



Financial Services
Commission

Update on Solvency 2

*Less than **200** days to go*

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Introduction

This Update provides a reminder of the various communications from the FSC and EIOPA over recent months. These are in addition to the many meetings we have held with individual firms, insurance managers and industry over this period to ensure that a constructive two-way dialogue continues. The FSC continues to seek to take a proportionate approach where applicable.

This Update covers the following issues:

1. Insurers Self-assessment
2. Current and Forthcoming reviews
3. Internal models and USPs
4. Other approvals and waivers
5. FLAOR
6. Non-Executive Directors
7. Submission of data
8. Groups
9. Legislative and regulatory framework
10. Legal Entity Identifiers (LEIs)
11. Response to EIOPA
12. Enquiries

1. Insurers' self-assessments

The FSC remains committed to working with industry to ensure that firms are ready for Solvency 2. Our recent feedback paper sets out the FSC's views on where firms were on their journey to comply with the 3 pillars of Solvency 2, and the further actions required. It is important that firms take on board this feedback and ensure that their plans fully reflect the necessary actions.

The paper can be found here:

<http://www.fsc.gi/download/adobe/Solvency2%20FeedbackPaper.pdf>

In addition, the FSC has held a number of more in depth meetings with certain firms.

2. Current and Forthcoming reviews

Following on from previous self-assessment exercises, the FSC has recently asked all firms for a progress update in respect of issues previously flagged as not yet being complete. These relate to ensuring firms' governance is fit for purpose for Solvency 2.

We will also be conducting a thematic review to assist the FSC in understanding the actuarial function of each firm, including the nature of the external validation.

The FSC will also be requesting an updated Solvency 2 plan.

3. Internal models and USPs

Firms will be aware that they can apply to the FSC to use an internal model or undertaking specific parameters (USP). Any such application will be dealt with on its merits, but firms should be fully aware of the degree of rigour required as documented in the relevant European material, before making an application.

You may find details of the application process on the [FAQ](#) page in the Solvency 2 section of our website.

As has been previously communicated, the FSC will levy a dedicated fee for any Internal Model or USP application given the extra resource required by the FSC to review such applications.

Details will be provided to applicants.

4. Other approvals and waivers

Solvency 2 provides for other areas where firms can apply for approvals or waivers. Firms should be aware of whether they may want to utilise these and be planning their application to the FSC accordingly. For example, to use Ancillary Own Funds, or to utilise the transitional relief for Group solvency (see section 8 below). The application should include relevant supporting documentation.

Firms should engage early with the FSC. It should be noted

that if the FSC will incur external costs as a result of reviewing a firm's application, the FSC reserves the right to levy a fee on the firm to cover such costs. The FSC will advise the firm of the level of any fee in advance.

Another area where firms have sought our approval relates to the issue of dividend payments in the run up to Solvency 2 going live. The FSC's position remains that capital in any form should not be extracted from firms if this would risk the firm not meeting its Solvency 2 capital requirements with effect from 1st January 2016.

5. Forward Looking Assessment of Own Risks (FLAOR)

As is made clear in the self-assessment feedback paper mentioned in section 1, the FSC expects the Boards of insurers to clearly own the FLAOR process and associated report. The FSC expects Boards to be fully cognisant of the risks the firm faces on a forward looking basis, and the associated capital implications of these risks. Details of areas for improvement can be found in the self-assessment feedback paper.

The FLAOR should be an ongoing process for the benefit of the Board, not a one-off exercise for the purposes of submitting a report to the FSC. In this regard, we expect the FLAOR report which is due to be submitted during 2015 to demonstrate that it is aligned with the firm's business planning process.

An important aspect of the 2015 FLAOR, as it morphs into the ORSA with effect from 1st January 2016, is that for 2015 there are 2 additional requirements for firms:

- to assess whether the firm would comply on a continuous basis with the Solvency 2 regulatory capital requirements and the requirements on the Solvency 2 technical provisions starting in 2015;
- to assess the significance of the deviation of the firm's risk profile from the assumptions underlying the Solvency 2 Solvency Capital Requirement (SCR) calculation.

While for 2015 these requirements are only for firms that make up 80% of the market (and the relevant firms have previously been advised that they fall into this category), we recommend that other firms consider how they will meet these requirements, and the resulting implications, with effect from 1st January 2016.

