

Solvency II

Update on legislative state of play

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Reminder of building blocks & hierarchy

Level	Description	Purpose	Responsibility of
1	Directive	Sets out overall framework	Council and Parliament
2	Delegated Acts*	Provides greater level of detail on specifics	Commission with advice from EIOPA
3	Guidelines & Implementing Acts	EU-wide technical standards and regulatory guidelines to ensure consistency	EIOPA
(4	<i>Enforcement</i>	<i>Ensure full and correct implementation by Member States</i>	<i>Commission)</i>

* Formerly known as "Implementing Measures"

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Level 1 – current position

- Text of Directive adopted in 2009
- However, recently-published “Omnibus II” proposes to amend some sections of the 2009 Directive
- Mostly “house-keeping”
 - To changes references from CEIOPS to EIOPA
 - To change implementation date from 31 Oct 2010 to 1 Jan 2013
 - To make some changes to terminology
- But, also provides framework for possible transitional periods/provisions for some aspects of Solvency II
- Omnibus II Directive expected to be adopted in late 2011
 - With transposition into national law required pre 1 Jan 2013

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Level 1 – Omnibus II Transitional provisions

- Omnibus II proposes to introduce the flexibility to allow transitional periods / transitional provisions
 - Can be thought of as “enabling legislation”
- Details of transitional periods/provisions themselves (if any) not specified in Omnibus II
- But, maximum possible transitional periods are set out
 - Potentially could be up to 10 years for some aspects
- So, Solvency II will “go live” on 1 January 2013
 - But what will “go live” really mean?
 - Has introduced considerable uncertainty into insurers’ plans

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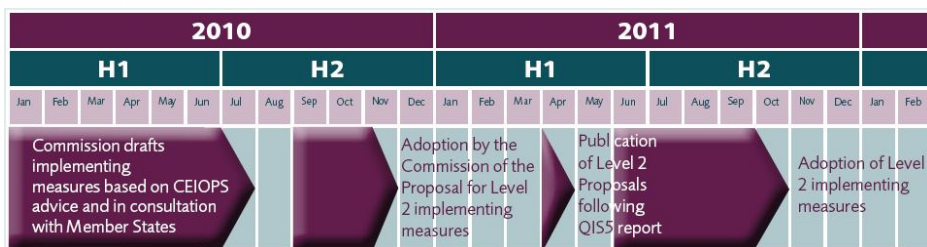
Level 2

- The Level 2 text is intended to expand on and provide greater detail on the Level 1 principles as set out in the Directive
- The Commission has drafted a consolidated Level 2 text
 - Based (partly) on advice from CEIOPS
 - Were waiting on output from QIS5 to help with calibrations
 - Under discussion by Solvency II Experts Group (chiefly representatives of national Finance Ministries)
 - Not yet in public domain but circulated to certain key stakeholders
- Final agreed text will be published in due course
 - For public consultation and for approval by Council and Parliament
- Expected that much/all of Level 2 will be implemented as EU regulation to ensure maximum harmonisation

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Level 2 – Timelines



- Draft consolidated text prepared in February
- Discussions and negotiations now resuming in earnest
 - Now that QIS5 results known
- Commission aiming for June 2011 publication
- Some slippage relative to official timetable above?

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Level 3

- EU-wide technical standards and regulatory guidelines
 - Intended to ensure consistency in application across all Member States
- Two 'flavours'
 - Implementing Acts (binding technical standards)
 - Technical Guidelines (guidance)
- Being developed by various working groups within EIOPA
- 'Pre-consultation' protocol put in place
 - Limited release to 'key stakeholders' in advance of full public release
 - Public release can only take place once Level 2 has been published

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Level 3 – Papers issued to date

- To date draft Level 3 papers have been issued for pre-consultation on the following topics
 - Internal Models (Use Test / Calibration / P&L attribution / Validation)
 - Pillar 2 (System of governance, ORSA)
 - Undertaking Specific Parameters
 - Own Funds (Allowance / Classification / Approval of ancillary)
 - Public disclosure and Regular Supervisory Reporting
- Milliman has produced briefing notes but is bound by terms of pre-consultation
 - Can only share with those who can obtain the papers themselves e.g. CEA / IIF members, CRO / CFO Forum members, actuaries (Groupe Consultatif members)

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Level 3 – Timelines



- Level 3 measures can only be issued for public consultation once Level 2 is public (June 2011?)
- Official timetable sees adoption of Level 3 in March 2012
- Timetable depends on adherence to Level 2 timetable

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Other initiatives

- Working Group on Long-Term Guarantees
 - Preliminary QIS5 indicating issues for providers of long-term guarantees
- Group input from Member States, EIOPA and industry
- Looking at:
 - Discount rate
 - Illiquidity premium debate redux
 - Extrapolation of yield curve – “ultimate forward rate”
 - Transitional provisions for discount rate
 - SCR
 - Equity market risk dampener
 - Credit risk on corporate bonds

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Summary

- Level 1
 - Omnibus II will open door to transitional provisions
 - Expected in late 2011
- Level 2
 - Draft text under discussion
 - Will be released for public consultation later this year
 - Requires 'no objection' from Council and Parliament
- Level 3
 - Pre-consultation ongoing; public consultation post Level 2 publication
- Working Group on Long-Term Guarantees
 - Timing and outputs unclear!