



## Insurance Briefing Series 2012: Solvency II

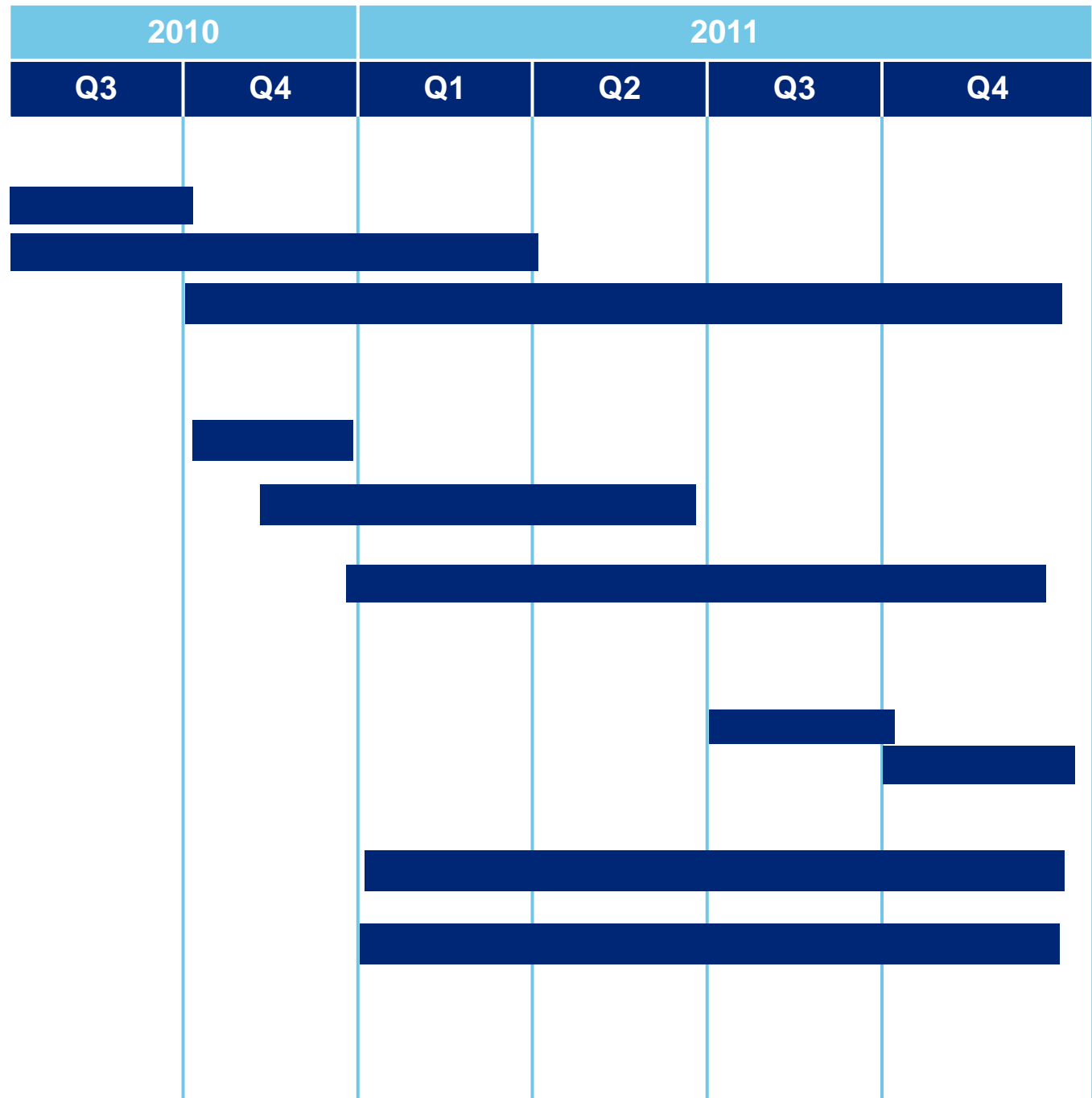
### Setting your SII plans for 2012



Leading business advisors

Open Remarks  
Glenn Gillard, Partner,  
Deloitte

# A look back...



# The key challenges

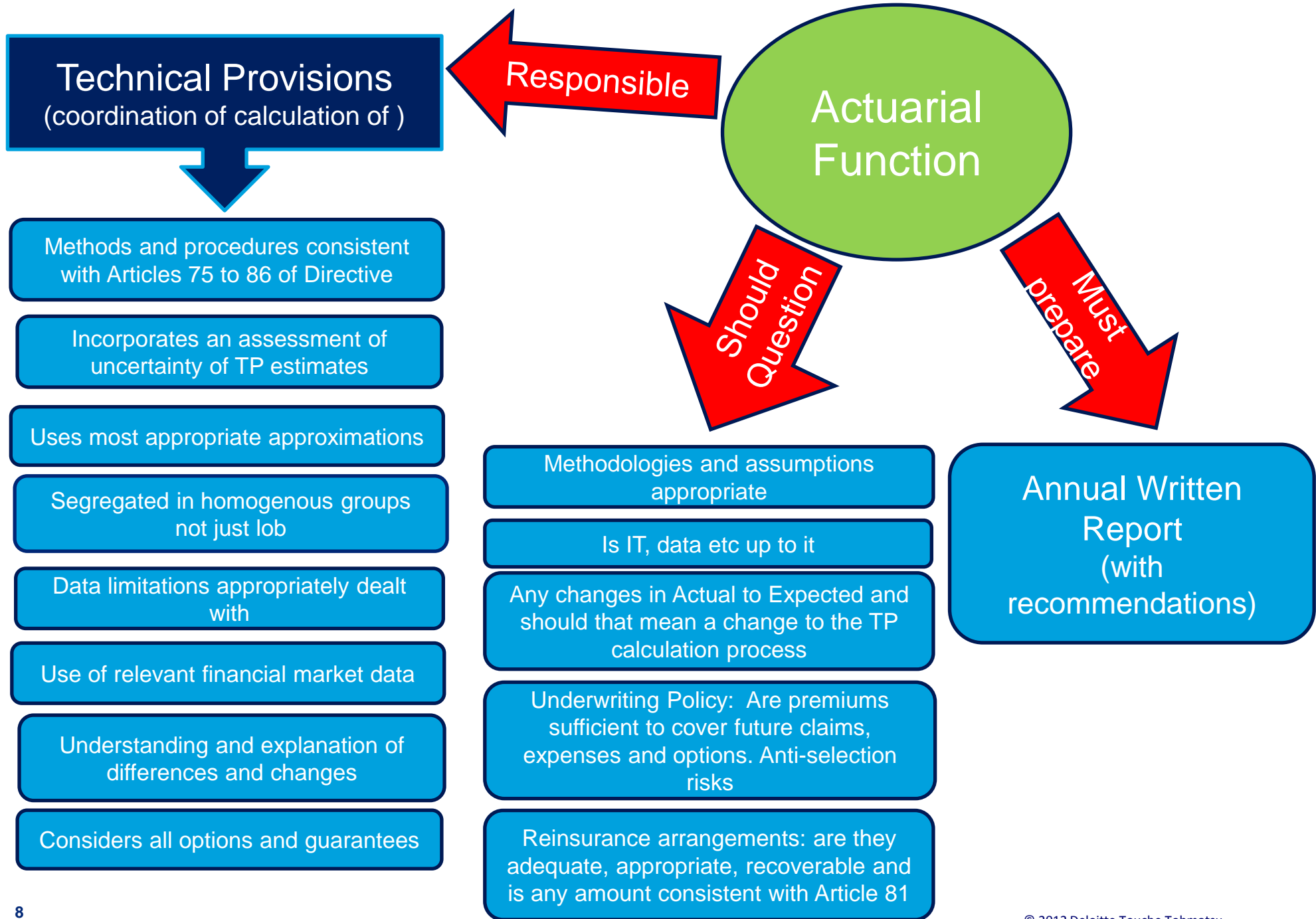
- Business as *unusual*
- The moving target of the start date
- Distraction of new local regulation
- Hiring of key resources
- Budget constraint

Actuarial Function &  
Standard Model  
Dick Tulloch, Director,  
Deloitte

# Actuarial Function

# Actuarial Function (Article 48)

- Actuarial Function: scope/detail was discussed following the issue of the Level 1 text was in:
  - Consultation Paper No 33 (System of Governance) - issued by CEIOPS 26 Mar 2009
  - and the Final L2 Advice issued by CEIOPS 10 Nov 2009



# Valuation of Technical provisions

**Two other aspects of the TP process are being suggested**

## **1. Validation should cover**

1. Test against A/E
2. Data used in TP's
3. Groupings of policies
4. Approximations
5. Adequacy and realism of assumptions
6. Adequacy and applicability of methods used
7. Qualification of the validator

## **2. Documentation should cover**

1. Process of data collection and analysis of quality relating to TP's
2. Choice of assumptions
  1. Justification for choice
  2. Inputs which lead to choice
  3. Objectiveness and criteria for choice
  4. Limitations
  5. Process to review choice
3. Adequacy and applicability

Actuarial  
Function

Must prepare

Annual Written Report  
(with recommendations)

*Document all tasks undertaken,  
results, deficiencies and  
recommendations*

*TP calculation reliability, sensitivities  
and general concerns*

*Opinion on Sufficiency of premiums to  
cover future claims, expenses, options  
and guarantees*

*Opinion on Reinsurance concerning  
adequacy in relation to risk,  
underwriting, providers, stresses and  
recoverability*

*Expect that that EIOPA will issue principle guidelines for the format of the report. However, expect them to be little different from the current actuarial professional guidance of ASP or equivalent.*

# Actuarial Function

What to do in 2012:

**Organise your current actuarial areas to ensure that you have a compliant SII Actuarial Function and function leader**

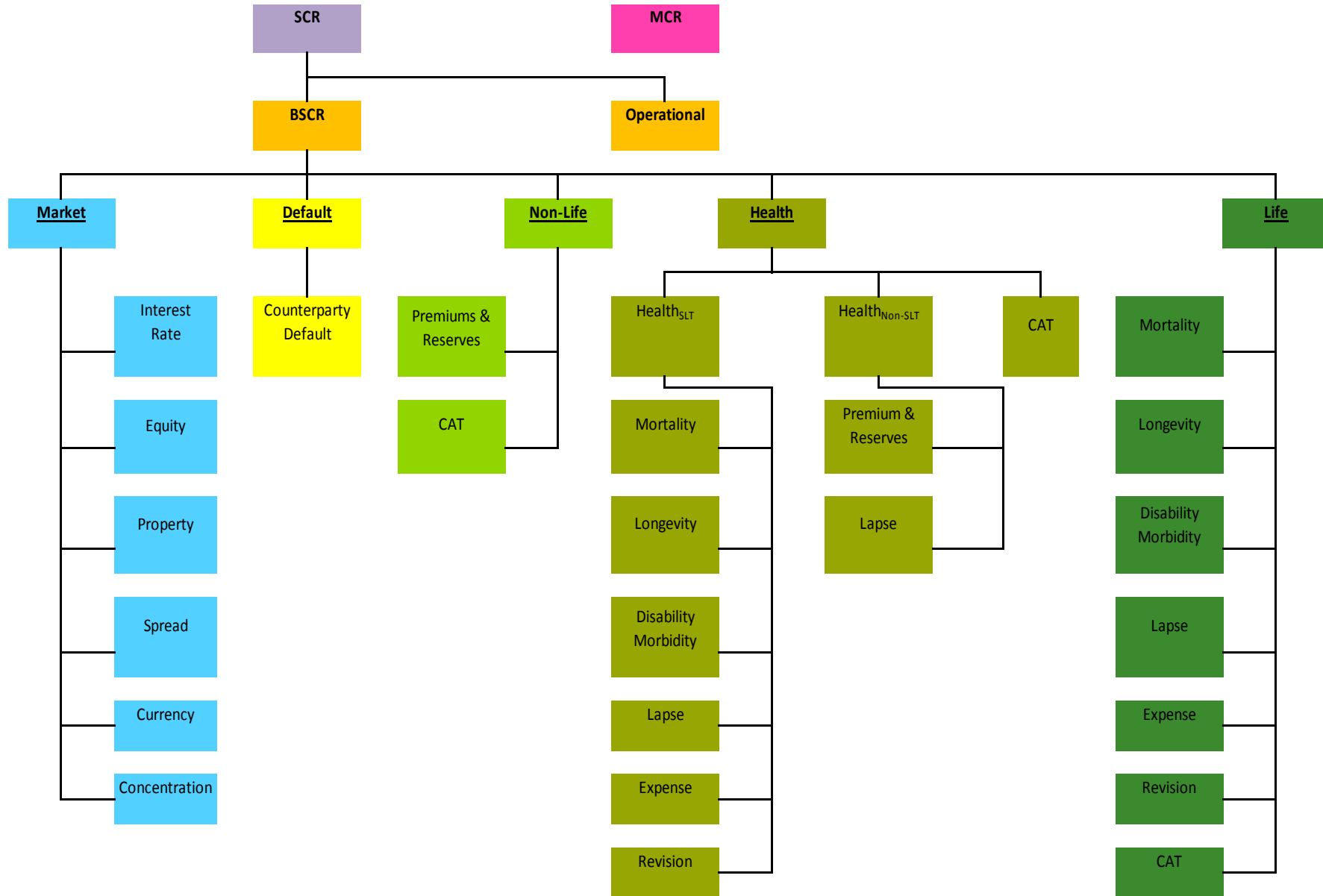
Why?

