Are you ready for the Pillar 3 public disclosures under Solvency II?

Having got back to business as usual following the Day 1 and first quarter reporting submissions for Solvency II, most insurers we are speaking with have spent the last few quarters focusing on matters beyond compliance including Brexit, product design/pricing and portfolio optimization. However, our feedback suggests that firms are now focusing again on Solvency II annual reporting and more importantly the Pillar 3 public disclosures in 2017. As a reminder, **<u>the Pillar 3 disclosures will be made in 2017 but based on the year-end 2016 balance sheet.</u>** This imminent public disclosure has led to many firms starting to assess the adequacy of their capital levels, solvency and risk management while bearing in mind that their figures will be directly compared to that of their peer groups.

This better understanding of the elements that make up one’s capital requirement (SCR) and profitability has led to the increased use of capital efficient reinsurance, currency and interest rate hedges and the adaption of capital efficient investment strategies. We expect these trends to continue as the 2017 SCR Coverage public disclosures loom ever closer. We will see more focus on the absolute level of Eligible Own Funds as well. Our experience last year told us that many firms focus on their 1/1 reinsurance renewals through the festive season, only focusing on the capital/Eligible Own Funds question early in the New Year. We have no reason to believe things will be dramatically different this year.

Much has been made of the volatility of the Solvency II balance sheet and correspondingly the SCR Coverage ratios. Volatility in interest rates has been the main underlying factor behind this and the weighted average SCR Coverage ratio of large European insurers has fallen slightly from Q1 to Q3 2016 as a result of declining rates. We would expect this trend to buckle slightly as global interest rates rise following the US election. This should provide some much needed relief for companies hoping for better capital coverages at year-end.

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