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Solvency II Training Workshop Disclosure Issues

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ADVISORY

Agenda

- The importance of transparency to Israel insurers and reinsurers
- Where is Israel now and comparison with other jurisdictions
- Transparency - the challenges and drivers
- Regulatory objectives in insurance disclosure
- Practical considerations in developing an enhanced reporting regime
- Next steps - from now to Solvency II equivalence in a nutshell

“Transparency and accountability contributes to the legitimacy and integrity of the supervisory authorities and credibility of the system of supervision. This Article [30] lays down that supervisory authorities shall conduct their tasks in a transparent and accountable manner. Disclosures foster transparency and allow a meaningful comparison of the approaches adopted by member states”

Solvency II Framework Directive, in reference to Article 30

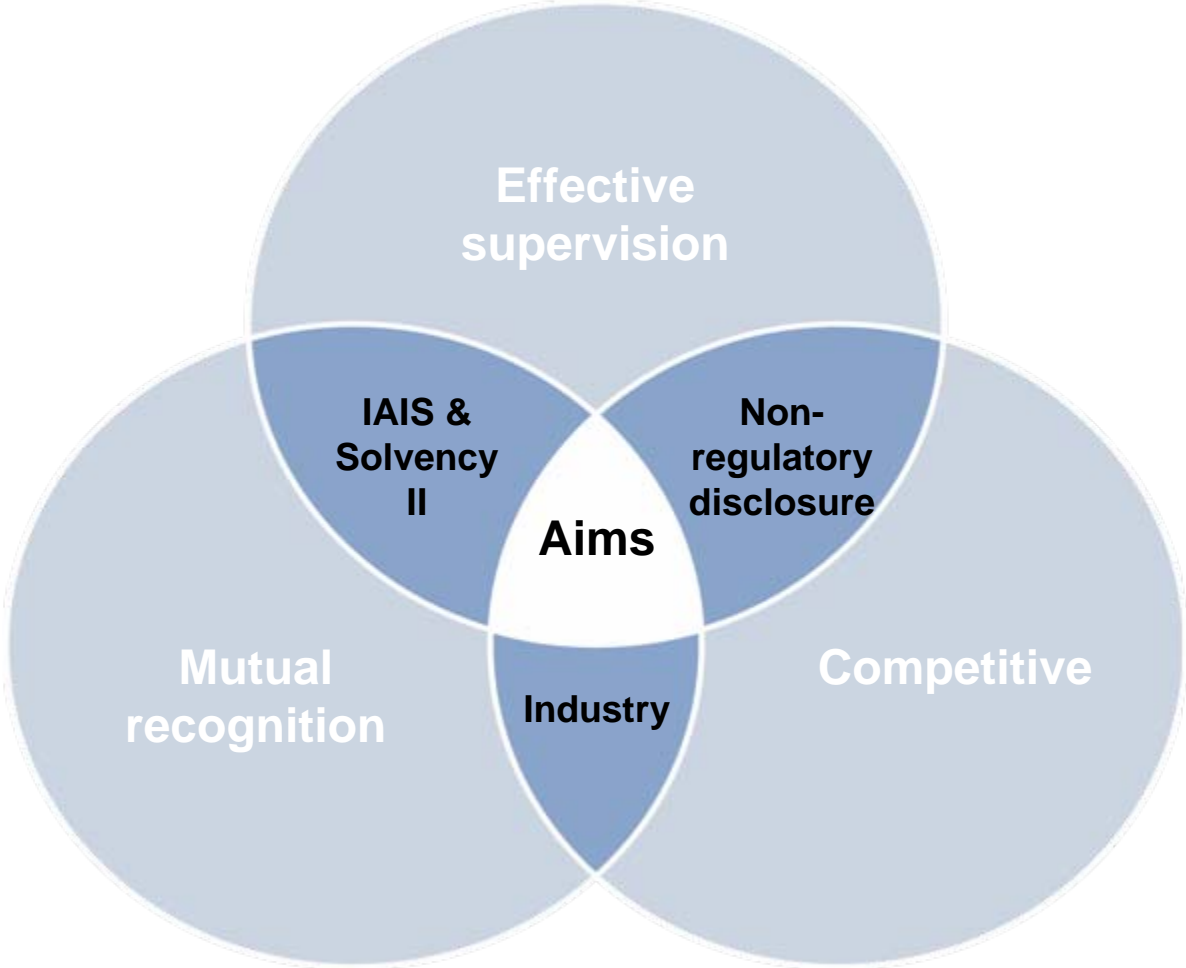


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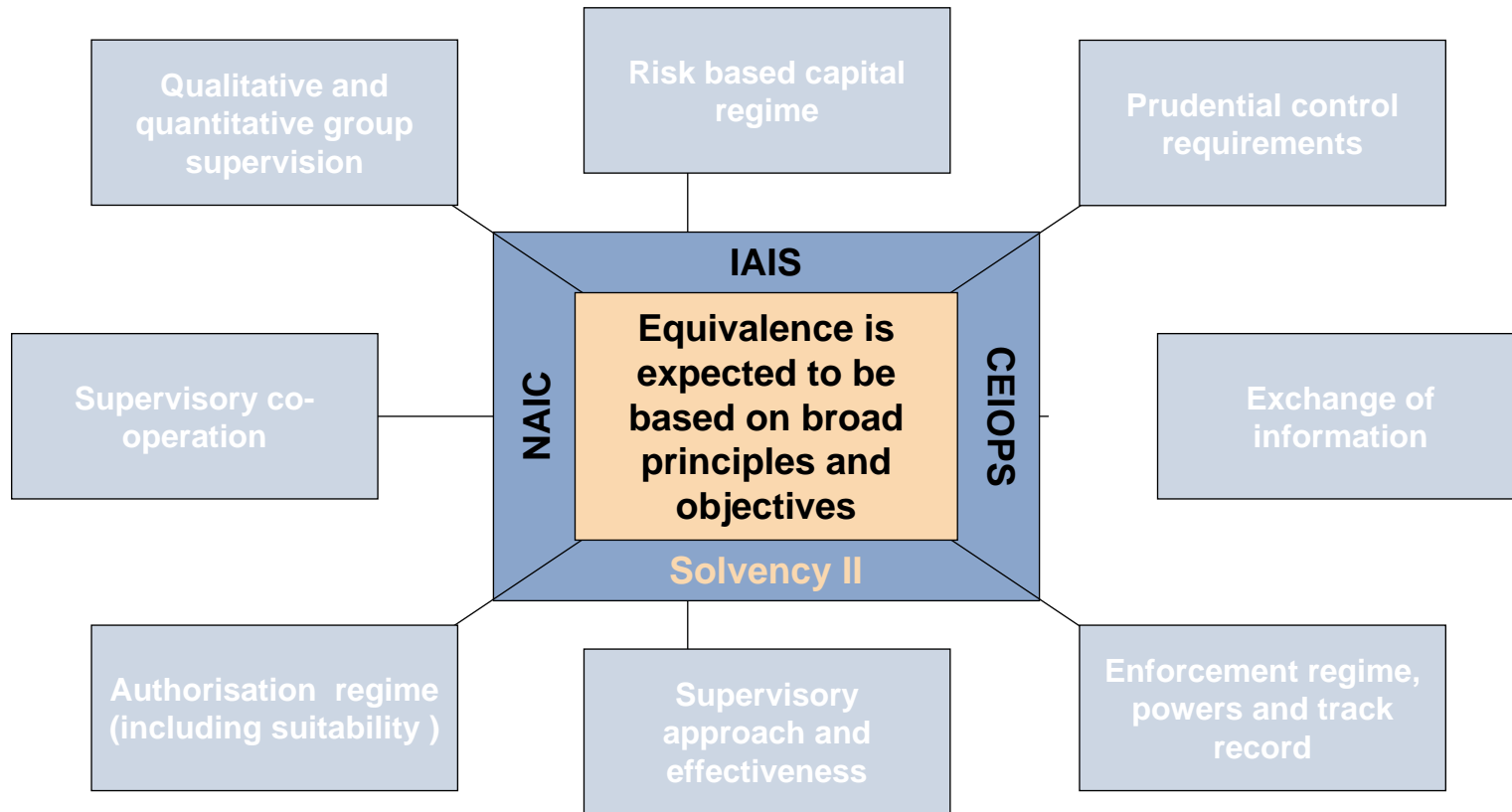
Key considerations in insurance and reinsurance disclosure

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Regulators' objectives for a disclosure regime?

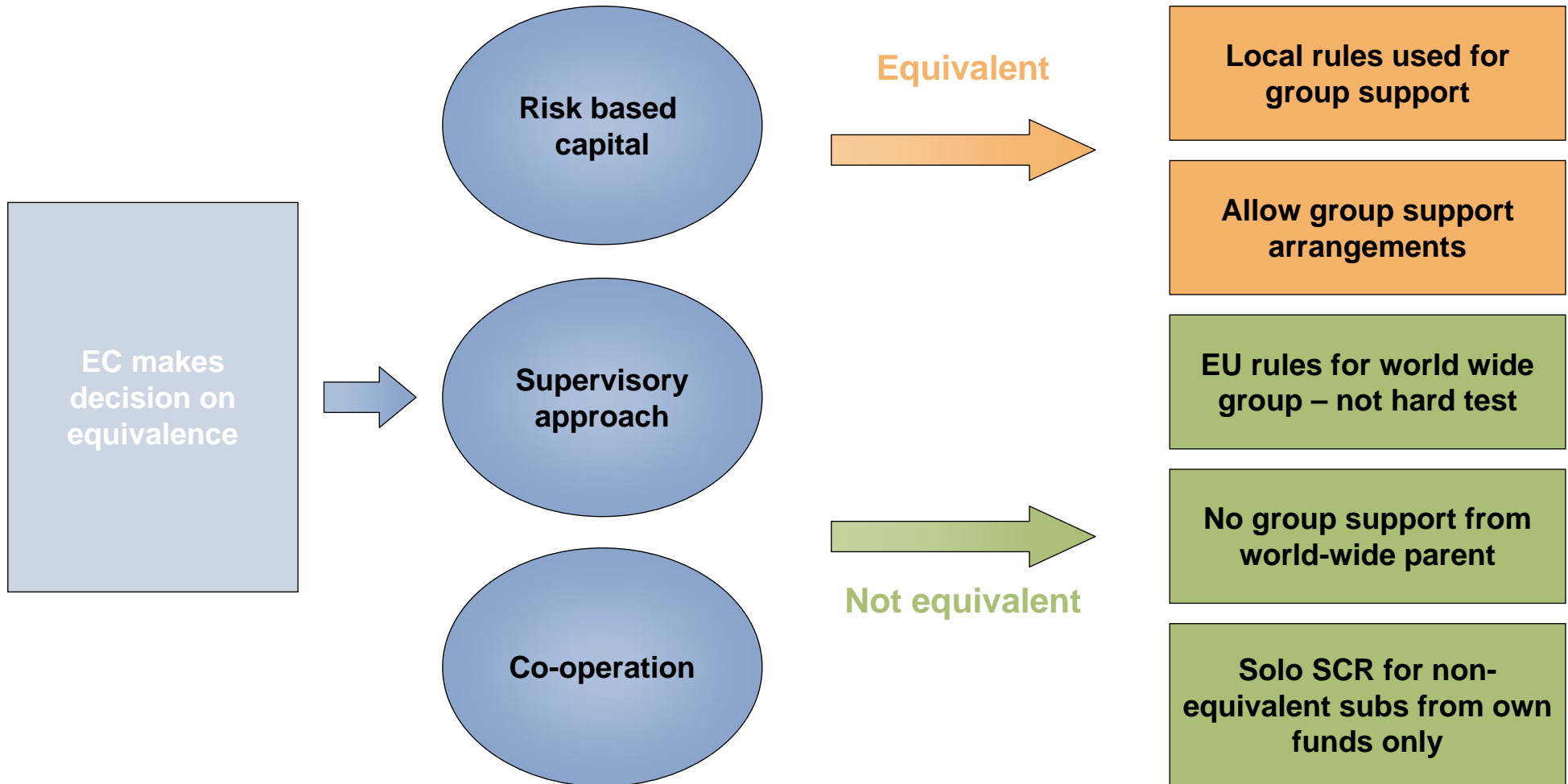


What does equivalence mean?

