
Update:

Solvency II Planned FSA Communications

1. The following paper is intended to provide an update on, and to outline, the external communications to firms that the FSA will undertake following the European Parliamentary (EP) vote on the Solvency II Directive. The vote is anticipated to take place on the 20th or 21st April 2009.
2. The first communications exercise will be a ‘communications package’ sent to firms shortly after the EP vote. This communications exercise will be a consolidation of the commitments we made in DP08/4¹ (Insurance Risk Management: The Path to Solvency II) to communicate with firms. Worth noting is that the communications that were originally scheduled for March of this year have been rescheduled to early May to take account of the April EP vote.
3. Communications will be sent via the firm’s supervisor, either to the Solvency II key person that has been previously identified to us, or if not the addressee will be the CEO or equivalent.
4. The next section highlights more detail around the ‘communications package’ while the following sections will highlight other planned key communications from the FSA over the next two years.

Contents of the ‘Communications Package’

5. Each firm will receive a ‘communications package’ containing the following items:
 - a. **EITHER** a post-DP 08/4 “Dear CEO” letter **OR** a covering letter to the firm’s Solvency II key executive explaining the communications pack contents and highlighting any actions required (with particular focus on item c).
 - b. A high-level timetable of activities leading to eventual Solvency II implementation (which will be confirmed in the final Directive text). This will include a schedule of existing publications and an indication of publication of future materials.
 - c. Internal Models Approval Process (IMAP) letter, inviting firms to advise on their internal model plans, including:
 - i. Whether the firm plans to apply for internal model approval;
 - ii. If so, whether the firms plans to use a full or partial internal model;
 - iii. Whether the firm intends to join the dry run from Q3 / Q4 2010;

¹ http://www.fsa.gov.uk/pubs/discussion/dp08_04.pdf

- iv. Identity of the key contact for internal model communications and an indication of their reporting line to the “Solvency II key person”;
 - v. Further guidance as to the content of the IMAP dry run entry criteria; and
 - vi. Confirmation of the IMAP timeline.
- d. Feedback Statement from DP08/4 wherein we will summarise the comments received to the questions posed in DP08/4 and our responses to them.
6. We plan to give firms until late June 2009 to reply to these communications, at which time we will issue a response to the letters. Further to this we may consider having face-to-face discussion with firms on the issues raised in the communications, particularly if firms indicate that they would derive value from such discussions.

Fees Policy Statement: Solvency II Special Project Fees

7. We set out proposals in CP08/18² (published in October 2008) on the recovery of a Special Project Fee (SPF) to recover part of the 2009/10 project development costs related to Solvency 2. The proposal is to recover SPF for work related to the Internal Models Approval Process (IMAP), and a further SPF for all non-IMAP activity related to the implementation of Solvency 2. Following this consultation period we gave further detail on the non-IMAP SPF and responded to the feedback received in CP09/7³. This CP also outlines our intention going forward to use SPFs to target the recovery of the implementation costs for EU Directives (subject to prior consultation), including the proposed criteria for use of SPFs. The consultation period for CP09/7 will run until the 6th April.
8. Following our proposal for charging the IMAP SPF in CP08/18, those firms that are likely to fall within the population of this SPF were written to on the 26th January outlining further detail and extending the period of consultation to the 9th March. We plan to issue our final Policy Statement as per the usual procedure at the end of May, where we will also provide our responses to the feedback received from the letters.

Thematic Reviews

9. As part of our Internal Models Approval Process (IMAP) workstream, we are currently in the process of producing Thematic Reviews on aspects of internal models. As stated at previous Insurance Standing Group (ISG) meetings, the Thematic Reviews will be split into two stages. Stage 1 will be a review of existing knowledge and a high-level plan for the execution of the Stage 2 exercise, while Stage 2 will be a detailed look at the topics involving internal experts and a selection of firms.
10. The Stage 1 report is already in process and is planned for publication in early September 2009. We hope that these reports will aid the UK insurance industry in

² Regulatory fees and levies: policy proposals for 2009/10 - http://www.fsa.gov.uk/pubs/cp/cp08_18.pdf

³ Regulatory Fees and Levies: Rates Proposals 2009/10- http://www.fsa.gov.uk/pubs/cp/cp09_07.pdf

their preparations for Solvency II and entry into the dry-running process in Q3 2010. The Stage 2 reviews will commence, following publication of Stage 1, in October and is currently planned for publication in Q3 2010.

11. The Stage 1 Thematic Review will be published as four reports on the broad areas that we have identified for review. These four broad areas will be further split into sub-sections of the issues to be focused on. These are as follows:

Report	Subject to be reviewed
Qualitative Standards	<ul style="list-style-type: none"> • Demonstrating the use-test • Risk governance • Model governance • Senior management understanding • Management actions
Quantitative Standards	<ul style="list-style-type: none"> • Operational risk • Dependency structures • Model calibration • Modelling cat risk • Market and credit risk • Technical provisions
Model validation	<ul style="list-style-type: none"> • Validation (model input and output credibility and feed into decision making) • Compliance with other directive tests
Data and ensuring stability	<ul style="list-style-type: none"> • Compliance with data requirements

CEIOPS Consultation Papers

12. Following the previous meeting of the ISG on the 16th February, we produced a paper outlining the CEIOPS CP schedule for 2009. These CPs will provide the CEIOPS advice for the Level 2 implementing measures.
13. On the 27th March CEIOPS released for consultation its first set of advice on Solvency II implementing measures covering the following subjects:
- i. Procedure to be followed for the approval of an Internal Model
 - ii. Special Purpose Vehicles
 - iii. Valuation of Assets and "other Liabilities"
 - iv. Transparency and Accountability
 - v. System of Governance
 - vi. Technical Provisions - Assumptions about future management actions
 - vii. SCR Standard Formula - Allowance of financial mitigation techniques

- viii. Technical Provisions - Treatment of Future Premiums
- ix. Own Funds - Criteria for supervisory approval of ancillary own funds
- x. SCR Standard Formula - Counterparty default risk
- xi. Technical Provisions - Segmentation
- xii. Technical Provisions - Methods and statistical techniques for calculating the best estimate

14. All CEIOPS CPs can be found as they become available at the following link, where you will find the CPs on the above topics: <http://www.ceiops.eu/content/view/14/18/>. The next set of CPs is now planned for early July.

Quantitative Impact Study (QIS) 5

15. Firms should note that there is expected to be a QIS-5 exercise in April – June 2010 and we will be issuing more information around this in due course. We note this here however, as this should be included in firms Solvency II planning. This is particularly relevant where firms are planning to join the IMA dry run from mid 2010, where QIS-5 is likely to form part of the qualifying criteria to enter the dry run.