

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

CONSULTATION DOCUMENT

CONSULTATION ON AMENDMENTS TO THE INSURANCE RULES ISSUED UNDER THE INSURANCE BUSINESS ACT

[MFSA REF: 08-2016]

26th August 2016

Closing Date: 23rd September 2016

Note: The documents circulated by the MFSA for the purpose of consultation are in draft form and consist of proposals. Accordingly, these proposals are not binding and are subject to changes and revisions following representations received from Licence Holders and other involved parties. It is important that persons involved in the consultation bear these considerations in mind.

Note for Consultation

1. Purpose

- 1.1 With a view of ensuring the high quality of public disclosure of Solvency II information, the MFSA is issuing for Consultation proposed amendments to Chapter 8 on Financial Statements and Supervisory Reporting Requirements found in Part B of the Insurance Rules issued under the Insurance Business Act (Cap.403). The proposed amendments will require the external audit of specific templates of the Solvency and Financial Condition Report on the Solvency II balance sheet, own funds, capital requirements and technical provisions.
- 1.2 Any comments and feedback are to be addressed to the Insurance and Pensions Supervision Unit by email on ipsu@mfsa.com.mt. Interested parties are kindly asked to submit any comments in writing by not later than Friday **23rd September 2016**.

2. The MFSA's proposed amendments on the external audit of certain templates of the SFCR

- 2.1 The new Solvency II regime is based on the three Pillars approach. This Consultation Document deals with Pillar 3 which focuses on the importance of supervisory reporting and disclosure, which plays a key role in the Solvency II regime, in order to ensure greater transparency. The said Pillar 3 requires the submission of the Solvency and Financial Condition Report ("SFCR"). Authorised undertakings are required to disclose the SFCR publicly and to report it to the MFSA, on an annual basis. The SFCR includes both qualitative and quantitative information.
- 2.2 Though there is no requirement under the Solvency II Directive for the external audit of the public or private disclosure under Pillar 3, the European Insurance and Occupational Pension Authority (EIOPA) "*believes that to ensure high quality public disclosure for Solvency II purposes, external audit of that information can certainly be a powerful tool. In order to make best use of external audit in the context of the SFCR, EIOPA is of the view that at individual and group level, the main elements of the SFCR (balance sheet, own funds and capital requirements) of all insurance and reinsurance undertakings could fall within the scope of an external audit.*"¹

¹ EIOPA, [*Need for high quality public disclosure: Solvency II's report on solvency and financial condition and the potential role of external audit*](#), 29th June 2015

- 2.3 Under the Solvency II Directive, an SFCR is required to be disclosed by solo undertakings and, where relevant, at group level. It is being proposed to add a new Annex V to Chapter 8 of the Insurance Rules which specifies the *Solvency II balance sheet, own funds, capital requirements and technical provisions* templates of the SFCR, that will be subject to an external audit by the approved auditor of authorised undertakings. This external audit shall be carried out by an approved auditor appointed in terms of article 21 of the Insurance Business Act. Part I and Part II of this Annex V contain a list of selected templates of the SFCR, found in the Commission Implementing Regulation 2015/2452. Part I of Annex V lists the templates for the solvency and financial condition report of individual undertakings. Part II of Annex V lists the templates for the solvency and financial condition report of groups.
- 2.4 It is being proposed that the capital requirements templates of undertakings using approved full internal models will be excluded from the requirement of an external audit, given the complexity of models, since the internal model is already subject to an undertakings' internal validation and the MFSA's approval. On the other hand, where authorised undertakings are using a partial internal model, it is proposed that the elements of the SFCR template which are calculated using the standard formula modules will be included in the scope of the Solvency II audit.
- 2.5 Therefore, it is being proposed to insert a new Section 8.10 in Chapter 8 of the Insurance Rules, requiring that the specific templates of the SFCR specified in the new Annex V to Chapter 8, are to be accompanied by a report drawn up by the approved auditor of the undertaking, which is to include a reasonable assurance opinion on the said templates confirming that these have been prepared in all material respects in accordance with Chapter 8 of the Insurance Rules and the Commission Implementing Regulation 2015/2452.
- 2.6 In terms of the proposed new section, the specific templates of the SFCR specified in the new Annex V and the accompanying report relating to the external audit are to be submitted by an authorised undertaking within the time-frames specified in paragraph 8.6.8(a) of Chapter 8 of the Insurance Rules. It is to be noted that the accompanying report relating to the external audit is to be submitted only to the MFSA and will not be made publicly available.

2.7 Finally, it is pertinent to point out that the MFSA intends to apply the requirement for the audit of templates listed in Parts I and II of Annex V to Chapter 8 with respect to **financial year ending on or after 30 June 2017.**

Communications Unit
Malta Financial Services Authority
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