

INVITATION FOR

INDEPENDENT EXTERNAL REVIEWERS

For the Bulgarian Insurance sector Balance Sheet Review

The FSC invites applicants to submit proposals regarding the tasks prescribed in this invitation. Applicants will be selected by FSC based on the selection criteria specified in 10. Applicants shall submit proposals by 18 February 2016.

1. Background

In the framework of the enhanced economic policies coordination in the European Union (EU), the Council of Ministers adopted in May 2015 the Update of the National Reform Program (NRP) which presents the Government's policy commitments including on the non-banking financial sector. In addition on August 14, 2015 in State Gazette 62 was promulgated the Law on Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF). Paragraph 10 of the Transitional and Final provisions of the said Law provides for the tasks which the Financial Supervision Commission (FSC) must accomplish.

Accordingly, the FSC will take actions towards strengthening the supervision and legislation of the pension funds and insurance sectors (section 2.2 of the NRP). Among other measures on the policy area, the NRP foresees to perform with independent third party support a Review of the balance sheets of the insurance undertakings.

This review will be carried out by independent external parties (independent external reviewers) with high professional reputation and international experience in compliance with the current legal rules.

The review will be overseen by a Steering Committee (SC) that includes representatives from the FSC, the Ministry of Finance (Observer), the Bulgarian National Bank (Observer) and from international organizations - European Commission (Observer) and European Insurance and Occupational Pensions Authority (EIOPA; member of the SC).

The FSC has selected a consultant, hereinafter referred as Project Manager (PM) that will ensure a harmonised application of the review's methodology by the independent external reviewers performing the reviews as well as a similar treatment of the participating undertakings by the respective independent external reviewers.

The review covers all insurance and reinsurance undertakings (hereinafter insurance undertakings) as well as domestic groups and sub-groups in Bulgaria. The review is expected to commence at the beginning of April and shall be concluded until June 30, 2016. The cut-off/reference date for the reviews is March 31, 2016.

The FSC invites applicants to submit proposals regarding the tasks prescribed in this request for proposals. Applicants will be selected by FSC in consultation with the SC based on the selection criteria specified in 10. There will be a period for eventual requests of additional information and eventual amendments on the proposals.

2. Main objectives of the Insurance sector review

The main objectives of the review of the Insurance sector are:

- a) to analyze the insurance portfolio of each insurance undertaking in order to establish the obligations under the insurance contracts, to assess the adequacy of technical provisions

- under Solvency II and have a reasoned estimate of the economic value of the respective technical provisions;
- b) to assess the appropriateness under a Solvency II framework of the recognition and valuation principles applied to all assets and liabilities with a special focus on the impact of operations and transactions with natural or legal persons with close links to the insurance undertaking;
 - c) to assess under a Solvency II framework the effectiveness of the risk transfers to third parties of risks stemming from (re)insurance contracts written by the insurance undertakings including finite reinsurance contracts;
 - d) to re-calculate the prudential parameters in accordance with Solvency II, (MCR and SCR). This covers also the need for independent external reviewers to present a statement for all undertakings whether articles 131 and 308b (14) of Directive 2009/138/EC of the European Parliament and of Council of 25 November 2009 (Solvency II Directive) are applicable. The latter is expected to entail a table with the SCR, MCR and Solvency Margin (available and required solvency margin) for each undertaking. The solvency margin recalculation at the end of December 2015 will be required if an undertaking does not cover the SCR or MCR unless the solvency margin is already negative in the year end or the independent external reviewer is confident that there is no material change of this prudential indicator at the year-end;
 - e) to review the risks of the insurance undertakings and to provide insight and raise awareness of the insurance' sector risks and vulnerabilities including potential contagions to the rest of the financial sector and the real economy.

These assessments will include a thorough check of the completeness and accuracy of the general ledger of the insurance undertaking, the analysis of insurance portfolios, methodologies, assets and liabilities including the assessment of the adequacy of technical provisions.

3. Selection process of independent external reviewers

The FSC shall approve a list of independent external reviewers. The criteria for selecting independent external reviewers are described in 10.

