How IBM Cognos Financial Statement Reporting (FSR) addresses Solvency II reporting requirements

Using Cognos FSR to meet internal, external, regulatory and statutory reporting

Introduction

Hundreds of executives from 38 countries convened in Brussels, Belgium in May 2011 during XBRL22 to discuss the continued global expansion of eXtensible Business Reporting Language (XBRL). One of the significant announcements made during the conference was in the area of insurance - the European Insurance and Occupational Pensions Authority (EIOPA) has chosen XBRL as the Uniform Format for Solvency II insurance reporting across Europe, as announced by Gilles Maguet, Secretary-General of XBRL Europe, the regional body for XBRL jurisdictions in the European Union.

"In the last year, we have seen continued uptake of XBRL as the business information standard in key sectors, including taxation," said Anthony Fragnito, CPA, CEO of XBRL International. "The EIOPA mandate for XBRL in the pension and insurance sector is a critical step toward the transparency and process improvement benefits of XBRL to insurance and risk management, and expands the XBRL footprint across the financial services and capital markets sectors."

EIOPA is part of a European System of Financial Supervisors that comprises three European Supervisory Authorities, one for the banking sector, one for the securities sector and one for the insurance and occupational pensions sector, as well as the European Systemic Risk Board.

Increased qualitative disclosure required to address Solvency II reporting requirements

The significant changes in reporting driven by Solvency II, is forcing many insurers to change their business structures, strategies and operating practises. The information to support restructuring the business and adapting the strategy will require comparative information on the IFRS and Solvency II methods, well in advance of the external reporting mandates. Supporting information to drive key business decisions will be required above purely financial comparatives. The need for more granular, qualitative, explanation oriented, reporting to support Solvency II with accuracy and timeliness is an increased burden and challenge.

An Environment of Increasing Complexity: The new reporting requirements within the SFCR and RTS

The new external and internal reports required under Solvency II are the annual public **Solvency Financial Condition Report (SFCR)** with its extensive disclosure requirements, the submissions to the regulator which comprise the **Report to Supervisors (RTS)**, which will be required in full periodically, and the new annual and quarterly **Quantitative Reporting Templates (QRT reports)**.

These reports require more qualitative information than before, covering the areas of - business and performance, system of governance, risk profile, regulatory balance sheet, capital management and information on the internal model if applicable.

IFRS also requires extensive risk management and capital disclosures within the annual and interim Financial Statements, with increased volume under new IFRS standards. In some countries qualitative information is also required to support the annual report beyond that required by IFRS, such as commentary on the performance of the business.

There are close synergies between some IFRS and Solvency II disclosures such as Risk & Capital, Risk Profile and Capital Management. Business performance reporting has to tie back to the Solvency reports at the correct entity level. However, reporting under IFRS and Solvency II will differ as some assets and liabilities will be valued differently. Insurers will need to explain the differences between their Solvency II balance sheet and IFRS valuations.

Solvency II qualitative reports are significantly larger than in current annual statements. This will include business and external environment sections, such as the main trends and factors that have contributed to the performance and position of the insurer over the year. Governance reports will need to make statements on the adequacy of the system of governance and explain any changes over the period.

The **Own Risk Solvency Assessment (ORSA)** report will re-use much of the information published externally. The nature of this report is to have significant supporting text to support decisions that cannot be made on purely numeric facts. Reconciliation of the ORSA report where it overlaps the RTS and SFCR is required so the management can demonstrate they are making decisions on the same measurement basis as the external reports.

In summary, the new reporting requirements result in increased variety, complexity and quantity, and the process for developing an agile and sustainable reporting system has to be able to flex to emerging demands as they are published, for example, the introduction of XBRL output.

What challenges does this present?

- **Workload:** Additional comparative analysis and reporting workload, which is a significant increase over the burden a regulated insurance company already faces in terms of quantity, complexity and frequency of statutory reporting.

- **Consistency of Messages:** Ensuring that both IFRS and Solvency II disclosures convey consistent value generating messages to the market and regulators by using synergies in creating the various disclosures.

- **Scalability:** Current treatment processes known as the 'last mile' of reporting are most often manual in nature. Systems that generate the data required, such as actuarial and financial systems, consolidation and analysis cubes, typically hand data over to reporting teams where manual, labour intensive and relatively weakly governed processes abound.

