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Chairman

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Pre-application processes

Dear Ms. Koller, *Dear Michaela,*

I would like to thank you for sharing your thoughts and suggestions with regard to the preparatory work for the entry into force of Solvency II.

Pre-consultations and pre-applications form an important part of our efforts to engage at an early stage with the industry and to support early dialogues between National Supervisory Authorities (NSAs) and insurance undertakings. I agree with you that there is a need for early preparatory initiatives by supervisors and undertakings in a coordinated fashion to ensure the proper application of Solvency II.

Particularly in the area of internal models, EIOPA has been working to promote consistency in regulation and supervisory approaches with initiatives spanning from the development of standards and guidelines to the support of national supervisory authorities and colleges during the internal model pre-application and approval processes.

Concretely I would like to point out to the following areas:

1. Monitoring of the pre-application processes for internal models

EIOPA considers that the pre-application process for internal models is a relevant tool in the sense that it will allow the Supervisory Authorities to give a view on how prepared the undertaking is to submit an application, and therefore to enter into the formal approval process.

EIOPA is currently monitoring the implementation of this process across the EEA. A review of the activities carried out by NSAs with respect to the pre-application will also be carried out by the EIOPA's Review Panel during 2012.

Preliminary findings of the monitoring of the pre-application processes, although not fully satisfactory, show that significant steps have been taken by NSAs to increase the level of convergence with respect to the internal models pre-application process.

Almost every NSA in the EEA has asked undertakings, in writing, early in the process to indicate their intention to apply for the use of an internal model for the calculation of Solvency Capital Requirements (SCR). Undertakings were also required to indicate their willingness to take part in the first wave of pre-application (aiming for decisions to be on time to allow undertakings to use an approved model from "day 1" of the Solvency regime).

In most cases, to facilitate a more efficient planning and allocation of resources, this request also set out the requirements and criteria as well as deadlines to be met by undertakings to enter the first wave. To our knowledge, there is no indication suggesting that invitations have been limited to a pre-determined number of undertakings. If undertakings have not met the requirements and/or indicated their intention to enter the pre-application by the deadline set out by the NSA, it is our understanding that undertakings can enter the pre-application at a later stage. However, in this case it cannot be guaranteed that a decision on the application would be taken in time for "day-1" of the Solvency II regime.

2. Role of colleges

With regard to your concern on the different speed of approval processes and the role of colleges, I can confirm to you that the discussion on the use of internal models for the calculation of the solo and group capital requirements, the pre-application and approval processes are considered as a priority by EIOPA.

I can inform you that recently EIOPA has approved a working assumption, taking into account the current timetable of the Solvency II project, to be used by NSAs and colleges for planning purposes. In practical terms this means that:

- NSAs should be ready to receive application packages as of 1st January 2013;
- From 2011 till 1st January 2013 the pre-application phase will run;

In case of group internal models, in particular groups under Article 231 of the framework Directive:

- No later than end January 2012, a joint timetable is to be agreed by the college for carrying out the pre-application for group internal models;

- No later than end March 2012, a working programme consistent with the joint timetable is to be established by the college for all group undertakings aiming to get day 1 approval.

Furthermore, I can also inform you that EIOPA will monitor the effective implementation of this decision by the colleges of supervisors.

At this stage, I would like to underline the importance of groups raising the issue of internal models (pre-) application to their supervisors and present a timeline and work plan, which can be discussed in the colleges.

3. Technical standards and guidelines

EIOPA is currently developing technical standards and guidelines on internal models that would apply both to NSAs and undertakings. Most of the draft technical standards and guidelines have already been shared during the informal pre-consultation with a number of selected stakeholders (e.g. CEA, CRO/CFO-Forum, AMICE, Groupe Consultatif, etc.).

Furthermore, to improve the understanding of current practices, as well as to further explain the rationale behind the draft standards/guidelines and foster convergence in the implementation of the internal models pre-application and approval processes, EIOPA and NSAs have been holding regular meetings with representatives from the industry and other stakeholders, including undertakings, external models/data providers (e.g. Cat and ESG vendors) and consultants.

This set of initiatives, in addition to the EIOPA work on technical standards and guidelines also provides NSAs with a common platform to share experience and challenges faced during the review of internal models.

4. Other pre-application and approval processes

EIOPA has shared previously with CEA and other stakeholders preliminary drafts for standards and guidelines that are being developed to ensure supervisory authorities have clear and transparent procedures for applying the criteria to assess and approve ancillary own funds items.

This should ensure that the approval of ancillary own funds is being carried out consistently across member states. EIOPA encourages an early dialogue between those undertakings which are considering developing an application for supervisory approval of an ancillary own funds item and its supervisory authority may contribute to the efficiency of the formal approval procedure.

EIOPA encourages supervisory authorities to engage on this with their undertakings. However, given that in any event the status of the counterparty would need to be assessed within and at the time of the formal approval process it is EIOPA's view that any early dialogue would not constitute or prejudice a future formal supervisory approval.

With regard to the approval of undertaking-specific parameters (USP), preliminary drafts of a process have also been informally shared with CEA. In developing this work EIOPA is aware that in order to improve the consistency across Member States of the use of USP by undertakings for both solo as well as for the group SCR calculation under the consolidation method, the supervisory approval process should be harmonised. Therefore, EIOPA is developing guidelines to further support the consistent application of the Directive criteria as regards the USP approval process.

Furthermore, I can inform you that EIOPA is currently exploring the possibility of developing a pre-application process for undertakings specific parameters. In addition, EIOPA will hold a seminar, exceptionally open to industry participants, on pre-application and approval processes in 2012.

5. Supervisory resources

EIOPA considers the issue of supervisory resources as a critical one for the consistency and convergence of the internal model approval and validation processes. In line with the aforementioned, it is our intention to formally ask EU institutions for an ad hoc, task related, budget that allows setting up a dedicated team of senior experts in the field of internal models, within EIOPA, so as to provide its members with support in this area, as well as ensuring supervisory consistency in the different stages of the process, from pre-application to monitoring. The expected outcomes of such a work stream would be beneficial both to supervisors, insurance undertakings and policyholders.

Finally, I want to thank you for the contribution that CEA has been making during EIOPA's formal and informal consultations and I remain at your disposal to continue the exchange of information in this and other areas in order to contribute to a successful implementation of Solvency II.

With best regards,

A handwritten signature in blue ink, appearing to be 'C. Ferrero', with a long horizontal line extending to the right.