5.4.1 The Carer is truly an important factor in the whole welfare process even within AAL. Hence a paradigm shift should be aimed not only at the organisation level but also at a Carer level in order to ensure that the person who is having the direct contact with the person requiring AAL will not only be proficient in such technology but truly believes in the use of such technology so as to also further inspire the confidence of the person in such tools as a better means to quality of life.

5.4.2 The EESC also considers that the health system should be thoroughly scrutinised in order to ensure that not only there is organisational readiness for AAL but that Health and Social Care organisations can actually cope with having more people at home.

5.4.3 Furthermore with the adoption of AAL it is even more crucial that the cooperation and coordination between Health organisations and Social organisations is improved. There again technology can be a tool to improve such cooperation however more crucial is the mindset of the need and will to cooperate.

5.5 It is envisaged that AAL systems shall be complex, therefore interoperability should be one of the key objectives within this programme. The innovation and technology should be wide scaled, customised, integrated and proactive.

5.6 The EESC believes that the Commission should also adopt an integrated approach to AAL and policies such as Life Long Learning. In fact, training under such policies, in particular, should also be targeted at the stakeholders of the AAL programme as training is an integral part of the success of such technology.


The President
of the European Economic and Social Committee
Dimitris DIMITRIADIS

Opinion of the European Economic and Social Committee on the Proposal for a directive of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance SOLVENCY II

(2008/C 224/03)

On 31 October 2007 the Council decided to consult the European Economic and Social Committee, under Articles 47(2) and 251 of the Treaty establishing the European Community, on the Proposal for a directive of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance — SOLVENCY II (*)

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 6 May 2008. The rapporteur was Mr Robyns de Schneidauer.

At its 445th plenary session, held on 28 and 29 May 2008 (meeting of 29 May), the European Economic and Social Committee adopted the following opinion by 67 votes, with one abstention.

1. Recommendations

1.1 The EESC commends the Commission for the disciplined recast of many complex directives in one clear document while taking into account the rules governing the recast parts of the work. Since the EU legislative framework should not only focus on prudential policy, which deals with the part capital plays in providing insurance services that are important to the business and citizens of Europe in many other regards, the EESC preserves its right to express its views about new features with regard to the relation between consumers and (re)insurers in due course, more specifically within the framework of the Commission’s recent initiatives regarding retail financial services.

(*) The proposal was later amended to become COM(2008) 119 final. In this opinion the numbering of the articles in the Directive relates to this, the most recent version of the proposal for a Directive.

The EESC calls on the Commission to further pursue the harmonisation of legal aspects of the relationship between policyholder and insurer, as is currently being examined in the
The EESC broadly endorses the proposed Solvency II Framework Directive of the Commission and salutes the extensive consultation that has preceded it. The approach of the Commission has been in line with the Better Regulation principles it has set for itself. However, consultations on such reforms should pay due attention to the views of employees and consumers, who have an obvious interest in the outcome of the proceedings. The EESC invites the Commission to develop proper fora, like FINUSE, for these consultations to take place.

The EESC welcomes the adoption of a risk-based economic approach to assess the solvency capital requirements of insurance companies and a total balance sheet approach, based on a full economical evaluation of assets and liabilities, to assess their financial situation. This aims at reflecting correctly the true underlying exposures of risk and risk mitigation tools of the undertakings. This approach, besides being economically correct, has the advantage to avoid any regulatory arbitrage opportunity and, at the same time, to ensure the same adequate level of protection to all policyholders across Europe, independently of the legal status, size or location of the company.

The EESC highly welcomes the introduction of the three pillar approach to prudential supervision which is consistent with the Basel II capital requirements as introduced in the banking sector while recognising the specificities of the insurance sector. The EESC would like to underline the importance of the addition of the supervisory review process and qualitative requirements (Pillar II) as well as introducing principles to regulate supervisory reporting and public disclosure (Pillar III) in addition to the definition of the quantitative risk-based capital requirements, for the adequacy of prudential supervision of insurance undertakings.

