

PROJECT FICHE FOR PHARE 2006

for

**Strengthening the capacity of ISC
in implementing new solvency and accounting requirements**

PHARE 2006/018-147.03.07

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1. Basic Information

1.1 CRIS Number:

PHARE 2006/018-147.03.07

1.2 Title:

Reinforcement of regulatory and supervisory functions in area of Insurance

1.3 Sector:

Financial Sector

1.4 Location:

Romania, Bucharest

1.5 Duration:

12 months

2. Objectives

2.1 Overall Objective

To increase the ability of Romanian administration to comply with the obligations of EU membership including the adherence to the aims of political, economic and monetary union.

2.2 Project purpose

To strengthen ISC and organizations in the field of insurance, in order to comply with Solvency II model and with accounting requirements (especially IFRS).

To be achieved through the following tasks:

Task 1: Development of the Solvency II and IFRS supervisory infrastructure (TA)

The purpose of task 1 is to prepare ISC and the insurance sector for the accounting, IT, general financial reporting, regulatory, supervisory and other issues related to the steps that the EU takes for the full construction and implementation of the Solvency II model. In addition to this, ISC and the sector should fully comprehend that in contrast to “solvency margin” used in previous EU directives, Solvency II (overall solvency) is not limited to one series of regulations that apply to the insurer’s balance sheet, but also addresses the overall financial condition of an insurance company in the following areas:

- Business operations, such as products and prices, administration, and quality of senior managers;
- External environment, such as economic cycles, competitive conditions, and quality of shareholders;

Due to the linkage of Solvency II with the accountancy regulations for insurance companies (the Solvency II project must be considered in a context of a radical development of accounting standards applicable to insurance. Much of the solvency system is and will continue to be based on the accounts of insurance companies), similar aspects having to do with the legal, supervisory and sector readiness to apply IAS/IFRS 4 should be analysed.

Task 2: Reinforcement of regulatory and supervisory functions in the area of insurance (Twinning)

The purpose of task 2 is to contribute towards the further development of practical experience in the field of supervision. The future legislation, either in process (conglomerates, insurance groups, etc.) or in preparation will be dealt within this project. The project should assist with the adoption of new / future comprehensive supervisory standards. The aim is to reinforce practical supervisory skills using European best practice in day-to-day activities, in particular with respect to:

- Control of calculations of technical provisions (their creation, their sufficiency and their use);
- Inspection of selected insurance claims from point of view of creation of technical provisions;
- Supervision methodologies related to International Association of Insurance Supervisors (IAIS), International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS);
- On-site inspections;
- Enforcement of principles related to anti-money laundering;

2.3 Accession Partnership (AP) and NPAA priority

This project is strictly following the priorities and objectives set out in the Accession Partnership and the NPAA:

- Improve the institutional framework of financial supervision and continue to pursue alignment of legislation, particularly in the area of securities and insurance;
- Reinforce the supervision of financial services and make adequate human resources available to implement new legislation;
- Make further progress in the alignment with the acquis on company law and accounting and pursue improvement of administrative capacity in this area, in particular with regard to law enforcement.

2.4 Coherence with National Development Plan

N/A

2.5 Cross Border Impact

N/A

3. Description

3.1 Background and justification

The outcome of the EU model Solvency I was the adoption of two Directives (Raising current minimum guarantee funds and minimum solvency margins and Extending the right of intervention of insurance supervision).

The EU Commission introduced the second phase of the project in February 2004 with the discussion paper, “Solvency II — Organization of work, discussion on Phase I work areas and suggestions for further work on Phase II for CEIOPS.” Although a concrete project plan has not been presented, the Commission has planned further work through its commitment to the Lamfalussy procedure, of which Solvency II is the first project.

Solvency II, makes qualitative and quantitative tools available for the assessment of “overall solvency” of insurance companies. The combination of quantitative coefficients and indicators with qualitative aspects (the influences on an insurance company’s risk rating) provides a dynamic risk-based approach to measuring appropriate solvency margins. So not only will changes occur in the right of control and regulatory practice in the solvency of an insurance company, but the overall structure of corporate management and insurance supervision will also radically change.

Solvency II will not be a binding supervisory model before the end of the decade. Nevertheless, the basic structures of the system can already be determined from documents the Commission has published. It is increasingly clear that Solvency II will affect every aspect of an insurance company.

Accounting procedures will also be greatly impacted. The EU Commission plans to join the third Phase with requirements from International Accounting Standards (IAS), as well as International Financial Reporting Standards (IFRS) Insurance. This will cause additional demands to be applied whenever information requirements under the right of control cannot be fulfilled by IAS/IFRS.

