UNIQA

RiskManagement

Annual Regulatory Report 2014

UNIQA Insurance Group

Annual Regulatory report

Executive Summary:

We are happy to present the first version of our annual Regulatory Report 2014. The aim of this report is to provide an overview of the most important regulatory developments for UNIQA once a year. Therefore for each topic a short summary, a description of issues/opportunities, the impact for UNIQA as well as the UNIQA position, are provided in cooperation with different departments. UNIQA's position which is provided in this report reflects the official one which is also communicated externally and lobbied for.

When looking back at the year 2014 one of the ongoing major topics was Solvency II, where the preparatory phase already starts in 2015 and the full implementation in 2016. We made good progress internally and will be ready in time in 2016. Another area with a lot of regulatory activity is on consumer protection and transparency, we participated in the consultation with regards to conflicts of interest and the final implementation of IMD 2 (Insurance Mediation Directive) is expected in 2017, whereas for the most critical issues like ban of commissions, no final rules on EU level were set, but they are left to the decision of member states with so called member state options. This topic is also of huge interest for EIOPA (European Insurance and Occupational Pensions Authority), who is getting more and more active.

On the other hand topics like data protection and tax issues like FATCA (Foreign Account Tax Compliance Act), kept us busy. There is also the plan from the OECD (Organisation for Economic Co-operation and Development) and EU to implement a reporting of contracts with non-national policyholders to the local tax authorities; not only in the US as covered in FATCA currently, but in many other signatory countries.

On accounting standards under IFRS (International Financial Reporting Standards) further progress was made but given the long development time the progress is limited, especially on IFRS 4 phase 2, insurance contracts.

On the international level there are currently interesting developments in the direction of establishing globally common assessment frameworks for supervisory purposes, there the devil lies in the detail and we will see where we get over the next years. UNIQA is not yet in scope of the IAIS ComFrame (The Common Framework for the Supervision of Internationally Active Insurance Groups), based on size criteria.

Finally the overall interaction with FMA our local and group supervisor was rather intense this year but we expect an increase for the coming years, especially driven by the fact that Solvency II comes closer.
In this context we would also like to highlight once again our membership in the CRO Forum, and the topics which we were especially active on in 2014:

- Solvency II
- Risk Culture
- Supervisory Colleges
- Risk Appetite

We hope you enjoy the reading of our first regulatory report and we are curious to receive your feedback (regulatory@uniqa.at)

Yours,
Kurt Svoboda, CRO UNIQA Group

Content

UNIQA RiskManagement

Consumer driven regulation

Topic Owner: Wolfgang Steinbach, wolfgang.steinbach@uniqa.at

Impact: medium

Summary:

Consumer protection is currently very high on the agenda of the EU Commission and EIOPA, therefore we expect intensified need for focusing on that topic internationally and nationally. Gabriel Bernardino, Chair of EIOPA raises that topic in all of his speeches, providing statements like: 'Going forward, EIOPA's absolute strategic priority will continue to be devoted to consumer protection. Protection of policyholders and scheme members is the ultimate goal of every effort done by EIOPA.

For EIOPA, consumer protection has two dimensions:

- Firstly, it is about ensuring that undertakings are soundly managed, have robust governance procedures and have a robust solvency position in order to make sure that they can fulfil all their commitments. This is being tackled by Solvency II.
- Secondly, it is about making sure that customers receive information that they understand on the conditions, costs and risks of the products, that they are treated fairly and that they get value and service for money. In this context PRIIPS and IMD2 are essential tools.'

In April 2014 the European Parliament adopted the MiFID II Directive – Markets in Financial Instruments Directive. That directive, which is focusing primarily on Asset Management, included in article 91 also rules for insurance mediation and therefore changes the currently applicable EU Directive on Insurance Mediation – IMD 1. The revised IMD 1 will include an additional chapter on the mediation of Packaged Retail and Insurance-based Investment Products – PRIIPs. This change of IMD 1 will be incorporated in the so called IMD 1.5. The definition of insurance based investment products covers products where the surrender value is depending on market changes. In Austria this would include unit linked products and potentially also traditional products as the surrender value changes as well, but this is not fully clear yet. Out of scope are term insurance and pensions products.

Aim of the amendment of IMD is to increase the level of consumer protection, and also to avoid conflicts of interest. Should there be any conflicts of interest, the insurance agent or the insurance company is responsible to publish, in advance of any contract conclusion, the potential conflict of interest. Rules on conflicts of interests will be defined in Delegated Acts, where EIOPA has the responsibility to draft a proposal. The final version of the DA shall be presented by EIOPA to the EU Commission in February 2015.