The EESC welcomes the introduction of a solvency system based on two capital requirements, the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR), with each of them having a different purpose. The SCR should reflect a target level of capital that an entity should aim to meet under normal operating conditions, while the MCR should reflect a level of capital below which ultimate supervisory action should be triggered. The EESC would welcome Level II regulation to bring further clarity about the conditions governing the simplified SCR calculation (Art. 108), as well as about the circumstances that would trigger a request for additional solvency capital.

The EESC is of the opinion that the MCR and the SCR calculations should be aligned closely and therefore be both based on a risk-sensitive approach, in order to allow for the proper implementation of an escalating ladder of supervisory interventions which ensures that both the respective insurance company as well as the supervisory authority have sufficient time to take the adequate measures to resolve the situation after the breach of the SCR.

The EESC welcomes the principle of proportionality included in the proposed Directive, which would allow for Solvency II to be applied by all the undertakings. The EESC would welcome Level II Regulation to bring further clarity in this general principle of proportionality (Art. 28.3), so that the adequacy of requirements and, if needed, corrective measures, can be construed in a more secure way: this should, however, not lead to regulatory sclerosis. The EESC recommends that this principle is applied effectively and consistently across Europe, with effective ways of appeal by administrative process or if needed in court to guarantee this.

The EESC strongly suggests the Commission to preserve the diversity of the insurance market by taking into account the role of small and medium size insurers as well as of mutual and cooperative insurance societies. Since many of these operate in niche markets, the EESC considers it of great importance that some flexibility to the standard approach is allowed to recognise for example the use of own, more relevant, data and generally accepted methodologies, without, however, disturbing a fair competition between insurance undertakings. Due analysis and consideration should be given to the possibility of mutual insurance companies to call on their members to shore up their solvency status as has been seen in practice.

The EESC recognises the importance of the supervision of insurance groups which, while relatively small in terms of number of undertakings, do constitute a large share of the insurance market within the EU. The EESC therefore considers the introduction of group supervision as an important step forward which will allow all the group supervisors and the other supervisory authorities involved to improve their understanding of the risk profile of the group as a whole. Maximum harmonisation and transparency of these supervisory authorities and clear division of responsibilities between them is recommended.

The EESC welcomes the introduction of an optional regime that allows groups to facilitate their capital management at group level, improving the mobility of capital within the group and providing a practical and transparent system for a group to benefit from the recognition of diversification effects at group level without affecting the level of the capital requirements of the subsidiaries of the group. It will be necessary to consider the actual capital levels of the subsidiaries of the group, since a part of these will be covered by declarations of group support rather than by available liquid or equivalent assets. The EESC notes that group diversification effects will only be recognised by using the default method for the calculation of the SCR and that the proposal also should allow for the recognition of group diversification effects without the use of group support.
1.11 The Committee recommends evaluating the impact of the proposed optional regime on competition at local level, the degree of consumer protection in normal as well as crisis situations, which should not be lower than the degree provided under the default regime, and clarification of legal and practical issues, including security of cross-border fund transfers between different companies within a group, namely possible legal constraints, at national level, to capital (group support) transfers to a subsidiary located in another Member State.

1.12 The EESC expects the Level II authorities to take into account the results of the fourth phase of the quantitative impact study (QIS4) which was under way at the time of the adoption of this opinion.

1.13 The EESC insists on the need for a well harmonized application of the directive, avoiding goldplating or diverging policies through the use of options which would endanger a uniform prudential policy across the single market.

1.14 The EESC calls on the Commission to ensure the predictability of prudential practice, in order to give insurance undertakings the level of certainty they can expect in developing their risk and solvency policy.

1.15 The EESC recognises the importance for Solvency II of aspects of risk mitigation like sharing reliable data between insurers and insurance pools. They facilitate market access for newcomers to a market and smaller operators and allow them to increase available capacity as well as to reduce the uncertainty margins on their premiums. The EESC therefore urges the Commission to consider this correlation in its review of the Block Exemption Regulation for the insurance sector.