The IASB insurance IFRS project, which will have a clear impact on the Solvency II project, has been divided (like the ‘Solvency’ project) into a first phase with temporary solutions in place from 2005, and a second phase with a complete insurance standard to be applied as from 2007–2008.

With the adoption of International Financial Reporting Standard (IFRS) 4 – Insurance Contracts in March 2004, the International Accounting Standards Board (IASB) took another step toward its goal of converging formerly disparate methods of accounting for insurance contracts to a common system. IFRS 4 is effective for annual periods beginning January 1 2005 and is mandatory for all public companies in the European Union, Australia and several other countries. Few insurers report under IFRSs at present, but many more are expected to do so from 2005, particularly in the European Union and Australia. To enable insurers to implement some aspects of the project in 2005, the Board split the project into two phases (see also previous paragraph). The Board’s objectives for phase I were: (a) to make limited interim improvements to accounting for insurance contracts. (b) to require any entity issuing insurance contracts (an insurer) to disclose information about those contracts.

Strengthening the capacity of ISC to supervise the insurers business depends on the proper interpretation of financial statements and of the ability of the insurers to provide a fair presentation of them. Thus, further training of personnel is needed for a correct analysis of the insurers' economic and financial standing. In general, the role of the supervisor is very important in establishing the relevance, the reliability, the comparability and the understandability of the information of the financial statements.

At present, the Insurance Supervisory Commission does not have very well qualified personnel in the International Financial Reporting Standards issues for the insurance field, to be able to verify if the insurers' annual financial statements are presented according to the IFRS and if all the requirements of IFRS are fully complied. The implementation of IFRS has a major impact in the Romanian insurance market because of the particularities of the field and the lack of the specialists in the market.

Solvency II is a project that will also place great demands on information technology (IT). Due to the complexity of IT processes, implementation expenditure will be far greater than the introduction of euro and Year 2000 projects. As with the previous projects, IT solutions must be fully implemented when the regulations become effective. This also means the IT implementation of Solvency II will be preceded by several years of preparation. It must be guaranteed that common data structures and standards (as well as an adequate depth of data) have been defined.

For example, data structures and standards must be implemented for motor business, casualty business, property business, investments, and so on. However, the data structures and standards also need to be common among all classes to be able to aggregate such data and make it interpretable for the internal model. This commonality will also allow regulatory authorities to access and audit the data. In short, defining common data structures and standards is a huge but important IT task that will allow subsystems and various reporting and risk management systems to be completely integrated and available.

In addition to the serious adjustments for Solvency II and IAS/IFRS implementation mentioned above, the supervisory environment needs fine tuning in specific areas mentioned in the 2005 Monitoring Report (see 3.6). The projects will be implemented when Romania takes its first steps as a full EU member and this project has to answer all the ad-hoc issues which are going to spring just before or during this very critical period.

Immediately after the signing of the Accession Treaty in April 2005, the Romanian Insurance Supervisory Commission become observer to CEIOPS and EIOPC with a very proactive participation. Based on the Peer Review, the Country Regular Report 2004, the Romania 2005 Comprehensive Monitoring Report, but also on the short term and medium term strategy of the Insurance Supervisory Commission, as up-dated at the end of the 2004, this project will aim in going a step further by consolidating the results of the previous projects and designing a supervisory system that is build around the EU Solvency I and Solvency II concepts.

3.2 Sectoral Rationale

N/A

3.2.1 Identification of projects

N/A

3.2.2 Sequencing

N/A

3.3 Results

Task 1: Development of the Solvency II and IFRS supervisory infrastructure (TA)

1. Study comparing the EU vs Romanian Solvency requirements completed. Impact analysis of Solvency II project and of IAS/IFRS introduction in Romania is completed. Thus, ISC and insurance companies are aware of the future changes and start taking the required steps.

2. Mandatory changes, possible mandatory changes and policies that will be allowed to continue under IFRS 4 (Phases 1 and 2) are clearly documented and conveyed to insurance companies.

3. Training and awareness campaign on specialised issues raised by the Solvency and IAS / IFRS models completed. Insurance companies are aware of the economic impact and operational impact of the upcoming changes. ISC staff knows able to assess the ‘overall solvency’ of insurance companies.

4. Insurers able to submit calculations based on the total risks in their portfolio of liabilities—not just on the risks in excess of those covered by the technical provisions. Insurance companies having risk assessment systems employing acceptable asset management tools, and adequate liability management tools.

