

Solvency II Circular for Insurance and Reinsurance Undertakings

Following the second circular published by the MFSA on the 13th of October 2014, this third circular provides information on other aspects of Solvency II that insurance and reinsurance undertakings should look at as part of their preparation for Solvency II.

(1) Solvency II Group Reporting Requirements

The table below summarises the Solvency II reporting requirements for insurance and reinsurance undertakings that form part of a group in Malta.

	Group structure	Ultimate entity	Group Supervisor	Results expectations
1	Group in Malta with 1 participating insurance holding company in Malta (A) and 1 subsidiary insurance undertaking in Malta authorised by the MFSA (B) only.	A is the ultimate insurance holding company	MFSA	(a) A submits results for A & B on a group basis (on the basis that A is the responsible entity) (b) B will also submit results on a solo basis
2	Group in Malta with 1 parent insurance undertaking in Malta authorised by the MFSA (C) and 1 subsidiary insurance undertaking in Malta authorised by the MFSA (D)	C is the ultimate parent insurance undertaking	MFSA	(a) C will submit results for C & D on a group basis (on the basis that C is the responsible entity) (b) C and D will also submit results on a solo basis separately
3	Group in Malta with 1 participating insurance holding company in the EU (other than Malta) or third country (E), 1 participating insurance holding company in Malta (F) and 1 subsidiary insurance undertaking in Malta authorised by the MFSA (G).	E is the ultimate insurance holding company	MFSA	(a) E will submit results for E, F & G on a group basis (on the basis that E is the responsible entity) (b) G will also submit results on a solo basis
4	Group in Malta with 1 participating mixed activity insurance holding company in EU (other than Malta) (H) and 1 subsidiary insurance undertaking in Malta (J)	H is the ultimate mixed-activity insurance holding company	Group supervision by way of intra-group transactions. MFSA is not the group supervisor.	(a) J will submit results on a solo basis (b) intra-group transactions with H will be reported by J in the relevant tabs in the QRTs

Please note that group reporting is not required during the preparatory period.

(2) Solvency II Preparatory Period Deadlines

On the 23rd of December 2013, the Authority had communicated to the market the undertakings that fall into the quantitative and qualitative reporting thresholds during the Solvency II preparatory period.

(a) Annual Reporting during the Preparatory Period

In line with Guideline 35 (paragraphs 1.91 and 1.93) of EIOPA's "*Guidelines on Submission of Information to National Competent Authorities*", insurance and reinsurance undertakings that represent at least 80% of the national market share shall submit the **annual** quantitative and narrative reporting to the MFSA by no later than **22 weeks** after the undertaking's financial year end.

The table below provides the deadlines as to when the **annual** quantitative and narrative reporting shall be submitted to the MFSA:

Deliverable	Financial Year End		Deadline
Annual Reporting Templates and Narrative Reporting (Solo Only)	30 th November 2014	+ 22 weeks	4 th May 2015
	31 st December 2014		3 rd June 2015
	31 st March 2015		1 st September 2015
	31 st May 2015		2 nd November 2015
	30 th June 2015		1 st December 2015

(b) Quarter Reporting during the Preparatory Period

In line with Guideline 35 (paragraph 1.92) of EIOPA's "*Guidelines on Submission of Information to National Competent Authorities*", insurance and reinsurance undertakings that represent at least 50% of the national market share shall submit the **quarterly** quantitative and narrative reporting to the MFSA by no later than **8 weeks** after the undertaking's quarter end.

The table below provides the deadlines as to when the **quarterly** quantitative and narrative reporting shall be submitted to the MFSA:

Deliverable	Quarter End		Deadline
Quarterly Reporting Templates and Narrative Reporting (Solo Only)	30 th September 2015	+8 weeks	25 th November 2015
	31 st December 2015		25 th February 2016

Please note that group reporting is not required during the preparatory period.