To provide some more colour to the 2nd of the above bullets, the ORSA Guidelines (ie applicable from 1st January 2016) require that the insurer assess whether its risk profile deviates from the assumptions underlying the SCR calculation, and whether these deviations are significant. The firm may as a first step perform a qualitative analysis and if that indicates that the deviation is not significant, a quantitative assessment is not required.

If the outcome of this qualitative and quantitative assessment is that there are significant deviations between the risk profile of the firm and the SCR calculation, the firm is expected to consider how this could be addressed. It could decide to align its risk profile with the standard formula, to apply for undertaking-specific parameters, where this is allowed, or to develop a (partial) internal model. Alternatively, the undertaking could decide to de-risk.

The relevant preparatory phase Guidelines from EIOPA can be found [here](#).

6. Non-Executive Directors (NEDs)

The Board has the ultimate responsibility for the firm complying with Solvency 2. As such, the FSC places great importance in the full engagement of NEDs in their firms' preparations for Solvency 2. The FLAOR is a critical part of this process, as mentioned in the previous section.

The FSC hosted its first ever webinar recently which focused on what Solvency 2 means for NEDs. This included a video presentation by an experienced NED from the UK who shared his experiences of good practices.

The video and presentation can be accessed via the links below :

<https://youtu.be/EFD5kPNhJTQ>

<http://www.fsc.gi/download/adobe/webinar-SolvencyII.pdf>

7. Submission of Data

As previously communicated, the FSC has chosen Invoke as its online reporting portal, and will require all firms to use this portal when submitting Solvency 2 data. This includes the preparatory phase.

The FSC recently delivered a technology workshop to explain how Invoke works. The slides can be found [here](#):

We have recently received the first data from firms which are in the formal dry run phase (these firms make up 80% of the market, and these firms have previously been advised of their requirement to submit data). This was an interactive exercise, and was successful in terms of testing the software and the processes using real data. Both the FSC and firms have learnt lessons and we will be issuing a feedback paper in due course. This will help us to help firms with their future data submissions.

We have also provided insurance managers with access to the Invoke filing portal to allow them to become familiar with the tool. As the FSC have noted on a number of occasions, it is important for both an insurer and the FSC that an insurer

tests its data submission process in advance of the first 'live' Solvency 2 data submission in 2016. The planned window for this testing is October 2015 to February 2016. This will follow the release of the final templates and taxonomy by EIOPA ie the testing would be using the full and final suite of templates. We will be communicating with all relevant firms in Q3 to explain the process, and the proposed dates for testing.

Please note that due to the additional costs the FSC are incurring through its use of Invoke, there will be an annual fee per firm. We anticipate that the fee will be £900pa. We will confirm the fee structure and levels during Q3, with a view to raising invoices in Q4. This fee will cover all QRT submissions due during 2016 once Solvency 2 comes into force, as well as for the initial testing referred to in the above paragraph. For those firms going through the formal dry run at the moment, there is an additional fee payable. This has been communicated to relevant firms and will be invoiced shortly.

8. Groups

Solvency 2 increases the responsibilities on both insurers and the FSC in respect of Groups.

The FSC has communicated to most firms which we believe to be part of a group for the purposes of Solvency 2. The exceptions to this are where we await a response from EIOPA on a particular point of interpretation (this affects less than 10 firms). We hope to have concluded this exercise shortly. The FSC has invited any firm that disagrees with the FSC's assessment to discuss the issues with the FSC.

The FSC is also actively involved in discussions with the GIA on the implications of Solvency 2 as it relates to Groups. We will seek to take a proportionate response where appropriate, and where it is within our powers.

One particular area of note is the issue of Group solvency. For those groups which wish to apply for the derogation to not have to meet the SCR at group level until 31st December 2017, it should be noted that is necessary for the Group to comply with the Adjusted Solvency referred to in Article 9 of Directive 98/78/EC. All relevant Groups currently submit such data via the Parent Undertaking Solvency Margin return. We would urge such groups to review their prospective 2015 year end position under the current rules to ensure that they are likely to meet the qualifying requirements if they intend to take advantage of the derogation in respect of Solvency 2 Group solvency.

Firms are reminded that the systems of governance requirements and those relating to public disclosure apply at the level of the Group. Firms should be preparing accordingly to meet these requirements at Group level.

The issue of Groups was discussed in the webinar for NEDs mentioned above, and there is a slide in that presentation that relates to Groups.

We plan to provide further guidance in due course on the practical implications for Groups.

Finally, while firms in run-off are exempt from Solvency 2 if their activities will be terminated by 1st January 2019, this is not the case for firms which are part of Groups if there are other insurers within the Group which are still open to new business. Such run-off firms will be subject to the requirements of Solvency 2, and therefore should be preparing accordingly, allowing for proportionality where relevant.

