

## **Invitation for Auditors for the Romanian Balance Sheet Review**

The Financial Supervisory Authority (ASF) invites applicants to submit proposals for the purpose of the tasks prescribed in this invitation. Applicants will be selected based on the selection criteria specified in 10. Applicants shall submit proposals by August 11, 2020.

### **1. Background**

In order to have an enhanced insight into and raise awareness of the risks and vulnerabilities of the Romanian insurance sector, the ASF has decided to perform an independent Balance Sheet Review (BSR) in cooperation with the European Insurance and Occupational Pensions Authority (EIOPA).

A similar exercise was performed on the Romanian insurance market in 2014-2015, with highly relevant results both for insurance undertakings and policyholders. While there has been a steady evolution of the sector since this exercise was completed, the Romanian insurance market is characterized by a high level of concentration and maintains its dependence of motor third party liability (MTPL) insurance, as well as a rapid growth on specific undertakings of the credit and suretyship business.

The review will be carried out by independent external parties with high professional reputation and international experience. The review will be overseen by a Steering Committee (SC) that includes representatives from the ASF and EIOPA.

The ASF will select a consultant after consulting the SC (hereinafter referred as Consultant) that will ensure a harmonised application of the review's methodology by the independent external reviewers (hereinafter referred as Auditors) performing the reviews as well as a similar treatment of the participating undertakings by the respective auditors.

The review covers the 26 insurance and reinsurance undertakings (hereinafter insurance undertakings) in Romania subject to Solvency II regime. The review by auditors is expected to commence at December 2, 2020 and shall be concluded until March 2, 2021. The cut-off/reference date for the reviews is June 30, 2020.

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

## **2. Main objectives of the Balance Sheet Review**

The main objectives of the BSR are:

- a) to analyze the insurance portfolio of each participating 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 the Solvency II framework of the recognition and valuation principles applied to all assets and liabilities;
- c) to assess under the 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 calculate the prudential parameters in accordance with Solvency II (MCR, SCR and Own Funds);
- e) to assess the appropriateness under the Solvency II framework of the system of governance;
- f) 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 auditors**

The criteria for selecting the auditors is described in section 10. After consulting the SC, ASF shall approve the list of eligible auditors, that will be published on the ASF website until August 27, 2020.

Starting the date of the publication of the list of auditors by ASF, each participating undertaking shall select an auditor from the list and communicate it to ASF until September 28, 2020. The auditor will conduct the BSR in line with the methodology provided by the SC and approved by the ASF.

The ASF shall appoint the auditors based on the choice of the participating undertakings. The ASF shall however have a veto right regarding the choice of the auditor, meaning that the ASF will have the power to override the undertakings' selection, following recommendation from the SC. The SC's recommendation shall be based on a clear and reasoned rationale supported on aspects such as existing or potential conflicts of interest, appropriateness of the auditors' proposal including the actuarial hours foreseen for the review and a comprehensive analysis of the available resources having in mind the total number of entities proposing to contract the services of the same auditor.

The allocation of auditors will be published on the ASF website until November 5, 2020. Following this allocation, the participant insurance undertakings shall conclude the contracts with the auditors.

All auditors' fees entailed by the BSR will be paid by the respective participating undertaking.

The participating undertakings will provide the auditors with all the necessary information. The auditors will provide the Consultant and the SC with all the necessary information.

#### **4. Methodological Guidance**

The SC provides a methodological guidance aiming a harmonised application of methodologies by the auditors, as well as a similar treatment of the participating undertakings by the respective auditors. The auditors will have to comply with the working procedures established in the methodological guidance.

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 and EIOPA Guidelines.

The auditors shall consider the applicable legal framework and the applicable International Standards on Auditing (ISA).

#### **5. Scope of the auditing review**

The BSR covers 26 insurance and reinsurance undertakings in Romania (see Annex 1).

The cut-off/reference date for the BSR is June 30, 2020.