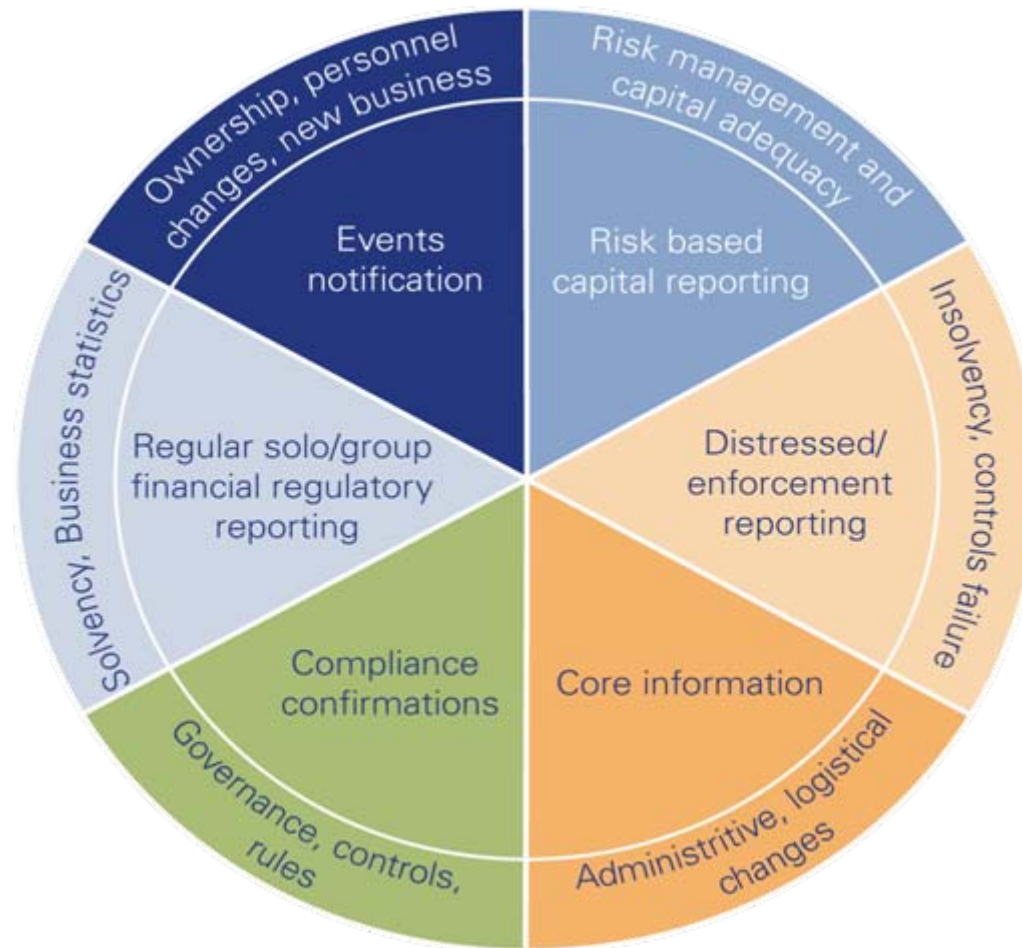


Transparency underpins all aspects of an equivalent regime – this includes also the reporting and disclosure framework

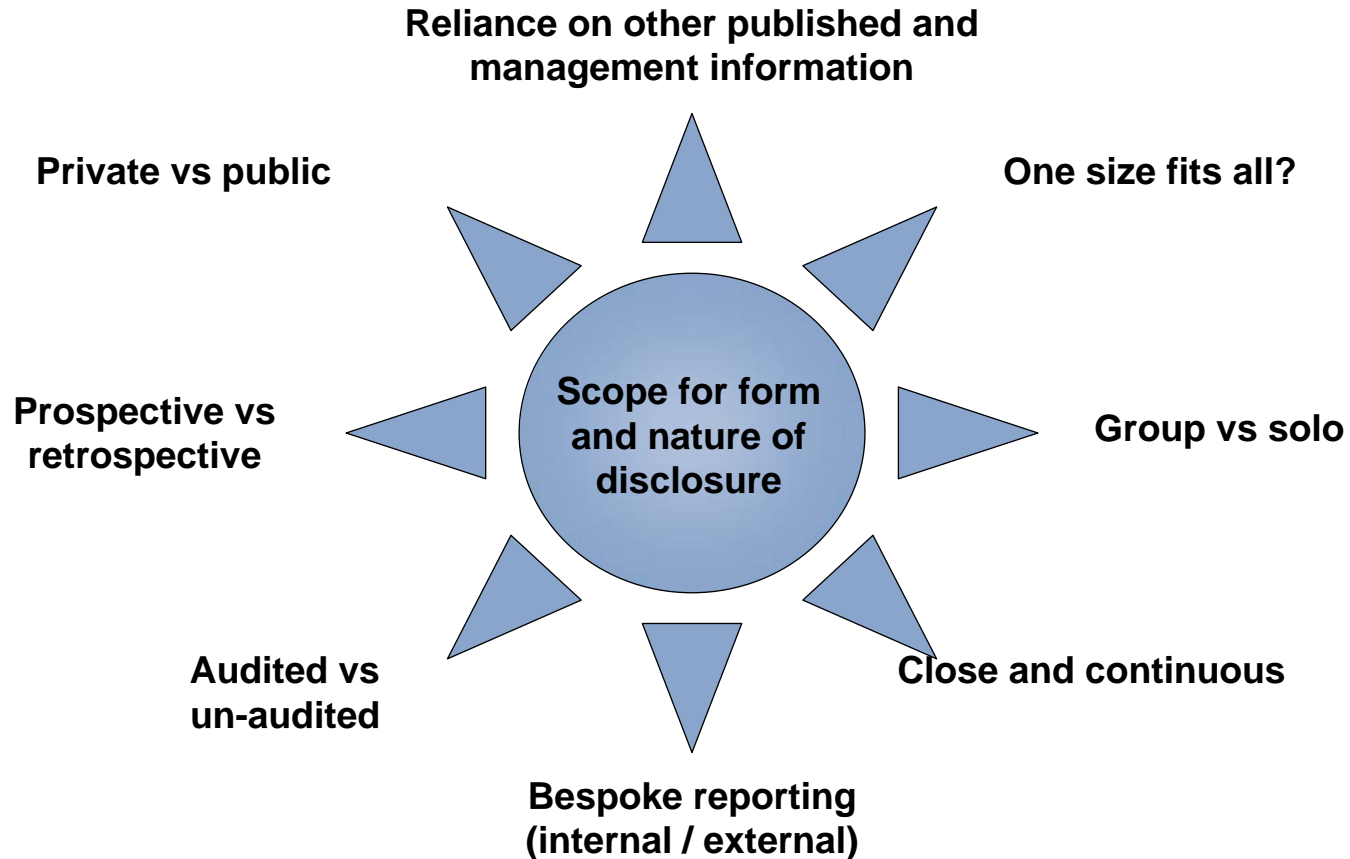
Equivalence – Key potential implications for Israeli groups



