Another piece of the puzzle: Solvency II guidelines under consultation

In a recent publication, we highlighted that with the approval of the Omnibus II Directive (O2), the Solvency II framework Directive (2009/138/EC: S2) is finally final and noted that further details concerning many subjects still need to be provided in delegated and implementing acts and in guidelines. The European Insurance and Occupational Pensions Authority (EIOPA) has recently concluded its public consultation on the first set of Implementing Technical Standards (ITS) and is currently in the process of consulting the first set of guidelines (S2 GL). Insurers should participate in this consultation to be able to influence their future regulatory landscape.

Guidelines are non-binding instruments, addressed to National Competent Authorities (NCAs) or financial Institutions. They aim to ensure the common, uniform and consistent application of European Union law and to establish consistent, efficient and effective supervisory practices. Though the GL are non-binding, they provide important guidance for NCAs and non-compliance needs to be reported and explained to EIOPA.

This first set of S2 GL that is currently being consulted addresses:

- Pillar 1
- Internal models
- Pillar 2
- Supervisory Review Process
- Equivalence

**Pillar 1**
The Pillar 1 S2 GL provide details on the following topics:

- technical provisions (contract boundaries, valuation)
- own funds (ancillary own funds, classification of own funds, ring-fenced funds, treatment of related undertakings – including participations)
- Solvency Capital Requirement (SCR) standard formula (look-through approach, basis risk, application of outwards reinsurance arrangements to the non-life underwriting risk sub-module, treatment of market and counterparty risk exposures, application of the life underwriting risk module, health catastrophe risk sub-module, loss-absorbing capacity of technical provisions and deferred taxes, undertaking specific parameters)
- group solvency

**Internal Models**
The S2 GL on the Use of Internal Models provide guidance on the following:

- application for use of an internal model
- model changes
- tests and standards for approval (assumption setting and expert judgment, methodological consistency, probability distribution forecast, calibration – approximations, profit and loss attribution, validation, documentation, external models and data)
- internal models for groups – functioning of colleges

Pillar 2
The Pillar 2 S2 GL provide guidance on the following topics:

- system of governance
- Own Risk and Solvency Assessment (ORSA)

Supervisory Review Process
The Supervisory Review Process (SRP) S2 GL focus on:

- the general principles to be applied by supervisors when performing the SRP (consistency, proportionality, etc.)
- the stages of this process

Equivalence
The S2 GL on the methodology for Equivalence assessment are designed to assist the group supervisor with its task of verifying whether a third country regime is at least equivalent under article 227 (group solvency) and/or article 260 (group supervision) of S2. This verification can be initiated on request or at the group supervisor’s initiative if the European Commission has not adopted delegated acts determining that the supervisory regime of the third country is (provisionally/temporarily) equivalent to the S2 regime.

Next steps
The consultation period for the first set of S2 ITS ended on 30 June 2014. The European Commission is expected to publish the final version of these ITS later this year.

EIOPA has announced it will consult on a second set of S2 ITS that address the quantitative basis (Pillar 1), qualitative requirements (Pillar 2), reporting and disclosure (Pillar 3) and supervisory transparency as well as a second set of S2 GL that provides further guidance on qualitative requirements, reporting and disclosure. Both consultations are planned to start in December of this year.

The EIOPA S2 timeline as well as the consultation documents for the first set of S2 GL can be found on the EIOPA website. The consultation period for the first set of S2 GL ends 29 August 2014. Insurers should not miss this opportunity to voice any suggestions they might have with regard to any of the topics addressed.