

**Report on the Preparedness  
of Insurance Supervisors  
to implement Solvency II**

**June 2010**

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## **Annex**

Questionnaire on the Preparedness of Insurance Supervisors to implement Solvency II

## 1 Introduction

1. During the Members' Meeting of 25-26 March 2009 CEIOPS' Convergence Committee received a mandate to carry out a mapping exercise of the preparedness of supervisors for Solvency II<sup>1</sup>. This exercise is part of the initiatives included in the Solvency II - Road to implementation.
2. The **aim** of the exercise was to gather information on the current level of preparedness of insurance supervisors with reference to the implementation of Solvency II. As regards the impact on CEIOPS Members, the exercise was intended to help each Supervisor be more aware of the national position, identify the need for further resources and/or (legal) powers, and draw lessons from actions already undertaken by other Supervisors.

The survey was also intended to help CEIOPS Secretariat have an overview of the plans of Supervisors across Europe and identify the need for specific further actions to be taken at CEIOPS level (cooperation, training, exchange of staff, guidelines, other L3 measures...).

The aim remained to exchange best practices and to move gradually towards the implementation of Solvency II by the end of 2012. No different interpretations have to be attributed to the exercise, since the mapping exercise is not a peer review: any purpose of assessing single Supervisors was excluded, thus no benchmarks have been introduced.

3. Following the mandate received, the Convergence Committee has developed a **questionnaire**, based also on the input received from the Chairs of the Solvency II Expert Groups. It built up on previous CEIOPS work done in 2006, at the request of the European Commission, as CEIOPS' contribution to the Solvency II Impact Assessment.
4. The questionnaire covers both changes already made and expected changes to supervisory methodology, organisation or staff, in anticipation of the coming into force of Solvency II.

The questions touch both organisational and technical profiles, in particular: general state of preparedness of the supervisor; supervisory methodology, tools and procedures (including Pillar I, Pillar II, Pillar III and group requirements); institutional organisation of the supervisory authority; human resources and IT.

5. The questionnaire, approved at the March 2010 Members' Meeting, has been sent to all 30 CEIOPS Member and Observer Authorities supervising insurance undertakings. Replies were received from all competent supervisory authorities during April 2010<sup>2</sup>.

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<sup>1</sup> The mapping exercise was however not labelled as high priority, due to other upcoming tasks, and therefore work started in 2010.

<sup>2</sup> Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

## 2 Executive summary and conclusions

6. Work on the implementation of Solvency II is an unprecedented **complex and challenging** process in the area of insurance supervision: it is a long process that, started well in advance of the adoption of the Solvency II Proposal in July 2007, is proceeding at an increasing pace, involving a change in mentality, competences, covering all the different areas/sectors of the supervisory authorities, demanding resources and often implying reorganisation. This applies even for countries whose current regime already envisages forms of risk and principle based supervision.

**Work** on the implementation of Solvency II is **already underway** in all the supervisory authorities, although the level of advancement differs amongst supervisory authorities.

7. Participation in CEIOPS Working Groups, training, QIS exercises and pre-application for internal models played a major role in spreading the SII culture within the organisation of the supervisory authorities.

QIS exercises have been fundamental in helping both insurers and supervisors gradually to prepare for the introduction of the new prudential regime. **QIS5**, which will be run in the next months, represents a very important milestone of the Solvency II implementation, allowing a complete simulation of the new regime (including calibration), and providing a starting point for an ongoing dialogue between supervisors and undertakings about the Solvency II implementation.

Close cooperation and **dialogue** between supervisors and industry /stakeholders are indeed a key feature of the preparation process for Solvency II, and have enhanced common interpretation and parallel level of advancement. Interaction with individual undertakings on their level of preparedness to Solvency II has already started in all jurisdictions, although with a different stage of advancement.

8. **Fundamental changes are needed** in the supervisory methodology, tools and procedures, in all the different areas of insurance supervision – quantitative requirements (Pillar I), qualitative requirements (Pillar II), supervisory reporting and public disclosure, group supervision - in nearly all supervisory authorities.

Following the introduction of the new risk based **Pillar I requirements** – including technical provisions, own funds, Solvency Capital Requirements, investments - staff involved will need to acquire new competences, particularly in the area of actuarial and financial mathematics.

The area of internal models represents possibly the most challenging one for supervisors. The majority of supervisory authorities have **pre-application processes for internal models** already in place. These processes often share some degree of commonality and can form a valuable 'learning tool' for those who have yet to implement such a process.

Important steps have been taken by supervisory authorities, often in conjunction with the undertakings concerned, to address **Pillar II** requirements, aiming at the risk assessment of undertakings' individual profile.

