

## EMEA Centre for Regulatory Strategy

### Update: EIOPA consults on Guidelines for Solvency II interim measures



**Shortly before Easter, the European Insurance and Occupational Pensions Authority (EIOPA) opened consultation on four sets of Guidelines which seek to bring forward the implementation of certain Solvency II requirements to 1 January 2014.**

EIOPA's chief objective is to ensure a consistent and convergent approach to Solvency II preparation across EU Member States, given that in the absence of a political agreement on Omnibus II, National Competent Authorities (NCAs) may individually take interim (and possibly inconsistent) regulatory measures.

The proposed Guidelines are applicable both to insurance and reinsurance undertakings and groups. They are to be applied in proportion to the "nature, scale and complexity of the risks inherent in the business" of the undertaking or group.

Below, please find a brief overview of, and a link to, each of the four sets of Guidelines:

#### **Guidelines on submission of information to NCAs**

Information should be submitted by "at least" insurance and reinsurance undertakings or groups that represent a significant share of national markets, in addition to any existing reporting requirements. EIOPA sets the following thresholds:

- firms constituting 80% in total of the market share in each Member State should be subject to annual reporting requirements and 50% of the market share to quarterly reporting requirements
- groups with total consolidated assets in excess of EUR 12 billion should submit both annual and quarterly reports to their group supervisor

EIOPA recommends that firms submit only a subset of both qualitative and quantitative reporting requirements. The proposed quantitative subset consists of information on the balance sheet, assets, derivatives and technical provisions, own funds, Solvency Capital Requirement, Minimum Capital Requirement and the scope of the group (where applicable).

EIOPA envisages that only one annual report and two quarterly reports be submitted before Solvency II becomes applicable; therefore the implementation schedule of these Guidelines is to be coordinated with the Solvency II expected implementation date – which is currently January 2016, but might be revised following Omnibus II developments this year.

NCAs are expected to consider the information provided and use it to assess and improve readiness for Solvency II requirements. However, NCAs are not expected to take any regulatory or enforcement action based on the data supplied.

EIOPA states that firms and NCAs should also “put in place and test the systems that will be needed to comply with Solvency II reporting requirements, and to analyse and improve over time the quality of data produced.”

[> Access the proposed Guidelines.](#)

### **Guidelines on forward looking assessment of the undertaking’s own risks (based on ORSA principles)**

EIOPA recommends that NCAs require insurance and reinsurance firms to undertake a forward looking assessment of own risks (based on ORSA principles), supplemented by quantitative information accessible for review. NCAs will have to ensure that undertakings representing at least 80% of the market share assess if they are in a position to continuously comply with regulatory capital requirements and technical provisions.

Firms will be required to submit an assessment policy, conduct assessments at least once a year and communicate their findings and conclusions both internally and to their supervisors.

Firms involved in the pre-application process for internal models should make use of this model for the purposes of the ORSA, but make provisions for the eventuality that their model is rejected.

A report to the NCA should be submitted within two weeks of an assessment and it should include, at least: (i) qualitative and quantitative results (ii) methods and main assumptions and (iii) where applicable, a comparison between overall solvency needs, the regulatory capital requirements and the undertaking’s own funds.

In cases where the undertaking is part of a group, an assessment should encompass all entities within the scope of group supervision; group supervisors should communicate to colleges and involve NCAs regarding the need of individual vs. group-level supervisory reporting.

[> Access the proposed Guidelines.](#)

### **Guidelines on system of governance**

EIOPA puts forward recommendations on the steps NCAs should take to ensure firms build effective governance systems, allowing them to identify, monitor, measure and report risks continuously and on individual and aggregated basis as well as to provide NCAs with the qualitative information necessary to evaluate these systems.

The Guidelines cover fit and proper requirements, risk management, the prudent person principle, governance of own funds, internal controls, internal audit function, actuarial function, outsourcing, and group specific governance requirements. Provisions for the prudent person principle should be implemented in addition to the system of regulatory quantitative limits already applicable under the current regime.

Firms will be expected to demonstrate transitional arrangements for putting in place all governance requirements related to investments. This however does not mean that all portfolio changes stemming from Solvency II requirements should be fully implemented.

In making provisions for the actuarial function, EIOPA clarifies that as actuarial tasks in the interim period are predominantly related to submissions of interim information to NCAs, a framework for the purposes of preparatory reporting will be provided at a later stage.

[> Access the proposed Guidelines.](#)

### **Guidelines on pre-application of internal models**

NCA's need to form a view on how prepared firms are to submit an application for the use of an internal model for solvency capital calculations, with the expectation that models should be used for risk management and decision making purposes, as well as for the calculation of the Solvency Capital Requirement. Firms should also be prepared for the eventuality that the model is not approved and have processes in place for, and consider the planning implications of, using the standard formula.

NCA's should monitor and review changes to internal models, and define the qualitative and quantitative parameters of a 'major change'.

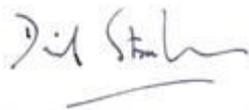
EIOPA sets specific Guidelines for most other aspects of the internal model framework: compliance with 'use test' requirements, assumptions setting and use of expert judgement, consistency between methods used for calculation of probability distribution forecasts and assets and liabilities for solvency purposes, use of approximations, profit and loss attribution, validation, documentation, reliance on external models and data, and the functioning of colleges during the pre-application process.

**> [Access the proposed Guidelines.](#)**

### **Next steps**

Consultation on the Guidelines closes on 19 June 2013. Following the publication of the finalised text, NCA's are to "make every effort" to comply by 1 January 2014 as well as produce a progress report on annual basis, the first of which is expected by 28 February 2015. As per EIOPA's founding regulation, NCA's should either comply or provide reasons for non-compliance.

For further information please contact your local Solvency II Deloitte representative listed overleaf.



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For further information on the EMEA Centre for Regulatory Strategy, please visit [Deloitte.co.uk/Centre](http://Deloitte.co.uk/Centre).

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