



CP14/22 - REVIEW OF SOLVENCY II: REPORTING PHASE 2

Issued 5 May 2023

ICAEW welcomes the opportunity to comment on the CP14/22 - Review of Solvency II: Reporting phase 2 published by The Prudential Regulation Authority on [Date], a copy of which is available from this [link](#).

For questions on this response please contact ICAEW Financial Services Faculty: fsf@icaew.com quoting REP 39/23

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ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

KEY POINTS

1. ICAEW welcomes the necessary review of the appropriateness of Solvency II reporting for UK Solvency II firms and groups. ICAEW supports the PRA's aims to streamline significantly the reporting and disclosure requirements and to tailor them to the features of the UK insurance market and the PRA's supervisory needs.
2. We believe the proposals in CP14/22 to delete some Quantitative Reporting Templates ("QRTs") and National Specific Templates ("NSTs"), combine others, and clarify instructions should help reduce the reporting burden, particularly for smaller firms. Additionally, a reduction in the frequency of certain templates and reporting thresholds should help make the reporting regime more proportionate. Nevertheless, we do have some observations and suggestions as set out below.
 - We note that a number of data items from the deleted QRTs have been amalgamated either into existing or new QRTs or NSTs. As a result, there appears to be little reduction in reporting obligations within the proposals, especially for larger firms. As there is a cost to reconfigure systems to report existing data items in new QRTs, there is a risk that the proposals add to firm costs with for little benefit. Instead of moving data items to an existing or new return, an alternative option to explore would be to continue to report the existing QRTs but without the data no longer required. This does mean more QRTs overall are reported, but it saves on the transformation costs that firms would otherwise incur. See our comments under chapter 2 in the annex for more detail.
 - The proposals include new templates to collect additional information. We recognise it is for the PRA to determine what information it needs to deliver its supervisory objectives, and that departure from the EU creates opportunities to request new data items better suited to UK supervisory needs. HMT's response to its Review of Solvency II consultation sets out that the Government will work with the PRA to ease burdens by reducing reporting and administrative requirements. It follows therefore that the collection of any additional information should be clearly justified against the PRA's objectives. We note that some of the new data items are being collected at a granularity that firms do not currently report internally and that it was not always clear the reason for asking for the new data. We would appreciate a better understanding of the reasons for requesting the data, in part to consider if there are other data items or alternative approaches already in use by insurers that provide the same supervisory benefit. Firms may also need longer to reconfigure systems where more granular data is being collected. See our comments under chapter 4 in the annex for more detail.
 - The proposals seem to remain aligned to a large degree with current EEA reporting. We note from our discussions with insurance firms and groups that some will want to see a more ambitious and tailored approach for UK reporting while others will want to maintain consistency with EEA reporting. We recognise striking a balance is difficult, particularly as significant EIOPA changes will be introduced for quarterly and annual reporting reference dates falling on and after 31 December 2023. For the purpose of this review, we note the potential cost savings for some firms might result in additional costs for others.
 - As UK and EEA reporting requirements begin to diverge, it is important that the UK and EEA versions of specific QRTs can be easily differentiated, in particular, to support firms who are required to complete UK and EEA reporting. We recommend that all QRTs submitted to the PRA have a unique reference with no overlap with EEA references.
 - We note that certain Q4 reporting requirements can be a useful, notably to provide early insight into matters or provide an early warning of important changes. We do however wonder whether there is any scope for reduction in Q4 reporting given the potential overlap and duplication with data in the annual QRTs. We would suggest this might be another area to explore to further streamline the reporting process to focus on

what is necessary to support supervision and to help reduce any unnecessary burden on firms.