Creates a responsible person for ensuring and reporting on the plans and progress to ensure:

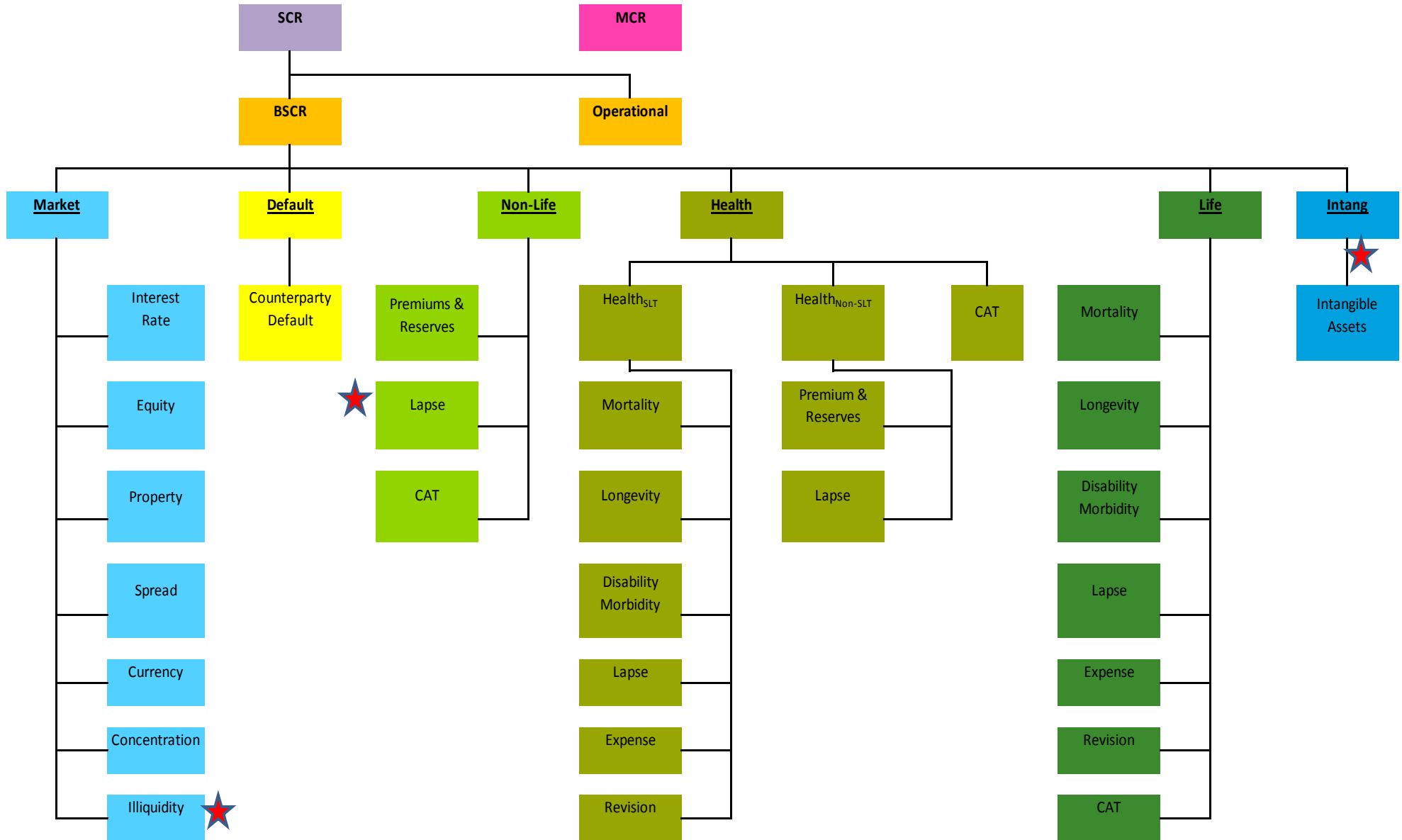
1. Processes are established to ensure a trial SII compliant TP process and report could be run at the year end.
2. IT and data sources are available, accurate, and appropriate
3. LOB segregations are consistent with SII requirements
4. Developing appropriate stress and uncertainty scenarios
5. Clear demonstration of compliance with Articles 73-83
6. Availability of appropriate reporting information for Pillar III
7. Help and assistance given to the Chief Risk Officer

# Standard Model

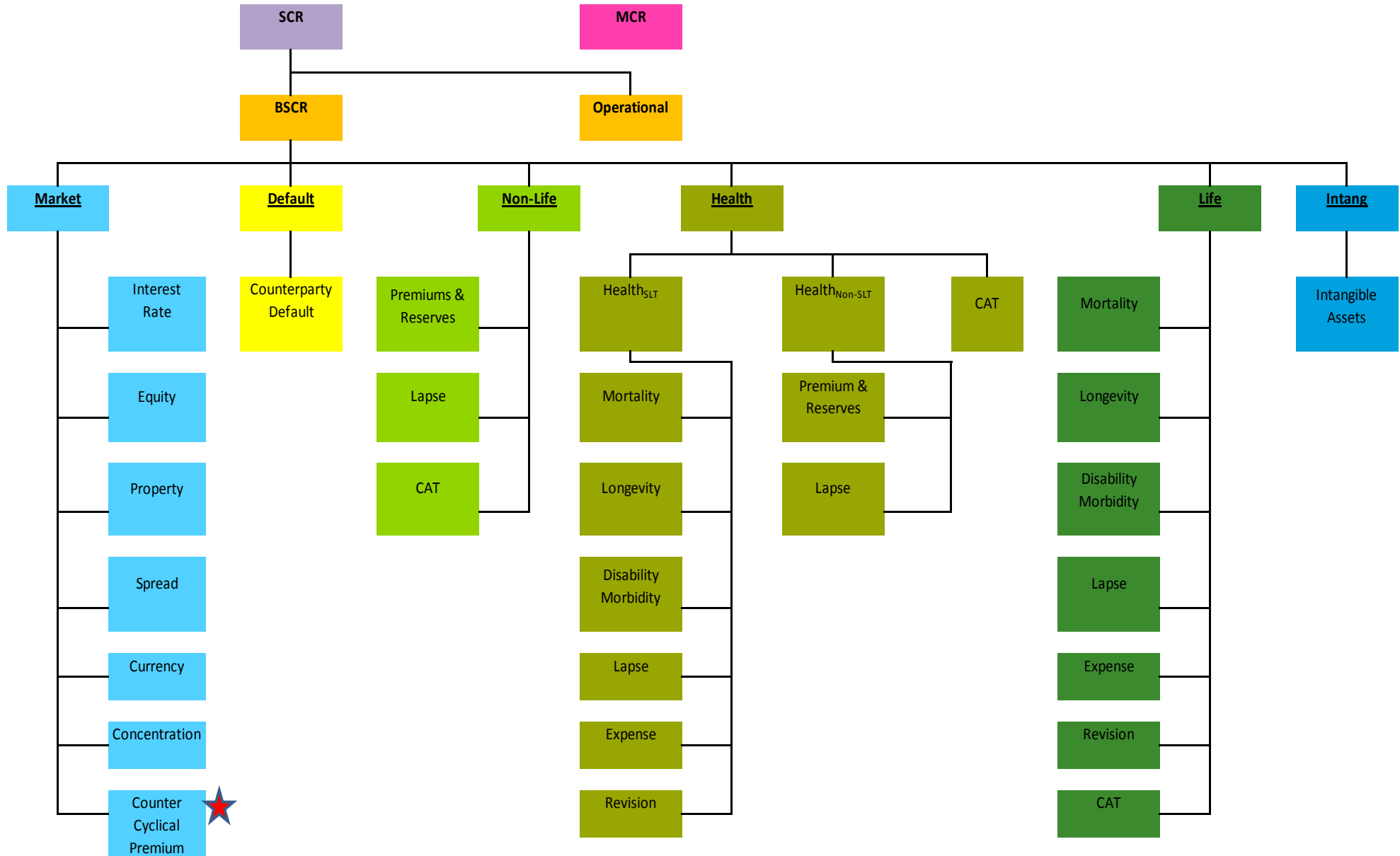
# Pillar I Standard Model (QIS4)



# Pillar I Standard Model (QIS5)



# Pillar I Standard Model (L2)



# Changes from QIS5 to SM(L2)

## Pillar I SCR & Technical Provisions

Market

*Overall impact of changes will vary but for most long tail (life & specialist non-life) companies the Interest Rate risk charge should be more favorable.*

Default

*Overall impact of changes will vary. However, those that used QIS5 helper tab for Counter Party Default will see no change.*

Non-Life

*Parameter changes suggested by the Working Party would indicate a 3% P&R SCR fall for the average direct insurer. CAT changes to include Geographical diversification should give savings to some reinsurers*

Health

*Unclear but possibly a small increase*

Life

*Impact mainly from allowance for matching premiums in TP's.*

# Standard Model

All will need a Standard Model

QIS5 is not the Standard Model

There will be no blanket Standard Model calculation sheets issued by the  
Regulating Bodies

***Each company is responsible for preparing and calculating their  
own SII SCR appropriately and correctly***

# Standard Model

***Each company will be responsible for preparing and calculating their own SII SCR appropriately and correctly***

What does this mean:

- You will be responsible for establishing a calculation sheet that uses the correct input assumption factors, appropriate statistical formula, correlation factors and interest rate curves.
- The calculation sheet need only be appropriate to your company and the risks that you are exposed to.
- Your SM can't be a black box because how can you then explain what and why the results are such!
- Either your Risk or Actuarial function will need to assume responsibility for such a model and be able to document how it was constructed and is maintained.

# Standard Model

***Each company will be responsible for preparing and calculating their own SII SCR appropriately and correctly***

Currently, we understand

- There is no change to the basic segments of the risk calculations apart from replacing Illiquidity Charge with a Counter-cyclical Premium Charge.

- However, many if most individual calculation processes are expected to change at least slightly since QIS5 sheets and their related technical specifications.

