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Chapter **14**

# **The SFCR and Other Public Reporting**

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## Introduction

The Solvency II regime, as legislated in the Solvency II Directive and elaborated upon in Chapter XII of the Level 2 Delegated Regulation, is based on three pillars.

Public reporting is the core of Pillar III, which prescribes that (re)insurers should regularly disclose prudentially pertinent financial information to regulators.<sup>790</sup> (Re)insurers' public reporting duties supplement and bolster the principles of Pillars I and II, which seek to ensure (re)insurers observe capital requirements and risk management requirements. They do so by imposing consistent standards of public disclosure across the EU to foster market discipline and provide regulators with the information necessary to produce a stable and transparent (re)insurance market.

In accordance with Articles 51 to 56 of the Solvency II Directive, which set out the rules for public reporting, the primary mechanism for public reporting under the Solvency II regime is the SFCR, which (re)insurers must publish at least annually.<sup>791</sup> Both specific and general standards of disclosure apply to the SFCR, and in all cases the SFCR must include essential information relating to a (re)insurer's solvency and financial condition.

Under the public reporting standards in the United Kingdom, which are reflected (post-Brexit) in the Reporting Part of the PRA Rulebook alongside the onshored Solvency II Directive and Level 2 Delegated Regulation, there are only limited opportunities for nondisclosure. This is similar to the European Union's regime.

At the EU level, (re)insurers must submit the SFCR to their supervisory authority at the national level. Member states must require all supervisory authorities to send certain of (re)insurers' disclosures to the EIOPA. The EIOPA must in turn compile and publicly disclose such information.

Through this layered system of public reporting, wherein (re)insurers' public reporting duties are mirrored by the EIOPA's duty to publish their information, the Solvency II Directive facilitates market participants' ability to adapt to prevailing market conditions as well as regulators' ability to effect risk-based and proportionate supervision.

This chapter examines the technical details of (re)insurers' public reporting duties and recent developments affecting those duties. Alongside the SFCR, this chapter considers certain additional reporting duties incumbent on (re)insurers. Recent policy and rule changes to the PRA Rulebook are also reviewed.

## 1. The Solvency and Financial Condition Report — Primary Requirements

The SFCR must contain a summary that provides a clear and concise overview of the report's contents.<sup>792</sup> The summary must be understandable to policyholders and beneficiaries, and should highlight any material changes to the reported information over the reporting period.<sup>793</sup>

Any information included in the SFCR will be deemed material where its omission or misstatement could influence the judgement of SFCR users, including, for instance, the supervisory authority or other stakeholders.<sup>794</sup>

<sup>790</sup> Articles 40 to 49 of the Solvency II Directive (transposed in Conditions Governing Business Part of the PRA Rulebook).

<sup>791</sup> Article 51, *ibid* (transposed in Paragraphs 3.1 to 3.7, Reporting Part of the PRA Rulebook).

<sup>792</sup> Article 292 of the Level 2 Delegated Regulation.

<sup>793</sup> Article 292, *ibid*.

<sup>794</sup> Article 291, *ibid*.

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## Contents and Structure of the Solvency and Financial Condition Report

(Re)insurers must disclose in the SFCR information falling under the following five categories:

- A description of the business and performance of the undertaking.<sup>795</sup>
- A description of the undertaking's system of governance and an assessment of adequacy of its risk profile.<sup>796</sup>
- A description, separately, for each category of risk, of the undertaking's risk exposure, concentration, mitigation and sensitivity.<sup>797</sup>
- A description, separately, for each of assets, technical provisions and other liabilities of the undertaking, the bases and methods used for their valuation, as well as additional information in relation to any MA applied.<sup>798</sup>
- A description of the undertaking's capital management, including information on the SCR and MCR.<sup>799</sup>

The SFCR must be structured in accordance with the order of each of the aforementioned five categories of information.<sup>800</sup>

## Business and Performance

(Re)insurers are required to disclose material information in respect of their financial performance, including on, amongst other things:<sup>801</sup>

