



Financial Services  
Commission

## Update on Solvency 2

*Less than **400** days to go*

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*Update made to the Annex to reflect the changes to the EIOPA website.*



## Ongoing self-assessment exercises a key stepping stone to successful implementation

### 1. Introduction

As highlighted in our “Update on Solvency 2”, issued in September, we place great store in communicating with the industry during the build-up towards the introduction of Solvency 2 on 1<sup>st</sup> January, 2016. In the two months since our last update, there have been a number of developments, both within Gibraltar and at EIOPA, and we thought it timely to issue this further update.

#### What has happened recently?

As stated previously, the FSC is committed to working with industry to ensure that firms are ready for Solvency 2 and, as outlined below, we have been engaging with the market as part of this process.

#### Feedback meetings.

Meetings have taken place with a selection of firms to provide specific feedback on the first Systems of Governance (SoG) self-assessment exercise and the firm’s Solvency 2 plans. These are ongoing.

#### Market feedback paper.

On 1 October, the FSC published a feedback paper on the results of the first self-assessment exercise, covering SoG plus the FLAOR submissions. A copy of this can be found on the FSC website.

#### Insurance Manager meetings.

A series of meetings have been held to discuss insurance managers’ approach to assisting their clients to complete their Solvency 2 preparations, as well as to discuss particular issues and queries that arose during the first self-assessment exercise. These are ongoing.

#### Solvency 2 e-mail address questions ([s2@fsc.gi](mailto:s2@fsc.gi)).

A number of queries have been received, and responses provided, via this dedicated email. We are currently reviewing the possibility of producing a “Frequently Asked Questions” section on the FSC Solvency 2 site in early 2015.

#### Gibraltar Insurance Association (“GIA”) liaison.

We have continued to work with the GIA’s Solvency 2 project team using the meetings to learn more about industry progress and concerns and also to regularly update GIA members on the FSC’s own preparations.

#### Government of Gibraltar liaison.

We have continued to engage with the Finance Centre and the Counsel drafting the Solvency 2 Bill to ensure that Gibraltar legislation complies fully with Solvency 2 Directive requirements.

EIOPA has also been active over this period and we have attached an amended Annex, which provides a comprehensive list of all relevant European documentation published in respect of Solvency 2, classified by Pillar, for ease of reference. Of particular interest is the draft implementing rules which the EU Commission published on 10<sup>th</sup> October, the final Implementing Technical Standards (ITS) Set 1 and the final proposed ITS Set 2 published by EIOPA on 2<sup>nd</sup> December. We expect firms to remain aware of the latest requirements and will therefore continue to bring your attention to new EIOPA publications.

### 2. What next?

#### Data requests

As highlighted in the previous Solvency 2 update, a second data request was issued on 24<sup>th</sup> October, 2014. For this exercise the scope has been widened across all 3 pillars in order to provide a more complete snapshot of where the market is on its journey towards Solvency 2 compliance.

As a reminder, firms have been requested to submit the following:

1. A revised SoG questionnaire by 28<sup>th</sup> November, 2014;
2. An initial FLAOR by 31<sup>st</sup> December, 2014;
3. A forecast SCR on a “best endeavours basis”, with supporting explanation of assumptions made and actions to meet any estimated shortfall in capital. This is to be submitted by 31<sup>st</sup> December, 2014;
4. Confirmation whether the firm will be seeking FSC

- approval for a full or partial internal model or any other approval in areas such as undertaking specific parameters and ancillary own funds, again due by 31<sup>st</sup> December, 2014;
5. A self-assessment of a firm's preparedness to meet the reporting requirements of Pillar 3, by 31<sup>st</sup> December, 2014;
  6. Full Solvency 2 plans, or updates where these have previously been submitted to the FSC, by 28<sup>th</sup> November, 2014.

Once the data has been reviewed and analysed, a second feedback paper will be issued, towards the end of February 2015. This coincides with when the FSC will have to provide a progress update to EIOPA. Also, a further round of meetings with selected firms will be held to continue the dialogue and provide feedback and any further clarification required.

Where our analysis suggests that a firm is behind where we would expect them to be in its Solvency 2 preparations, or a significant shortfall in the capital required to meet its SCR has been reported, meetings will be arranged with those firms to agree an appropriate action plan to deliver the required outcomes.

### **Pillar 3**

We have now received the final proposed data requirements from EIOPA. These were outlined in the second set of Implementing Technical Standards, published on the 2<sup>nd</sup> December.

With regards to data to be provided to the FSC by those firms participating in the "dry run" exercise next year; our intention remains to allow firms to complete specific Excel templates which can then be uploaded to the FSC. We have not yet completed our vendor selection but are hopeful that a decision will be made by year end. At this stage therefore, we cannot yet confirm whether we will be able to employ the new system for the "dry run" in Q2 2015, or a suitable interim solution. A further update on this area will be issued early in 2015.

