



International Association for the
Study of Insurance Economics

Études et Dossiers

Études et Dossiers No. 310

**Solvency II: Strategic Stakes for
the Insurance Industry**

Brussels, 14 November 2005

&

**Solvency II: Challenging Issues for
Insurance Industry**

Milan, 23 November 2005

March 2006

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. As 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: Pascal Clerc & Valéria Kozakova

Introductory remarks

by Elemér Terták, Director Financial Institutions, European Commission

Ladies and gentlemen,

Thank you for the opportunity to address this conference with some introductory remarks.

On the CEA website I read that for CEA, 2005 has already been and will remain “the year of Solvency II”. This project is indeed a key priority for CEA. This is not only shown by the significant resources you put to this project to ensure that the industry provides input but also by organising a conference like this where you allow industry, supervisors and regulators to discuss openly and constructively this project in general and some of its specific features in more detail.

Let me reassure you that 2005 will not be solely your “year of Solvency II” but also our year of Solvency II, as this project is a priority also for the Commission. Now we are just at middle of the road, thus we all should devote also the forthcoming two years to the successful implementation of Solvency II. We count very much on your further commitment, as only with a joint effort can bring this project to completion.

Where are we now exactly in our solvency II calendar? Allow me to briefly recall our roadmap although I am sure that all the people evolved and affected by Solvency II will already know it by heart:

Three waves call for advice have been sent to CEIOPS.

The Commission Services already received CEIOPS answer to the **First and second wave** calls for advice. The first answer mainly dealt with Pillar II issues.

The answers from CEIOPS to the **second wave** of calls for dealt with such highly technical issues such as technical provisions in life and non-life insurance, Solvency Capital requirements (standard formula and internal models), Quantitative Impact Studies, Powers of the Supervisory authorities, Group issues and so on.

The answers from CEIOPS to **third wave of calls** (including for example issues like SME matters, eligibility of capital, disclosure, procyclicality) should be transmitted to the Commission by 28th February 2006.

Let me take this opportunity to thank CEIOPS again for the excellent work done and its commitment towards this project. However, after preparation of the Framework Directive, it will be necessary to develop more detailed rules and guidance: both through detailed implementing measures and/or supervisory recommendations, as appropriate. Consequently, CEIOPS will need to continue to develop and deepen its analysis accordingly.

Nonetheless, the Commission is not only asking other people to do the work.

My services are currently **codifying** the life and non-life directives. A first draft of this paper will be discussed with Member States in November this year. A final version including the reinsurance, the insurance groups directive and the winding-up directive will be finalised by July 2006. This will make our legislation more transparent and more readable for all stakeholders. This approach follows the policy on better regulation and the Inter-institutional

Agreement on Better Lawmaking, in which the institutions acknowledged the importance of simplifying existing EU legislation whilst maintaining the substance of Community policies. 14 directives would be repealed.

At the same time we are working on the **Solvency II related changes** which need to be introduced in the current acquis in order to introduce a risk-based solvency system. Our work is based on the answers by CEIOPS and stakeholders input. The framework directive should be adopted in July 2007.

What are the **main challenges** which need to be addressed within the Solvency II project? They are already reflected in today's agenda. Let me mention some: Insurance Regulation-Developments and Impact, IFRS, Insurance Operations-Impact and Industry Initiatives.

The **first panel** today deals with Insurance Regulation-Developments and Impact.

For the Commission the challenge is to deliver high quality regulation which suits markets needs. For this reason the Lamfalussy-approach has been developed in order to take account of the need for flexible legislation. As the core of the financial services Directives and especially the Solvency II directive will be based on that structure the Commissions task is to ensure that this system and its outcome achieve the best results possible.

However, even the best rules are worthless if they are not implemented in time and properly adapted. Therefore Member States have to live up to their obligations to ensure timely and consistent implementation and application of European Directives.

Solvency II is not only about new regulation and implementation. It is even more about the ability to apply and use the new toolkits which will be available for companies and supervisors. Not only are supervisors burdened by giving input in developing this project but also at the same time by adapting their structures to the new environment and to train their staff accordingly. This challenge again can be easier mastered once good cooperation and mutual support is ensured.

The second challenge is about the relationship between prudential rules and accounting rules. The Solvency II regime will contain prudential valuation standards for assets and liabilities of insurance undertakings, as well as rules on supervisory reporting and public disclosure. In order to ensure convergence of valuation rules, supervisory reporting and public disclosure, as well as to limit the administrative burden for supervised institutions, the Solvency II rules should be compatible with accounting rules elaborated by the International Accounting Standards Board (IASB).

