Internal model pre-application process for
Solvency II
Pre-application package

POLISH FINANCIAL SUPERVISION AUTHORITY
WARSAW, 31 January 2011
(modified on 15 October 2012)
This is the PFSA translation of the document *Proces przedaplikacyjny dotyczący modeli wewnętrznych na potrzeby Wypłacalności II. Zawartość pakietu przedaplikacyjnego*. This text is furnished for information purposes only. The original Polish version is binding in all respects.
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## List of abbreviations and selected terms

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<td>EU</td>
<td>The European Union</td>
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<td>EC</td>
<td>The European Commission</td>
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<td>PFSA</td>
<td>Polish Financial Supervision Authority</td>
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<td>EIOPA</td>
<td>European Insurance and Occupational Pensions Authority – European Supervision Authority established by the Regulation of the European Parliament and of the Council no. 1094/2010 as of 24 November 2010. It replaced CEIOPS.</td>
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<td>IU</td>
<td>Insurance Undertaking – this term covers an insurance undertaking, an undertaking carrying out insurance and reinsurance activities or a reinsurance undertaking.</td>
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<td>IG</td>
<td>Insurance group</td>
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<td>SCR</td>
<td>Solvency Capital Requirement</td>
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<td>Solo SCR</td>
<td>SCR calculated by IU</td>
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<td>Group SCR</td>
<td>SCR calculated by IG</td>
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<td>TP</td>
<td>Technical provisions</td>
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<td>QISS5</td>
<td>Quantitative Impact Study 5</td>
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<td>IM</td>
<td>Internal Model</td>
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<td>Full IM</td>
<td>An internal model which takes into account all quantifiable risks an IU is exposed to, covering at least the risks included in art. 101 (4) of the Solvency II Directive (i.e., insurance risk, market risk, credit risk, operational risk).</td>
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</table>
| Partial IM (PIM) | An internal model used to calculate:  
  - one or several risk modules or sub-modules of the Basic Solvency Capital Requirement  
  - capital requirement for operational risk,  
  - adjustment for the loss-absorbing capacity of technical provisions and deferred taxes.  
Partial IM may be applied taking into account all the activities of an IU or only one or more major business units. |
| External models or data | Models or data obtained from a third party |
| Business unit | A unit operating within an IU or IG, whose scope has been defined by the IU or IG and does not have to coincide with the IU as a legal person or legal persons included in IG. See: CEIOPS advice for the European Commission regarding partial internal models, section 3.2: Major Business Units, p. 15-18, CEIOPS advice for the European Commission regarding tests and standards for the approval of internal models, p. 139. |
| Risk | Art. 101 (4) of the Solvency II Directive distinguishes risks modules which should be included in SCR calculations. Risks defined for an IM should correspond to the modules referred to in art. 101 (4) or should be defined in a similar manner. |
| Risk factor | A factor that contributes to risk occurrence or risk increase/decrease. |
Introduction

Solvency II system provides IU with the possibility to apply internal models in order to calculate SCR. In accordance with art. 112 (4) of the Solvency II Directive, an IM is approved by a supervisory authority within 6 months from the receipt of a complete application from the IU. The pre-application process constitutes voluntary cooperation between the IU and a supervisory authority, the purpose of which is, on the one hand, for the IU to better prepare for submitting the application for IM approval, and on the other hand, to make it easier for the supervisory authority to issue a decision on the application within the deadline. The aim of the pre-application process is to obtain the opinion from PFSA regarding an IU's preparation for the IM approval process.

The PFSA, when launching the pre-application process, continues its mission to care about the stable functioning and safe development of the financial market and strives to improve the dialogue between the insurance market and supervisory authorities.

The requirements and guidelines contained in this document are intended solely for carrying out pre-application processes by the PFSA. They do not predefine or determine final requirements of the Polish supervisory authority, which will be applied in the process of granting approval to the application of an IM to calculate SCR.

The PFSA invites domestic IUs and IGs for which the PFSA will be a group supervisor, who intend to use an IM for calculating their SCR already in the first year of the functioning of the Solvency II system1 and who intend to take part in the pre-application process, to submit the so called pre-application package, i.e.:

- to send a cover letter concerning the participation in the pre-application process (see section I) by 30 April 2011.
- to submit required information and documents (see sections II-XII) not later than 30 September 2011.