9. Legislative and regulatory framework

An important step in the development of the regulatory framework was the transposition of the Solvency 2 Directive by the Government of Gibraltar into national legislation in Q1 2015.

The FSC is required to make every effort to comply with Guidelines issued by EIOPA, and to advise EIOPA whether we will comply or not with the Guidelines. It should be noted therefore that the FSC have confirmed to EIOPA that we intend to comply with all the Guidelines that they have issued to-date, and intends to take account of the Guidelines in our ongoing supervision of Solvency 2.

Further, the FSC expects firms to comply with all the Guidelines that apply to them in a proportionate manner in accordance with the principles of Solvency 2.

Firms should continue to monitor EIOPA's website for further material that is pertinent to compliance with Solvency 2. For ease of reference an updated Annex is attached, which provides what we believe to be a comprehensive list of all relevant European documentation published in respect of Solvency 2, as before classified by Pillar.

10. Legal Entity Identifiers (LEIs)

As previously notified, it is a requirement of EIOPA that each insurer obtains an LEI from an accredited LOU (Local Operating Unit). A separate LEI is required for each insurer within a Group and for the Group itself. A list of accredited LOUs can be found [here](#). The LEI is required to be used when submitting Solvency 2 data once Solvency 2 is in-force. We recommend that firms also use the LEI when submitting data during the preparatory phase.

As mentioned in our December 2014 Update, the FSC is required to confirm to EIOPA that all licenced entities in Gibraltar have applied for an LEI code by 30th June 2015. If you have not yet applied for an LEI, please do so by 30 June. Please confirm to the FSC via S2@fsc.gi before 30th June 2015 that you have requested your LEI code.

11. Response to EIOPA

As part of its own obligations under Solvency 2, the FSC was required to submit a report to EIOPA setting out how Gibraltar was moving towards implementing Solvency 2. The FSC provided this report by the due date of 28th February 2015. This drew upon the extensive self

-assessment work referred to earlier.

12. Enquiries

We continue to welcome enquiries via our dedicated Solvency 2 [e-mail address](#), and we aim to address these as soon as possible. Please ensure that you have read the relevant European material before submitting a question.

Furthermore, we have created a [FAQ section](#) in the Solvency 2 section of our website. We will be updating this in the coming weeks for further questions we receive, and will advise firms of the changes as and when we update them.

Annex to the June 2015 update

Relevant European documentation by Pillar

The information below includes a split between material that is final and that which is under consultation. We consider firms should be aware of all this material.

The information is not intended to be a definitive list of relevant information, but it will cover the issues that we consider to be relevant for all firms. Please note that while we will endeavour to keep this list current, we suggest firms carry out their own checks by for example regularly visiting EIOPA's website, as well as that of the European Commission.

All of the EIOPA documents set out below can be found from one of the following webpages:

<https://eiopa.europa.eu/Pages/Consultations/Overview.aspx>

<https://eiopa.europa.eu/Pages/Standards/Standards-Guidelines-and-Recommendations.aspx>

<https://eiopa.europa.eu/publications/eiopa-opinions>

<https://eiopa.europa.eu/publications/solvency-ii-final-l2-advice>

<https://eiopa.europa.eu/Pages/Supervision/Insurance/Solvency-II-Technical-Specifications.aspx>

<https://eiopa.europa.eu/Pages/Supervision/Insurance/Technical-Standards.aspx>

Please note that the links provided were believed to be correct at the time this document was issued, but that it is possible that some of these may become out of date or otherwise fail to open correctly.

The European Commission's Solvency 2 page has links to many of the relevant documents, including the Solvency 2 Directive, Omnibus 2 Directive and the Level 2 Implementing Rules (Delegated Act). This can be found below:

http://ec.europa.eu/internal_market/insurance/solvency/solvency2/index_en.htm

Pillar 1	
Final	
EIOPA Technical specification for the preparatory phase, including Q&A, Annexes, Errata and Helper tabs	https://eiopa.europa.eu/Pages/Supervision/Insurance/Solvency-II-Technical-Specifications.aspx
Underlying assumptions in the SCR standard formula	Use above link, or https://eiopa.europa.eu/Publications/Standards/EIOPA-14-322_Underlying_Assumptions.pdf

