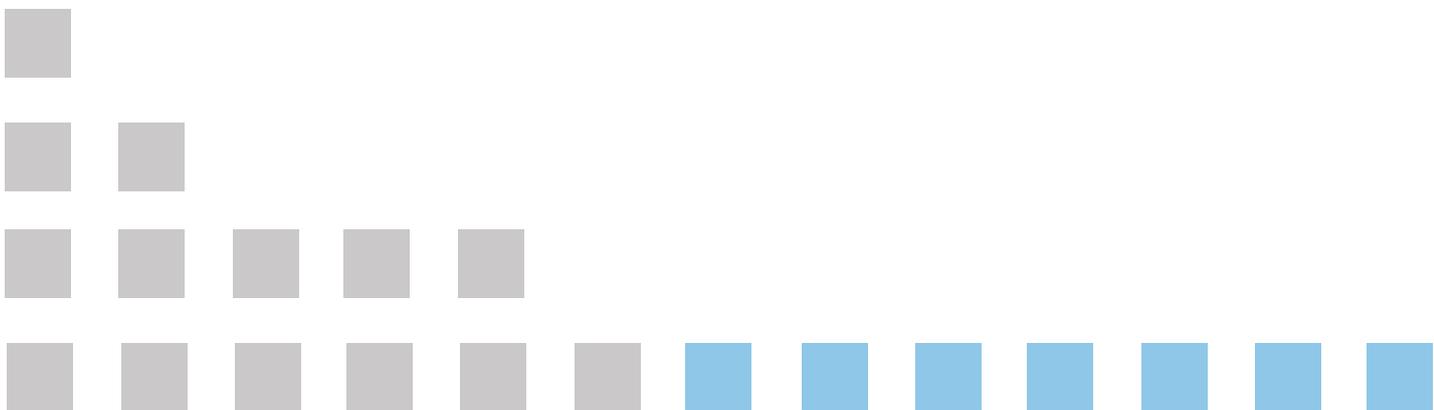


Feedback on Annual Reporting

Supervisory Statement - July 2018



Introduction

The GFSC received the majority of the market's annual submissions in May 2018. While we were largely encouraged by the quality of information provided, in the subsequent months we have identified the need to highlight areas for improvement to enhance the quality and integrity of the data contained therein.

In order to continue to satisfy the requirements of data accuracy, appropriateness and completeness, we expect firms to consider the feedback contained within this document when preparing their annual submissions.

These key areas are set out as follows:

1. Passporting Data
2. Periodic Payment Orders
3. Reinsurance
4. Consistency of Submissions
5. Timing Differences and Resubmissions
6. Audit Management Letters
7. Actuarial Reports

Passporting Data

In the context of BREXIT and the subsequent discussions with EIOPA and national competent authorities, we have found it particularly important to hold detailed information on business written in other jurisdictions. As such, we expect firms to complete the following templates in as much detail as possible. We note that there are inconsistencies in the way in which this information was submitted and at times the materiality thresholds were not appropriately considered. We encourage firms to provide a full breakdown of their premiums and liabilities to avoid subsequent requests for updated figures.

Passporting – Premium, Claims and Expenses

This section covers the following areas of firms' annual submissions:

- a. S.04.01.01 - Activity by country
- b. S.05.01.01 - Premiums, claims and expenses by line of business
- c. S.05.02.01 - Premiums, claims and expenses by country
- d. Audited Financial Statements – Profit and Loss Account

We expect that firms will consider any business in the jurisdiction of "GI" – Gibraltar to be written in their "Home Country". Any business written in the United Kingdom is considered to be on a Freedom of Services/Establishment basis and is to be separately reported.

Furthermore, a reconciliation should take place once the final audited financial statements are available to ensure that the figures are correctly reflected across both filings.

Passporting – Technical Provisions and Insurance Liabilities

This section covers the following areas of firms' annual submissions:

- a. S.02.01.01 - Balance sheet
- b. S.12.01.01 - Life and Health SLT Technical Provisions
- c. S.12.02.01 - Life and Health SLT Technical Provisions - by country
- d. S.17.01.01 - Non-Life Technical Provisions
- e. S.17.02.01 - Non-Life Technical Provisions - By country
- f. Annual Financial Statements – Balance Sheet

Firms should perform the same reconciliation to ensure that the statutory values column on the annual balance sheet QRT agrees to their audited financial statements. This is an important step as it is the starting point for a firm's Solvency II calculations and can materially affect the technical provisions that are reported in the above templates.

We remind firms of the importance of ensuring that any templates that provide breakdowns of larger amounts such as the technical provisions should provide as much detail as possible. This is both for the sake of completeness but also for efficiency as it will allow supervisors to better understand the scale of a firm's liabilities.

