



Financial Services
Commission

Update on Solvency 2

Less than 500 days to go

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Solvency 2

It is important to the reputation of Gibraltar and its economy that we have well managed and capitalised firms.

1. Introduction

Solvency 2 is a fundamental review of the capital adequacy regime for the European insurance industry. It will establish a revised set of EU-wide capital requirements and risk management standards, which will be consistently applied across Europe.

As we have previously made clear, the FSC fully supports these European goals and we take our obligations to implement Solvency 2 seriously. We expect firms to do likewise.

Furthermore, it is important to the reputation of Gibraltar and its economy that we have well managed and capitalised firms.

We all have a role to play and as the title makes clear, the clock is ticking for all of us.

We will ensure that the principle of proportionality that is inherent within Solvency 2 is implemented to reflect the risk profile of Gibraltar insurers. For the avoidance of doubt though, this is not an excuse for inaction on the part of firms; as the recent Systems of Governance and FLAOR self-assessments by firms have shown there is a lot of work still to be done.

Requirements on firms will arise from a combination of local legislation and regulations along with Implementing Technical Standards and Guidelines from Europe. It is important that firms are aware of developments on both fronts.

In what follows, we outline our overall approach over the remaining 16 months. We then set out the FSC's current expectations in respect of each of the 3 pillars that make up Solvency 2 along with key future milestones during the forthcoming period. This includes an important update on reporting requirements. And finally we provide a reminder of the material that firms should already be familiar with, along with what to expect next on that front.

2. The FSC's expectations of a Firm

We outline below our expectations of where firms should be in their preparation for Solvency 2 for each pillar, along with a reminder of the objectives of that pillar. The split by pillars is our own and is not intended to be a definitive interpretation.

Pillar 1

Objective: To ensure that a firm is adequately capitalised to deliver policyholder protection.

Current FSC expectation: Firms (including Groups) have an understanding of how their regulatory capital requirements are likely to change with the introduction of Solvency 2, and to have made appropriate plans to ensure compliance by 2016.

Pillar 2

Objective: This pillar sets the bar in terms of expected standards of risk management and governance by firms (including Groups). It also brings in a requirement for firms to undertake their own forward-looking assessment of their risks, solvency needs and adequacy of capital resources.

Current FSC expectations: Firms should be undertaking the following:

- a) actively progressing their plans to meet the required governance requirements (including meeting the existing regulatory requirements set out in Guidance Note 14 in December 2013);
- b) finalising their FLAOR report for submission to FSC in the near future, and no later than 31st December 2014;
- c) considering how to embed the governance requirements in their firm, and how they will demonstrate this to the FSC i.e. this is not just a paper production exercise.

Pillar 3

Objective: To provide greater levels of transparency for supervisors and the public, such that overall there is better and more up-to-date information on a firm's financial position.

Current FSC expectations: Firms (and Groups) who were advised in December 2013 that they will be required to provide data as part of the dry run in Q2 of 2015 should ensure that they have appropriate policies and procedures in place in order to be able to validate and provide the necessary data. Other firms (and Groups) should have a plan for how they will get to this point by the end of next year. If such firms wish to participate in the Q2 of 2015 dry run exercise, the FSC will facilitate all such requests.

Note: With regards to the method for firms to provide such data, the FSC will implement technology that eases the burden of submitting data. This means that, firms can concentrate on the provision of accurate and compliant regulatory information. In line with the FSC's implementation of CRD IV, and the approach taken by the majority of other regulators, we will utilise XBRL. Perhaps more importantly for firms, our chosen tool will provide templates for firms to complete, which can then be uploaded to the FSC. We welcome your views on this (see section 3 below for more details on how to provide views to the FSC). More details will be provided in due course regarding the technology.

Overarching i.e. relevant to all pillars

Current FSC expectations: Firms should be familiar with relevant European material, and have a process in place for monitoring both local and European developments. For firms which decide to withdraw from the market, the FSC will look to the shareholders and directors to ensure the exit is well managed and that there is an orderly run-off in order to protect the interests of customers.



s2@fsc.gi

We have created a dedicated email address for firms to use if they have enquires relating to Solvency 2.

The FSC fully supports these European goals and we take our obligations to implement Solvency 2 seriously. We expect firms to do likewise.

3. The FSC's approach to implementation

Expectations of firms (including Groups) are set out in the Solvency 2 and Omnibus 2 Directives along with the supporting material from EIOPA (we cover this in more detail in the section 5). Firms should use this as the basis for what they need to comply with. Whilst we do not expect significant changes in the requirements, it is important that firms are aware of any new material from EIOPA. We will also provide a link on our website to relevant material.

Where the FSC has discretion on particular aspects, we will make our decision clear to industry at the earliest opportunity, consulting if appropriate.