Key components of an effective supervisory disclosure framework



Practical considerations



It is vital for firms and that compliance and performance reporting MI can be aligned



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“Peer” regulator benchmarking and Solvency II comparison

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Comparison of selected regulators' approaches

The table below sets out at a high level the current key routine regulatory reporting requirements by country. Appendix x provides the detail to support this table

REPORT	Israel	UK	SWISS*	IRELAND	AUSTRALIA
Solo solvency	<ul style="list-style-type: none"> Annual return Private reporting 	<ul style="list-style-type: none"> Annual regulatory return Certified by the directors Audited Private reporting** 	<ul style="list-style-type: none"> Annual regulatory return Not subject to audit Private reporting 	<ul style="list-style-type: none"> Annual regulatory return Audited Private reporting 	
Group solvency	<ul style="list-style-type: none"> No group solvency reporting ? 	<ul style="list-style-type: none"> Annual group solvency return Audited Private reporting 	<ul style="list-style-type: none"> Twice yearly group solvency report Similar to EU IGD Audited Private reporting 	<ul style="list-style-type: none"> Annual group solvency return Audited Private reporting 	
Additional capital and risk reporting	<ul style="list-style-type: none"> No additional risk based capital reporting ? 	<ul style="list-style-type: none"> (i) Enhanced Capital Requirement (ECR) Annual at same time as FSA return Private reporting Not subject to audit (ii) Individual Capital Assessment supported by Individual Capital Guidance Private reporting Not subject to audit 	<ul style="list-style-type: none"> (i) Annual Swiss Solvency Test (SST) calculated at both solo and group levels Risk-based report (similar to UK ICA) aims to be aligned to Solvency II Private reporting Not subject to audit (ii) Annual Tied Assets report detailing assets backing technical reserves 	<ul style="list-style-type: none"> Currently no additional risk based capital reporting 	

* whilst Switzerland is outside EEA the regulator adopts many aspects of the EU directives

** copies can however be requested direct from the insurer

Comparison of selected regulators' approaches (continued)

The table below sets out at a high level the current key routine regulatory reporting requirements by country. Appendix x provides the detail to support this table NOTES

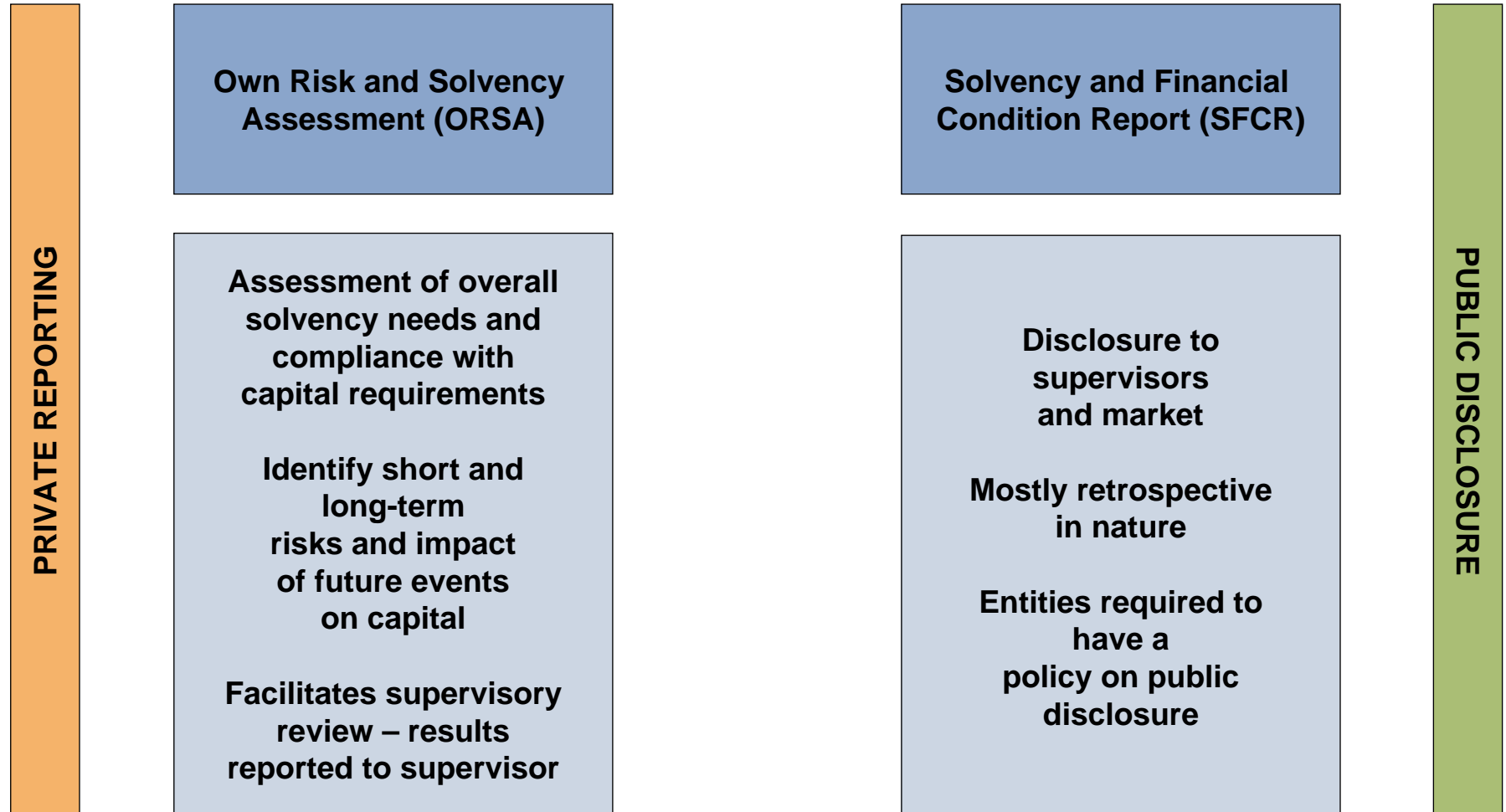
REPORT	Israel	UK	SWISS*	IRELAND	AUSTRALIA
Ad hoc reporting	<ul style="list-style-type: none"> • ? 	<ul style="list-style-type: none"> • Various annual and half yearly reporting covering conduct of business, standing data, complaints, controllers and close links 	<ul style="list-style-type: none"> • Annual report on group structure, key functions and individuals for those subject to Swiss Groups supervision (not subject to audit) • Other ad hoc reporting triggered by events/market developments 	<ul style="list-style-type: none"> • Annual directors compliance certificate (?is this required as part of the annual solvency return or a separate report?) • Compliance statements (?what are these ?) 	

