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**SOLVENCY II NEWSLETTER**

**FEBRUARY 2015**

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## Foreword

We at Tools4F are delighted to present you the newest issue of our Solvency II Newsletter. This month we want to focus your attention on the following topics:

1. Recent developments in the area of Solvency II – as usual we summarize Solvency II related events that occurred over the last month
2. Day 1 reporting – are you aware of the proposed reports your company need to submit at the very beginning of Solvency II regime?
3. Tools4F news – list of recently developed solutions that may come in handy when dealing with Solvency II related issues

If you are interested in some of the previous releases of the Solvency II Newsletter, please refer to our [official website](#) where you can all of them easily download with no registration needed. We wish you a pleasant reading.

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## 1 Recent developments in the area of Solvency II

<p>2 February</p> <p><b>Set 1 Guidelines in all official languages</b></p>	<p>EIOPA <a href="#">publishes</a> <b>Set 1 of the Solvency II Guidelines</b> in all official languages of the European Union. <a href="#">Guidelines</a> cover following issues:</p> <ul style="list-style-type: none"> <li>☐ Valuation of Technical provisions and Contract Boundaries;</li> <li>☐ Ancillary Own Funds, Classification of Own Funds; Ring Fenced Funds and Treatment of related undertakings;</li> <li>☐ Look-through approach; Basis Risk; Application of Outwards Reinsurance arrangements; Treatment of market and counterparty risk; Application of the life underwriting risk; Health catastrophe risk; Loss Absorbing Capacity of technical provisions and Undertaking Specific Parameters;</li> <li>☐ Group Solvency;</li> <li>☐ Application of Internal Models;</li> <li>☐ Operational functioning of Colleges of Supervisors;</li> <li>☐ Methodology for Equivalence assessments;</li> <li>☐ Supervisory Review Process.</li> </ul> <p>Guidelines on System of Governance and ORSA will be published later (see third remark in this table, i.e. "3 February").</p>
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<p>2 February</p> <p><b>EIOPA's budget cuts</b></p>	<p>In its <a href="#">press release</a>, EIOPA explains implications of its <b>budget cuts for the year 2015</b>. Despite the fact that Solvency II remains the highest priority, budget cuts will affect even this project. For example, Solvency II training program for supervisors will be reduced by 20% and production of the IT supervisory toolkit related to XBRL reporting has been cancelled (fortunately, XBRL tool for undertakings has survived budget reduction).</p>
<p>3 February</p> <p><b>Guidelines on System of Governance and ORSA</b></p>	<p>Final reports on the public consultation related to the <b>Level 3 Guidelines on the System of Governance and the Own Risk and Solvency Assessment</b> (part of the set 1 Guidelines) have been finally <a href="#">published</a>. As indicated above, rest of the set 1 Guidelines has already been released in all official languages. <a href="#">Guidelines on System of Governance and ORSA</a> are for some reason delayed and its publication in multiple languages is expected in April this year.</p>
<p>4 February</p> <p><b>Symmetric adjustment of the equity capital charge</b></p>	<p>EIOPA publishes <a href="#">technical information</a> on the <b>symmetric adjustment of the equity capital charge</b> (this adjustment shall be included in the calculation of the capital requirement for the equity risk under standard formula). <a href="#">Here</a> you can download document summarizing legal background of symmetric adjustment, symmetric adjustment itself and, for the sake of transparency, procedure how EIOPA calculates this adjustment. Starting from March 2015, EIOPA will be, on a monthly basis, publishing updated document including values of the adjustment for all calendar days of the past month (and months before that).</p>

## 2 Day 1 reporting

With the entering new regulatory regime on January 1, 2016, insurance companies are obligated to submit (no later than 20 weeks after the reference date of the opening financial statement – this reference date shall be the first date of the financial year starting on or after January 1, 2016 but before July 1, 2016) “**day 1 report**” to the supervisory authorities. This obligation is prescribed by the Level 2 legislative document (in particular by Article 314 – Transitional information requirements) which also states what kind of qualitative and quantitative information is required to be delivered. It is namely:

- ☐ Opening balance sheet valuated in line with Solvency II requirements (i.e. market value balance sheet);
- ☐ For each material class of assets and liabilities, a qualitative explanation of the main differences between the figures reported in the opening balance sheet and those calculated according to the solvency regime previously in place; and

- ☐ The undertaking's MCR, SCR and Eligible Own Funds as of the date of the opening financial statement.

More detailed information as well as templates related to quantitative part of “day 1 reporting” will be included in the **Implementing Technical Standards on the templates for the submission of information to the supervisory authorities**. [Draft of this document](#) is currently subject to the public consultation process so we have to wait a few more months for its final version.