The currently proposed draft paper of EIOPA on conflicts of interest is very much in line with Asset Management rules, which do not fit for the insurance sector that well and are also partially in contradiction to Austrian law. Important to know is also that the IMD 1.5 is also applicable for the mediation of PRIIPs which is distributed by the UNIQA sales force. Furthermore IMD 1.5 includes a member state option, which gives the country the right to impose a ban of commission for the mediation of PRIIPs and would only allow for a consultancy fee for the agent. We do not assume that the Austrian regulator will use this option.

Main Issues/Opportunities:

The rules of IMD 1.5 and Insurance Distribution Directive (IDD) are all aiming at a better level of consumer protection and are especially designed to give sufficient information to the policyholder and other retail investors. One of the major issues on European level is to define the right set of regulation as markets are very diverse in that area. A ban of commission would really mean a paradigm shift in sales and might not be easy to implement and would be in need of the new sales model.

Impact for UNIQA:

The impact for UNIQA is hard to assess for the time being, as many final rules are missing. Depending on the breadth of requirements, the workload to prepare for additional disclosure and information to policyholders can be extremely high and also implies changes in our sales IT systems (Information technology systems).

UNIQA position:

1. UNIQA is in favour of transparency, but this should not lead to an overflow of information, which will not help the customer finally.
2. With regards to commissions we think this should not be an overly regulated area, as this differs a lot from country to country and is established practice over decades.
3. We need to monitor ongoing developments in order to get a clear view on the final requirements.
4. With regards to implementation changes of application forms and contracts will be necessary so this has to be started on time.

Solvency II

Topic Owner: Thomas Dockal, thomas.dockal@uniqa.at

Impact: high

Summary:

In 1997, a decision was made at a European level to come up with a design for a comprehensive system to create new capital requirements for insurance undertakings. In a first, quickly implemented step, the required changes to the existing directives were made (Solvency I). The plan was then to overhaul the entire system in a second step. All efforts in this direction are referred to under the title "Solvency II".

Therefore, Solvency II is a new European system of supervision that is intended to provide supervisory authorities with the right qualitative and quantitative tools to assess the overall solvency of an insurance undertaking with sufficient accuracy.

Solvency II aims to create methods for the risk-based control of the overall solvency of insurance undertakings. The previous, static system for determining capital requirements – Solvency I – is being replaced by a risk-based system that exceeds the previous capital requirements stipulated by insurance supervision legislation and, above all, takes account also of qualitative elements, such as management and internal risk management.

The date for the enforcement is set with 1st January 2016 and the EU member countries are currently implementing the Solvency II directive in their national law. Parallel the interim guidelines are set into force to urge the insurance companies operating in EU to implement the minimum standards on the system of governance (setup of key functions and a proper risk management system), Own Risk and Solvency Assessment (ORSA), the pre-application process for (partial) internal model and the supervisory reporting.

For 2014 and 2015 we expect further consultation waves for the implementing technical standards (ITS).

Main Issues/Opportunities:

After the political agreement in autumn 2013 the decision was taken to set Solvency II into force. Therefore the insurance companies operating in the EU have to implement the necessary requirements defined in the Solvency II framework directive, the delegated acts and the implementing technical standards to be compliant.

Parallel the various national governments work on the local implementation of the Solvency II framework directive. In Austria the Ministry of Finance has developed a revised version of the Insurance Supervisory Act (ISA) which is currently under consultation.

Furthermore the national competent supervisors have to make steps in respect of the implementation of the interim guidelines for the preparatory phase. The focus areas are the following:

- System of governance: A solvency compliant governance framework has to be in force. The key functions, the risk management system including Internal Control Systems (ICS) and Business Continuity Management (BCM) are implemented;
- An ORSA process is set up including the forward looking approach for the solvency position;
- The taxonomy for the quantitative supervisory reporting was published and the companies are working on the technical solutions;
- Pre application process for (partial) internal models.

Impact for UNIQA:

The impact for UNIQA group of Solvency II is high, as it is a widespread project which impacts most of the areas of UNIQA Group and its Business Units.

Also the governance model and business model in general is impacted by Solvency II driven by new risk based concepts as well as economic valuation principles and the overall aim to embed risk culture throughout the company.

Areas where we have to further improve are:

- Documentation of processes (transparency) and
- ICS and
- Validation standards.