As we mentioned in our previous Update, any firm wishing to take advantage of the "dry run" exercise can do so in order to help test the firm's approach.

### **Themes**

As also mentioned earlier, we have received a number of queries. A number of common themes are emerging and two in particular stand out, namely the issues of proportionality and group supervision. In both of these areas, the FSC is reviewing

the scope of current EIOPA guidelines and taking "soundings" from industry as appropriate.

Whilst the FSC cannot confirm its position until the final regulations and guidelines have been published in Q1 2015, a further communication on these subjects will be published. In the meantime, we continue to encourage firms to review the recent draft implementing rules and latest guidelines as we believe these to be close to final, and to prepare accordingly.

### **Interaction between FSC and Industry**

As part of the joint GIA/FSC Solvency 2 program a number of questions have been received and these will be answered in an upcoming FAQ paper. We remain keen to receive industry's views on proportionality.

Again, as part of our program to engage with industry, we will be arranging a series of meetings with Independent Non-Executive Directors (INEDs). The first such event is a business breakfast on 10<sup>th</sup> December. Further meetings will be held during Q1 2015. These will allow INEDs to fully understand the FSC's expectations of INEDs, as well as to assist the FSC in its evaluation of the overall state of market preparedness for Solvency 2.

### **Legal Entity Identifiers**

EIOPA have advised that it is a requirement that each insurer should obtain a Legal Entity Identifier (LEI) from an accredited LOU (Local Operating Unit). A list of accredited LOU can be found here: <http://www.lei.org/about/membersandobservers/index.htm>.

The LEI should be used when submitting Solvency 2 data which will allow for improved automation of data processing and reduce reporting burdens, improving quality and reducing costs for all involved parties.

The FSC is required to confirm to EIOPA that all licenced entities in Gibraltar have applied for an LEI code by 30 June 2015. Therefore confirmation will be sought from firms to ensure full compliance with these requirements. A separate LEI is required for each insurer within a Group and for the Group itself.

## Annex to the December 2014 update (revised January 2015)

## 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 II page has links to many of the relevant documents, including the Solvency II Directive, Omnibus II Directive and the draft Level 2 Implementing Rules. This can be found below

[http://ec.europa.eu/internal\\_market/insurance/solvency/solvency2/index\\_en.htm](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 Help-er tabs	<a href="https://eiopa.europa.eu/Pages/Supervision/Insurance/Solvency-II-Technical-Specifications.aspx">https://eiopa.europa.eu/Pages/Supervision/Insurance/Solvency-II-Technical-Specifications.aspx</a>
Underlying assumptions in the SCR standard formula	Use above link, or <a href="https://eiopa.europa.eu/Publications/Standards/EIOPA-14-322_Underlying_Assumptions.pdf">https://eiopa.europa.eu/Publications/Standards/EIOPA-14-322_Underlying_Assumptions.pdf</a>
EIOPA Guidelines on pre-application for Internal Models, including Q & A, final report	<a href="https://eiopa.europa.eu/Pages/Guidelines/Guidelines-on-pre-application-of-internal-models-.aspx">https://eiopa.europa.eu/Pages/Guidelines/Guidelines-on-pre-application-of-internal-models-.aspx</a>
EIOPA Q&A on above	<a href="https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx">https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx</a>
EIOPA Common Application Package for Internal Models – Opinion, Explanatory Note and Package	<a href="https://eiopa.europa.eu/Publications/Opinions/EI-OPA_Opinion_on_Internal_Model_Common_Application_Package_27_March_2014_.pdf">https://eiopa.europa.eu/Publications/Opinions/EI-OPA_Opinion_on_Internal_Model_Common_Application_Package_27_March_2014_.pdf</a> <a href="https://eiopa.europa.eu/Publications/Standards/EIOPA_Common_Application_Package_-_Explanatory_Note.pdf">https://eiopa.europa.eu/Publications/Standards/EIOPA_Common_Application_Package_-_Explanatory_Note.pdf</a> <a href="https://eiopa.europa.eu/Publications/Standards/EIOPA_Common_Application_Pack-age.xlsm">https://eiopa.europa.eu/Publications/Standards/EIOPA_Common_Application_Pack-age.xlsm</a>
Currently under consultation, or where the final guidelines / technical standards have not yet been issued	
Set 1 of EIOPA's ITS covering such as ancillary own-fund items, IMAP and undertaking specific parameters	<a href="https://eiopa.europa.eu/Pages/Supervision/Insurance/draft-implementing-technical-standards-on-the-supervisory-approval-processes-for-solvency-ii.aspx">https://eiopa.europa.eu/Pages/Supervision/Insurance/draft-implementing-technical-standards-on-the-supervisory-approval-processes-for-solvency-ii.aspx</a> [consultation closed 30th June 2104; EIOPA has submitted the ITS to the European Commission for final endorsement; expect to come into force 1st April 2015]
EIOPA Guidelines on Solvency II relating to Pillar 1	<a href="https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-1-of-the-Solvency-II-Guidelines.aspx">https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-1-of-the-Solvency-II-Guidelines.aspx</a> [consultation closed 29 <sup>th</sup> August 2014, final report published 3 <sup>rd</sup> December 2014]
EIOPA Guidelines on the Use of Internal Models	See previous link

