

Solvency II

EIOPA - Final version of the guidelines for the preparation of Solvency II



Dear Madam

Dear Sir

As you may have noticed, EIOPA has just released on Friday, September 27th the final version of the guidelines for the preparation of Solvency II. This is an important milestone since this is the first set of Solvency II principles that insurers will have to comply with. National Supervisors must now determine how best to incorporate the Guidelines into their national regulatory or supervisory framework.

However, this is only a step in the direction of a full Solvency II implementation, and not yet the “full version”. These guidelines are the outcome of the consultation started in March, that led to more than 4,000 comments on:

- System of governance
- Forward looking assessment of own risks (FLAOR)
- Submission of Information to National Competent Authorities
- Pre-application for Internal Models

The main changes from the proposals included in the March consultation are:

- **Overall:** Most of the updates relate to wording or clarifications to respond to stakeholders' comments. Few significant changes have been introduced. National competent authorities will have to confirm whether they comply or intend to comply with these guidelines within two months after their publication (expected on October 31st, in all official languages of the EU).
- **System of governance:** These guidelines address most of the future Pillar 2 principles, apart from ORSA (addressed in the FLAOR guidelines). No material changes have been made to the guidelines subject to consultation. Most changes are related to the guidelines related to the Actuarial function.
- **Forward looking assessment of own risks (FLAOR):** These guidelines address the preparation to the implementation of ORSA. It confirms that undertakings are expected to perform an assessment of their overall solvency needs starting in 2014. However, the assessment of whether undertakings would “comply on a continuous basis with the Solvency II regulatory capital requirements and the requirements on the Solvency II technical provisions” is postponed from 2014 to 2015. The latter requirement concerns those undertakings representing at least 80% of the market share, as included in the consultation paper.
- **Submission of Information to National Competent Authorities:** These guidelines cover the quantitative and qualitative requirements to be submitted before the actual implementation of Solvency II.

Quantitative submission remains subject to the same thresholds as in the consultation paper (i.e. 80 % of market share for annual information, and 50% of market share for quarterly information). However, the share of the branch offices of foreign undertakings should be excluded from the national market, for the purpose of market share calculations. The list of quantitative templates to report remains unchanged except some formal changes in naming for the preparation phase, and a minor adjustment to the submission package (addition of a “content of submission” template, stating which templates are reported). EIOPA has added two weeks to the annual submission deadline for individual and groups annual reporting in the preparatory phase, i.e. a deadline for submission of 22 weeks for individual and 28 weeks for group reports, after reporting year end starting at the end of 2014. The quarterly deadline remains unchanged at 8 weeks. Finally, EIOPA explicitly recognizes in the introductory text that the quarterly balance sheet as of September 2015 may rely on simplifications for the technical provisions and, for the other items, may rely on estimates to a greater extent than the annual data, for proportionality and materiality reasons. This does not however relax the requirement that the reported data must comply with the Solvency II standards.

- **Pre-application for Internal Models:** These guidelines deal with the issues that national competent authorities should consider in the pre-application process. EIOPA has added the requirement that undertaking should submit the standard formula SCR (both overall and by risk type) at reference dates and deadlines to be agreed with the national authority, as part of the pre-application process. The guidelines regarding the model’s support of decision-making have been simplified. Only the following requirements are still applicable: the model is used in decision-making; internal stakeholders, in particular its administrative, management and supervisory bodies, receive regular internal model results related to the relevant business decisions; and the model is at a minimum able to measure the economic capital and the impact of decisions on the risk profile and SCR.

With my colleagues at Deloitte, we stand ready to answer any questions you may have and will be happy to discuss these new guidelines in more detail with you.

Best regards

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