EIOPA Guidelines	<p>Guidelines of Pre-Application of Internal Models</p> <p>Guidelines on ancillary own funds</p> <p>Guidelines on the Application of Outwards Reinsurance</p> <p>Guidelines on the application of life underwriting risk module</p> <p>Guidelines on basis risk</p> <p>Guidelines on Classification of Own Funds</p> <p>Guidelines on group solvency</p> <p>Guidelines on contract boundaries</p> <p>Guidelines on health catastrophe risk sub-module</p> <p>Guidelines on look-through approach</p> <p>Guidelines on ring-fenced funds</p> <p>Guidelines on the loss-absorbing capacity of technical provisions and deferred taxes</p> <p>Guidelines on the treatment of market and counterparty risk exposures in the standard formula</p> <p>Guidelines on the use of internal models</p> <p>Guidelines on treatment of related undertakings, including participations</p> <p>Guidelines on undertaking-specific parameters</p> <p>Guidelines on valuation of technical provisions</p>
EIOPA Q&A on above	<p>https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx</p>
EIOPA Common Application Package for Internal Models – Opinion, Explanatory Note and Package	<p>https://eiopa.europa.eu/Publications/Opinions/EI-OPA_Opinion_on_Internal_Model_Common_Application_Package_27_March_2014_.pdf</p> <p>https://eiopa.europa.eu/Publications/Standards/EIOPA Common Application Package - Explanatory Note.pdf</p> <p>https://eiopa.europa.eu/Publications/Standards/EIOPA Common Application Package.xlsm</p> <p>EIOPA-BoS-15/083: Opinion on the preparation for Internal Model applications</p>

Set 1 of EIOPA's ITS covering such as ancillary own-fund items, IMAP and undertaking specific parameters	<p>Commission Implementing Regulation (EU) 2015/460 laying down ITS with regard to the procedure concerning the approval of an internal model</p> <p>Commission Implementing Regulation (EU) 2015/461 laying down ITS with regard to the process to reach a joint decision on the application to use a group internal model</p> <p>Commission Implementing Regulation (EU) 2015/462 laying down ITS with regard to the procedures for supervisory approval to establish special purpose vehicles, for the cooperation and exchange of information between supervisory authorities regarding special purpose vehicles as well as to set out formats and templates for information to be reported by special purpose vehicles</p> <p>Commission Implementing Regulation (EU) 2015/498 laying down ITS with regard to the supervisory approval procedure to use undertaking-specific parameters</p> <p>Commission Implementing Regulation (EU) 2015/499 laying down ITS with regard to the procedures to be used for granting supervisory approval for the use of ancillary own-fund items</p> <p>Commission Implementing Regulation (EU) 2015/500 laying down ITS with regard to the procedures to be followed for the supervisory approval of the application of a matching adjustment</p>
Technical Specifications	<p>Underlying Assumptions in the standard formula for the SCR calculation (EIOPA-14/32)</p> <p>Technical Specifications for the Solvency II Preparatory Phase - Part I (EIOPA-14/209)</p> <p>Annexes to Part I (EIOPA-14/211)</p> <p>Technical Specifications for the Solvency II Preparatory Phase - Part II (EIOPA-14/210)</p> <p>Errata to the Technical Specifications for the Preparatory Phase</p>
Technical information	<p>Risk-Free Interest Rate Term Structures (last updated May 2015)</p> <p>Symmetric adjustment of the equity capital charge (last updated April 2015)</p>
European Commission decisions on Equivalence	<p>Commission Delegated Decision of 5 June 2015, on the equivalence of the solvency and prudential regime for insurance and reinsurance undertakings in force in Switzerland, based on Articles 172(2), 227(4) and 260(3) of Solvency II; and</p> <p>Commission Delegated Decision of 5 June 2015, on the provisional equivalence of the solvency regimes in force in Australia, Bermuda, Brazil, Canada, Mexico and the United States and applicable to insurance and reinsurance undertakings with head offices in those countries</p> <p>Guidelines on the methodology for equivalence assessments by national supervisory authorities under Solvency II</p>

Currently under consultation, or where feedback on the consultation is still awaited	
EIOPA Guidelines	<p>Guidelines on Valuation assets and liabilities (EIOPA CP-14/43)</p> <p>Guidelines on long term guarantees and transitional measures (EIOPA CP-14/49)</p> <p>(EIOPA CP-14/46) Guidelines on extension of the recovery period</p> <p>Proposal for Guidelines on Solvency II relating to Pillar 1 (EIOPA-14/36)</p> <p>CP-14-057 ITS on regional governments and local authorities treated as exposures</p> <p>CP-14-059 ITS on adjustment for pegged currencies</p> <p>CP-14-060 ITS on health risk equalisation systems standard deviations</p> <p>CP-14-061 ITS on the application of the equity transitional</p>