In the area of Group Supervision, development of arrangements for, and enhancement of participation in, **Colleges** of Supervisors is expected, with subsequent resource implications.

9. On the organisational side of the supervisory authorities Solvency II will impact several different departments of supervisory authorities: from supervisory functions, which need to complete the switch from Solvency I to Solvency II, to other functions such as statistics, reporting, monitoring, legal units, also involved at many supervisory authorities.

Supervisors are aware of the structural needs of Solvency II and have already made changes to the structure of the authority for complying with the requirements of Solvency II. However, further **organisational changes** are expected - including changes related to staff, structural reforms, technological developments - as are the associated **resource implications** (financial and non-financial).

One of the main challenges for supervisors relates to the development of appropriate **staff** (number/type/competences), with an expected increased number of staff of **20%** by the date of entry into force of Solvency II (December 2012). Most countries however have indicated difficulties in recruiting staff with Solvency II knowledge, due to **competition in the market**, as the industry can offer better remuneration packages to recruit skilled staff.

Solvency II **training** based on a case study approach and staff exchange programmes focused on common areas of interest (assessment of internal models, risk management, stress test and group supervision) are some of the most useful tools for achieving convergence of supervisory practices and a common supervisory culture, in which supervisors foresee further development.

10. Overall, many steps have been already undertaken by supervisors to prepare for the implementation of Solvency II. Supervisors have strongly relied on international and national cooperation during the preparation, thus enhancing common interpretation and supervisory convergence.

Material changes in supervisory methodologies, tools and procedures have often been anticipated. Actions taken are normally more sophisticated at supervisory authorities which are responsible for a larger number of insurance undertakings, or are to act as lead supervisor for one or more insurance groups.

However, the preparation of the Solvency II implementation has **still a long way** to go, and will still require considerable efforts and **resources** (financial and non-financial) for the main part of the supervisory community.

The definition of the **Level 2** measures will have an impact on this part of the process.

### **3 General information about the supervisory authority**

11. From the 28 supervisory authorities that answered the questionnaire<sup>3</sup>, 11 are small supervisory authorities (with less than 40 employees dealing with insurance), 11 are medium-sized supervisory authorities (with 40-100 employees dealing with insurance), and 5 are larger supervisors (with more than 100 employees dealing with insurance). The number of staff varies widely from 25 to over 3.300, depending on the market size as well as the level of integration of the supervisory authority.

As to the number of supervised insurance and reinsurance **undertakings subject to Solvency II** the range is also wide: from 10 up to 625. As a whole **over 3500** insurance and reinsurance undertakings supervised by the 28 responding supervisory authorities are subject to Solvency II.

### **4 General state of preparedness**

#### **4.1 Individual supervisors gap analysis and work plans**

12. The vast majority of the respondents (19) have already established a work program for the implementation of Solvency II, although in a more or less granular and advanced manner, or this is underway (8).

The **main work streams** identified are the following:

- Gap analysis, to compare the current regime to Solvency II
- Legislative work, for the implementation of the Solvency II directive (and Level 2 measures) into national law
- Supervisory processes adjustments
- Internal models, in particular pre-application
- QIS5
- Training and recruitment
- Engagement with undertakings
- Technology

13. In many cases, the establishment of a specific Solvency II work program is coupled with the establishment of dedicated Solvency II implementation **teams** within the organisation of the supervisory authority, or joint working groups, envisaging the participation of supervisors, ministries, industry associations and actuaries.

14. Similarly, the vast majority of the respondents (20) have a **gap analysis** underway, with only a few (5) not having started yet, and a very few (3) that have already completed it.

The main areas of focus of the gap analysis were: necessary amendments to legal provisions, adaptation of supervisory tools and processes, change of approach, restructuring of supervisory teams and resource implications.

In a few cases, the work program or gap analysis only focuses on the legal aspects of the implementation.

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<sup>3</sup> Two responding authorities stated that due to structural changes in the national supervisory system they could not answer in detail CEIOPS' questionnaire.

15. The major recommendations given to other supervisory authorities who want to conduct a gap analysis are: to involve all areas concerned (at least supervision, legal, IT, policy); to engage with supervisory staff from an early stage; to do a correlation table between current law and the Solvency II Directive; to prioritise.

