

Solvency II – Ensure Compliance

Reining in the risk and cost of regulatory change

Introduction

The preparatory phase is now in the past. From 1st January 2016 full-blown Solvency II (SII) implementation has come into force. The insurance undertakings are about to face the quarterly reporting schedule in late May. Preparations for the adoption of Solvency II standards started way back in 2013/14 and it seems that the first experience has not caused much uproar in the market as envisioned by many experts.

Before 2016 SII filing was no more than just a workout. Now disclosure requirements for some types of filers e.g. composite insurers, could even double or triple. When you combine it with EIOPA's roadmap: one major taxonomy release per year plus three releases in operation during each year, then management of the compliance exercise with the temporary in-house solution could become a risky business. Outsourcing this work to software start-ups that sprung up alongside of the introduction of Solvency II regulations is also hazardous. Should filers look for a more long-term solution and benefits from XBRL integration? Definitely yes. It is the right time to do so.

During Interstage XWand User's Meeting held in Nice – France [1], Mr. Owen Jones, the main XBRL taxonomy architect at EBA, recounted an interesting story about the current challenges of EBA and its filers with XBRL technology. The presentation ended with a scary quote from Andreas Weller, EBA Head of IT:

*"I predict that by 2020 there will be at least one structured supervisory report submitted on a **daily** basis..."*

This implies that regulatory reporting must be automated and embedded operationally by filers. The alignment of all systems and processes in accordance with the shape of regulation will be essential to ease the compliance effort at some point. Why should we even care about it in the context of SII reporting? EIOPA and EBA have a lot in common. Both institutions cooperated closely from the very beginning when XBRL was put on the agenda. If EBA proves that it is feasible to collect and process data effectively with good speed, it is very likely that EIOPA will get the appetite for it.

European super regulators have their plan, but National Competent Authorities will not be locked in EU+0 model for long. Some have already introduced or intend to implement extensions on top of European core DPM taxonomies.

Implementation Approaches by Regulators

National Competent Authorities (NCAs) institutions in Europe are very diverse in nature. Although, they share a common name like FSA, each country makes an independent political decision regarding the extent of institutional competences designation. Usually, the span of market supervision reflects the most common sectoral division of the financial market: the banking sector, the insurance and pension fund sector and the capital markets. There are many possible options of supervision competences but only the banking sector exclusively combined with capital markets is rather unusual and never occurs in practice.

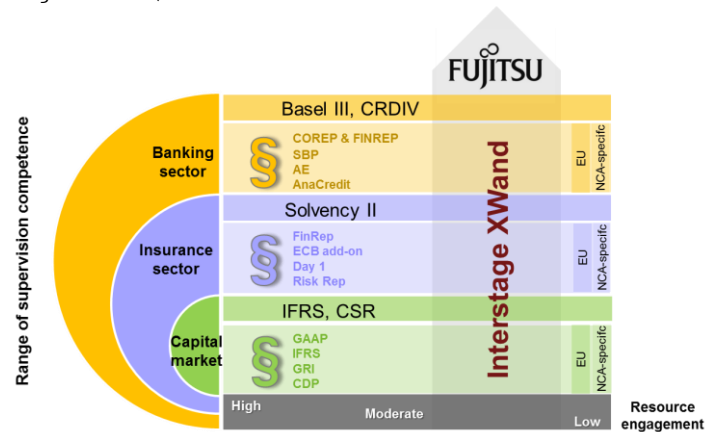
The very structured and complex institutions are sometimes affected by so-called organizational silos (the state in which departments or management groups do not share information, goals, tools, priorities and processes with other departments). It is natural that silos may limit communication, collaboration and teamwork between employees. It looks as if they worked as individual and separated business units or entities.

