



SUPERVISORY REGULATIONS AND POLICIES SERVICE
MACRO-PRUDENTIAL ANALYSIS DIVISION

Ref. note of To Insurance and reinsurance companies with registered offices in Italy
Classification III 1 2 THEIR OFFICES
Annexes | To Ultimate Italian parent companies
THEIR OFFICES
and, for consultation,
Italian agents of insurance and reinsurance companies with registered offices in a country outside the European Economic Area
THEIR OFFICES

Subject Results of the comparative analyses for the Solvency and Financial Condition Reports (SFCRs).

The third pillar of the new Solvency II regulatory system provides, *inter alia*, for insurance and reinsurance companies and groups to publish annually a Solvency and Financial Condition Report (SFCR), specifying therein its structure and information content.

The report is the main tool for communicating the financial and capital situation of insurance companies and groups to the market. It contains a significant set of qualitative (narrative) and quantitative information on the essential aspects of the business activities, the type of business and economic results, the governance system, the risk profile, valuation criteria, and capital management.

In consideration of the importance of the SFCR, the Institute conducted a comparative analysis of the reports published by 7 large insurance groups for purposes of financial stability and by the 32 companies belonging to these groups¹.

This analysis is part of the more general comparative assessment that the Institute is conducting on the new information tools for the regulatory agency or for the market introduced by the Solvency II framework².

The main results of the analyses are shown in the attached document, with indications on the issues for which the Institute expects an improvement starting from the 2017 reports.

¹ With a letter to the market on 31 March 2016 regarding Financial Stability information, IVASS announced the list of 7 insurance groups whose total assets exceeded Euro 12 billion and were therefore required to produce additional quantitative reporting for financial stability purposes. This list is updated annually based on IVASS Regulation no. 21 of 10 May 2016. The current sample represents over 60% of the market in terms of the insurance industry.

² Please refer to the letter to the market dated 12 January 2018, "Results of comparative analyses on Own Risk and Solvency Assessment Reports (ORSA)".

Best regards,

By delegation of the Integrated Directorate

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Solvency and Financial Condition Reports - SFCR 2016

[2016 is the first year for which the Solvency II provisions on public disclosure were applied.]

Italian insurance and reinsurance groups and companies published the first Solvency and Financial Condition Reports (hereinafter, SFCRs) provided by the new prudential framework in 2017. The primary objective of the SFCR is to provide a widespread audience of potential stakeholders - including policyholders, insured parties, and beneficiaries - a clear and understandable overview, as complete as possible, regarding the organisational structure, the business, performance, and financial situation and solvency of the insurance company and group. Particular attention must be given to the proper inclusion of substantive information, i.e., information whose omission or inaccuracy may affect the decisions or opinions of readers of the report.

[Compliance with provisions on publication timing and methods]

The SFCRs that were analysed, referring to 2016, were published within the prescribed deadlines and, in almost all cases, on the relevant websites. The reports were found to comply with the reference framework set forth by European legislation³.

[The reports are broken down into sections as envisaged ... but often the information for one section is provided in another.]

However, despite the fact that the structure of the reference document and the division into sections has been formally observed, often certain information referring to a specific section has been included in others, making it more difficult to assess the completeness of the content, the correct understanding of the reported information, and, above all, the comparability of information provided by different companies.

[The qualitative section presents wide areas for improvement]

The qualitative (narrative) section of the document did not always provide complete and understandable information for the reader (“fit for purpose”), as the European and Italian legislators had expected.⁴

The quantitative disclosure (Quantitative Reporting Templates - QRTs) attached to the reports enabled an objective assessment to be carried out on the information provided and to compare relevant information regarding solvency.

[SFCRs of large groups provide more complete but also more complex information to be interpreted by less experienced readers]

In general, larger groups provided a substantial level of detailed information, which appears to be, on one hand, useful to more experienced stakeholders for appropriate in-depth analyses while, on the other, making the information more complex for less experienced users (e.g., policy holders, insured parties, and beneficiaries). A better combination of summaries and detailed tables could help improve the document's reporting effectiveness. Moreover, it was found that SFCRs are not always able to adequately represent the specific details and distinctive characteristics of the insurance group.

³ The SFCR structure is defined in Annex XX of the Delegated Regulation (EU) 2015/35; the Implementing Regulation (EU) 2015/2452 identifies the Solvency II annual quantitative models (Quantitative Reporting Templates - QRTs) to be attached to the document.

⁴ IVASS Regulation no. 33/2016 on the Solvency and Financial Condition Report and the periodic reporting to IVASS.