## **4.2 Spreading the Solvency II culture within the organisation**

16. The number of people involved within each authority in the Solvency II project has almost everywhere steadily increased since the adoption of the Solvency II Directive Proposal in July 2007, through both internal and external expansion (i.e. wider involvement of existing staff in the Solvency II project, as well as recruitment of new staff for the specific purpose of working on Solvency II), and is planned to further increase further before the entry into force of the new regime on 1 January 2013.
17. In all cases, a mix of different profiles is involved in the Solvency II work: policy advisors, line supervisors, risk management specialists, actuaries, and legal. Overall the resource profile has changed since 2007, when the resource mix was primarily policy and legal, whereas there is a much larger number of supervisors and risk specialists involved now, with a dramatically increased need of actuaries and mathematicians.

Often all levels of the supervisory organisation are involved in the Solvency II project, ranging from the highest levels of management right down to the supervisory teams. In a couple of cases, there are also secondees from industry.

18. The main channels for the participation of staff in the Solvency II projects have been participation in CEIOPS working groups, participation in QIS exercises, collaboration with ministries and discussion at EU level, in-house and external training. In addition, twinning and visits to other supervisors take place.
19. Between now and the entry into force of the new regime, individual authorities intend to achieve a further involvement of their staff in the Solvency II project, mainly through enhanced regular dissemination of expert knowledge in the form of internal seminars, especially for the front-line supervisors; increased joint cooperation of all divisions and participation in the pre-application process for internal models.

## **4.3 QIS5**

20. All supervisory authorities expect a higher degree of participation for QIS5 compared to QIS4. Some authorities expect **all** undertakings to participate in the QIS5 exercise or almost all, while others stated that they wish or will ask undertakings all to take part.

The only country that did not take part to previous QIS exercises will participate in QIS5, through the support of an external consultant.

21. Supervisory authorities will **encourage** the participation of undertakings to QIS5 by different means:
  - making the exercise (de facto) mandatory
  - meeting individually with all undertakings
  - asking undertakings to explain reasons for not participating in QIS5 and contacting those that did not take part in QIS4

- issuing letters and press releases
- organising kick-off meetings and workshops with the insurance industry, sometimes tailored to different parts of the industry
- translating introductory material
- providing national guidance
- setting up Helpdesks and Questions & Answers fora
- providing feedback to all participants on the general findings of QIS5
- discussing with individual undertakings their results for QIS5.

22. Compared to QIS4, supervisory authorities envisage further **messages** for the QIS5 exercise:

- all undertakings are expected to participate in QIS5
- QIS5 is the last chance to participate in a QIS before implementation of the new regime
- undertakings should participate in QIS5 if they want to get the calibration right
- importance of testing different options on the table for the finalisation of the Level 2 measures within the EU legal process
- QIS5 is a necessary milestone for the Solvency II implementation (complete simulation of the new regime)
- QIS5 is mandatory for undertakings who want to start the pre-application for internal models
- more individual clarifications and feedback will be provided by supervisors
- authorities will have an increased focus on the quality of the results.

23. QIS5 will be widely used by national supervisors to facilitate their own preparation for the implementation of Solvency II, because it will provide a focussed opportunity for practical experience of Solvency II, will yield a rich and robust data set, will complement the more general training programme for those who have so far been less involved in the development of the new regime (e.g. QIS5 technical specifications will be used for internal training on the Standard Formula), so that supervisors will be trained and included in the process of reviewing QIS5.

At the same time, QIS5 will be widely used by undertakings as it will be a fundamental part of undertakings' preparations for the Solvency II implementation, giving them an understanding of their preparedness in terms of regulatory capital position, processes and systems, risk management thinking and any actions they may need to take in order to be ready for Solvency II.

The results of QIS5 will constitute the basis of discussion between supervisors and undertakings.

#### **4.4 Interaction with individual undertakings**

24. The vast majority of respondents (26) have already started discussions with individual undertakings in respect of their preparedness for the new prudential regime. The stage of advancement of this dialogue varies between authorities, and often is more advanced in respect of larger insurance undertakings.

In the last years Solvency II has been one of the main agenda items in general **meetings** with undertakings, review meetings, regular meetings/visits with undertakings conducted on a periodical basis and on-site inspections.

In several cases, specific Solvency II meetings are organised, or this is planned for the near future.

25. Different kinds of meetings are held, at different levels.

From the undertaking's side, meeting attendees would typically include: the person nominated as responsible for delivering the Solvency II programme within the undertaking, senior representatives from risk, actuarial, finance and compliance functions (typically Chief Risk Officers), project management personnel, and occasionally outside consultants.

Authority representation can include: the responsible supervisor, Solvency II policy technical experts, Solvency II internal model expert.

26. In many cases, undertakings have been requested to appoint a **Solvency II responsible** person. Sometimes this must be a Member of the Board.

In several cases, the supervisory authorities have sent **letters to the Board** concerning the Solvency II implementation, also recommending undertakings to carry out a gap analysis and establish a Solvency II work plan.