Finally supervisory authorities put a strong focus on these issues and we see that supervisory authorities are very formal in checking implementation procedures of policies. Therefore we have to complete and cross check our good documentation basis and processes.

UNIQA position:

1. UNIQA is supportive of Solvency II as a risk- and economic based system. We see it as an opportunity, not a threat.
2. We support a strong group supervisor who does a good coordination and exchange within the supervisory college.
3. Any duplication of requirements, either between local and group regulator or group regulator and EIOPA has to be avoided.
4. We are not supportive of overly extensive reporting requirements.
5. We support the use of partial internal models (PIM) for economic steering (use test), and currently undergo our PIM Non-Life review process (pre-application process).
6. Support Governance System under Solvency II with 4 key functions.
7. We support a well-integrated ORSA, but an ORSA should be company specific and not prescribed in detail - the same applies for the governance system.
8. Support economic steering and monitoring of business.
9. On the Long Term Guarantee Assessment (LTGA) – We support the introduction of a volatility balancer in order to smooth artificial volatility.
10. Finally we expect to be ready when Solvency II will be implemented!

Payment Protection Insurance (PPI)

Topic Owner: Gabor Botka, gabor.botka@uniqa.at

Impact: medium

Summary:

A comprehensive appraisal of Payment Protection Insurance (PPI) products was initiated by the European Insurance and Occupational Pensions Authority (EIOPA). EIOPA is part of the European System of Financial Supervision and is an independent advisory body to the European Parliament and the Council of the EU. EIOPA published an Opinion in summer 2013 on consumer protection issues regarding PPI products. In this paper, EIOPA highlighted problematic practices in connection with PPI products and made recommendations to financial supervisors of member states to explore national markets regarding PPI practices, report back to EIOPA with decision on potential further investigation, and take any supervisory and/or regulatory action if necessary.

Based on the findings of the EIOPA report, UNIQA Bancassurance Product Management alongside Group Actuary, Group Risk Management and Group Financial Risk Management and Regulatory Management screened our PPI products and practices in all markets and identified areas for action. Findings were discussed with Raiffeisen Bank International (RBI) and Guidelines targeting the topic were jointly developed in order to internally regulate and harmonize our joint PPI products and processes.

PPI Guidelines have been rolled out in summer 2014 and are currently in the implementation phase.

Main Issues/Opportunities:

One of the responsibilities of EIOPA is to protect insurance policyholders against unfair treatments by service providers. In order to fulfill this task EIOPA identified several areas in connection with PPI products where either in the product configuration or in the sales process practices can be detrimental for clients. Some of these issues identified are also applicable in countries where UNIQA and Raiffeisen Bank jointly provide PPI solutions to clients.

These issues address the following areas:
- Mandatory and/or optional sales approach;
- Limitations of PPI cover;
- Duration mismatch between PPI and core credit product;
- Cancellation and premium refund rules;
- Use of single premium products;
- Necessary training for sales staff; and
- Information to clients during sales process.

The opportunities, we see in relation to reacting on the topics EIOPA raised, are as follow:
- Maintain continuity of business in a long term view;
- Strengthen customer centric approach;
- Harmonize products and processes among markets and bring them in line with EU supervisory expectations.

Impact for UNIQA:

The impact for UNIQA and Raiffeisen Bank Network Banks is currently limited because in most of our joint UNIQA-Raiffeisen markets – except for Poland - local regulators have not taken actions so far. The impact in terms of increased regulatory burden would be much higher, should all the recommendations of EIOPA be put in practice. UNIQA does not expect this for the foreseeable future however UNIQA anticipates an increasing awareness and stricter regulatory control in more and more markets.

UNIQA position:

1. EIOPA has a clear role in setting standards and best practices, but some recommendations are not tangible enough and/or do not help to avoid detrimental practices for clients.
2. Any regulatory obligation regarding Bancassurance products and practices concern primarily the partner bank of UNIQA distributing such products. UNIQA supports the recommendations and promotes their execution with partners distributing the product.
3. Any optionally applied standard should only be overruled by UNIQA if it is not against practices used, in general, in local markets.
4. The EIOPA standards cannot evenly apply in all UNIQA markets (EU and Non-EU) because of the diverse market environments.

European Markets Infrastructure Regulation – EMIR

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Impact: medium

Summary:

EMIR is the European Commission's response to the commitment by G20 countries to address risks related to the derivative markets after the financial crisis in 2008. EMIR entered into force on 16 August 2012. It is directly applicable in all European Union member states. EMIR aims to increase transparency in the derivatives markets and reduce systemic risks by reducing counterparty credit risks and operational risks.