It will be possible to join the process also at a later date, but the PFSA cannot then guarantee that the resources necessary to carry out these processes could be engaged. The exact ending dates of the pre-application processes which started in 2011 will depend on the assessment by the PFSA of IUs’ readiness to enter the IM approval process and on the transposition date of Solvency II Directive, which will be ultimately determined during the negotiations of Omnibus II Directive.

The main stages of pre-application processes carried out by the PFSA:

1) Submitting a cover letter by an IU to the PFSA.
2) Individual organizational meeting with the IU – discussing documents required by the supervisory authority for the pre-application package.
3) Submitting the pre-application package by the IU.
4) Opening of the pre-application process for IU which in the opinion of the PFSA are prepared for this (the decision will be issued within 30 days from the receipt of the required documents by the PFSA.
5) Developing an individual pre-application process plan, in cooperation with the IU (i.a. specification of the time frame and work schedule).
6) Implementation of the established pre-application process plan by the IU and the PFSA.
7) Preparing an opinion by the PFSA on how prepared the IU is to submit the application.

It should be noted that:

- In order for the pre-application process to succeed, it is necessary for the both parties to commit fully, which includes the readiness of the IU to provide the supervisory authority with all the necessary information or documents, including also at the IU’s premises.
- The work schedule may change together with the development of the pre-application process.
- The objective of the pre-application process is to get the opinion of the PFSA on how prepared the IU is to submit an application. Participation in the pre-application process does not guarantee the approval after the formal application is submitted.

Any questions may be sent to the following address: proces.przedaplikacyjny@knf.gov.pl or by phone: +48 22 262 49 55 (Secretariat of the Insurance and Pension Inspection Department)

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1 According to the draft Omnibus II Directive which will amend the Solvency II Directive, the new system should be operational in the Member States starting from 1 January 2013.
Pre-application package

The basis for the PFSA to determine the contents of the pre-application package is: *CEIOPS Level 3 Guidance on Solvency II: Pre-application process for Internal Models (CEIOPS-DOC-76/10)*, the provisions of the Solvency II Directive on internal models and CEIOPS Advice for the Level 2 Implementing Measures on Solvency II. The detailed list of the above materials is included in Appendix 1 to this document.

The pre-application package consists of information and documents which should be provided to the PFSA Office, in writing, by:
- the IU which intends to determine the solo SCR with using its own IM (other than the group model) or the IU which belongs to an IG with a parent undertaking having its office outside Poland and which intends to use a group model for calculation of the solo SCR,
- a parent undertaking of an IG for which the PFSA will be a group supervisor.

In case of launching the pre-application process, the above mentioned entity will be required to provide additional information and documents. All documents may be submitted in English or Polish.

Information and documents included in the pre-application package are specified in separate points of subsequent sections. Section XI specifies additional requirements applying to those IGs for which the PFSA will be a group supervisor, and for domestic IUs belonging to IGs with a parent undertaking located outside Poland, which intend to use a group model to calculate the solo SCR. In section XII, domestic IUs and IGs for which the PFSA will be a group supervisor are asked to fill in a self-assessment form regarding the level of their preparation.

The required scope of the pre-application package:
I. Cover letter
II. Organisational structure and personnel resources
III. Scope of a full or partial IM
IV. Technical characteristics of the IM
V. External models
VI. Validation
VII. Documentation
VIII. IM management and control systems
IX. Use test
X. Risk management and IM
XI. Additional requirements for IGs and domestic IUs belonging to those IGs
XII. Self-assessment

Whenever the document mentions the SCR standard formula, its provisions consistent with the QIS5 Technical Specifications should be adopted. An IU is requested to perform all calculations on data as at 30 June 2010 (it is acceptable to use the results of QIS5).

I. Cover letter

A cover letter should include the outline of IU’s plans with regard to the scope of using an IM for calculation of SCR (max. 1 page) which includes:
I.1. The declaration of the IU management body stating that the IU intends to use the IM (partial or full) to calculate the SCR after the Solvency II system enters into force.
I.2. The scheduled date of submitting the pre-application package to the PFSA.
I.3. The scheduled date of submitting the application for IM approval to the supervision authority.
I.4. Declaration that the IU is ready to cooperate with the PFSA during the pre-application process, including the submission of all necessary information and documents, also at the premises of the IU.
I.5. Appointing IU employees to communicate with the PFSA Office during the pre-application process in matters related to the course of this process.