Solvency II disclosure – Overall framework

- Framework Directive requirements part of Pillar III
- Solvency and Financial Condition reporting covers a variety of public disclosures, detail set out in CEIOPS CP 15
 - Risk and risk management
 - Valuation methodologies
 - Capital and capital management
 - Generally retrospective information required although some forward-looking disclosures (re strategy)
- Solo insurer reporting replicated for groups
- Additional group disclosure relating to group support commitments
- General principle that insurers must submit any information necessary for the purposes of supervision (further details in implementing measures)

In addition to Pillar III, the Own Risk and Solvency Assessment (ORSA) is required under Pillar II

Overview of key disclosure requirements



Solo SFCR disclosure requirements

BROAD SOLVENCY II DISCLOSURE AREAS IN SFCR	Israel	UK	SWISS	IRELAND	AUSTRALIA
Business description and performance	GAAP financial statements but don't cover all Solvency II requirements	Partly via FSA Returns and financial statements. RMAR returns provide some additional data	Partly via FOPI solo return / Swiss Solvency Test (SST) reporting		Partly -financial information via solo returns.
Governance	No reporting requirements – use of supervisory visits	Directors' Certificate sign off (negative assertion) but no detailed narrative reporting	Partly - Swiss Quality Assessments – questionnaire in this area (not clear whether on-going requirement)		Yes – specified minimum requirements
Risk exposure	No reporting requirements – use of prudential visits	Yes – to an extent via ICA. Use of supervisory visits	Partly – Swiss Quality Assessments – as above		Partly – no risk sensitivity requirements
Solvency valuation methods and reconciliation to financial statements	Use GAAP valuations with some adjustments (non-admitted assets)	Yes – via FSA Returns and Directors' Certificate sign-off	Partly – no requirement, however, to reconcile to financial statements.		Yes – via regulatory returns
Own funds and quality thereof	Partly – pre-approval for some capital items (e.g. letters of credit)	Yes – form 3 in FSA Return	Yes – FOPI solo return / SST		Yes
Capital requirements (including add-ons)	Yes – but no add-ons disclosed	Yes – calculation of CRR in FSA Return. ECR and ICA not public however	Yes – FOPI solo return / SST. No add-ons disclosed.		Yes (MCR also disclosed in financial statements)
Internal models vs standardised models	Not currently	Not currently (although ICA will provide details of internal modelling)	Partly – SST requires free form report on details of calculations		Partly – internal models allowed
Non-compliance with capital requirements	Required to report	Yes – implicit from FSA Returns. Requirement to notify	Evident from FOPI solo return / SST		Yes

No disclosure / reporting
 Private reporting
 Public reporting

Group SFCR disclosure requirements

BROAD SOLVENCY II DISCLOSURE AREAS IN SFCR	Israel	UK	SWISS	IRELAND	AUSTRALIA
Business description and performance	No group reporting regime	No reporting requirement although group financial statements may be available	Partly via FOPI group return / Swiss Solvency Test (SST) reporting		No group reporting regime currently - proposal to incorporate Groups for regulatory supervision are in draft discussion.
Governance		No reporting requirement	Group reporting required for governance structures and internal transactions.		
Risk exposure		Yes – to an extent via group ICA	Partly – Swiss Quality Assessments – as above		
Solvency valuation methods and reconciliation to financial statements		Partly – deduction on Form 95 (if used) but not a requirement	Partly – no requirement, however, to reconcile to group financial statements.		
Own funds and quality thereof		Partly – if Form 95 used	Group return to FOPI and also SST		
Capital requirements (including add-ons)		Yes	Group return to FOPI and also SST		
Internal models vs standardised models		No	Partly - SST requires free form report on details of calculations		
Non-compliance with capital requirements		Yes - implicit from IGD Returns. Requirement to notify. Additional disclosure of deficits in group	Implicit from group solvency submissions		

No disclosure / reporting
 Private reporting
 Public reporting

Groups regime – Current European requirement vs Solvency II

CURRENT – IGD DISCLOSURE

Annual reporting of group solvency

Annual reporting of significant intra-group transactions

Group supervision will be a key influencer in the disclosure regime – in particular in light of group support proposals

Current reporting requirements are replicated under Solvency II, although the detail underpinning group solvency calculations may change for some jurisdictions



PROPOSED SOLVENCY II DISCLOSURE

Annual reporting of group solvency

Annual reporting of significant intra-group transactions (or as soon as practicable)

Annual reporting of significant risk concentration at group level

Solvency and Financial Condition reporting

Recalculation of Group SCR where risk profile changes

Group support disclosure

Summary

- UK appears most advance in terms of disclosure requirements and dissemination to market
- Israel working with a blank canvas for group supervision
- All supervisory jurisdictions have work to do in terms of group disclosure requirements
- In general, capital and financial information is required (albeit in varying forms according to whether a risk based capital regime is in place), softer disclosure in areas such as risk and strategy not explicitly current regulatory requirements



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Transparency – completing the picture, the challenges and opportunities


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Comparison of other financial and statutory reporting for Israeli firms