Task 2: Reinforcement of regulatory and supervisory functions in the area of insurance

5. Proposals for legislative amendments, where necessary, and drafts of corresponding implementing legislation (by-rules) and arrangements with respect to regulation and surveillance – presented and used in supervisory practice.

6. ISC supervisory skills complying with best international practice and functioning.

7. Staff of ISC trained in theoretical and practical skills related to the supervisory functions

8. Co-operation with other international supervisory authorities and professional bodies enhanced

3.4 Activities

Task 1: Development of the Solvency II and IFRS supervisory infrastructure (TA)

Activities Task 1 (TA)

The preparation of a study which compares the EU and Romania solvency requirements and the impact (and forecasted impact) of the Solvency, Solvency II and IAS / IFRS changes.

Interactions of Solvency I & II requirements with all current reporting requirements should be considered

The preparation of the following lists aimed at raising the awareness of the Insurance Industry vis-à-vis IAS/IFRS:

- Main Mandatory changes (Phase 1)
- Possible Mandatory changes (Phase 2)
- Policies allowed to continue under Phase 1
- Policies that would possibly be allowed to continue under Phase 2

The preparation of the lists of changes in the Romanian insurance supervisory system should be followed by training ISC staff on these issues and by awareness campaign focused on the industry – the campaign will highlight the regulatory changes and new regulatory requirements.

Assisting ISC in its communication with various authorities and International bodies (e.g. CEIOPS).

Assisting ISC in making an audit of the current IT capabilities of Insurance companies vis-à-vis new Solvency and IAS /IRFS requirements.

Task 2: Reinforcement of regulatory and supervisory functions in the area of insurance (twinning)

Consultations and implementation assistance with respect to legislative and practical issues that are going to arise just before and immediately after the entrance of Romania to the EU in the area of capital markets¹ (the selection of specific topics is going to be clarified at the ToR and Inception phases).

Drawing up various guidance papers necessary at the time of the implementation of the project (e.g guidance papers for the implementation of IFRS, on site and off site supervision, etc)

Training in methods and techniques² related to regulatory and supervisory skills in the including on-the-job training.

3.5 Linked Activities:

ISC was the beneficiary of the following Phare projects: RO9809.01.02 (0.996 MEURO), which was implemented between 08/12/1998 and 04/11/2001 and RO 2002/000.586.04.01 (1.12 MEURO TA plus 1.16 MEURO IT supply) whose contract was signed on 10th 2005, for 14 months duration. In addition ISC will be the beneficiary of the 2005 assistance.

¹ The selection of specific topics is going to be clarified at the ToR and Inception phases.

² idem

There has been relevant assistance with the one proposed under this project fiche in all previous projects (the most closely related being the assistance under 2005). The related assistance per project is as follows:

Under RO9809.01.02 (Strengthen the Supervisory Capacity of the Insurance Business by setting up an autonomous Insurance Supervisory Commission):

- build ISC's capacity to monitor and to control the investment of technical reserves of the insurance undertakings;
- drawing up the Report and Action Plan for strengthening the supervisory capacity of ISC in accordance with EU acquis communautaire;

Under RO 2002/000.586.04.01 (Strengthening operational capacity of Insurance Supervisory Commission):

- Confirmation of the target supervision strategy and approaches to be adopted by CSA in line with best practices, and to bring them into line with other EU Insurance Supervision regimes
- Implementation of a Romanian-market specific risk assessment framework that will enable appropriate focus upon on and off-site supervision resources and powers on specific risks within the Romanian Insurance Industry
- Roll-out of suitable off-site surveillance mechanisms such as Early Warning Systems, Peer Group Analysis and financial analysis techniques to improve the quality of market monitoring and to facilitate improved and earlier identification of risks as they arise
- Establishment of suitable processes and procedures to support a best practice on-site examination process, both in terms of quantitative and qualitative components of the examination. This includes the completion of Supervision Manuals for both on and off-site supervision resources, including the establishment of suitable control file structures for on-site supervision. In addition, the provision of suitable training to support efficient working practices will also be provided
- Leveraging new and existing IT capabilities to ensure a single view of the insurance market and associated business and control risks, facilitating comparison between companies and the analysis of trends

Under the 2005 project (Strengthening the Supervisory Methodology of the Romanian Insurance Supervision Commission):

- Adopting the directives provisions regarding the annual and the consolidating accounts in view of facilitating the transition to IFRS;
- Adopting the provisions of the international accounting standards IFRS 4 – insurance contracts;
- Advanced Training in Solvency I & II methodology
- Advanced training in risk modeling (including internships abroad)

3.6 Lessons learned:

This project takes into account the recommendations made by Peer Review mission 2004, and the Country Regular Report 2004.