The cover letter should be signed by the management body of the IU.
**II. Organisational structure and personnel resources**

The description of organizational structure and personnel resources, prepared for the pre-application package, should include the presentation of the organizational structure, with particular emphasis on the organizational units involved in designing and implementing the IM. This will allow the PFSA to acquire information of the personnel resources which the IU may have at its disposal in order to develop and improve the IM, and to prepare the necessary documentation. In this regard, in the scope of the pre-application package, the IU is requested to:

II.1. Provide the IU organizational chart, with particular emphasis on positions and organizational units having a significant impact on the IM development, implementation, testing, result analysis, validation, way of using it (use test), and the acceptance of its changes and modifications. Moreover, the IU is requested to provide steering committees or other teams set up within the IU to make key decisions in respect of: the IM, risk management, capital management, mergers and acquisitions, ALM, tariffs, risk mitigation, etc. (max. 5 pages).

II.2. Describe the roles and responsibilities of positions, organizational units, steering committees and teams referred to in section II.1 (max. 2 pages). In particular:
   a. provide a list of persons responsible for the development and validation of the IM (including those not employed in the IU, e.g. external consultants) together with the description of their professional qualifications, experience relevant to perform tasks associated with the IM,
   b. provide the composition of steering committees or other teams set up in the IU to make key decisions (referred to in point II.1), indicating persons who will manage their work,
   c. specify the target number of full-time employees in the IU to work on the IM.

**III. Scope of a full or partial IM**

In accordance with art. 112 of the Solvency II Directive, an IU may use a full or partial IM to calculate the SCR.

**IM scope**

As regards the description of the IM scope for the purposes of the pre-application package, an IU is requested to:

III.1. Present the high level overview of an IM – a summary description of the IM, understandable for persons with different profiles of education (max. 10 pages).

III.2. Present the IM structure and architecture in a form of a diagram (max. 5 pages).

III.3. Provide the list and definitions of business units and risks covered by the IM (max. 5 pages).

**Justification for applying a partial IM**

If an IU plans to use a partial IM for SCR calculation, it is additionally required to provide:

III.4. A detailed justification for the application of a partial IM (max. 5 pages), including the following explanation:
   a. Why the profile of particular risks is better reflected with the use of an IM than with the use of the standard formula,
   b. why the IU has not decided to model the remaining risks with the use of an IM.

III.5. Description of the method to aggregate the partial IM results with the standard formula results and justify the technique used (max. 1 page).

**IV. Technical characteristics of the IM**

The technical characteristics of an IM described for the purposes of the pre-application package should include particular risk factors and the detailed analysis of assumptions underlying the IM. The description is to enable the PSFA to understand how particular risks are modelled. In this regard, as part of the pre-application package, an IU is requested to:

**Methodology of a model: category and risk factor modelling**

IV.1. Present key assumptions underlying the IM, i.e. those with the greatest impact on the SCR (max. 5 pages).

IV.2. Present methods used for modelling each risk included in the IM (max. 5 pages).

IV.3. Indicate identified risk factors for each of the modelled risks (max. 5 pages).
IV.4. Indicate which risk factors listed in the point above are not included in the IM (max. 2 pages).

**Model methodology: correlation, aggregation and diversification**

IV.5. Present methods for modelling correlations and aggregation used on particular IM levels (e.g. risk factors, risks, lines of business, etc.) (max. 2 pages).

IV.6. Provide the solo SCR diversification effect (max. 1 page).

**Methodology of a model: valuation of assets and liabilities**

IV.7. Present the adopted principles and methods used for the market valuation of assets, which will be used as the basis for calculation of the SCR using the IM (max. 1 page).

IV.8. Present the adopted principles and methods used for the market valuation of liabilities, which will be used as the basis for determining SCR with the use of the IM (max. 1 page).

**Methodology of a model: IM weaknesses**

IV.9. Present IM weaknesses and cases where the IM may not function correctly (max. 5 pages).

**Comparing the results of an IM (full or partial) with the standard formula**

IV.10. Provide the SCR calculated with the use of the IM and the standard formula (max. 1 page).

