Association of British Insurers

ABI response
CP40/16 Solvency II: Reporting of National Specific Templates

The UK Insurance Industry

The UK insurance and long-term savings industry is the fourth largest in the world. It plays an essential part in the UK's economic strength, managing investments of over £1.6 trillion (equivalent to 25% of the UK's total net worth) and paying nearly £12bn annually in taxes to the Government. It employs around 305,000 individuals, of whom around a third are employed directly by providers with the remainder in auxiliary services such as broking.

Insurance helps individuals and businesses protect themselves against the everyday risks they face, enabling people to own homes, travel overseas, provide for a financially secure future and run businesses. Insurance underpins a healthy and prosperous society, enabling businesses and individuals to thrive, safe in the knowledge that problems can be handled and risks carefully managed.

The ABI

The Association of British Insurers is the leading trade association for insurers and providers of long term savings, and the largest financial services trade association in the UK. Founded in 1985, we represent around 250 brands from London Market wholesale general insurance to long term savings providers and a wide range of specialist providers.

The ABI's role is to:

- Be the voice of the UK insurance industry, leading debate and advocating on behalf of insurers
- Represent the UK insurance industry to government, regulators and policy makers in the UK, EU and internationally, driving effective public policy and regulation
- Advocate high standards of customer service within the industry and provide useful information to the public about insurance
- Promote the benefits of insurance to government, regulators, policy makers and the public

We welcome the opportunity to comment on the PRA's consultation paper CP40/16 Solvency II: Reporting of National Specific Templates.

Key messages

Timing of the changes

The timing of these changes close to year-end will cause difficulties for a number of firms.

- Our main area of concern relates to timing. In some cases changes, corrections or clarifications may amount to a new requirement for a firm, because it had previously interpreted the requirement differently and planned accordingly. For many firms, changes cannot be delivered without compromising other deliveries that had been planned to facilitate annual reporting.
- It is not clear when the changes will actually be finalised; firms may not have sufficient time to meet the NST reporting deadline. We would ask the PRA to expedite the production of a final Supervisory Statement, in order to give firms with financial year-end dates of December 2016 time to implement the final requirements.
- When changes, corrections or clarifications result in an IT or systems change, we would reiterate that the option should be open to firms to discuss with their supervisory contact the possibility that they may not be able to meet the reporting deadline. An alternative approach may have to be taken instead, such as not reporting, using proxy data, or extending the deadline.
- We welcome the PRA's proposal for year-end 2016 NST submissions to be made using XBRL-enabled Excel templates, given the challenges many firms would had faced with a full XBRL filing solution. However, it is unfortunate that these templates (Appendix 3 of CP40/16) were not generally available earlier in the consultation process. We also note that the templates are not yet finalised, and that some important functionality (drop-down lists, buttons and macros) is not yet available.

Remaining ambiguity / inconsistencies in the revised templates

The revised templates and log files remain a work in progress; there are still significant areas that require clarification and/or revision.

- A complete review of formulae is suggested; there are instances where formulae provided in the log files give incorrect, inconsistent or circular results.
- We would like further clarity on the purpose of the balance sheet reconciliation in NS.05. In particular, we would like to understand the purpose of reconciling the assets on a Solvency II basis with the income and expenditure on an Accounting basis, and whether this is actually the PRA's intention. It would be helpful if clarification on this could be provided as soon as possible.
- It is unclear what validation rules will be set for the final version of the NSTs, and which cells in the NSTs will be validated against corresponding cells in the QRT templates. Again, it would be helpful if clarification on this could be provided as soon as possible.
- The withdrawn CP37/16 contained useful taxonomy, and we have referred to that taxonomy throughout this feedback. It provided greater clarity on the formulae used in the log files; firms will still place some reliance on that "old" taxonomy.

Reporting requirements

We acknowledge that no additional data requirements are proposed – this is essential given how late these changes will be finalised.

- However, we reiterate that changes, corrections and clarifications can be tantamount to new requirements for firms that have interpreted requirements differently. Reporting requirements under Solvency II are already onerous, and any additional coding, system requirements or functionality will introduce a significant resource strain for firms.
- We assume that the reporting required under SS25/15 (internal model outputs) and SS15/16 (monitoring internal model drift) is still out of scope for the NST submission and will be submitted via separate Excel workbooks.

