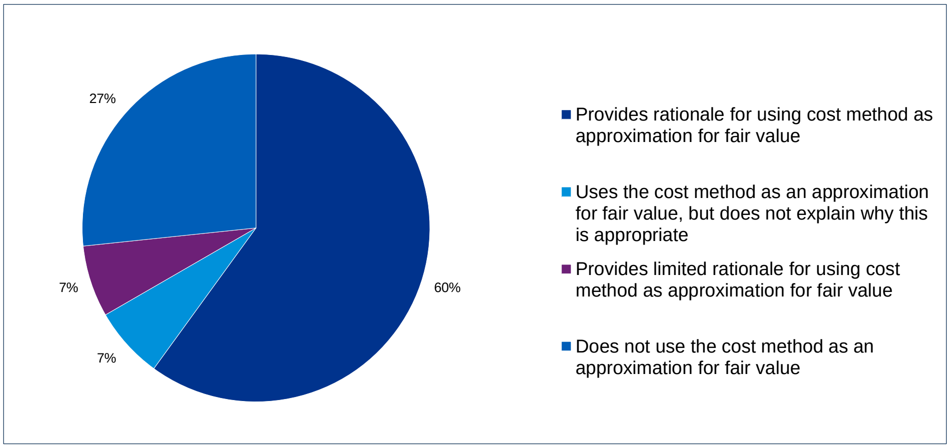
Section	A Business Performance	B System of Governance	C Risk profile	D Valuation for Solvency purposes	E Capital management
Industry average for 30 solo (no of pages)	07	16	10	13	07
Minimum (no of pages)	02	04	01	04	02
Maximum (no of pages)	13	36	21	29	19