Each participating undertaking shall select an independent external reviewer from that list who will conduct the BSR in line with the methodology developed by the PM and approved by the FSC.

The choice of the participating undertaking shall not be binding on the FSC/ the Deputy Chair of the FSC, in charge of the Insurance Supervision Division.

The FSC/ The Deputy Chair of the FSC, in charge of the Insurance Supervision Division, shall appoint in compliance with the applicable legal framework the independent external reviewer.

All independent external reviewers' fees entailed by the BSR will be paid by the respective participating undertaking.

The BSR will start after the issuance of the relevant acts of the FSC/ the Deputy Chairperson of the FSC, in charge of the Insurance Supervision Division, in compliance with the Bulgarian legislation.

The participating undertakings will provide the independent external reviewers with all the necessary information. The independent external reviewers will provide the PM and SC with all the necessary information.

4. Methodological Guidance

The independent external reviewers shall consider the applicable legal framework and the applicable International Standards on Auditing (ISA) for the performance of the review of the financial information.

The assessment of the assets and liabilities will be performed in accordance with the standards provided by the Solvency II framework including the Solvency II Directive, Commission Delegated Regulation 2015/35 of 10 October 2014, Technical Standards, EIOPA Guidelines and EIOPA Supervisory Handbook.

The PM will develop in coordination with the SC a methodological guidance aiming a harmonised application of methodologies by the independent external reviewers as well as a similar treatment of the participating undertakings by the respective independent external reviewers. The independent external reviewers will have to comply with the working procedures established in the methodological guidance.

5. Scope of the work

The BSR covers all insurance and reinsurance undertakings in Bulgaria as well as domestic insurance groups and subgroups (see Annex 1).

The cut-off/reference date for the BSR is March 31, 2016.

The review extends to all material assets and liabilities including technical provisions on the basis of sampling large enough and sufficiently representative to allow for a robust analysis. The independent external reviewers will be required to perform the following tasks:

- Reconciliation, reliability, quality, sufficiency and relevance of data -independent external reviewers will be required to perform data checks on the information provided to the independent external reviewer by the participating undertakings. Impact shall be quantified;
- Valuation and recognition - independent external reviewers will be required to perform an assessment of all material assets and liabilities' recognition and valuation according with the Solvency II framework;
- Accounting policies - independent external reviewers will be required to provide an opinion about the appropriateness of the accounting policies and methodologies used by the participating undertakings. Impact shall be quantified;
- Adequacy of the level of obligations under the insurance contracts -independent external reviewers will be required to perform an analysis of the insurance portfolio, an analysis of the internal methodologies for computing the technical reserves, an analysis of the data used for computing the technical reserves and findings and propose adjustments, as needed, to the value of technical reserves;

- Effectiveness of risk transfers -independent external reviewers will be required to provide an opinion about the effectiveness of the risks transfers to third parties stemming from (re)insurance contracts written by the undertaking including finite reinsurance contracts. Impact shall be quantified;
- Intra-group transactions - independent external reviewers will be required to assess the impact of intra-group transactions including a thorough analysis of the amount estimated to be recovered out of assets derived from intra-group transactions. Impact shall be quantified;
- Prudential indicators – Independent external reviewers will be required to re-calculate the prudential parameters in accordance with Solvency II, (MCR and SCR). This covers also the need for independent external reviewers to present a statement for all undertakings whether articles 131 and 308b (14) of the Solvency II Directive are applicable. The latter is expected to entail a table with the SCR, MCR and Solvency Margin (available and required solvency margin accuracy to be checked by the auditors) for each undertaking; The solvency margin recalculation at the end of December 2015 will be required if an undertaking does not cover the SCR or MCR unless the solvency margin is already negative in the year end or the independent external reviewer is confident that there is no material change of this prudential indicator at the year end.
- System of governance - independent external reviewers will be required to give an opinion about the appropriateness of the system of governance including the internal control mechanisms in place;
- Reports- see 8.