Summary Section

European regulations⁵ require that the summary section of the report be clear, concise and, most importantly, understandable for less experienced users, such as policyholders, insured parties, and beneficiaries.

The Section must also note any substantial changes concerning business activities and results, the governance system, risk profile, solvency assessment, and capital management of the insurance or reinsurance company during the reference period.

The information reported in the “Summary” section of the SFCR was found to be highly mixed: there were cases in which the summary was merely a table of contents for the topics discussed, others in which a brief description of the reference regulatory framework was provided, while others contain an overview of the fundamental issues for the business and the primary changes that took place over the year, with the latter case being the most compliant with the Institute’s expectations, in line with regulatory provisions.

**Section A.
“Business activities
and results”**

The business and significant activities were described, highlighting the business lines, but often the quantitative data contained only aggregate information (e.g., solely total production).

When there was cross-border activity, companies usually provided simple references to geographical areas, without providing details, for example in terms of portfolio percentages or other elements justifying the aforementioned substantial nature. In the vast majority of cases, the indication of increases/decreases in premium income, claim status, and performance indicators (e.g., loss ratio, combined ratio, and expense ratio) was effective; however, the factors that caused their trends were reported in only a few cases.

**Section B.
“Governance
System”**

The principal groups have provided a general overview of the corporate governance system that present areas for improvement, both in terms of the completeness of information and greater reporting clarity.

For example, although the policies adopted by the companies and their compliance with the regulatory provisions were included, the Institute expects that in the coming years the information may be more than the minimum content required. In particular, this comment is in reference to information concerning: compensation policies and procedures (e.g., fixed and variable components); specific requirements for administrative boards, senior management, and those who perform key functions; description of roles and composition of board committees active at group and individual company level; and organisation and coordination of key functions.

**Section C.
“Risk profile”**

In general, separate information was provided for each risk category and, within each category, the sub-modules considered most significant in terms of impact on capital requirements were indicated. Groups that adopt internal models to calculate capital requirements have, in general, provided more information.

⁵ See Art. 292 of Delegated Regulation (EU) 2015/35

Assessments of risks, including those considered most significant, were often presented using numerous references to other sections of the report or, in some cases, other documentation that was not always available to the public, thereby rendering it necessary for more experienced readers to use the quantitative QRT disclosure to verify the information provided. Information of a more methodological nature must be presented more clearly, completely, and systematically: the use of sensitivity analysis on certain risk factors, methodologies employed, key assumptions formulated to develop scenarios, stress tests, and relative results. Similarly, information provided on “other substantial risks”, not included in the capital requirement calculation, should be improved.

Section D. “Solvency Assessment”

It is necessary to invest in a more effective representation to the public of the (already in itself) complex assessment and reconciliation of the information developed for purposes of the financial statements with that of the “Solvency II statements”, at both the individual and consolidated level, explaining the potentially significant impacts of differences between the bases, methods, and key assumptions used in the disclosures.

Section E. “Capital Management”

The SFCRs of larger groups substantially presented the relative solvency position, focusing on the processes used to manage own funds. Often, the time horizons considered for the business planning purposes were not indicated, nor the link with strategic planning. In addition, there were frequent references to business policy documents, without providing suitable explanations; the objectives pursued in the context of capital management were often limited to simply citing those indicated in the reference legislation.

Several areas can be improved, similar to other European jurisdictions

The areas of improvement identified in the first year of publication of SFCRs for Italian groups and large companies are essentially similar to those found in the SFCRs of other European companies, as evidenced by the comparative analyses carried out by EIOPA and other national authorities⁶.

This can be justified by several factors: the complexity of the new prudential framework, based on truly innovative risk metrics compared to the previous system; the extent and structure of the qualitative/quantitative information required in the new public disclosure; and the substantial differences between accounting standards for financial statements and the prudential financial statements.

⁶ Please refer to the publications at the following sites for EIOPA, PRA and BAFIN:
<https://eiopa.europa.eu/Publications/Supervisory%20Statements/EIOPA-BoS-17-310-SFCR%20Supervisory%20Statement.pdf>
<http://www.bankofengland.co.uk/pru/Documents/publications/reports/sfcr181017.pdf>
https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Pressemitteilung/2017/pm_170728_analyse_solven cy_II_jahreszahlen.html

IVASS requests Italian insurance companies and groups to resolve the aforementioned gaps and align SFCRs in the coming years, not with the minimum regulatory standards but with best market practices.

The Institute will continue to review the SFCRs, reserving the right to take action in those instances that may prove to be non-compliant with regulatory requirements and possibly adapting secondary regulations in the most appropriate manner in order to make SFCRs truly informative.