IASB is currently working on Phase II of its "Insurance Contracts" project, but it will take several years before the final standard is available. The Solvency II rules will therefore be elaborated without having an adopted and complete IFRS in place for insurance. The likely outcome of the IASB work should however be taken into account to the largest extent possible. And the Solvency II rules may well have to be adjusted when the IASB will have finalised Phase II of its "Insurance Contracts" project.

In terms of scope, the current EU rules are requiring endorsed IFRS to be used only by listed EU companies to present their consolidated financial statements, although Member States may broaden the field of application. The Solvency II regime will not require full use of IAS/IFRS by all insurance undertakings. Certain prudential valuation rules, reporting and disclosure rules introduced by the future Solvency II regime may however be similar to some

IAS/IFRS rules. This would lead to a wider use of IAS/IFRS-like methods by insurance undertakings in general.

Introducing a new risk-based supervisory system and to require insurance undertakings to improve their risk analysis and risk mitigation techniques will have a major impact on industry. It will require a change in attitude throughout the whole undertaking. In each link of the product chain and the decision making process this change needs to be reflected.

In this respect I firmly believe that not only supervisors but also insurance associations have an important role to play as they are mediators to the Commission in informing markets about the developments and to tutor their members about necessary adaptations. Living Solvency II only once the framework directive is adopted is much too late. Re-Thinking has to start today!

However, to get a feeling for the impact, an Impact Assessment will accompany the adoption of the framework Directive.

Impact assessment is not only an obligation for the European Commission when making a Directive proposal – it is a common sense thing to do. The Solvency II impact assessment will have a purely quantitative aspect, for which the European Commission has asked for CEIOPS' and the industry's help, and the wider impact of Solvency II on the economic and social overall picture. CEIOPS is conducting a series of Quantitative Impact Studies in collaboration with the industry to answer the quantitative side. The Commission will lead the work on the wider impact and will consult largely.

Although Solvency II is a top priority for us, there is still life apart of it. At the beginning of May, the Commission presented its Green Paper on Financial Services Policy 2005-2010. The paper contains initial policy ideas for the next five years.

After intense dialogue the White Paper is to follow soon, setting the priorities for the next five years.

As regard of policy:

- The Commission gives priority to the transposition of adopted directives, in order to ensure proper and consistent implementation of the *acquis*, instead of creating new regulation. This of course will not affect Solvency II.
- We will focus on Better regulation: every policy proposal will be accompanied by an extensive Impact Assessment and existing regulations will be evaluated to make sure that they still meet markets needs.
- We will pay attention also to eliminate the obstacles to the functioning of the Internal market. The discussions arising from the Green Paper on Financial Services Policy and the responses to the Commission's survey on obstacles to cross-border business showed clearly that aligned supervisory reporting would facilitate insurer's life and save significant costs. The Commission is willing to support industry in this demand as much as possible.

What can be expected in the forthcoming times on the insurance field?

- The Commission will engage in consolidation of regulation to get rid of inconsistencies, incoherencies, ambiguities. For the Insurance sector we already started that project as part of Solvency II and we will continue with the Motor Insurance Directives.
- One issue that is of great importance for the insurance industry are insurance guarantee schemes. We have been listening to Member States, industry and consumers. We strike to find the right balance between necessary consumer protection and the costs for

industry. Up to now no formal decision has been taken. We will however come to conclusion about the “future” of this project at the beginning of 2006.

- As mentioned before the Commission strongly supports industry’s demands for an alignment of supervisory reporting. Multiple reporting requirements expose cross-border groups to unnecessary costs. This needs to be replaced by streamlined common reporting, without national ‘add-ons’.
- We will also aim together with our Level 3 Committees for further supervisory convergence. Some issues such as home-host responsibilities need to be clarified in the up-coming years.
- We will not only focus on our work but we will cooperate strongly with other policies areas with a view to taxation, contract law and competition issues to make sure that the insurance focus is not left aside.
- Last but not least we closely follow and actively participate in the ongoing analyses and workshops on natural catastrophes and terrorism insurance, to develop appropriate solutions for prevention, forecasting and for financial management tools of handling large scale catastrophes.

Let me end my remarks by thanking you again for putting Solvency II in the flashlight by organising this event and wishing fruitful discussion to the conference.
