GIBRALTAR FINANCIAL SERVICES COMMISSION

Solvency II

Reporting - Frequently Asked Questions

5 May 2017

Frequently Asked Questions

This document provides answers to frequently answered questions relating specifically to Solvency II reporting. As these are brought to our attention we will aim to provide responses in a timely manner.

Should you have a query regarding reporting under Solvency II, please contact our Solvency II team at s2@gfsc.gi

In addition to updates of this document, we recommend that firms refer to EIOPA's own Q&A documentation which can be found here as well as the main reporting webpage which holds all relevant links to the Solvency II reporting and public disclosure framework.

1. QRT S.04.01.01 - Activity by country

Q. This template appears to require premium to be on a written basis, but claims and acquisition costs on an incurred (i.e. earned) basis. Please confirm this is correct.

A. The completion requirements for this template refer to Directive 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings. This is described in Article 38: "Claims incurred shall comprise all payments made in respect of the financial year plus the provision for claims but minus the provision for claims for the preceding financial year". Please note that while amounts such as annuities, surrenders, entries and withdrawals from ceding undertakings and charges for claims incurred but not reported are included in this heading. Firms should deduct salvage and subrogation recoverables. The instructions for the completion of the QRTs state that claims management expenses shall be excluded.

Article 40 of the same covers the presentation of acquisition costs, which in S.04.01.1 are defined as "Commissions". The article states that "Acquisition costs shall comprise the costs arising from the conclusion of insurance contracts. They shall cover both direct costs, such as acquisition commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies".

As with the definitions above, we expect firms to complete this template on the basis of claims payments made and expenses relating to the financial year.

2. QRT S.04.01.01 - Activity by country

Q. The LOG file defines claims incurred as “the sum of the claims paid and the change in the provision for claims” and “this shall exclude claims management expenses. Please confirm that the change in the provision for claims is intended to *exclude* any IBNR.

A. As stated above, Article 38 of the Directive 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings states that claims incurred “shall include…charges for claims incurred but not reported”. The change in the provision for claims should therefore include IBNR.

3. QRT S.04.01.01 - Activity by country

Q. In order to report by business line, it is the intention to split premium written and commission earned in line with claims incurred for the motor business, as neither premium nor commission are separately split into liability/non-liability. Please confirm that this is an acceptable approach.

A. We can confirm that this approach is acceptable insofar as the segmentation should be consistent with the firm’s standard formula calculations. Approaches for the segmentation of motor business are further discussed in the GFSC’s Supervisory FAQ.

4. QRT S.04.02.01 - Information on class 10 in Part A of Annex I of Solvency II Directive, excluding carrier's liability

Q. This requires frequency and average cost per claim for motor claims. Could you please confirm this is for reported claims only, as our clients do not usually calculate IBNR on a frequency/severity basis. The LOG file is silent on this point.

A. Please refer to our response to question 2 regarding claims incurred. It follows that IBNR is included as part of the claims incurred used in this calculation.

5. QRT S.04.02.01 - Information on class 10 in Part A of Annex I of Solvency II Directive, excluding carrier's liability

Q. The LOG file refers to frequency as the number of claims over the average number of vehicles. We presume this is intended to be written vehicles not earned. If that is the case, we would simply point out that the frequency would look exceptionally low in a company’s first year of trading or if the business grows materially, and similarly would look very high if the business was shrinking.

A. We recommend that written vehicles data is used as it is likely to be more readily available.

6. QRT S.05.01.01 - Premiums, claims and expenses by line of business

Q. We would be grateful if you could confirm that in this and other similar templates PPOs should be included in the heading “Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations”.

A. We can confirm this approach is consistent with the LOG file instructions.

7. QRT S.05.02.01. - Premiums, claims and expenses by country

Q. We would be grateful if you could confirm that this should include PPO liabilities.

A. As above, we can confirm this approach is consistent with the LOG file instructions.

8. QRT S.06.03 - Collective investment undertakings - look-through approach

Q. Our firm is exempt from reporting S.06.03 look through template on a quarterly basis as the Collective Investment Undertakings on our balance sheet are less than 30% of total classifiable assets. Could you please confirm whether we have to report S.06.03 annually regardless of the percentage?

A. The options provided for the provision of this template on an annual basis are as follows:

> One of the options in the following closed list shall be used:
> 1 - Reported
> 2 – Not reported as no Collective investment undertakings
> 6 – Exempted under Article 35 (6) to (8)
> 7 – Not due as no material changes since quarterly submission (this option is only applicable on annual submissions)
> 0 - Not reported (in this case special justification is needed)

As there are limits to template exemptions, as set out by Article 35(6) to (8), it follows that where firms have Collective Investment Undertakings reported under their balance sheet, these should be reported.

9. Multiple Templates - S.12 to S.16

Q. We would be grateful if you could confirm that the templates should be completed for PPO liabilities.

A. While others should be completed for PPO liabilities, the following templates are not required in this instance:

- S.15.01 Description of the guarantees of variable annuities
- S.15.02 Hedging of guarantees of variable annuities

10. S.14.01.01 - Life obligations analysis

Q. Cell C0010 requires a "Product Code", being an internal code. Given a PPO is not actually a product, but simply the result of how a liability, could you please advise how these are to be treated. Is each PPO a separate "product"? Or can the company simply allocate "PPO" as an overall "Product Code"?

