



International Association for the
Study of Insurance Economics

Études et Dossiers

Extract from

Études et Dossiers No. 344

The 24th PROGRES International Seminar
“Towards a Global Architecture for Insurance
Regulations and Supervision”

3-4 April 2008
Geneva, Switzerland

April 2008

Working Paper Series of
The Geneva Association

© Association Internationale pour l'Etude de l'Economie de l'Assurance

The Geneva Association Working Paper Series “Études et Dossiers” appear at irregular intervals about 10 - 12 times per year. Distribution is limited.

The “Études et Dossiers” are the working paper series of The Geneva Association. These documents present intermediary or final results of conference proceedings, special reports and research done by The Geneva Association. Where they contain work in progress or summaries of conference presentations, the material must not be cited without the express consent of the author in question.

Layout & Distribution: Valéria Kozakova

Supervisory Cooperation under Solvency II

Karel van Hulle

Current situation

- Solvency I has minimum harmonisation
- Many EU member states have additional requirements on solvency and supervision
 - Distortion of the Single Market
 - Unlevel playing field
 - Uneven level of consumer protection

Commission européenne 
DG Marché intérieur et services

The new solvency regime

- Solvency II introduces maximum harmonisation
- A patchwork of different regulatory requirements will be replaced by new risk based solvency requirements and qualitative requirements
- Changes will benefit consumers, European insurance industry and the wider economy

Commission européenne 
 DG Marché intérieur et services

Solvency II: 3 pillars and a roof

**Group supervision
 & cross-sectoral convergence**

Groups are recognised as an economic entity
 => supervision on a consolidated basis
 (diversification effects, group risks)

Pillar 1: quantitative requirements

1. Harmonised calculation of technical provisions
2. "Prudent person" approach to investments instead of current quantitative restrictions
3. Two capital requirements: the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR)

Pillar 2: qualitative requirements and supervision

1. Enhanced governance, internal control, risk management and solvency self-assessment
2. Strengthened supervisory review, harmonised supervisory standards and practices

Pillar 3: prudential reporting and public disclosure

1. Common European reporting tools
2. Public disclosure of the financial condition and solvency report
 (market discipline, as participants prefer sound healthy companies)

Commission européenne 
 DG Marché intérieur et services

Legislative Process - Lamfalussy

Level 1: Framework Directive

Level 2: Implementing Measures

Level 3: Convergent implementation assisted by close co-operation between national authorities

Level 4: Rigorous enforcement of Community legislation by the Commission

Commission européenne 
DG Marché intérieur et services

Pillar 2: qualitative requirements and supervision

- Solvency II puts emphasis on the quality of firms' risk management
- Key principles will be agreed in Level 1 Framework Directive
- Negotiations are currently ongoing and it is expected that the Level 1 Framework Directive will be adopted in late 2008