The Preparatory Period Quantitative Reporting Templates (QRTs) can be assessed through the following link:

<https://eiopa.europa.eu/regulation-supervision/insurance/reporting-format>

(3) Ring-fenced funds reporting under Solvency II for Protected Cell Companies (PCC)

With reference to Guidelines 15 and 19 from the “EIOPA Final Report on Public Consultation No. 13/010 On the Proposal for Guidelines on Submission of Information to National Competent Authorities”, PCCs are required to report all results for the core and each cell separately during the preparatory period.

(4) Tool for Undertaking (T4U)

Please be informed that undertakings shall be required to submit the Preparatory QRTs in XBRL format.

Undertakings that intend to use the EIOPA T4U to generate the XBRL report, can access the beta version of the tool from the EIOPA website through the following link:

<http://t4u.eurofiling.info/>

(5) Calculation of the Restricted Own Funds

OF.44 of the Technical Specifications for the Preparatory period (dated 30th April 2014) states that the sum of paid-in subordinated mutual member accounts, paid-in preference shares and the related share premium account, paid-in subordinated liabilities valued in accordance with Article 75 of Directive 2009/138/EC and items included in Tier 1 basic own funds under the transitional arrangements shall make up less than 20% of the total amount of Tier 1 items.

In addition, section OF.20(h) states that down grading to a lower tier of basic own funds is possible for the basic own-fund items that display the features set out in section OF.9 but exceed the limit set out in OF.44 of the Technical Specifications, and is relevant for paid-in subordinated mutual member accounts, paid-in preference shares and the related share premium account and paid-in subordinated liabilities valued in accordance with Article 75 of Directive 2009/138/EC.

In view of the above, we would like to provide an illustration of its application by way of the following example:

SCR = 1,000 MCR = 400	Available own funds	Eligibility of Own Funds towards meeting SCR		SCR	SCR	Eligibility of Own Funds towards meeting MCR		MCR	MCR
				Eligible own funds (Bottom Up)	Eligible own funds (Top Down)			Eligible own funds (Bottom Up)	Eligible own funds (Top Down)
Unrestricted Tier 1 (T1u)	500	≥50% of SCR	All eligible	500	500	≥80% of MCR	All eligible	500	500
Restricted Tier 1 (T1r)	200		< 20% of Total T1	124.99 ⁽¹⁾	124.99 ⁽¹⁾		< 20% of Total T1	124.99 ⁽¹⁾	124.99 ⁽¹⁾
Basic Tier 2	300	T2 + T3 ≤ 50% of SCR		350.01	350.01	≤ 20% of MCR		80.00	80.00
<i>Of which is downgraded from Restricted Tier 1 (T1r)</i>				50.01	75.01		--	75.01	
<i>Of which is Basic Tier 2, excluding downgrading from Restricted Tier 1 (T1r)</i>				300	275		80.00	4.99	
Basic Tier 3	500		T3 < 15% of SCR	149.99	149.99		Do not count towards meeting MCR	--	--
Total	1,500			1,124.99	1,124.99			704.99	704.99

Note (1):

Method 1	Method 2
$T1r < 0.20*(T1r+T1u)$ $< 0.20*(T1r+500)$ $< 0.20T1r + 100$ Solving for $T1r < 100/0.80 \Rightarrow T1r < 125$ Therefore $T1r = 124.99$ and the balance is downgraded to Tier 2 own funds subject to the limits prescribed under Solvency II.	If $80\% = 500$ Then $20\% = (500/80)*20 = 125$ Since $T1r$ is $< 20\%$, then $T1r = 124.99$ and the balance is downgraded to Tier 2 own funds subject to the limits prescribed under Solvency II.

Restricted Tier 1 items in excess of 20% of Total Tier 1 Basic Own Funds may be eligible as Tier 2 Basic Own Funds provided they meet the Tier 2 Basic Own Funds classification criteria (in this example 75.01).

(6) Contacts:

Any queries in relation to the above should be addressed to the Insurance and Pensions Supervision Unit on ipsu@mfsa.com.mt.

Communications Unit

Malta Financial Services Authority

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