To achieve these aims, regulatory technical and implementing standards (the RTS and ITS) have been drafted by the European Securities and Markets Authority (ESMA) and were adopted by the European Commission.

Main Issues/Opportunities:

Once fully implemented, EMIR will require:
- Central clearing for certain classes of Over-the-counter (OTC) derivatives;
- Reporting of derivative transactions;
- Application of risk mitigation techniques for OTC derivatives not cleared by a Central Clearing Counterparty ("CCP");
- Exchange of collateral and adequate capital to cover the exposures arising from OTC; and
- A framework to enhance the safety of all CCPs and Trade Repositories.

EMIR applies to any entity established in the EU that has entered into an OTC derivatives contract, and applies indirectly to non-EU counterparties trading with EU parties.

EMIR classifies two main categories of counterparty to an OTC derivatives contract:
- Financial Counterparties ("FC" or "FCs") – include bank, insurers, investment firms, fund managers and pension schemes; and
- Non-Financial Counterparties ("NFC" or "NFCs") – any counterparty that is not classified as a FC including entities not involved in financial services.

Impact for UNIQA:

The impact for UNIQA is defined by additional reporting requirements; UNIQA therefore concluded "Reporting Delegation Agreements" with its counterparties to delegate its reporting obligation. To check all reported data, UNIQA itself, was also obliged to register at the respected trade repository.

Additionally, portfolio reconciliation between the parties must be ensured as per a pre-defined due date depending on the number of deals between the parties.

The requirement to exchange collateral is still under discussion with EIOPA.

European Supervisory Authorities (ESA) review

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Impact: medium

Summary:

The European System of Financial Supervision (ESFS) consists of the three European Supervisory Authorities (ESAs), the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA), and works within a network of National Competent Authorities (NCAs), the Joint Committee (JC) of the ESAs and the European Systemic Risk Board (ESRB).

In light of the failures in financial supervision exposed by the financial crisis, President Barroso requested in 2008 a group of high level experts, chaired by Mr Jacques de Larosière, to make proposals to strengthen European supervisory arrangements, with the objective of establishing a more efficient, integrated and sustainable European system of supervision. Building on the recommendations issued by the group the Commission set out proposals to strengthen financial supervision in October 2009, which were adopted by the co-legislators in November 2010. The ESAs started their operations in January 2011.

The Commission has to assess regularly the functioning of the ESAs. The review in 2014 showed that in spite of the short reporting period, overall the ESAs have performed well. They have successfully built functioning organisations, have started to deliver on their mandates and have developed their own profiles.

Main Issues/Opportunities:

The main tasks of the ESAs are in relation to develop technical standards, issue guidelines and recommendations, resolving cases of disagreement between national supervisors, and having a coordination role in emergency situations.

The issues we see currently in relation to ESAs/EIOPA are:
- Risk of developing technical standards/guidelines which go beyond the EU regulation, and/or use the standards to define rules which are more in the direction of EIOPA's opinion;
- Additional requests and reporting requirements;
- EIOPA is interested in being more involved in national supervision, risk of following the EU Banking Union model, which would lead to a duplication of supervision.

The opportunities we see in relation to ESAs/EIOPA are:
- Increased convergence of EU rules and supervisory practice;
- Allowing the group supervisor to fulfil a strong role in coordinating amongst the other involved NCAs leading to a more efficient supervisory process overall;
- Convergence in application and interpretation of EU rules across Europe.

Impact for UNIQA:

The impact for UNIQA is currently limited to additional reporting requirements, potentially duplicative requirements from the group supervisor and EIOPA as well as longer time for decisions where the ESAs and the NCAs work together. The impact in terms of increased regulatory burden would be much higher in case EIOPA would follow the EU Banking UNION model, this we do not foresee for the coming years.

UNIQA position

1. Clear split of supervisors' competencies between EU and national levels, leaving day-to-day supervision to national supervisors.
2. EIOPA has a clear role in setting standards and best practices, but there is no need for an additional supranational authority (similar to the Banking Union).
3. Respecting sector specificities to guarantee a sustainable framework of supervisory authorities.
4. Ensuring a level playing field across Europe and avoid supervisory arbitrage.
5. EIOPA has to support group supervisors, especially when common positions are necessary.