Detailed comments

Section	Reference	Comments
Section 2 *Proposals*		• The PRA proposes that for financial year-end 2016 submissions, firms submit NSTs using XBRL-enabled Excel templates consolidated in a single workbook. It is not clear whether firms will still have the option to submit as standard XBRL via BEEDS. We assume that no additional coding will be needed to make the XRBL-enabled Excel workbooks fit for submission to the PRA. • Changing the format of the reporting templates at this late stage is unhelpful. It will either result in a late system build to firms' reporting processes, or some kind of mapping exercise as part of the actual reporting process. Neither of these is ideal. • We would like clarity on how the NSTs should be submitted. We assume that XBRL-enabled Excel templates should be uploaded to BEEDs as an ad hoc return using the "Create Returns" function (already used for Day 1 reporting). • We would welcome clarity on when the follow-up CP with proposals for future NST reporting will be published. • The withdrawn CP37/16 contained useful taxonomy, and we have referred to that taxonomy throughout this feedback. The PRA should consider this before issuing the follow-up CP. It provided greater clarity on the formulae used in the log files; firms will still place some reliance on that "old" taxonomy.
Appendix 4 *Reporting clarifications and technical corrections for National Specific Templates*	NS.00	**Content of the submission and Basic information** • Z0010 and Z0020 do not appear to be defined in the NS.00 log file. • There is a typo on page 1 of the log file: *"NS.00.03.03 is applicable to firms with ring fenced funds and matching adjustment portfolios"*. This should refer to NS.00.03.01. • There are typos on page 3 of the log file. R0020/C0010 should refer to R0010/C0020. Similarly, R0030/C0010 should refer to R0010/C0030. • NS.00.03.01 does not contain cell R0010/C0010, which should contain the fund/portfolio number. • Drop-down lists in the Appendix 3 XBRL-enabled Excel workbooks are not available. However, from earlier versions of these templates we noted that the options in the drop-down list for field NS.00.02.01 R0060/C0010 (Type of Undertaking) were incomplete, and inconsistent with the log file. There was no option to select "Life Undertakings". Likewise, the options in the drop-down list for NS.00.03.01 R0010/C0030 were mis-numbered and inconsistent with the log file.
	NS.01	**With-profits value of bonus** • From the log file, this template appears to relate to with-profit business only. It reports the distribution of profits as discretionary benefits to policyholders, split into various types of bonus, and the amount of shareholder transfer. We would not expect a Matching Adjustment portfolio (MP) to be included in these numbers, resulting in the RFF and remaining part of the RFF reporting the same value. The current log file requirement for this template is for each with profits fund rather than MP / remaining part. This seems like a change in requirement from the current log file.

NS.02	**With-profits liabilities and assets** • This template reports the With Profits Benefits Reserve (WPBR) and the Future Policy Related Liabilities (FPRL) as well as the assets backing these. The assets backing the MP would sit outside of the with-profits fund and therefore we would expect the MP return to be nil, resulting in the RFF and remaining part of the RFF reporting the same value. The current log file requirement for this template is for each with profits fund rather than MP / remaining part. This seems like a change in requirement from the current log file. • NS.02 seems to imply net of reinsurance, but refers to QRT S12.01.01 which is gross of reinsurance. It would be possible to use the "Other assets" rows (R0250 and R0310) in NS.02 for the reinsurance recoverables; this would make the reconciliation of Best Estimate Liabilities (BEL) between the NST and the QRT work, as both would be on a gross of reinsurance basis. However, if the "Other assets" rows were not used, and the liabilities were shown net of reinsurance in the NST, then the reconciliation would not work. • Appendix 4 states that *"Total with-profits best estimate liabilities (R0150/C0030) should correspond to S.12.01.01 R0030/C0020"*. We believe that correspondence should be with [S.12.01.01 R0030/C0020 (direct written) + S.12.01.01 R0030/C0110 (accepted reinsurance)]. We would ask the PRA to confirm whether, in addition to the worksheets for each sub-fund, an aggregate work-sheet across all the sub-funds is required, with total best estimate liabilities that tie up with S.12.01.01. This would suggest that R0150/C0030 must therefore exclude the value of future shareholder transfers (FST). • However, we are unclear on whether "Asset shares where applicable" (R0020/C0030) should exclude FST. The WPBR should include the value of FST, so to exclude it would change how WPBR is traditionally defined. The alternative would be to keep the value of FST within the WPBR, but to make a deduction for it in one of the FPRL cells (R0070 to R0140). • The XBRL-enabled templates do not contain any formulae for totals; addition of these would be useful, as it would save every firm having to create them, and risk errors creeping in. Formulae would need to work for all templates where firms create multiple copies for each of their RFFs. • FPRL (R0060/C0030) appears to be calculated incorrectly in the log file; the correct formula would appear to be SUM(R0070/C0030:R0120/C0030)-(R0130/C0030)-(R0140/C0030).