1.16 The EESC congratulates the Commission and Lamfalussy committees involved, for the leading role they have taken up in this reform process in applying best practices and raising awareness in the whole European market. The proposed directive sets a real benchmark for many other jurisdictions and financial services sectors. However, consultations on such reforms should pay due attention to the views of employees and consumers, who have an obvious interest in the outcome of the proceedings. The EESC invites the Commission to consider this correlation in its review of the Block Exemption Regulation for the insurance sector.

1.17 The EESC urges the Commission to bring the solvency provisions of other providers, irrespectively of their nature, of similar financial services up to the level of the Solvency II directive under the ‘same risks, same rules’ principle. In view of volatile financial markets, consumers or beneficiaries must not be denied the same advanced solvency protection. And a level playing field regarding solvency capital requirements is also essential to promote a fair competitive environment in the financial market.

1.18 The Solvency II principles should be the benchmark for the introduction of new solvency standards, for example in the framework of the IORP (1) directive review in 2008, especially with regard to the development of the duties of private pension providers throughout the Union.

2. Introduction

2.1 The present proposal for a Directive for a new solvency framework for private insurance and reinsurance undertakings, called Solvency II, is introducing a revised regime in order to ensure a better protection of policyholders and beneficiaries, deepen integration of the single EU insurance market and improve international competitiveness of EU insurance industry as a whole as well as of the individual insurers and reinsurers. At the same time, the proposal unifies several generations of insurance directives in one single recast directive. This framework is to be applied both to insurance and reinsurance undertakings.

2.2 Through an elaborate and ongoing consultation with all stakeholders, the Commission and the Lamfalussy committees involving regulators and supervisors have taken a leading role in setting up leading-edge practices in a global environment, particularly in the field of financial services. As a result, Solvency II is among the most sophisticated set of insurance solvency rules in the world and puts Europe well ahead of most other jurisdictions. However, consultations on such reforms should pay due attention to the views of employees and consumers, who have an obvious interest in the outcome of the proceedings. The EESC invites the Commission to develop proper fora, like FINUSE, for these consultations to take place.

3. Background

3.1 The proposed solvency framework aims at improving the financial stability and reliability of the European insurance market. This should benefit both the competitiveness of the EU insurance industry as a whole as well as of the individual insurers and reinsurers and the consumer in safety terms. Reliable insurance markets are of crucial importance for the social and economic fabric of the European Union.

3.2 First and foremost, insurance acts as a tool of individual as well as collective protection. Insurance customers include private households, SMEs, large corporations, associations and public authorities. The commitments of insurance companies concern dependents and third parties as well as the actual customers of insurance services. The EESC is particularly aware of this impact on the everyday life of the European citizens. Besides its importance in the markets of protection in the event of death, insurance has become a significant provider of savings products. Insurance takes part in the management of social security schemes, such as pensions (Nordic countries),

(1) Institutions for Occupational Retirement Provision.
workmen’s compensation (BE, FL, PT) and national healthcare systems (IE, NL), often within a framework involving workers’ representatives. Insurance is a provider of employee benefits that are of rapidly increasing importance for the workforce — an important stakeholder. It does provide for protection against new risks like natural catastrophes, crop insurance and terrorism as well, sometimes through partnerships between (re)insurers and governments.

3.3 The insurance market functions as an important lever for the economy as a whole, supporting initiative and building trust, and it is a considerable economic factor itself, creating jobs for close to a million employees in Europe (2). The Commission has estimated the proposed directive to entail extra investments of 2 to 3 billion euros for insurers and supervisors. It is expected that a very large part of these investments will be spent on human capital, creating lasting highly qualified jobs locally (among which risk managers, actuaries, ICT experts and compliance officers). The EESC considers this investment should provide value to all stakeholders including consumers and beneficiaries.

3.4 In addition to this direct employment, insurance distribution through agents and brokers and their own employees adds another million jobs.

Through investments which reach an amount of more than 6 500 bn euro (3), insurance and reinsurance undertakings are important institutional investors. As such they are responsible for transforming individual premiums into a pool of financial assets in due proportion to the risks borne, and for the medium to long-term security of the policyholders and beneficiaries.