**The use of expert judgement**

IV.11. Indicate the main areas where expert judgement is to be used in relation to assumptions, data and parameters (max. 1 page).

IV.12. Describe how the peer reviews are to be used in the IM, and name persons engaged in individual evaluations as well as their professional qualifications (max. 3 pages).

V. **External models or data**

According to art. 126 of Solvency II Directive, the use of a model or data obtained from a third party shall not be considered to be a justification for exemption from any of the requirements for the internal model set out in art. 120 – 125. In this regard, as part of the pre-application package, an IU is requested to:

V.1. Indicate the areas of the IM where external models or data are used (max. 1 page).

V.2. Describe how the consistency of external models or data with the IM is verified (max. 1 page).

V.3. Explain how the IU ensures that the external model or data comply with the requirements of Solvency II system regarding the IM (art. 120-125 of the Solvency II Directive) (max. 1 page).

VI. **Validation**

According to art. 124 of the Solvency II Directive, IUs shall have a regular cycle of model validation which includes monitoring the performance of the internal model, reviewing the ongoing appropriateness of its specification, and testing its results against experience. In the respect of the IM validation, as part of the pre-application package, the IU is requested to:

**Validation process**

VI.1. Indicate the IM areas where the validation process has been carried out (max. 1 page).

VI.2. Describe the IM validation process (including areas used for validation and validation tools applied), taking the validation of expert judgement and external models or data into consideration. Provide the extent and frequency of preparing IM validation reports (max. 5 pages).

**Internal audit**

VI.3. Describe the role of an internal audit (as defined in art. 47 of the Solvency II Directive) in the process of evaluating the adequacy and effectiveness of procedures relating to the development and usage of the IM (max. 2 pages).

**Analysis of the IM results**

If the IU analyses the IM results at the present stage of IM works, it is requested to provide:
VI.4. The list of conducted SCR variation analyses (e.g. a sensitivity analysis, stress testing, scenario analysis, analysis of simulation error, etc.) (max. 1 page).

VII. Documentation
According to art. 125 of the Solvency II Directive, the IUs shall document the design and operational details of their internal model. The documentation should be sufficiently detailed and complete for an independent knowledgeable third party, to understand and assess, on the basis of this documentation, the reasoning, methodology and operational details of the IM. In the respect of the IM documentation, as part of the pre-application package, the IU is requested to:
VII.1. Present the list of current and planned IM documentation. The list should also include documentation and guidelines for the IM users (max. 5 pages).
VII.2. Present the schedule of works on the IM documentation, together with the scheduled date of preparing each document (max. 2 pages).

VIII. IM management and control systems
When preparing the description of the IM management process and control systems for the purpose of the pre-application package, the IU should demonstrate that it appropriately manages the IM and possesses the system of internal control, adjusted to the scale of the operations and the nature and complexity of risks to which it is exposed. In this regard, as part of the pre-application package, the IU is requested to:
Compliance with the requirements of the Solvency II Directive
VIII.1. Present the schedule of the project for preparing the IU to function in accordance with the Solvency II system, with the specification of critical paths (max. 5 pages).
VIII.2. Present the schedule of works which purpose is for the IM to meet the requirements of the Solvency II system related to the IM, by the scheduled date of submitting the application for the model approval (max. 1 page).
IM management
VIII.3. Describe the IM management process, in particular the process of development, implementation, testing and validation of the IM, and preparing the IM documentation. Indicate the role of the IU management body and the risk management function in the IM management process (max. 5 pages).
Internal control
VIII.4. Describe the role of internal control (as defined in art. 46 of the Solvency II Directive) relating to the IM management in the IU (e.g. in the scope of IM modification, determining the direction of the IM development, preparing the IM documentation) (max. 2 pages).
IT and security
VIII.5. Present the IT architecture including, in particular, systems, tools, applications and interfaces, together with the indication of the area and the extent of their usage by the IM (max. 2 pages).
VIII.6. Describe the plan for maintaining activities and procedures connected with restoring the technical infrastructure necessary for the functioning of the IM and other data important for the model (max. 2 pages).