In some cases, specific **questionnaires** have been developed to ask undertakings about their preparedness for Solvency II or Communications, or are planned. These questionnaires deal mainly with Solvency II preparedness, governance, internal model, and technical provisions. Also, assessment of capital need, organisation, and IT systems are areas investigated.

The answers to these questionnaires are used by the supervisory authorities as basis for discussing the undertakings preparedness for Solvency II and to illuminate/pinpoint their implementation problems and general understanding of the new supervisory regime.

27. The scope of interviews is mainly any gap analysis undertaken by undertakings, or more generally their preparedness for Solvency II; internal model and internal control system.

28. The main **lessons learned** from these initial discussions with undertakings are the following:

- there are different levels of preparedness among undertakings
- importance of high level involvement and involvement at all levels, as it appears that, for the time being, CROs almost exclusively deal with Solvency II
- such meetings present good opportunities for those supervisors not engaged directly in the development of Solvency II to learn on the job and gain practical experience
- communication to the market was very well received by risk managers of a large number of undertakings, because it has obliged the management to become aware of the upcoming Solvency II regime and of its consequences for the undertaking.

## 4.5 Communication with the market

29. Each of the supervisors has adopted a number of different means to communicate with the market about the Solvency II developments.

First, the **publication** of policy papers sometimes published for consultation, letters, Circulars or Communications to the market, periodical newsletters, studies and articles are issued.

Secondly, different types of **meetings and seminars** are organised to communicate with the market, ranging from seminars and technical meetings organised by supervisors and open to industry and stakeholders, to presentation of timetable and the organisation structure regarding Solvency II of the supervisors to company representatives, participation of supervisors in working groups set up by industry associations, speaking events run by supervisors or professional bodies, discussion forum run by supervisors, kick-off events with a general overview on Solvency II implementation, or QISs.

Supervisors also post a number of Solvency II related information on their **websites**, including general Solvency II updates, subject-specific updates, correspondence with the industry.

30. Several procedures/processes have been put in place by supervisors to deal with **direct enquiries** from undertakings: sometimes enquiries are dealt with directly by staff involved in the Solvency II groups; where possible, a named contact for undertakings is provided, or contact persons are communicated for different areas; email addresses are set up that field types of queries promoted on the Solvency II pages of their website; a Q&A database is set up.

## 5 Supervisory methodology, tools and procedures

### 5.1 Pillar I requirements

31. The vast majority of respondents (25) expect **material changes** as to the solvency valuation in the area of the Pillar I requirements due to the new prudential regime. Only one supervisor does not expect such material changes.

The areas in which supervisors think the major changes will occur are:

- the valuation of technical provisions
- the calculation of capital requirements (SCR) and own funds
- the regulation of investments
- the introduction of internal model

32. Correspondingly, the vast majority of authorities (25) anticipate the need for their staff involved in the process of Solvency II to acquire **new competences**.

Most of the supervisors see a need with regard to actuarial and financial mathematic competences to be able to assess the new Pillar I requirements.

In addition, specific competences in economics or legal aspects, competences in investment strategy as well as competences regarding ERM, market risk and operational risk are explicitly mentioned by respondents.

Only two supervisors consider that their staff already have all the necessary competences.

33. The supervisors have already and/or will possibly have to further adapt their supervisory methodology, tools and procedures in order to be prepared to assess the fulfilment of Pillar I requirements under the Solvency II regime.

- a) Actuarial tools are already applied for the assessment of technical provisions in most cases.
- b) Supervisors encourage undertakings to have internal processes and procedures in place to build up adequate **statistical databases** for the calculation of their technical provisions in accordance with Solvency II by
  - analysing the adequacy of data during on-site inspections
  - asking undertakings to take part in QIS exercises
  - using gap analysis questionnaires
  - asking undertakings to give a number of statistical templates with validation tests in order to have an idea of the data quality.

Sometimes there is already a legal obligation under the current law requiring the insurance undertakings to collect adequate data.

- c) A vast majority of supervisors already developed or are planning to develop **market tables or market run-off patterns** of claims data used in the valuation of technical provisions for comparison or benchmarking purposes.

A few stated that they see problems as to deriving market tables or market run-off patterns of claims data for some insurance classes because of the businesses differing substantially among market participants, or because using benchmarks could send a wrong message to the market, discouraging the promotion of high data quality standards in each undertaking.

