Q2SOLVENCY

Quidgest

Powered *by* **Genio**

Cofinanced by:

Lisb@20 20 PORTUGAL 2020 UNIÃO EUROPEIA Fundos Europeus Estruturais e de Investimento

What is Solvency 2?

On November 25th 2009, the European Parliament and the Council of the European Union adopted Directive 2009/138/EC, the Solvency 2 regime, which aims to restructure the legal framework in the sector of European insurers. The Solvency 2 Directive aims to bring together in a single engine all the policies that regulated the sector, allowing insurers to improve their performance regarding capital requirements and the risks inherent to the sector.

EIOPA (European Insurance and Occupational Pensions Authority), the supervisory authority of the insurance sector, aims at a better legal framework for the European markets that will provide insurers the tools necessary for a better behavior of the internal market. Thus, EIOPA intends to approximate the laws of all EU Member States by eliminating the differences between national regulators.

Solvency 2 will replace its predecessor, Solvency 1, which was implemented in the 1970s and, as such, needed a major restructuring at the level of solvency assessment and risk analysis and the supervision of regulators and insurers themselves.

The original requirements of Solvency 1 enabled the European Union to implement one of the most competitive markets in the world of insurance. Different member states regulated the market autonomously but always according to some rules widespread throughout the EU. This freedom given to each national regulator made a less demanding control exercised by the authorities regarding the analysis and evaluation of the obligations and liabilities. On the other hand, capital requirements suitable to the risk of insurers were quite rudimentary, without any kind of provisions regarding the risk reviews. Although it has open a path to the minimum capital requirements, Solvency I became obsolete and was not able to follow the evolution of the European markets, making way to the insertion of a new set of stricter rules.

Solvency 2 aims to complement and replace some methodologies and requirements that weakened Solvency 1, particularly in terms of a more economic view, rather than an accounting view. Thus, allowing a better management of the insurance market, encouraging a more efficient supervision of the risks inherent in this industry. The main goal of Solvency 2 focus on the abandonment of the different solvency restrictions adopted, individually, by national regulators, implementing a single economic risk-based structure. This requirement arises from the fact that risk is inherent in all operations of the insurance market, being dependent of many internal factors as well as equity and its assessment.

With the implementation of Solvency 2, European insurers find themselves forced to look at their results and implementing financial measures that allow the establishment of a more reliable and transparent information. A new feature, compared to Solvency 1, is the introduction of the so-called stress tests, aimed at improving the overall management of insurance and to determine their capital needs.

With the transition from Solvency 1 to Solvency 2, the European main authority for the insurance sector, EIOPA (European Insurance and Occupational Pensions Authority), aims to:

- Greater harmonization and transparency
- Increase supervision and regulation
- Improve consumer protection
- Increase competitiveness
- Adequate capital requirements

With these goals, the EIOPA aspires that insurers will meet all the necessary conditions to pursue their activities throughout the European Union area, without any obstacles by the regulatory authorities towards foreign insurance who are providing services in their national territory. Thus, the harmonization introduced with Solvency 2 will allow a better cooperation and recognition between all supervisory authorities of all EU Member States by ensuring the existence of a single system.

Why Solvency 2?

The Solvency 2, which is the biggest change in the regulation of the insurance sector in the EU in recent decades, comes as an important part of its regulatory structure as it aims to protect insurers, identifying the main risks to which they are subject, and ensure solvency in the long term of insurance providers.

With the different client portfolios, insurers are subject to different degrees of risk, consequently, the rules of Solvency 2 sets out the basic criteria for calculating the capital required to manage business according to the risk faced by insurers, creating a direct link between the two that will cause profound changes in the sector. Thus, Solvency 2 increases focus on risk management for all insurance providers.

The implementation of the new rules of Solvency II will be ensured by the supervision of national regulators of each Member State. It is up to the authorities of these countries to ensure that the sector maintains a proper operation, providing companies all the necessary conditions to ensure that their activity is framed within the regulation of Solvency 2.

With this directive, EIOPA intends to implement a regulatory tool with an economic character based on risk, prompting insurers to implement a more effective risk management and valuation principles of assets and liabilities more rigorous.

How it works

With a structure similar to agreements of Basel III in the banking sector, EIOPA groups the different Solvency II requirements on three pillars that include quantitative and qualitative requirements and elements focused on capital, risk, supervision and disclosure.