- Finally, we suggest that the PRA clarifies the extent to which the proposals will apply to UK third country branches. The CP did not propose amendments to either the Third Country Branches Part of the PRA Rulebook for Solvency II firms or SS 44/15. As a result therefore where QRT data currently reported by a UK branch is being consolidated into an NST (eg, S.05.01 into NS.07 for non-life) the data would no longer be required to be reported by a UK Branch. It is suggested that this is confirmed.
3. We note that the PRA plans to consult on potential technical changes to the reporting templates and disclosure requirements on other areas of reform in scope of the HM Treasury's review of Solvency II and to review the existing requirements of the Solvency and Financial Condition Report (SFCR) and regular supervisory report (RSR) in due course. We welcome these further consultations but note there may be a need to sense check the coherency of the proposals overall.
 4. Our more detailed comments by the chapters in the consultation paper can be found in the annex.

ANNEX: DETAILED COMMENTS**CHAPTER 2: DELETION OF REPORTING, CHANGES IN FREQUENCY AND REPORTING THRESHOLDS****Deletion of reporting**

5. We welcome the deletion of a number of QRTs, such as S.21.01 (Non-life: Loss distribution risk profile) and S.21.03 (Non-life distribution of underwriting risks – by sum insured), S.07.01 (Structured Products), S.08.02 (Derivatives Transactions), S.31.02 (Special Purpose Vehicles) and S.36.03 (IGT-Internal Reinsurance).
6. We note however that for other QRTs and NSTs that are listed as having been deleted, a lot of the data items have been consolidated into other QRTs and NSTs. As a result, for larger firms there appears to be little real reduction in reporting obligations from this rationalisation. Where data items continue to be required albeit in a different return, firms will incur a cost to reconfigure systems to report the existing data items in new QRTs.

For example:

- S.05.01 (Premiums, claims and expenses by line of business): The requirements have been moved to S.05.03 (Revenue Account (Life)) for life firms (which now consolidates the requirements of S.05.01, NS.05 and NS.06) and NS.07 (Income, expenditure and business model analysis – Non-life) for non-life firms (which now consolidates the requirements of S.05.01 and NS.07), although we recognise the removal of duplication between S.05.01 and NS.07.
 - For non-life business, whilst S.30.01 Facultative covers for non-life and life business basic data) and S.30.02 (Facultative covers for non-life and life business shares data) have been deleted, details of facultative covers are now included in S.30.03 (Outgoing reinsurance programme basic data) and S.30.04 (Outgoing reinsurance programme shares data) for non-life firms, together with the introduction of a new QRT S.30.05 (Reinsurer and Collateral Provider Entity information).
 - Similarly, for life business S.30.01, S.30.02, S.30.03 and S.30.04 (Outgoing reinsurance programme) have been replaced by 4 new templates (S.30.05, S.30.06 (Life reinsurance summary), S.30.07 (Proportional life reinsurance), S.30.08 (Non-proportional life reinsurance)).
7. An alternative to moving data to new QRTs would be to continue reporting the existing QRTs albeit without the data no longer required. Firms will be able to switch off a requirement, rather than incurring the cost of system modifications. Although this may result in more QRTs/NSTs it would reduce transition costs. That said, if the proposals would otherwise result in an existing QRT having a few data items it may be sensible to amalgamate them in a new or another return. There would be a cost to modify a firm's systems, but longer term that would lead to a more simplified reporting. There is a perhaps a balance to be struck with different approaches adopted depending upon the number of data items in an existing return that are proposed to be retained.

Changes in frequency

8. In relation to changes in reporting frequency, the following changes are welcome:
 - S.06.03 (Collective investment undertakings – look-through approach): Reduction to half-yearly for solos and annually for groups.
 - S.12.01 (Life and health SLT technical provisions) /S.17.01 (Non-life technical provisions): The change in frequency to half-yearly.
9. Where groups have a solo entity that is a very material component of the group, it is likely that changes to the frequency of quarterly reporting for the group (as is the case for S.06.02 (List of assets) and S.06.03 (Collective Investment Undertakings) where Q4 reporting has been removed for the group but not a solo level) will yield far less benefit than reducing the

frequency of both solo and group reporting, since much of the work will be in preparing the solo submission.