- d) On the preparation of the assessment of **own funds**, supervisors generically prepare by being involved in CEIOPS Expert Groups or by participating in QIS5; one supervisor reported already having a process for monitoring own funds in place which has to be adapted to the Solvency II regime.
- e) As to the preparation for the process of supervisory approval of **undertaking-specific parameters** for the calculation of the life, non-life and health underwriting risk modules, supervisors have not considered this issue in detail yet, and intend to wait for the outcome of the Level 2 and Level 3 developments in this area, as well as QIS5 results.
- f) Supervisors are involved in the process of pre-specifying standardised **catastrophe risk scenarios** to ensure that the geographical specifications for catastrophe risks in the standard formula are appropriate for the respective markets by participating in working groups with the industry and actuaries which deal with catastrophe risk scenarios; by collecting data during the QISs about market exposure, and making national scenarios available; by giving the markets directions based on expert judgements.
- g) Supervisors prepare for the assessment of the ongoing appropriateness of the **calibration of the standard** formula against the experience in

their respective markets through the QIS exercises (sometimes combined with alternative assessments).

- h) With regard to the frequent analysis of **investment** portfolio and the assessment of investments made in more complex or less transparent classes of assets some supervisors are of the opinion that an analysis through reporting templates based on single assets is necessary. Others already analyse the investment portfolio of insurance undertakings using this approach. Some supervisors reported in a more general way that they asses the assets on a quarterly basis.

## 5.2 Internal models

### Pre-application for internal models

34. The majority of supervisors reported having a current or planned pre-application process in place.
35. Where current/proposed pre-application **processes** were detailed, these typically consisted of three stages, namely the:
  - collection of information from the undertakings - typically by means of questionnaires, but sometimes through onsite visits/inspections;
  - desk-based review/analysis of the relevant information; and
  - follow-up action (e.g. onsite visits/inspections, meetings with undertakings).
36. The majority of supervisors who have organisational arrangements in place, have established **special teams** to deal with the pre-application – often comprised of a variety of experts (e.g. supervisors, actuaries and model experts). In respect of a minority of respondents, these special teams are supported by Steering Committees – in which discussion of the approach of the relevant respondents to internal model issues (e.g. criteria for assessment/approval of internal model) has taken/will take place. Respondents typically did not report using (or their intention to use) external consultants to develop internal organisational arrangements in this area. However, one respondent intends to use their services.

### Number of undertakings

37. Respondents provided the following details of the number of insurance undertakings/groups already in (or expected to be in) the pre-application stage:
  - 0-10 undertakings/groups (14 countries);
  - 11-20 undertakings/groups (4 countries);
  - 21-30 undertakings/groups (3 countries); and
  - Over 31 undertakings/groups (4 countries).
38. In respect of the three authorities that reported over 30 undertakings the figures provided ranged from 42 to 110 undertakings (including groups).
39. Typically, respondents reporting the higher number of actual/expected undertakings tended to have pre-application processes in place.

### Nature of undertakings

40. The nature of the undertakings expected to be/actually in the pre-application process differed. Whilst supervisors predominately reported groups or

undertakings forming part of a group, several also noted large and/or medium sized undertakings, and some a mixture, for example: mainly large undertakings, but some small; large and small undertakings with niche business; in addition to some small and medium undertakings and those forming part of a group.

### **Colleges of Supervisors**

41. In respect of those authorities which are Lead Supervisors of groups, only half have active Colleges of Supervisors (Colleges) in place. Where Colleges have been established, the issue of how internal models should be addressed is a major issue under consideration. However, respondents recognise that Colleges constitute important forum for discussion of, and decisions on, internal models. One referred to concrete action taken from an internal model perspective (i.e. the organisation of a workshop on internal model assessment/approval).

### **Third Country Parents**

42. Supervisors are still largely considering the issue of undertakings with third country parents. In addition to recognising the need for greater collaboration/cooperation – including through Colleges – respondents recognised the importance, and were awaiting the outcome, of equivalence assessments and Commission Decisions on equivalence.

### **Human Resource**

43. All but three authorities reported increases in the number of staff dealing with internal models. In most instances, these could broadly be classified as small (clearly the quantitative significance of any change must be judged within the context of the particular circumstances of the undertaking) – usually 1/2 additional persons, and typically (but not always) in the area of supervision. However, three authorities reported substantial increases – one outlining a ‘graduated’ approach, reflecting an increase in staff in the years leading up to the implementation of Solvency II (peaking in 2011-12), and a decline in respect of subsequent years.

## **5.3 Pillar II requirements**

### **System of Governance**

44. The majority of supervisors (15) have up to now not required individual undertakings to assess their System of Governance key functions and requirements as described in CEIOPS Level 2 advice, while one third of the respondents have started the process but has not yet finished it. However, in a few cases the current regulation is already in line with CEIOPS' advice.

