IRC's response to EIOPA note "Need for high quality public disclosure on solvency and financial condition and the potential role of external audit"

Publishing SCR data will allow insurers in all Solvency II jurisdictions to be compared on exactly the same parameters and will result in more cross border opportunities for well capitalised insurers".

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EIOPA recently published a note (found here) on the need for high quality public disclosures by insurers of their financial health parameters, particularly their SCR coverage. The note states, "To foster transparency as one of the Solvency II cornerstones, EIOPA… will be very attentive to the actual application and the quality of public disclosure by (re)insurance undertakings".

Under Solvency I capital requirements could vary depending on the insurer's specific conditions and on their jurisdiction. As such, regulatory capital under Solvency I did not facilitate a fully transparent view of the health of the individual insurer or a comparison to other insurers across Europe. Solvency II replaces this and introduces a more harmonized approach to calculating SCR coverage on a risk adjusted basis.

Under Solvency II the individual insurer's SCR figure will allow the transparent comparison of all insurers in all Solvency II jurisdictions. Insurers with a lower SCR coverage may be open to analysis from their local Insurance Regulator and potentially from their customers, shareholders, employees and suppliers. Therefore, publishing an SCR and corresponding coverage ratio could have many similar effects to publishing a credit rating.

Attaining a healthy solvency position which can and will be analysed by stakeholders, should be a priority before Insurance Regulators require the publication of the SCR data.

***Insurers whose SCR is low** could find winning new business difficult as customers question the ability of the insurer to pay claims in stress situations*

***Insurers whose SCR is high** could find their shareholders questioning whether available capital is being used efficiently.*

One solution to achieving a strong solvency coverage is the issuance of an appropriate amount of subordinated debt which is fully eligible as regulatory capital under Solvency II. Tier 2, 10 year subordinated debt is fully eligible as regulatory capital (up to a maximum of 50% of the SCR) and is designed to help insurers manage their SCR coverage.

Insurers who fail to achieve their SCR coverage before public disclosure is required, may find themselves with a permanent blemish on their track record, even if their solvency position is subsequently remedied. EIOPA also points to the responsibility of auditors to "issue a public opinion and an audit report on whether the disclosed elements have been properly prepared and are in accordance with the Solvency II regulatory framework".

Insurance Regulatory Capital (IRC) expect a debate to ensue within the Solvency II zone around optimal and appropriate levels of SCR coverage. It is unlikely that the regulatory minimum of 100% will be a level that insurers, conscious of their reputations, will wish to operate at. The 100% level will also provide no capital buffer to allow for any short–term business stresses. We expect an increase in insurers seeking to operate in a range of 120% - 180% SCR coverage, with those outside this range seeking to adjust their capital or business mix accordingly.