Concerning the case of XBRL implementation projects this state becomes even more apparent. ICT strategy in this particular area is driven by EU mandate and is often changing. Regulators who are on a shoestring budget and have limited resources took a minimalistic approach. They may adapt an OSS to meet its immediate obligations toward EU institutions. This could help them achieve a desirable market uptake. However, the issue with these types of application is that they are written with certain data structures in mind. This will require more frequent software updates and testing which directly translates into higher maintenance costs. Business rules validation is often completed using workarounds which generally offer a subprime processing performance compared to enterprise-class counterparts. There are solutions that transform formulas into SQL queries and thus validation is solely performed using the DB engine. At first glance, this approach might not look so bad but when inconsistency between DB and XBRL occurs, filers become confused when their 100% correct reports are rejected by the submission platform.

There are regulators who sees XBRL mandate as a good motivation to renew their IT infrastructure. These are the ones that want a full end-to-end portal with the embedded XBRL engine. Very few vendors do offer such comprehensive package. Not only can this approach bring high upfront implementation costs (consulting, integration and customization) and maintenance fees, but it can also assume

[1] Annual event organized by Fujitsu to provide filers and regulators with a unique forum where they can share their experiences about electronic reporting and Fujitsu's XBRL products usage for the purpose.

acceptance by the supervisor of not being entirely the owner of the solution.
 From our experience, the regulator’s decision on a particular XBRL solution is driven mostly by two factors (represented by axes in the diagram below):



The resource engagements axis represents the averaged amount of resources (time, people, and money) required to introduce XBRL processing capabilities into current IT infrastructure. The FUJITSU Interstage XWand engine is positioned in the lower part because its integration is straightforward and it does not impose additional implementation fees on a regulator. Range of supervision competence is another crucial factor. Each sector has its own taxonomy – the banking sector has EBA taxonomy, the insurance sector relies on Sol2 taxonomy and filings to stock exchanges will be based on IFRS. Most solutions are either taxonomy-specific or taxonomy-architecture specific. Interstage XWand is taxonomy-agnostic which means that it handles every taxonomy regardless of underlying reporting standards, purpose and architecture. This makes Interstage XWand product one of the most resilient and sustainable solutions available on the market.

Regulator’s Success Story

Fujitsu is dedicated to every single Interstage XWand engine implementation. The most recent success story comes from Latvia. Filers, especially smaller ones, usually do not reap benefits from XBRL integration immediately. Motivation is a key but lack of knowledge and practical experience also plays a role here.

In 2014 FCMC Latvia faced a challenge to transpose CRR/CRD IV and Solvency II directives into Latvian legislation and collect data in XBRL. First feasibility studies showed that very few filers in this country have capabilities to report in XBRL format. That is why FCMC decided to implement the Interstage XWand engine to support its filers in this process and to meet very tight deadlines set by EU.

According to Uldis Sausins, Chief BI developer at FCMC Latvia:

*“Thanks to Interstage XWand, the adoption of new taxonomy (acquiring data structures) released by EIOPA takes **2 hours**, setting up business constraints **only 8 hours**. Spreadsheet input forms for filers which can be generated within seconds using Interstage XWand **are mission critical** in our solution”*

Not only did FCMC Latvia avoid any disturbances with data collection processes it also took very resolute and conscious actions to ensure Basel III and Solvency II compliances by its filers. The minimal time required to set up new versions of SII XBRL taxonomies suggests that no coding is involved and it is a straightforward process. The decision to choose Interstage XWand was most likely motivated by flexibility, scalability and potential project expansion capabilities available in a single solution. Aside from providing crucial filing services, FCMC also supports filers in error discovery and handling process e.g. by validating their instance documents against taxonomy-defined business rules and filing rules (so-called EFR manual) and sending feedback in an automated manner immediately after each submission attempt.

FCMC Latvia is not constrained by any means to provide these filing services infinitely. If the right moment comes and XBRL implementation gains momentum among banks, insurance undertakings or even companies listed on the Latvian stock exchange, all of which are expected to report their consolidated accounts in XBRL format from 2018/19, FCMC is ready for that too from day one.

