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Who will blink first in the uncertain world of Solvency II?

It's not long to go now before the insurance industry must align their current public disclosures and include all manner of new information to meet new EU regulations under the Solvency II Directive. The next 16 months until it is implemented on 1st January 2016 will fly by.

And that's a problem. Because right now, with just over one full year of financial reporting to go before the regulations become enshrined in law, almost every firm we've surveyed still have concerns that their current Solvency II results could be materially impacted by the still developing guidance and for internal model firms, regulator feedback from the Internal Model Approval Process. This is giving rise to considerable uncertainty as to when companies might have full confidence in their Solvency II results and when they might begin disclosing this information publicly to analysts and investors. No financial institution likes uncertainty, of course, and the progress of Solvency II has created uncertainty throughout.

Since the Solvency II Directive was first published, firms have busied themselves in the details of calculating solvency capital and governance processes, and recently there has been much activity around Pillar 3 with firms building the capability to produce all the required regulatory disclosures. However, it appears what firms might disclose publicly to the markets in the run-up to Solvency II implementation has slipped under the radar for many firms. Although two of the eleven firms we surveyed have published their estimates of Solvency II results in some form already, the issue causes other firms much angst. Most do not wish to disclose early because any future changes to the guidance which could materially change their results may force them to backtrack. Why show your hand unnecessarily and reveal sensitive information which could impact your share price if you don't have to? The firm that goes first and gets it wrong could be severely punished by the markets.

So if first mover advantage is rare when it comes to disclosure, it makes sense to sit back and wait to see what other firms do. Our survey shows that firms are being very cautious and assessing the risks of early disclosure carefully. But while they wait to see who blinks first, another fear comes into play too. That's the fear of being left behind. The two firms that have already published their estimated Solvency II results are showing leadership in a critical strategic issue for the industry. They are indicating how they intend not just to comply with regulations that will eventually apply to them, but to embrace them. However, their disclosures at this stage do come with certain health warnings given the uncertainty. And other firms that intend to publish early say they will restrict the information to metrics such as own funds, SCR and surplus.

Our survey uncovers a general feeling of an industry metaphorically walking on eggshells. For the next 16 months, as analysts progressively ramp up the pressure, firms are going to be furtively looking around, weighing up what they should reveal, and when.

Firms are also taking the opportunity to reconsider their wider financial framework in response to Solvency II. Survey respondents have indicated a lack of appetite to change approach to IFRS reporting in light of Solvency II ahead of IFRS4 Phase 2 implementation due to volatility this would likely introduce. However, we note that this may require firms to continue calculating Solvency I results, which often underpin IFRS for longer than one might have expected. Also, our survey suggests 'cash' will become more important for firms in managing their business. There is currently no strong consensus as to what 'cash' means and our survey suggests that this lack of consensus will continue for the foreseeable future.

The measure of 'value' in recent years has been dominated by Embedded Value, either based on European Embedded Value or Market Consistent Embedded Value. Its use by analysts is already in decline and our survey results support this indicating that many firms are planning to stop reporting Embedded Value. Firms are moving towards a 'value' measure that will be derived from their Solvency II balance sheet although how this 'value' is derived can vary considerably between firms. Although firms are planning to stop reporting Embedded Value, they still plan to continue reporting new business metrics.

No one really wants to be first to reveal their hand in this 'new world', yet it's probably a bad idea to be left playing catch up and come last. At some stage, someone will break loose and the issue will snowball.

The intentions behind the Solvency II Directive are admirable: to reduce the risk of insolvency in the sector and bring a greater degree of transparency and harmonisation in reporting. However, our survey suggests that, while firms operating in the EU will now have some consistency regarding measurement of their capital requirement position, it appears the expected harmonisation of other metrics; in particular, definitions of 'cash' and 'value', is not occurring with companies still adopting a wide variety of approaches.

In our opinion, the essential item in the Solvency II toolkit is flexibility to respond to changes in a fast-paced environment. Like the firms we have surveyed, we are in no doubt that some things will change before January 2016. So firms need to understand the building blocks of compliance and build capability so that they can quickly assemble – or disassemble – their reports as the landscape changes. We're in for an interesting, and perhaps frustrating, 2015.

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