

# Solvency II – current position

## Solvency II Breakfast Briefing

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## Agenda

### **Process and timelines for development of legislation/regulation**

Third Country Equivalence

Stock-taking for the Irish industry

2



## Levels 1-3

### A quick reminder

- Three levels of texts under Solvency II
- **Level 1: Directive**
  - Already adopted · Directive 2009/138/EC
  - Amendments (Omnibus II Directive) expected soon
- **Level 2: Implementing Measures**
  - Commission empowered by the Directive to adopt such measures in certain specified areas
  - Process for adoption requires approval of Parliament and Council
- **Level 3: Supervisory Guidance**
  - Aimed at ensuring supervisory convergence
  - Commission has listed areas where it strongly recommends that Level 3 guidelines be developed
  - To be developed by CEIOPS / EIOPA

3



## Level 2

### Implementing Measures

- 42 separate documents drafted by Commission

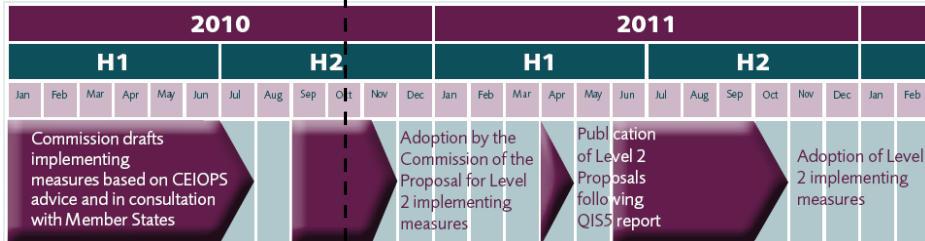
Topic	No. of IMs
Technical Provisions	3
SCR Standard Formula	17
Internal Models	4
Own Funds	4
Group issues	3
Other	11

- Will set out the detail of how Solvency II will operate
  - In effect, will supersede QIS5 Technical Specification (as well as covering many more topics than covered in QIS5)
- Expecting consolidated text (of current drafts) in coming weeks

4



## Level 2 Provisional Timeline



Source: Central Bank of Ireland

- Dec 2009 - July 2010: Monthly meetings of Solvency Experts Group+
- May 2010: Public Hearing on Level 2 Implementing Measures
- Expect consolidated text of draft proposals for Level 2 IMs in coming weeks
- Discussions and negotiations will resume in earnest when QIS5 results known
- Final Commission proposal must be accompanied by Impact Assessment
- European Parliament and Council have right of objection
- Maximum harmonisation intended => to be implemented by European Regulation

5



## Level 3 Provisional Timeline



Source: Central Bank of Ireland

- Level 3 Guidance to be developed by CEIOPS / EIOPA
- Strong recommendations for guidance in certain areas from Commission
- CEIOPS also published its own preliminary list of key indicators for which it envisages L3 guidance
- One piece of L3 guidance issued so far following consultation (on Internal Model Pre-Application)

6



## Agenda

Process and timelines for development of legislation/regulation

### Third Country Equivalence

Stock-taking for the Irish industry

7



## Equivalence

### Overview and current position

#### ▪ Relevant areas

- . Article 172 (reinsurance)
- . Article 227 (group solvency where %deduction and aggregation method+used)
- . Article 260 (group supervision)

#### ▪ Process

- . Assessment of equivalence of third country regimes with Solvency II
- . CEIOPS consultation followed by advice to Commission (i.e. standard Level 2 approach)
- . Commission to draft Level 2 Implementing Measure

#### ▪ Current position

- . CEIOPS published advice to Commission on 31 August 2010
- . Advice: Switzerland and Bermuda to be included in first wave (in respect of all three Articles)
- . Since published CP82 consulting on equivalence assessment methodology to be employed

#### ▪ Elephant in the room: USA

- . Art. 260: % no realistic chance of a positive result for the US within the timescale of the 1<sup>st</sup> wave+

