MASTERING PILLAR 3 REPORTING
Insurer Challenges

BY ANTOINE BOURDAIS

Solvency II, Pillar 3 regulatory reporting requirements came into force on 1st January 2016. As a result, in addition to the Quantitative Reporting Template (QRTs), firms must produce two key narrative reports; a Solvency & Financial Condition Report (SFCR) – disclosed publically on an annual basis – and a Regulatory Supervisory Report (RSR) – disclosed privately in full to a supervisory body every three years and as a summary once a year.

Antoine Bourdais, director of banking and insurance at software solution provider Invoke, discusses how to master Pillar 3 reporting, explaining the challenges and why businesses must future-proof their processes.
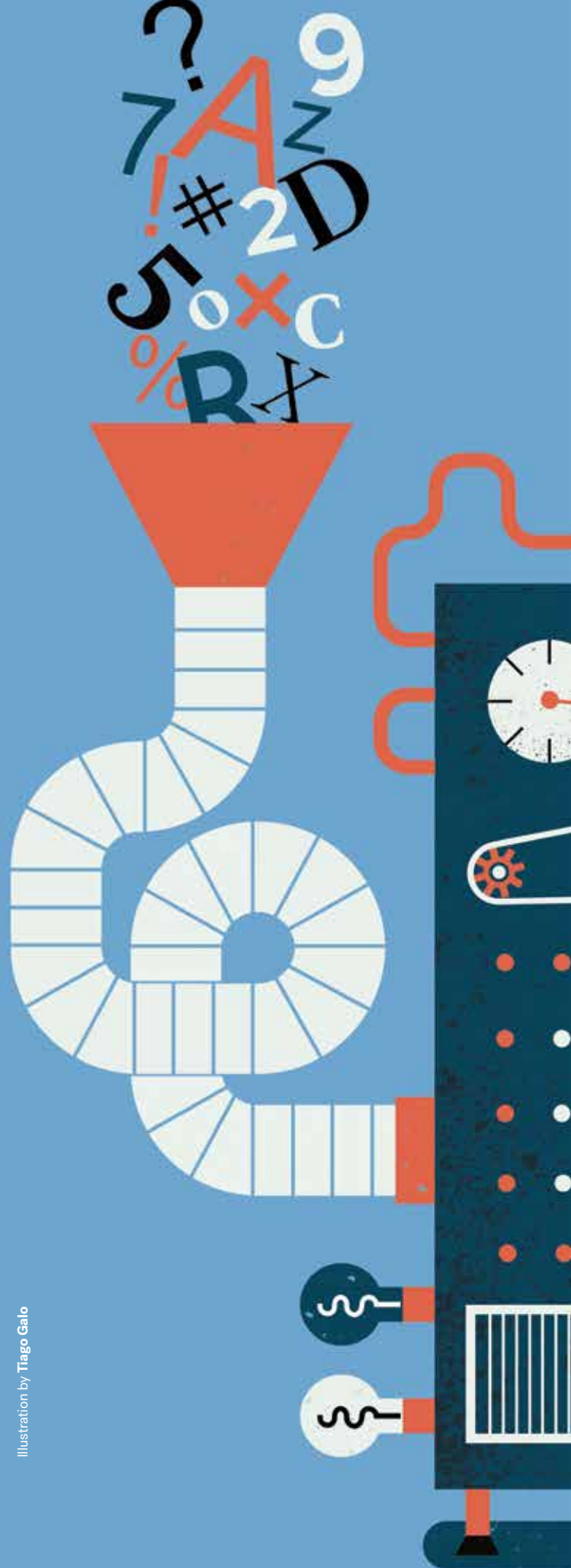
Illustration by **Tiago Galo**

Looking back at 2016, what main challenges did insurers face with Pillar 3 reporting?

After years of preparation, the Solvency II regime brought the European Union (EU) insurance market the most complete reporting package the industry has ever known. Based on the experience of the 2015 preparatory phase, insurers appeared ready to face the first challenges of Pillar 3 reporting. The main issue, however, came at the end of 2016 when the regulation required the submission of annual 2016 data reports.

The first day one and quarterly submissions under Solvency II were made in May 2016. While the latter were pretty close to what insurers experienced during the 2015 preparatory phase reporting exercise, the challenge was to be fully prepared for the first annual Solvency II submissions based on December 2016 data.

For clients, one of the key factors of success was to not underestimate the workload required for this first annual report. Part of the challenge was to efficiently re-organise the company's internal resources so they could cope with the multi-faceted burden of Pillar 3 reporting. They had to not only meet the 2016 regulatory requirements and prepare their 2017 submission, but also anticipate any additions to regulation.

These included a number of main requirement updates and additional reporting obligations, such as the National Specific Templates (NST), mandatory in Ireland in 2016 and France in 2017.

While large companies created distinct teams dedicated to tackling these issues, smaller entities faced a real organisational challenge, delegating responsibility for producing present reports and preparing for future ones to the same person.

The next challenge for insurers is to further industrialize their reporting production processes. Very few are 100% ready to automate the production of the whole set of expected reporting templates.

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➜ Antoine graduated as a mathematical engineer from the French engineering school INSA and with an MBA. After several years as a project manager in financial reporting at Invoke, he was promoted product manager for the Reporting & Consolidation software range, reinforcing his collaboration with the R&D department. Today he is responsible for driving the Banking and Insurance division overall product strategy.

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It's important to bear in mind that the volume and scope of requirements will continue to increase, rather than decrease. The introduction of the additional Financial Stability reporting templates by the European Central Bank (ECB) is a typical example of this, and Solvency II regulation will undoubtedly be subject to further enhancements of this kind in the future.

We are currently leading projects among insurer clients that are much more than just initiating the automation of regulatory reports production. They use the Invoke regulatory reporting platform further upstream in their information systems as a regulatory data warehouse.

The Invoke platform enables them to collect, store and process the necessary data to meet the initial EIOPA Solvency II requirements, and the statistical data required to meet the additional reporting requirements of the ECB and the Financial Stability Board (FSB). Data is sourced from a wide range of systems and held centrally in the data warehouse. Software then undertakes cross-system data consistency checks and validates data quality.

Data quality is *the* hot topic, particularly as regulators repeatedly communicated to the industry that, while some progress had been made, the quality of the data submitted was not sufficient. The goal is to move from a pure reporting system to a comprehensive regulatory platform to ensure data quality prior to report production.

What is the key to a successful Pillar 3 reporting strategy?

No matter the company or the context, the target stays the same: achieving full automation of Pillar 3 reporting. The question is how to get there smoothly.

Insurers must have a clear assessment of their IT system maturity. Only then will they be able to identify which data is Solvency II ready and which is not mature enough to be used for automatic report production.

For processes to evolve, relevant milestones have to be defined. Some insurance companies have decided their system is not Solvency II mature enough and prefer to use a 'tactical' software solution for Solvency II reporting right now. They prepare data manually and use software such as Invoke 'e-Filing Insurance', our cloud portal solution, to transform the Excel data into the expected XBRL format.

More mature clients who use the Invoke's 'strategic' regulatory reporting system manage and centralise all of their data, which in turn enables them to not only produce regulatory reports that meet Solvency II's quality criteria, but also satisfy their internal reporting requirements. •