- The name and legal form of the undertaking.
- Details of the supervisory authority responsible for financial supervision, the group supervisor (where the undertaking is part of a group) and the external auditor.
- A description of the holders of qualifying holdings in the undertaking.
- The undertaking's material lines of business and material geographical areas where it carries out business.
- Any significant business or other events that have had a material impact on the undertaking over the course of the reporting period.
- Qualitative and quantitative information on the undertaking's underwriting performance, in aggregate and by material line of business and material geographical areas where it carries out its business, and also including a comparison against the same category of information reported in the previous reporting period, as shown in the undertaking's financial statements.
- Qualitative and quantitative information on certain aspects of the undertaking's investment performance over the reporting period alongside a comparison against the same category of information reported in the previous reporting period, as shown in the undertaking's financial statements.

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<sup>795</sup> Article 51(1)(a) of the Solvency II Directive (transposed in Paragraph 3.3(1), Reporting Part of the PRA Rulebook).

<sup>796</sup> Article 51(1)(b), *ibid* (transposed in Paragraph 3.3(2), Reporting Part of the PRA Rulebook).

<sup>797</sup> Article 51(1)(c), *ibid* (transposed in Paragraph 3.3(3), Reporting Part of the PRA Rulebook).

<sup>798</sup> Article 51(1)(d), *ibid* (transposed in Paragraph 3.3(4), Reporting Part of the PRA Rulebook).

<sup>799</sup> Article 51(1)(e), *ibid* (transposed in Paragraph 3.3(5), Reporting Part of the PRA Rulebook).

<sup>800</sup> Article 290(1) of the Level 2 Delegated Regulation.

<sup>801</sup> Article 293, *ibid*.

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## System of Governance

(Re)insurers are required to disclose information in respect of their systems of governance, including on, amongst other things:<sup>802</sup>

- The structure of the undertaking's AMSB, including its main roles and responsibilities.
- Any material changes in the undertaking's system of governance that have taken place during the reporting period.
- Information on the undertaking's remuneration policy and practices regarding its AMSB and, unless otherwise stated, employees, including information on the individual and collective performance criteria on which any entitlement to share options, shares or other variable components of remuneration are based.
- The undertaking's "fit and proper" policy.
- The strategies, processes and reporting procedures of the undertaking's risk management system.
- Information pertaining to the undertaking's process for carrying out an ORSA, including a statement detailing how often the assessment is reviewed.

## Risk Profile

(Re)insurers are required to disclose quantitative and qualitative information in respect of their risk profile, including on — separately for each of underwriting risk — market, credit, liquidity, operational and other material risk:<sup>803</sup>

- In respect of the (re)insurer's risk exposure, including that arising from off-balance sheet positions and the transfer of risk to SPVs, all of the following:
  - A description of the measures used to assess such risks.
  - A description of the material risks that the undertaking is exposed to.
  - A description of how assets have been invested in accordance with the PPP, as contained in Article 132 of the Solvency II Directive.
- In respect of risk concentration, a description of the material risk concentrations to which the undertaking is exposed.
- In respect of risk mitigation, a description of the techniques used by the undertaking to mitigate risks.
- In respect of liquidity risk, the total amount of expected profit included in future premiums.
- In respect of risk sensitivity, the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.
- Any other material information regarding the risk profile of the (re)insurer.

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<sup>802</sup> Article 294, *ibid.*

<sup>803</sup> Article 295, *ibid.*

## Valuation

(Re)insurers are required to disclose information in respect of their valuation, including on, amongst other information:<sup>804</sup>

- i. The valuation of each material class of assets.
- ii. The valuation of technical provisions, including the effect of any application of the MA, VA or transitional measures.
- iii. The value of other liabilities.

For each of (i) to (iii) immediately above, the bases, methods and assumptions used for their calculation<sup>805</sup> and a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used by the (re)insurer for the valuation of each material class of assets for solvency purposes against those used for its valuation in the financial statements<sup>806</sup> should be disclosed in the SFCR.