EU Data Protection

Topic Owner: Peter Steiner, peter.steiner@uniqa.at

Impact: low/medium

Summary:

In 1995 the Data Protection (DP) Directive was adopted, it was a global trend-setter; it guaranteed comprehensive fundamental rights both against government as well as private data processors. The Directive, however, originated in a time in which the on-line data processing was the exception. It was mostly confronted with a locally uniquely identifiable data processor (e.g. Bank). The determination of who was responsible for personal data and which law was applicable, was relatively easy. Also, only 1% of citizens had access to the Internet. Today companies operate across borders, numerous are active in European services and use Third Countries (privacy) heavens to circumvent the privacy rights of EU citizens.

For these reasons the new EU Regulation was initiated.
In this context we would also like to point out to the CRO Forum paper on cyber risk, which should be shortly available, and covers the following aspects of cyber risk:

- steps for managing the threat of cyber risk; and
- the role of insurance in strengthening resilience to cyber risk.

Please see: CRO Forum publications.

Main Issues/Opportunities:

The members of EU Parliament and the Commission have given here a direction for a strong DP Act, which is underlined by another, also surprising aggravation. So e.g. the punishment for serious and systematic violations of the new data protection regulation was more than doubled.

- Dramatically higher penalties for privacy violations;
- Mandatory data protection officer;
- More rights of citizens, less bureaucracy for data processors.

The issues we see currently in relation to EU Data protection are:
- Period up to completion due to different interests within the European Community;
- Effort for building the necessary organization.

The opportunities we see in relation to EU Data protection are:
- General improved protection for data;
- Simplifications and synergies within the group.

Impact for UNIQA:

Yet the policy is not decided, some adjustments will probably follow. The cornerstones (Data Protection Officer, less bureaucracy, protection obligations and sanctions) have been determined. However UNIQA must now take care and make sure to provide sufficient competence, that the requirements are met on time.

UNIQA position:

1. UNIQA monitors the development of the EU regulation and is preparing DP - rules in time.
2. The risk of substantially higher sanctions is managed with a Data protection structure.
3. An UNIQA Data Protection officer will be installed (Group level and legal entity)
4. Some proposed points would complicate the business processes of UNIQA; this can only be awaited, as the discussions at EU level are finalized.
5. However, the new DP rules are opportunities for simplifications (One Stop) and regarded as a measure to strengthen trust by our customers.

Regulatory developments in Austria/Group related

Topic Owner: Isabella Mammerler, isabella.mammerler@uniqa.at/
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Impact: medium

Summary:

The Austrian Financial Market Authority (FMA) acts as local supervisor for the UNIQA legal entities in Austria (UNIQA AT, Raiffeisen, Salzburger and Finance Life) as well as group supervisor for the UNIQA Insurance Group.

Major developments in Austria in 2014 were the preparation for Solvency II, the EIOPA stress test and the review of the Austrian Insurance Supervisory Act (ISA) in anticipation of Solvency II.

Furthermore the FMA finalized their reorganisation, the new structure becoming effective from April 2014 on. The new structure of the Insurance Supervisory Department was mainly changed with regards to the split of on-site reviews and off-site analyses, as well as establishing a department which focuses on General insurance and pensions' topics, see also: FMA Org. structure.

Main Issues/Opportunities:

Regarding the ongoing supervision of FMA we do not see any major issues, as the process and the interaction runs smoothly. The main issue nowadays is that the amount of new regulation and regulatory requirements is increasing steadily, driven by the financial crisis of the last decade.

With regards to the revision of the ISA, the following issues were identified and discussed:

1. FMA is empowered to issue further regulation on additional information requirements in life insurance and other technical details.
2. Recognition of surplus funds as own funds – Interpretation and details for modelling are in discussion.
3. Report of the responsible actuary to Supervisory Board (SB) (as part of audit committee).
4. Fit & Proper: Chair of SB has to have sufficient operational knowledge (operations and accounting of insurers).
5. Asset limits will cease to apply, but far too restrictive requirements for use of derivatives are suggested.
6. Trustee for covered funds still exists (even though Solvency II is in place)
7. Requirement to hold an additional reserve for assets where provision to deviate from market valuation is used 'Bewertungserleichterung' (no dividend payments)

Further discussions with the FMA and the Ministry of Finance take place in order to resolve the most critical issues.

Impact for UNIQA:

For UNIQA a good relationship with the FMA is key, as otherwise the regulatory burden might even increase. Especially important in the group context is the FMA in its role of group supervisor for UNIQA, who is in close contact with local national supervisors and is also responsible for the annual Group Supervisory College, where all the UNIQA supervisors form various business units meet and exchange views on the risk and financial position of UNIQA.