3.5 Households, SMEs, larger corporations, associations and public bodies contribute premiums that are equal to more than 5 % of GDP for life insurance (4) and more than 3 % for non-life insurance. Even in mature markets, the growth rate of insurance exceeds the growth of the economy as a whole most of the time. Insurers’ investments represent more than 50 % of the GDP (5), half of it in fixed income assets and loans (6), while the total variable yield investments of the insurers are about equal to a quarter of the European stock market capitalisation (7).

3.6 Even if the recent history of the insurance industry has seen many mergers, there are still about 5 000 insurance companies in Europe (8). Large financial groups may have different insurance subsidiaries in different countries. Group structures in the insurance industry can encompass different types of activity within the insurance industry (reinsurance, life and/or non-life insurance, insurance mediation) or within the wider context of financial services (including banking — bancassurance — and mortgages). Moreover, groups can be made up of a mother and daughter companies, but also include joint ventures, holding structures and so on. The 20 largest groups collect about half of the European premium income (9). A significant market share resides with mutual and cooperative insurance societies. The latter are often intrinsically connected with a large number of civil society organisations, and account for 30 % of the overall premium income in Europe (10).

3.7 The current financial crisis, triggered by subprime mortgage lending practices in the USA, underlines the case for sound and thorough solvency standards, enabling insurance companies to meet their commitments even under duress. Rules, management methods and stress tests contribute to reaching this goal.

4. Legislative approach

4.1 In line with its Better Regulation agenda, the Commission has been preparing the Solvency II directive at length and in depth while taking into account the rules covering the recast parts of the work. Several waves of qualitative and quantitative impact assessments and consultations have ensured that many concerns of both the industry and the supervisory authorities have been taken into account. New waves of detailed scrutiny and consultation are coming up.

4.2 The Commission’s proposal is a so called ‘Lamfalussy’ Directive, based on the four level structure of the Lamfalussy financial services architecture. The Level 1 provisions of the Directive are principle-based, providing the basis for adoption of implementing measures at Level 2 and with instructions for supervisory convergence at Level 3 of the process. This approach is intended to enable the new regime to be promptly adapted to reflect changes in the market, international developments in accounting and (re)insurance regulation, technological developments, emerging experiences and new methodologies. Setting detailed calculation specifications in the Directive’s articles would jeopardise the very sense of this innovating legislative process. Levels 2 and 3 are more adequate to deal with them.

4.3 The new regime is structured in the form of three pillars, similar to Basel II capital requirements of the banking sector, but reflecting the specificities of insurance business. Pillar I (Articles 74-142) is defining quantitative financial requirements, Pillar II (Articles 27-34, 36-38, 40-49, 181-183) is dealing with the supervisory review process and qualitative requirements and Pillar III (Articles 35, 50-55) is regulating supervisory reporting and public disclosure. The three Pillars do not stand alone, but complement each other in pursuing the objectives of the regime. Interactions between provisions in different pillars should be duly considered.

2 Idem footnote 2.
3 Idem footnote 2.
4 Idem footnote 2.
5 Idem footnote 2.
6 Idem footnote 2.
7 Idem footnote 2.
8 Idem footnote 2.
9 Idem footnote 2.
10 Source AISAM.
4.4 The revision of the present solvency regime has also been used as an opportunity to recast 13 (re)insurance Directives into one single simplified directive in which the new solvency rules have been integrated. It contains a number of amendments of a non-substantive nature in order to improve the proposed Directive’s drafting. Articles, or parts of articles, which have become obsolete have been deleted.

5. General aspects

5.1 Over the last 30 years, successive generations of EU Directives have created a European (re)insurance market governed by a common set of rules, among which the principles of mutual recognition and home country control. They have created a market open to non-EU operators and encouraged EU insurers to expand into non-EU markets, mostly in North America, Asia and in countries that may be considered for future EU membership.

5.2 The proposed leading edge solvency regulation ensures that insurers are financially sound and capable of withstanding adverse events in order to deliver on their contractual promises to policyholders and to guarantee a stable financial system. It is important however to stress that all consumers of these financial services deserve such enhanced protection. A number of market operators are not subject to insurance regulation, such as occupational pension providers or savings and investment institutions.