## Capital Management

(Re)insurers are required to disclose information in respect of their capital management, including on, amongst others, the following subcategories:<sup>807</sup>

- **Own Funds:** The amount, structure and quality of own funds; the objectives, processes and methods used to manage own funds; and the amount of own funds available to cover the SCR and MCR.
- **Deferred Taxes:** The calculated amount of deferred tax assets and, with regard to net deferred taxes, their loss-absorbing capacity.
- **The SCR and MCR:** The amount of the (re)insurer's individual SCR and MCR at the end of the reporting period; any material changes to the (re)insurer's individual SCR during the reporting period and the reasons for such changes; as elaborated below, certain instances of noncompliance with the SCR and/or MCR during the reporting period; and any IM used to calculate the SCR.

In respect of all of the categories outlined above, the SFCR must contain narrative information in quantitative and qualitative form, supplemented by QRTs where appropriate.<sup>808</sup> QRTs are templates for (re)insurers to add further detail to quantitative information they are required to disclose in their SFCRs.

However, it is important to note that the form and scope of available QRTs differs between the EU and UK: (Re)insurers falling under the ambit of the EIOPA may find their relevant QRTs and other templates in the annexes of the Reporting Implementing Technical Standards,<sup>809</sup> whilst (re)insurers operating in the UK may find their relevant QRTs in the PRA Rulebook<sup>810</sup> and applicable PRA SSs.

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<sup>804</sup> Article 296, *ibid.*

<sup>805</sup> Articles 296(1)(a), 296(2)(a) and 296(3)(a) of the Level 2 Delegated Regulation.

<sup>806</sup> Article 296(1)(b) of the Level 2 Delegated Regulation.

<sup>807</sup> Article 297, *ibid.*

<sup>808</sup> Article 290(2), *ibid.*

<sup>809</sup> For instance, see Implementing Technical Standards Amending Commission Implementing Regulation (EU) No. 680/2014 on Supervisory Reporting of Institutions.

<sup>810</sup> For instance, see Paragraph 8, Reporting Part of the PRA Rulebook.

Furthermore, (re)insurers should consult the EIOPA Guidelines on reporting and public disclosure (EIOPA-BoS-15/109) (Reporting Guidelines),<sup>811</sup> as they become available, for further detail and clarity on the specifics of their reporting obligations under the categories above. The Reporting Guidelines clarify the duties under each of the categories and provide guidance on the additional aspects of (re)insurers' reporting duties discussed below.

### Exceptions to Disclosure

Supervisory authorities, including the PRA, may grant permission for nondisclosure in the SFCR to (re)insurers where:

- By disclosing the relevant information, the undertaking's competitors would gain a significant undue advantage.<sup>812</sup>
- The undertaking is bound by secrecy or confidentiality obligations to policyholders or another counterparty.<sup>813</sup>

Permission for nondisclosure cannot be granted in respect of information pertaining to the Capital Management category discussed above. Further, where a (re)insurer wishes to obtain a waiver from the PRA to be exempt from eligible disclosure duties, the (re)insurer must apply to the PRA, identifying which exemption it believes applies to it and explaining the reason(s) for its application.<sup>814</sup>

If permission for nondisclosure is granted by the supervisory authority, the permission will last only for as long as the reason(s) for nondisclosure exist.<sup>815</sup> If and when the reason(s) for nondisclosure no longer exist, the (re)insurer must notify the relevant supervisory authority.<sup>816</sup>

The Reporting Guidelines stipulate that (re)insurers must not bind themselves to secrecy or confidentiality obligations to policyholders or another counterparty in order to obtain exemptions to their public reporting duties.<sup>817</sup>

### References to Previous Public Disclosures

Supervisory authorities must permit (re)insurers to make use of or refer to public disclosures made under other legal or regulatory requirements in the SFCR, to the extent that those disclosures are equivalent to the information required under Article 51 of the Solvency II Directive in both nature and scope.<sup>818</sup>

Accordingly, where a (re)insurer has previously made public disclosures equivalent to those required in the SFCR, it need not repeat them and can instead refer to such disclosures therein.

Per the Reporting Guidelines, references to previous public disclosures in the SFCR must lead directly to the information itself and not to a general document.<sup>819</sup> A practical way to achieve this might be to provide hyperlinks or footnotes linking to the document where the relevant information is contained, with a clear indication of what page the information can be found on.

