

SOLVENCY 2

- 303 *DAYS TO GO* -

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Agenda

- The FSC's approach to implementation
- The FSC's expectations of firms
- Feedback on firms' self-assessments
- Future milestones
- Questions

Overview

Expectations

- Europe sets the agenda and the rules
- Substantial material from Europe; increasingly in final form

FSC Discretion

- Proportionality
- Transparency
- Ongoing dialogue with industry

Firm enquiries

- S2@fsc.gi
- Response provided in a timely manner

The FSC's approach to implementation

- Shift of emphasis from regular self-assessments, to...
- Monitoring progress against plans as part of BAU supervision
- Ongoing dialogue with individual firms and industry
- Engagement with firms' chairs and non-executive directors
- Engagement with auditors
- Updating FSC processes in line with Solvency 2 and training of supervisors

The FSC's expectations of firms – Pillar 1

Actively managing and pursuing Solvency 2
capital plans

- Firms understand how their regulatory capital requirements are likely to change
- Appropriate plans in place to ensure compliance by 2016
- Respond in timely fashion to FSC requests

Feedback – Pillar 1

- Individual feedback will be provided to selected firms
 - Credible resolution plans expected where a ‘deficit’ revealed
 - Expect firms to deliver on in line with such plans
 - FSC will act to protect existing and future policyholders
- Examples of issues where more attention required:
 - Insufficient effort put into completing templates
 - Link between external actuaries and companies at times failed, leading to incorrect submissions especially around own funds
- Availability and expertise of actuaries will be critical
- Not all firms have yet submitted
- Market feedback paper by end of Q1 15

The FSC's expectations of firms – Pillar 2

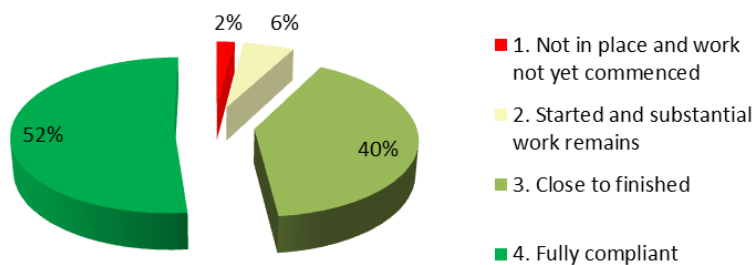
- Actively progressing plans to meet governance requirements
- Provide credible FLAOR report in line with required timescales
- Embedding governance requirements and be able to demonstrate this to FSC

Feedback – Systems of Governance

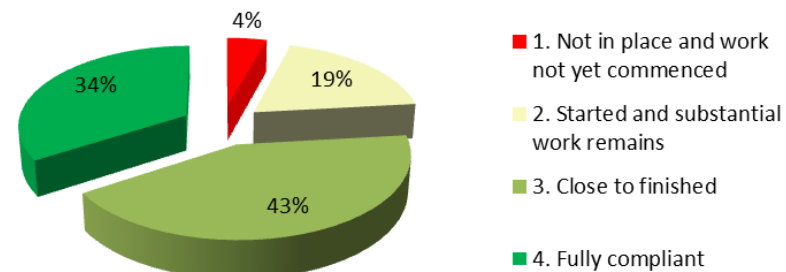
- Where FSC has concerns, individual feedback will be provided
- Overall: progress vs earlier self assessments
- However, a small number of firms failing to comply with GN14 – FSC will follow up with these
- Market feedback paper due end Q1 15
- Areas requiring most work are actuarial, audit and investment policy.
- Good practice firms have built testing or external review of key policies etc into programmes.

