Press Release
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Important adjustments still needed to EU's new Solvency II regime

Initial feedback on QIS 5 results shows need for further work on Solvency II implementing measures

Brussels, 3 February 2011: The CEA, the European insurance and reinsurance federation, believes that further important adjustments must be made to the draft implementing measures that will form the basis of the EU's new regulatory regime, Solvency II.

"Only measures that are appropriately designed and calibrated will avoid harming the viability and competitiveness of European insurers and reinsurers, and hence consumers and the European economy as a whole," said Tommy Persson, president of the CEA. "Major changes therefore need to be made to the current draft measures."

The fifth quantitative impact study (QIS 5) was a field test run late last year to identify key open issues and to draw conclusions about the potential impact of the proposed measures on the industry. Its results will be published at the beginning of March by the European Insurance and Occupational Pensions Authority (EIOPA). "As the QIS 5 process was extremely complex, lacked sufficient guidance for companies and suffered from tight time pressure, great care needs to be taken when interpreting the detailed results once they are available," said Persson.

Despite these difficulties, the overall results of QIS 5 will provide valuable insights into key elements that need to be changed and those that need to be maintained.

Not surprisingly, the exercise confirmed the sensitivity of the Solvency II framework to market volatility, in line with the market consistent approach taken in the Framework Directive. QIS 5 provided a snapshot of the 2009 year-end and tests have shown that the numeric results would have been markedly different at other times, despite there having been no substantial change in the financial position of the companies concerned. While the transparency resulting from the market consistent approach is a key feature of the Framework Directive, QIS 5 will reinforce the need to maintain and even further develop anti-cyclical technical measures. This will ensure the correct treatment of short-term market volatility and will avoid unwarranted supervisory or market reactions.

"This issue is of particular concern in life insurance. It is extremely important to ensure the appropriate treatment of long-term business and guarantees so that insurers can continue to offer long-term savings and pension products," said Persson.

QIS 5 likewise revealed that more work is required in areas such as the capital charge for non-life underwriting risks, especially for catastrophe risks. These issues should be addressed by refining the standard formula calibration and by facilitating the use of entity-specific parameters. The CEA therefore welcomes and further encourages the work launched by EIOPA, under the leadership of the European Commission and in cooperation with the insurance industry, to address these areas.

Also of broad concern is the current complexity of certain calculations and requirements. It is essential that the new regulatory regime is workable for all insurers and is not too burdensome, complex and expensive to be complied with, especially for small and medium-sized insurers.

Furthermore the treatment of groups under the standard approach does not currently properly recognise the benefits of diversification.

The results of QIS 5 also confirm the importance of maintaining certain elements that are a key feature of a risk-based economic regime, such as the treatment of expected profits in future premiums as Tier 1 capital and the inclusion of an illiquidity premium in the discount rate for calculating technical provisions. Both are also important to avoid unjustified penalisation of savings and long-term business in general.

Notwithstanding the problems with the QIS 5 process, almost 70% of all (re)insurance undertakings covered by the scope of the new regime took part in the exercise. "This participation rate clearly demonstrates the ongoing commitment of European insurers to the Solvency II project," said Persson.

"It is also testament to the seriousness with which the industry is engaging in the exercise. The CEA and its members stand ready to work with the European Commission and EIOPA to address the fundamental issues that still exist in the implementing measures. Ultimately, Solvency II will only be a success if it ensures that private and commercial risks remain insurable at appropriate prices," Persson concluded.

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Background

The text of the EU's Solvency II Framework Directive was agreed in spring 2009. The European Commission is currently drafting its proposals for the implementing measures that provide the technical detail of the Framework Directive. It is expected to present the implementing measures in June. The Directive is due to be transposed into national legislation in all EU member states by 31 December 2012.

The Committee of European Insurance and Occupational Pensions Supervisors (now the European Insurance and Occupational Pensions Authority) has run five quantitative impact studies (QIS) in preparation for the implementing measures. The fifth study, QIS 5, ran from August to November 2010.

Notes for editors

1. For further information please contact Janina Clark, head of communications & PR (tel: +32 2 547 5812, clark@cea.eu).
2. Copies of all CEA press releases are available on the CEA's website (www.cea.eu).
3. The CEA is the European insurance and reinsurance federation. Through its 33 member bodies — the national insurance associations — the CEA represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. The CEA, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of over €1 050bn, employ one million people and invest more than €6 800bn in the economy.