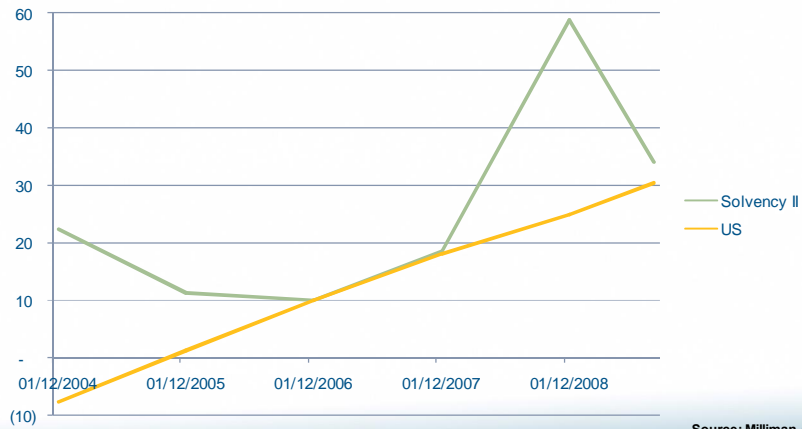
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## Equivalence

### Capital requirements for fixed annuity book

\$1 billion of Premium Issued  
(\$ in millions)



Source: Milliman (US) research

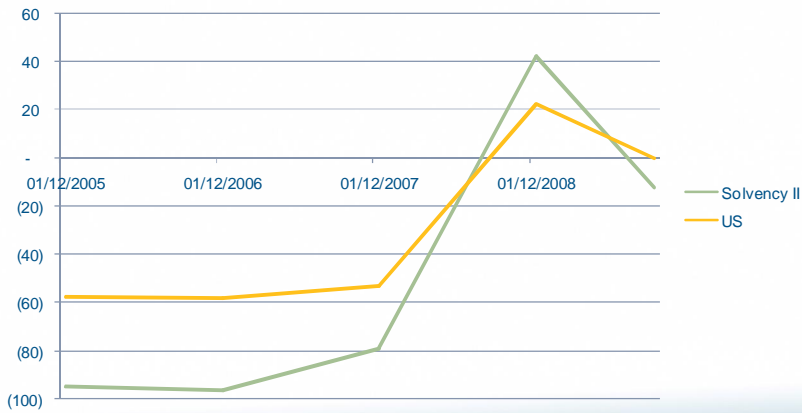
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## Equivalence

### Capital requirements for variable annuity book

\$1 billion of Premium Issued  
(\$ in millions)



Source: Milliman (US) research

10



## Agenda

- Process and timelines for development of legislation/regulation
- Third Country Equivalence
- Stock-taking for the Irish industry**

11



## Stock-taking for Irish industry

### ▪ Gap Analysis

- . Should be complete+
- . Financial Regulator publicly expressed this view in April
- . Subsequent letter to industry (July) making enquiries about state of Gap Analysis

### ▪ QIS5

- . Financial Regulator carried out survey of intentions (July)
- . Submit even if (especially if) you don't like the answers
- . Selective leaking of results?
- . Reassurance from Central Bank would be helpful
- . QIS6 to follow?

### ▪ ORSA

- . Definite sense that many firms are struggling with ORSA
- . Not helped by absence of clear guidance
- . Regulator has suggested Life FCR as possible starting point
- . Expecting CEIOPS paper in 2011 Q1

12



## Stock-taking for Irish industry

### ▪ Internal Models

- . Not relevant to everyone . only 1 in 6 indicated intention to use an Internal Model
- . Pre-Application Readiness Assessment Process
- . First wave of applicants recently selected and work now beginning
- . Others will be informed in coming weeks
- . Process will be governed by CEIOPS Paper CP80 (Pre-application Process for Internal Models)
- . Next issue of Central Bank's Solvency II newsletter will expand on the process

### ▪ Other

- . System of governance
- . Reporting / Disclosure
- . Group structures

13



## Summary

### ▪ Level 2 Implementing Measures being drafted and discussed

- . Consolidation of current drafts expected soon
- . Meaningful developments unlikely pre-QIS5 results
- . Official publication around May 2011 (following publication of QIS5 results)
- . Adoption by Commission in June 2011 with full adoption process completed by this time next year

### ▪ Level 3 Guidance being developed by CEIOPS / EIOPA

- . To be adopted in early 2012
- . Timetable for interim deliverables?
- . Clarity re consultation process?

### ▪ 3<sup>rd</sup> Country Equivalence

- . Impacts three areas (reinsurance, group solvency, group supervision)
- . CEIOPS advice to Commission: Only Bermuda and Switzerland should be considered for equivalence in 1<sup>st</sup> Wave of assessments

### ▪ Stock-taking for Irish firms

- . Gap Analysis, QIS5, ORSA, Internal Models, Other issues

14