IX. Use test
According to art. 120 of the Solvency II Directive, IUs shall demonstrate that the IM is widely used and plays an important role in their system of governance. In this regard, as part of the pre-application package, an IU is requested to:
IX.1. Indicate current and target method of using the IM in the activities of the IU (max. 2 pages).
IX.2. Describe the roles and responsibilities of the IU management body members in the scope of the IM (max. 2 pages).
IX.3. Indicate a period up to the date of submitting the pre-application package when the IM was used as a part of the risk management system and decision-making process (max. 1 page).
X. Risk management and IM

In accordance with art. 44 (1) and 112 (5) of the Solvency II Directive, the supervisory authority, shall give approval to the application only if they are satisfied that the IU’s systems for identifying, measuring, monitoring, managing and reporting risk on a continuous basis are adequate. The IU should therefore demonstrate, in the context of the IM, that it has an adequate, efficient and well documented risk management system. The system should include, among others, risk management policy and procedures. In terms of risk management and risk profiling, as part of the pre-application package, an IU is requested to:

Risk management strategy and policy
X.1. Describe the risk management strategy, identifying the purpose of the risk management process, defining and determining risk appetite and assigning responsibility for the risk management areas (max. 5 pages).

X.2. Describe the risk management policy, providing the definition of the risk materiality and indicate all the risk categories important for the business activity of the IU, together with their definitions (max. 5 pages).

Processes and procedures
X.3. Specify applied policies, processes and procedures which enable risk identification, assessment, management and monitoring (max. 2 pages).

X.4. Describe the reporting process and cycle for the purpose of risk management, specifying reports prepared and indicating the frequency of their preparation (max. 2 pages).

XI. Additional requirements for IGs and domestic IUs belonging to IGs

IGs for which the FSA will be a group supervisor and domestic IUs which belong to IGs with parent undertakings located outside Poland and which intend to use the group model to calculate solo SCR, in addition to the information and documents referred to in sections I-X, are also requested to:

IGs, for which the FSA will be a group supervisor
XI.1. Present the organizational structure of the IG (max. 2 pages).

XI.2. Specify steering committees or other teams operating at the level of the IG in the scope of risk management, together with their composition and persons who manage their works (max. 1 page).

XI.3. Indicate which entities referred to in p. XI.1 are included in the group IM (max. 1 page).

XI.4. Present the list of reinsurance contracts, granted guarantees, securities, borrowings and other similar agreements made between entities included in the IG, current as at the end of the last quarter prior to the day of submitting the pre-application package (max. 3 pages).

XI.5. Explain the method of aggregating the IM results for separate legal entities included in the IG, risks covered by the IM, in order to calculate the group SCR (max. 1 page).

XI.6. Provide the SCR diversification effect for the group (max. 1 page).

XI.7. Provide the SCR calculated by the IM and the standard formula for particular IUs included in the IG and for the group (max. 1 page). Provide the amounts of capital requirements for legal entities other than IUs included in the IG.

XI.8. Identify the activity areas of IUs included in the IG outsourced to other entities belonging to IG (max. 2 pages).

Domestic IUs which intend to calculate their solo SCR using an IM of the IG whose parent undertaking has its head office outside Poland
XI.9. Outline the organizational structure of IG, including a domestic IU (max. 1 page).

XI.10. Present the list of reinsurance contracts, granted guarantees, securities, borrowings and other similar agreements made by a domestic IU with entities included in the IG, current as at the end of the last quarter prior to the day of submitting the pre-application package (max. 2 pages).

XI.11. Provide measures taken by the IG with the aim of supporting the domestic IU in understanding and implementing an IM (max. 2 pages).
XI.12. Describe the contribution of the domestic IU to the IM development. Identify employees of the domestic IU engaged in IM works at the level of the IG, providing, in particular, committees, groups, teams whose members are the IU employees (max. 2 pages).

XI.13. Identifying areas of the domestic IU's activities outsourced to the IG (max. 2 pages).

**XII. Self-assessment**

The purpose of the self-assessment of the preparation level is to identify the strengths and weaknesses of an IM. In addition, it is to indicate the extent to which a current IM meets the requirements of the Solvency II system related to internal models. The evaluation consists in filling in a form published at the PFSA website (www.knf.gov.pl), in the section "Solvency of the insurance section entities (Solvency I i II)" (this section of the website is available in Polish only, however the English translation of the self-assessment form is provided).
## Appendix 1: List of auxiliary materials

The table below provides a list of documents containing information useful in the process of preparing to submit the application for IM approval. Note: CEIOPS advice for the European Commission includes proposals for the provisions of the Solvency II Level 2 Implementing Measures. However, they are not binding for the European Commission and the final provisions of Level 2 measures may be different.