PILLAR 1
Demonstrating adequate financial resources

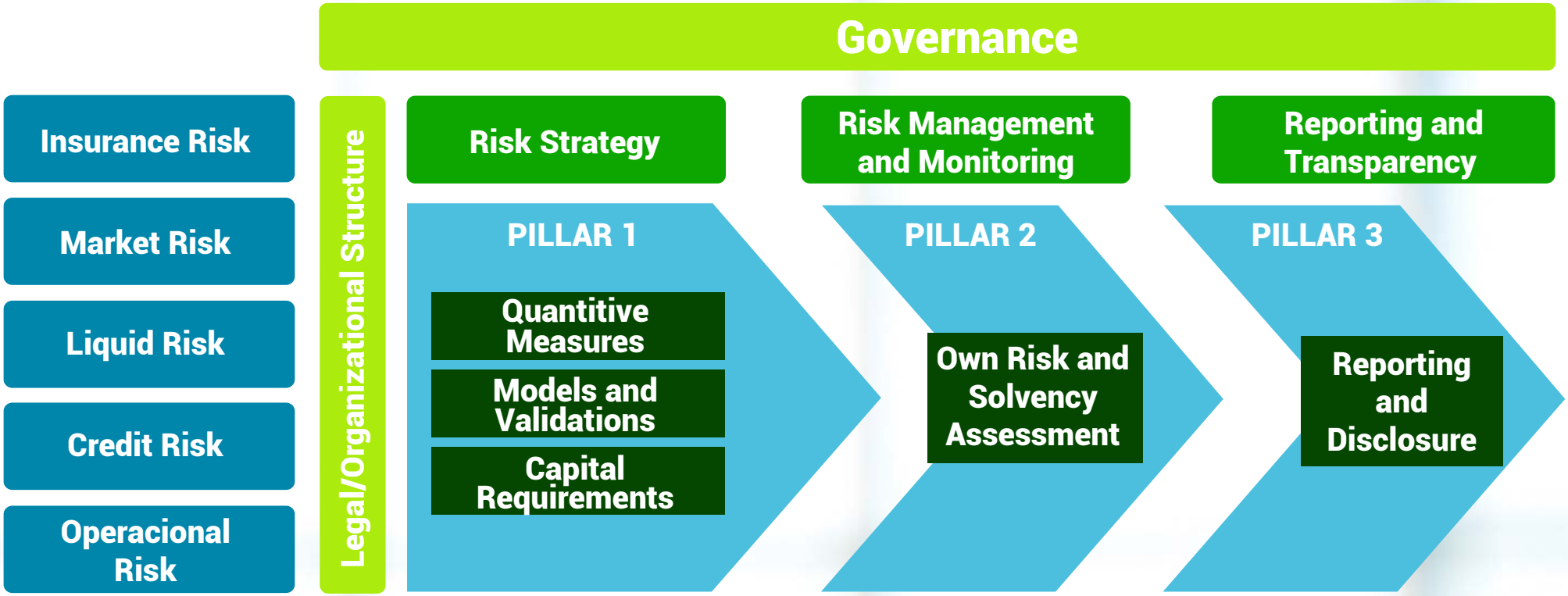
- Capital requirements
- SCR - Solvency Capital Requirement
- MCR - Minimum Capital Requirement

PILLAR 2
Demonstrating an adequate system of governance

- Effective risk management system
- Identify and measure risk according to the necessary capital
- Set a long-term risk strategy

PILLAR 3
Public disclosure and regulatory reporting requirements

- Greater transparency for regulators and the public
- Disclosure requirements, providing the necessary information


Governance
Insurance Risk
Market Risk
Liquid Risk
Credit Risk
Operacional Risk
Legal/Organizational Structure
Risk Strategy
Risk Management and Monitoring
Reporting and Transparency
PILLAR 1
Quantitive Measures
Models and Validations
Capital Requirements
PILLAR 2
Own Risk and Solvency Assessment
PILLAR 3
Reporting and Disclosure