NS.05	**Revenue Account (Life)**
	• NS.05 and NS.06 require reporting to be split between Ring-Fenced Funds (RFFs), Matching Adjustment Portfolios (MAPs) and Remaining Part (RP). There appears to be an inconsistency in interpretation between the log files, the text in CP40/16 and EIOPA guidelines as follows:
	  ○ EIOPA has confirmed through its Q&A (CP-14-052, number 554, published 02/02/2016) that RP is effectively net of MAPs and material RFFs : *"As regards the balance sheet, the remaining part covers all elements except all <u>material</u> ring-fenced funds and all matching adjustment portfolios"*.
	  ○ However, the NS.05 log file instructions for cell Z0010 (Ring-fenced fund / matching portfolio / remaining part) state that Z0010 should identify the reported figures as either "Ring-fenced funds" or "Remaining part [other than RFFs]". There is no consideration of RFF materiality. Additionally, Appendix 4 (page 13) of CP40/16 states that

"The matching adjustment portfolio revenue account should be included with the remaining part or ring-fenced fund to which the matching adjustment portfolio belongs".

  - We would ask the PRA to confirm that RP for the purposes of NSTs should use the EIOPA definition, and therefore include immaterial RFFs, but exclude MAPs and material RFFs. If the PRA are using an interpretation that is not consistent with the EIOPA guidelines, we would like to understand why this is the case. One solution would be to provide the option to report MAP separately, and to be consistent with the QRTs on how RFFs, MAPs and RPs are reported.

- We would like further clarity on the purpose of the balance sheet reconciliation in NS.05. In particular, we would like to understand the purpose of reconciling the assets on a Solvency II basis with the income and expenditure on an Accounting basis, and whether this is actually the PRA's intention. We would also like to understand the interest in the value of assets rather than net assets, as to understand the financial position the liabilities would need to be considered as well.
- PS2/15 states that *"The PRA has now clarified that profit and loss account items are to be completed on an accounting basis (with the exception of deposit accounting, which is not permitted)."* We assume that the Income and Expenditure sections should be on an Accounting basis before the deposit accounting adjustment; however, we believe that this requirement could be explained more clearly in the log file.
- The log file is unclear as to whether Taxation (R0330/C0050) should include the deferred tax charge / credit.
- We assume that the Renewal commission (R0260) and the Renewal management expenses (R0270) should agree in total to the Administrative expenses in S.05.01.01 (R2000/C0300); however, the log file is unclear on this.
- We assume that Expenses incurred (R0230) does not need to reconcile with Total expenses in S.05.01 (R2600/C0300). To align with reporting on an Accounting basis, and as per the log file, NS.05 includes all expenditure. However, for QRT reporting non-technical expenses are specifically excluded.
- The signage in cell R0400 is unclear. For consistency, if we are considering an "increase/(decrease) in liabilities" then this cell should refer to an "(increase)/decrease in reinsurance recoverables". It is also not clear why the reconciliation of Assets carried forward (R0460) includes reinsurance recoverables (R0400).
- The calculation for Assets carried forward (R0460/C0050) is not included in the log file. It is not clear what signs cells R0420 through R0450 should have.
- Cell R0430 is referred to as "Dividends paid or payable" in the template, but as "Dividends paid" in the log file. This comment also applies to R0320 in NS.06.
- Some firms are likely to have significant balances in Adjustments including valuation differences (R0450/C0050). This field could include a large number of items such as:
  - Differences in treatment of premiums and claims for unit-linked fund reinsurance contracts. This difference arises because for Solvency II reporting these contracts are treated as reinsurance contracts, however for local GAAP these are treated as investment contracts. Therefore reassurance premiums and reassurance claims are excluded from local GAAP reporting.

