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A German Insurance Industry's View on the Development of Solvency Requirements

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Agenda

- Total Balance Sheet Approach
- Capital Add-ons
- Lead Supervisor
- Small and Medium Sized Enterprises

The total balance sheet approach (TBSA) is strongly supported by the insurance industry

- TBSA: available capital is given as the difference between the market-consistent values of assets and liabilities without any restrictions
- CEIOPS proposes a so-called tiers-approach with certain limits, which are not economically derived, in similarity to Basel II
- Consequence: not the whole economically available risk capital is recognized
- Convergence between banking and insurance regulation is supported, but not at the cost of inappropriate solvency rules

Pillar II capital add-ons should be imposed in well-founded exceptional cases only

- In cases of significant shortcomings of the risk management capital add-ons are an appropriate tool as a corrective to the company's greater risk situation and as a disciplinary action
- Pillar I must be the dominant factor for the capital requirements. This would be jeopardized if pillar II add-ons are imposed on a regular basis
- When using capital add-ons, elementary goals as an EU level-playing field, maximum harmonization and a clear check of supervisory actions should be ensured
 - A categorization for possible adjustments should be developed, which may be helpful in fostering convergence of approach, amount of add-on and form of describing add-ons. This could be supported by anonymous public data bases

The lead supervisor principle is the key to align the supervision practice within Europe

- According to the lead supervisor approach the supervision of an insurance group is solely conferred upon the supervisor that is responsible for the parent company
 - Currently, there are 70 European supervisory institutions, all of which with different regulations and procedures
- A consistent establishment of the lead supervisor concept contributes to the integration of the EU financial markets, to harmonize supervisory actions, to diminish administrative costs and to transfer know how between the supervisors
- The insurance industry advocates the introduction of a clear, consistent regulation at group level as part of Solvency II, which adequately reflects the economic risk situation between the group members including diversification

Solvency II will be - independent of company size - a great challenge for all insurance companies

- Small and medium-sized entities (SME) major concern is that it may drive very small undertakings out of the market in the medium term
- Changes to the solvency requirements should be made with a sense of proportion for small and medium-sized entities. SME should thus not be overburdened with massive and complex risk management requirements as long as they fulfill the security level
- However, the bottom-line is that the framework shall remain risk-driven, i.e. the risk profile and not the size of one company will determine the future solvency assessment by the supervisory authority