<sup>811</sup> For instance, see Section 1 of the Reporting Guidelines.

<sup>812</sup> Article 53(1)(a) of the Solvency II Directive (transposed in Paragraph 4.1(1), Reporting Part of the PRA Rulebook).

<sup>813</sup> Article 53(1)(b), *ibid* (transposed in Paragraph 4.1(2), Reporting Part of the PRA Rulebook).

<sup>814</sup> For instance, see PRA SS4/19.

<sup>815</sup> Article 299(1) of the Level 2 Delegated Regulation.

<sup>816</sup> Article 299(2), *ibid*.

<sup>817</sup> Guideline 32 of the Reporting Guidelines.

<sup>818</sup> Article 53 of the Solvency II Directive (transposed in Paragraph 3.6, Reporting Part of the PRA Rulebook).

<sup>819</sup> Guideline 35 of the Reporting Guidelines.

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## 2. Group/Single Group Solvency and Financial Condition Report – Primary Requirements

### The Group Solvency and Financial Condition Report

The Solvency II Directive provides that (re)insurance groups must produce group SFCRs, to which the requirements pertaining to the SFCR published by individual (re)insurers apply *mutatis mutandis*.<sup>820</sup> The group SFCR is published by each (re)insurer within the (re)insurance group in addition to the individual SFCR.

The contents of a group SFCR are distinct from those of the individual SFCR. Namely, in addition to the contents of the individual SFCR, a group SFCR must contain, amongst other information, the following in respect of the categories discussed above:

- **Business and Performance:** A description of the legal structure and the governance and organisational structure of the group, including a description of all its subsidiaries, and qualitative and quantitative information on relevant operations and transactions within the group.<sup>821</sup>
- **System of Governance:** A description of how risk management and internal control systems are implemented in all of the group's (re)insurers and information on material intragroup outsourcing arrangements.<sup>822</sup>
- **Risk Profile:** Qualitative and quantitative information on any significant risk concentration at group level.<sup>823</sup>
- **Valuation:** A quantitative and qualitative explanation of any material differences between the bases, methods and assumptions used at group level for the valuation for solvency purposes of the group's assets, technical provisions and other liabilities, and those used by any of the group's subsidiaries for the valuation of the same.<sup>824</sup>
- **Capital Management:** Qualitative and quantitative information on any significant restriction to the fungibility and transferability of group own funds and a description of the group's (re)insurers that are in the scope of any IM used to calculate the group SCR, where applicable.<sup>825</sup>

### The Single Group Solvency and Financial Condition Report

A (re)insurance group may alternatively agree with its group supervisor to produce a single group SFCR, as opposed to preparing a group SFCR and individual SFCRs.<sup>826</sup> This may ease administrative burdens on certain (re)insurers.

Where a (re)insurance group decides to produce the single group SFCR, it must cover both the relevant information at group level and for each individual (re)insurer within the group.<sup>827</sup> If information in respect of a subsidiary is materially omitted and the relevant supervisory authority requires that information from comparable undertakings, the supervisory authority may compel the subsidiary to disclose the necessary additional information separately to the single group SFCR.<sup>828</sup>

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<sup>820</sup> Article 256(1) of the Solvency II Directive (transposed in Paragraph 18.1(1), Group Supervision Part of the PRA Rulebook).

<sup>821</sup> Article 359(a) of the Level 2 Delegated Regulation.

<sup>822</sup> Article 359(b), *ibid.*

<sup>823</sup> Article 359(c), *ibid.*

<sup>824</sup> Article 359(d), *ibid.*

<sup>825</sup> Article 359(e), *ibid.*

<sup>826</sup> Article 256(2) of the Solvency II Directive (transposed in Paragraph 18.1(2), Group Supervision Part of the PRA Rulebook).

<sup>827</sup> *Ibid.*

<sup>828</sup> Article 256(3) of the Solvency II Directive.