Industry average 54 pages

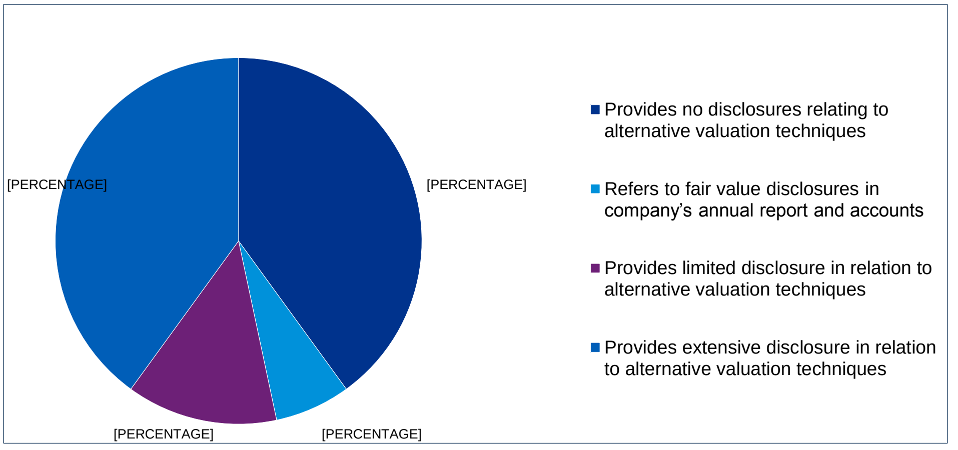
Source: KPMG analysis

Disclosures on using cost method



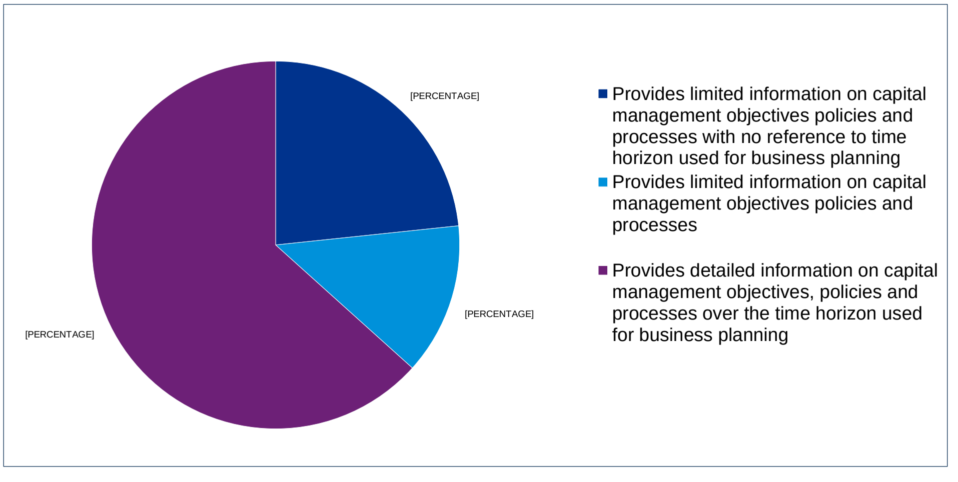
Source: KPMG analysis

Disclosures on alternative valuation techniques



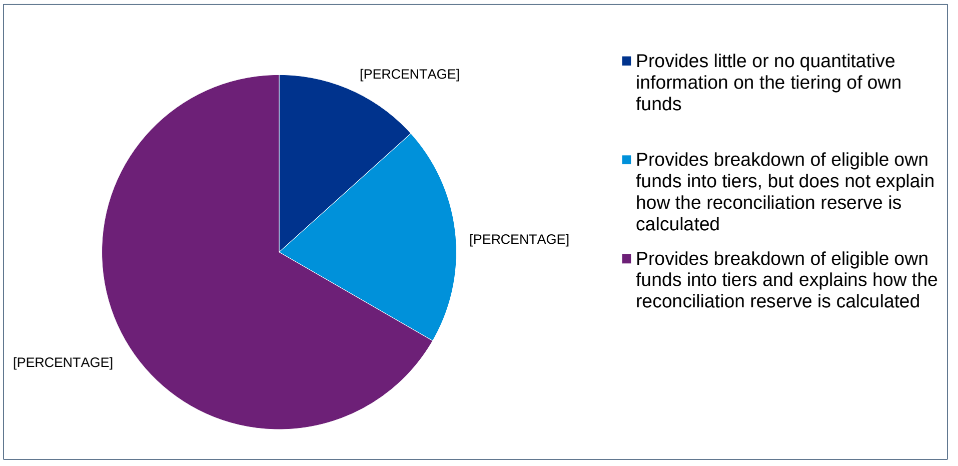
Source: KPMG analysis

Disclosures on capital management



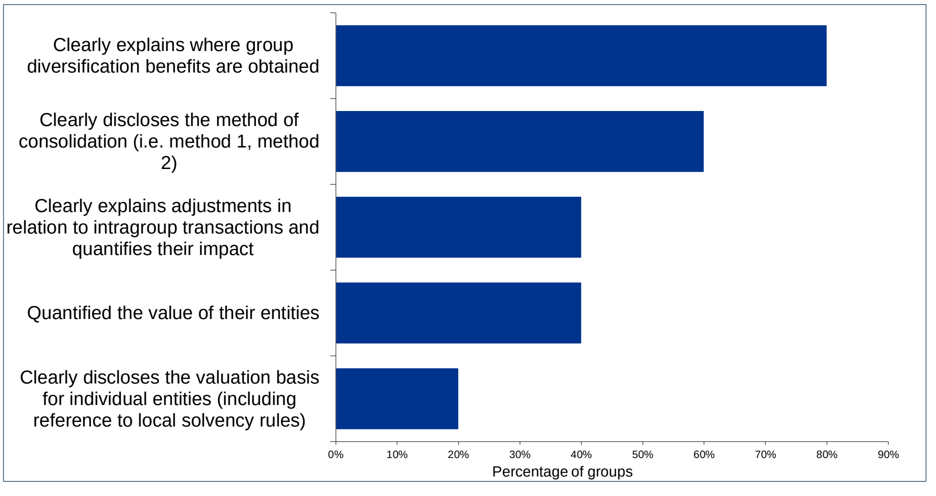
Source: KPMG analysis

Disclosures on own funds composition



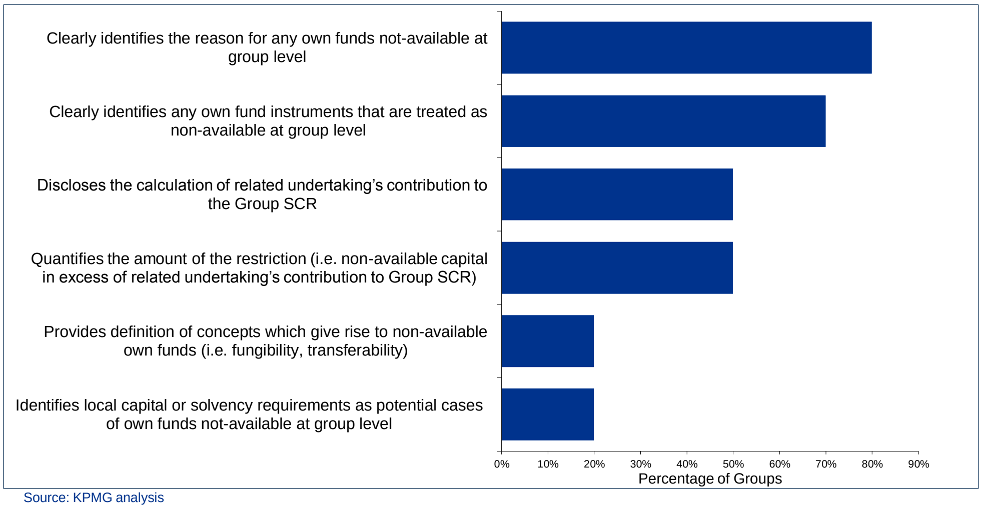
Source: KPMG analysis

Disclosures on group consolidation



Source: KPMG analysis

Disclosures on fungibility & transferability



Source: KPMG analysis

Where to next for regulatory reporting?

Sam Woods

Written evidence to Treasury Select Committee

15 March 2017

- "I plan to conduct a review of our implementation of Solvency II reporting requirements, with a view to identifying ways in which we might **reduce insurers' reporting burdens** while fully meeting out statutory objectives… We remain open to discussions with the ABI and other stakeholders and will survey a sample of insurers to gather information on the impact of reporting through the firm. We will also review the **ongoing usefulness of the data collected** in supporting the PRA's supervisory functions, and the extent to which the information collected helps the PRA to meet and balance its objectives."

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Where to next for regulatory reporting?

David Rule

Speech to ABI

6 July 2017

- It would be **unhelpful for the PRA to be too prescriptive** about the depth of SFCRs. But it strikes me that some areas **could be made more consistent**. For example, changes in Solvency Capital Requirement coverage could be broken down to show what is attributable to changes in capital, to changes in modelling and to changes in risk assumptions. **Insurers need to explain fully to policyholders, investors and others what lies behind their Solvency II ratios.** This is particularly true in more complex areas like internal models and the matching adjustment. Otherwise we run the risk of a loss of confidence in those numbers in a crisis.

Questions **Comments**

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