

Solvency II Circular for Insurance and Reinsurance Undertakings

This circular provides information on certain aspects of Solvency II that insurance and reinsurance undertakings should look at as part of their preparation for Solvency II.

Standard Formula Calculations

During the Solvency II preparatory period 1 January 2014 – 31 December 2015, the MFSA is assessing undertakings' preparedness in relation to the Pillar 2 and Pillar 3 requirements as part of the transition to Solvency II which is expected to come into force on the 1st of January 2016.

The Technical Specifications for the Solvency II preparatory period was published on the EIOPA website on the 30th of April 2014. Undertakings should refer to these Technical Specifications for the Pillar 1 calculations. The link to this paper is provided here:

<https://eiopa.europa.eu/publications/technical-specifications/index.html>

Underlying Assumptions Paper

On the 31st of July 2014, EIOPA published the Underlying Assumptions in the standard formula for the SCR calculation. The paper aims to support supervisors and undertakings in the application of the Solvency II Preparatory Guidelines on forward looking assessment of own risks (FLAOR).

The link to this paper is provided here:

https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/technical_specifications/EIOPA-14-322_Underlying_Assumptions.pdf

Draft Implementing Technical Standards and Guidelines for Solvency II

On the 1st of April 2014, EIOPA consulted on the first set of draft Implementing Technical Standards (ITS) for Solvency II. Market participants and (re)insurance stakeholders were invited to provide their feedback by the 30th of June 2014. The list of draft ITSs are provided below:

- (1) Consultation Paper on the proposal for Implementing Technical Standards on the procedures to be used for granting supervisory approval for the use of ancillary own-fund items
- (2) Consultation Paper on the proposal for Implementing Technical Standards on internal models approval processes
- (3) Consultation Paper on the proposal for Implementing Technical Standards on the process to reach a joint decision for group internal models
- (4) Consultation Paper on the proposal for Implementing Technical Standards on the procedures to be followed for the approval of the application of a matching adjustment
- (5) Consultation Paper on the proposal for Implementing Technical Standards on special purpose vehicles
- (6) Consultation Paper on the proposal for implementing technical standards with regard to the supervisory approval procedure to use undertaking-specific parameters

The link to these papers is provided here:

<https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/april-2014/public-consultation-on-the-set-1-of-the-solvency-ii-implementing-technical-standards-its/index.html>

On the 2nd of June 2014, EIOPA consulted on the first set of the Solvency II Guidelines. Market participants and (re)insurance stakeholders were invited to provide their feedback by the 29th of August 2014. The list of draft proposed guidelines are provided below:

- (1) Guidelines on Solvency II relating to Pillar 1
- (2) Guidelines on the Use of Internal Models
- (3) Guidelines on system of governance and own risks and solvency assessment
- (4) Guidelines on Supervisory Review Process
- (5) Guidelines on the methodology for Equivalence Assessment of National Supervisory Authorities under Solvency II

The link to these papers is provided here:

<https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/june-2014/public-consultation-on-the-set-1-of-the-solvency-ii-guidelines/index.html>

Own Funds

In view of the latest updates and changes in the Technical Specifications as drafted by EIOPA, kindly make sure that reference is made to the latest Technical Specifications for the Preparatory phase as published by EIOPA dated 30th April 2014.

In particular, we would like to draw your attention to section OF.44 of the Technical Specifications for the Preparatory phase which states that the sum of paid-in subordinated mutual member accounts, paid-in preference shares and the related share premium account, paid-in subordinated liabilities valued in accordance with Article 75 of Directive 2009/138/EC and items included in Tier 1 basic own funds under the transitional arrangements shall make up **less than 20%** of the total amount of Tier 1 items.

In addition, section OF.20(h) states that down grading to a lower tier of basic own funds is possible for the basic own-fund item that displays the features set out in section OF.9 and are relevant for paid-in subordinated mutual member accounts, paid-in preference shares and the related share premium account, paid-in subordinated liabilities valued in accordance with Article 75 of Directive 2009/138/EC, but exceeds the limit set out in OF.44 of the Technical Specifications.

XBRL Tool for Undertakings

In January 2014, EIOPA's Board of Supervisors (BoS) decided that an eXtensible Business Reporting Language (XBRL) Toolkit should be developed by EIOPA. The main objective of this XBRL Toolkit, also known as the Tool for Undertakings (T4U), is to provide a user-friendly **interim** solution to easily create, complete and validate XBRL documents to help undertakings with minimal XBRL knowledge to implement Solvency II harmonised quantitative reporting. The T4U is currently being developed by EIOPA and the full version of the T4U is **expected** to be distributed to National Supervisory Authorities (NSAs), which shall in turn distribute it to the interested insurance and reinsurance undertakings towards the end of this year.

Insurance and reinsurance undertakings falling within the Preparatory thresholds shall be required to report in XBRL from the first annual reporting required under the Preparatory phase, 22 weeks after 31st December 2014.

Undertakings that do not have their own tool to validate and generate the XBRL instance document and plan to use the T4U in fulfilling their reporting requirements under the Preparatory phase and/or for Day 1 reporting under Solvency II, are kindly required to notify the Insurance and Pensions Supervision Unit on ipsu@mfsa.com.mt by **31st October 2014**. This will enable the Authority to determine the number of undertakings that require the T4U.

Solvency II Approvals

As part of Solvency II Implementation, undertakings can submit applications that will require the approval from the MFSA prior to use. These include but are not limited to:

- (1) the undertaking specific parameters (USP)
- (2) partial internal model
- (3) full internal model
- (4) ancillary own fund items
- (5) own fund items not on the list
- (6) long-term guarantee measures

For undertakings that plan to submit an application for any of the above items and are seeking approval for use on the 1st of January 2016, but have not yet **formally** notified the MFSA, kindly notify the Insurance and Pensions Supervision Unit on ipsu@mfsa.com.mt by **31st October 2014**.

Undertakings who have already informed the Authority of their intentions formally do not need to contact the Authority.

MFSA Guidance Papers

For the Implementation of Solvency II, please be guided by the latest consultation papers as published on the EIOPA website, as the content in the MFSA Guidance Papers may have been superseded.

Communications Unit
Malta Financial Services Authority
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