

Solvency II Compliance Assessment Tool

29th NOVEMBER 2018

Agenda

1. Introduction
2. Regulatory update
3. New features in the tool
4. Update from ViClarity on new developments in the pipeline
5. Refresher on using the tool for year-end
6. Questions
7. Outsourcing tool

Solvency II

Regulatory update

Padraic O'Malley

Reliances and Limitations

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Changes to date

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Future changes

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Changes to date (a reminder from last year)

Document amended	Changes entered into force
Commission Delegated Regulation (EU) 2015/35 ("Delegated Regulations")	Apr 2016
	Sep 2017
	Oct 2017
Implementing Regulation (EU) 2015/2450 ("Reporting QRTs")	Oct 2016
Guidelines on reporting for Financial Stability Purposes ("Financial Stability QRTs")	Jun 2017
Guidelines on the supervision of branches of third country insurance undertakings	Jun 2017
S.I. No. 485 of 2015 - European union (insurance and reinsurance) regulations 2015	Aug 2017
Implementing Regulation (EU) 2015/2450 ("Reporting QRTs"), Implementing Regulation (EU) 2015/2452 ("Public Disclosure QRTs") and National Specific Templates ("NSTs")	Dec 2017

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Changes to date

Document amended	Changes entered into force
Domestic Actuarial Regime	May 2018
	Nov 2018
Guidelines on reporting for Financial Stability Purposes	July 2018
Guidelines on the supervision of branches of third country insurance undertakings	July 2018
Solvency II Directive	July 2018

Addendum to the Domestic Actuarial Regime

May 2018

- Minor amendment to provide that the requirements outlined in the Domestic Actuarial Regime apply to Third Country Branches
- The addendum was implemented in S2CAT over the summer

Amendments to the Domestic Actuarial Regime

November 2018

- Published on **Tuesday this week**
- The changes are the result of CP122 Consultation on Changes to the Domestic Actuarial Regime and Related Governance
- The CBI will be in contact with companies to make them aware of the changes

The amendments relate to:

- The governance of **With-Profits funds**
- The format of the **Actuarial Opinion on the Technical Provisions**
 - Clarifying the level of reliance the HoAF is placing on others, and whether there are material limitations within the calculation of the TPs and any recommendations for improvements
- The updated Domestic Actuarial Regime will be implemented in S2CAT for the end of the year

Guidelines on reporting for Financial Stability Purposes

- One addition to the guidelines to clarify when data may be entered as negatives
- Some minor corrections to instructions in the log files
 - **Example S.01.01 – Content of the submission**

Option “13 – Not reported as method 2 is used exclusively” added to the closed list for S.02.01
 - **Example S.14.01 – Life obligation analysis**

Clarifies that the annualised guaranteed rate should be expressed as a percentage
- The updated Guidelines will be implemented in S2CAT for the end of the year

Guidelines on the supervision of branches of third country insurance undertakings

- Templates to be submitted by **third country branches** are not included in S2CAT
- Two additions to the guidelines:
 - Clarifying when data may be entered as negatives
 - Clarifying that the last exchange rate available in the reporting period should also be used to convert any historical data into the reporting currency
- One change to S.01.02.07 – Basic Information
- Changes to three log files

Solvency II Directive

- Minor amendment to clarify sharing of information between supervisory authorities as per Directive 2018/843/EU - Fifth Money Laundering Directive (MLD5)

2

Future Changes

Document	Date published	In Force
Proposal for a Directive amending Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)	Sep 2017	?
Commission Implementing Regulation (EU) 2018/1843 ("Public Disclosure QRTs")	Jun 2018	Q4 2018
Commission Implementing Regulation (EU) 2018/1844 ("Reporting QRTs")	Jun 2018	Q4 2018
National Specific Templates ("NSTs")	Oct 2018	Q4 2018
Securitisation amendments - Regulation (EU) 2017/2402 ("Directive 2009/138 EC")	Dec 2017	Jan 2019
Securitisation amendments - Commission Delegated Regulation (EU) 2018/1221 ("Delegated Regulation (EU) 2015/35")	June 2018	Jan 2019
Draft Commission Delegated Regulation ("Delegated Regulation (EU) 2015/35")	Nov 2018	?