ISC received four peer review missions since December 2002 till July 2005. The latest action plan that springs out of these missions is presented in Annex 4. This project will deal with recommendations of this action plan it also responds to the following Peer Review (see Annex 1) recommendations:

- Regulatory and supervisory process
- Legislation.
- Internal Control.
- Liabilities.
- Corporate governance.
- Financial reporting..
- On-site inspection.

This project also takes into account all comments found in the Country Regular Report 2004 and will contribute toward the achievement of the aims that it propagates:

- *As regards insurance, the new law on insurance companies and insurance supervision has strengthened the regulatory framework. However, additional changes are necessary to reach full alignment and the ISC will need to follow up this achievement by adopting implementing legislation. Further consolidation of the insurance market will be required through an increase of minimum capital requirements, the implementation of solvency rules and reinforcement of prudential rules on assets and liabilities. Further strengthening of insurance supervision is necessary. To improve its supervisory activities, the ISC will need better staffing and increased expertise as well as sufficient actuarial resources, and more risk-oriented methods of supervision should be pursued. In the field of investment services and securities markets, the new law*

The project responds to the following findings of the latest Monitoring Report (October 2005):

- *Concerning the insurance sector, legislative fine-tuning is still needed to ensure full compliance and is to be tackled mainly through amendments to the Act on Insurance and its secondary legislation...the supervisory function should focus on implementing risk based supervision. Its cooperation and consultation with the insurance companies need to be enhanced and continued staff training should remain a priority.*

4. Institutional Framework

The Insurance Supervisory Commission (ISC) was established according to the provisions of the *Law no. 32/2000 on insurance undertakings and insurance supervision* and following the Romanian Parliament Decision no. 20/June 27, 2001 the five members of the Council were appointed: president, vice-president and three members. The Parliamentary Decision was published in the Romanian Official Journal no. 355/July 2, 2001. The ISC is an autonomous, administrative and self-financed body, in accordance with the provisions of the Art. 4(2) of Law no. 32/2000. The above mentioned law provides that the organization, operation and internal control of the ISC are run by its Council.

The organizational structure of the ISC includes the following Departments:

- Department for supervision and control of insurance undertakings and insurance brokers;
- Department for insurance regulations;
- Department for analysis of financial reports and solvency margin;
- Department for European integration and international relations

- Department for compulsory insurance (TPL)
- Department for legal matters
- IT Department;
- Functional departments (personnel, financial, internal audit etc.).

In July 2004 legislation concerning the activities and supervision of institutions for the provision of occupational requirement was adopted, which was supposed to be entered into force in January 2005. To streamline the existing framework, the Insurance Supervisory Commission (ISC), continued to revise its implementing legislation. During the reported period ISC staff numbers increased to 106. The ISC has signed cooperation agreements with similar authorities in Germany, Bulgaria, Austria, Slovenia and Poland.

5. Detailed Budget

	Phare/Pre-Accession Instrument support	Co-financing			Total Cost
€M		National Public Funds (*)	Other Sources (**)	Total Co-financing of Project	
Year 2006 - Investment support jointly co funded	N/A				
Investment support sub-total					
% of total public funds	<i>max 75 %</i>	<i>min 25 %</i>			

Year 2006 Institution Building support	€M				
Task 1 Technical Assistance	0,4				0.4
Task 2 Twining Assistance	0,6				0.6
IB support	1,0				1.0
Total project 2006	1,0				1,0

(*) contributions from National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises

(**) private funds, FIs loans to private entities

6. Implementation Arrangements

6.1 Implementing Agency

The program Implementation Agency is the Central Finance and Contracting Unit (CFCU) located in the Ministry of Public Finance.

Contact details for PAO: Mrs. Carmen Roșu, General Director of CFCU, 44 Mircea Vodă Avenue, phone: (+4021) 326 87 03; fax: (+4021) 326 87 30.

The Implementing Authority is the Insurance Supervisory Commission

6.2 Twinning

Twinning contract : 0,60 million euro.

A Resident Twinning Advisory (RTA) will be placed in the premises of ISC.

5 – 6 STEs: approx. 250 working/days.

Steering Committee and Working Groups shall be established. Actions will be carried out by a variety forms, such as: consultations, seminars, workshops, on-the-job training.