The above entails a presentation of an adjusted SII Balance Sheet in accordance with Solvency II principles, a calculation of prudential indicators, including a statement whether articles 131 and 308b (14) of the Solvency II Directive are applicable, and an eventual view on needed improvements. Independent external reviewers will be required to provide the details on the methodologies and assumptions used in performing the exercise. The group level review shall entail an adequate assessment of all material assets and liabilities as well as prudential indicators at group level.

The BSR will be performed at the premises of the participant undertakings.

The independent external reviewer shall take the necessary steps prior to the start of the fieldwork to ensure that relevant supporting documents as well as key staff will be available in the participating undertaking during the review.

The independent external reviewer will inform the PM and the SC as soon as possible about any limitations in the scope of work it may find prior to or during the BSR. The independent external reviewer will report any attempt by the participant undertakings to restrict the scope of the BSR, or any lack of co-operation on the part of the participating undertaking. The independent external reviewer will consult the PM and SC on what action may be required, whether or how the BSR can be continued and whether adjustments in the review scope or the timetable are necessary without impacting the deadline for the completion of the entire exercise.

The independent external reviewer shall exercise due professional care and judgment and determine the nature, timing and extent of review procedures to fit the objectives, scope and context of the review.

6. Duration

The independent external reviewers' reviews shall take place between April-June 2016 (3 months). The independent external reviewers shall finalize their work with the issuing of the final reports (30 June 2016).

The date of issuance of the act of the Deputy Chairperson in charge of Insurance Supervision Division is the official starting date of review.

The independent external reviewer should contact the participant undertaking as soon as possible to agree a date to start the fieldwork but not before the review has been formally announced by the FSC. This should not be later than 7 calendar days from the starting date of review.

7. Supervision

The independent external reviewer will be supervised by the PM in consultation with the SC. The PM will make available a Q&A tool.

8. Reports and terms

The type of report to be provided is a proposed Agreed Upon Procedures format in accordance with ISRS 4400.

8.1 Blue print and progress reports

At the beginning of the reviews each independent external reviewer will produce a blueprint which will describe the work plan proposed for performing the review including the detailed procedures and timing. It shall include a detailed indication of the estimated number of hours needed to complete each stage of the review.

The blueprints will be submitted to the PM and SC after 14 days from the starting date of the BSR. Each independent external reviewer will participate at a preparatory meeting with the PM and the SC to provide an overview of the proposed work.

Independent external reviewers will submit twice a month to the PM and SC a progress report. This shall clearly identify the implementation stage, relevant findings and concerns.

Independent external reviewers may at any time during the review draw up a complementary letter if it considers that the PM and the SC should be informed about facts and issues that are or may be urgent or of particular interest and importance to the successful completion of the BSR.

Progress reports will be drafted in English.

Independent external reviewers will need to be available to discuss with the PM and SC the interim results during the monthly meetings of the SC and during conference calls.

8.2 Final reports

The independent external reviewer should, considering the relevant ISAs, prepare documentation for the review and obtain sufficient appropriate evidence to support review's findings and to draw reasonable conclusions on which to base the review opinion.

Independent external reviewers will draft a specific and separate BSR report for each participating undertaking. Further guidance on the structure of the report will be provided by the PM in consultation with the SC.

Independent external reviewers will submit to the PM and SC the final reports until 30 June 2016. The final reports will be issued in both Bulgarian and English language.

9. Confidentiality

Independent external reviewers shall hold in confidence any confidential information obtained from the other party during the course of the reviews, including the outputs and deliverables. Furthermore, independent external reviewers must not make any future use of the information obtained from the other party during the course of the reviews unless there is a legal or professional obligation to do so.

The information provided by the independent external reviewers will be shared with the observers in the SC without violation of Art 24-25 of the Financial Supervision Commission Act regarding the professional secrecy.