# Standard Model

***Each company will be responsible for preparing and calculating their own SII SCR appropriately and correctly***

Your options

- Develop your own SM
- Buy in a software vendors SM

Concerns and questions

- Expense
- Understanding
- Documentation & maintenance
- Existing data etc.
- Responsibility
- Use

# Actuarial Function & Pillar 1

## *2012 is the year to start*

- Determining what and who is your Actuarial Function
- Develop documentation for data, calculation, and assumption setting processes for TPs within the Actuarial Function
- Define links, supports and responsibilities between Risk Management and Actuarial Function
- Deciding what will be your SM (developed or bought in) and who will be responsible for maintenance etc.
- Define the links and responsibilities between Actuarial Function and Risk Management for the Internal Model
- Data and IT, what will be needed to provide on time to meet Pillar 3

Sinéad Kiernan,  
Director, Deloitte

# Solvency II – Pillar II

## 2012: Focus on risk management

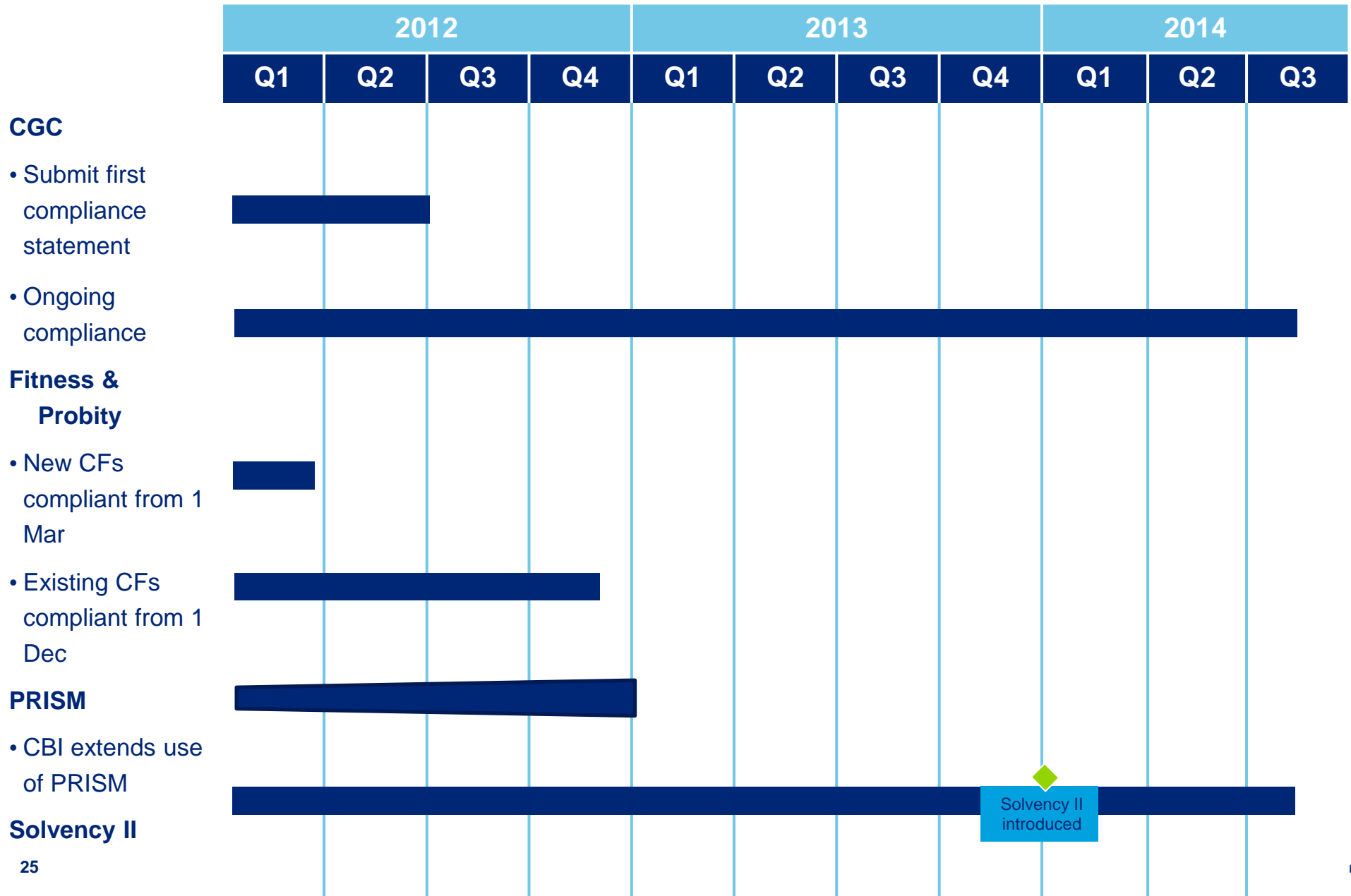
- 2012 priorities:
  - Local regulation
  - Solvency II
- Developing an effective risk management system
  - Key questions for 2012
- ORSA
  - A reminder
  - Designing your ORSA process
  - November 2011 EIOPA consultation paper

# Solvency II – Pillar II

## 2012 Risk Management Priorities

- New Irish Regulatory Requirements:
  - Submitting first statement of compliance with Corporate Governance Code
  - Implementing Fitness and Priority requirements (December 2012)
  - PRISM
- Solvency II:
  - Getting beyond gap analysis and programme initiation
  - Developing an effective risk management system
  - Implementing ORSA
- New local regulatory requirements provide some of the building blocks necessary to develop an effective risk management system under Solvency II.

# Risk management timeline: 2012 and beyond



## Solvency II – Pillar II

Two key concepts

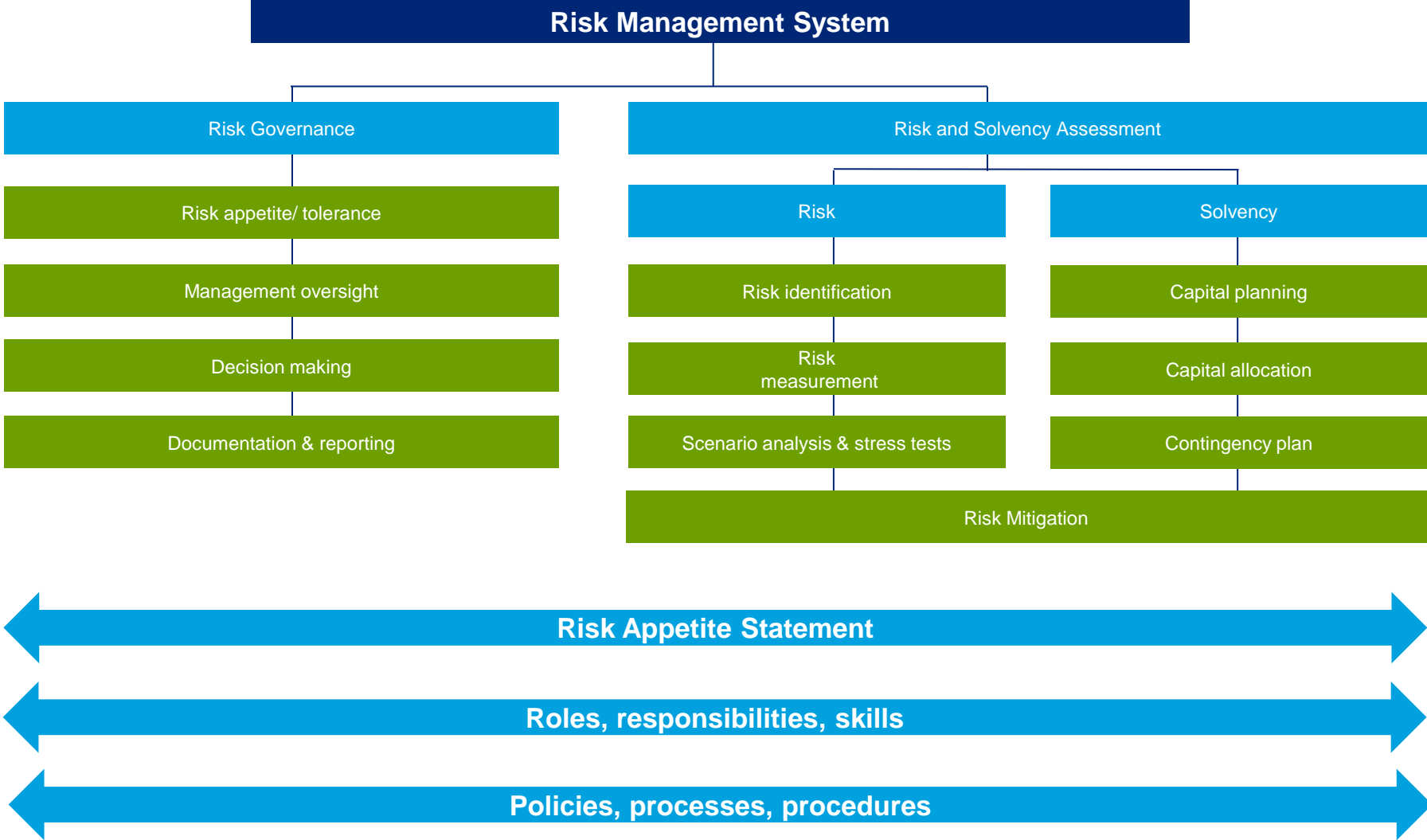
- **System of Governance:** robust governance is a pre-requisite for an efficient solvency system
  - undertakings must comply with requirements on fitness and probity, risk management, the own risk and solvency assessment (ORSA), internal control, internal audit, the actuarial function and outsourcing. In particular, the ORSA is an important process to ensure that undertakings
    - Identify and assess all risks they are (or could be) exposed to;
    - Maintain sufficient capital to face these risks;
    - Develop and better use risk management techniques in monitoring and managing these risks.
- **Supervisory Authorities and General Rules:** supervisors shall be responsible for evaluating how undertakings are assessing their capital adequacy needs relative to their risks (i.e. the *Supervisory Review Process*, or SRP). They are empowered to require remedial actions when capital does not seem to be adequate.

# Irish Regulatory Requirements and Solvency II

2012 Irish Requirement	Solvency II
Fitness & Probity	<ul style="list-style-type: none"><li>• Article 42: Fit and proper requirements<ul style="list-style-type: none"><li>• Senior management, board, key function holders</li></ul></li><li>• Article 43: Proof of good repute</li></ul>
Corporate Governance Code	<ul style="list-style-type: none"><li>• Article 41: General governance requirements<ul style="list-style-type: none"><li>• Must have in place an effective system of governance which provides for sound and prudent management of the business.</li></ul></li><li>• Article 44: Risk Management</li><li>• Article 46: Internal Control</li><li>• Article 47: Internal Audit</li></ul>
PRISM	<ul style="list-style-type: none"><li>• Article 29:<ul style="list-style-type: none"><li>• Supervision shall be based on a prospective and risk-based approach.</li><li>• [Supervision shall be] proportionate to the nature, scale and complexity of the risks inherent in the undertaking.</li></ul></li></ul>

# Effective risk management system

# An effective risk management system is a key part of the governance system



# Developing an effective risk management system

## Key questions for 2012

### • Oversight

- Are the risk oversight **responsibilities** of the board, risk committee and others clearly defined?
- Does the board and the risk committee receive adequate risk **reporting**? Is risk information understood and acted upon?
- Do board and the risk committee members have the right mix of risk management **skills** and understanding of the business?
- Is the **risk appetite statement** appropriate to the needs of the business and are the actions of the board and risk committee consistent with it? Is the risk appetite statement reviewed regularly?

### • Roles and responsibilities

- Have you appointed a **CRO**? Is there regular communication between the CRO and the CEO?
- Do your CRO and risk management / governance staff have appropriate **skills and experience**?
- Are the risk appetite statement and risk policies **integrated** into relevant roles?
- Is a **risk culture** embedded in your organisation?

### • Processes

- Do you have a comprehensive and regularly updated **risk register**?
- Are risk and solvency considerations included in your **strategic** decisions?
- How do you monitor compliance with **risk policies**?
- How do you assess the adequacy of your **risk management system**?