The RTA will be a highly qualified expert with appropriate knowledge of conceptual and systemic issues, min. 15-year involvement in the relevant segments of financial market. He/she will be located in the premises of ISC. The STEs will be highly professional experts with practical experience in areas of regulation and surveillance of capital market and insurance segments including the IT area. Actions will be carried out by a variety forms, such as: consultations, seminars, workshops, on-the-job training.

6.3 Non-standard aspects

Not applicable

6.4 Contracts

Technical assistance will be achieved through two contracts having a budget of EUR 1,000,000 in total:

- One TA contract 0.40 million euro and
- One Twinning Contact 0.60 MEURO.

Both projects will have 12 month duration.

7. Implementation Schedule

7.1 Start of tendering/call for proposals

November 2006

7.2 Start of project activity

April 2007

7.3 Project completion

March 2008

8. Equal opportunity

The project will ensure equal participation by women and men. Women's participation will be measured by recording (i) gender breakdown of trainees (ii) emphasizing equal opportunities aspects inside ISC

9. Environment

N/A

10. Rates of Return

N/A

11. Investment Criteria

N/A

12. Conditionality and sequencing

N/A

ANNEXES TO PROJECT FICHE :

Annex 1: Logframe

Annex 2: Detailed Time Implementation Chart

Annex 3: Contracting and disbursement schedule

Annex 4: : Reference list of feasibility/pre-feasibility studies

Annex 5: Reference list of relevant laws and regulations

Annex 6: Reference list of relevant strategic plans and studies

Annex 7: Lessons Learnt

Annex 1 - Logframe

LOGFRAME PLANNING MATRIX FOR PROJEC			PHARE 2006/018-147.03.
Strengthening the capacity of ISC in implementing solvency and accounting requirements	Contracting period expires: March 200	Contracting period expires: Nov 2008	Disbursement period Expires: Nov 2009
		Total budget : 1 million EURO	Phare budget : 1 million EURO
Overall objective	Relates to Copenhagen criterion acquis chapter	List of other projects same objectives	
To increase the ability of Romanian administration to comply with the obligations of EU membership including the adherence to the aims of political, economic and monetary union	<p>The capacity of assuming the Member State obligations</p> <p>Negotiation Chapter no. 3 – Free movement of services</p>	<p>RO9809.01.02, RO 2002/000.586.04.01, Phare 2005: Strengthening the Supervisory Methodology of the Romanian Insurance Supervision Commission</p> <p>World Bank loan (US \$ 150 Million) approved in 16/09/04 in order to support the Government's medium term program of policy and institutional reforms and reflects the main overarching themes of the Country Assistance</p>	

		Strategy: EU accession, growth through combined public and private sector reforms, and poverty reduction.	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>To strengthen ISC and organizations in the field of insurance, in order to comply with Solvency II model with accounting requirements (especially IFRS).</p> <p>To be achieved through the following tasks:</p> <p>Task 1: Development of the Solvency II and IFRS supervisory infrastructure (TA)</p> <p>Task 2: Reinforcement of regulatory and supervisory functions in the area of insurance (Twinning)</p>	<p>IFRS (especially IRRS 4) practices are implemented by insurers</p> <p>Peer reviews as well as various monitoring, assessment and evaluation tools of the EU reveal a properly functioning insurance supervision in Romania</p> <p>Supervisory system combines capital adequacy and solvency regimes with requirements for risk management systems for risk reduction and mitigation</p>	<p>EU Regular Reports</p> <p>Peer Review Missions</p> <p>Project Reports</p> <p>Project Evaluation by EC</p>	<p>Insurers convinced to accept the required changes</p> <p>The legislation for the enforcement of IAS/IFRS at the national level issued by the relevant Romanian authority.</p> <p>Legislation due to be enforced before the delivery of the outputs of this project is duly enforced.</p>
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<p><u>Results TA contract</u></p> <p>Study comparing the EU vs Romanian Solvency requirements completed. Impact analysis of Solvency II project and of IAS/IFRS introduction in Romania is completed. Thus, ISC and insurance companies are aware of the future changes and start taking the required steps.</p>	<p>Insurance companies:</p> <ul style="list-style-type: none"> • Use effective reporting system • Use early warning and monitoring tools • Change existing, internal 	<p>EU Regular Reports</p> <p>Peer Review Missions</p> <p>Project Reports</p> <p>Project Evaluation by EC</p>	<p>Insurers convinced to accept the required changes</p> <p>The legislation for the</p>