Pillar I
Demonstrating adequate Financial Resources

I

Financial resources

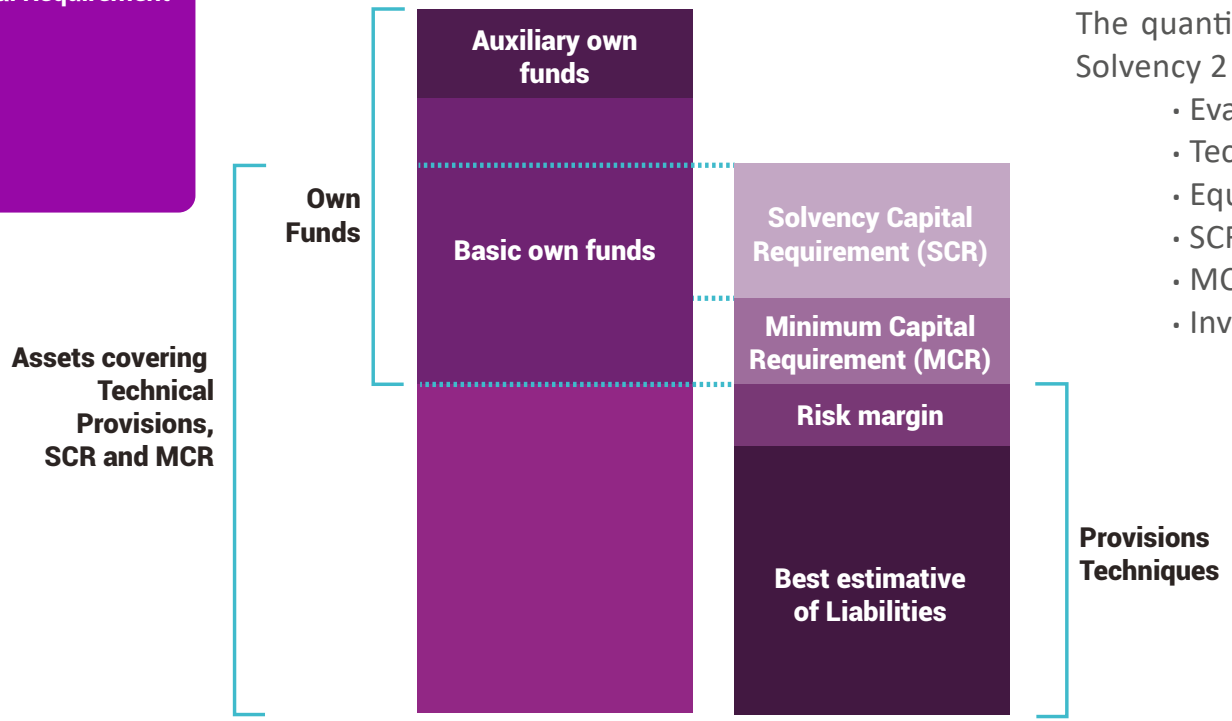
Capital requirements:

SCR
Solvency Capital Requirement

MCR
Minimum Capital Requirement

The first pillar of Solvency 2 is focused on quantitative measures, attesting that insurers are promoting a good risk management, aligned with the capital requirements necessary to support all risk factors present in its balance sheet (both assets and liabilities).

The adoption of a targeted approach to the balance sheet by Solvency 2, provides that the Solvency Capital Requirement corresponds to the value at risk of insurers with a 0.5% risk level during a one year period. On the other hand, Solvency 2 also expects the Minimum Capital Requirement, the minimum amount of financial resources that insurers can achieve.



The quantitative requirements defined by Pillar I of Solvency 2 can be divided into six components:

- Evaluation of Assets and Liabilities
- Technical Provisions
- Equity (Capital)
- SCR - Solvency Capital Requirement
- MCR - Minimum Capital Requirement
- Investments