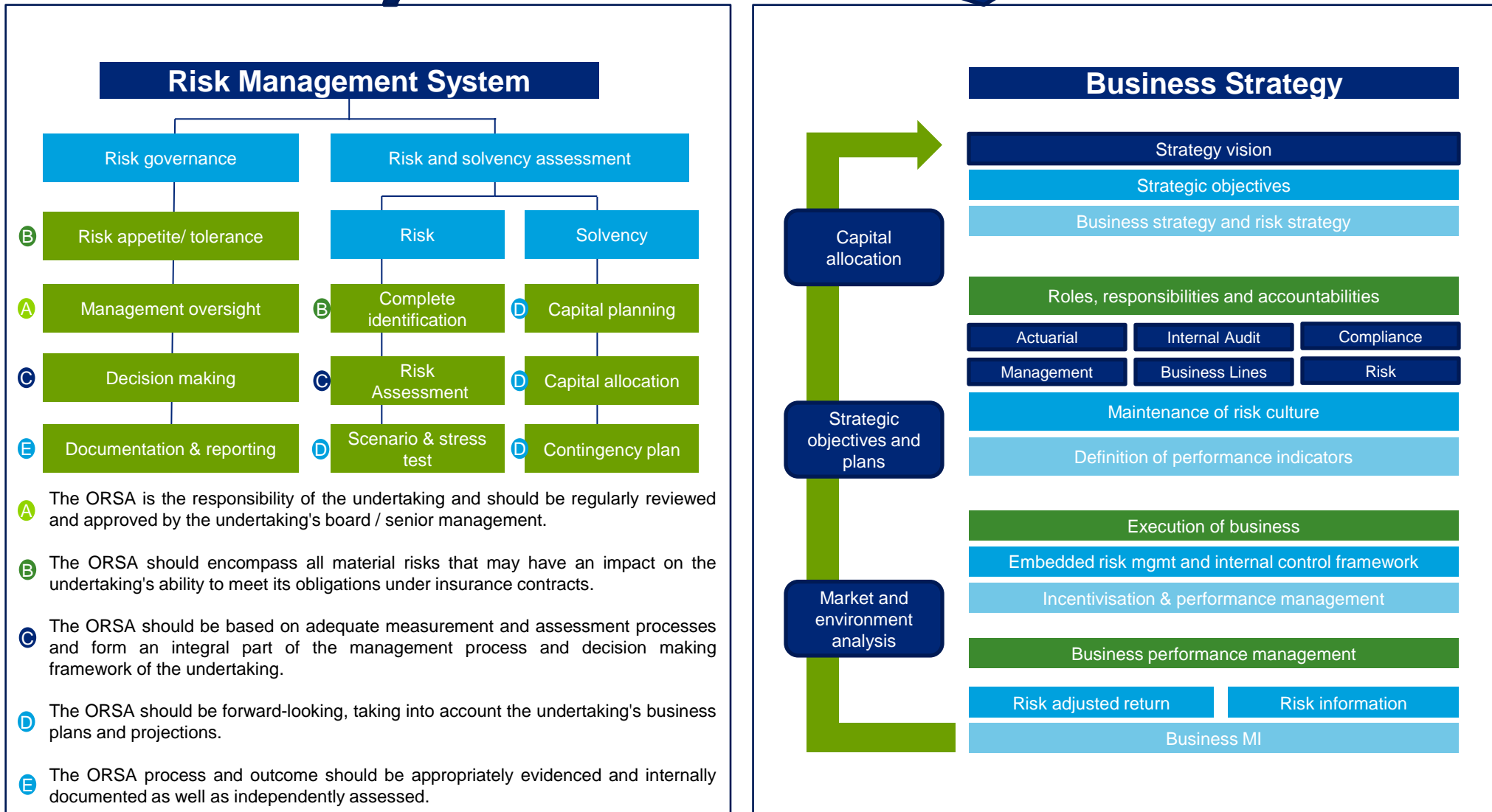
ORSA

# Own Risk and Solvency Assessment

A brief reminder

- The ORSA process should give a forward-looking view of the solvency of the insurer:
  - All risks that the insurer will face over the short and long term must be identified and evaluated
  - The results of the ORSA should be integrated in the strategic decision-making processes of the insurer
  - Solvency projections are to consider possible changes to the risk profile and business strategy over the projection period
- Each insurer has its own unique ORSA and will integrate it into its strategic decision making process

# ORSA – an integrated process



## ORSA - Comments from the CBI on their S II readiness survey (S II conference, 29 Nov 2011)

- 39% of entities are implementing / executing S II; the remaining entities are at earlier stage of their S II programme
- **Only 7%** of entities have defined their approach they will use to carry out their **ORSA process**
  - 44% are in the process of developing their approach
  - 49% have not defined their approach
- CBI had three conclusions from their SII readiness survey:
  - “Move to execute phase of the project”
  - “Define the approach your organisation will take towards completing the **ORSA process**”
  - “Engage with and contribute to the current public consultations on QRT, Narrative Reporting and **ORSA**”

# ORSA

What can you do to “move to execute phase of the project”?

- Assign responsibility for oversight and execution
- Design and refine a framework for the ORSA process
- Identify current activities that fall under the ORSA process you have defined and gather these into a “prototype” process
- Complete a gap analysis between current processes and your defined ORSA process
- Fill in the gaps – use new / refined processes to run your business
- Identify your own role, if any, in the ORSA process

# ORSA

## Designing a framework process

- Who is involved e.g.
  - General management and board
  - Risk Management, Actuarial, Finance, Capital Management, Strategy etc.
  - Business lines
- Tasks e.g.
  - Risk identification, description and categorisation
  - Analyses
  - Decisions
  - Documentation and reporting
- How e.g.
  - Processes and procedures
  - Management challenge of outcomes
- When e.g.
  - Frequency of each ORSA process
  - Integration with timing of business planning, strategy and other processes

# ORSA EIOPA Consultation Paper – November 2011

## Section I: General Considerations

### 1. Proportionality

The undertaking should develop its own processes for the ORSA, tailored to fit into its organisational structure and risk management system with appropriate and adequate techniques to assess its overall solvency needs, taking into consideration the nature scale and complexity of the risks inherent to the business.

### 2. Top-Down approach

The undertaking should ensure that its administrative, management or supervisory body (“AMSB”) takes an active part in the ORSA process by steering how the assessment is to be performed and challenging its results

- The AMSB approves the ORSA policy and ensures it is implemented.
- The ORSA “is a very important tool for the AMSB”.

### 3. Documentation

The undertaking should have in place at least the following documentation on the ORSA:

- a) ORSA policy;
- b) record of each ORSA process;
- c) internal report on ORSA;
- d) ORSA supervisory report

### 4. ORSA policy

The ORSA policy should comply with General Governance requirements for written policies (Art 41 of Directive) and also include at least:

- a) the ORSA processes and procedures;
- b) the link between risk profile, risk tolerance limits and the overall solvency needs;
- c) information on stress tests/sensitivity analyses; data quality requirements and ORSA frequency

# ORSA EIOPA Consultation Paper – November 2011

## Section II: Record of each ORSA process

### 5. General rule

The ORSA process and outcome should be appropriately evidenced and internally documented. Records should include 11 areas e.g.:

- a) Risk analysis and description of risks
- d) Methods used and a description of how they were validated.
- j) Action plans arising from the ORSA
- k) AMBS challenge of the ORSA

### 6. Internal report on ORSA

Once the process and the result of the ORSA have been signed off by the administrative, management or supervisory body, information on at least the results and conclusions regarding the ORSA should be communicated to all staff for whom the information is relevant.

# ORSA EIOPA Consultation Paper – November 2011

## Section III: Performance of the ORSA - Solvency

### 7. Valuation basis

If the undertaking uses valuation bases that are different from the Solvency II basis in its solvency assessment, it has to explain how the different bases better reflect specific risk profile, approved risk tolerance limits and business strategy of the undertaking.

### 8. Quantification

The undertaking should express the overall solvency needs in quantitative terms and complement the quantification by a qualitative description of the risks.

- All risks should be assessed even if mitigated. Non-quantifiable risks like reputational or strategic risks should be covered.

### 9. Stress tests

The undertaking should subject the identified risks to a sufficiently wide range of stress test/scenario analyses to provide an adequate basis for the assessment of the overall solvency needs.

- 4.31 lists areas that the assessment of overall solvency needs should cover as a minimum

### 10. Forward looking

The undertaking's assessment of the overall solvency needs should be forward-looking and at least cover separately each year of the business planning period.

- The business has to consider how it can ensure it stays a going concern.

# ORSA EIOPA Consultation Paper – November 2011

## Section III: Performance of the ORSA

### 11. / 15. Timing

The ORSA must include processes for:

- a) monitoring its compliance on a continuous basis whilst taking into account potential future changes and stressed situations;
- b) monitoring and managing the quality and loss absorbing capacity of its own funds over the whole of its business planning period.

The undertaking should perform the ORSA at least annually.

### 12. Technical Provisions

As part of the ORSA process the undertaking should ensure that the actuarial function provides input about the continuous compliance with the requirements for the calculation of technical provisions and the risks arising from this calculation.

- There should be regular reviews of the calculation of technical provisions.

### 13. Deviations between risk profile and SCR

The undertaking may initially assess deviations between its risk profile and the assumptions underlying the SCR on a qualitative basis. If this indicates a material deviation from the assumptions underlying the SCR calculation the undertaking should quantify the significance of the deviation.

- Information on the standard formula SCR assumptions will be provided.

### 14. Strategy and decision making

The undertaking should take the results of the ORSA and the insights gained in the process into account for deciding business strategy and at least long term capital management, business planning and product development and design.

- Any major decisions that may materially affect the risk or capital position of the entity must be considered through the ORSA process before the decision is finalised.

# ORSA EIOPA Consultation Paper – November 2011

## Section IV: Group issues

### 16. Scope

The group should design the group ORSA to reflect the nature of the group structure and its risk profile. All of the entities that fall within the scope of the group supervision should be included within the scope of the group ORSA.

### 17. Group supervisory reporting

Two situations could arise:

- a) The participating undertaking does not apply for the group wide ORSA. In this case, the parent performs the group ORSA and the solo undertaking performs its individual ORSA.
- b) The parent undertaking opts for a group wide ORSA. In this case, a single ORSA supervisory report has to be provided to all supervisory authorities concerned.

### 18. Group risks

The group ORSA should adequately identify, measure, monitor, manage and report all group specific risks and the interdependencies within the group and their impact on the group risk profile. This should take into consideration the specificities of the group and the fact that some risks may be scaled up at the level of the group.

### 19. Diversification

The group should explain the key drivers of the overall solvency needs of the group including any diversification effects assumed.

# ORSA EIOPA Consultation Paper – November 2011

## Section IV: Group issues

### 20. Forward looking

The group should set the business planning period underlying the group ORSA and explain how the different business planning periods used by group undertakings on the solo level influence the group's forward-looking perspective.

- Include risks that are specific to groups or that only materialise at group level.

### 21. Group internal model

Where the group internal model is used in the solvency assessments both at the group and solo undertakings levels, the group should identify entities (if any) which do not use the group internal model and the underlying reasons in the group ORSA's report.

- Describe why group internal model / standard formula is appropriate for each entity in the group.

### 22. Group wide ORSA

When submitting a single ORSA document, subject to the agreement of the group supervisor, the group should provide an explanation on how the subsidiaries are covered and how the subsidiaries' AMSBs are involved in the assessment process and approval of the outcome.

- The single ORSA report must satisfy both the group and solo supervisors.

### 23. Strategic decisions

Companies may report their group ORSA along material business units so long as the documentation in respect of each solo undertaking is clearly identifiable and adequate for the purposes of solo supervisors concerned.