10. Requirements for independent external reviewers

10.1 Eligibility criteria

In order to be included in the list, Independent external reviewers must comply with the following requirements:

10.1.1. The firm must not be the Consultant (Project Manager) for the review and must not belong to the group to which belongs the Consultant (Project Manager);

10.1.2. The firm must have minimum 5 years international experience in at least three EU member states in evaluating¹ assets and liabilities of sizable insurance undertakings and/or auditing sizable insurance undertakings and/or international experience in carrying out Asset Quality Reviews (AQR) in the banking sector or Balance Sheet Reviews (BSR) in the financial sector, commissioned by governments, EU or national authorities or central banks;

¹Evaluation means activities relating to verification of the reliability and adequacy of the assessment of the value of assets or liabilities of a financial institution, including financial instruments, loan or securities portfolios, capital instruments, attracted resources and accepted collateral.

10.1.3. The firm's team must not consist of members that have violated the Insurance Code, the Law on the Independent Financial Audit or the Law on Accounting during the last 5 years.

10.1.4. The firm should demonstrate that it has at least one team with theoretical knowledge and a minimum 5 years practical experience in the financial sector and in evaluating both life and non-life sizable insurance undertakings and include at least 1 actuary with practical experience in auditing or evaluation both life and general insurance undertakings, which is compliant to the requirement of point 10.2.1.

10.2 Appointment of independent external reviewers for each particular undertaking

10.2.1. For the review of each particular undertaking, the firm should provide separate unique team, while being free to appoint the same or different (partner/director/principal) for the different undertakings under review. The team required for each participating undertaking will be composed of as minimum 1 manager (partner/director/principal) with expertise in the review of assets and liabilities of sizable insurance undertakings with at least 5 years of professional experience as a professional auditor or accountant in public audit practice who has the ultimate responsibility for the review, 1 highly qualified actuary expert with relevant international experience and at least 5 years of professional experience as an actuary, 1 Expert / Analyst who is a holder of the right to use the Chartered Financial Analyst designation or other internationally recognized professional qualification in the area of finance and 3 experts with at least 3 years' practical experience in auditing or evaluation of both life and non-life sizable insurance undertakings.

10.2.2. In order to conclude a contract with a specific participating undertaking for the BSR, the Independent external reviewer must further comply with the following requirements:

1. not to have performed statutory auditing activities, consulting or other kind of activities on the respective participant undertaking or on the group to which the insurance company belongs at the moment of selection and during the exercise;
2. not to have performed statutory auditing activities, consulting or other kind of activities at the respective participant undertaking or on the group to which the insurance company belongs in the last 5 years preceding the review;
3. the firm or any of its team members not to have potential conflicts of interest;
4. the actuary expert should be a qualified actuary, member of an Actuarial Association internationally recognized.

In the course of the review the independent external reviewer will use at least 1 independent valuer (either employee of the Independent external reviewer or separately hired) with the necessary competences according to the independent valuers Act. The independent valuer must not have carried out valuation of the assets of the respective insurance undertaking for the last 5 years and must not have other potential conflicts of interest.

The reviews shall be signed or co-signed by an international partner (i.e. based outside Bulgaria).

10.3. Elements to be sent to FSC and selection

The selection will be based on the evaluation of compliance with the eligibility criteria. In order to certify compliance with the set criteria in point 10.1, the following elements to be sent by the applicants:

1. A declaration by the legal representatives of the firm for compliance with the requirements with points 10.1.1 and 10.1.4 of the eligibility criteria.
2. A detailed description in writing, signed by the legal representatives of the firm, of the experience of the firm meeting the requirements of point 10.1.2, together with a declaration signed by the legal representatives of the firm for the correctness of the information.
3. CVs, signed by the respective person and by at least one legal representative of the firm, presenting details on the qualification and experience of the team complying with the requirements of 10.1.4.

10.4. Elements to be provided to the FSC for the appointment of independent external reviewers for each particular undertaking

1. The independent external reviewer shall provide the FSC with CV's of the partner or other person(s) in the firm who is responsible for the review and for signing the report together with the CVs of all team members. CVs shall include accurate information and appropriate details on the type of reviews carried out by the staff indicating capability and capacity to undertake the review as well as details on relevant specific experience. Each CV should be signed by the respective person and by at least one legal representative of the firm.
2. detailed planning of how the applicant proposes to undertake the reviews including in terms of actuarial work;
3. details of applicable terms and conditions;
4. how confidentiality will be safeguarded and conflicts of interest will be prevented.

