

6. Solvency II Directive

ABI Contact: Carol Hall, 020 7216 7624; Paul Barrett, 020 7216 7636;
ABI Lead Committees: Financial Regulation & Taxation
Other interested committees: European Committee

Issue: The Solvency II Framework Directive aims to provide a single set of supervisory requirements for insurers across the EU. By introducing a more risk sensitive approach to setting capital requirements, a more market consistent valuation of the solvency of insurance organisations will be achieved. Together with the proposed 'ladder of intervention' envisaged as part of the supervision process, it is hoped that the ultimate aim of policyholder protection will be achieved.

Status: Work is currently focussed on the implementing measures at Level 2. The European Commission formally asked CEIOPS to provide advice on the technical details for Solvency II. CEIOPS came forward with its first set of Consultation Papers in April, the second in July (consisting of 24 consultation papers – 1,175 pages) and a third in November. Only Consultation Paper 78 on third country equivalence now remains open (deadline for comments 5 February).

The first wave of papers covered was on Pillar I issues (calculation of the best estimate, segmentation, counterparty default risk, ancillary own funds, future premiums, financial mitigation techniques, management actions), Pillar II and III issues (governance, transparency, valuation of assets and other liabilities, SPVs) and internal models.

The second wave covered internal models, technical provisions, own funds, SCR / MCR, Pillar II and III, and groups.

The third wave included partial internal models, calibration of risk modules, equity risk module, and the treatment of participations.

ABI Action: The ABI is working closely with HM Treasury and the FSA, and is actively engaged in the CEA's work to articulate the industry's contribution. We had regular dialogue with MEPs at Level 1. We will work closely with the Commission and CEIOPS at Level 2.

The ABI submitted responses to all of the consultation papers. There are major concerns from the European insurance industry surrounding the draft CEIOPS advice in the 2nd consultation wave. Severe prudence by the regulators in CEIOPS on reducing the discount rate, the inclusion of a run off model for technical provisions, the increase in the calibration of the SCR under the standard formula and capital eligibility would have severe and costly consequences for insurance providers and policyholders. The ABI is working closely with CEA, FSA, HMT and the Commission to seek a reasonable outcome, and wrote to the Chancellor of the Exchequer and to DG Markt in mid-August. UK CEOs held a follow-up meeting with Lord Myners in September and Stephen Haddrill met Jorgen Holmquist of DG Markt.

On 10th November, CEIOPS issued its final advice to the Commission on waves 1 and 2 with several important changes. Although their effect was diluted, further conservatism was injected into the measures in Wave 3 and the net position has not improved.

The ABI is also expending every effort to secure an appropriate and acceptable outcome at Level 2 on the liquidity premium for long term liabilities, such as annuities. This is a priority for the British insurance industry as well as across Europe and we are currently working with the CEA on this issue to ensure an appropriate and effective application of Solvency II recognising the effects of illiquidity.

CEIOPS agreed to establish a task force to consider how a liquidity premium can be applied under Solvency II. A letter to the new chair of CEIOPS (Gabriel Bernardino) was sent by the Commission to chase up this commitment.

Work in the Commission's Solvency II Expert group (made up of representatives of national finance ministries) has also begun. These will be monthly meetings until June that will help with preparations for the Commission's final proposal (expected towards the end of 2010).

A QIS 5 exercise is planned for autumn 2010.

Background: The Commission's Framework Directive was published in July 2007, with a recast published in February 2008 (addressing some technical points regarding the codification of the original version). The framework Directive set out the overall architecture of the regime, to be supplemented by secondary legislation (Level Two), and by guidance from the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS) at Level Three.

Following months of negotiation in trilogues (meetings between the European Parliament, the Council of Ministers represented by the Presidency, and the European Commission), on 22nd April the European Parliament voted an agreed text on Solvency II. The Council of Ministers later adopted an identical text on 5th May. The adoption of a compromise text (identical in both institutions) meant a first reading deal and the opportunity for work on Level 2 (implementing measures) to get fully underway.

While we remain disappointed that group support was not in the final text (other than in a clause calling for a future review); we are pleased an agreement was reached so that the work on Solvency II can progress at Level 2.

Useful documents

For a full update of ABI activities on Solvency II and regular bulletins please

see www.abi.org.uk/solvency2

[CEA paper on groups](#)

[CEA paper with case studies on groups](#)

[CEIOPS consultation papers](#)

[Letter to Gabriel Bernardino](#)