# ORSA EIOPA Consultation Paper – November 2011

## Section IV: Group issues

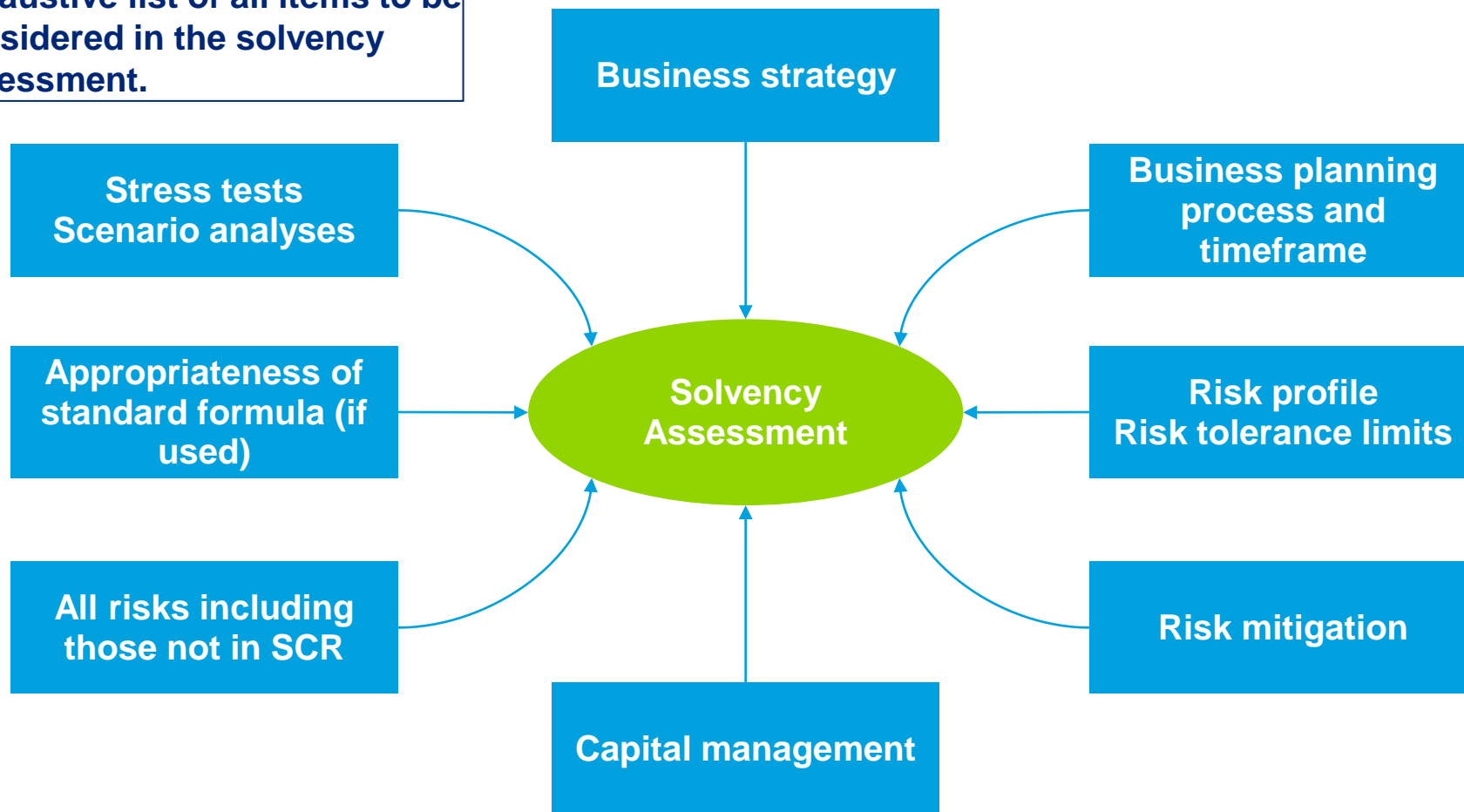
### 24. Third-country businesses

The group should assess the risks of the business in third countries in the same manner as for EEA-business with special attention to transferability and fungibility of capital and – in case of equivalence, when the deduction and aggregation method applies – the consequences of applying local capital requirements and technical provision calculations instead of the Solvency II framework in third countries.

# ORSA EIOPA Consultation Paper – November 2011

## Solvency assessment considerations

**Caveat: This is not an exhaustive list of all items to be considered in the solvency assessment.**



# ORSA EIOPA Consultation Paper – November 2011

## ORSA records – Guideline 5

**Caveat: This is not an exhaustive list of all items to be recorded.**

- a) Risk description and analysis
- b) Risk assessment, capital allocation and risk tolerance limits
- c) Management of risks not covered by own funds
- d) Methods used including stress and scenario tests and how data and parameter uncertainty are assessed.
- e) Overall solvency needs over one year and over each year of the business planning period. Description of how the business will cover these solvency needs.
- f) Conclusions from assessment of compliance with regulatory capital and technical provision requirements
- g) Risk profile vs. the assumptions underlying the SCR
- h) Action plans arising from the assessment
- i) Factors taken into account in the forward-looking perspective
- j) Planned management actions
- k) Board / senior management challenge of the ORSA process

# Pillar II

## Conclusions

- 2012 is an important year for risk management
- Ensure compliance with existing Irish regulatory requirements and build upon/ revisit these to develop a robust risk management system:
  - Allocate appropriate roles and responsibilities
  - Build effective risk management framework
  - Integrate risk appetite statement and policies and procedures into business to ensure a strong and enduring risk culture
- ORSA:
  - Define and continue to refine your process
  - Implement the process, starting by consolidating existing processes
  - Start using an ORSA “prototype” process in your business, even if less than perfect

# Pillar III reporting

## The new world of regulatory reporting

Ciara Regan  
13 January 2012

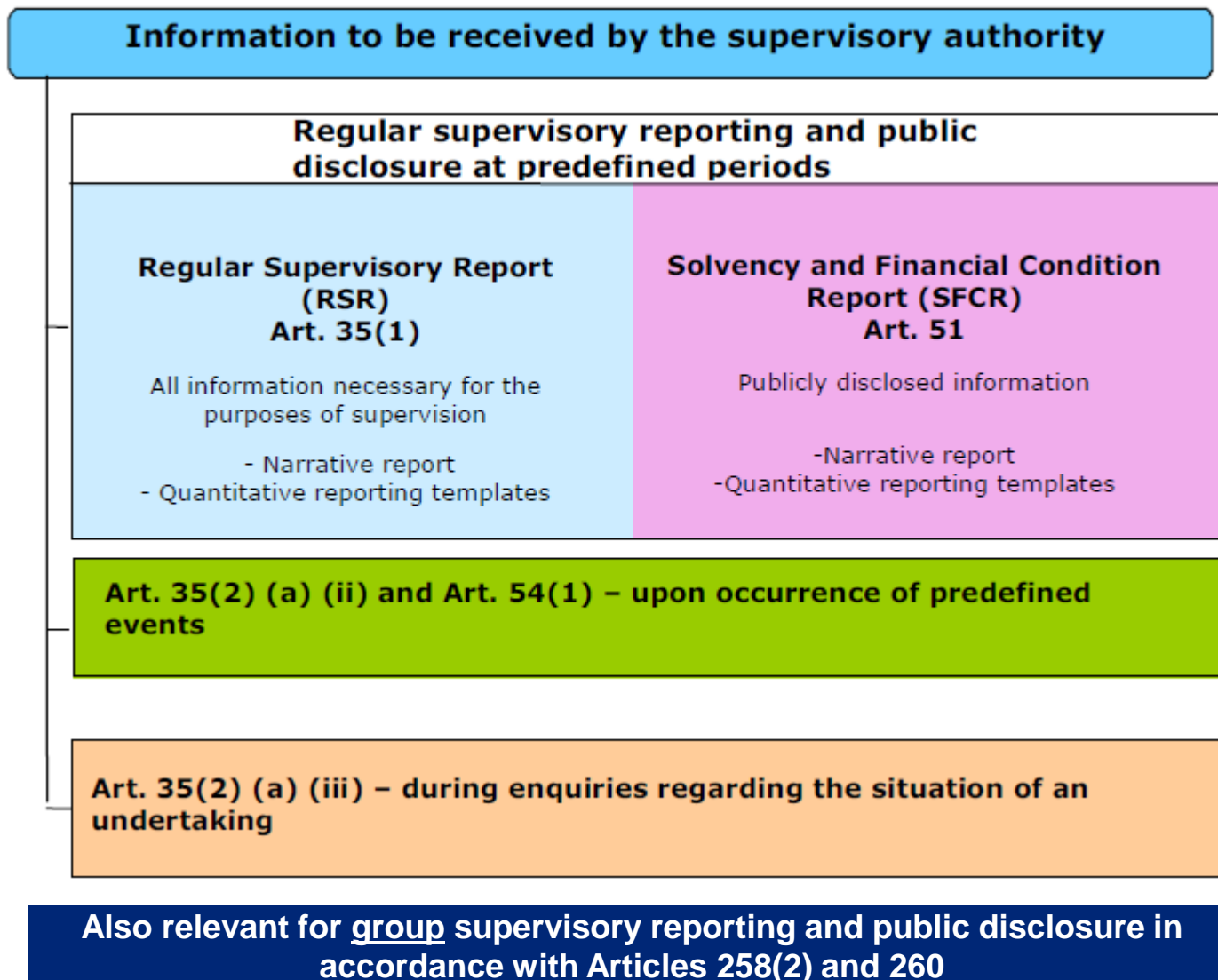


# Agenda

- Overview of the Framework & Key Reporting Requirements
- Recent Developments for Pillar 3
- Pillar 3 reporting & its deadlines
- Narrative reporting – SFCR & RSR
- Quantitative Reporting Templates - QRTs
- Conclusions

# Reporting Framework

## Solvency II Directive References



# Overview of Key Reporting Requirements

(Re)insurers will have to disclose private quantitative and narrative information to the supervisor and public quantitative and narrative information to the market

	Solvency and Financial Condition Report (SFCR)	Regular Supervisory Reporting (RSR)	Quantitative Reporting Templates (QRTs)
<b>Disclosure</b>	Public	Private	Both but only a subset is public
<b>Frequency</b>	Annual	Variable (pre-defined events, material changes, enquiries) Full report at least every 3 years	Quarterly and Annual
<b>Objective</b>	Qualitative and quantitative information presented in an annual public report aiming to achieve market transparency and foster market discipline.	Qualitative and quantitative information presented in a suite of private reports to the supervisor containing information not appropriate for public disclosure.	Quantitative data submitted quarterly and annually consisting of key financial and solvency information.
<b>Areas Covered</b>	<ul style="list-style-type: none"> <li>• Executive Summary</li> <li>• Business and Performance</li> <li>• System of Governance</li> <li>• Risk Profile/Management</li> <li>• Valuation for Solvency Purposes</li> <li>• Capital Management</li> </ul>	<ul style="list-style-type: none"> <li>• Business and risk strategies</li> <li>• Legal and regulatory issues affecting the business</li> <li>• Variance against plan rather than prior period</li> <li>• Future anticipated solvency needs</li> <li>• Significant additional disclosure explaining the results of the internal model</li> <li>• ORSA supervisory report (standalone)</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Own Funds</li> <li>• Capital Requirement</li> <li>• Assets</li> <li>• Technical Provisions</li> <li>• Ring Fenced funds</li> <li>• Variation Analysis</li> <li>• Group issues</li> </ul>

## Recent Developments for Pillar 3

- XBRL Taxonomy for QRTs - consultation closed 7<sup>th</sup> September 2011
  - Quantitative reporting templates will be modelled by **XBRL taxonomy** *(Level 3 – 8<sup>th</sup> Nov Cover Note)*
- 8<sup>th</sup> November 2011 - EIOPA published consultation papers as follows:
  - Draft proposals on Quantitative Reporting Templates *(closure date: 20<sup>th</sup> Jan 2012)*
  - Draft Guidelines on Narrative Public Disclosure & Supervisory Reporting, Predefined Events and Reporting & Disclosure Processes *(closure date: 20<sup>th</sup> Jan 2012)*
- 21<sup>st</sup> December 2011 – EIOPA issued further requirements on QRTs required for financial stability purposes *(closure date: 20<sup>th</sup> Feb 2012)*
- EIOPA's aim is to finalise the Pillar III reporting package by summer 2012
- Will depend on the finalisation of the Level 2 implementation measures
- Local regulators to issue local, national specific requirements in 2012



# Pillar III Reporting Deadlines

Latest draft proposals suggest the following

- **Transitional reporting during 1<sup>st</sup> year of application of Directive**
  - 1/1/2014 opening Sol. II valuation of assets/liabilities, SCR & MCR
  - Qualitative explanation of differences to Sol. I valuation at same date
  - Submit 14 weeks after 1/1/2014; for groups, an additional 4 weeks is permitted
- **Reporting deadlines**

	2014	2015	2016	2017+
SFCR	20 weeks	18 weeks	16 weeks	14 weeks
RSR (if applicable)	20 weeks	18 weeks	16 weeks	14 weeks
Annual QRT	20 weeks	18 weeks	16 weeks	14 weeks
Quarterly QRT	8 weeks	7 weeks	6 weeks	5 weeks
ORSA Supervisory Report	In line with RSR and/or within 2 weeks of concluding the assessment			

# Pillar III Narrative Reporting




# Narrative reporting summary

## Contents of the SFCR and RSR



**Key:**

Gaps between existing reporting and SII disclosure:

-  Significant
-  Significant in some areas or moderate gaps
-  Less significant

# **Solvency & Financial Condition Report**

# Solvency & Financial Condition Report (SFCR)

## Business & Performance

Title	Level II - Expected Measures	Level 3 Guidelines
Business & External Environment	<ul style="list-style-type: none"> <li>Name, legal form, structure</li> <li>External auditor details</li> <li><b>Material business lines &amp; geographies</b></li> <li><b>Significant business or other events</b></li> </ul>	<ul style="list-style-type: none"> <li>Corporate structure, parent, group, qualifying holdings, material subsidiaries, joint ventures</li> <li>Organisational group structure, incl. internal structures</li> </ul>
Performance from underwriting activities	<ul style="list-style-type: none"> <li>Aggregate <b>performance &amp; by material business lines &amp; geographies</b></li> <li><b>Prior period comparison</b></li> </ul>	
Performance from investment activities	<ul style="list-style-type: none"> <li><b>Asset class</b> information on income &amp; expenses</li> <li>Any gains/losses recognised directly into equity</li> <li>Any investments in tradable securities or financial instruments based on repackaged loans</li> <li>Prior period comparison</li> </ul>	
Other material income/expenses	<ul style="list-style-type: none"> <li>Other material income/expenses</li> <li>Prior period comparison</li> </ul>	
Any other disclosures	<ul style="list-style-type: none"> <li>Any other material business &amp; performance information</li> </ul>	Information on and about <b>the significance of intra-group operations and transactions</b> incl. terms & conditions, o/s balances