<p>Mandatory changes, possible mandatory changes and policies that will be allowed to continue under IFRS 4 (Phases 1 and 2) are clearly documented and conveyed to insurance companies.</p> <p>Training and awareness campaign on specialised issues raised by the Solvency and IAS / IFRS models completed. Insurance companies are aware of the economic impact and operational impact of the upcoming changes. ISC staff knows able to assess the ‘overall solvency’ of insurance companies.</p> <p>Insurers able to submit calculations based on the total risks in their portfolio of liabilities—not just on the risks in excess of those covered by the technical provisions. Insurance companies having risk assessment systems employing acceptable asset management tools, and adequate liability management tools.</p> <p><u>Twinning Results</u></p> <p>Proposals for legislative amendments, where necessary, and drafts of corresponding implementing legislation (by-rules) and arrangements with respect to regulation and surveillance – presented and used in supervisory practice.</p> <p>ISC supervisory skills complying with best international practice and functioning.</p> <p>Staff of ISC trained in theoretical and practical skills related to the supervisory functions</p>	<p>risk management processes so they can be measured against the new requirements (Solvency II, IFRS)</p> <p>ISC able to assess the structure of its solvency regime against structures of a peer group of jurisdictions</p> <p>ISC able to assess the “overall solvency” of insurance companies</p> <p>Key implementation issues vis-à-vis Solvency II and IFRS documented if not resolved</p> <p>Proposals for legislative amendments – presented to, discussed with, and proceeded further by the beneficiary</p> <p>Beneficiary staff properly trained</p> <p>Industry able to work under IFRS 4</p> <p>Insurance companies have established solvency control in</p>	<p>Reports of Professional Associations</p> <p>Internat Account</p>	<p>enforcement of IAS/IFRS at the national level issued by the relevant Romanian authority.</p> <p>Legislation due to be enforced before the delivery of the outputs of this project is duly enforced.</p>
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<p>Co-operation with other international supervisory authorities and professional bodies enhanced</p>	<p>their risk management, as well as changed their internal reporting systems to meet the new requirements.</p> <p>ISC applies all regulations and administrative procedures consistently and equitably, taking into account the different risk profiles of insurers</p> <p>ISC able to carry out onsite duties: evaluation of the management and internal control system, analysis of the nature of the insurer's activities, evaluation of the technical conduct of insurance business, evaluation of the organisation and the management of the insurer, the commercial policy and the reinsurance cover and its security, analysis of the relationships with external entities, such as through outsourcing or with respect to other companies in the same group, assessment of the insurer's financial strength, notably the technical provisions, evaluation of compliance with corporate governance requirements.</p>		
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	<p>Insurers evaluate and manage the risks that they underwrite, in particular through reinsurance, and have the tools to establish an adequate level of premiums.</p> <p>Insurers undertake regular stress testing for a range of adverse scenarios in order to assess the adequacy of capital resources in case technical provisions have to be increased</p> <p>Reliability of the models used by ISC and insurers regularly validated.</p> <p>Public disclosure of stress testing by ISC and insurers</p> <p>Regulations and technical advice to the insurers completed</p>		
Activities	Means		Assumptions
<p><u>Activities Task 1 (TA)</u></p> <p>The preparation of a study which compares the EU and Romania solvency requirements and the impact (and forecasted impact) of the Solvency, Solvency II and IAS / IFRS changes.</p>	TA contract		Insurers convinced to accept the required changes

<p>Identifying interactions of Solvency I & II requirements with all current reporting requirements should be considered</p> <p>The preparation of the following lists aimed at raising the awareness of the Insurance Industry vis-à-vis IAS/IFRS:</p> <ul style="list-style-type: none"> • Main Mandatory changes (Phase 1) • Possible Mandatory changes (Phase 2) • Policies allowed to continue under Phase 1 • Policies that would possibly be allowed to continue under Phase 2 <p>The preparation of the lists of changes in the Romanian insurance supervisory system should be followed by training ISC staff on these issues and by awareness campaign focused on the industry – the campaign will highlight the regulatory changes and new regulatory requirements.</p> <p>Assisting ISC in its communication with various authorities and International bodies (e.g. CEIOPS).</p> <p>Assisting ISC in making an audit of the current IT capabilities of Insurance companies vis-à-vis new Solvency and IAS /IRFS requirements.</p> <p><u>Activities Task 2 (Twinning)</u></p> <p>Consultations and implementation assistance with respect to legislative and practical issues that are going to arise just before and immediately after the</p>			<p>The legislation for the enforcement of IAS/IFRS at the national level issued by the relevant Romanian authority.</p> <p>Legislation due to be enforced before the delivery of the outputs of this project is duly enforced.</p>
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<p>entrance of Romania to the EU in the area of capital markets (the selection of specific topics is going to be clarified at the ToR and Inception phases).</p> <p>Drawing up various guidance papers necessary at the time of the implementation of the project (e.g guidance papers for the implementation of IFRS, on the on site and off site supervision, etc)</p> <p>Training in methods and techniques related to regulatory and supervisory skills in the including on-the-job training.</p>	Twinning contract		
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Annex 2 - Detailed time implementation chart