A. The LOG files state "Internal product ID code used by the undertaking for the product. If a code is already in use or is attributed by the competent authority for supervisory purposes that code shall be used."

We have not previously specified that a particular code must be used but agree with the proposal that "PPO" would be suitable here.

11. S.14.01.01.03 and .04 - Life obligations analysis

Q. Given any PPO liabilities will arise from a single homogeneous risk group, please advise whether these templates nonetheless require completing.

A. The completion of these tables within the templates is required and there are some specific instructions within the LOG files to assist filers.

12. S.16.01.01 - Information on annuities stemming from Non-Life Insurance obligations

Q. Please clarify what is required for Cell C0010, which per the LOG file requires "the average interest rate used". Is this intended to be the interest rate by which the PPO payments increase (i.e. the ASHE index), the net rate after the investment return, some other measure?

A. The EIOPA Q&A on the Reporting ITS states, in response to query 637, that this is the average rate of revision assumed in the best estimate calculation. We would interpret this to be the average increase in PPO payments from the ASHE index plus any other revisions in payments.

13. S.19.01.01.02 - Non-life insurance claims

Q. The template requires the inflation rates, but "only in the case of using methods that take into account inflation adjusted data". Given that the majority of our clients do not use such methods, please confirm that a blank template can be submitted.

A. We can confirm that this approach is possible, although only with respect to this particular table of the template.

14. S.21.01.01 - Non-life insurance claims

Q. This requires loss brackets, which are predetermined in EUR. However, the LOG file states that for other currencies the relevant supervisory authority shall define the equivalent options. Undertakings are also permitted to set their own loss brackets. Could you please advise whether the GFSC intends to set such loss brackets for GBP or alternatively whether you are expecting each company to set their own loss brackets.

A. Please see our response within our February 2017 document GFSC SII Reporting and Public Disclosure – Options Provided to Supervisory Authorities.

15. S.21.02.01 - Underwriting risks non-life

Q. The template requires the 20 largest risks across all LOBs and, if not included above, the 2 largest risks for individual LOBs. Could you please advise firstly that for motor property this should be based on the highest values of vehicles insured. Secondly, could you please advise how motor liability is to be dealt with, as all policies will have the same net retention. In particular, please clarify the following:

- Risk identification number – please confirm this is a purely internal number of the company's choosing, as risks will not carry such a number for personal lines underwriters.
- Identification of the person – how does the undertaking select the policies for which it provides the information, given all are identical?
- Start and expiry date – again, how are the policies to be reported selected, if all are the same?
- Sum insured – is it acceptable to report "unlimited" in this cell?
- Deductible – this will vary depending on individual policies. Should the company report an average? Should it report the specific excess attaching to the

individual policies selected? As before, we therefore require clarity as to how the policies should be selected if all have the same net retention.

- Underwriting model used – personal lines, and in particular motor insurers, do not use an underwriting model to estimate the exposure and determine the need for reinsurance, as motor liability in the UK is always unlimited. It is therefore not clear what option such underwriters should select.

A. The sum insured is the highest amount that the insurer can be obliged to pay out under the policy. For property damage claims under the other motor insurance LOB we would understand the highest values of vehicles insured to be an appropriate measure for the purposes of this template. For the Motor vehicle liability insurance LOB we would advise that the amount 100,000,000 is inputted to represent an unlimited amount.

With regards to the other particular points, we understand that these are in relation to motor vehicle liability insurance where policies are consistently unlimited. We note the statement in the LOG file that the in cases where the sum insured as the same the most appropriate risk considering the risk profile of the undertaking must be used as the ultimate criteria. We would therefore recommend policies are selected on the basis of the lowest deductible offered, and that the risk identification number, identification of the person, and start and expiry date are pragmatically selected.

The 'Other' option may be selected for the Underwriting model used where no other option is application.

16. S.21.03.01 - Non-life distribution of underwriting risks - by sum insured

Q. This template reports exposure by sum insured brackets. Motor property and fire/theft property damage are compulsory. However, NSAs have the option to make other lines compulsory. Please advise whether the GFSC intends to do so, as we will need to ensure the required data is collected.

B. Please see our response within our February 2017 document GFSC SII Reporting and Public Disclosure – Options Provided to Supervisory Authorities.

17. S.21.03.01 - Non-life distribution of underwriting risks - by sum insured

Q. The sum insured brackets are predefined in EUR, but shall be separately defined by the supervisory authority for other currencies. Companies are also permitted to set their own brackets. Could you please advise whether the GFSC intends to set such loss brackets for GBP or alternatively whether you are expecting each company to set its own.

C. Please see our response within our February 2017 document GFSC SII Reporting and Public Disclosure – Options Provided to Supervisory Authorities.

18. All templates

Q. Please confirm that for all templates (include those requiring claim numbers, highest risks, etc. only the co-insurer's share should be reported).

A. We confirm that the figures reported by each firm should relate to their own share of risks, including where risks are co-insured.

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