Pillar 2	
Final	
EIOPA Guidelines on Forward Looking Assessment of Own Risks (based on ORSA principles)	https://eiopa.europa.eu/Publications/Guidelines/Final_EN_ORSA_Clean_01.pdf#search=EN%20ORSA%20clean
EIOPA Q&A on above	https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx
EIOPA Guidelines on Systems of Governance (SoG) during preparatory phase	https://eiopa.europa.eu/Publications/Guidelines/Final_EN_SoG_Clean.pdf
EIOPA Q&A on above	https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx
Currently under consultation, or where feedback on the consultation is still awaited	
EIOPA Guidelines on SoG and ORSA	<p>Proposal for Guidelines on system of governance and own risks and solvency assessment (EIOPA-14/17)</p> <p>CP-14-051 ITS on supervisory transparency and accountability</p> <p>CP-14-053 ITS on capital add-on</p> <p>CP-14-054 ITS on risk management: procedures when assessing external credit assessments</p>

Pillar 3	
Final	
EIOPA Guidelines on Submission of Information to regulators – Preparatory stage	https://eiopa.europa.eu/Pages/Guidelines/Guidelines-on-Submission-of-Information-to-National-Competent-Authorities.aspx
Q&A on above EIOPA Guidelines	#https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx
Currently under consultation, or where feedback on the consultation is still awaited	
<p>Set 2 of EIOPA Consultation Papers on ITS and Guidelines on various aspects of Pillar 3</p> <p><i>EIOPA feedback on Set 2 of ITS and Guidelines due early Q3 2015</i></p> <p><i>EIOPA to release XBRL taxonomy early Q3 2015</i></p>	<p>https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-2-of-the-Solvency-II-Implementing-Technical-Standards-ITS-and-Guidelines.aspx</p> <p>See the Consultation Papers and Annexes with a ‘Pillar III’ heading.</p> <p>CP-14-052 ITS on regular supervisory reporting</p> <p>Annex I Template zip</p> <p>Annex II Individual LOGs zip</p> <p>Annex II Group LOGs zip</p> <p>Annex III Asset Categories</p> <p>Annex IV-V CIC table</p> <p>CP-14-055 ITS on public disclosure: procedures, formats and templates</p> <p>Annex I</p> <p>Annex II zip</p> <p>CP-14-047 Guidelines on reporting and disclosure</p> <p>Annex</p> <p>CP-14-048 Guidelines on third country branches</p> <p>Annex III</p> <p>Annex IV</p> <p>Guidelines on financial stability reporting (EIOPA CP-14/45)</p> <p>Guidelines on exchange of information on a systematic basis within colleges (EIOPA CP-14/50)</p> <p>Guidelines on methods to determine the market share for the purpose of exemptions to supervisory reporting (EIOPA CP-14/44)</p>
Group Submission of Information	EIOPA CP/15/02: Proposal for implementing technical standards on the procedures and templates for the submission of information to the group supervisor as well as the exchange of information between supervisory authorities
Current Preparatory Phase EIOPA Taxonomy (1.5.2.c)	<p>Solvency II Data Point Model and XBRL taxonomy design</p> <p>28 February 2015</p>

<u>Overarching i.e. relevant to all pillars</u>	
Final	
Original Solvency 2 Directive	Directive 2009/138/EC (Solvency II)
Omnibus 2 which amends above in certain key areas	Directive 2014/51/EU (Omnibus II)
Implementing Rules	http://ec.europa.eu/internal_market/insurance/solvency/solvency2/index_en.htm
By way of background, original advice on Solvency 2 implementing measures from EIOPA's predecessor, CEIOPS (various)	https://eiopa.europa.eu/publications/solvency-ii-final-l2-advice
EIOPA Guidelines	Guidelines on the use of the legal identity Identifier (LEI) Guidelines on supervisory review process Guidelines on operational functioning of colleges
Solvency 2 FAQ	Solvency II Overview - FAQ - European Commission Factsheet January 2015
Currently under consultation, or where the final guidelines / technical standards have not yet been issued	
Set 2 of EIOPA Consultation Papers on ITS and Guidelines – other than Pillar 3	https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-2-of-the-Solvency-II-Implementing-Technical-Standards-(ITS)-and-Guidelines.aspx

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