	2006						2007												2008											
	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
TA Contract			D	D	D	D	C	C	C	C	C	I	I	I	I	I	I	I	I	I	I	I								
Twinning Contract			D	D	D	D	C	C	C	C	C	I	I	I	I	I	I	I	I	I	I	I								

Annex 3 - Contracting and disbursement schedule

	31/03/07	30/06/07	30/09/07	31/12/07	31/03/08	30/06/08	30/09/08	31/12/08	31/03/09
Contract 1 – TA									
CONTRACTING		0.40							
DISBURSEMENT		0.24	0.32	.036	0.40				
Contract 2 - TW									
CONTRACTING		0.60							

DISBURSEMENT		0.36	0.48	0.54	0.60				
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Annex 4 - Reference list of feasibility/pre-feasibility studies

Not Applicable

Annex 5 - Reference list of relevant laws and regulations

Not Applicable

Annex 6 - Reference list of relevant strategic plans and studies

THE SHORT AND MEDIUM TERM STRATEGY.

STRATEGIC OBJECTIVES OF ISC (12/2004)

The strategy of the Insurance Supervisory Commission follows its two major aims: **to protect the insureds' interests and to promote the stability of the insurance business in Romania.**

In the same time, within the process of Romania accession towards the European Union, the Insurance Supervisory Commission is responsible with the fulfilment of the commitments assumed regarding the transposition of the *acquis communautaire* into the Romanian legislation applicable to the insurance field and its implementation. Especially during the 2004 year, there were made significant progresses in this direction, progresses which contributed to the European Commission decision to temporarily close the Chapter 3 – Freedom to provide services.

Integrated in the international system of the insurance supervisors, as a full member of IAIS, the Insurance Supervisory Commission is committed to implement the best practices of effective supervision and to take proper actions in order to ensure an efficient protection of the insured interests.

The main objectives within the short and medium term strategy of the Insurance Supervisory Commission, as up-dated at the end of the 2004 year, were grouped into four parts, as follows:

I. The Harmonization of the national legislation with the *acquis communautaire* and its implementation

Comparing to the achievements at the end of the 2004 year, the Insurance Supervisory Commission is committed to achieve in the near future the following objectives related to the fully transposition of the European Union directives provisions applicable to the insurance field into the Romanian legislation and its implementation.

- Transposition of the directive regarding the supplementary supervision of insurance undertakings groups – short term (by amending and completing the Law no.32/2000 and by regulations);
- Fully transposition of the community provisions regarding the percentage related to the assets admitted to cover the technical reserves for non life insurances and the Guarantee Fund of the insurance undertakings carrying out the credit insurances, percentage related to the assets admitted to cover the technical reserves for life insurance – short term;
- Fully transposition of the community provisions regarding the method of the solvency margin calculation for non life insurance and for life insurance as well – short term;
- Adopting the directives provisions regarding the annual and the consolidating accounts in view of facilitating the transition to IFRS – short term;
- Adopting the provisions of the international accounting standards IFRS 4 – insurance contracts – short term;
- Fully transposition of the European Union directives provisions regarding the motor third party liability insurance (short term) warranting the:
 - Insurance undertaking liability upon a single insurance premium paid for the motor third party liability insurance towards the injured parties within the national territory and in another Member States as well, as a result of accidents occurring by use of the motor vehicles registered in Romania;
 - Protection of any victim of accidents occurring as a result of the use of motor vehicles;
- Issuing and implementing regulations regarding prevention and combating the money laundering in insurance field – short term;
- Up – dating the secondary legislation regarding the insurance undertakings authorization and criteria for approval of their qualifying holdings and significant persons in accordance with the latest amendments and completions of the primary legislation – short term;
- Completing the Regulations regarding the corporate governance of the insurance undertakings, in order to fully comply with the corporate governance principles – short term;

- Amending the Regulations regarding the internal control requirements for the insurance undertakings, in order to implement the best international practices – short term;
- Amending the Regulations regarding the financial and technical reports by requiring supplementary indicators to be submitted to the insurance supervisory authority and by increasing the reporting frequency – short term;

According to the commitments assumed, the implementation of the new legal provisions to be issued in the near future will be realised on different terms until the accession date.