Proposed amendments to Solvency II Directive

- Proposed amendments published in September 2017. The proposals are still being considered by the European Parliament and Council.
- Amendments have no direct impact on insurance companies in relation to Solvency II ongoing compliance – hence no changes to the tool
- Addresses the role of EIOPA in relation to the approval processes for internal models:
 - Upon request by EIOPA, the Supervisory Authorities must provide EIOPA with all information in the application
 - EIOPA can then issue an Opinion within 4 months and if the supervisory authorities depart from these they must give their reasons in writing to EIOPA

QRT Changes (1)

Amendments to the following:

Implementing Technical Standards with regard to the templates for the submission of information to the supervisory authorities

Implementing Technical Standards with regard to the procedures, formats and templates of the solvency and financial condition report

- Published in the Official Journal on 16 November 2018
- These amendments will enter into force in December 2018 and are applicable from Q4 2018

QRT Changes (2)

Reporting QRTs

- Minor amendments to the Implementing Technical Standards
 - Clarifying that there should be no decimals where the data type is integer
 - Clarifying when data may be entered as negatives
 - Clarifying that the last exchange rate available in the reporting period should also be used to convert any historical data into the reporting currency

Changes to templates

- Rows added for “Exemption of reporting ECAI information” to **S.01.02 – Basic Information**
- Rows added to **S.26.01.01 - Solvency Capital Requirement - Market risk** to split qualifying infrastructure investments into corporate entities and those other than corporate entities
- Column added to **S.37.01.04 - Risk concentration** for internal ratings
- Some label changes and changes where cells were incorrectly blocked out with an X

QRT Changes (3)

Reporting QRTs

27 log files for reporting QRTs for individual undertakings have changes

Example of changes to log files

- Changes to take account of the changes to the templates where necessary
- Some corrections and clarifications to instructions

e.g. S.05.01 - Premiums, claims and expenses by line of business

The general comments are updated to say:

*“For quarterly reporting administrative expenses, investment management expenses, acquisition expenses, **claims management expenses**, overhead expenses shall be presented aggregated.”*

- List of Nominated ECAI updated
- Instructions added for the Total column of the Gross Best Estimate for Cash flow in **S.12.01 - Life and Health SLT Technical Provisions** due to these cells being uncrossed in the template

The updated templates and log files will be reflected in S2CAT for the end of the year

QRT Changes (4)

Public Disclosure QRTs

- One amendment to a log file

S.05.02. – Premiums, claims and expenses by country

Instructions in the ‘General Comments’ have been amended:

“This section relates to annual disclosure of information for individual entities. Insurance and reinsurance undertakings are not required to disclose template S.05.02.01 of Annex I where the home country represents 90% or more of the total gross written premiums.”

The updated log file will be reflected in S2CAT for the end of the year

NSTs (1)

- New NST.14 Non-life business - policy and customer information added

NST.14.01.03								
Non-life business - policy and customer information								
NST.14.01.03.01								
Portfolio								
Line identification	Product ID code	Line of Business	Number of contracts at the end of the year	Number of new contracts during year	Number of customers at the end of the year	Number of new customers during year	Total amount of Written premiums	Country
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
artificial key	*foreign key to S.14.01.01.01	Metric: Identification of n	Metric: Integer	Metric: Integer	Metric: Integer	Metric: Integer	Metric: Monetary	Metric: Location of contract
iec_XU: NST.14 line identif	iec_IA: S14 ID code of product		NT/Number of contracts	NT/Number of new contra	NT/Number of customers	NT/Number of new custom	VG/Solvency II	
				DI/Year to Date		DI/Year to Date	BC/Premiums written	
NST.14.01.03.02								
Characteristics of products								
Product ID code	Product classification	Product still commercialised?	Type of product					
C0100	C0110	C0120	C0130					
natural key	Metric: Classification of p	Metric: Commercialisation	Metric: string					
iec_IA: S14 ID code of product			TS/Description of product					