The single group SFCR must be structured such that the group level information disclosed is presented separately from any subsidiary information, and must follow the prescribed structure set out in Annex XX of the Level 2 Delegated Regulation.<sup>829</sup>

### 3. Publishing a Solvency and Financial Condition Report — Deadlines and Methods

#### Deadlines for Disclosure

The deadline for the disclosure of both the individual and single group SFCR is no later than 14 weeks after the individual (re)insurer's or (re)insurance group's respective financial year-end.<sup>830</sup>

Where a (re)insurance group produces a group SFCR and each undertaking within that group produces an individual SFCR, the deadline for disclosure of the group SFCR is no later than 20 weeks after the end of the group's financial year-end.<sup>831</sup>

#### Methods of Publication

Individual (re)insurers and (re)insurance groups must disclose their relevant SFCR on their respective websites.<sup>832</sup> Where an individual (re)insurer or (re)insurance group does not have a website, the SFCR must be disclosed on the website of a trade association of which the relevant (re)insurer is a member.<sup>833</sup> In either case, the SFCR must remain on the relevant (re)insurer's or trade association's website for at least five years following the applicable disclosure deadlines above.

If neither the relevant (re)insurer nor a trade association of which it is a member has a website, the SFCR must be sent to any person who, within five years of the applicable disclosure deadlines above, requests a copy.<sup>834</sup> Even where the SFCR has been published on a website, (re)insurers must, within 10 working days, send a copy to any person who requests one within two years of the applicable disclosure deadlines as outlined above.<sup>835</sup>

### 4. Liability of Directors for the Solvency and Financial Condition Report

Neither the Solvency II Directive nor the PRA Rulebook explicitly set out the liabilities directors may expect to incur where inaccurate, misleading or false information is included in the SFCR. Accordingly, market participants are uncertain whether — and, if so, the extent to which — directors of (re)insurers may be liable for such disclosure.

It is thought that under English law, a claim of negligent misstatement could be brought against directors who sanction untrue or misleading statements in the SFCR. Although claims for negligent misstatements arising in these circumstances are in principle litigable, the high bar for successful negligent misstatement claims is difficult to overcome.

<sup>829</sup> Article 365(3) of the Level 2 Delegated Regulation.

<sup>830</sup> Articles 300 and 362, *ibid.*

<sup>831</sup> Article 362, *ibid.*

<sup>832</sup> Article 301(1), *ibid.*

<sup>833</sup> Article 301(2), *ibid.*

<sup>834</sup> Article 301(4), *ibid.*

<sup>835</sup> Article 301(5), *ibid.*

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## 5. Additional Public Disclosure Requirements

### Major Solvency Capital Requirement and Minimum Capital Requirement Developments

(Re)insurers' public disclosure duties extend beyond the SFCR to cover major developments impacting their prior disclosures. Specifically, (re)insurers are required to disclose, on an ongoing basis, any major developments that significantly affect the relevance of previously disclosed information within each category.<sup>836</sup>

Presently, at least the following comprise “major developments”:

- a. Noncompliance with the MCR is observed and the relevant supervisory authority either considers that the undertaking will not be able to submit a realistic short-term finance scheme or the relevant supervisory authority does not receive such a scheme within one month of the date when noncompliance was observed.<sup>837</sup>
- b. Significant noncompliance with the SCR is observed and the relevant supervisory authority does not receive a realistic recovery plan within two months of the date when noncompliance was observed.<sup>838</sup>

In respect of both points above, the relevant supervisory authority must require the afflicted (re)insurer to immediately disclose the extent of the noncompliance and explain its origins and consequences, alongside any remedial action taken to mitigate the development.<sup>839</sup>

However, if noncompliance with the MCR has not been resolved within three months after it is observed, such noncompliance and the explanation of its origins and consequences must be publicly disclosed at the end of that period, together with any planned remedial actions.

The same is required for noncompliance with the SCR, except on a timeline of six months.<sup>840</sup>

### Voluntary Disclosure

Further to their duties of disclosure, (re)insurers may choose to voluntarily disclose any information or explanation pertaining to their solvency and financial condition, which they are not already compelled to disclose under the Solvency II Directive and the Level 2 Delegated Regulation.<sup>841</sup> Where (re)insurers elect to make such voluntary disclosures, they must ensure that the information provided therein is consistent with any information disclosed to their supervisory authority pursuant to Article 35 of the Solvency II Directive.<sup>842</sup>

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<sup>836</sup> Article 54(1) of the Solvency II Directive (transposed in Paragraph 5.1, Reporting Part of the PRA Rulebook).