Periodic Payment Orders

This section covers the following areas of firms' annual submissions:

- a. S.02.01.01 - Balance sheet
- b. S.12.01.01 - Life and Health SLT Technical Provisions
- c. S.12.02.01 - Life and Health SLT Technical Provisions - by country
- d. S.16.01.01 - Information on annuities stemming from Non-Life Insurance obligations
- e. S.26.03.01 – Solvency Capital Requirement – Life Underwriting Risk
- f. Independent Reserve Reports

Where firms have PPOs, firms are required to report a life technical provision on their SII balance sheet and the additional templates noted above. We would also expect these to feature explicitly in a firm's independent reserve report. We remind firms that due to the requirements on segmentation under Solvency II, it is not appropriate to consider settled annuities as part of the non-life reserve risk component of the SCR.

Reinsurance

This section covers the following areas of firms' annual submissions:

- a. S.02.01.01 - Balance sheet
- b. S.30.03.01 - Outgoing Reinsurance Program basic data
- c. S.30.04.01 - Outgoing Reinsurance Program shares data
- d. S.31.01.01 - Share of reinsurers [including Finite Reinsurance and SPV's]

The above templates, when fully completed, provide insight into a firm's reinsurance arrangements. However, due to the complex nature of some contracts, we have found some of the reporting in this area lacked the necessary detail to gain a full understanding of the arrangements in place.

To ensure consistency and to facilitate the identification of systemic risks, we will require firms to provide the LEI rather than a specific code (used normally for internal purposes only) for each reinsurer where this

information is available publicly through the Global Legal Entity Identifier Foundation <https://www.gleif.org/en/>.

Consistency of Submissions

There are several submissions which we refer to during the course of our supervisory discussions. They form the foundation of our risk assessments and inconsistencies in reported figures can delay reviews or lead to resubmissions. One example where we have found inconsistencies has been the use of loss ratios in the ORSA that are not reflective of past experience and actuarial reports. We would expect Boards to document any judgments made as to why the forecast business would differ materially and this should include the consideration of any concerns (such as reserve deterioration) raised from the firm's actuarial reports.

We would highlight the importance of consistency to firms and suggest that Boards continue to raise this point within meetings prior to submission of information to us. Where there are material differences, we would expect to be promptly notified.

Timing Differences and Resubmissions

We understand that there are timing differences between the required submission deadlines of the annual QRTs and the audited financial statements. However, we do not expect that firms will see significant changes to material figures such as their Gross Written Premiums and Technical Provisions in the month to six weeks between these deadlines. Where material discrepancies are identified in our reconciliation process we will request resubmissions from firms under [Article 4 of the Reporting ITS](#) which states:

“Insurance and reinsurance undertakings... **shall re-submit as soon as practicable** the information reported using the templates referred to in this Regulation when the information originally reported has materially changed in relation to the same reporting period after the last submission to the supervisory authorities or to the group supervisor”.

In the case of a resubmission, firms should provide an email to their supervisory contact and s2@gfsc.gi advising of the rationale behind the changes made and which submissions are affected.

Audit Management Letter

Following each year's audit, we would like to receive a firm's audited financial statements along with an audit management letter setting out material findings and/or areas of improvement. As per Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (“Audit Regulation”) which came into effect for year-ends commencing on or after 17 June 2016, this should be issued to the audit committee no later than the date of submission of the audit report.

We would also like to see any misstatements identified during the audit, both those corrected or uncorrected, included within the audit management letter or as an appendix.

We expect firms to follow up and implement recommendations made by auditors, and, where improvements have been made during the year, we would like to see updates on prior year points in the current year audit management letter. Depending on the recommendations made, we may ask firms to provide us with an update after a number of months to see how points have been addressed.

Actuarial Reports

We continue to review firm's actuarial reports to ensure consistency across the multiple submissions that we receive. Following our reviews, we would like to highlight the importance of good governance and documented reasons over scope of actuarial reports.

We also consider that improvements could be made to the presentation and scope of reports themselves and would encourage firms to ensure that the information provided to them is reflective of the risks faced by their business.

From our reviews, we found that some reports were lacking granularity. The Actuarial Function Holder and the Board should ensure that actuaries are required to give their view on both gross and net positions. Reports should also note relevant reinsurance contracts in place in respect of gross reserves and clearly set out other material factors such as the effects of any relevant coinsurance.

Reserving Reconciliations – Actuarial Reports vs Audited Financial Statements

For the purposes of our review, and to ensure consistency of firm's reserving processes, we have asked firms to reconcile back to four lines of the financial statements, as follows:

Balance sheet

1. Liabilities - Gross Technical Provisions
2. Assets - Reinsurer's Share of Technical Provisions lines

Profit and Loss

3. Gross Written Premium
4. Claims Paid

We understand that firms often have a number of adjustments to make in order to arrive at the final figures provided in the financial statements and so we will be issuing a reconciliation template for firms to complete in advance of their filing deadlines. We would ask that firms include page references to the reserve report, where applicable.

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