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 auditors will be required to perform the following tasks:

- Reconciliation, reliability, quality, sufficiency and relevance of data – auditors will be required to perform data checks on the information provided to the auditors by the participating undertakings. Impact shall be quantified;
- Valuation and recognition – auditors will be required to perform an assessment of all material assets and liabilities' recognition and valuation, according to the Solvency II framework and propose adjustments, as needed, to the value of assets and liabilities;
- Accounting policies – auditors 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 – auditors 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 to report findings and propose adjustments accordingly, as needed, to the value of technical reserves;

- Effectiveness of risk transfers – auditors 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 – auditors 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 – auditors will be required to calculate the prudential indicators in accordance with Solvency II, (MCR, SCR and Own Funds);
- System of governance – auditors will be required to give an opinion about the appropriateness of the system of governance, including the internal control mechanisms in place;
- Reports- see section 8.

All specified above entails a presentation of an adjusted Solvency II balance sheet in accordance with Solvency II principles, a calculation of prudential indicators, and an eventual view on needed improvements. Auditors will be required to provide the details on the methodologies and assumptions used in performing the exercise.

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

The auditors 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 auditors will inform the Consultant and the SC as soon as possible about any limitations it may arise in the scope of the work ,prior to or during the BSR. The auditors will report any attempt by the participant undertakings to restrict the scope of the BSR, or any lack of co-operation of the participating undertaking. The auditors will consult the Consultant and SC regarding the actions required, whether or how the BSR can be continued and whether adjustments in the review's scope or timetable are necessary, without impacting the deadline for the completion of the entire exercise.

The auditors shall exercise due professional care and judgment and determine the nature, timing and extent of review procedures, in order to fit the objectives, scope and context of the review.

## **6. Duration**

The auditors' reviews shall take place between December 2, 2020 – March 2, 2021 (3 months). The auditors shall finalize their work with the issuing of the final reports (March 2, 2021).

The auditors 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 ASF. This should not be later than 7 calendar days from the starting date of review.

## **7. Supervision**

The auditors will be supervised by the Consultant, in consultation with the SC. The Consultant 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 with an advisory element.

The objective of the particular engagement is for the auditors to carry out procedures of an audit nature as described in the methodology and to report on the factual findings and on their conclusions over the findings. The Agreed Upon Procedures engagement requires the performance of audit steps and therefore should be completed with reference to the other International Standards on Auditing (ISAs).

The procedures described in the Methodology have to be complied with. Any departures from the Methodology and the reasoning behind it should be promptly reported to the Consultant and SC, in order to be agreed-upon.

The auditors are requested to use their professional judgment in order to determine the extent and nature of any additional procedures or information considered appropriate, taking into account the scope of work requested in this exercise and their assessment of the specific characteristics of the respective undertakings under review. Auditors are required to apply expert judgement when providing their conclusions over findings.

### **8.1 Blueprint and progress reports**

At the beginning of the reviews, each auditor 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, any expected limitations, materiality computation and selected accounts for review, as well as any other information as considered relevant for the specific undertaking.

The blueprints will be submitted to the Consultant and SC after 14 days from the date ASF publishes the allocation of auditors. Each auditor will participate at a preparatory meeting with the Consultant and the SC to provide an overview of the proposed work.

Auditors will submit twice a month to the Consultant and SC a progress report. This shall clearly state the implementation stage, relevant findings and concerns.

Auditors may at any time during the review draw up a complementary letter if they consider that the Consultant 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.

Auditors will need to be available to discuss with the Consultant and SC the interim results during the monthly meetings of the SC and during conference calls.

## 8.2 Final report

The report shall identify the financial information of insurer's assets and liabilities as well as the non-financial information to which the agreed-upon procedures have been applied, include a statement that the procedures performed were those agreed upon, list the specific procedures performed and describe the auditor's factual findings including sufficient details of errors, exceptions found and conclusions.

The auditors should prepare the documentation for the review and obtain sufficient and appropriate evidence to support the review's findings and to draw reasonable conclusions, that will be the basis of the review's opinion.

The auditors 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 Consultant, in consultation with the SC.