Reporting Thresholds

10. We agree that the introduction of reporting thresholds should help reduce the reporting burden for firms by making the reporting more proportionate. However, we note that the threshold changes on some forms may bring those forms into scope for some firms where they are currently out of scope. For example, template S.05.02 (Premiums, claims and expenses by country) has a proposed lower threshold of 5% of gross written premiums compared to the 10% currently in place but only for those countries that exceed the new £100m gross written premium threshold. We understood that the purpose of the thresholds was to make the reporting requirement more proportionate, however this appears to go in the opposite direction for those firms that exceed the new £100m threshold, and therefore we wanted to clarify whether this was the PRA's intention.
11. We would suggest that reporting thresholds should be specified unambiguously by reference to cells in QRTs. For example, the proposed S.11.1 threshold is stated as being based on "the total value of the balance sheet" which might be open to interpretation. Reference to total balance sheet assets might be clearer in this case.
12. Firms will need to monitor the thresholds, particularly when they are close to the threshold limits. Firms that are close to the threshold limits may oscillate between triggering and not triggering a limit due to natural volatility in their business. The current proposals do not however make clear how firms should approach this volatility, and an unfortunate consequence could be to move repeatedly between different reporting requirements. We therefore suggest that further guidance is provided to make clear the PRA's requirements and expectations for firms that are close to thresholds and when new requirements commence to avoid repeatedly changing reporting requirements. This could for example be to require reporting of specific QRTs once the relevant thresholds have been exceeded for two consecutive years. Similarly, firms who do report the data must continue to do so until they have been below the relevant threshold for two consecutive years. In this manner, firms will have greater certainty how to manage the risk of triggering a threshold.

Other points: Q4 reporting

13. We note that there is some duplication between the Q4 reports and the annual QRT reports prepared at the same time. Firms are under considerable pressure in February to complete a number of returns, and any reduction in the volume of returns would be welcome. We appreciate the Q4 returns can be a valuable source of information to the PRA. But we wonder whether there is scope for the Q4 reports to be considerably streamlined – ie, to only include those data items where the PRA requires the information earlier than the annual reporting date. This would provide a considerable reprieve in February when firms have a lot of reporting to undertake.

Chapter 3: amendments to existing reporting

14. The following changes are welcome:
 - S.19.01 (Non-life insurance claims): The proposed change in treatment of ALAE
 - S.23.01 (Own funds): The deletion of the EPIFP-related fields. Whilst this change is beneficial with respect to quarterly reporting it will only be beneficial from the perspective of annual reporting if the annual SFCR (and triannual RSR) disclosure requirements in Section C.4 (Liquidity Risk) are also removed.
15. We have however the following observations in relation to some of the proposed changes:
 - S.19.01 (Non-life insurance claims): In practice, there is little/no change in the reporting burden from the removal of reinsurance recoverable information from this QRT, as gross and net triangles still need to be reported; and the benefit from the change in currency threshold is at least partly reduced by the change in the threshold denominator (referring to undiscounted provisions instead of discounted provisions).