DISCLOSURE AREA	IFRS	US GAAP	SEC	NAIC
Business performance and governance disclosures	<ul style="list-style-type: none"> Commentary on business performance and governance outside of scope of IFRS. However, IFRS 8 requires segmental disclosure and claims development tables are required by IFRS 4 	<ul style="list-style-type: none"> Certain financial data required by US GAAP (e.g. income statements, cash flows etc). Segmental reporting required for SEC registrants Governance-style disclosures not explicitly covered by US GAAP 	<ul style="list-style-type: none"> 10Q / 10K filings provide certain financial data and segmental analysis – on a consolidated basis MD&A reporting will provide some detail on business performance and strategy Governance reporting will provide limited information on Board and sub-committee structure and composition 	<ul style="list-style-type: none"> Yellow Book provides significant amount of data on performance and analysis by line-of-business. Limited commentary on business performance
Risk and risk management disclosures	<ul style="list-style-type: none"> Variety of disclosures required by IFRS 4 and IFRS 7 on risks and risk mitigation (including insurance risk). Requirement to disclose risk management objectives and methods used to manage risks. Disclosures to be 'through the eyes of management' 	<ul style="list-style-type: none"> No specific US GAAP disclosure requirements 	<ul style="list-style-type: none"> Some insurance risk and investment portfolio information required SOx compliance will require detail on financial risks and controls 	<ul style="list-style-type: none"> Most data published in Yellow Book is quantitative in nature so provides little analysis in this area
Valuation	<ul style="list-style-type: none"> Valuations methodologies and assumptions disclosed through accounting policies. Expectation is that these are quite detailed 	<ul style="list-style-type: none"> Valuations methodologies and assumptions disclosed through accounting policies. Expectation is that these are quite detailed 	<ul style="list-style-type: none"> Valuation information disclosed relates to financial statement items 	<ul style="list-style-type: none"> Solvency valuation evident from Yellow Book (detail of non-admitted assets)
Capital and capital management disclosures	<ul style="list-style-type: none"> Detailed disclosure in IAS 1 as to what constitutes capital and also policies and processes used to manage capital Externally imposed capital requirements and breaches of those required to be disclosed 	<ul style="list-style-type: none"> Disclosures are required to help the user of financial statements understand an entity's capital structure and to assess its liquidity [No requirement to disclose capital requirements] 	<ul style="list-style-type: none"> Same disclosure principles as for US GAAP SOx reporting contains limited capital management controls Material event reporting could include capital requirement breaches 	<ul style="list-style-type: none"> Own Funds and capital requirements disclosed in Yellow Book

Highlights of key differences compared to Solvency II

BROAD SOLVENCY II DISCLOSURE AREAS IN SFCR	IFRS	US GAAP	SEC	NAIC
Business description and performance	<ul style="list-style-type: none"> Limited direct requirements to satisfy Solvency II proposals entirely 	<ul style="list-style-type: none"> Limited direct requirements to satisfy Solvency II proposals entirely 	<ul style="list-style-type: none"> SEC filings are quite detailed but on a consolidated basis. 'Business description' disclosures lacking. 	<ul style="list-style-type: none"> Some detail on financial performance but limited commentary on business strategy and factors
Governance	<ul style="list-style-type: none"> Gap with Solvency II – no direct disclosure requirements 	<ul style="list-style-type: none"> Not explicitly covered by US GAAP 	<ul style="list-style-type: none"> Possible leverage – more disclosure on 'fit and proper'? 	<ul style="list-style-type: none"> Mostly empirical data – little qualitative information
Risk exposure	<ul style="list-style-type: none"> Disclosures are a good base – some additional disclosure needed? 	<ul style="list-style-type: none"> Not explicitly covered by US GAAP 	<ul style="list-style-type: none"> Limited risk disclosure but SOx internal controls disclosure may be useful 	<ul style="list-style-type: none"> Mostly empirical data – little qualitative information
Solvency valuation methods and reconciliation to financial statements	<ul style="list-style-type: none"> Only deals with financial statement valuation, so explanation / reconciliation would be required (especially re Phase II developing) 	<ul style="list-style-type: none"> Only deals with financial statement valuation, so explanation / reconciliation would be required 	<ul style="list-style-type: none"> Only deals with financial statement valuation, so explanation / reconciliation would be required 	<ul style="list-style-type: none"> Solvency valuation outcomes evident from Yellow Book, but would need more narrative to support valuations
Own funds and quality thereof	<ul style="list-style-type: none"> Capital management policies meet some of Solvency II requirements 	<ul style="list-style-type: none"> Capital management policies meet some of Solvency II requirements 	<ul style="list-style-type: none"> Capital management policies meet some of Solvency II requirements 	<ul style="list-style-type: none"> Mostly empirical data although nature of Own Funds should be evident from Yellow Book
Capital requirements (including add-ons)	<ul style="list-style-type: none"> Requires disclosure but disclosure driven by regulatory requirements 	<ul style="list-style-type: none"> Not explicitly covered by US GAAP 	<ul style="list-style-type: none"> Limited disclosure requirements 	<ul style="list-style-type: none"> Evident from Yellow Book
Internal models vs standardised models	<ul style="list-style-type: none"> Not currently required to be disclosed 	<ul style="list-style-type: none"> Not explicitly covered by US GAAP 	<ul style="list-style-type: none"> Not required for SEC 	<ul style="list-style-type: none"> Not disclosed
Non-compliance with capital requirements	<ul style="list-style-type: none"> Requires disclosure but disclosure driven by regulatory requirements 	<ul style="list-style-type: none"> [Not explicitly covered by US GAAP] 	<ul style="list-style-type: none"> [Disclosed as a material event] 	<ul style="list-style-type: none"> Disclosed

 Potential leverage to be obtained

Summary

- Leverage is possible from the following areas (in particular for firms as part of a single view of risk framework):
 - IFRS risk disclosures
 - SOx reporting as far as internal controls are concerned (may not cover all areas as required by Solvency II)
 - IFRS capital management disclosures
- All reporting lacking in disclosure on business strategy and external / internal risk factors (i.e. SWOT / PEST style disclosure implied by CP15)
- Supervisors should be setting the agenda for capital disclosures however
- Reconciliation will be critical, especially as the IASB's Phase II project develops and potentially moves away even further from Solvency II
- Can systems to produce group / consolidated disclosure be used for solo disclosure?