<table>
<thead>
<tr>
<th>Title and number of a document</th>
<th>Date of publication</th>
<th>Issues relevant to the preparation of an application for IM approval</th>
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<tr>
<td>Solvency II Directive II (2009/138/EC)</td>
<td>December 2009</td>
<td>In particular art. 112-126 on IM, art. 75-85 on the valuation of assets and liabilities including TPs, art. 87-97 on the own funds (Solvency II balance sheet), art. 100-110 on the SCR calculation using the standard formula, art. 128-129 on the calculation of MCR, art. 41-49 on the system of governance.</td>
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<tr>
<td>Working draft of consolidated Level 2 implementing measure (EC regulation) (version as of October 2010)</td>
<td>unpublished, presented to PIU for consultation in October 2010</td>
<td>In particular art. 203-235 on IM, art. 327-334 on IM for IGs, art. 5-72 on the valuation of assets and liabilities (including TPs) and the own funds (Solvency II balance sheet), art. 75-202 on the SCR calculation using the standard formula, art. 236-242 on the calculation of MCR, art. 249-265 on the IG's SCR and own funds.</td>
</tr>
<tr>
<td>Technical specifications of the QIS5 study (together with 2 erratas)</td>
<td>July 2010</td>
<td>Rules consistent with the working drafts of the Level 2 implementing measures as of June 2010, relating to: the valuation of assets and liabilities (including TPs) and own funds (Solvency II balance sheet), SCR calculation using the standard formula, determining IG's SCR and own funds.</td>
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<tr>
<td>CEIOPS Level 3 Guidance on Solvency II: Pre-application process for Internal Models (former Consultation Paper 80) CEIOPS-DOC-76/10</td>
<td>March 2010</td>
<td>The course of the pre-application process, contents of the pre-application package, work organization in a supervisory authority, elements to be evaluated, documentation required from the IU.</td>
</tr>
<tr>
<td>CEIOPS' Advice for L2 Implementing Measures on SII: Partial internal models (former Consultation Paper 65) CEIOPS-DOC-61/10</td>
<td>January 2010</td>
<td>Specific requirements for partial IMs including: the scope of a partial IM, the concept of the main activity areas, a development plan for a partial model, approval of partial IMs, aggregation of results obtained with the use of a partial IM with the results obtained with the use of the standard formula, determining the IG's SCR and own funds.</td>
</tr>
<tr>
<td>CEIOPS' Advice for L2 Implementing Measures on SII: Procedure to be followed for the approval of an internal model, including the addendum on group specificities (former Consultation Paper 37) CEIOPS-DOC-28/09</td>
<td>November 2009</td>
<td>The process of approving internal models of insurance undertakings. The course of the pre-application process and the process of IM approval, the contents of the application for IM approval, elements and documentation evaluated by a supervisory authority, the course of the evaluation, the procedure of making decisions by the supervisory authority. Specific issues regarding partial IMs (among others, section 3.3 on the policy for changing the IMs) and group IMs (among others, additional required information or documents as well as items to be assessed) were presented.</td>
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<tr>
<td>CEIOPS' Advice for L2 Implementing Measures on SII: Tests and standards for internal model approval (former Consultation Paper 56) CEIOPS-DOC-48/09</td>
<td>November 2009</td>
<td>Standards to be met by IMs (full and partial) in the process of approving the model by a supervisory authority. Detailed requirements in the scope of art. 120-126 of the Solvency II Directive. In particular: the use test, IM management (requirements additional to the general requirements in the scope of the system of governance, i.e. the advice CEIOPS-DOC-29/09) statistical standards, data quality standards, calibration, profit and loss attribution, validation, documentation, specific requirements regarding external models or data.</td>
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<tr>
<td>Article: Daria Ringwelska, Model wewnętrzny w systemie</td>
<td>April 2010</td>
<td>An outline of key information from the Solvency II Directive and CEIOPS advice for the EC regarding IMs</td>
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### Internal model pre-application process for Solvency II