### **ORSA**

45. About half of the supervisors (13) have already started or will start requiring the individual undertakings to assess their own risk profile by way of conducting an Own Risk and Solvency Assessment (ORSA) or a similar exercise.

In some jurisdictions those undertakings which will (or have expressed their intention to) apply for the (pre-) application of internal model will be required to conduct an ORSA.

## **MCR and SCR as solvency control levels**

46. Two thirds of the supervisors have already adapted or will have to adapt their supervisory approach in order to assess the undertakings' compliance with the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) as well as to be able to take appropriate supervisory action in case of a breach of the SCR or MCR. They underlined that the supervisory approach has to be changed, and there is the need to adapt the way the calculation of the SCR/MCR is reviewed.

## **Supervisory Review Process**

47. Concerning the Supervisory Review Process, in the vast majority of countries the assessment of what changes in the supervisory framework are needed to be able to conduct a risk assessment is underway. Some respondents have already implemented tools for a risk based approach or are developing one.

## **Risk Assessment**

48. Most of the supervisors (20) have dealt or have started dealing with the assessment of the individual undertakings' risk profile taking into account the Risk Assessment framework as set out in CEIOPS' Issues Paper of August 2008.

## **5.4 Supervisory reporting and public disclosure**

49. It was emphasised that keeping reporting requirements which are not in line with Solvency II or overlap with the Solvency II requirements should be avoided. Some of the responding supervisors intend to keep (some) existing reporting requirements or not solvency related reporting requirements or national specificities not within the scope of Solvency II.

## **5.5 Group supervision**

### **Work plans: group solvency requirements**

50. The majority of supervisors do not have work plans in place for the implementation of group solvency requirements under Solvency II. Work plans (where in existence) are often in an early stage of development. Several work plans are based around participation in Colleges of Supervisors.

### **Colleges: Participation Strategy**

51. The majority of respondents have plans to develop their arrangements for, and enhance their participation in, Colleges. Several respondents made reference to the importance of collaborative working in Colleges within the context of internal model pre-application and approval.

### **Colleges: Resource Implications**

52. Participation in Colleges will, for the majority of supervisors, have resource implications (financial and non-financial) – although these are still (in the case of all respondents) to be precisely determined. The resource implications are largely attributable to the need for additional staff and the corresponding financial implications, including those associated with training. Human resources needs will be met through the reallocation of staff to Solvency II related tasks, and/or the recruitment of new staff. Additional travel costs were

also noted by some authorities. One indicated its inability immediately to meet any increase in staffing requirements.

### **Third country undertakings: equivalence**

53. In respect of those supervisors who assume responsibility for groups with third country parents or subsidiaries, there is an almost equal division between those who have considered the implications of third country equivalence requirements and discussed the issues with the relevant groups and those who have not considered the implications and/or discussed the issue with the groups in question.
54. Where equivalence has been considered, in many instances, the supervisors have raised associated issues with the other relevant supervisory authorities, in addition to the groups concerned. Issues discussed include: insufficiently developed solvency requirements and supervisory structures; the impact of third country rules on internal model planning; and parent solvency calculations.
55. Other issues to which supervisors have given consideration (i.e. confidentiality; participation of third country supervisors in Colleges) and in respect of which action may have been taken (e.g. stakeholder meetings to discuss equivalence issues) were reported.

## **6 Institutional organisation of the supervisory authority**

### **Main departments involved**

56. All authorities mentioned several departments involved or planned to be involved in Solvency II. Supervision departments are involved in Solvency II and related activities at all supervisory authorities. Actuarial departments or functions are mentioned as involved by nearly all. Other departments/functions participating in the implementation at most of the supervisory authorities are statistics, reporting, monitoring.  
Legal aspects – both licensing and enforcement – are mentioned as involved or planned to be involved by the major part of supervisory authorities, while the involvement of IT departments or computer services is mentioned explicitly only by four members.

Some authorities have already involved or envisage involving also their international affairs department.

### **Need to change the structure**

57. One third of the supervisors expressly envisage changes in the structure of the supervisory authority for implementing Solvency II. Some of them mentioned also the increase or the need of an increase of resources, while others only plan restructuring at this stage. One supervisor has already set up new organisational units within the authority, but envisages the possibility of the need for further changes.
58. From among those supervisors seeing no need for further changes there are some with recent structural changes; therefore they envisage no further significant changes. Two other supervisors though do not plan, but do not exclude either, some minor changes if deemed necessary or to enhance the efficiency of supervision.

One supervisor will make any kind of decision in this respect only after the final drafts of Level 2 implementing measures will be known.