UNIQA position:

1. A good relationship with the FMA and other regulators is of utmost importance for UNIQA, supported by a periodic dialogue.
2. We are pro-actively seeking exchange with FMA and other regulators and try to be as transparent as possible.
3. With regards to regulatory changes we try to proactively provide input in order to shape the discussion in advance.
4. We aim to be ahead of regulatory developments and inform accordingly.
5. To have one UNIQA position and to demonstrate that externally is very important for us, in order to avoid confusion and reputational risk.

IAIS ComFrame

Topic Owner: Isabella Mammerler, isabella.mammerler@uniqa.at

Impact: low

Summary:

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organization of insurance supervisors which is committed to develop the first-ever risk based global Insurance Capital Standard (ICS) by end 2016.

Consistent with the mission to support a global standard for supervision of the insurance industry, the IAIS, whose members constitute nearly all of the world's insurance supervisors, has been developing a comprehensive framework which is commonly referred to as Common Framework (ComFrame). The Development Phase of ComFrame started in 2010 with the aim to create a framework for supervisors to provide a basis for comparability of Internationally Active Insurance Group (IAIG) regulation and supervisory processes. ComFrame is built on the high level requirements set out in the IAIS Insurance Core Principles (ICPs) which are globally approved for supervision of the insurance sector and are structured to suit different markets. IAIGs, however, have a necessity of fitted supervision across jurisdictions based on their international activity. This requires a specific framework to assist supervisors and help to reduce compliance and reporting demands on IAIGs. IAIS is currently scheduled to formally adopt ComFrame in 2018.

ComFrame is structured in three modules:

- Module I: Scope of ComFrame.
  This module implies the identification and supervision of IAIGs and the identification of the group-wide supervisor.
- Module II: The IAIG.
  This module contains the requirements that IAIGs need to comply with.
- Module III: The Supervisors.
  This module covers the supervisory process, enforcement, cooperation and interaction requirements.

Main Issues/Opportunities:

With regards to ComFrame we are seeing currently the following opportunities:

- Increased convergence of regulatory standards;
- Support level playing field internationally;
- Avoid duplication across supervisors;

Potential issues in relation to ComFrame could be:

- Additional requirements, on top of local and group regulations requirements; therefore recognition of existing regimes is key;
- Different interpretation and execution by various supervisors might lead to an unlevel playing filed and increased supervisory burdens and costs.

Impact for UNIQA:

The impact for UNIQA is currently limited as we do not fall into the scope of the future regulation based on size criteria. Nevertheless this might change in the future and therefore UNIQA monitors the topic closely and supports the positioning of the Chief Risk officers (CRO) Forum and the Pan European Insurance Forum (PEIF) on that issue.

UNIQA position:

1. ComFrame should provide the basis for collective understanding and agreements between supervisors, particularly in the context of the College, under the lead of a single group supervisor. There should not be more than one group supervisor.
2. The current ComFrame draft still goes too far in prescribing elements which will undermine the flexibility to accommodate new best practices that will evolve in ERM (Enterprise Risk Management).
3. The framework should go beyond cooperation and coordination and provide a basis for recognizing regimes and/or providing consistency recognizing that differing approaches can be used to achieve the standards.
4. On reporting, ComFrame should be used as an efficient tool to clearly address the growing reporting requirements at the group level and to avoid undue time and effort on reporting. Existing and future group supervisory regimes include strong reporting elements and these should not be duplicated.
5. Finally and most importantly ComFrame should not create an additional layer of supervision, but rely on advanced supervisory regimes and do not duplicate any requirements.

International Financial Reporting Standards 4 and 9 (IFRS)

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Impact: high

Summary:

The IFRS 4 Insurance Contract project aims to provide a single principle-based Standard to account for all types of insurance contracts. The project wants to enhance comparability and transparency of financial reporting between entities, jurisdictions and capital markets.

Phase I of this project was completed in March 2004, however, IFRS 4 was intended only as an interim Standard which allowed insurers to continue to use various accounting practices that had developed over the year, pending the completion of a comprehensive Standard.

Phase II of the project, which is currently being undertaken, will result in a new Standard to replace the current IFRS 4. That Standard will eliminate inconsistencies and weaknesses in existing practices by providing a single principle-based framework to account for all types of insurance contracts. Phase II will also provide requirements for presentation and disclosures items.

The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board (IASB) project to replace International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement.

IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash-flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called ‘own credit’ issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value.
The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.

