

**Solvency II: regulatory round-up and steps to implementation**  
Ross Gardiner and Anthony Brown, Financial Service Authority



22 November 2011

© 2010 The Actuarial Profession - www.actuaries.org.uk

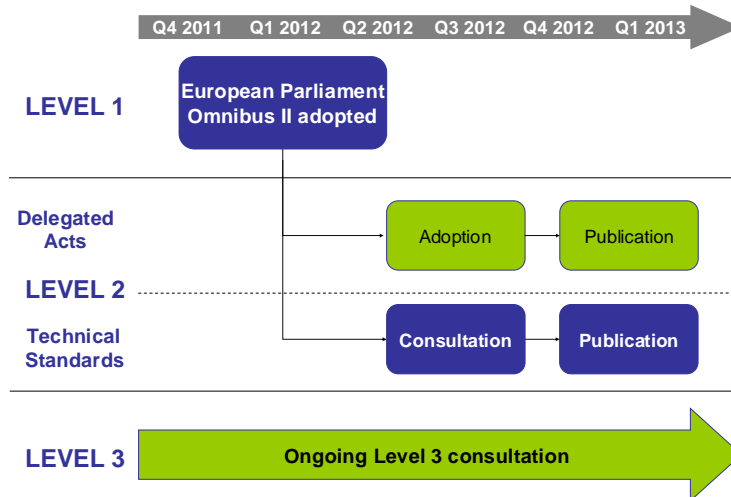
---

## Agenda

---

- The Process and Timetable
- More details on the Key Issues and Key Papers
- Internal Models

## The **Post Lisbon** Solvency II European Process



2

## Overall timeline for implementation

2012?      2013?      2014?

What does bifurcation mean?

3

## Omnibus II

Why?	Post Lisbon treatment of the Level 1
What?	Allow for EIOPA Transitionals etc
How?	Commission Proposal Parliament amendments Council (Presidency) text
When?	Parliament working now Scheduled Plenary vote in early next year

© 2010 The Actuarial Profession • www.actuaries.org.uk

4

## Level 2 – Part 1: The Delegated acts

Why?	The flesh on the bones of Solvency II
Who?	Advice from EIOPA (incl. previous work from CEIOPS) Drafted by Commission Ratified by Europe
What?	Most of the “exciting” stuff Matching Premium, Standard formula calibrations, EPIFP, etc
When?	Draft last February New draft imminent Then ratified post Omnibus II

5

## Level 2 – Part 2: The Technical Standards

- Why? Part of Lisbon treaty → Power to ESAs
- Who? EIOPA
- What? Certainly risk free rate, USPs, etc  
Omnibus II – Added uncertainty
- When? Formal consultation Q1 2012  
Pre-consultation and discussion – now

You **can** and **should** influence through FSA channels now and the **consultations** soon to come

6

## Level 3 – Guidance

- Why? Helping the industry interpret the rules
- Who? EIOPA
- What? Comply or explain guidance → not binding  
Covers a host of issues
- When? Pre-consulting now  
Papers to be released throughout 2012 and beyond

You **can** and **should** influence through FSA channels and the consultations now

7

---

## Update on Key Issues

---

- Contract Boundaries
- Matching Premium
- Counter-Cyclical Premium
- SCR market risk
- With-profits

8

---

## Key papers

---

- Actuarial guidelines
- Technical Standard on Risk-free term structure
- Other Key Technical Standard and Level 3 papers
- Timing

9

## Internal Model Approval Process (IMAP) news

The bifurcation assumption will impact the IMAP:

- FSA revised assumptions:
  - 1 January 2013: in-force date for National Supervisors.
  - 1 January 2014: in-force date for Firms.

[ Some issues still to be resolved in Europe ]
- Submissions for day 1 decision (for firms within the pre-application process):
  - Before: one narrow window 30 March 2012 to 31 May 2012.  

Please mind the closing doors !
  - Under the revised assumption: extended window from 30 March 2012 to Mid 2013. A submission slot is allocated to each firm.

Please take your seat !

10

## Internal models – IMAP

- FSA is striving for day 1 decision for firms currently in the Pre-Application process.
  - Firms not in Pre-Application should not expect a day 1 decision on their IM and should plan accordingly.
- Internal Model for groups:
  - Colleges of Supervisors to review models and make a joint decision (if application under Article 231).
  - Colleges already engaged in pre-application reviews
- EIOPA working with Supervisory Authorities to resolve issues and ensure consistency.

11

## Internal models – IMAP in steps

1. Entry to Pre-App: closed in 28 Feb 2011
2. Self-Assessment by firm: preparation of pre-application pack
3. Work plan for the review: in progress. More than 50 work plans already approved
4. Review and Assessment: in progress  
Include: meetings, presentations, desk-based review, on-site review and interviews
5. Ready for application: submission slot allocated to each firm
6. Formal Application under Directive: 6 months process

12

## Internal models – Level 3 papers

- Several Level 3 guidelines already drafted.
- Most of them already pre-consulted with main stakeholders: CEA, CRO Forum, Group Consultatif.

Topic	Status
Application Pack	Pre-consulted
Consistency of methods with TPs	Pre-consulted
Documentation	Pre-consulted
Expert Judgement	Pre-consulted
External Model and Data	Pre-consulted
Model Change Policy	Draft stage
Partial Internal Model (*)	Pre-consulted
PDF with Few Points	Pre-consulted
Profit & Loss Attribution	Pre-consulted
SCR Calibration	Pre-consulted
Use test	Pre-consulted
Validation Policy	Pre-consulted
Validation Tools	Pre-consulted

(\*) to become Technical Standard

13

## Internal models – key messages

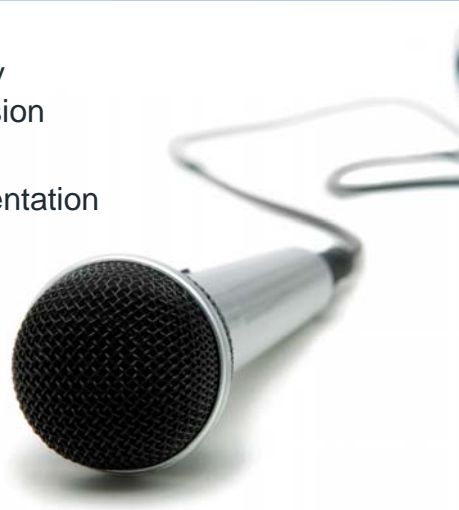
- Pre-Application work planning / reviews: started
- College activities: started
- Some quantitative techniques and tools developed by the FSA, piloted with firms now deployed and collecting results
- Some market initiatives may help such as the development of Best Practices for catastrophe modelling (to be published by the ABI)
- Tight schedule to meet day 1 decision
- Luckily (for IM) most of the legislation is stable: Level 1 / Level 2 / most of level 3 already drafted
- However still some issues to solve: for instance some groups specificities, impact of equivalent regimes (non-EEA)

14

## Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



15