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<tr>
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<th>Details</th>
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<tr>
<td>Wypłacalność II – droga do jego zatwierdzenia. (Internal model in the Solvency II system – the road to approval), Wiadomości Ubezpieczeniowe nr 1/2010</td>
<td>and their approval by the supervisory authority.</td>
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<td>Working drafts of the level 3 guidelines regarding:</td>
<td>unpublished, submitted to CEA in January 2011 (and to PIU within the CEA) for pre-consultation</td>
<td>Specific requirements in the scope of the system of governance (including the risk management function and the actuarial function), and ORSA for IUs which calculate SCR with the use of an IM.</td>
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<td>the system of governance</td>
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<td>Own Risk and Solvency Assessment (ORSA)</td>
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<tr>
<td>CEIOPS’ Advice for L2 Implementing Measures on SII: System of Governance (former Consultation Paper 33)</td>
<td>November 2009</td>
<td>The system of governance, properly implemented and functioning in an IU, is necessary for the supervision authority to approve the IM (art. 44 (1) and 112 (5) of the Solvency II Directive). The advice contains the detailed requirements for the management system regarding all IUs (also those applying IMs).</td>
</tr>
<tr>
<td>CEIOPS’ Advice for L2 Implementing Measures on SII: Supervisory reporting and disclosure (former Consultation Paper 58)</td>
<td>November 2009</td>
<td>Specific requirements in the scope of reporting to the supervisory authority and public disclosure of information for IUs which use an IM to calculate SCR.</td>
</tr>
<tr>
<td>CEIOPS’ Advice for L2 Implementing Measures on SII: Group solvency assessment (former Consultation Paper 60)</td>
<td>November 2009</td>
<td>Definition and scope of IG for the purpose of assessing group solvency - general principles and methods of calculation, eligible elements of own funds to cover the group SCR.</td>
</tr>
<tr>
<td>CEIOPS’ Advice for L2 Implementing Measures on SII: Intra-group transactions and risk concentration (former Consultation Paper 61)</td>
<td>November 2009</td>
<td>The definition, scope, types and thresholds for intra-group transactions, the definition, scope, types and thresholds of risk concentration, reporting of intra-group transactions and risk concentration.</td>
</tr>
</tbody>
</table>

CEIOPS advice for the European Commission is available (in English) at:

Level 3 guidance on the pre-application process:
- [http://www.knf.gov.pl/o_nas/wspolpraca_miedzynarodowa/unia/regulacje_i_dokumenty_powiazane/solvency_II.html](http://www.knf.gov.pl/o_nas/wspolpraca_miedzynarodowa/unia/regulacje_i_dokumenty_powiazane/solvency_II.html) (the website is available in Polish only)

Documents concerning the QIS5 study, including technical specifications:
- [http://www.knf.gov.pl/o_nas/wspolpraca_miedzynarodowa/unia/regulacje_i_dokumenty_powiazane/QIS5.html](http://www.knf.gov.pl/o_nas/wspolpraca_miedzynarodowa/unia/regulacje_i_dokumenty_powiazane/QIS5.html) (the website is available in Polish only)
Appendix 2: Pre-application process diagram

Not later than **30.11.2011**

- 1. Sending a cover letter
- 2. Organizational meeting with the IU
- 3. Submitting the pre-application package

Package assessment by the PFSA and issuing a decision *(max. 30 days)*

4. Launching the pre-application process

5. Preparing an individual pre-application process plan

Execution of the agreed pre-application process plan and issuing an opinion by the PFSA

6. Submitting a formal application

**30.09.2011**
# Appendix 3A: Pre-application package documentation tree

(Detailed requirements are specified in sections I-X, XII)