- S.05.03 (Revenue Account (Life)): S.05.03 consolidates S.05.01 (Premiums, claims and expenses by line of business), NS.05 (Revenue Accounts Life) and NS.06 Business model analysis (life) for life firms. This consolidation is welcome, as well as the removal of the requirement for the 3-year plan information. However, for non-life firms with non-life annuities, this is the same as the existing S.05.01 life table, meaning there is the cost of building the capability to report this new QRT, but with limited or no benefit.
- S.05.04 (Activity by Country): Post Brexit the reference to “freedom to provide services” no longer appears relevant in the definition of “country” in this QRT.
- S.23.01.01 (Solo own funds) – We note that the deduction for participations in financial and credit institutions in accordance with Article 68 of Delegated Regulation (EU) 2015/35 is now being effected as a deduction from the reconciliation reserve in R0725/C0060 rather than as a separate line R0230 as previously. We do not have any concerns as regards this change (which is unlikely to cause significant issues), but would just note that title above R0010 should now be amended to just refer to “Basic own funds” ie, delete the reference to this being “before deduction...”.
- S.23.01.04 (Group own funds) - We note that the deduction for participations in financial and credit institutions included on a consolidated basis under Method 1 is now effected as a deduction from the reconciliation reserve in R0725/C0060 rather than as a separate line R0230 as previously. We do not have any concerns as regards this change (which is unlikely to cause significant issues) but would note that R0240 (which was previously a memorandum disclosure in relation to participations deducted in accordance with Article 228 of the SII Directive (“whereof deducted according to art 228 of the Directive 2009/138/EC”)) has not been deleted. The instructions to R0240 are as follows: “*This is the total value of participations deducted according to Article 228, paragraph 2 of the Directive 2009/138/EC, as part of the value reported in row R0230 — total*” – this appears to require amendment. The Directive provision in question was transposed as PRA Group Supervision Rule 10.5(2).
- S.31.01: There are several new fields analysing receivables between amounts not due and past due, as well as amounts in dispute and written-off. This is potentially a significant new level of granularity for firms. Firms will therefore require time in order to be able to align systems and processes to report this information.
- S.32.01 (Undertakings in the scope of the group) – It was not clear whether the additional fields will be included in both the supervisory (S.32.01.04) and public (S.32.01.22) versions of this QRT or just the supervisory version. It is suggested that this is clarified.
- S.33.01 (Insurance and reinsurance individual requirements): Paragraph 3.14 states that this will report “the contribution to group SCR for each insurance entity that is included within the calculation of the consolidated group SCR”, ie, under Method 1; however, both the QRT and the LOG states that only entities considered under Method 2 should be reported, although the instructions for column C0145 Contribution to the group SCR fall under the overall “Method 2” columns. We presume and suggest that, notwithstanding the requirements of column C0145, columns C0060 to C0230 continue to apply only to undertakings included under Method 2.
- S.33.01 (Insurance and reinsurance individual requirements) - The log file instructions for the new column – C0145 – Contribution to the group SCR – appear quite complex and possibly difficult to interpret. It is suggested that the PRA considers whether it might be helpful to clarify these.

CHAPTER 4: REPORTING ON NEW TOPICS

16. We note that the proposals include new data items. This is not unreasonable as following departure from the EU the PRA can develop a supervisory regime tailored to the UK. We were not however always clear on the rationale for the new data items, while we also note that that some data is at a level of granularity that firms do not report internally. We would

find it helpful to better understand the purpose of collecting certain data items, and why other data items are required at the level of granularity proposed. With a better understanding it may be that alternative data sources already in use by insurers can be identified that provide the same supervisory benefit, but at less cost to implement.

17. If data is required at a level of granularity different to that currently adopted internally, firms may find challenges in adjusting systems or may need time to adjust. For example, we believe the new excess capital QRT will be a challenge to prepare. Another example may be S.30.03/4 (Non-life Facultative Reinsurance) where the proposal is to report all facultative covers here, instead of simply the top 10 per line of business as is currently the case in S.30.01/2.
18. Additionally, we have noted that some of the proposed new templates appear very similar to those that EIOPA is also proposing. For example, QRT S.14.02 is very similar (albeit not identical) to the new EIOPA QRT with the same number. QRT S.14.03 appears identical to EIOPA's version of the same. Although we recognise the PRA's need to collect data on cyber risks, this QRT has the potential to be very onerous, as systems might not currently capture for this specific risk, because affected policies often do not explicitly consider cyber, so firms may need to be given a reasonable amount of time to make the necessary changes.
19. NS.14 (Excess Capital Generation): We believe this new NST might be onerous for life firms to complete. It is suggested that it is field tested by a number of firms to ensure that the requirements are clear. The draft log file suggests that NS.14 is only required at solo level, however the Excel QRT refers to "Solo & Group". This should be clarified. We would also note there are potentially significant complexities in providing this at group level, and so consideration should also be given to whether this is needed at the group level.
20. The new public disclosure QRT S.25.04.21 ("Solvency Capital Requirement – for all undertakings") has been designated as a "relevant element" in the proposed draft amendments to SS11/16 which means that it will fall within the scope of the auditor's reasonable assurance opinion. This will however only be the case for Standard Formula firms (it will be "Other information" for partial and full internal-model firms. This should be clarified in the proposed amendments to SS11/16.