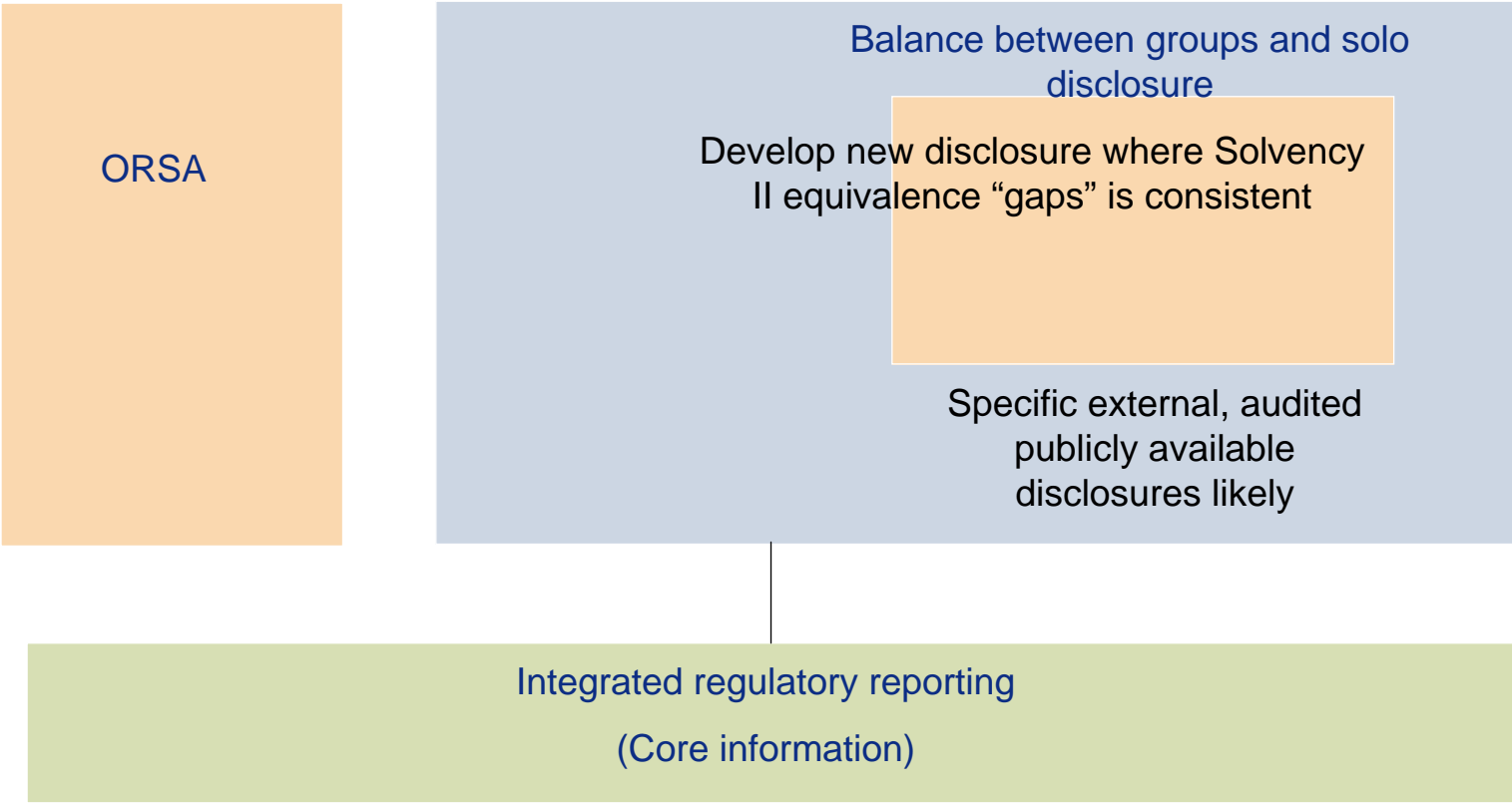


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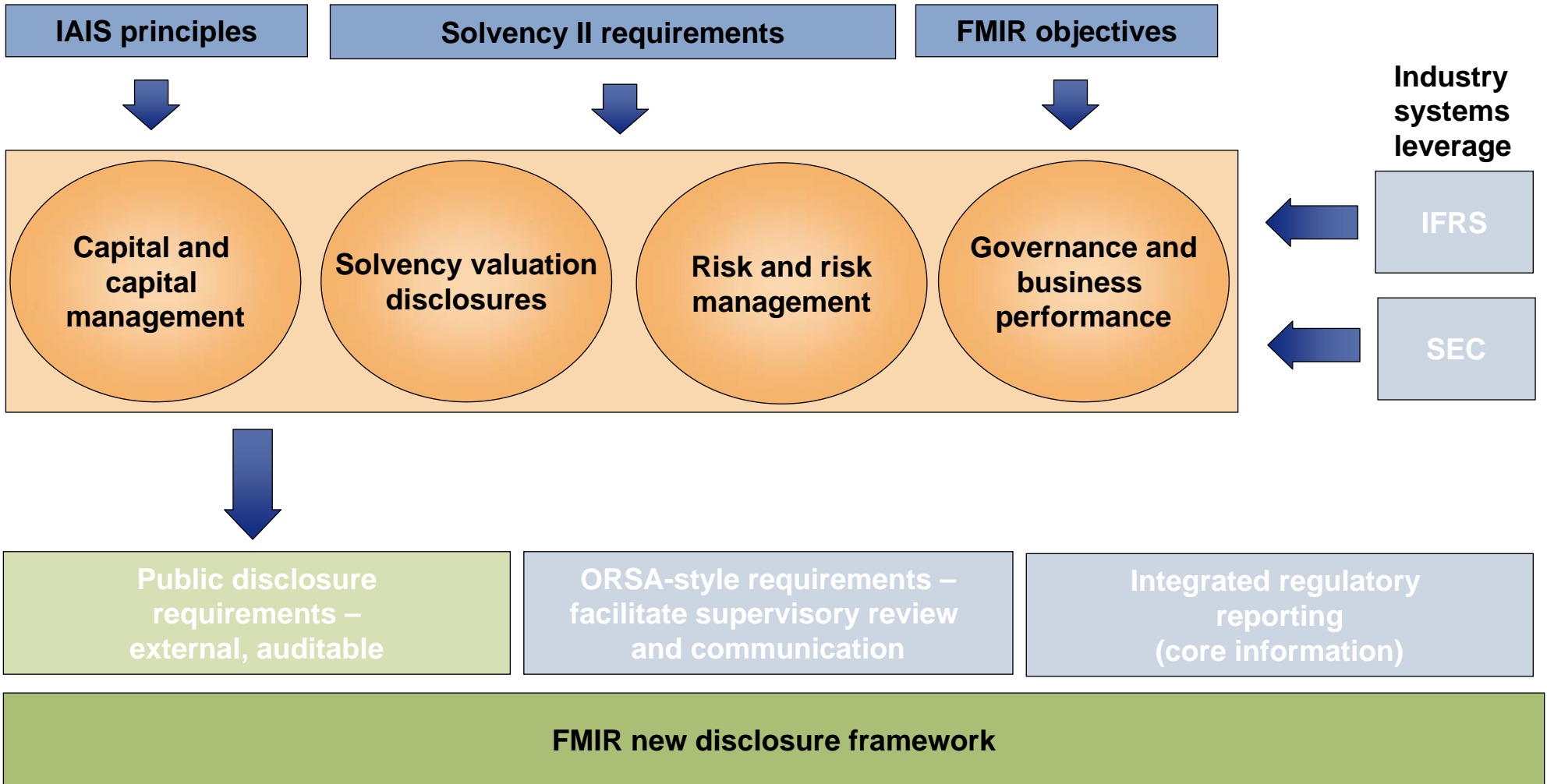
Next steps, from now to Solvency II equivalence in a nutshell - building and implementing an equivalent disclosure regime for Israel