In line with the requirements defined through Level 2 document, ITS define in more detail quantitative information (via Quantitative Reporting Templates) to be submitted:

- ☐ Indication of templates submitted by the undertaking;
- ☐ Basic information (e.g. undertaking's name, identification code, language and currency of reporting, indication if company uses LTG measures, ...);
- ☐ List of all ring-fenced funds or matching adjustment portfolio (accompanied with basic information on each);
- ☐ Balance sheet in Solvency I as well as Solvency II values (see figure below);
- ☐ Detailed information on own funds (basic own funds and ancillary own funds split to tiers, deductions from own funds, available and eligible own funds);
- ☐ Basic overview of Solvency Capital Requirement evaluation;
- ☐ Full information on Minimum Capital Requirement evaluation; and
- ☐ Where relevant, group specific templates.

In conclusion, we believe that “day 1 reporting” requirements do not put heavy burden on insurers especially because of (aforementioned) quantitative reports are already included in the preparatory phase reporting requirements and companies that are subject to preparatory phase regime should be able to facilitate selected QRTs before the January 1, 2016.

	A	B	C	D	E
1	S.02.01.t				
2	<b>Balance sheet</b>				
3					
4					
5	<b>Assets</b>		<b>Solvency II value</b>	<b>Solvency I</b>	
6	Goodwill	R0010		C0010	C0030
7	Deferred acquisition costs	R0020			AS1
8	Intangible assets	R0030	A2		AS24
9	Deferred tax assets	R0040	A26		A2
10	Pension benefit surplus	R0050	A25B		A26
11	Property, plant & equipment held for own use	R0060	A3		A25B
12	Investments (other than assets held for index-linked and unit-linked contracts)	R0070	A4		A3
13	Property (other than for own use)	R0080	A5		A4
14	Participations and related undertakings	R0090	A6		A5
15	Equities	R0100	A7B		A6
16	Equities - listed	R0110	A7		A7B
17	Equities - unlisted	R0120	A7A		A7
18	Bonds	R0130	A8E		A7A
19	Government Bonds	R0140	A8		A8E
20	Corporate Bonds	R0150	A8A		A8
21	Structured notes	R0160	A8C		A8A
22	Collateralised securities	R0170	A8D		A8C
23	Collective Investments Undertakings	R0180	A9		A8D
24	Derivatives	R0190	A10A		A9
25	Deposits other than cash equivalents	R0200	A10B		A10A
26	Other investments	R0210	A11		A10B
27	Assets held for index-linked and unit-linked contracts	R0220	A12		A11
28	Loans and mortgages	R0230	A14		A12
29	Loans on policies	R0240	A14A		A14
30	Loans and mortgages to individuals	R0250	A14B		A14A
					A14B

Figure – Screenshot of the “Day 1” Quantitative Reporting Template

## 3 Tools4F news

### 3.1 Sophas 3.0



We, as a distributor of the complex actuarial system [Sophas](#), would like to inform you about its latest version that includes various enhancements compared to the previous version 2.5.

Sophas is prepared for easy creation and fast running of cash flow models. It is especially focused on system simplicity, well-structured models, versatility and maximum calculation speed. Typically, Sophas is used for the purposes of calculation best estimate of liabilities related to the life insurance.

The main updates included in the version 3.0 compared to the latest release are:

- ❑ Print of project
- ❑ Actuarial functions

- ☐ Save results (or copy to clipboard) in demonstrative mode
- ☐ New structure of run setting form

Sophas 3.0 contains these and other updates which mostly improve the system handling and its flexibility.

For more information about new functionalities of Sophas 3.0 you may study brief [leaflet](#) we have prepared. Additionally, you are welcome to download [demo version](#) of the latest Sophas release and test new functionalities by yourself.

### 3.2 Real-word scenarios

To project changes in the Solvency II own funds over multiple time periods, required either for Pillar I calculations or ORSA, insurers need to calculate the items within the Solvency II balance sheet under real world stresses. This requires application of real world economic scenarios. Development and calibration of such scenarios is more demanding than in the case of market consistent risk free scenarios. This holds in particular for smaller and less liquid markets with limited data. Our team, in cooperation with academic researchers, developed for a client a methodology and a tool for generation of real world scenarios for a major Eastern European market outside the Euro zone. We believe that this could be equally used also by other insurers, after appropriate adjustments to reflect their own specificities.

### 3.3 Convergence accelerator

We have developed and proved in practice several powerful and advanced but still easily implementable acceleration techniques to speed up the convergence of the value of liabilities calculated on scenarios of cash flows projections. These techniques decrease substantially number of necessary scenarios to be run and thus bring much more effectivity in all the actuarial and risk management calculations.

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## Conclusion

We are ready to provide you with a professional support in each area of the Solvency II and related tasks, we are capable of handling issues of all three pillars. Our team is looking forward to potential cooperation; we believe that services of [Tools4F](#) may be a great aid to your company not only within all Solvency II matters.