NSTs (2)

- The CBI have made changes to the names of the template to differentiate annual and semi-annual from quarterly. The quarterly templates now end in “.03” - e.g. NST.01.01.03

Examples of changes to NSTs

NST.01.01.01 - Non-Life Income Statement (annual)

- Rows added for Gross Claims Paid and Net Claims Paid
- Rows added for Opening/Closing Gross/Net Technical Provisions reported/not reported
- The motor vehicle columns have been further split

NST.02.01.01 and NST.02.01.03 – Life Income Statement (annual and quarterly)

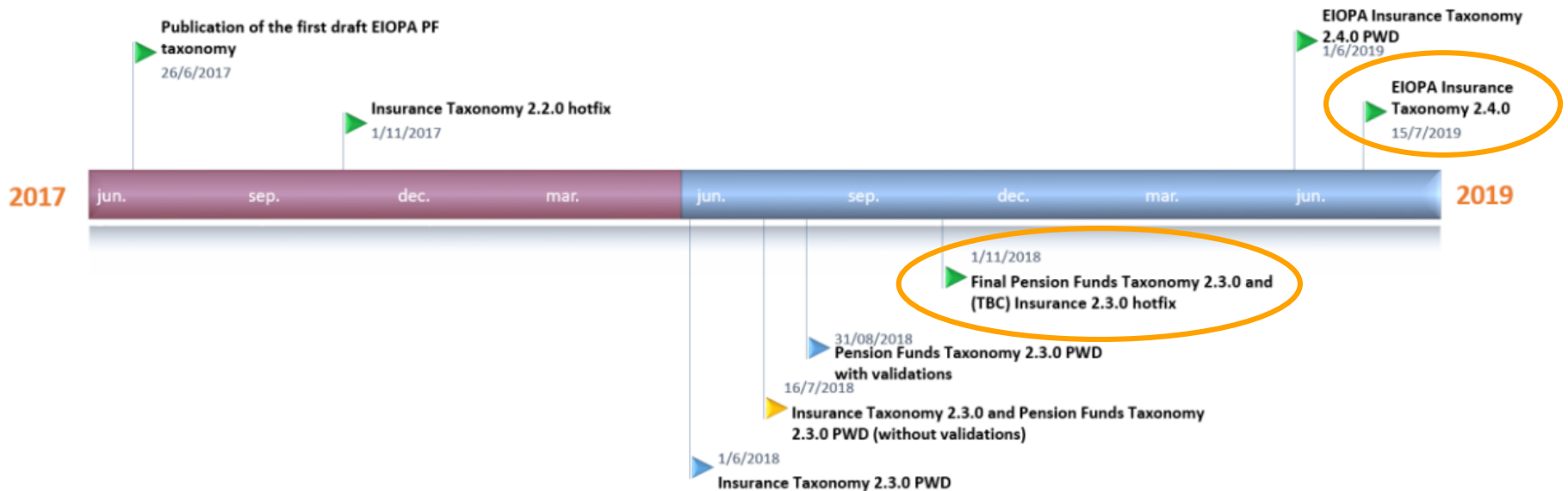
- The column “New Business GWP” has changed to “New Business APE”
- A row has been added for “Description of Unallocated Expenses on Insurance contracts (if reported)”

The updated templates and technical specifications will be reflected in S2CAT for the end of the year

General schedule of taxonomy releases

EIOPA's planned updates to QRTs

- EIOPA have stated that they expect one taxonomy release per year but that there may be more than one in extraordinary circumstances
- This update is part of Taxonomy 2.3.0
- The next update, Taxonomy 2.4.0 is expected in July 2019.