The auditors will submit to the Consultant and SC the final reports until March 2, 2021. The final reports will be issued in both Romanian and English language.

The auditors will be asked to provide a draft report 2 weeks before their final reporting, so that to provide the Consultant and the SC with adequate time to review the reports, provide feedback and also provide the time necessary to auditors, in order to perform any updates before the March 2, 2021 deadline.

## **9. Confidentiality**

The terms and conditions of the reviews are confidential between the parties and shall not be disclosed to anyone else, except as shall be necessary to effectuate its terms.

Auditors shall hold in confidence any confidential information obtained from the other party during the course of the reviews, including the outputs and deliverables. Furthermore, auditors 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.

## **10. Requirements for auditors**

### 10.1 Eligibility criteria

In order to be included in the list, auditors must comply with the following requirements:

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

10.1.2. The firm must have minimum 5 years of international experience in at least three EU member states in evaluating assets and liabilities of sizable insurance undertakings, and/or, auditing sizable insurance undertakings, and 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;

10.1.3. The firm should demonstrate that it has a 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 auditors for each particular undertaking

10.2.1. For the review of each particular undertaking, the firm should provide a separate and unique team, while being free to appoint the same or different team members for different undertakings under review. The team required for each participating undertaking will be composed of as minimum of 1 manager (partner/director/principal) with expertise in the review of assets and liabilities of sizable insurance undertakings and 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 auditor must further comply with the following requirements:

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

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

### 10.3. Elements to be sent to ASF 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 shall 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 10.1.3 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 accuracy /correctness of the information.
3. CVs, signed by the person concerned 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 10.1.3.

### 10.4. Elements to be provided to the ASF for the appointment of the auditors for each particular undertaking

1. The auditor shall provide the ASF with CVs 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 be accompanied by copy of identification containing a permanently affixed name, photograph and a signature and must be valid (not expired)) 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;
5. a declaration by the legal representative of the firm for compliance with the requirements set in 10.2 and 10.1.3.

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 ASF in both English and Romanian language.





## Annex 1

### Insurance undertakings participating in the BSR

1.	ABC ASIGURARI-REASIGURARI S.A.
2.	ALLIANZ - TIRIAC ASIGURARI S.A.
3.	ASIGURARE REASIGURARE ASIMED S.A.
4.	ASIGURAREA ROMANEASCA - ASIROM VIENNA INSURANCE GROUP S.A.
5.	ASITO KAPITAL S.A.
6.	BCR ASIGURARI DE VIATA VIENNA INSURANCE GROUP S.A.
7.	BRD ASIGURARI DE VIATA S.A.
8.	COMPANIA DE ASIGURARI - REASIGURARI EXIM ROMANIA (CARE - ROMANIA) S.A.
9.	ERGO ASIGURARI DE VIATA S.A.
10.	ERGO ASIGURARI S.A.
11.	EUROINS ROMANIA ASIGURARE REASIGURARE S.A.
12.	EUROLIFE ERB ASIGURARI DE VIATA S.A.
13.	EUROLIFE ERB ASIGURARI GENERALE S.A.
14.	GARANTA ASIGURARI S.A.
15.	GENERALI ROMANIA ASIGURARE REASIGURARE S.A.
16.	GOTHAER ASIGURARI - REASIGURARI S.A.
17.	GRAWE ROMANIA ASIGURARE S.A.
18.	GROUPAMA ASIGURARI S.A.
19.	NN ASIGURARI DE VIATA SA
20.	OMNIASIG VIENNA INSURANCE GROUP S.A.
21.	ONIX ASIGURARI S.A.
22.	POOL-UL DE ASIGURARE IMPOTRIVA DEZASTRELOR NATURALE S.A. (PAID)
23.	SIGNAL IDUNA ASIGURARE REASIGURARE S.A
24.	SOCIETATEA DE ASIGURARE – REASIGURARE CITY INSURANCE S.A.
25.	UNIQA ASIGURARI DE VIATA S.A.
26.	UNIQA ASIGURARI S.A.