On the way from Solvency I to Solvency II – a challenge for insurers and supervisors

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Recent developments and challenges of the global insurance industry and how this effects the local insurance industry in Macedonia

Skopje, 11 September 2015

FMA

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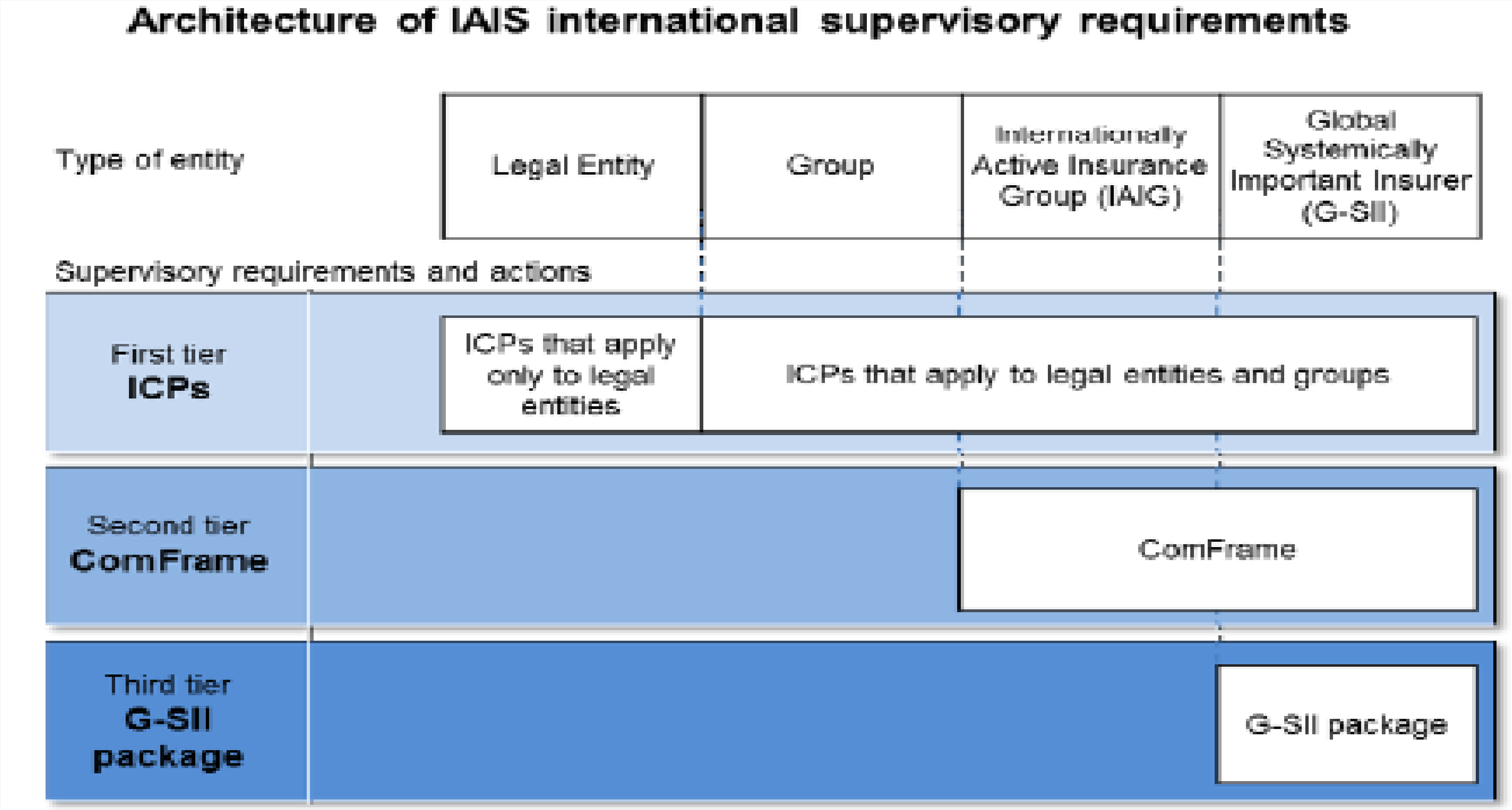
Regulatory and supervisory landscape – European perspective