<sup>837</sup> Article 54 (1)(a), *ibid* (transposed in Paragraph 5.3, Reporting Part of the PRA Rulebook).

<sup>838</sup> Article 54(1)(b), *ibid* (transposed in Paragraph 5.2(3), Reporting Part of the PRA Rulebook).

<sup>839</sup> Article 54(1), *ibid* (transposed in Paragraph 5.3, Reporting Part of the PRA Rulebook).

<sup>840</sup> Article 54(1), *ibid* (transposed in Paragraphs 5.3 and 5.4, Reporting Part of the PRA Rulebook).

<sup>841</sup> Article 54(2), *ibid*.

<sup>842</sup> Article 298 of the Level 2 Delegated Regulation.

## Appropriate Systems and Structures

(Re)insurance undertakings must have in place appropriate systems and structures to comply with their disclosure obligations. As such, the SFCR must first be approved by a (re)insurer's AMSB before it is published,<sup>843</sup> and the (re)insurer must adopt a written policy to ensure the ongoing appropriateness of any information required to be disclosed for the fulfilment of its disclosure duties.<sup>844</sup>

## 6. EIOPA and the Duty To Disclose

Member states and the EIOPA have duties to disclose certain information relevant to the solvency and financial condition of (re)insurers. Specifically, as further detailed below, these duties, which complement and are contingent on (re)insurers' duties to report information, primarily require member states and the EIOPA to disclose information pertaining to capital add-ons and the limitations to or exemptions from (re)insurers' disclosure duties.

Member states must require their respective supervisory authorities to annually provide the EIOPA with the following information:<sup>845</sup>

- The average capital add-on per undertaking and the distribution of capital add-ons imposed by the supervisory authority throughout the previous year, expressed as a percentage of the SCR, shown separately for:<sup>846</sup>
  - i. All (re)insurance undertakings.
  - ii. Life insurance undertakings.
  - iii. Nonlife insurance undertakings.
  - iv. Insurance undertakings pursuing both life and nonlife activities.
  - v. Reinsurance undertakings.
- For each of the disclosures above, the proportion of capital add-ons imposed under Article 37(1)(a), (b) and (c) respectively (cases for applying a capital add-on).

Following the submission of the information above, the EIOPA must make an annual public disclosure to the European Parliament, the Council and the Commission alongside a report detailing the extent of supervisory convergence in the use of capital add-ons in the different member states, on the following:<sup>847</sup>

- The total distribution of capital add-ons, expressed as a percentage of the SCR, for each of (i) to (v) above.
- The distribution of capital add-ons, expressed as a percentage of the SCR, for each member state, covering all (re)insurance undertakings in that member state.
- The proportion of capital add-ons mandated under Article 37(1)(a), (b) and (c).

<sup>843</sup> Article 294(4)(b), *ibid.*

<sup>844</sup> Article 55(1) of the Solvency II Directive.

<sup>845</sup> Article 52(1), *ibid.*

<sup>846</sup> Article 52(1)(a), *ibid.*

<sup>847</sup> Article 52(2), *ibid.*

## 7. Proposed Changes to the Solvency II Regime

### Amendments to the Solvency II Directive

Following its 2021 proposals to amend the Solvency II Directive, in April 2024 the European Parliament adopted the Amendments to the Solvency II Directive (COM(2021)0581), which seek to significantly alter Pillar III disclosure requirements.

The most important proposed changes affect:

- The structure and contents of the SFCR.
- The scope of existing nondisclosure exemptions.
- The deadlines for annual reporting.
- The EIOPA's and member states' disclosure duties.
- Requirements to obtain an external audit.