Where further clarity is sought by firms, or where we believe further guidance would be beneficial to firms, we will aim to provide this in a timely manner, applying appropriate prioritisation. We have created a dedicated email address for firms to use if they have enquiries relating to Solvency 2: s2@fsc.gi. Firms should, however, ensure they are familiar with appropriate European material, and any associated FSC guidance before submitting any enquiries.

We will continue to actively work with industry to ensure that firms are ready for Solvency 2. A key plank of this will take the form of regular self-assessments and follow up exercises e.g. we have recently conducted the first self-assessment exercise in respect of Systems of Governance and FLAOR. We appreciate those who have taken the time to provide a detailed analysis. We will provide feedback in the coming weeks. To manage expectations, we also intend to request a further self-assessment, which should be completed and submitted to the FSC by 28th November this year. By that stage, we expect to see all firms being fully compliant with the relevant requirements set out in Guidance Note 14, and to provide evidence to this effect (i.e. those Guidelines where it was stated that firms should already be compliant). We also expect firms to submit their initial

Time is marching on, and all parties need to ensure sufficient resources are being applied in order to meet relevant deadlines.

FLAOR report in the coming months, and certainly no later than the end of the year.

Where we believe a firm is falling behind schedule on its implementation, we will look for comfort from the firm that it is investing sufficient time and energy to ensure it will meet its obligations under Solvency 2. In general, we will monitor firms' progress against their plans.

Where we believe a firm is at risk of not having sufficient eligible own funds to cover its SCR under Solvency 2, we will actively encourage resolution of this between now and 2016, and expect to see a credible plan to address any forecast shortfalls. To this end, later in 2014, we will ask firms to provide us with an assessment of their preparedness to meet their likely future capital requirements.

We will meet regularly with industry representatives to ensure there is an open two way discussion.

We will also engage with firms' Chairs and Non-Executive Directors given the critical role Boards play in delivering the right outcomes under Solvency 2 e.g. through the Board's direction of the ORSA process and challenge of the outcome.

Alongside our industry engagement, we will also work to ensure we deliver on our own supervisory responsibilities under Solvency 2, as well as our responsibilities to EIOPA.

4. Future milestones by pillar

In order to help firms manage their Solvency 2 delivery plans, in Annex 1 we provide our current view of key milestones for firms. This is shown separately for each of the 3 pillars.

5. Relevant material by pillar

In Annex 2, we provide a guide, again by pillar, of the material that Europe has published. This includes a split between material that is final and that which is under consultation. Firms should be aware of all this material.

This table 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 endeavor 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. Please note that the list ignores any. Please note that the list ignores any consultation papers that concluded in 2013 or earlier, as it is our understanding that these will have been updated by either a publication or further consultation. The latter is also captured in the table.

Annex 3 contains the European Commission's timeline for future publications to highlight that further material will be forthcoming, and that firms should be prepared to consider this material when it is issued.



6. Summary

Time is marching on, and all parties need to ensure sufficient resources are being applied in order to meet relevant deadlines. We have set out our high level expectations in this paper, and expect firms to be actively implementing their Solvency 2 plans. We have provided a broad route map as to what firms should expect, and by when, to help firms plan accordingly. We will continue our engagement with industry to answer queries as they arise, and to provide further colour where necessary.

As usual, we would expect firms to ensure their Boards are aware of the content of this document.

Annex 1: Future milestones

Date	Pillar 1	Pillar 2	Pillar 3	Overarching
Q3'14	For IMAP firms, update on FSC process and timeline for pre-application	FSC feedback paper on initial self-assessments on Systems of Governance (SoG)		
Q4'14	Request for forecast Solvency 2 balance sheet, and plans to ensure compliance by 2016 (<i>this will be ongoing up to 2016 on a bespoke basis</i>)	Latest period for submission of FLAOR report; Second self-assessment on SoG due (28/11/14)	FSC to provide update on proposed approach to data transmission; Request for self-assessment of firms' progress with identifying how they will gather the required data; Self-assessment due in respect of above.	Request for industry feedback re proportionality; FSC/GIA Industry Forum
Q1'15	Potential technical industry forum focusing on Pillar 1	FSC feedback paper on second self-assessments on SoG; FSC feedback paper on FLAOR reports; Potential technical industry forum focusing on Pillar 2	Confirmation of FSC approach to data transmission; FSC feedback paper on Pillar 3 self-assessment; Potential technical industry forum focusing on Pillar 3	Transposition Bill gives effect to Solvency 2 Directive in Gibraltar; FSC comment on EIOPA Implementing Technical Standards (ITS); Feedback due from industry on proportionality; FSC report to EIOPA re preparedness
Q2'15	For IMAP firms, start of formal application and review	Third self-assessment on SoG due	Previously identified firms to provide dry run data to FSC	FSC comment and guidance, if applicable, on EIOPA Guidelines, including proportionality
Q3'15	Potential technical industry forum focusing on Pillar 1	FSC feedback paper on third self-assessments on SoG	FSC feedback paper on data submission exercise; FSC feedback paper on results of analysis of quality of data provided by firms	FSC update on comments on ITS and Guidelines following publication of final set (see Annex 3)
Q4'15	Potential first model approval for IMAP firms; Potential first approvals of non-IMAP items such as USP	Latest period for submission of (improved) ORSA – FSC expectation is that by this point all firms will have a credible ORSA and which firms can demonstrate is being used in practice		