Securitisation amendments

- Some new definitions added to the Delegated Regulations in relation to **securitisation**
- Amendments made to the calculation of the capital requirement for **spread risk** on securitisation positions
- Some other minor amendments relating to securitisation
- Applicable from Jan 2019

Amendments to the Delegated Regulations Process

- First Discussion paper dates back to December 2016
- EIOPA provided 2 sets of advice to European Commission
- The Commission didn't include all items recommended by EIOPA
 - Interest rate risk in particular
- Commission published its draft delegated regulations 9th November

Amendments to the Delegated Regulations

Timing

- Feedback period ends 7th December
- Most changes apply from 1 Jan 2019 but some non-life from Jan 2020
- However, the Commission needs to adopt the act following the consultation
- If Parliament and Council do not object within 2 months then it will enter into force.

Consultation to update the Delegated Regulations

European Commission published its consultation document

- Topics include:

- | |
|--|
| • Unrated debt and unlisted equity |
| • Simplifications on look-through |
| • Counterparty Default and risk mitigation techniques |
| • Loss-absorbing capacity of deferred taxes |
| • Own Funds |
| • Risk calibrations for non-life premium and reserve risk, health and non-life catastrophe |
| • Simplifications |

Draft Delegated Regulations

Market Risk

Unrated debt and unlisted equities

- Allow reducing the capital charge in some circumstances
- Can apply 'type 1' equity risk to unlisted equities
- 22% capital charge for ring-fenced long-term equity investments
- Use own internal credit assessment if no credit rating available
- High quality private placements – potential to use credit institutions' internal ratings for spread risk

Currency

- Use of a local currency other than the one used to prepare accounts for groups

Draft Delegated Regulations

Look-through approach

Look-through

- Expands the simplifications permitted:
 - Remove the 20% limit for Unit-linked investments
 - Allow grouping of exposures provided grouping is prudent
- New simplification based on last reported asset allocation of collective investments
- Look-through approach should be applied to related undertakings that hold or manage assets on behalf of the insurer

Draft Delegated Regulations

Counterparty Default and risk mitigation techniques

Counterparty Default

- Trade exposures to qualifying Central Counterparties lower counterparty risk
- All derivatives treated as Type 1 exposures
- Recognition of guarantees issued by regional governments and local authorities aligned with credit institutions
- Not disproportionately penalised when reinsurer ceases to comply with SCR

Risk Mitigation Techniques

- Developments in risk management practices should be reflected in SCR
 - Take account of risk mitigating techniques when they will be replaced at expiry
 - Allow for netting arrangements and where several arrangements have the effect of a risk mitigation technique

Draft Delegated Regulations

LACDT Standardisation

Loss Absorbing Capacity of Deferred taxes

- Widely divergent practices between countries
- Shouldn't use overly optimistic assumptions
- Adopt a risk management policy related to deferred taxes
- Specific rules
 - New business sales can't exceed business plan
 - Can't use more than five years
 - Haircuts if going beyond business planning horizon
 - Returns shall be assumed equal to the forward rates unless can provide credible evidence of likely returns in excess of those implicit returns.

Draft Delegated Regulations

Own Funds

Own Funds

- Some items may provide for a partial principal loss-absorbing mechanism where SCR is breached during 3 consecutive months
- Possibility to repay an own-fund item within first 5 years

Draft Delegated Regulations

Risk Calibrations

Non-life Underwriting risk

- Volume measure for NL premium risk changing
- Natural catastrophe risk – calculation should take account of the contractual limits
- Man-made catastrophe – scenario based calculations based on largest exposures
- NL premium and reserve risk and natural catastrophe – parameters updated

Draft Delegated Regulations

Simplifications

Simplified calculations

- Lapse risk – allow at homogeneous risk group rather than per-policy
- Natural catastrophe risk – should be proportionate to nature, scale and complexity
- Fire risk submodule simplified
- Life and health mortality – reflect that it can vary over time
- Share in insolvency estate of counterparty – disproportionate burden to be avoided
- Counterparty default – can use type 1 if standard deviation is less than 20% (previously 7%)
- Non-life Risk mitigating effect on underwriting risk may be disproportionate – can use a simplified formula

In Summary

- Minor changes to QRTs, log files and Delegated Regulations to date
- Annual changes expected to the QRTs and log files
- Delegated Regulations will see substantial changes in 2019

Lots of changes to monitor....

