

## Solvency II Programme

Name	Number	Web address
Solvency II Programme	Currently EU Solvency Review	<a href="http://ec.europa.eu/internal_market/insurance/solvency/index_en.htm">http://ec.europa.eu/internal_market/insurance/solvency/index_en.htm</a>  <a href="http://www.fsa.gov.uk/Solvency2">http://www.fsa.gov.uk/Solvency2</a>

Status
<ul style="list-style-type: none"> <li>• The Solvency II Directive was enacted in December 2009 and included an implementation date of 1 November 2012.</li> <li>• The original implementation timetable has come under pressure as substantive policy issues continue to be negotiated in Europe. A short amending directive was passed in July 2012 changing the original timetable with a new timetable for transposition by Member States by 30 June 2013 and implementation by firms from 1 January 2014.</li> <li>• An impact study was launched in January 2013 on the long-term guarantees package. The findings of the study are expected to inform proposals for the Omnibus II Directive towards the end of 2013. The publication of the Omnibus II Directive will confirm the implementation date for Solvency II and areas for transitional arrangements. It will also trigger the formal proposal of the Level 2 text.</li> <li>• The Commission issued its latest draft of the Level 2 text in November 2011. The Commission's final proposal, which will be submitted to Council and Parliament for approval, is expected end-2013.</li> <li>• EIOPA is also developing Level 3 text, which is intended to harmonise the approaches of all European supervisors for various areas of Solvency II. The Level 3 text will be subject to pre-consultation from selected stakeholders, with formal consultations conducted with the Commission's permission (e.g. ORSA and Reporting consultations issued in November 2011).</li> <li>• In October 2012, the FSA acknowledged the delays to implementation and speculation of an implementation date of 2015 or later. To provide certainty to UK firms, we announced a new planning horizon of 31 December 2015.</li> <li>• In December 2012, EIOPA published its opinion on interim measures to achieve convergence and harmonisation in the run up to the new regime. A public consultation is expected in spring 2013 with guidelines published in Q3 2013 for introduction from 1 January 2014.</li> <li>• The FSA, jointly with HMT, is focussing their efforts on ensuring that the European Commission receives clear messages on the UK's priority for Omnibus II and Level 2 implementing measures, before the rules are finalised.</li> </ul>

UK implementation details
<p>In October 2012, the FSA announced a new planning horizon to 31 December 2015, which it will review in light of a new, credible timetable from Europe. The extended horizon means that the current ICAS regime will continue to apply to UK firms. The FSA also announced its intent to allow firms early use of their Solvency II internal models to meet current regulatory requirements in recognition of the significant investment made to date, and to ensure the appropriate pace is maintained towards implementation. This approach is referred to as 'ICAS+' as shorthand. Other activity – including the transposition of the Directive and the review of the appropriateness of the standard formula – has been replanned for when policy clarity is expected and firm preparations are sufficiently advanced.</p>

PRA aims and areas of interest
<p><b>Areas of Interest</b></p> <ul style="list-style-type: none"> <li>• Insurance</li> <li>• Policyholder protection</li> <li>• Secondary impacts on capital markets</li> </ul>

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Background
<p>Solvency I was a minimum harmonisation directive introduced in the early 1970s. It allowed for differences to emerge in the way that insurance regulation was applied across Europe, leading to different regimes. It was also primarily focused on prudential standards for insurers, and did not include requirements for risk management and governance within firms.</p> <p>Solvency II aims to achieve consistency across Europe on the key ideas of:</p> <ul style="list-style-type: none"> <li>• market consistent balance sheets;</li> <li>• risk-based capital;</li> <li>• own risk and solvency assessment (ORSA);</li> <li>• senior management accountability; and</li> <li>• supervisory assessment.</li> </ul>

Purpose of Directive
<p>Solvency II will set out new and stronger EU-wide requirements on capital adequacy and risk management for insurers, with the aim of increasing protection for policyholders. The strengthened regime should reduce the possibility of consumer loss or market disruption in insurance.</p>

Key provisions
<p>Pillars are defined by EIOPA as a way of grouping Solvency II requirements (the concept of pillars is not described in the Directive). Solvency II is split into <a href="#">three pillars</a>, though Pillars 2 and 3 are often referred together as Pillar 5 due to the synergies between them.</p> <p><b>Pillar 1</b> – this covers all the financial requirements. This pillar aims to ensure firms are adequately capitalised with risk-based capital. All valuations in this pillar are to be done in a prudent and market consistent manner. This pillar also includes the use of internal models which, subject to stringent standards and prior supervisory approval, enable a firm to calculate its regulatory capital requirements using its own internal model.</p> <p><b>Pillar 2</b> – this pillar imposes higher standards of risk management and governance within a firm’s organisation. This pillar also gives supervisors greater powers to challenge their firms on risk management issues. The ORSA requires a firm to undertake its own forward-looking self-assessment of its risks, corresponding capital requirements and adequacy of capital resources.</p> <p><b>Pillar 3</b> – this aims for greater levels of transparency for supervisors and the public. There is a private annual report to supervisors, and a public solvency and financial condition report that increases the level of disclosure required by firms. Our current returns will be completely replaced by reports containing core information that firms will have to make to us on a quarterly and annual basis. This will ensure that, overall, we have better and more up-to-date information on a firm’s financial position.</p>

Consultation		
Consulting institution	Consulting details	Deadline
EIOPA	A consultation on EIOPA’s proposal for interim measures is expected in spring 2013 and may last 8-12 weeks.	tbc

Timetable	Deadline
<b>Estimated industry implementation date of 1 January 2014, with transposition 30 June 2013</b>	
<b>Formulation of proposal</b>	
Working group	
Commission's draft proposal	10 July 2007
Proposal to Council	
<b>Parliament's option (first reading)</b>	
Committee(s) amendments	7 Oct 2008
Cion decision on amendments	
<b>COREPER</b>	
Working group meetings	
Amendment sent to Cion	
Working group(s) report to Council	
<b>Council</b>	
Vote on adoption or common position	
<b>Parliament's option on common position (second reading)</b>	
Overall deadline for decision by parliament	
Rapporteur's option	
Deadline for amendments to option	
Committee(s) vote	
Plenary vote	22 April 2009 – vote successful
<b>Council</b>	
Approval or conciliation committee?	
Publication in Official Journal	December 17, 2009
Finalising level 2 measures	Q3/Q4 2013
UK Authorities' implementation/transposition	Estimated 30 June 2013
Industry Implementation	Estimated 1 January 2014
COMMENTARY	We await either another 'quick fix' directive or the adoption of the Omnibus II Directive to confirm the implementation timetable including any bifurcation arrangements.

EU institution's meetings		
Meetings	Details	Date
EIOPC		
European Commission	Solvency Experts group	
Council of Ministers	Council Working Group	
EIOPA	Members Meeting	
EIOPA	Consultative Panel	
EIOPA	Managing Board	Ongoing
EIOPA	Financial Requirements Expert Group	Ongoing
EIOPA	Internal Models Expert Group	Ongoing
EIOPA	Internal Governance, Supervisory Review and Reporting Expert Group (Pillar 5)	Ongoing
EIOPA	Insurance Groups Supervision Committee	Ongoing
EIOPA	Financial Stability Committee	Ongoing
EIOPA	QIS5	Ongoing

Internal contacts		
PRA Lead	International Lead	GCD Lead
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