# Solvency & Financial Condition Report (SFCR)

## System of Governance (1)

Title	Level II - Expected Measures	Level 3 Guidelines
General Governance Requirements	<ul style="list-style-type: none"> <li>• <b>Structure/terms of reference</b> of board, committees, key functions</li> <li>• <b>Material changes</b> in system of governance</li> <li>• <b>Remuneration policy</b>, practices &amp; principles</li> <li>• <b>Material transactions</b> with shareholders, Board, persons who exercise significant influence</li> </ul>	
Fit & Proper	<ul style="list-style-type: none"> <li>• <b>F&amp;P policy</b> required to cover those who run the entity/key functions, to include:               <ul style="list-style-type: none"> <li>○ Skills, knowledge &amp; expertise requirements</li> <li>○ Process for assessing F&amp;P</li> </ul> </li> </ul>	
Risk Management System	<ul style="list-style-type: none"> <li>• RMS description               <ul style="list-style-type: none"> <li>○ <b>Strategies, processes &amp; reporting</b> procedures</li> <li>○ How it measures, monitors, manages &amp; reports all risks exposed to</li> </ul> </li> <li>• How RMS / RM Function is <b>integrated</b> into structure &amp; decision making processes</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Internal model (IM):</b> governance, change processes, material changes, validation tools &amp; processes</li> </ul>
ORSA	<ul style="list-style-type: none"> <li>• <b>Process to conduct ORSA</b></li> <li>• How ORSA is integrated into structure &amp; decision making processes</li> <li>• Frequency of review &amp; approval of ORSA by Board</li> <li>• How ORSA needs are determined</li> <li>• How <b>capital management activities interact</b> with RMS</li> </ul>	
Internal Control	<ul style="list-style-type: none"> <li>• Internal control system description</li> <li>• How compliance function is implemented</li> </ul>	<ul style="list-style-type: none"> <li>• How compliance function is integrated into structure &amp; decision making processes</li> </ul>

# Solvency & Financial Condition Report (SFCR)

## System of Governance (2)

Title	Level II - Expected Measures	Level 3 Guidelines
Internal Audit	<ul style="list-style-type: none"> <li>How internal audit function is implemented</li> <li>How internal audit is <b>independent &amp; objective</b></li> </ul>	<ul style="list-style-type: none"> <li>How internal audit function is <b>integrated</b> into structure &amp; decision making processes</li> </ul>
Actuarial Function	<ul style="list-style-type: none"> <li>How actuarial function is implemented</li> </ul>	<ul style="list-style-type: none"> <li>How actuarial function is <b>integrated</b> into structure &amp; decision making processes</li> </ul>
Outsourcing	<ul style="list-style-type: none"> <li>Outsourcing policy description</li> <li>Outsourcing of <b>critical/important operational functions</b>, including geography of outsourcer</li> </ul>	
Adequacy	<ul style="list-style-type: none"> <li><b>Adequacy of system of governance</b> to nature, scale &amp; complexity of risks</li> </ul>	
Material Information	<ul style="list-style-type: none"> <li>Any other material information</li> </ul>	

# Solvency & Financial Condition Report (SFCR)

## Risk Profile

Title	Level II - Expected Measures	Level 3 Guidelines
Risk Categories	Qualitative & Quantitative ('Q&Q') risk profile information to cover: <ul style="list-style-type: none"> <li>• <b>risk exposure</b></li> <li>• <b>risk concentration</b></li> <li>• <b>risk mitigation</b></li> <li>• <b>risk sensitivity</b></li> </ul> for the following categories of risk: <ul style="list-style-type: none"> <li>• <b>underwriting risk</b></li> <li>• <b>credit risk</b></li> <li>• <b>liquidity risk</b></li> <li>• <b>operational risk</b></li> <li>• <b>other material risks</b></li> </ul>	<b>SPVs:</b> authorisation under SII, risks transferred and whether its fully funded
Risk Exposure	<ul style="list-style-type: none"> <li>• <b>Measures</b> to assess risks &amp; material changes</li> <li>• <b>Material risks</b> &amp; material changes</li> <li>• <b>How assets invested</b> in accordance with '<b>prudent person principle</b>' such that risks are managed</li> </ul>	
Risk Concentration	<ul style="list-style-type: none"> <li>• Exposure to material risk concentrations</li> </ul>	
Risk Mitigation	<ul style="list-style-type: none"> <li>• <b>Techniques</b> used</li> <li>• Processes to monitor their effectiveness</li> </ul>	
Risk Sensitivity	<ul style="list-style-type: none"> <li>• <b>Methods</b> used</li> <li>• <b>Assumptions</b> made</li> <li>• <b>Outcome</b> of stress/sensitivity testing for material risks/events</li> </ul>	
Material Information	<ul style="list-style-type: none"> <li>• Any other material information</li> </ul>	

# Solvency & Financial Condition Report (SFCR)

## Valuation for Solvency Purposes

Title	Level II - Expected Measures	Level 3 Guidelines
Valuation of Assets	<ul style="list-style-type: none"> <li>• For each <b>material class of assets</b>:               <ul style="list-style-type: none"> <li>○ value of assets</li> <li>○ <b>bases, methods, assumptions</b></li> <li>○ differences vs. IFRS valuation</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Asset aggregation – nature, function of assets, their materiality</li> <li>• Recognition/valuation bases - changes, estimation assumptions, use of external independent expert valuation</li> <li>• <u>Intangible assets</u>: if not zero, nature &amp; evidence</li> <li>• <u>Financial assets</u>: criteria to assess markets active</li> <li>• <u>Lease assets</u>: material financial and operating leases</li> <li>• <u>Holdings in related undertakings</u>: nature, amount, financial information, valuation method</li> <li>• <u>Deferred tax assets</u>: amount, nature, unused tax I/cr.</li> </ul>
Valuation of Technical Provisions	<ul style="list-style-type: none"> <li>• For each <b>material line of business</b>:               <ul style="list-style-type: none"> <li>○ best estimate TPs, risk margin</li> <li>○ bases, methods, assumptions</li> <li>○ <b>differences vs. IFRS valuation</b></li> </ul> </li> <li>• Uncertainty level, key assp.changes</li> <li>• Recoverables - reinsurance &amp; SPVs</li> <li>• Counter-cyclical/matching premiums</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Significant simplifications</b> used</li> <li>• Explanation of general approach to <b>contract boundaries</b></li> </ul>
Valuation of Other Liabilities	<ul style="list-style-type: none"> <li>• For each <b>material class of OLs</b>:               <ul style="list-style-type: none"> <li>○ bases, methods, assumptions</li> <li>○ differences vs. IFRS valuation</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Liability aggregation - nature, function of liabilities, their materiality</li> <li>• <u>Lease liabilities</u>: material financial and operating leases</li> <li>• <u>Provisions other than TPs &amp; Contingent Liabilities</u>: nature, expected timing &amp; its uncertainty</li> <li>• <u>Employee benefits</u>: nature of obligation &amp; plan assets</li> <li>• <u>Deferred tax liabilities</u>: amount, nature</li> </ul>
Alternative Methods of Valuation	<ul style="list-style-type: none"> <li>• Outline, <b>justify</b>, back-test against experience, document assumptions</li> </ul>	
Material Information	<ul style="list-style-type: none"> <li>• Any other material information</li> </ul>	<ul style="list-style-type: none"> <li>• Processes for delivery of reliable &amp; timely information</li> </ul>

# Solvency & Financial Condition Report (SFCR)

## Capital Management (1)

Title	Level II - Expected Measures	Level 3 Guidelines
Own Funds	<ul style="list-style-type: none"> <li>• Objectives, policies, processes, planning horizon, material changes</li> <li>• Each separate tier/type of basic &amp; ancillary OFs:               <ul style="list-style-type: none"> <li>○ structure, quality, amount, analysis of change</li> <li>○ eligible amount to cover SCR &amp; MCR</li> </ul> </li> <li>• Material differences in <b>SII vs. IFRS 'equity'</b></li> <li>• Transferability/availability restrictions on entity OFs</li> <li>• Deductions from OFs</li> <li>• Ancillary OFs (material): nature, valuation method</li> </ul>	<ul style="list-style-type: none"> <li>• Objectives etc. separately for basic and ancillary OFs</li> <li>• <b>Solvency ratio = eligible OFs / SCR</b></li> <li>• For <b>groups and the group level SFCR</b> only:               <ul style="list-style-type: none"> <li>○ OFs issued by undertaking within group</li> <li>○ Currency of OFs</li> <li>○ OFs issued by equivalent 3<sup>rd</sup> country undertaking</li> <li>○ Group OFs net of any intra-group transactions</li> <li>○ Transferability/fungibility OFs in related undertakings</li> </ul> </li> <li>• <u>Capital instruments</u>: duration, issue size, subordinated, value issued as debt</li> <li>• <u>Debt instruments</u>: value redeemed</li> <li>• <u>Subordinated debt</u>: value, changes in value</li> <li>• <u>Reconciliation reserve</u>: key elements</li> <li>• <u>Transitional arrangements</u>: details, if applicable</li> <li>• <u>Ring-fenced funds</u>: amount of excess of assets over liabilities split by those (not) deducted</li> </ul>
SCR & MCR	<ul style="list-style-type: none"> <li>• SCR/MCR amount &amp; <b>analysis of material change</b></li> <li>• SF SCR <b>split by risk module</b></li> <li>• IM SCR <b>split by risk categories</b></li> <li>• <b>Simplified calculations</b> being used in SF</li> <li>• USPs being used in SF &amp; impact</li> <li>• Amount of capital add-on &amp; justification</li> <li>• Inputs used in MCR calculation</li> </ul>	<ul style="list-style-type: none"> <li>• Justification that simplified calculations used in SF are <b>proportionate to nature, scale &amp; complexity of risks</b></li> </ul>

# Solvency & Financial Condition Report (SFCR)

## Capital Management (2)

Title	Level II - Expected Measures	Level 3 Guidelines
Internal Model	<ul style="list-style-type: none"> <li>• <b>Purpose &amp; use</b></li> <li>• Scope of IM – business units &amp; risk categories</li> <li>• Technique for integration of partial IM &amp; SF</li> <li>• <b>Methods used in IM</b> to calculate probability distribution forecast &amp; SCR</li> <li>• <b>By risk module</b>, explain differences between IM &amp; SF in methods &amp; assumptions</li> <li>• Risk measure &amp; time period, if not 99.5% VaR/1</li> <li>• <b>Nature &amp; appropriateness of data</b> used in IM</li> </ul>	<ul style="list-style-type: none"> <li>• In <b>explaining differences between SF and IM</b>:               <ul style="list-style-type: none"> <li>○ Structure of model</li> <li>○ Risk categories</li> <li>○ Aggregation methods &amp; diversification effects</li> <li>○ Risks in SF and not in IM</li> <li>○ High level differences in methodologies</li> </ul> </li> <li>• High level <b>operational performance</b> of IM</li> <li>• Process in place for checking <b>data quality</b></li> </ul>
Material Non-Compliance	<ul style="list-style-type: none"> <li>• For (significant) non-compliance with (SCR) MCR:               <ul style="list-style-type: none"> <li>○ Origin, <b>consequences, remedial measures</b>, period &amp; amount</li> <li>○ If unresolved by reporting date, state amount</li> </ul> </li> </ul>	
Material Information	<ul style="list-style-type: none"> <li>• Any other material information</li> </ul>	