.....but don't panic as

S2CAT does the hard work so you don't have to..



Milliman Outsourcing Compliance Tool

Patrick Meghen

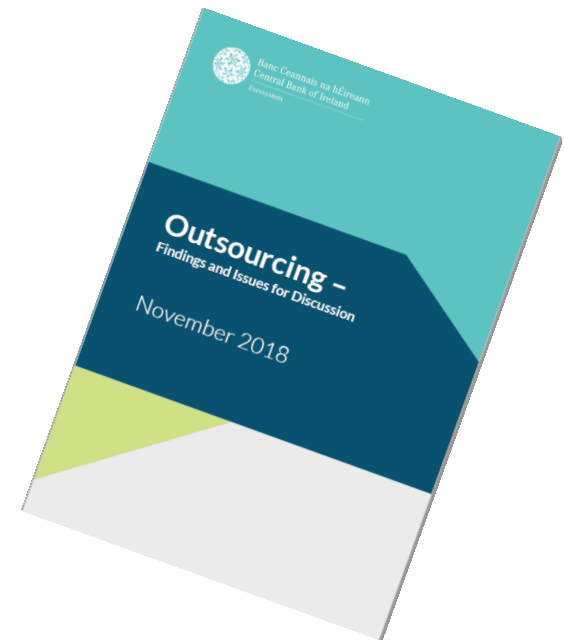
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Central Bank Focus

Outsourcing Risk

- Thematic Inspection regarding Outsourcing risk in 2017, with feedback delivered to Companies involved early 2018.
- Wider paper published on outsourcing risk
 - Sets out findings from inspections
 - Raises a number of significant issues for the industry to address
 - Describes expectations regarding management of outsourcing
 - Discusses key risks
- Lot of mentions by Central Bank lately – definitely a big “campaign”



Central Bank Focus

Advertising Material

- **Gerry Cross, Director of Policy and Risk, Central Bank of Ireland - Hubs and spokes: remarks on innovation and outsourcing**
(Published date: 22 November 2018)

“...the area of **outsourcing** is one where in general terms there are **significant weaknesses** to be found. The **quality of governance, oversight and risk management** of outsourcing has not kept pace with the expanding significance of the practice...”

Range of Requirements

- Broad range of documents to consider
- Key Items include:
 - **Solvency II**
 - Directive
 - Delegated Regulations
 - EIOPA Guidelines on System of Governance
 - **CBI Notification Process** for (Re)Insurance Undertakings when **Outsourcing Critical or Important Functions or Activities** under Solvency II
 - Cross Industry Guidance in respect of **Information Technology and Cybersecurity Risks**
 - Central Bank of Ireland Guidance on **Fitness and Probity Standards 2018**
 - Central Bank of Ireland Guidance for (Re) Insurance Undertakings on the Fitness and Probity Amendments 2015