- Premiums and claims on other reinsurance recoverables. For example, reinsurance premiums will be included as a negative in the Income and expenditure section, and carried forward into the reconciliation in the Excess of income over expenditure (R0380/C0050). This will then be offset in Increase (decrease) in reinsurance recoverables (R0400/C0050), as this is a reason for those reserves to change. However they need to be included in Adjustments including valuation differences (R0450/C0050) as they are a reason for the Solvency II assets to change.
- Differences in the change in DAC (Deferred Acquisition Costs) and DOF (Deferred Origination Fees). This is because under Solvency II, these are valued at nil, however there are recorded in the local GAAP figures shown in the Income and expenditure section.
- Differences in the tax charge between local GAAP and Solvency II in respect of deferred tax.

- Many of the descriptions and formulae shown in the log file appear to be unclear and sometimes incorrect; additionally, some will cause circular references. Some examples include:
  - The log file description of R0010/C0010 should be "Income" so that it aligns with template and the taxonomy (alternatively, the template and the taxonomy should be changed to "Total income").
  - The log file contains instructions for R0040/C0030 and R0040/C0050 in a single row – this should be split to avoid confusion. Currently a single formula exists that cannot be applicable to both cell references. R0040 should not refer to R0020 as it does currently, since R0020 is calculated using R0040 therefore creating a circular reference.
  - The calculation for "Total income" (R0010/C0050) as set out in the log file appears to be missing some income categories. The correct formula would appear to be R0020/C0050 + SUM(R0050/C0050:R0100/C0050).
  - Likewise, the calculation for "Total expenditure" (R0350/C0050) as set out in the log file appears to be missing some expense categories. Additionally, the inclusion of "Conversion to annuity at retirement" (R0210/C0050) in the formula appears to be double counting, as we would expect this to be included in "Claims incurred" (R0110/C0050).
  - The classification of R0360 through R0410 in the log file does not correspond with the classification in the template. "Decrease (increase) in debtors" (R0410) has been removed from the template but not from the log file; it is not clear whether this still needs to be included in the reconciliation.
- Reference R0160 is described as "Lump sums on retirement", whilst the log file definition is "Lump sums on pension business". Change is required to ensure consistency.
- We seek clarification on the treatment of Lump Sum or Tax Free Cash (TFC) (e.g. R0160) payable which, simultaneously, corresponds to an individual transfer of pension (R0190/R0200) to an annuity or drawdown product with a third party. Although the Lump sum/TFC payment occurs concurrently with the transfer, the physical payment may come from either ourselves OR the third party. Clarity is required to determine if, upon transfer, the gross amount (TFC + residual value) is shown in cells R0190/R0200, or if a split is required (residual value only in R0190/R0200).

	• Clarification is required regarding the figures associated with "Group surrender or partial surrender" (R0180). The log file states that this is "*...payments made to trustees on pension business where the firm does not hold data at member level...*". This relates to the reason why the "knowledge of member data" and "Trustee" narrative was specifically included in the log file. Guidance is sought as to the appropriate cell references to be used for the scenarios described below, and for the log file to be updated accordingly:
	  ○ We have Group surrenders payable to trustees where we DO also hold member detail (for Group Pension Policies). Our interpretation is that these would be included in R0180 (despite the apparent conflict with the log file) since there seems to be no other appropriate category. It would appear contradictory to place these amounts in R0170 as, although member information is known, the surrender is from a Group policy.
	  ○ Similarly, we may have instances where Group policy surrenders include payments to non-trustees. Our interpretation is that these would be included in R0180 (despite the apparent conflict with the log file) since there seems to be no other appropriate category.