### **Major constraints**

59. As to the main constraints to changing the supervisory tools and powers supervisors consider human resources, budget and expertise/knowledge/new competencies required as the most critical ones.

Most of the supervisors are faced with the problem of lack of human resources in general or with that of the lack of staff with the adequate knowledge and competences.

Eleven supervisors mention budget as a major constraint, mostly in combination with human resources or lack of expertise.

The powers of quite a few supervisors are defined by the legislator. In the case of the supervisory authorities where the employees are civil servants, also human resources and budget are subject to rigid regulations that do not allow them at all or in the better case just make it a very circuitous process to hire new staff or to spend more on the development of new supervisory tools or on the education of their staff.

At this stage there are only two supervisory authorities who do not feel any significant or major constraints to changing their supervisory tools or powers.

## **7 Human resources**

### **7.1 Number of staff**

60. The trend observed by the supervisors (16) who estimated the development of staff figures in the next two years shows that authorities on average will **increase** their staff by **20%**, including 3 authorities maintaining the same number of staff, 7 supervisors increasing their staff by 5 to 25% and 6 supervisors foreseeing a development over 35%. Nonetheless, some supervisors (9) were not in the position to estimate the staff developments in the near future or in relation with Solvency II and one supervisor provided partial estimates only.

61. When it comes to the **recruitment** process, most countries have indicated difficulties in recruiting staff with Solvency II knowledge, such as internal models experts or mathematicians with practical actuarial experience. The biggest challenge faced by supervisors is the **competition in the market**, as the industry can offer better remuneration packages to recruit skilled staff. This is linked to the fact that most authorities' budgets are **subject to public sector rules and pay scales**, which may be adjusted to the economic situation, making it harder to acquire the additional resources or to offer competitive salaries.

Two respondents have not encountered significant difficulties in recruiting experienced staff.

62. To overcome this constrain, some supervisors propose:

- to raise the capability of own staff, by providing them with specialised training as well as assisting them financially to pursue further studies;
- to increase secondments/mixed working groups from industry and consultancy firms to help in the preparations for Solvency II;

- to establish collaboration with Universities or training centres to promote the development of courses and degrees to meet current demands.

## 7.2 Training

### 7.2.1 Training organised by individual supervisors

63. Many supervisors (22) develop Solvency II training for their **staff**, with a frequency varying from *ad hoc* courses to regular training programmes.
64. The most common topics addressed by these trainings are:
  - Quantitative aspects of Solvency II (Technical Provisions, Capital Requirements and Own Funds)
  - Qualitative aspects of Solvency II (ORSA and Governance System)
  - Supervision and Reporting aspects of Solvency II
  - QIS5.
65. The providers of training range from the private sector, such as consultancy firms, academics and experts from big international players, to staff from the authorities, such as national experts and members of CEIOPS working groups. One supervisor mentioned receiving training by other supervisors, through the twinning project or other type of programmes. Topics outsourced to external providers include: IT systems in the context of Solvency II, standard formula, internal models, internal controls and risk management.
66. Some supervisors (9) reported having been requested to provide training to the **industry**. A reduced number of authorities are quite engaged with the industry through the organisation of regular meetings and fora, in which they inform the industry about the progress of Solvency II and possible requirements for the future.
67. Among the main topics requested by the industry are: internal models, SCR, Market consistent embedded value pre-application process, QIS5 workshops, ORSA and Group issues. Typically authorities rely on the support of private sector associations to develop training for market participants, such as actuaries associations, insurance undertakings, chamber of industry, etc.
68. In general, there is a need of the industry for further training and supervisors already involved are willing to continue to provide it, whilst others anticipate receiving this type of request in the near future.

### 7.2.2 CEIOPS training

69. CEIOPS training was praised by a number of supervisors, who found CEIOPS seminars very useful and the training programme to be covering a great number of the topics currently needed. Moreover, CEIOPS training is seen as an opportunity for many authorities to train their staff regularly on Solvency II matters and also as a way to alleviate the financial burden of offering local training.
70. The list below highlights the **new topics** suggested:
  - Application of proportionality principle
  - Application of equivalence principles

- Setting up parameters and scenarios for the calculation of Pillar I requirements at national level / SCR calculation
- Technical provisions (valuation of option, scenarios generator, valuation of uncertainties)
- Training the trainer (to ensure that the new prudential requirements and the necessary knowledge in each supervisory authority are pushed forward)
- Level 3 developments and any initiative to increase supervisory practices
- Case studies on national experiences in implementing Solvency II
- On-site inspections
- Capital add-on (advanced, with case studies)
- Market consistent embedded value
- Own funds – classification and eligibility (advanced, with case studies)

71. Some **suggestions** were also given on how to improve CEIOPS seminars (common practices already in place marked with ✓):

- To target different levels, so that separate training are offered for experts/specialists and beginners ✓
- Case study is suggested as the preferable form of training (in view of the implementation of Solvency II) ✓.
- 2 days training devoted to one specific topic in detail, rather than to several (even related) topics but more generally.