Pillar II
Demonstrating an adequate System of Governance

System of Governance

Effective risk management system

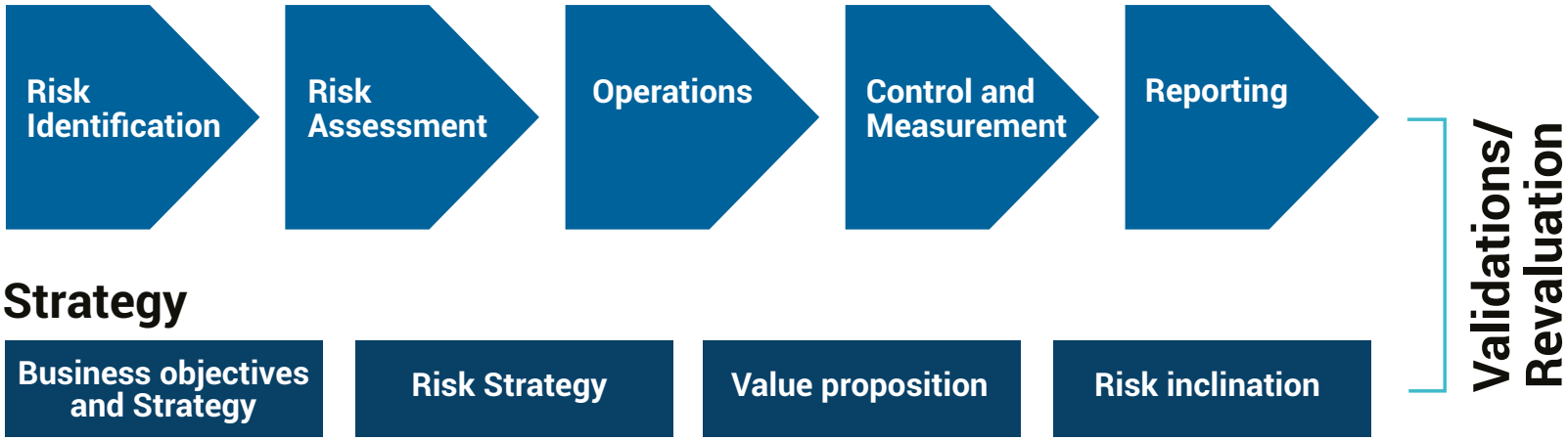
Identify and measure risk according to the necessary capital

Set a long-term risk strategy

The second pillar of Solvency 2 aims to strengthen the risk management system, implementing high standards of internal control in insurers that allow greater efficiency in risk management. The qualitative requirements of Pillar II of Solvency II shall ensure that the regulatory framework meets the internal risk policies of insurance companies.

This pillar also includes OSRA (Own Risk and Solvency Assessment), an internal evaluation that insurers make of their risk, their corresponding capital requirements and the necessary capital resources.

Risk Management



III

Regulatory Reporting

Greater transparency for regulators and the public

Disclosure requirements, providing the necessary information

Pillar III
Public disclosure and Regulatory Reporting requirements

Pillar III is based on transparency and disclosure requirements for both regulators and the public, increasing the control exercised within the insurers. Pillar III allows regulators to access to all the information necessary to ensure compliance with Solvency 2.

There are three types of reports:

- QRTs – Quantitative Reporting Templates
- SFCR – Solvency and Financial Condition Report
- RSR – Regular Supervisory Report

The biggest challenge of Pillar III of Solvency 2 is to deliver the required information in XBRL format and validated according to the rules imposed by EIOPA.

Since January 1, 2016, that European insurers face this challenge with the implementation of Pillar III of the new Solvency 2 regulations.

Q2SOLVENCY
Quidgest

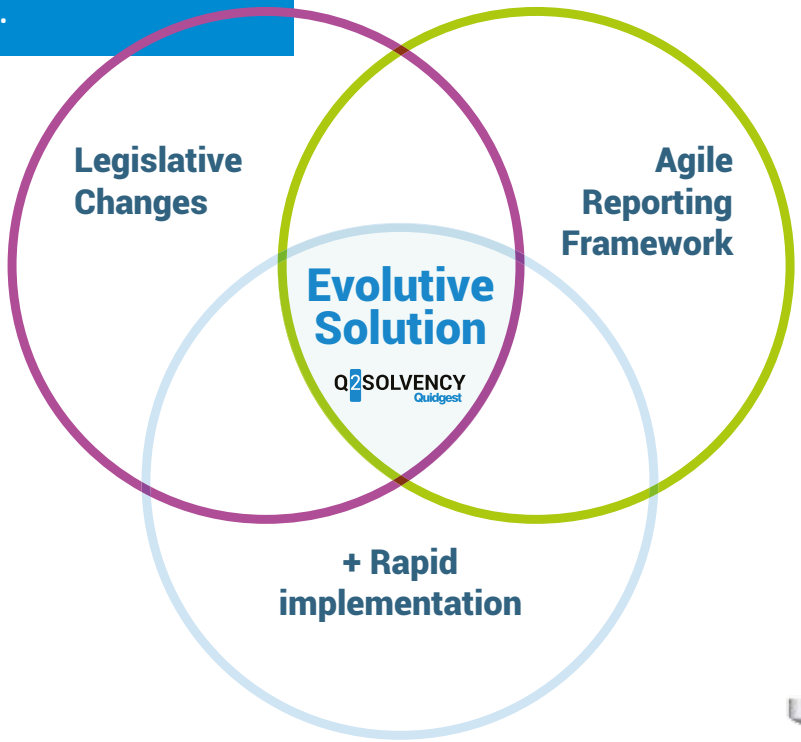
Solvency 2 is presented as the best tool insures have to guarantee an efficient risk management by internal supervisors, identifying the main risks faced and adapting the processes and procedures to those needs.