Feedback – Systems of Governance

Current guidelines



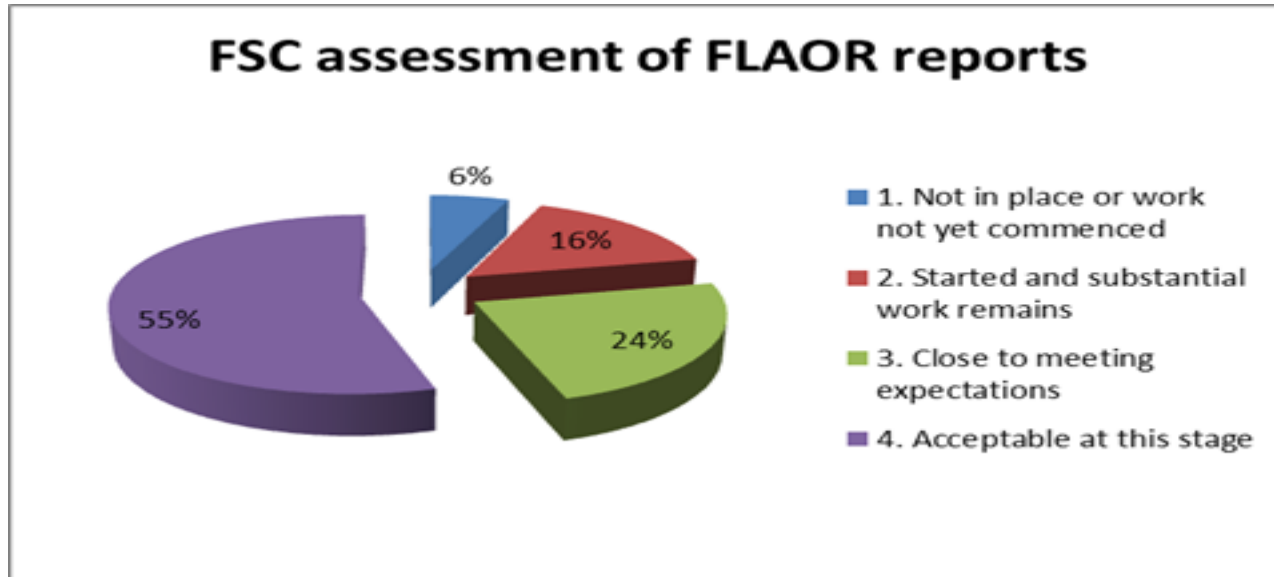
Solvency II guidelines



Feedback – FLAOR

- Inadequate forward-looking in general.
- Few provided a balance between quantitative and qualitative aspects.
- Broad range of approaches taken from a short set of spreadsheets to a 200 page document.
- Where capital shortfall identified, too little analysis of reasons for this and unconvincing plans for how to meet it.
- Linkage to business plan and risk register was weak e.g. not referring to applications for new business classes
- Best responses demonstrated clear Board involvement

Feedback – FLAOR



- Used a similar methodology to the systems of governance to reach a score of 1 to 4

Feedback – Solvency 2 plans

- Standard was generally disappointing. More task lists than plans with limited detail on resources, individual steps, sign off, or risk analysis and mitigation.
- Best plans seem to have come from Groups where real local adaptation and involvement is apparent.
- Several consultancy “off the shelf” examples seen without appropriate customisation.
- Not all firms have yet submitted plans.
- Often a disconnect between plans and SOG responses eg timings/sign off etc
- In summary, firms need to demonstrate they have credible plans in place: too many fail this test.

The FSC's expectations of firms – Pillar 3

- 'Dry run' firms
 - Appropriate policies and procedures in place in advance of having to provide data to extract and validate data (typically by end Q2 '15)
- Other firms
 - Plan in place to get to above point for year end
 - Encouraged to participate in 'dry run' to test processes
 - In any event, testing will be required pre go live
- All: understand implications of FSC's approach to data reporting technology
 - Recent Technology Update, with workshop to follow

Feedback – Pillar 3

- Overall: pace needs to be picked up eg 80% of firms self-assessed as only 1 or 2 (out of 4)
- 'dry run' firms on the whole better prepared but even so management attention required
- Issues identified
 - Procrastination eg 'waiting for FSC'
 - Confidence in ability to deliver without having done the analysis
- Feedback paper by end Q1 15

Future milestones (all dates 2015)

| Activity | Due date | Pillar |
|--|----------|--------|
| Dialogue re Groups – message to individual firms | Q1 | All |
| Application process for IMAP, USP etc | Q1 | 1 |
| Feedback paper on all self-assessments and FLAOR | Q1 | All |
| Technology workshop | Q1 | 3 |
| Survey of approaches to calculations and assumptions | Q2 | 1 |
| Webinar for directors | Q2 | 2 |
| Further FAQ, building on recent publication | Ongoing | All |

Summary

- Welcome the progress being made, but...
- Need to maintain effort as enter the final straight, and...
- In some cases, significant increase in effort required
- FSC will act if we judge firms are not making sufficient effort
- Maintain two-way dialogue

Questions?