Commission européenne 
DG Marché intérieur et services

Pillar 2: qualitative requirements and supervision

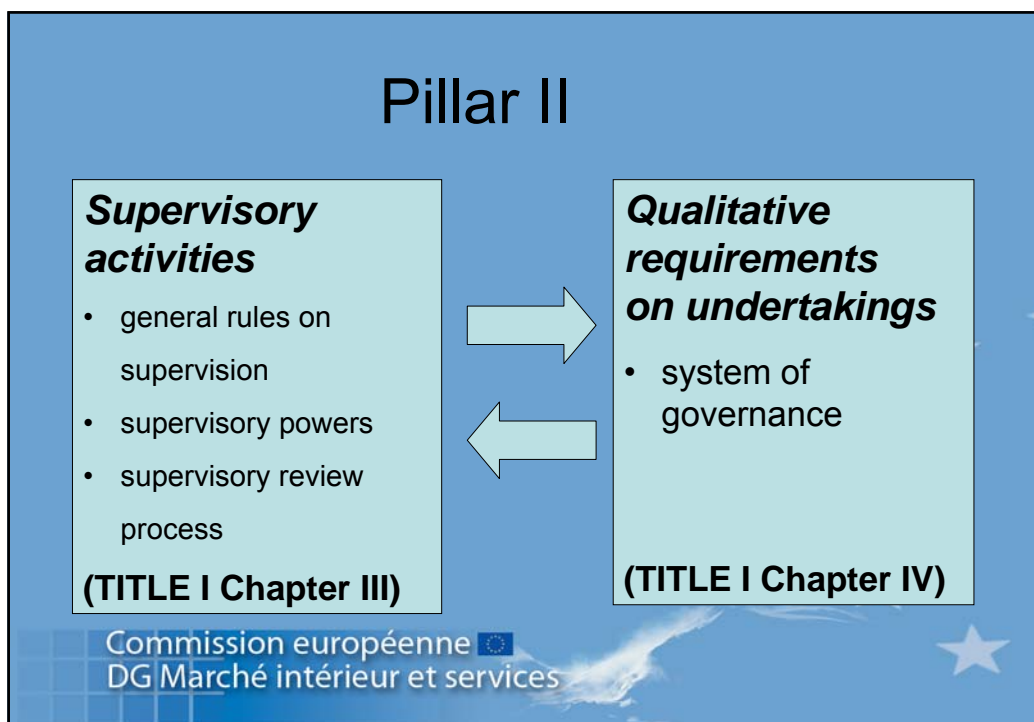
- Level 2 implementing measures will give further detail to the Directive
- CEIOPS advice to the Commission in May 2008 and in October 2009
- Commission proposal for implementing measures expected in Q1 2010

Commission européenne 
DG Marché intérieur et services

Impact assessment

- In line with our Better Regulation Agenda, Solvency II Proposal went through a full impact assessment and consultation process
- Level 2 implementing measures will go through the same process

Commission européenne 
DG Marché intérieur et services



Supervisory activities

- **General Principles of Supervision**
 - Prospective risk-oriented approach
 - Off-site and on-site
 - **Proportionality principle**

Commission européenne
DG Marché intérieur et services

Supervisory Activities

- **Supervisory powers**

General enabling Article:

- preventive and corrective measures
- measures against undertakings and administrative or management body
- proportionality principle
- powers also available with regard to outsourced activities

Special powers in Directive where relevant, incl. any qualifications e.g. for:

- SCR
- MCR
- technical provisions
- supervisory review...

Commission européenne DG Marché intérieur et services

Supervisory Activities

- **Supervisory powers – supervisory ladder**

supervisory action is proportionate to level and length of non-compliance

principles-based

rules-based

Breach of SCR ⇒ recovery plan

Breach of MCR ⇒ short-term finance scheme + Ultimate supervisory action

Commission européenne DG Marché intérieur et services

Supervisory Activities

• Supervisory Review Process

- Aims to identify institutions with financial, organisational or other features producing a higher risk profile
- Supervisors' review and evaluation of undertakings' compliance with Directive
- Assessment of the system of governance, the risks the undertakings face or may face and ability to withstand possible events or future changes in economic conditions
- Appropriate monitoring tools to identify deteriorating financial conditions

Commission européenne 
DG Marché intérieur et services

Governance system

General requirements

Fit&proper – Article 42

Risk management – Article 43

Internal control – Article 45

Internal audit - Article 46

Actuarial function - Article 47

Outsourcing - Articles 38 and 48

Commission européenne 
DG Marché intérieur et services

Group supervision

- The introduction of an economic group concept has important consequences on supervisory cooperation
- Solvency II requires coordination, cooperation and information exchange between supervisors
→ All supervisors will have a better picture of the group
- ‘Colleges of supervisors’ with real powers for the group supervisor (internal models, group SCR)
- Need for change in mentality and for clarification of responsibilities

Commission européenne 
DG Marché intérieur et services

Supervisory convergence

- Solvency II will only truly be a success if there is convergent supervision both in theory and in practice
- CEIOPS will play a key role in making the system work (Helsinki Protocol)
- Supervisory co-operation is high priority in Lamfalussy context also cross-sector (harmonisation of supervisory powers and reporting)

Commission européenne 
DG Marché intérieur et services