NS.07	**Business Model Analysis Non-Life** • NS.07 appears to split claims payments between payments to beneficiaries and, separately, payments to suppliers and internal costs. This is contrary to normal practice where specific claims expenses (allocated loss adjustment expenses) are included within claim payments, and internal claims handling costs (unallocated loss adjustment expenses) are separate. It is not clear whether this is intentional. • Claims management costs appear only to cover payments made and not a change in reserves. This will mean there is no reconciliation to the QRT numbers. Again, it is not clear whether or not this is intentional. • We note that Unearned Risk Reserve (URR) is now to be included within Unearned Premium Reserve (UPR) on NS.07. It is not clear whether this is intended to align with the treatment in S05.01. • The updated NS.07 log file on page 16 of CP40/16 indicates that "Best estimate premium provision" (R1940/C0010) should match that reported in S.17.01.01 (R0150/C0060). This should be S.17.01.01 (R0060/C0180). • Page 16 of CP40/16 states that R1310 should be "Total expenditure incurred (discounted)"; however, the template still refers to it as "Total incurred expenditure (undiscounted)". We note that this is comprised of items including "Net claims incurred (discounted)" (R0730), so we believe R1310 also ought to be "discounted". • The log file entry for "Investment management expenses attributable to the business year" (R0930) refers to columns C0510 to C0540; however, these are greyed out in the Appendix 3 NS.07 template. • Row R0940 of the Appendix 2 NS.07 template has various fields greyed out, whereas other cells in this template are crossed out.
NS.09	**Best Estimate Assumptions** • This template allows for 3 sub-categories for each assumption. The log file indicates that firms should show the assumptions and experience for the largest categories by number of policies so as to cover at least 50% of the business for

that product. It is not clear how additional rows should be added to the template when these are required to cover this 50% threshold. This is a particular problem for mortality assumptions disclosures.

- We believe the experience columns for "Assurance mortality change per annum" (R0260 to R0280, C0030 to C0080) should be greyed out, as is the case for the "Critical illness change per annum" columns (R0540 to R0560, C0030 to C0080). It does not make sense to disclose experience for a change in mortality rates per annum after the valuation date.
- The new format template has three subcategories for aggregate renewal unit costs for the year following valuation. We do not believe subcategories are required since, by definition, the total amount is disclosed. We interpret this to be the total for the entity.
- We would like clarity on what is required for "Expense inflation after the valuation date per annum" (R1300 to R1320). Where a curve is used (for example the RPI curve), we are unclear on whether we would be able to disclose "RPI" or whether we would need to convert this to a single rate. If we have to convert it to a single rate, we are unclear on whether we should disclose:
    - the year one spot rate; or
    - an annual rate that takes into account the cash flow profile of the expenses; or
    - the spot rate underlying the RPI curve, independent of the business mix / decrement assumptions.

NS.10 **Projection of future cash flows**

- On page 4 of the log file, there appear to be numerous errors in the paragraph entitled *"Excel tabs to be included in the submission of this template"*.
- There appear to be further errors later on in the log file as follows:
    - The instructions for C0400/R0110-R0150 refer to R0033 instead of R0700.
    - The instructions for C0410/R0110-R0150 refer to R0034 instead of R0800.
    - The instructions for C0410/R0210-R0610 refer to R0031 instead of Z0010.
    - The instructions for C0710/R0210-R0610 refer to R0031 instead of Z0010.
- The log file instructions for C0110/R0210-R0610 state that "Column C0110 is to be reported only if the category of business selected (Z0010) is Motor Third Party Liability business, UK Employers Liability business or UK Other General Liability business". It is unclear what is meant by "UK Other General Liability business". It could be either (1) UK General Liability and Marine, Aviation and Transport (MAT) business, but excluding UK Employers' Liability business; or (2) Other categories of business from which bodily injury or latent claims have arisen. We assume that it is the former, but it is written in such a way that suggests MAT is excluded.
- It is unclear whether references to "MAT business" in the log file refer to a reporting class or a Solvency II Line of Business. We would ask the PRA to clarify this.
- It is unclear whether all of Motor Vehicle Liability (MVL) is to be split between "Large bodily injury (if not settled by PPO)" (C0220) and "Other claims not covered in columns C0220 to C0410" (C0510), or if certain claim types are excluded from C0510.

- NS.10 requires information on cash flows from various liability types in different currencies. It is unclear why firms have to report (for example) US Employers Liability USD rather than GBP. Many firms' systems will be geared up to report GBP amounts for GBP companies, as required for the QRTs. This is a significant departure and could require a lot of system rebuild.