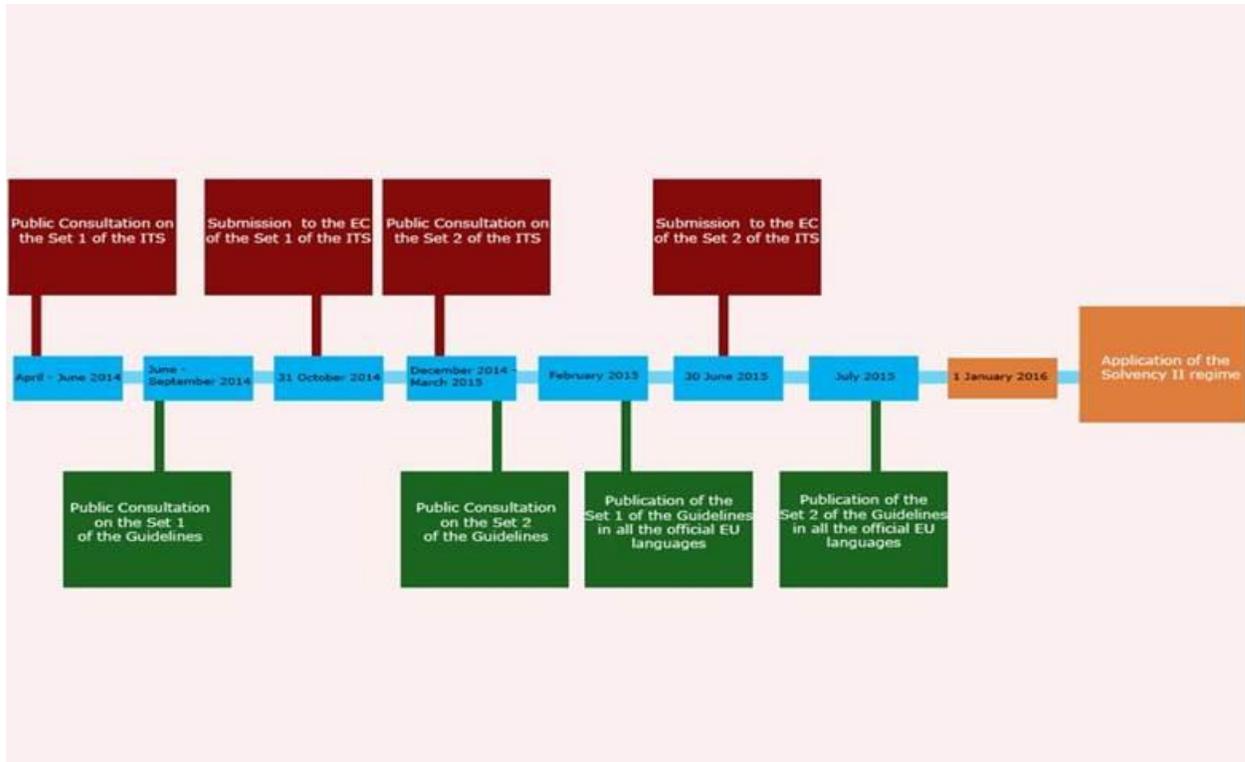
Annex 2: Relevant European documentation by pillar