Relevant Regulation, Guidance and Reports
Legislation
Central Bank of Ireland AIF Rulebook
Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1))(Investment Firms) Regulations 2017 – S.I. No 604/2017.
Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Undertakings for Collective Investment in Transferable Securities) Regulations - S.I. No. 420 of 2015, S.I. No 307 of 2016, S.I. No. 344 of 2017
Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive
European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 – S.I. No 352/2011.
European Union (Alternative Investment Fund Managers) Regulations – S.I. No. 257/2013, S.I. No. 379/2014
European Union (Markets in Financial Instruments) Regulations 2017 – S.I. No. 375/2017.
European Union (Undertakings for Collective Investment in Transferable Securities) (Amendment) Regulations 2016
European Union (Insurance and Reinsurance) Regulations 2015 (Solvency II Regulations)
Central Bank of Ireland Consumer Protection Code 2012
European Union (Payment Services) Regulations 2018
Companies Act 2014
Central Bank of Ireland Fitness and Probity Standards 2014
Regulatory Requirements, Guidance and Reports
Basel Committee on Banking Supervision Principles for the Sound Management of Operational Risk 2011
Central Bank of Ireland Fund Administrators Guidance 2017
Central Bank of Ireland Fund Management Companies - Guidance 2016
Central Bank of Ireland Investment Firms Questions and Answers 5 th Edition 2018
Committee of European Banking Supervisors (CEBS) ¹¹ Guidelines on Outsourcing 2006
European Banking Authority Guidelines on Internal Governance under Directive 2013/36/EU 2017
European Banking Authority Recommendations on Outsourcing to Cloud Service Providers 2017
Financial Stability Board Principles for an Effective Risk Appetite Framework 2013
European Insurance and Occupational Pensions Authority Guidelines on Systems of Governance 2016
Central Bank of Ireland Credit Union Handbook 2018
Central Bank of Ireland Cross Industry Guidance in respect of Information Technology and Cybersecurity Risks 2016
Central Bank of Ireland Guidance on Fitness and Probity Standards 2018
Central Bank of Ireland Report on Anti-Money Laundering/Countering the Financing of Terrorism and Financial Sanctions Compliance - Life Insurance Sector 2016, Irish Funds Sector 2015, Banking Sector 2015

Demo

Central Bank Focus

Tool Layout

- Two Sections
 - First covers general requirements for the Company
 - Second includes an assessment for every instance of outsourcing
 - Basic Assessment
 - Detailed Assessment

General Requirements

Dashboard

Vi Add Documentation Homepage Diverts Report Generator Calendar

Audit Grid View Documentation Compliance Report Actions Set-Up Diverts Help

General Requirements

All data Filter Delegate More

Select all labels Q2 2018 Q3 2018

	↔	93%	86%
<input type="checkbox"/> 1. POLICIES & DISCLOSURE	<input type="checkbox"/>	100%	80%
<input type="checkbox"/> 1.1. To what extent has the Company developed and implemented a written Outsourcing policy that meets the relevant requirements?	50%	3 -	
<input type="checkbox"/> 1.2. Have the required outsourcing details been included in the Solvency and Financial Condition Report (SFCR)?	100%	Yes	Yes
<input type="checkbox"/> 1.3. Have the required outsourcing details been included in the Regular Supervisory Report (RSR)?	100%	Yes	Yes
<input type="checkbox"/> 1.4. Does the remuneration policy require that remuneration arrangements with service providers do not encourage risk-taking that is	100%	Yes	Yes
<input type="checkbox"/> 1.5. Does the Company have a process in place to determine whether a function is critical or important?	100%	Yes	Yes
<input type="checkbox"/> 2. OTHER CONSIDERATIONS	<input type="checkbox"/>	75%	100%
<input type="checkbox"/> 2.1. Have the outsourcing requirements been applied where the authority to underwrite business or settle claims is granted to an	100%	Yes	Yes

General Requirements

Questions

Q2 2018 ellen.matthews@milliman.com

1. POLICIES & DISCLOSURE

1.5. Does the Company have a process is in place to determine whether a function is critical or important? **C**

▼ Relevant Files: [General Requirements » General Requirments - Q1.5](#)

EIOPA Guidelines on System of Governance: [Guideline 60](#) [Guidelines 63](#)

Notification Process for (Re)Insurance Undertakings: [Section 1.1](#) [Section 1.4](#) [Section 5](#)

Yes
 No
 Partial

millimanoutsourcing@vclarity.com
16-11-2018 13:53

1.5.1. If you would like to make a comment, please do so here, otherwise enter N/A. **C**

N/A

millimanoutsourcing@vclarity.com
16-11-2018 13:53

Outsourcer Assessment

Tool Layout

- Basic Information
- Interim Review
- Monitoring & Responsibility
- Critical or Important Functions or Activities
- Notification Process
- Assessment of the Service Provider
- Written Agreement
- Assessment of the Service Provider (IT)

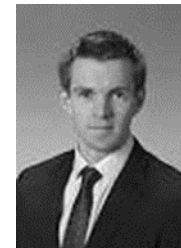
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Thank you



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