<table>
<thead>
<tr>
<th>Cover letter</th>
<th>Organizational structure</th>
<th>Scope of the model</th>
<th>IM technical characteristics</th>
<th>External models</th>
<th>Validation</th>
<th>Documentation</th>
<th>IM management and control systems</th>
<th>Use test</th>
<th>Risk management and IM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declaration of using an IM or PIM</td>
<td>Presentation of the IU organizational chart</td>
<td>Presentation of the IM high level overview</td>
<td>Indicating key assumptions underlying an IM</td>
<td>Indicating areas where external model or data is used</td>
<td>Indicating the IM areas which were validated</td>
<td>The list of current and planned IM documentation</td>
<td>Presenting the schedule of the project for preparing an IU to the Solvency II system</td>
<td>Indicating current and target method of applying an IM in the activity of the IU</td>
<td></td>
</tr>
<tr>
<td>Providing the scheduled date of submitting the pre-application package</td>
<td>Describing the roles and responsibilities of employees in the scope of an IM</td>
<td>Presenting the IM structure and architecture</td>
<td>Identifying the methods of modelling particular risks</td>
<td>Describing the method for verifying the consistency of external model or data with an IM</td>
<td>Description of the IM validation process</td>
<td>Schedule for preparing the IM documentation</td>
<td>Work schedule for the purpose of the IM to meet the requirements of the Solvency II Directive</td>
<td>Description of the roles and responsibilities of the IU management body members in the scope of an IM</td>
<td></td>
</tr>
<tr>
<td>Indicating the scheduled date of submitting the application for IM approval</td>
<td>Providing the composition of steering committees and other teams appointed to make decisions in the IU</td>
<td>Defining and identifying business units and risks covered by an IM</td>
<td>Indicating the identified risk factors</td>
<td>Explaining a method for ensuring the consistency of external model or data with Solvency II requirements relating to IMs</td>
<td>Description of the role of internal audit in the IM assessment</td>
<td></td>
<td>Description of the IM management process</td>
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<tr>
<td>Declaration to cooperate with the PFSA</td>
<td>Specifying the target number of employees to work on the IM</td>
<td>Justification for applying a partial IM</td>
<td>Indicating risk factors not included in an IM</td>
<td>List of conducted IM result analyses</td>
<td></td>
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<td>Description of the role of internal control within the context of an IM</td>
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<tr>
<td>Assigning contact persons</td>
<td></td>
<td>Identifying and justifying the method of aggregating partial IM results with the standard formula</td>
<td>Indicating the methods of correlation/aggregation modelling</td>
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<td></td>
<td>Presenting the IT structure of an IM</td>
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<td></td>
<td></td>
<td>Providing the solo SCR diversification effect</td>
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<td>Description of the action plan in case of IT-related problems</td>
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<td></td>
<td></td>
<td>Indicating methods used for the valuation of assets</td>
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<tr>
<td></td>
<td></td>
<td>Indicating methods used for the valuation of liabilities</td>
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<td></td>
<td></td>
<td>Presenting weaknesses and cases where an IM may not function correctly</td>
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<td></td>
<td>Providing SCR determined with the use of an IM and the standard formula</td>
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<td>Indicating the areas where expert judgement was used</td>
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<td></td>
<td>Description of how expert judgement is used</td>
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</tbody>
</table>

**Self-assessment**

Filling in the Self-Assessment Form
**Appendix 3B: Additional pre-application package documentation tree for IGs** (Detailed requirements are specified in sections XI, XII)

### XI. Additional requirements for IGs and domestic IUs belonging to IGs

<table>
<thead>
<tr>
<th>IGs for which the FSA is a group supervisor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presenting the organizational structure of the IG</td>
</tr>
<tr>
<td>Providing steering committees and other teams appointed at the IG level to make decisions in the scope of risk management</td>
</tr>
<tr>
<td>Indicating entities included in a group IM</td>
</tr>
<tr>
<td>Presenting a list of intra-group agreements</td>
</tr>
<tr>
<td>Explaining the method of aggregating the IM results to the group level</td>
</tr>
<tr>
<td>Providing the SCR diversification effect for the group</td>
</tr>
<tr>
<td>Comparing SCR from IM with the standard formula at the group level</td>
</tr>
<tr>
<td>Identifying areas of activities outsourced to the IG</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Domestic IUs which intend to calculate their solo SCR using an IM of the IG whose parent undertaking has its head office outside Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presenting the outline of the organizational structure of IG, including domestic IU</td>
</tr>
<tr>
<td>Presenting a list of agreements concluded by a domestic IU with IG entities</td>
</tr>
<tr>
<td>Provide measures taken by the IG with the aim of supporting a domestic IU in understanding and implementing an IM</td>
</tr>
<tr>
<td>Describing the contribution of a domestic IU to the IM development process</td>
</tr>
<tr>
<td>Identifying areas of a domestic IU's activities outsourced to the IG.</td>
</tr>
</tbody>
</table>