



1st December 2009

Our Ref: SII/CL/02

Dear Sir/Madam,

Further to my letter of 5 August I would like to take this opportunity to follow-up on the responses to our initial questionnaire. In particular I wish to seek further details on the nature and timing of firms' plans in relation to the use of full or partial internal models.

From an analysis of the responses received there is considerable variation in terms of firm's preparations and/or development in this area. In addition, a number of firms were undecided on the question of using an internal model. A summary of the responses will be available on the Solvency II section of our website shortly.

Following on from the gap analysis referred to in my previous letter, we would expect that companies will be close to deciding whether the standard formula adequately reflects their risk profile. Therefore, those firms that were undecided on the internal model issue in August should be concluding on their intentions. Likewise, all firms intending to use full or partial internal models should be deciding on the scope and coverage of their models. While CEIOPS wants to promote the use of internal models whenever it results in a better reflection of a firm's risk profile, firms should not rush into applying or designing an internal model without carrying out a thorough assessment of its appropriateness and the concomitant management framework. Internal models will be required to undergo a rigorous approval process.

In order to give firms the opportunity to provide a more definitive indication of their plans and to assist with our planning for the internal model approval process we have provided a second questionnaire on our website covering both full and partial models, and applying to groups and solo entities. I would be grateful if firms intending to use internal models could complete the questionnaire by end March 2010.



In January 2010 CEIOPS will issue Level III guidance on the pre-application process for internal model approval. Following a review of the second questionnaire and after considering the January 2010 guidance paper the Financial Regulator will engage with the relevant companies that will be involved in the pre-application phase.

QIS5

The fifth Quantitative Impact Study ('QIS5') is set to begin in August 2010 with results to be submitted in October/November. Firms should note that the Financial Regulator will be expecting but not requiring 100% participation in QIS5. Those firms that have not participated in the earlier studies may need to begin their preparations for this exercise at this time.

Own Risk and Solvency Assessment ('ORSA')

As previously advised, the Framework Directive introduces a new concept and requirement for firms with the ORSA. Firms should be aware of a CEIOPS Issues Paper on the ORSA published in May 2008. While Level III guidance will be issued in late 2010, I would suggest that special attention be given to the requirements of the ORSA within the Gap Analysis referred to in my previous letter. As further guidance emerges from CEIOPS the Financial Regulator will communicate again with industry in relation to the ORSA.

Finally, I would like to thank firms for completing our initial questionnaire and appreciate your continued cooperation in this regard.

Yours sincerely

Patrick Brady

Head of Insurance Supervision