### Structure and Contents of the SFCR

Whereas the structure of the SFCR currently mirrors the five broad categories of information required to be disclosed therein, the revised SFCR is expected to include two distinct sections to be disclosed jointly, namely:

- A section addressed to policyholders and beneficiaries.
- A section addressed to market professionals.<sup>848</sup>

The Amendments also effect changes to the content required to be disclosed in the SFCR. More specifically, the content required to be disclosed in the SFCR will now include, as falling under the new sections:

**Policyholders and Beneficiaries Section:** This section will include:<sup>849</sup>

- A brief description of the business and performance of the (re)insurer.
- A brief description of the capital management and the risk profile of the (re)insurer, including in relation to sustainability risks.
- A statement of whether the undertaking discloses the plans in Article 19a or Article 29a of Directive 2013/34/EU (nonfinancial statements).

**Market Professionals Section:** This section will include the information in the categories referred to in Section 1 of this chapter and, additionally, the following information:<sup>850</sup>

- An indication of whether the undertaking is materially exposed to climate change risks and whether it has put in place any actions to address such risks.
- A statement of whether the undertaking discloses the plans in Article 19a or 29a of Directive 2013/34/EU.

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<sup>848</sup> Paragraph 27 of the Amendments.

<sup>849</sup> Paragraph 27(b), *ibid.*

<sup>850</sup> Paragraph 27(c), *ibid.*

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- The elements included in plans to be prepared by (re)insurers to monitor and address financial risks associated with sustainability factors.
  - Where applied, a description of the MA and the portfolio of obligations and assets to which it is applied.
  - A statement on whether the VA has been used by the undertaking and, where used, certain information regarding its use.

### **Nondisclosure**

Whilst preexisting nondisclosure rules will remain effective, the Amendments extend further nondisclosure permissions specifically to captive (re)insurers, by allowing them to abstain from disclosing specified information in the following situations:

**Captive Insurers:** Such insurers will not be required to disclose quantitative data required by the implementing technical standards referred to in Article 56 provided that:<sup>851</sup>

- All insured persons and beneficiaries are part of the captive insurer's group or are natural persons eligible to be covered under the group's insurance policies, and the business covering such eligible persons remains below 5% of technical provisions.
- The insurance obligations of the captive insurance undertaking do not consist of any compulsory third-party liability insurance.

**Captive Reinsurers:** Such reinsurers are not required to disclose the same quantitative data referred to above provided that:<sup>852</sup>

- All insured persons and beneficiaries are part of the captive insurer's group or are natural persons eligible to be covered under the group's insurance policies, and the business covering such eligible persons remains below 5% of technical provisions.
- The insurance contracts giving rise to the reinsurance obligations of the captive reinsurer do not relate to any compulsory third-party liability insurance.
- Loans between the captive reinsurer and its parent or any other group company do not exceed 20% of the assets held by the captive reinsurer.
- The maximum loss resulting from the gross technical provisions can be assessed without using stochastic methods.

**Small and Noncomplex Undertakings:** Similarly to captive insurers, such undertakings will be able to disclose only the quantitative data required by the implementing technical standards to be included in the Market Professionals Section of the SFCR.<sup>853</sup> For a (re)insurer to qualify as a small and noncomplex undertaking, it must meet the criteria set out in Article 29a of the Amendments.

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<sup>851</sup> Paragraph 27(e) of the Amendments.

<sup>852</sup> *Ibid.*

<sup>853</sup> *Ibid.*

## Deadlines for Annual Reporting

The Amendments extend the deadlines for annual reporting of the individual and group SFCR, the QRTs and the RSR.<sup>854</sup>

- **The individual SFCR and the RSR** will now need to be disclosed 18 weeks instead of 14 weeks after the (re)insurer's financial year-end.
- **The group SFCR** will now need to be disclosed 22 weeks instead of 18 weeks after the (re)insurance group's year-end.
- **Annual QRTs** will now need to be disclosed 16 weeks instead of 14 weeks after the (re)insurer's financial year-end.