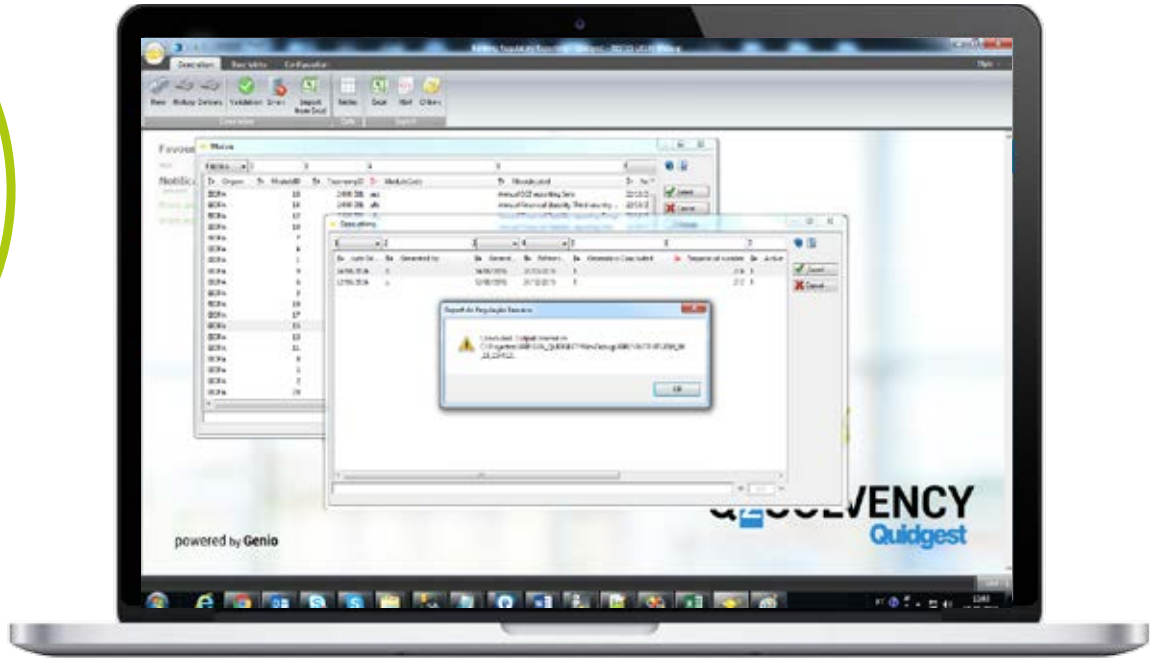
To meet the challenges introduced, in particular, by Pillar III of Solvency 2, Quidgest developed the solution **Q2Solvency** in order to simplify the requirements presented by EIOPA.