SII Filer Implementation Scenarios

Filers subject to Solvency II can choose from a wide array of reporting solutions available on the market. The most noticeable are those called strategic and/or end-to-end solutions. These are the ones heavily promoted by software vendors which were in existence in Solvency I’s prime days. Strategic is synonymous with all that is big, complex and ambitious. No doubt, strategic thinking is a crucial aspect of any successful business and it should certainly drive every IT investment decision. However, implementation of strategic solution is always associated with a high cost incurred upfront for licenses, consulting, implementation and in the long-term also maintenance fees. Its monolithic nature and complexity can cause a great deal of troubles with adaptation to the dynamic and ever-changing business and legal environment.

There are many SII filers who do not see enough motivation and cannot afford such risk and money to implement big systems. They are looking for a ‘fit for purpose’ solution that offsets compliance risk with cost. Currently, the most popular SII reporting solution used among small and medium insurance undertakings is the T4U – .NET tool developed by EIOPA and supported by many NCAs in Europe. This application serves its basic purpose and it has helped EIOPA and NCAs to achieve a high uptake of XBRL data collection. Nevertheless, T4U was assumed from the beginning to be only a temporary solution and it was assumed that EIOPA would provide support services only until this summer. Filers then will need to make a choice: stay with T4U and hire a 3rd party software company to provide maintenance service or invest in a more tactical solution. Preferably, the latter option should not be constrained in terms of integration breadth and depth possibilities.

It must combine the quality of being extremely adaptable and flexible in order not to confine evolution into a strategic solution when the right moment comes.

The last one is the exact description of Interstage XWand-world-leading XBRL solution.

Filer's Success Story

IF P&C Insurance Company, one of the leaders in property and casualty insurance in Nordic markets, placed a great trust in Interstage XWand. Using a single solution IF P&C Insurance Company was able to deliver almost instantaneously compliance capabilities with SII and XBRL standards to each of its controlled and associated entities spread over 8 countries in Europe. It didn't require any consulting fees, staff training and, most of all, proves that our solution can easily meet even country-specific reporting requirements. Interstage XWand also addresses the compliance to upcoming IFRS and GRI XBRL mandates in Europe which is particularly interesting for companies listed on stock exchanges.

IF P&C Insurance Company puts its policyholder interest first and its reasonable conservatism drives corporate culture and software-related decisions as well. IF P&C chose Fujitsu as its long-term technology partner because we offer best-in-class products that are reliable, highly flexible and do not require sharing any data with 3rd parties. The ultimate recommendation for our products is that they are market-proven and empower the vast majority of regulators in Europe.

Whilst regulatory reporting is still considered as a technical and administrative burden, bolt-on integration can be a satisfactory solution for quite some time. It cannot, however, impose any restrictions on solution expansion. If our client such as IF P&C Insurance Company finds enough reasons to move step further with XBRL integration into its operational processes, it will be able to do it effectively with Interstage XWand.

About FUJITSU

Fujitsu is the leading Japanese Information and Communication Technology (ICT) company offering a full range of technology products, solutions and services. Over 159,000 Fujitsu employees support customers in more than 100 countries. Fujitsu applies its experience and the power of ICT to shape the future of society with its customers. Fujitsu is an industry leader in the XBRL area helping organizations in all aspects of XBRL implementations with 15 years of proven track record and excellence. Our presence in XII working groups and deep commitment in the development of XBRL standard drive and facilitate its adoption worldwide.

Fujitsu combines a unique set of software engineering competences with invaluable insights into XBRL technology implementations. Our dedication to delivering top quality and customer-oriented solutions is invariably praised by our clients. We are proud that our flagship XBRL solutions are implemented by 300+ customers in over 50 countries among them are EIOPA, EBA, and ECB.

Our global presence, high level of customer service, combined with our technical skills, innovative XBRL products and network of experts on hand for consultation have helped countless others succeed.

More Information

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