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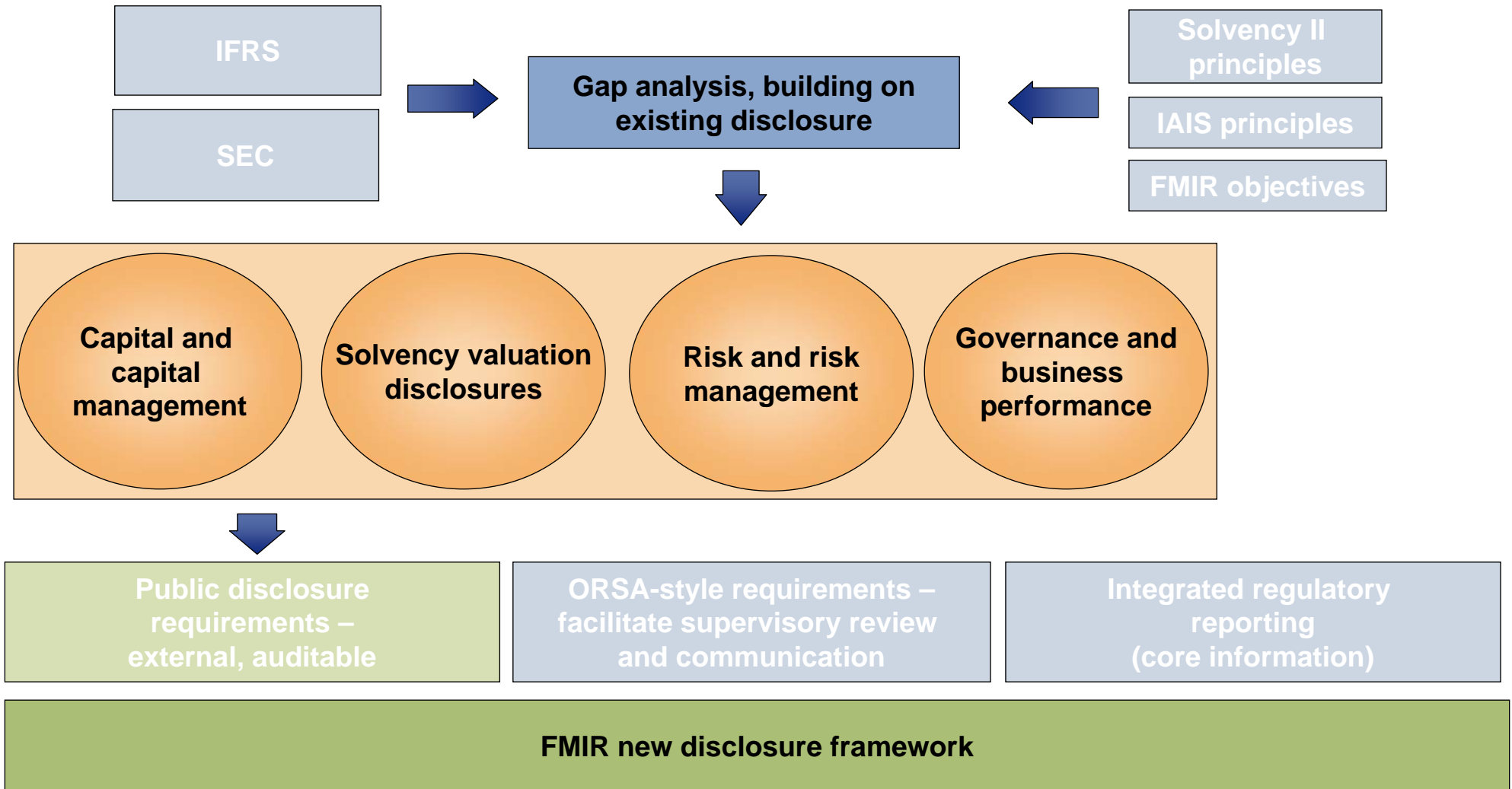
A new disclosure framework – possible approaches



Equivalence – exact replication



Equivalence – outcomes based



Next steps strategy – Possible approach

Aims, constraints and stakeholder management

Strategic analysis

- Scope for harmonisation across regulated industries
- Gap analyses
- Formulate possible approaches

Consultation and Cost Benefit Analysis

- Feasibility and market impact
- Determine appropriate approach
- Consider transitional

Programme design and implementation planning

Implementation

Development and implementation of group supervision regime

Closing messages

- Disclosure and transparency will be important for equivalence
- Israel has some way to go, especially for groups
- How best to achieve equivalence?
 - Exact mirroring of Solvency II processes – regulator-led, less risk of non-equivalence, onus on industry to use existing reporting processes to demonstrate compliance but depends on use of outputs?
 - Outcome / principle based – better fit for Israeli market but carries increased risk of non-equivalence?