### **Training aids to be developed by CEIOPS**

72. Some countries suggested that CEIOPS could develop several training aids, such as (practices already in place marked with ✓):

- Exchange of material among authorities on specific topics at national level
- Sharing presentations from seminars provided by CEIOPS ✓
- A Solvency II discussion board/forum as possibility to discuss specific problems with other supervisors
- Organisation of meetings with implementation project managers to foster better implementation and exchange of ideas
- Aids for supervisory colleges and for the validation of internal model
- An IT-based training tool for comprehensive knowledge of the framework, like FSI connect, etc.
- Q&A procedure with the trainers (for about one month after a training).

73. Among the suggestions, a few are already in place or in the pipeline for development. CEIOPS seminar materials/presentations are systematically uploaded in the 'supervisory culture' section of the Members' area. CEIOPS is working on the creation of a library of presentations to be launched with its new website, which could be used as a reference for supervisors at national level on the Solvency II framework and include practical examples. This tool will be equipped with a search function. Further suggestions are still to be analysed by CEIOPS.

### **7.3 Staff exchange**

74. The major part of respondents expressed their preference for an exchange in the following Solvency II areas:
1. Internal model assessment
  2. Assessment of Enterprise risk management and stress test
  3. Group supervision
  4. Other areas: implementation of Solvency II, Pillar I, Pillar II, technical provisions, SRP, ORSA and IT (actuarial, statistical and financial supervisory software)
75. One third of the supervisors (9) indicated the wish to increase the current level of staff exchange. Whilst a number of authorities (11) are in the process of scheduling several staff exchange programmes, others (3) are faced with constraints in sending staff due to the small size of the authority or the unclear perspectives faced by the supervisors. Moreover, a few supervisors feel that they cannot meet the demand on staff exchange due to their limited financial capabilities.
76. Among the authorities who favour staff exchange, the promotion of such programmes is mainly done through the HR department, the staff exchange policy for each division, advertisement through newsletters or following the institutional strategy (bilaterally).

## **8 IT**

77. The majority of the responding supervisors have already made some steps to assess the necessary changes in the IT field. Many of those judging their IT preparedness "underway" mentioned that at the present stage the information available on the future requirements on supervisory reporting or on reporting to EIOPA is scarce to make complete analysis. However, one third of the supervisory authorities claim not to have started the analysis of the required changes.

## **9 Others**

### **9.1 Use of external consultants-third party providers**

78. Half of the supervisors have plans to make use of external consultants in preparing for Solvency II. The other half explicitly do not want to involve third party providers in their preparations. Two authorities have not made definite decision on this issue, they will involve external consultants only if there will be a need in the future.

Some supervisors have already involved or intend to involve external consultants in training their staff and completing their competences, in IT issues, in legal aspects, in actuarial issues or explicitly in the internal model assessment process. One supervisor plans to outsource the whole IT development to a third party. One intends to involve an external legal advisor and also an actuarial expert in drafting the law and the implementing measures. One authority anticipates even hiring temporary staff to cover short-term resource shortages.

### **9.2 Supervisory Convergence**

79. All responding supervisors are engaging in one way and/or another with other supervisors in respect of Solvency II.

CEIOPS working groups and bilateral contacts – with special regard to regional contacts – are mentioned by the majority of supervisors as the main fora or means of engaging with other supervisors. Participation in the work of Colleges of Supervisors is also considered to contribute to supervisory convergence. Mention was made of participation in EIOPC work by two supervisors; others appreciate also seminars, study visits or twinning projects. One supervisor mentioned the participation in pre-applications of internal models with other supervisors.

### **9.3 Communication with other stakeholders**

80. All supervisors reported active, on-going collaboration with other stakeholders.

The overwhelming majority have on-going working relations with the associations of insurers, with the Ministry of Finance and with the actuarial associations. Other associations such as of accountants, auditors or other trade associations are also among the partners of several supervisors. A few supervisors collaborate also with the central bank, with other ministries or the government. Those co-operating with the associations of insurers normally collaborate also with the Ministry of Finance and the actuarial association.

In some cases coordination groups or multilateral committees provide for a structural framework for the on-going collaboration with these partners.