5.3 Harmonised solvency rules create trust, not only among consumers but among supervisors as well. Such trust is a determining feature in order to make a European market with mutual recognition and home country control work in practice. The current EU solvency rules (Solvency I) are outdated though. They are not sensitive to the specific risks born by the entity that provides the insurance coverage, therefore leading to equal solvency requirements to undertakings with different risk profiles. Moreover, current Solvency rules are mainly focused on financial compliance, following a rules-based approach rather than on good management and they do not properly deal with group supervision. In addition, the current EU legislative framework still leaves too much scope to Member States for national variations, thereby compromising the efficiency of supervision of multinational operations and the level playing field. In the light of these shortcomings, the present regime has been superseded by industry, international and cross-sector developments. The new Solvency standards defined by the Directive proposal reflect in other words a trend already established by risk-conscious operators and supervisors from different countries.

5.4 In contrast to the Solvency I framework, the reform concentrates on the actual quality of risk management in the undertaking and on principles and objectives rather than rules that do not take into account specific risk profiles of companies.

5.5 In essence, the new system will firstly provide supervisors and insurers with sophisticated solvency tools, not only in order to withstand adverse events with regard to insurance risks, such as floods, storms or big car accidents, but for market risk, credit risk and operational risks as well. Contrary to the present legislation, insurers and reinsurers will be required to hold capital in proportion to their overall solvency risk, taking into account not only quantitative elements, but also qualitative aspects that influence the risk-standing of the undertaking.

5.6 It is based on an economic risk sensitive approach, which aims to ensure that the true underlying exposures of risks and risk mitigation schemes are properly reflected, thereby eliminating regulatory arbitrage opportunities that can distort and weaken the protection available to policyholder. This also means that the capital requirements should allow for an optimal allocation of capital and give incentives to a better internal risk management.

5.7 Secondly, Solvency II emphasizes the responsibility of the management of the insurers in ensuring sound risk management and strives to enhance good practice in the industry. They will be required to focus on the active identification, measurement and management of risks and to consider any future developments, such as new business plans or the possibility of catastrophic events that may affect their financial standing. Furthermore, the proposed reform will require them to assess their capital needs in light of all risks by means of the ‘Own Risk and Solvency Assessment’ (ORSA), whilst the ‘Supervisory Review Process’ (SRP) will shift the focus of supervisors from legalistic compliance and capital monitoring to evaluating the actual insurers’ risk profiles and the quality of their risk management and governance systems through for example early warning mechanisms and stress tests. In parallel, it encourages supervisory cooperation and convergence, for instance by enhancing the role of CEIOPS (Committee of European insurance and occupational pensions supervisors), as a step towards more unity in the supervision of financial services, which the EESC supports.

5.8 A third important aspect is trying to improve the efficiency of insurance groups supervision, through a ‘group supervisor’ in the home country. Group supervision will ensure that group-wide risks are not overlooked and enable groups to operate more efficiently at the same time, whilst providing all policyholders with a high level of protection. The group supervisor will have specific responsibilities to be exercised in close co-operation with the relevant national supervisors, while also having the responsibility to find decisions on a limited number of issues. Local supervisors are encouraged to take an active part in the college of supervisors, as they have a right of co-decision as long as an agreement can be achieved. It entails a different approach that must be used in order to be able to recognise the economic realities and risk diversification potential of such groups.
5.9 Fourth, the Solvency II Directive introduces more transparency and objectivity, both in terms of information provided by the undertaking on its financial condition and on the associated risks and in terms of supervisory review processes. At present, supervisory practices still tend to vary between Member States, leaving room for regulatory arbitrage. Both for European policy in these matters and for insurers actually wanting to accede a new national market, it seems important that supervisory practices would not only be objective and transparent, but also predictable and well documented.