Q2SOLVENCY Quidgest

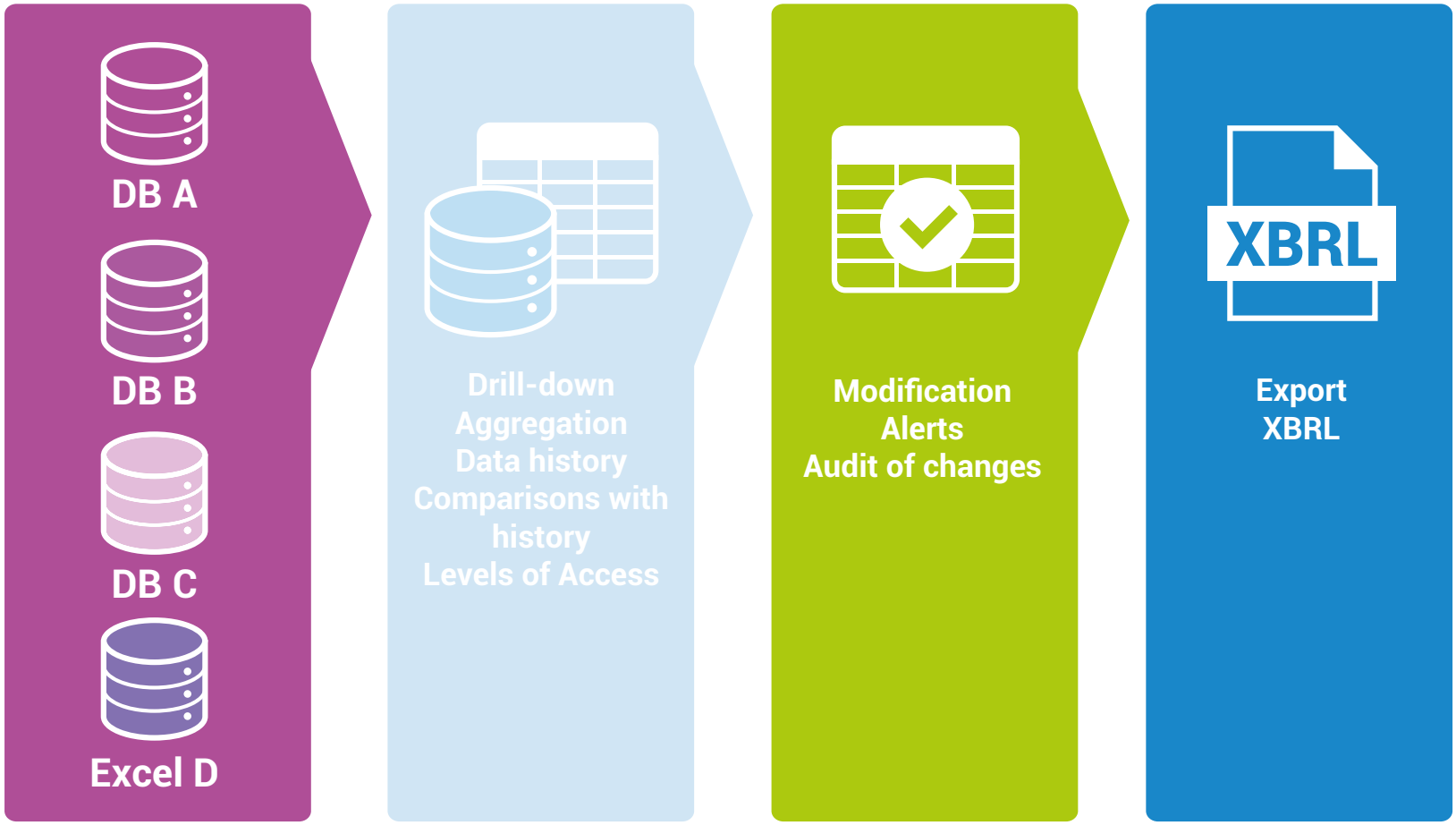
GENIO is Quidgest's innovative and agile software generation platform.
Learn more about Genio.

