

Our ref:
Your ref:
24 October 2014

The Directors
[Company name]
[By e-mail]

Dear Sirs,

Self-Assessments and Solvency 2 Plans

Introduction

As the clock counts down to 2016, it is important that firms continue to make good progress with their Solvency 2 preparations. As was highlighted in our "Update on Solvency 2" dated 17 September 2014, which may be found on the FSC's website at:

<http://www.fsc.gi/download/adobe/SolvencyIInewsletter17092014.pdf>.

A key aspect of the FSC's approach is to monitor firms' progress with their implementation plans. To that end, in this letter we announce a data request and further self-assessments that the FSC expects firms to complete.

First we wanted to thank you for your firm's participation in the first self-assessment on Systems of Governance and the FLAOR. We have recently published our feedback on that exercise. This can be found on the FSC's website at:

<http://www.fsc.gi/download/adobe/FeedbackPaper-SelfAssessmentTemplate.pdf>.

If you have not already done so, please ensure that you have reflected on and taken into account the key messages in that feedback and any impact or changes this will require to your governance arrangements, especially as we are requesting an update on the self-assessment of your firm's Systems of Governance preparations in section 2 below.

We would also like to take the opportunity to remind you that we expect the initial FLAOR report to be submitted to us before the year end. This was initially requested in our letter dated 15 November 2013. We view this as an important milestone for firms in demonstrating progress towards developing appropriate processes and techniques to enable them to carry out ORSAs that are fit for purpose by 2016.

We are also requesting firms to advise us whether they anticipate that they will seek FSC approval in any of the areas that are expected to apply from 1 April 2015 as outlined in section 3 below.

1. Future Capital Requirement Data Request:

A core aspect of Solvency 2 is that a firm holds the right amount of capital to reflect the risks that it faces. We appreciate that not all firms necessarily currently hold the amount of capital likely to be required under Solvency II. However, it is important that firms are planning ahead now to ensure future compliance. The FSC recognises the steps that many firms have taken already to strengthen their capital position.

As anticipated in our Update on Solvency 2, we are requiring all firms to provide us with forecast Solvency 2 balance sheets on a best endeavours basis. The reference data for preparing the forecast should be as at 31 December 2013 or any subsequent year end. The forecast should be as at 31 December 2015 or the quarter end falling closest to that date. The key assumptions underlying the forecast, including the business plan, should be clearly documented and made available to the FSC on request. We expect the balance sheets to be prepared on a best endeavours basis in accordance with the technical specifications for the Solvency II Preparatory Phase which were published by EIOPA in April 2014 and can be found at:

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

Firms are expected to submit the forecast in a summary level template which should be returned to us before the year end. The template can be found on the FSC's website at:

<http://www.fsc.gi/download/insurance/solvencyII/S2BalanceSheetTemplate20141023.xlsx>

If the forecast reveals that projected own funds would be insufficient to cover the SCR, we are also requiring that firms submit a plan for achieving compliance with the Solvency 2 capital requirements, taking into account the transitional provisions for meeting the SCR requirement set out in section 9a of Article 308b of the Solvency 2 Directive 2009/138/EC as amended by the Omnibus 2 Directive 2014/51/EC.

We are aware that firms' FLAOR reports are due to be submitted to us at the same time, and that firms will be setting out their findings on their own assessment of capital needs with a medium or long term perspective as appropriate. We therefore have no objection to firms including their plans for SCR compliance in this report, as long as the information is clearly identifiable.

The forecast Solvency 2 balance sheet summary template, along with the initial FLAOR reports and any plans for achieving compliance with expected capital requirements, will help us to better understand the preparedness of firms to meet the likely capital requirements. These will not be used to set capital add-ons or to otherwise impose requirements on the capital that needs to be held or secured by firms prior to Solvency 2 commencing. However, notwithstanding that we expect the forecasts to be prepared on a best endeavours basis, the FSC reserves the right to take supervisory action should the quality of the information provided raise concerns.

2. Self-Assessment Follow up - Systems of Governance and Pillar 3:

As flagged in our recent feedback paper on firms' first self-assessments, we require firms to repeat this exercise and submit a revised template to us no later than 28 November 2014. This is, firstly, to help the FSC to check that firms continue to make progress towards meeting the requirements of Solvency 2 and, secondly, to determine whether all firms are now complying with the relevant subset of the guidelines in Insurance Guidance Note No 14 (GN14) on the "Transition To Governance Requirements Established Under The Solvency II Directive", which the FSC considers firms should already be complying with. The Guidance Note may be found on the FSC's website at:

<http://www.fsc.gi/download/adobe/insurance/InsuranceGuidanceNote14.pdf>.

As set out in the introduction to GN14, where firms are not following the "current" guidelines, they should now supply us with an explanation of what other approaches are being adopted to ensure that the firm conducts its business in a sound and prudent manner.

To simplify the reporting exercise, the template for submitting the self-assessment in respect of the Systems of Governance will be in the same format as the original. Firms should update all responses to show the latest position in the firm's preparations for Solvency 2.

We have also included a new section on the template for all firms to carry out a self-assessment of their preparedness for the expected Pillar 3 requirements, as anticipated in our Update on Solvency 2. This is based on the wording in the text of the Implementing Rules published in draft by the European Commission on 10 October 2014.

The template for submitting the revised self-assessment can be found on the FSC's website at:

<http://www.fsc.gi/download/insurance/solvencyII/SelfAssessmentTemplate20141023.xlsx>.

In the next month we are planning on issuing an update on the technology solution that we plan to put in place in respect of supervisory reporting to the FSC. This should however not distract firms from considering how best to prepare and validate the relevant information.

3. Solvency 2 Project Plans and Anticipated Solvency 2 Approvals:

In our "Update on Solvency 2" we set out our expectation that firms should have plans in place to meet all aspects of Solvency 2.

In our self-assessment feedback paper we commented that as part of our review of the information provided a small number of firms were asked to send us a copy of their Solvency 2 project plans. We now require all firms to send us a copy of their Solvency 2 plans.

These should be provided at the same time as the systems of governance self-assessment referred to in the previous section, although the plans should address all aspects of Solvency 2 preparation and not be limited to the corporate governance work streams. Those firms that were previously asked to send us a copy should send us an updated plan.

Finally, although Solvency 2 will not be fully implemented until 2016, certain aspects will come into effect as early as 1 April 2015 and in particular the FSC expects to be given the powers to decide on the approval of a number of new areas from that date. The FSC would therefore be grateful if you would separately advise us if you are considering requesting approval for any of the following;

- ancillary own funds in accordance with Article 90;
- the classification of own funds items referred to in the third paragraph of Article 95;
- undertaking specific parameters in accordance with Article 104(7);
- a full or partial internal model in accordance with Articles 112 and 113;
- ancillary own funds of an intermediate insurance holding company in accordance with Article 226(2).

All references to Articles in the list above are to the Solvency 2 Directive as amended.

We expect your Board to have reviewed and signed-off on the information provided to us prior to submission. We thank you in advance for your efforts and look forward to receiving the information requested by the due dates.

Yours Faithfully,

A handwritten signature in black ink, appearing to read 'J Perdoni', with a small dot at the end.

Joe Perdoni
Head of Prudential

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