In July 2010 the Board issued the Exposure Draft (ED) Insurance Contracts. In June 2013, the IASB issued the revised Exposure Draft Insurance Contracts. The final Standard is expected to be issued in 2015. First time application of IFRS 4 & IFRS 9 is expected for Jan 2018. Internal implementation project should start 2 years in advance.

Main Issues/Opportunities:

Fair value valuation for liabilities – IFRS 4

The main change towards the current (common) IFRS reporting approach is the use of discounted best estimate liabilities instead of undiscounted reserves (non-life) or even almost unchanged statutory reserves (life & health). This approach causes natural volatility in a mark-to-market environment, and therefore the final decision which movements to show as profit and loss and which under Other Comprehensive Income (OCI) is key.

Disclosure & OCI – IFRS 9

Various possibilities of disclosing the profit and loss account are still under discussion. The main attention was given whether earned premiums (revenues) will continue to remain a major element in the disclosure or if they will disappear. The latter would lead to a significant change in the perception of the business model as most KPI's are linked to revenue figures.

A very challenging technical implementation will be caused by the ongoing discussion about the elements of the OCI. The changes to the best estimate liability of a single contract or a group of contracts need to be split by various sources to properly allocate it to OCI or Profit & Loss (P&L). Current approaches are very demanding in providing historic information of the liability value of a contract (e.g. value by any historic reference curve) and will lead to enormous IT system changes.

Impact for UNIQA:

The impact will be highly significant as the whole way of measuring and disclosing the success (profit) of insurance business will change. On the other hand UNIQA will need to take significant efforts in preparing the underlying systems to be able to produce the necessary data.

UNIQA position:

1. We appreciate the development towards one common valuation approach, where differences between IFRS and economic (Solvency II) valuations disappear, but this seems to be rather unlikely currently.
2. The final Standard should take into consideration technical abilities of insurance companies and should not lead to burdensome implementations to the underlying IT systems.
3. A consistent application of rules for assets and liabilities, in order to avoid imbalances is very important.

Foreign Account Tax Compliance Act – FATCA

Topic Owner: Peter Kuleff, peter.kuleff@uniqa.at

Impact: medium

Summary:

The Foreign Account Tax Compliance Act (FATCA) is a US legislation that was enacted in March 18, 2010 and became effective on July 1, 2014.

FATCA is intended to increase transparency for the US Internal Revenue Service (IRS) with respect to US persons that may be investing and earning income through non-US institutions. FATCA requires Foreign Financial Institutions (FFIs) to report to the IRS information about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a substantial ownership interest. While the primary goal of FATCA is to gain information about US persons, FATCA imposes tax withholding where the applicable documentation and reporting requirements are not met.

Main Issues/Opportunities:

Scope of FATCA: Financial institutions outside of the US (Foreign Financial Institutions = FFIs), which hold financials instruments for investments and financial accounts for their US customers.

Penalty for non-compliance: Penalty withholding tax 30 % on all the U.S. capital market generated investment income and gross sales proceeds.

The four key areas of FATCA:
Governance – Responsible Officers for group lead and members companies; Expansion of FATCA statuses for all relevant companies and registrations with IRS; FATCA governance framework;

Client identification – Implement new on-boarding process for new clients from 1 July 2014; Due diligence of pre-existing clients;

Reporting – Annual reporting of selected information to the IRS; Certain client and account/payment data; Phase-in of reporting IRS-Reporting beginning in 2015;

Withholding – Withholding requirements vary with the compliance status.

The U.S. Department of the Treasury published the Model Intergovernmental Agreements to simplify the process for compliance with FATCA. This approach not only addresses legal impediments that exist in some foreign countries, but also reduces burdens on financial institutions and streamlines the reporting process. The approach has been praised by the Organisation for Economic Co-Operation and Development (OECD), the G-8, and many others within the global community who are now actively considering making FATCA IGAs (Intergovernmental Agreement) the basis for an international standard for the automatic exchange of this type of tax information.

The U.S. Treasury Department released two versions of a Model Intergovernmental Agreement (IGA): Model 1 IGA and Model 2 IGA (see box for differences).

Impact for UNIQA:

For the companies from UNIQA Insurance Group we have three types of scenarios - companies from jurisdictions that have reached agreements in substance or signed agreement Model IGA1, companies from jurisdictions that have signed agreement Model IGA2 and companies from jurisdictions that not have signed IGA (valid Final Regulation).

- IGA1 (Intergovernmental Agreement Model 1)
  Agreements in process of negotiation between government of the USA and government of Bulgaria, Croatia, Kosovo, Montenegro, Poland, Romania, Serbia, Slovakia, Ukraine.
  Agreements are already signed with Czech Republic, Italy, Hungary and Liechtenstein.