## The EIOPA and Member State Disclosure Duties

In addition to the requirement to disclose the information discussed in Section 6 of this chapter, the EIOPA and member states must disclose both:

- The number of (re)insurance undertakings and groups, respectively broken down by small and noncomplex undertakings or groups, using simplifications or proportionality measures.
- The number of (re)insurance undertakings employing specific proportionality measures.<sup>855</sup>

The Amendments will not directly affect UK (re)insurers, who instead will be affected only by the PRA's changes<sup>856</sup> to the PRA Rulebook and the Solvency II Directive and Level 2 Delegated Regulation as they apply in the UK. However, the Amendments may indirectly affect UK (re)insurers by influencing future amendments to the current UK regime and will be relevant to UK groups operating in the EU.

## External Audit

Whereas the Solvency II Directive does not presently require (re)insurers to have an external audit of the SFCR, the Amendments introduce an external audit requirement for individual and the single group SFCRs. Other than small and noncomplex undertakings and captive (re)insurance undertakings, all (re)insurers will be required to have an external audit of their balance sheet, which they are mandated to disclose in the individual and single group SFCR, as per Articles 51(1) and 256(2)(b) of the Solvency II Directive, respectively.<sup>857</sup>

Additionally, member states will have discretion to extend the requirement to small and noncomplex undertakings and captive (re)insurance undertakings, as well as extending the scope of the audit requirement to encompass aspects of the SFCR beyond the balance sheet.<sup>858</sup>

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<sup>854</sup> *Ibid.*

<sup>855</sup> Paragraph 29(a), *ibid.*

<sup>856</sup> See (i) PRA PS3/24, (ii) PRA CP14/22; and (iii) PRA CP12/23.

<sup>857</sup> Paragraph 28 of the Amendments.

<sup>858</sup> *Ibid.*

In all cases, a statutory auditor or an audit firm must carry out the audit in accordance with the auditing standards laid down in Article 26 of Directive 2006/43/EC and Article 72 of the Solvency II Directive, respectively.<sup>859</sup> It should be noted that the External Audit Part of the PRA Rulebook already currently requires firms to obtain external audits of certain information disclosed in the SFCR,<sup>860</sup> including the Valuation and Capital Management categories discussed in Section 1 of this chapter.

### Relevant PRA Proposed Amendments to the Solvency II Regime

The PRA's recent amendments to the PRA Rulebook should be read in light of its transition to Solvency UK, which seeks to liberalise the existing Solvency II regime to encourage investment into the UK (re)insurance market. For instance, as of 31 December 2023, the PRA softened reporting requirements by removing (re)insurers' obligation to submit RSRs.<sup>861</sup>

Recently, following PRA PS3/24, in which it reviewed the feedback it received on PRA CP14/22 and PRA CP12/23, the PRA released near-final rules effective 31 December 2024 that similarly seek to slim down (re)insurers' reporting duties. In particular, the near-final rules entail:

- Deleting several QRTs, associated NSTs and SCR templates.<sup>862</sup>
- Reducing the reporting frequency of several templates, including QRTs and SCR templates, from quarterly to semiannually or annually.<sup>863</sup>
- Introducing new QRTs and other templates to facilitate disclosure by (re)insurers writing in emerging areas of risk, including cyberrisk underwriting and nonlife product obligation.<sup>864</sup>
- In relation to third country branches, removing expectations of reporting on several templates and introducing new NST reporting requirements on RFFs run by such branches<sup>865</sup> and on the solvency and financial position of the legal entity,<sup>866</sup> amongst other reforms.
- Changing the definition of what constitutes material information under the Reporting Part of the PRA Rulebook, so that information will be material if its omission or misstatement could influence the judgement of the PRA, as opposed to the judgement of SFCR users.<sup>867</sup>

<sup>859</sup> *Ibid.*

<sup>860</sup> Paragraph 2.2, External Audit Part of the PRA Rulebook.

<sup>861</sup> PRA "Solvency II Review — Considerations for Year-End 2023" 8 December 2023.

<sup>862</sup> Paragraph 1.5 of the PRA PS3/24.

<sup>863</sup> Articles 7A and 8 of the PRA Rulebook: Solvency II Reporting Reform Instrument (2024).

<sup>864</sup> Article 11, *ibid.*

<sup>865</sup> Article 42, *ibid.*

<sup>866</sup> Article 48, *ibid.*

<sup>867</sup> Article 4A, *ibid.*