



Without ignoring remaining debates on the appropriateness of some key considerations¹ embedded in the Solvency II directive, the Insurance Industry welcomes the approval of Solvency II Directive.

Indeed the Directive adopted by the Council of Member States and the European Parliament

sets up a prudential framework that enhances insurance sector's solvency by implementing economic risk assessment techniques. It also aims at providing more adaptability for better taking in account changes in the economic environment as well as in customer's needs when setting solvency requirements.

Surely, during the Institutional process the Insurance Industry has deplored the removal of the provisions for the Group Support Regime, which was an extraordinary opportunity to effectively reap the benefits of an economic assessment of group's risk and capital. Solvency II also regrettably did not appropriately integrate Group supervision in particular regarding possible capital add-on decisions. But this new solvency framework certainly constitutes a significant step forward to more appropriately setting the regulatory requirements for the Insurance Industry.

Its enforcement should increase the scope for European-wide products, encouraging insurers to produce cost-efficient and innovative products. It should provide the Insurance Industry with more capacity to absorb risks from the society. It should contribute to meet consumer and social needs in particular when the gap between public capacity and demand is increasing on social, aging, health and environmental risks.

In order to deliver this best possible supervision framework for the EU **the highest attention should be paid to the content of the Level Two implementing measures.** The translation of the Level I principles of the reform into the technicalities of the level 2 implementation measures should be accurate and transparent. Level 2 measures should also be comprehensive and effective enough to deliver appropriate harmonisation in the SII framework, as well as in third countries.

In this regard, the Industry is concerned with the overly conservative approach endorsed by CEIOPS driven by an undue reaction to the recent turmoil. The CEIOPS recommendations on Level II implementation measures significantly depart from the core principles of the Level I Directive. In particular, the Industry worries about the cumulative effects of the different measures proposed. Their interaction would lead to excessive margins of prudence and considerable administrative burdens which would have a very significant financial impact on the industry (as evidenced by the major national insurance associations).

Based on the CEIOPS recommendations the initial objectives of the Directive would not be reached and as a consequence:

- The insurance offer would decline and its cost would grow as the capital requirements increase.
- The supervision would remain fragmented.

More specifically, the first and second waves of Consultation Papers issued by the CEIOPS raised the following concerns:

¹ In particular risk assessments based on the one-year value at risk regardless the diverse companies actual liabilities horizons, hinder insurers possible long-term investment strategies

1. Inclusion of non-economic and overly conservative elements

The CEIOPS artificially and arbitrarily restricts the consideration of future premiums and deferred taxes.

The Risk-free discount curve based on AAA government rates, as proposed by CEIOPS, would result into a huge artificial inflation in the value of liabilities. A 'liquidity premium' should be recognised and taken into account as part of the implementation of market consistent valuation principles for insurance liabilities that should be based on sound macroeconomic assumptions.

2. Deviation from principles based system with introduction of arbitrary rules

CEIOPS put arbitrary and draconian limits on the amount and eligibility criteria of Own Funds in particular for hybrid capital. It may result into a significant reduction of the industry's regulatory capital base. Last but not least, CEIOPS does not address the question of grandfathering; this could cause financial turbulence and increase the cost of capital significantly.

The calibrated factors for the SCR are proposed without economic justification and are far more conservative compared to the previous QIS campaign (e.g. excessive charge for risk premiums and provisions in particular).

3. Inappropriate incentives

CEIOPS systematically excludes dynamic hedging strategies, while these techniques have proved their efficiency in the past, when they were well documented, to reduce risk taking for the benefits of the consumers.

CEIOPS does not provide credit for diversification between segments in the risk margin. This would increase significantly the risk margin and required reserves.

4. Overly onerous process and documentation requirements

Internal models documentation requirements are disproportional and burdensome, compared to the "standard model". It involves duplication of information and public disclosure of commercially sensitive information, insufficient rationalisation between existing reporting issues.

5. More stringent rules for Groups.

The focus on solo entity supervision fails to capture the group as a coherent, economic structure. Supervision is likely to be more burdensome for Groups than for individual firms.

CEIOPS recommendations could result into the exclusion of third countries in the Internal Model, in case the local regulators would not provide any support/ documentation to the Group supervisor. There are still too many uncertainties on equivalence.

Issues such as professional secrecy, access to information may result into the limitation of group diversification benefit, through restrictions on SCR or on transferability/ fungibility of Own Fund.

Finally, CEIOPS claims for the inclusion of group specific risks (reputation, contagion).

The Insurance Industry strives to establish a permanent dialogue with CEIOPS, EIOPC and the Commission to feed lawmakers with the industry's proper input. Through the CEA and the CRO and CFO Forums the insurance industry commits itself to demonstrating proactive expertise on the huge workload and the large array of sensitive issues at stake with level 2 implementation measures. It expects its voice to be heard and listened to.

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