Having in view its commitments to adopt and implement the regulation and supervision best practices, the Insurance Supervisory Commission will always take into account the newest IAIS standards and guidance papers and OECD recommendations and best practices guidance for the insurance field.

II. The strengthening of institutional capacity for prudential supervision and control, in order to protect the interests of the insured and potential insureds, by enhancing a discreet and efficient supervision activity:

- Continuing the specialization of the its own personnel by measures and programs initiated in collaboration with Romanian institutions and its participation to the courses and seminars organized abroad – permanently;
- The improvement of the manuals for control principles, practices and objectives of the on-site inspections, in order to change the conformity control approach into the risk based approach – short term;
- Active implication in the works of the International Association of Insurance Supervisors (IAIS), by the Insurance Supervisory Commission specialists taking part in 7 subcommittees of this association – short term;
- Developing a modern system for standardizing, preserving and archiving the documents, in order to strengthen the supervision and control activity – medium term;

III. Impartial and prudential supervision of the insurance undertakings and insurance and/or reinsurance brokers

To reach this aim the achieving of the following objective are taken in view:

- Implementation of an IT program to facilitate the taking over, centralization, check up and the analysis of the insurance undertaking information and reports in any moment, in order to strengthen the prudential supervision – medium term;
- Elaborating of a manual for analysing the financial reports requested from the insurance undertakings and the insurance brokers and implementing an early warning system– medium term;
- Qualitative valuation of the risk management procedures applied within an insurance undertaking and of the their activity outputs in accordance with the established and implemented strategy – medium term;
- Concluding memoranda of understanding with similar supervisory authorities from all the Member States, and from Non-Member States as well, having insurance undertakings in Romania – permanently;

- Continuing the cooperation with the Romanian authorities and institutions which with protocols were already concluded, as well as concluding new protocols with other state institutions having competences in regulation and supervision, in view of exchanging information regarding the regulated and supervised market segments by the respective entities – permanently;
- Implementing the Motor database at national level in order to make possible the increase of the insured motor vehicles degree up to 100% - medium term

IV. The consumer protection and the increase of the market transparency

- starting the payments from the Guarantee Fund to the insurance creditors of the existing winding up insurance undertakings – short term;
- completing the insurance, reinsurance undertakings and insurance and/or reinsurance brokers public Register with useful information, in an electronic format – permanently;
- elaborating and implementing of a certain Regulations regarding the requirement for the insurance undertakings to publish annual reports – short term;
- developing an insurance agents Register and establishing minimum legally requirements for their professional qualification, in order to ensure the quality of the information and services provided to the actual and potential insureds – short term;

Annex 7 - Excerpts from the action plan, peer review of effective financial, services supervision

Regulatory and supervisory process. The objectives and strategy of supervision should be more transparent. The ISC should be more pro-active and risk management orientated, looking to the systemic (major) risks that exist or could occur in the insurance field. The supervision should also focus on governance and control by the board and the management of the insurer.

Legislation. The ISC should structure the dialogue with the market and should make sure that the amendments of the laws and new Norms are sent for advice to the industry and to representative bodies on a regular and timely basis. The ISC should also allow the industry sufficient time for consideration

Internal Control. At the moment there is no further regulation on internal control systems for insurers. Regulations on internal control should require the insurance company to have risk management procedures that provide suitable and prudential oversight of the insurance activities. Oversight and reporting systems should allow the board and senior management to monitor and control operations. The supervisor should require the Board of Directors of the insurer to provide suitable prudential oversight, such as setting policies for underwriting risks and asset management. The ISC should issue norms on internal control for insurers, the ISC should review them and the ISC should request strengthening when necessary. (See also ICP 10)

Liabilities Insurance companies and the ISC should pay sufficient attention to the calculation of the provisions and make sure they have actuarial resources to control the sufficiency of the provisions. The ISC should examine whether the provisioning is adequate

Corporate governance. We recommend elaborating the rules on corporate governance in legislation through amendments of the Romanian Company Law and through ISC regulations to ensure prudent management of the insurance companies. Even though the supervisory role in this field is not always obvious, the ISC should try to verify and enforce observance of the requirements for corporate governance

Financial reporting. The ISC should ensure that all insurance companies implement the IAS accounting rules. The financial reports of the insurance companies should be public.

On-site inspection. The ISC should make supervisory procedures transparent to the insurance companies and continue to develop procedures for on-site inspections, regarding analyses of different risk areas.