- **Process Accuracy:** Tying disclosures into the process, coping with late adjustments, rounding issues and manual processes for error checking against tight deadlines.

- **Auditability:** Adds to external costs as well as raising the number of people involved. The process is typically owned by a mixture of Finance and Actuarial staff with minimal IT system or process support.

- **Cost:** Whilst insurance companies also face cost reduction pressure, this significant increase in reporting burden means a solution to automate the 'last mile' of reporting for insurers will have significant business value.

- **Penalties:** Severe penalties for non compliance with reporting mandates with the European insurance market suffering a year on year increase both in the size and frequency of regulator imposed fines.

- **Market Capitalisation and Reputation:** Errors in reporting processes have had unfortunate short term impact on company market capitalisation as well as causing longer term reputational damage.

Cognos FSR delivers a streamlined and automated approach to final report production

Cognos FSR automates and streamlines the complete Financial Statement Reporting (FSR) production process. This is done right from the start, by linking and collecting information safely from a variety of disparate sources. It creates a secure centralised application database of your numerical, graphical and narrative data, and allocates and manages the various sections in the document. The solution has very strong security, workflow, process control, validation, audit and compliance to ensure accuracy of the content.

A significant installed base of major listed companies and large mutual insurers have already selected and successfully deployed the solution to manage and automate the production of complex external and internal production reports.

An integrated XBRL Approach

XBRL tagging, taxonomy extension and maintenance are fully integrated within the external reporting process, avoiding the bolt-on approach adopted by other solutions that extends reporting cycle time. With embedded XBRL capability, the risk of errors is reduced, the efficiency of the external reporting process is improved and external reporting cycle times are shortened. Huge opportunities for economies of scale and cost reduction exist particularly where high volumes of statutory entities are involved. Tagging can be done on model accounts, and cascaded down and across entities – 'tag-once'.

Cognos FSR provides an automated method to produce robust, secure, highly formatted numerical and textual output, for external and internal reporting, compliance and filings.

What does Cognos FSR do to address Solvency II challenges?

- **Streamlines report production processes:** Cognos FSR allows the creation of a report centric database from which all statutory and solvency reporting can be driven. Each report contains a composite number of objects (a block of text, a spreadsheet table, a graphic etc.) that are combined and shared across reports.

- **Greater Assurance and reduced risk:** Automating the production of Solvency II documents to replace manual processes will reduce errors, reducing staff pressure at peak times. By delivering a secure, collaborative application environment, this ensures control and security of sensitive documents in a formal scalable process. Balancing accountability and key person dependency with greater assurance and improved data security.

- **Supports qualitative reporting requirements under Solvency II:** Cognos FSR uniquely marries words, numbers and graphics from source systems into robust and secure production reports. This will support the increased qualitative demands of Solvency II, less box filling and more narrative disclosure.

- **Re-uses report objects:** Converting last year's reports into templates which can be rolled forward and cascaded across entities removes repetitive effort from the next reporting cycle. Bringing XBRL tagging into the report production cycle provides an integrated XBRL solution which puts XBRL tagging into the financial statement preparation process rather than becoming additional steps to add to an already tight schedule.

- **Delivers internal report packs to executives:** Internal report formats typically include PowerPoint documents, with supporting information comprising Word text blocks and Excel spreadsheets explaining and illustrating trends and variances. Cognos FSR allows timely, assured and regular internal report creation. Board books, management packs, etc., providing meaning and colour behind the numbers.

Business benefit of automating 'Last Mile' report production using Cognos FSR

- 20-30 percent cost saving against the largely manual existing process of external reporting (Gartner)

- Measured return on investment 51 percent, giving a payback in 1.8 years, and average annual benefit of $212,077. Analysts found that Cognos FSR enabled the company to avoid printing costs and headcount growth while also improving accountant productivity. (Nucleus Research).

IBM and Solvency II

IBM has invested in technology components and deployable solutions that support Solvency II. IBM's La Gaude facility showcases the end-to-end system and allows insurance clients to explore enterprise requirements for entire systems or 'gap fill' their existing architecture. From data models to end user report templates, IBM demonstrates its leadership and investments into industry issues such as Solvency II.

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