6. In depth analysis

6.1 Financial requirements (Pillar I)

(Articles 74-142)

6.1.1 In defining the quantitative requirements for insurance undertakings, the new regime takes a holistic ‘total balance sheet approach’, under which all the assets (\(^{(a)}\)) and liabilities are measured according to a market consistent approach and all quantifiable risks associated to them are reflected explicitly in terms of capital requirements. Valuation of assets and liabilities at levels matching their trading conditions ensures they are valued objectively and consistent between each other. It also ensures that a correct value is placed for any optionality inherent to them. The realistic forward looking valuation is the most effective protection against a possible bias that could imperil all stakeholders’ rights.

6.1.2 In this valuation context, particular relevance is allocated to the calculation of technical provisions, i.e. the liabilities towards policyholders and other beneficiaries. Market consistent valuation of technical provisions is achieved through the calculation of the ‘best estimate’, which is the probability weighted average of future cash flows taking into account the time value of the money, and including a risk margin. This approach should ensure that the overall value of technical provisions is equivalent to the amount that a third-party would be expected to require in order to take over the insurance portfolio and meet the related obligations. The calculation must use and be consistent with information provided by the financial markets and generally available data on insurance risks.

6.1.3 As to the capital requirements, the new solvency system contains two capital requirements, the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR), with different purposes and calculated accordingly.

6.1.4 The SCR defines a target level of capital that an insurer should meet under normal operating conditions, beneath which supervisory interventions will intensify. It allows for progressive supervisory intervention before the capital reaches the MCR and thereby gives reasonable assurance to policyholder and beneficiaries that obligations will be met as an insurer falls due. Technically, the SCR intends to be designed and calibrated in order to define a level of capital that enables an undertaking to absorb significant unforeseen losses, based on a certain probability of default over a certain time horizon (0.5 % over one year horizon).

6.1.5 The MCR reflects indeed a level of capital which will trigger ultimate supervisory actions when needed. The MCR calculation should allow for a sufficient range as compared to the SCR, to ensure sufficient room for a reasonable ladder of intervention by the supervisory authorities.

6.1.6 In practice, an insurer may calculate the SCR either by using a standard formula or by using its own internal model that has been approved by the supervisory authorities. The standard formula is to reflect appropriately risk mitigation techniques and diversification effects as well as any form of loss absorption capability of balance sheet elements which are not included in the available capital. The risk oriented approach of the proposed directive implies that an internal model (either partial of full) can replace — under supervisory validation — the standard calculation, provided that it better reflects the undertaking’s risk profile. This is an important incentive to a sound internal recognition and management of risks, as well as to the training and hiring of highly qualified staff.

6.1.7 Another element which is in line with the aim to encourage good internal management is the application of the ‘prudent person principle’ to the investment policy, which would allow not to set artificial limits to investments, while requiring high qualitative standards and duly accounting for any material risk in the calculation of the capital charge.

6.1.8 Considering the complexity of the requirements, it is important to note that the current proposal includes provisions to allow for a proportionate and manageable implementation of Pillar I requirements. This is particularly important for small and medium-sized insurance undertakings (SMEs). This proportionality principle makes reference not to the scale, however, but to the nature and complexity of the risks faced by undertakings. SMEs are subject to similar general prudential principles as far as their risk profile is the same as of other undertakings. Their customers and beneficiaries benefit from the same protection level.

6.2 Supervisory review process and qualitative requirements (Pillar II)

(Articles 27-34, 36-38, 40-49, 181-183)

6.2.1 The Commission’s Solvency II proposal defines processes and tools for supervisory activities and reviews, including the definition of supervisory powers, provisions for cooperation between national supervisors as well as for supervisory convergence. The Pillar II provisions also address qualitative requirements on undertakings, i.e. their system of governance, including an effective internal control system, risk management system, actuarial function, internal audit, compliance function and rules on outsourcing.

6.2.2 Supervisory tools aim to identify institutions with financial, organization or other features susceptible to producing a higher risk profile, which in exceptional circumstances could

\(^{(a)}\) Assets held by EU insurance companies are mainly bonds (37 %), shares (31 %) and loans (15 %). Source: Comité européen des assurances, European Insurance in figures, 2007.
be asked to hold a higher solvency capital than under the SCR
and/or to take measures to reduce the risks incurred.