Furthermore, applicants are required to send a description of the pricing methodology to be used to set the price of the reviews. All elements should be sent to FSC in both English and Bulgarian language.

The review of the participating undertaking (insurance groups under the scope of the review) shall be covered in the contract of an insurance undertaking belonging to the insurance group under review.

Annex 1**Insurance undertakings participating in the BSR**

No.	Insurance Sector Participants
List of domestic authorised non-life insurers	
1.	ARMEEC INSURANCE JOINT STOCK COMPANY
2.	BULGARIA INSURANCE AD
3.	BULGARIAN EXPORT INSURANCE AGENCY \BAEZ\
4.	BULSTRAD VIENNA INSURANCE GROUP
5.	BUL INS
6.	DZI - GENERAL INSURANCE
7.	EUROINS - HEALTH ASSURANCE LLC
8.	EUROINS INSURANCE PLC
9.	Fi Health Insurance AD
10.	GENERALI INSURANCE AD
11.	"GROUPAMA ZASTRAHOVANE" EAD
12.	HDI Zastrahovane
13.	HEALTH INSURANCE COMPANY PLANETA JSC
14.	Health Insurance Institute JSC
15.	INSURANCE COMPANY "ASSET INSURANCE" AD
16.	Insurance Company DallBogg: Life and Health Inc
17.	Insurance Company Medico - 21 JSC
18.	Insurance company "Nadejda"
19.	Insurance Company "OZOK Ins" AD
20.	JSIC OZK - INSURANCE JSC

21.	LEV INS
22.	SAGLASIE INSURANCE JSC
23.	TOKUDA HEALTH INSURANCE
24.	UBB - AIG INSURANCE COMPANY
25.	UNITED HEALTH INSURANCE FUND DOVERIE INSURANCE AD
26.	UNIQA INSURANCE
27.	ZAD "ALLIANZ BULGARIA"
28.	ZAD "ENERGY"
29.	ZAD European Health Insurance Fund
List of domestic authorised life insurers	
30.	Allianz Bulgaria Life
31.	"BULSTRAD LIFE VIENNA INSURANCE GROUP" JOINT STOCK COMPANY
32.	CCB LIFE
33.	DZI - LIFE INSURANCE JSC
34.	GENERALI LIFE INSURANCE AD
35.	GRAWE Bulgaria Jivotozastrahovane
36.	GROUPAMA ZHIVOTOZASTRAHOVANE EAD
37.	INSURANCE COMPANY EUROINS LIFE
38.	Life Insurance Company Saglasie EAD
39.	LIFE INSURANCE INSTITUTE
40.	SIVZK
41.	SOGELIFE BULGARIA IJSC

42.	UBB-METLIFE ZHIVOTOZASTRAHOVATELNO DRUJESTVO AD
43.	UNIQA LIFE INSURANCE
44.	VZAIMOZASTRAHOVATELNA KOOPERACIA - DOBRUDJA-M-ZHIVOT
List of domestic reinsurers	
45.	GP REINSURANCE
List of Bulgarian insurance groups	
46.	Armeec Insurance (<i>The company has a subsidiary Armeec Itil, Russia</i>)
47.	Euroins Insurance Group(<i>Insurance holding company</i>) and Eurohold Bulgaria (<i>mixed financial holding company identified as financial conglomerate</i>)
48.	Lev Corporation(<i>The company is a participating undertaking in Lev Ins, Health Insurance Institute and Life Insurance Institute</i>) and Lev Ins (<i>The company is a participating undertaking in Health Insurance Institute and Life Insurance Institute</i>)
49.	OZK Insurance(<i>The company has a subsidiary OZOK Ins</i>)
50.	DOVERIE - United Holding (<i>The company's subsidiaries are Insurance Company Medico - 21 and United Health Insurance Fund Doverie Insurance</i>)
List of Bulgarian insurance sub-groups	
51.	BULSTRAD Vienna Insurance Group
52.	DZI LIFE INSURANCE
53.	Generali Bulgaria Holding
54.	UNIQA Insurance