- IGA 2 (Intergovernmental Agreement Model 2)
  Agreements have signed between government of the USA and governments of Austria and Switzerland.

- Rules for countries without IGA – Final Regulations
  No information about started negotiations of agreements with Macedonia, Albania, Bosnia and Herzegovina and Russia.

Major differences between FATCA IGA 1/IGA2 and Final Regulations

Category	Requirements	IGA I	IGA II	FATCA (Final Regs)
Customer Identification	Identification of US accounts	Yes	Yes	Yes
Reporting	Direct reporting to IRS	No	Yes	Yes
	Reporting to local tax authority	Yes	No	No
Withholding	Withholding for NPFFIs	Yes	Yes	Yes
	Withholding for recalcitrant account holders	No	Yes*	Yes
Legal & Compliance	Signing direct IRS agreement	No	Yes	Yes

* If the information provided after group request is not satisfactory

UNIQA position:

1. UNIQA Insurance Group members have recognized the importance of FATCA and comply with the FATCA requirements.
2. UNIQA Insurance Group members - Participating FFIs (Foreign Financial Institutions) have already registered itself on the IRS website with respective FATCA statuses and have received Global Intermediary Identification Numbers (GIIN).
3. The IRS has published and regularly updates Foreign Financial Institutions (FFIs) on IRS website. The list contains the names of financial institutions and other entities that have completed Foreign Account Tax Compliance Act (FATCA) registration with the IRS and obtained a global intermediary identification number (GIIN). GIIN´s for UNIQA Insurance Group members - Participating FFIs are now available on the FATCA IRS website.
4. New business processes were implemented in order to identify US accounts holders from 1 July 2014.
5. Pre-existing accounts holders are recognised in all UNIQA Insurance Group members - Participating FFIs (excluding UNIQA life Poland – due to local legal frame obstacles).
6. First reporting obligations to IRS are due in 2015, and will include information about accounts maintained during 2014. Obligations for UNIQA Insurance Group members - Participating FFIs with signed IGA Model 2 and without IGA with valid Final regulation is direct reporting to IRS. Obligation for UNIQA Insurance Group members - Participating FFIs with signed IGA Model 1 is reporting to local tax authority.

Annex

BCM - Business Continuity Management
CCP - Central Clearing Counterparty
CRO - Chief Risk Officer
DA - Delegated Acts
DP - Data Protection
ComFrame - The Common Framework for the Supervision of Internationally Active Insurance Groups
EBA - The European Banking Authority
EC - European Commission
ED - Exposure Draft
EIOPA - European Insurance and Occupational Pensions Authority
EMIR - European Markets Infrastructure Regulation
ERM - Enterprise Risk Management
ESAs - European Supervisory Authorities
ESFS - The European System of Financial Supervision
ESMA - European Securities and Markets Authority
ESRB - the European Systemic Risk Board
FATCA - Foreign Account Tax Compliance Act
FC(s) - Financial Counterparties
FFIs - Foreign Financial Institutions
FMA - Financial Market Authority
GIIN - Global Intermediary Identification Numbers
IAIS - The Supervision of Internationally Active Insurance Groups
IAS - International Accounting Standards
IASB - International Accounting Standards Board
ICPs - Insurance Core Principles
ICS - Internal Control Systems
IDD- Insurance Distribution Directive
IFRS - International Financial Reporting Standards
IGA - Intergovernmental Agreement
IMD 2 - Insurance Mediation Directive
IRS - The US Internal Revenue Service
ISA - Insurance Supervisory Act
IT - Information technology
ITS - Implementing Technical Standards
JC - The Joint Committee
KID - Key Information Document
LTGA - Long Term Guarantee Assessment
MiFID II Directive - Markets in Financial Instruments Directive
NCAs - National Competent Authorities
NFC(s) - Non-Financial Counterparties
NPFFI - Non-Participating Foreign Financial Institutions
OCI - Other Comprehensive Income
OECD - Organisation for Economic Co-operation and Development
ORSA - Own Risk and Solvency Assessment
OTC - Over-the-Counter
P&L- Profit & Loss
PEIF - The Pan European Insurance Forum
PIM - Partial Internal Models
PPI - Payment Protection Insurance
PRIIPs - Packaged Retail and Insurance-based Investment Products

RBI - Raiffeisen Bank International
RTS - Regulatory Technical Standards
SB - Supervisory Board

Hier ist eine Adresse vorgesehen