# Regular Supervisory Reporting

# Regular Supervisory Reporting (RSR)

## Business & Performance

Title	Level II - Expected Measures	Level 3 Guidelines
Business & External Environment	Over <b>business planning time horizon</b> : <ul style="list-style-type: none"> <li>Main <b>trends &amp; factors</b> impacting - development, performance, competitiveness, legal issues</li> <li><b>Business objectives, relevant strategies</b></li> </ul>	<ul style="list-style-type: none"> <li>Number of FTEs</li> <li>List of subsidiaries &amp; branches</li> <li>Detailed structure chart</li> <li>Distributions to shareholders</li> </ul>
Performance from underwriting activities	<ul style="list-style-type: none"> <li>By <b>material line of business &amp; geography</b> - income/exps, prior period comparison, changes</li> <li>By <b>line of business</b> - performance vs projections</li> <li>Overall analysis of performance, <b>projections</b> a/c for significant influencing factors, material risk mitigation techniques</li> </ul>	<ul style="list-style-type: none"> <li>Impact &amp; effectiveness of material risk mitigation techniques</li> </ul>
Performance from investment activities	<ul style="list-style-type: none"> <li>Income/exps, prior period comparison, changes</li> <li>Overall &amp; <b>asset class investment performance</b></li> <li><b>Projections</b> a/c for significant influencing factors</li> <li><b>Key assumptions</b> made in future projections</li> <li>Investments in tradable securities or financial instruments based on repackaged loans</li> </ul>	
Other material income/expenses	<ul style="list-style-type: none"> <li>Other material income/exps over <b>business planning time horizon</b></li> </ul>	
Any other disclosures	<ul style="list-style-type: none"> <li>Any other material business &amp; performance information</li> </ul>	<ul style="list-style-type: none"> <li>Information on and about <b>the significance of intra-group operations and transactions</b> incl. terms &amp; conditions, o/s balances, commercial &amp; financial rationale, conflicts of interest</li> <li>Significant related party transactions</li> </ul>

# Regular Supervisory Reporting (RSR)

## System of Governance

Title	Level II - Expected Measures	Level 3 Guidelines
General Governance Requirements	<ul style="list-style-type: none"> <li>Structure &amp; terms of reference of board, committees &amp; key functions</li> <li><b>Sufficient</b> governance information to assess appropriate for business</li> <li>Remuneration policy, practices &amp; principles</li> </ul>	<ul style="list-style-type: none"> <li>Organisational chart</li> <li>How do remuneration policies promote sound and effective RM</li> <li>Compliance with group centralised RM Function requirements</li> </ul>
Fit & Proper	<ul style="list-style-type: none"> <li>List of persons responsible for key functions</li> <li>Process for assessing F&amp;P</li> </ul>	
Risk Management System	<ul style="list-style-type: none"> <li>RM strategies, processes, reporting procedures <b>by risk category</b></li> <li><b>Significant risks</b> (not) captured in SCR</li> <li>How “prudent person principle” for assets is met</li> <li>Extent external credit assessments are used &amp; verification process</li> </ul>	<ul style="list-style-type: none"> <li>Explain how RM strategies etc. are documented, monitored &amp; enforced</li> </ul>
ORSA	<ul style="list-style-type: none"> <li>How ORSA is performed, documented, reviewed</li> <li>How ORSA is integrated into structure &amp; decision making processes</li> </ul>	
Internal Control	<ul style="list-style-type: none"> <li>Internal control system key procedures</li> <li><b>Compliance function activities during period</b></li> <li>Compliance policy: process, review frequency, significant changes</li> </ul>	
Internal Audit	<ul style="list-style-type: none"> <li><b>Internal audits performed during period – actions arising</b></li> <li>Internal audit policy: process, review frequency, significant changes</li> <li>Audit plan, incl. future internal audits &amp; their rationale</li> </ul>	
Actuarial Function	<ul style="list-style-type: none"> <li>Overview of activities</li> <li>How function contributes to effective implementation of RMS</li> </ul>	
Outsourcing	For critical/important operational functions, description of outsourcers used & rationale for outsourcing	

# Regular Supervisory Reporting (RSR)

## Risk Profile (1)

Title	Level II - Expected Measures	Level 3 Guidelines
Risk Categories	Same as SFCR	
Risk Exposure	<ul style="list-style-type: none"> <li>• Risk exposure information to include:               <ul style="list-style-type: none"> <li>○ Material risks expected over planning period</li> <li>○ Collateral pledges: valuation</li> <li>○ Collateral provided: nature, value, contingent liabilities</li> <li>○ Complete assets list &amp; how assets invested in line with “prudent person principle”</li> <li>○ Information on VAs &amp; hedging of guarantees</li> <li>○ Securities lending/repurchase agreements</li> </ul> </li> <li>• Liquidity risk information to include EPIFP by line of business, methods, assumptions</li> </ul>	How derivatives reduce exposure or provide efficient portfolio management
Risk Concentration	<ul style="list-style-type: none"> <li>• Exposure to material risk concentrations</li> <li>• Risk concentrations expected over planning horizon</li> </ul>	Group RSR only to provide information on significant risk concentrations at the level of the group, including: <ul style="list-style-type: none"> <li>• Probability of identified ‘group’ risks materialising into losses &amp; mitigation actions</li> <li>• Risk concentrations at legal entity level</li> <li>• Impact of losses on short term liquidity &amp; profitability</li> <li>• Consistency with group’s risk appetite &amp; limits</li> <li>• Risk factor correlation/interaction across the group</li> <li>• Amounts of risk concentration</li> <li>• Impact of reinsurance</li> </ul>

# Regular Supervisory Reporting (RSR)

## Risk Profile (2)

Title	Level II - Expected Measures	Level 3 Guidelines
Risk Mitigation	<ul style="list-style-type: none"><li>• <b>Techniques</b> used for risk mitigation</li><li>• Material risk mitigation being considered over planning horizon &amp; its impact</li><li>• Material collateral arrangements &amp; their value</li></ul>	
Risk Sensitivity	<ul style="list-style-type: none"><li>• Methods used &amp; assumptions made</li><li>• Outcome of stress/sensitivity testing for risks/events</li></ul>	
Risk Dependencies	<ul style="list-style-type: none"><li>• Dependencies between risks covered by the BSCR sub-modules</li></ul>	
Material Information	<ul style="list-style-type: none"><li>• Any other material information</li></ul>	

# Regular Supervisory Reporting (RSR)

## Valuation for Solvency Purposes

Title	Level II - Expected Measures	Level 3 Guidelines
Valuation of Assets		<ul style="list-style-type: none"> <li>• <u>Holdings in related undertakings</u>: justify valuation methodology if not based on active market pricing</li> <li>• <u>Deferred tax assets</u>: if recognised, explain how future taxable profits are calculated</li> </ul>
Valuation of Technical Provisions	<ul style="list-style-type: none"> <li>• Future management action &amp; policyholder behaviour assumptions</li> <li>• TPs <b>by line of business</b> with(out) application of counter-cyclical premiums</li> <li>• TPs with(out) <b>matching premium</b> for those lines of business so applicable</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Actuarial methods &amp; assumptions used</b></li> <li>• Simplifications used &amp; their justification</li> <li>• <b>Contract boundaries</b> applied by line of business &amp; any significant renewals</li> <li>• Key options &amp; guarantees &amp; their significance</li> <li>• Material changes to prior period explained/rationale</li> <li>• Material changes to lapse rates</li> <li>• Homogeneous risk groups used</li> <li>• Any data procedure improvements</li> <li>• Significant <b>data deficiencies and adjustments</b></li> <li>• TPs calculated 'as a whole'</li> <li>• Any unbundling used</li> <li>• ESG details, consistency to risk free, volatility assps</li> <li>• Calculation approach for reinsurance recoverables</li> </ul>
Valuation of Other Liabilities		
Alternative Methods of Valuation	<ul style="list-style-type: none"> <li>• Outline, justify, back-test against experience, document underlying assumptions</li> </ul>	
Material Information		<ul style="list-style-type: none"> <li>• Group RSR to incl. how group SII accounts prepared, incl. processes</li> </ul>

# Regular Supervisory Reporting (RSR)

## Capital Management

Title	Level II - Expected Measures	Level 3 Guidelines
Own Funds	<ul style="list-style-type: none"> <li>Material terms &amp; conditions of main OF items</li> <li><b>Expected developments over planning horizon in OFs</b>, given business strategy &amp; capital plans</li> <li>Replacement of basic OFs subject to transitional arrangements</li> </ul>	
SCR & MCR	<ul style="list-style-type: none"> <li>SF SCR <b>split by risk module</b></li> <li>IM SCR <b>split by risk categories</b></li> <li><b>Expected developments</b> in SCR &amp; MCR over planning horizon</li> <li>Amount of SCR using SF &amp; IM (if applicable)</li> </ul>	<ul style="list-style-type: none"> <li>Justify allowance for risk mitigation techniques &amp; future management actions in SCR</li> </ul>
Internal Model	<ul style="list-style-type: none"> <li>Review of <b>source causes of profit/loss</b> for major business units &amp; explain/justify relative to IM expectations</li> <li>Extent, if any, of <b>deviation</b> in entity <b>risk profile</b> from the IM's underlying assumptions</li> <li><b>Future management actions</b> being used in SCR</li> </ul>	
Material Non-Compliance	<p><b>Report reasonably foreseeable risks of non-compliance</b> with MCR / SCR and plans for ensuring compliance is maintained</p>	
Material Information	<p>Any other material information</p>	