- A long way towards Solvency II
  - EU internal insurance market completed in 1994 (Solvency I)
  - "Solvency II" Directive adopted in 2009
  - Changes through OMD II adopted in November 2013
  - EC Delegated Regulation 2015/35 published on 17 January 2015
  - EIOPA Guidelines – most completed in the course of 2015
  - New discussions on changing the EC Regulation before 1 January 2016
- So far, Solvency II has been a "moving target"
- Joining later => more stable framework will exist and experience from practical application will be available
- New: Besides national law directly applicable EU legislation

Regulatory and supervisory landscape – International perspective (1)

- Since 2011/12, the development of new international standards for the insurance sector has gained momentum
- New ICPs (2011) have significantly raised the bar and revision is ongoing
- ComFrame for the Supervision of Internationally Active Insurance Groups – expected to be completed in 2019
- Systemic risk issues (G-SII identification and policy measures) could also be relevant for Non-G-SII jurisdictions
- International Capital Standard (ICS) is being developed – 2016/2018
- IAIS standards are relevant for all jurisdictions

Regulatory and supervisory landscape – International perspective (2)



Source: IAIS

Relevance of international developments for the CESEE region

- Several EU Groups which are active in the CESEE region fall under the new Solvency II regime => impact through changes in governance, business models, capital allocation etc
- New framework for supervsiory co-operation and group supervision (“Coordination Arrangements”) – work of colleges will change under Solvency II
- Solvency II transposition is an essential part of the EU accession process for candidate countries
- Impact as a result of the interaction between developments in own market, in other markets and reaction of market players
- ICP implementation needs to be in line with Solvency II

Supervisory co-operation

- Information exchange is key for effective group supervision
  - Professional secrecy requirements in place
  - Responses needed in a timely manner
  - Proactive approach necessary

- Bilateral Co-operation
  - Regular high-level meetings on regulation, supervision and markets
  - Study Visits and Technical Meetings on more focused areas
  - Joint and simultaneous on-site inspections

- Multilateral Co-operation
  - Coordination arrangements for Colleges under Solvency II
  - CESEE Insurance Supervision Initiative
  - IAIS MMoU

Critical issues (1)

- MTPL insurance – liberalisation, sufficiency of premiums
- Other lines of business / Natural catastrophe coverages
- Investment rules vs investment opportunities
- Move from highly regulated investment activities to PPP
- Specific market circumstances => (partial) internal models?
- Consistency of valuation rules with insurance business model
- Increase of cross-border operations
- Opportunity/need to develop new products under Solvency II
- Consumer protection – Product design and product governance
- Application of the proportionality principle in practice

Critical issues (2)

- Inappropriate timing or wrong sequence of reform steps
- Interdependence of reform measures
- Solvency II implementation needs to adequately reflect the actual circumstances of the the market, companies, business models, products and risks => “point of departure”
- On the way towards Solvency II intermediate steps might be necessary to keep track with emerging risks in undertakings and markets
  - “*Many of the needed reforms are expected to be dealt with under Solvency II, but the authorities may need to take swifter action.*” *(IMF)*
- Need for very specific skills and capacity building
- Enforcement of new regime is important and different from S I

Conclusions

- Lessons-learned exercise from S I is useful before introduction of S II (“existing problems do not disappear through S II”)
- S II implementation plan needs to reflect specific circumstances of the market, companies, business models, products and risks
- Good and early preparation is key – both quantitative (QISs) and qualitative and both for supervisors and the industry
- Risk profiles under Solvency II may be significantly different from those under Solvency I (“unexpected surprises”)
- Insurers and supervisors need to link technical expertise closely with management decisions (“no gaps”)
- *“Solvency II is good for you”* (van Hulle) – but the “when” and “how” is crucial, depending on the respective point of departure

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