Pillar 2	
Final	
EIOPA Guidelines on Forward Looking Assessment of Own Risks (based on ORSA principles)	<a href="https://eiopa.europa.eu/Pages/Guidelines/Guidelines-on-Forward-Looking-assessment-of-own-risks-based-on-the-ORSA-principles.aspx">https://eiopa.europa.eu/Pages/Guidelines/Guidelines-on-Forward-Looking-assessment-of-own-risks-based-on-the-ORSA-principles.aspx</a>
EIOPA Q&A on above	<a href="https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx">https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx</a>
EIOPA Guidelines on Systems of Governance (SoG) during preparatory phase	<a href="https://eiopa.europa.eu/Pages/Guidelines/Guidelines-on-System-of-Governance.aspx">https://eiopa.europa.eu/Pages/Guidelines/Guidelines-on-System-of-Governance.aspx</a>
EIOPA Q&A on above	<a href="https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx">https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx</a>
<b>Currently under consultation, or where the final guidelines / technical standards have not yet been issued</b>	
EIOPA Guidelines on SoG and ORSA	<a href="https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-1-of-the-Solvency-II-Guidelines.aspx">https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-1-of-the-Solvency-II-Guidelines.aspx</a>  [consultation closed 29 <sup>th</sup> August 2014, final report published 3 <sup>rd</sup> December 2014]

Pillar 3	
Final	
EIOPA Guidelines on Submission of Information to regulators – Preparatory stage	<a href="https://eiopa.europa.eu/Pages/Guidelines/Guidelines-on-Submission-of-Information-to-National-Competent-Authorities.aspx">https://eiopa.europa.eu/Pages/Guidelines/Guidelines-on-Submission-of-Information-to-National-Competent-Authorities.aspx</a>
Q&A on above EIOPA Guidelines	<a href="https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx">https://eiopa.europa.eu/Pages/Guidelines/QA-on-Guidelines.aspx</a>
<b>Currently under consultation, or where feedback on the consultation is still awaited</b>	
Set 2 of EIOPA Consultation Papers on ITS and Guidelines on various aspects of Pillar 3	<a href="https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-2-of-the-Solvency-II-Implementing-Technical-Standards-(ITS)-and-Guidelines.aspx">https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-2-of-the-Solvency-II-Implementing-Technical-Standards-(ITS)-and-Guidelines.aspx</a>  See the Consultation Papers and Annexes with a ‘Pillar III’ heading.  <a href="#">CP-14-052 ITS on regular supervisory reporting</a> <a href="#">Annex I Template zip</a> <a href="#">Annex II Individual LOGs zip</a> <a href="#">Annex II Group LOGs zip</a> <a href="#">Annex III Asset Categories</a> <a href="#">Annex IV-V CIC table</a> <a href="#">CP-14-055 ITS on public disclosure: procedures, formats and templates</a> <a href="#">Annex I</a> <a href="#">Annex II zip</a>  <a href="#">CP-14-047 Guidelines on reporting and disclosure</a> <a href="#">Annex</a>  <a href="#">CP-14-048 Guidelines on third country branches</a> <a href="#">Annex III</a> <a href="#">Annex IV</a>

Overarching i.e. relevant to all pillars	
Final	
Original Solvency 2 Directive	<a href="http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32009L0138">http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32009L0138</a>
Omnibus 2 which amends above in certain key areas	<a href="http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.153.01.0001.01.ENG">http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.153.01.0001.01.ENG</a>
Implementing Rules	<a href="http://ec.europa.eu/internal_market/insurance/solvency/solvency2/index_en.htm">http://ec.europa.eu/internal_market/insurance/solvency/solvency2/index_en.htm</a>
By way of background, original advice on Solvency 2 implementing measures from EIOPA's predecessor, CEIOPS (various)	<a href="https://eiopa.europa.eu/publications/solvency-ii-final-12-advice">https://eiopa.europa.eu/publications/solvency-ii-final-12-advice</a>
Currently under consultation, or where the final guidelines / technical standards have not yet been issued	
EIOPA Guidelines on Supervisory Review Process	<a href="https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-1-of-the-Solvency-II-Guidelines.aspx">https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-1-of-the-Solvency-II-Guidelines.aspx</a> [consultation closed 29 <sup>th</sup> August 2014, final report published 3 <sup>rd</sup> December 2014]
Set 2 of EIOPA Consultation Papers on ITS and Guidelines – other than Pillar 3	<a href="https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-2-of-the-Solvency-II-Implementing-Technical-Standards-(ITS)-and-Guidelines.aspx">https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-2-of-the-Solvency-II-Implementing-Technical-Standards-(ITS)-and-Guidelines.aspx</a>

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