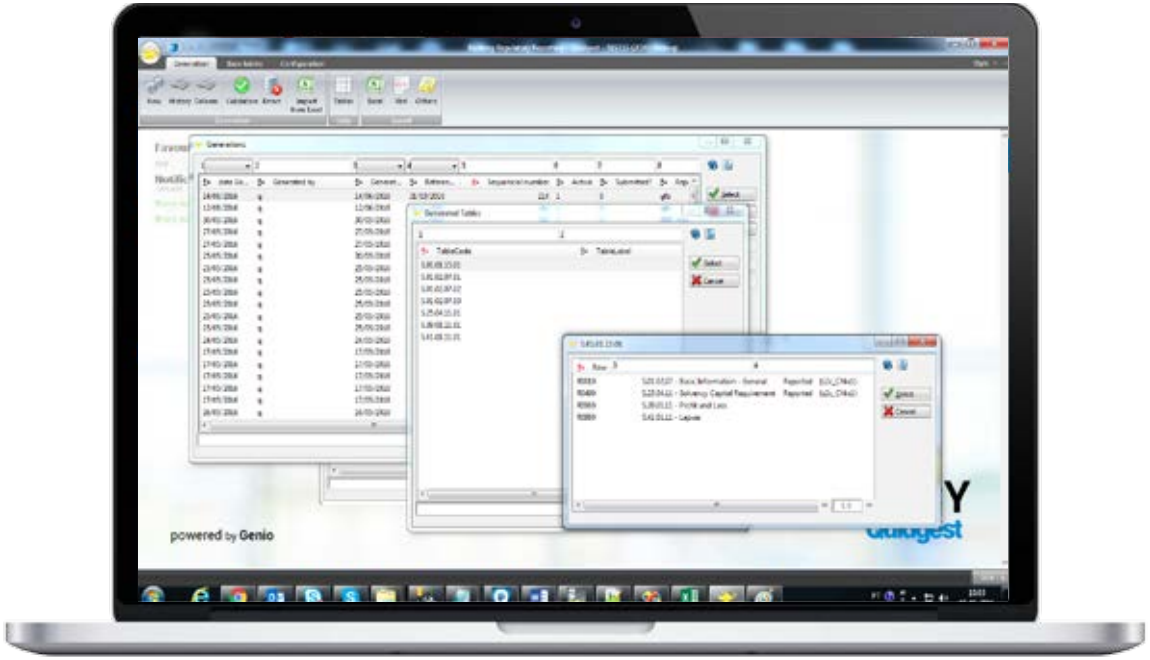
The **Q2Solvency** solution, developed based on Quidgest's platform Genio, a complete solution and with easy integration with other systems, provides the necessary tools for processing data and creating reports in XBRL format according to the guidelines of Solvency 2.



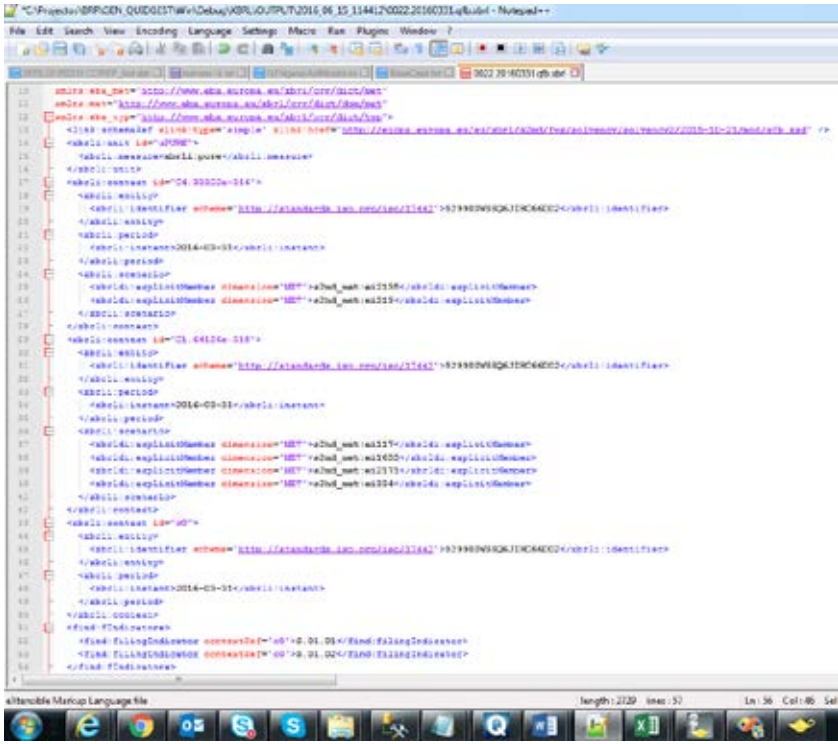


Q2SOLVENCY
Quidgest





Q2SOLVENCY
Quidgest



Report generated in Q2Solvency ↑

XBRL file generated in Q2Solvency →

Quidgest

www.quidgest.com
quidgest@quidgest.com
solutions@quidgest.com

R. Viriato, n.º7 - 4.º
1050-233 Lisbon
Portugal

Tel.
(+351) 213 870 563/652/660
(+351) 919 049 556
(+351) 912 682 024
(+351) 912 682 682