Pillar 1	
Final	
EIOPA Technical specification for the preparatory phase (Part I)	https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/technical_specifications/A_-_Technical_Specification_for_the_Preparatory_Phase__Part_I_.pdf
Annexes to above	https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/technical_specifications/C_-_Annexes_to_Technical_Specification_for_the_Preparatory_Phase__Part_I_.pdf
Part II to above	https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/technical_specifications/B_-_Technical_Specification_for_the_Preparatory_Phase__Part_II_.pdf
Errata to above	https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/technical_specifications/Errata_to_the_Technical_Specifications_for_the_Preparatory_Phase.pdf
Underlying assumptions in the SCR standard formula	https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/technical_specifications/EIOPA-14-322_Underlying_Assumptions.pdf
Various Q&As relating to the technical specifications	https://eiopa.europa.eu/publications/technical-specifications/index.html
EIOPA Guidelines on pre-application for Internal Models	https://eiopa.europa.eu/publications/eiopa-guidelines-new/guidelines-on-pre-application-of-internal-models/index.html
EIOPA Q&A on above	https://eiopa.europa.eu/publications/eiopa-guidelines/qa-on-eiopa-guidelines/answers-to-questions-on-pre-application-for-internal-models/index.html
EIOPA Opinion on the use of a Common Application Package for Internal Models	https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/opinions/EIOPA_Opinion_on_Internal_Model_Common_Application_Package__27_March_2014_.pdf
Currently under consultation, or where feedback on the consultation is still awaited	
Set 1 of EIOPA's ITS covering such as ancillary own-fund items, IMAF and undertaking specific parameters	<p>https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/april-2014/public-consultation-on-the-set-1-of-the-solvency-ii-implementing-technical-standards-its/index.html</p> <p><i>[consultation closed 30th June 2014; EIOPA will submit the ITS to the European Commission by 31 October 2015 for final endorsement; come into force 1st April 2015]</i></p>
EIOPA Guidelines for Pillar 1	<p>https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/june-2014/public-consultation-on-the-set-1-of-the-solvency-ii-guidelines/index.html?no_cache=1&cid=6648&did=42233&sechash=b12ed198</p> <p><i>[consultation closed 29th August 2014]</i></p>
EIOPA Guidelines on the use of Internal Models	<p>https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/june-2014/public-consultation-on-the-set-1-of-the-solvency-ii-guidelines/index.html?no_cache=1&cid=6648&did=42099&sechash=099723fa</p> <p><i>[consultation closed 29th August 2014]</i></p>

Annex 2 cont. Relevant European documentation by pillar

Pillar 2	
Final	
EIOPA Guidelines on Forward Looking Assessment of Own Risks (based on ORSA principles)	https://eiopa.europa.eu/publications/eiopa-guidelines-new/guidelines-on-forward-looking-assessment-of-own-risks-based-on-the-orsa-principles/index.html
EIOPA Q&A on above	https://eiopa.europa.eu/publications/eiopa-guidelines/qa-on-eiopa-guidelines/answers-to-questions-on-forward-looking-assessment-of-own-risks/index.html
EIOPA Guidelines on Systems of Governance (SoG) during preparatory phase	https://eiopa.europa.eu/publications/eiopa-guidelines-new/guidelines-on-system-of-governance/index.html
EIOPA Q&A on above	https://eiopa.europa.eu/publications/eiopa-guidelines/qa-on-eiopa-guidelines/answers-to-questions-on-system-of-governance/index.html
Currently under consultation, or where feedback on the consultation is still awaited	
EIOPA Guidelines on SoG and ORSA	https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/june-2014/public-consultation-on-the-set-1-of-the-solvency-ii-guidelines/index.html?no_cache=1&cid=6648&did=42098&sechash=bb3e28b8 <i>[consultation closed 29th August 2014]</i>
Pillar 3	
Final	
EIOPA Guidelines on Submission of Information to regulators	https://eiopa.europa.eu/publications/eiopa-guidelines-new/guidelines-on-submission-of-information-to-national-competent-authorities/index.html
Q&A on above EIOPA Guidelines	https://eiopa.europa.eu/publications/eiopa-guidelines/qa-on-eiopa-guidelines/answers-to-questions-on-submission-of-information-to-ncas/index.html
Overarching i.e relevant to all pillars	
Final	
Original Solvency 2 Directive	http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32009L0138
Omnibus 2 which amends above in certain key areas	http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.153.01.0001.01.ENG
By way of background, original advice on Solvency 2 implementing measures from EIOPA's predecessor, CEIOPS (various)	https://eiopa.europa.eu/publications/sii-final-l2-advice/index.html
Currently under consultation, or where feedback on the consultation is still awaited	
Cover note for Set 1 of Guidelines from EIOPA	https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/june-2014/public-consultation-on-the-set-1-of-the-solvency-ii-guidelines/index.html?no_cache=1&cid=6648&did=42089&sechash=f2eaf54f <i>[consultation closed 29th August 2014]</i>
Annex to Set 1 of Guidelines from EIOPA	https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/june-2014/public-consultation-on-the-set-1-of-the-solvency-ii-guidelines/index.html?no_cache=1&cid=6648&did=42103&sechash=65b991f1
EIOPA Guidelines on Supervisory Review Process	https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/june-2014/public-consultation-on-the-set-1-of-the-solvency-ii-guidelines/index.html?no_cache=1&cid=6648&did=42118&sechash=9c46d59e <i>[consultation closed 29th August 2014]</i>

Annex 3: Future European legislative timetable



Source: European Commission

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