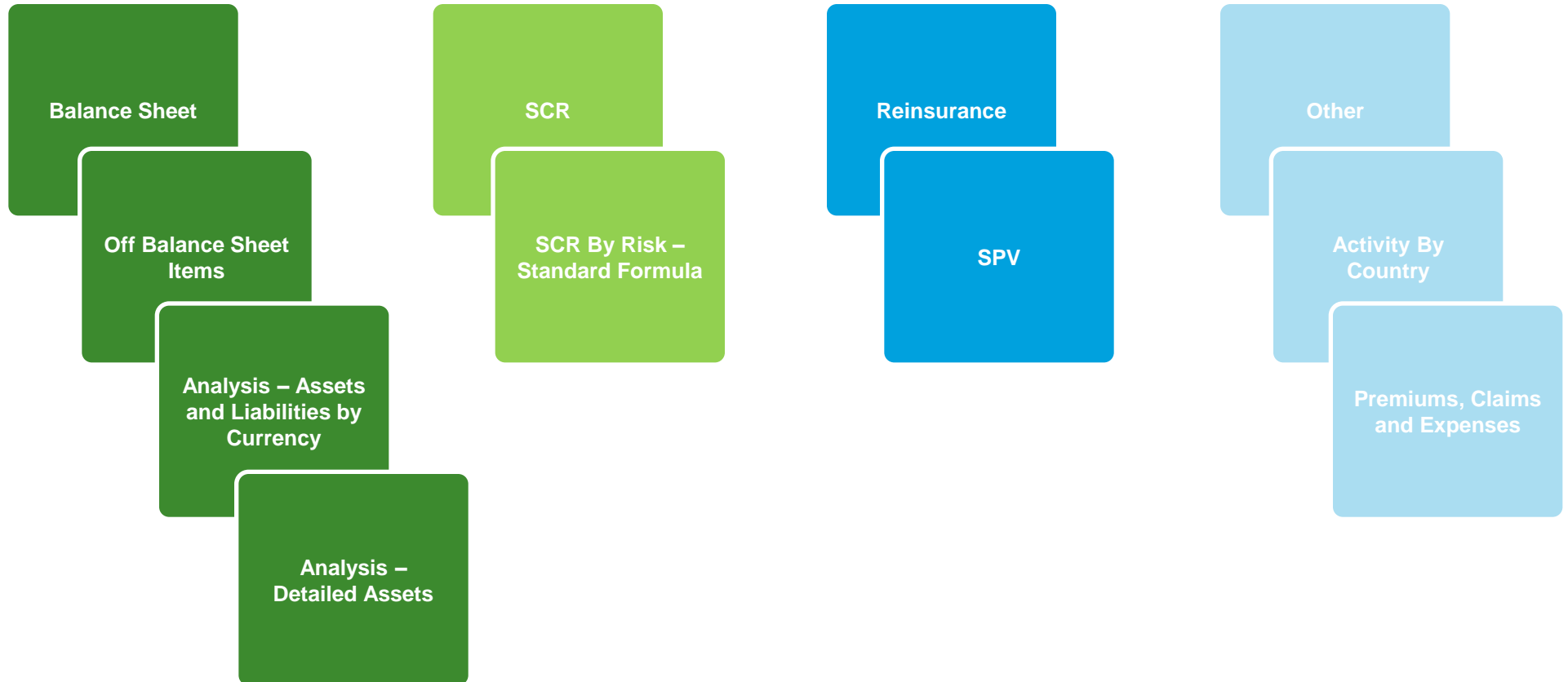
# SFCR & RSR

## Observations & Challenges for 2012

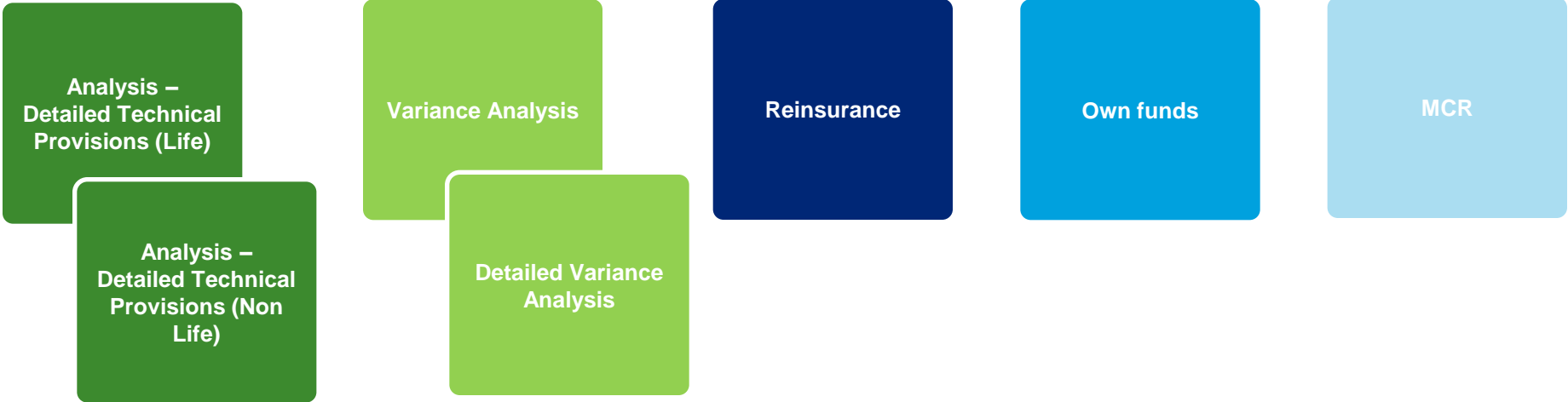
- Level 2 expected measures & Level 3 guidelines are appearing to be **less prescriptive** in most cases than CP58 – good news!
- The key challenge though during 2012, from a narrative reporting perspective, is the **volume of information** that needs to be calculated and then reported upon
- Companies have to put in place **efficient and effective capturing & reporting processes** to ensure that any efficiencies in report production are obtained:
  - Identify any efficiencies between the ORSA, SFCR & RSR
  - Leverage existing documentation to complete sections where possible
- Worth noting that you must have a formal **written disclosure & reporting policy**

# Quantitative Reporting Templates

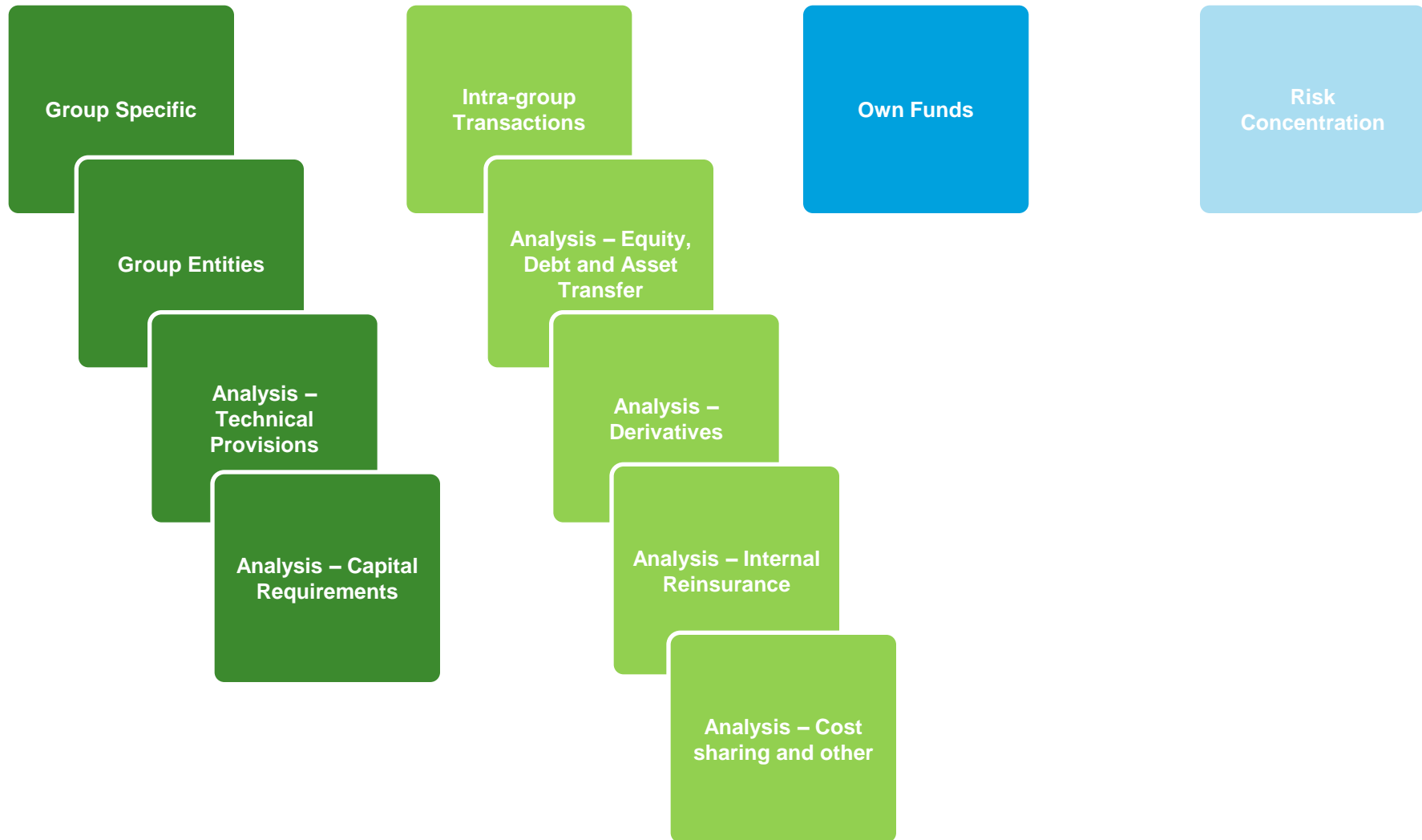
# Common QRT forms



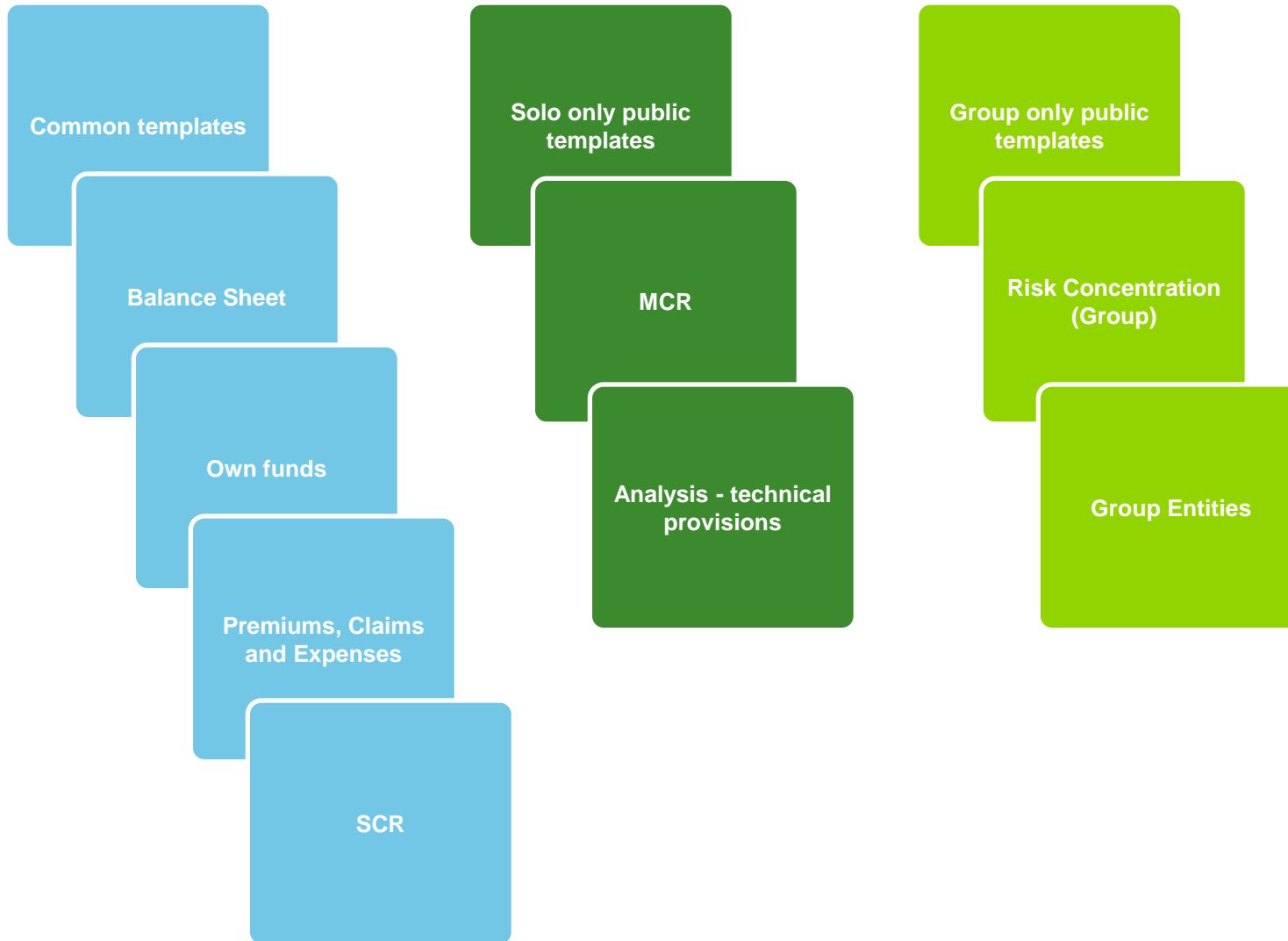
# Solo QRT forms



# Group QRT forms



# Public QRT forms



# Quarterly QRT forms



# Quantitative Reporting Templates

## Asset Templates (AS-D1 & AS-D4)

- Significant issue for most insurers
- **Form AS-D1**: detailed list of investments, asset by asset, with information required on each instrument, fund or asset (private, solo/group)
- **Form AS-D4**: look through analysis of investment funds (by main asset categories, geographical zones, currencies) to ensure material risks captured (private, solo/group)

Fund Type	Form AS-D1	Form AS-D4
Internally managed unit-linked funds	Yes	N/A
Externally managed unit-linked funds	Yes <u>but</u> one line specifying this fund only	Yes, with look through requirements breakdown
Internally managed unit-linked fund, with one investment in externally managed unit-linked fund	Yes, full breakdown for all <u>except</u> externally managed UL fund specified on one line	Yes, with look through requirements breakdown for externally managed UL fund

# Quantitative Reporting Templates

## Issues & Challenges for 2012

- **Outcome of QRT consultation leading to finalisation of QRTs in summer 2012**
  - **Quarterly balance sheet reporting:** currently as proposed, its required where calculated no. in OF quarterly template, 'reconciliation reserve', cannot be sufficiently explained – threshold not yet specified
  - **Detailed asset data:** volumes of data required, for quarterly, use of a simplified template (*if exempted*)
  - **Technical provisions:** granularity of data required
- **Outcome of financial stability QRTs (>€6bn balance sheet) consultation**
- **National specific templates – scope?**
- **Specification of the interim reporting required in 2013**
- **Obtaining, processing & reporting large quantities of information – inputs & outputs**
  - Obtaining information e.g. asset details from investment providers
  - Amending IT and actuarial systems to cope with data requirements
  - Data quality considerations & must be traceable from input to output
- **Efficient processes required to ensure production of the QRTs to meet reporting deadlines, especially quarterly QRTs**

# Conclusion

## Conclusion

- The Pillar III requirements are largely clear now
- There is no doubt that the data, information and reporting requirements are a significant challenge for all (re)insurers

**Don't leave Pillar III as an after-thought,  
get moving on it now to avoid “panic”  
at the end!**

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