6.2.3 The aforementioned proportionality principle applies
to the supervisory review process as well. Supervisors must
implement their powers taking into account the scale, nature
and complexity of the risks of the individual undertaking in
order to avoid a supervisory overload particularly for those
small and medium sized insurance companies which are
exposed to a low level of risk.

6.2.4 Solvency II is designed to enhance the qualitative
assessment carried out by supervisors on the risk situation of
the undertaking. It is important that supervisors are consistent
in their actions and decisions across different countries, different
undertakings and over time. It is worth repeating the impor-
tance of transparency, objectivity and predictability of supervi-
sory actions. This is particularly relevant in the case of the
approval of internal models.

6.3 Supervisory reporting and public disclosure (Pillar III)
(Articles 35, 50-55)

6.3.1 Transparency and disclosure to the public (public
disclosure) of information by undertakings about their financial
conditions and risks serve to reinforce market discipline. In
addition, insurance undertakings should provide supervisors
(supervisory reporting) with the quantitative and qualitative
information they need to perform effective control and
guidance.

6.3.2 The harmonization of public disclosure and supervi-
sory reporting is an important part of the new regime, as there
is a clear need for convergence in order to deliver a comparable
format and content across Europe. This is of particular impor-
tance with regard to multinational groups.

6.4 Group supervision
(Articles 210-268)

6.4.1 The current EU legislation considers group supervision
as merely supplementary to solo supervision. Supervision at
solo level does not consider whether a legal entity is part of a
group (e.g. a subsidiary) or not. Subsequently, group supervision
is simply added on top of solo supervision with the only
purpose to assess the implication of groups relationships on
the single undertaking. As a result, the current EU solvency regime
does not recognise the economic reality of insurance groups and
neglects the fact that in many cases risk management is
conducted at group level rather than at solo level. The Solvency
II proposal seeks to find a more appropriate way for the super-
vision of groups, by changing the way — under a set of condi-
tions — in which solo and group supervision are carried out.

6.4.2 For each insurance group, a single authority will be
appointed as ‘group supervisor’ and is given primary responsi-
bility for all key aspects of group supervision (group solvency,
intragroup transactions, risk concentration, risk management
and internal control). However, the group supervisor and solo
supervisor are required to exchange essential information automatical-
ly and other relevant information on request. Moreover,
the group supervisor is required to consult the relevant solo
supervisory authorities prior to important decision and the
supervisory authorities concerned are required to do everything
within their power to reach a joint decision, though in the case
of approval of group internal model, as in the case of banking
regulation, the final decision will be taken by the group super-
visor. These provisions should ensure that both the group and
solo supervisors will get a better understanding of the risk
profile of the whole group and, as a consequence, that policy-
holders of each entity of the group are given increased protec-
tion.

6.4.3 In addition to the improved concept of group supervi-
sion, the proposal introduces an innovative group support
regime. Groups that would like to facilitate their capital manage-
ment at group level can apply for permission to be regulated
under the group support regime. Groups that are granted with
the permission to be regulated under the group support regime
will be allowed — under a clear number of conditions — to
meet a part of the SCR (not the MCR) of the subsidiaries by a
declaration of group support (a financial, legally enforceable
commitment of the parent to a subsidiary to provide capital
when necessary). In order to allow the group support regime to
operate efficiently, a few additional derogations to solo supervi-
sion are included. When group support regime is in place, a
specific procedure is envisaged in the case of stress conditions
(breach of the solo SCR), which entails coordinated actions of
the solo and group supervisors. This regime should be applied in
a uniform way across the Union.

6.4.4 Because the group support regime allows for the SCR
capital of subsidiaries to be held somewhere else within the
group, it provides insurance groups with a practical and trans-
parent measure to benefit from the recognition of group diversi-
fication effects while the individual subsidiaries meet the same
level of capital requirements as if they were not part of a group.
For these reasons, appropriate supervision should be put in
place in order to ensure the prompt transferability of the capital
when it is needed. The existence and use of declarations of
group support shall be publicly disclosed by both the parent
undertaking and the subsidiary concerned.


The President
of the European Economic and Social Committee
Dimitris DIMITRIADIS