



EUROPEAN COMMISSION

Internal Market DG

FINANCIAL INSTITUTIONS
Insurance

MARKT/2502/04-EN
Orig.

Brussels, 2 April 2004
MARKT/F3 D(2004)

NOTE TO THE IC SOLVENCY SUBCOMMITTEE

**Subject: Solvency II – Further issues for discussion and suggestions for preparatory work for CEIOPS
Issues paper for the meeting of the IC Solvency Subcommittee on 22 April 2004**

Purpose of this paper

The purpose of this paper is to initiate discussion on further Pillar I and Pillar II issues, in order to draw up requests for preparatory work by CEIOPS.

Member States, CEIOPS, the actuarial profession, industry, and other interested parties are invited to comment on this Issues Paper. The Services would appreciate receiving written comments by 15 May 2004.

All responses will be put on the Commission website unless the respondent requests confidentiality.

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1. INTRODUCTION

1.1. Summary

In this paper the Services discuss some of the Solvency II work areas that were not dealt with in their previous paper [MARKT/2543/03](#). As in that paper, some areas are considered well enough defined to draft suggestions for preparatory work by the Committee of the European Insurance and Occupational Pension Supervisors (CEIOPS), while other areas require a more general discussion.

The first three chapters deal with Pillar I issues. Chapters 2 and 3 include both a draft wording of the relevant article in the framework directive and a draft request for preparatory work. Chapter 2 deals with asset management of an insurance undertaking while chapter 3 concentrates on the asset-liability management issues. Chapter 4 initiates discussion on the safety nets or measures regarding solvency margin, assets, and liabilities that will be included in the new solvency regime. The last two chapters deal with Pillar II supervisory issues, namely supervisory powers and target level intervention. Both chapters are intended for a first round discussion and therefore do not include draft requests for CEIOPS.

The Services want to underline the importance of input from all stakeholders and in particular CEIOPS, which is invited to provide advice so that requests for preparatory work can be drawn up.

1.2. Indication of next steps

This paper will be discussed with the Member States on 22 April 2004.

The Services aim at presenting the first set of draft requests for preparatory work to CEIOPS in the Insurance Committee on 30 June 2004. The requests to CEIOPS will be issued shortly after.

Meetings of the IC Solvency Subcommittee will be held in the autumn to prepare the remaining requests for preparatory work by CEIOPS. The next set of draft requests will be presented to the Insurance Committee in December 2004.

These draft requests should not be seen as formal mandates in accordance with the Lamfalussy procedure for level 2 implementing measures. Rather they should be seen as requests for technical advice to CEIOPS in relation to the preparation of future legislation.

2. ASSET MANAGEMENT

2.1. Introduction

In the future there will be several types of measures regarding prudent management of assets in insurance company:

- investment risk will be taken into account in the target capital requirement;
- the future prudential system would require the so called "prudent person" approach, including asset-liability management;
- certain "safety measure" rules would remain (see specific chapter).

In addition, the new target capital requirement should be covered by appropriate assets globally in the same way as technical provisions.

2.2. References

"Best practice" in existing national regulations.

Documents by IAIS (International Association of Insurance Supervisors)¹, especially the following:

- Insurance Core Principles (ICP 21 on assets)
- Supervisory Standard on Asset Management by Insurance Companies
- Supervisory Standard on derivatives
- Investment Subcommittee's work areas, e.g. the coming Guidance Paper on Investment Risk Management
- Solvency Subcommittees work areas (see the chapter on ALM)
- Supervisory standard on the evaluation of the reinsurance cover of primary insurers and the security of their reinsurers

For the "prudent person" approach, the recent EU directive for occupational pension funds ([2003/41/EC](#), Article 18) and the draft reinsurance directive should be consulted (these are available at the Commission insurance website)².

¹ See their website: <http://www.iaisweb.org/>.

² http://europa.eu.int/comm/internal_market/insurance/index_en.htm.

2.3. Proposal of an amended article in the framework directive

It is envisaged that the current articles in the directives on prudent management of assets would be strengthened as follows (Article 22 in the codified life directive and Article 20 in the third non-life directive):

"The assets covering the technical provisions and the capital requirements shall take account of the type of business carried on by an assurance undertaking in such a way as to secure the safety, yield and marketability of its investments, which the undertaking shall ensure are diversified and adequately spread. To this end an assurance undertaking shall have an appropriate investment plan."

First, we would require that the target capital requirement should also be covered by assets of appropriate quality. This thinking would be in line with the prudent person approach and take into account the coming changes relating to prudence levels of technical provisions and target capital (see discussion in MARKT/2543/03). The advantage of a prudent person approach is that it can prevent the 'gaming' possible in any set of rigid, quantitative rules. It does not, however, exclude all quantitative rules.

Secondly, the article would strengthen investment management by introducing a requirement for an investment plan. The amended article seems compatible with the IAIS insurance core principle on assets (ICP 21).

Issue 1: Do you have comments on the draft wording of the directive? Would the requirement to cover the capital requirements involve implementing measures or supervisory guidance?

2.4. Suggestion for a request for preparatory work

Detailed rules concerning the content of an investment plan would be given in implementing measures and possibly also in supervisory guidance. Consequently, advice from CEIOPS is requested on these measures and also on how to make the split between implementing measures and supervisory guidance.

In addition to the essential and the advanced criteria of the IAIS ICP 21, the following aspects relating to the new solvency regime should be addressed in the investment plan:

- Risk assessment and management is a focus area in Solvency II and investment risks are significant for insurance undertakings. Consequently, when preparing the investment plan, consideration should be given to the analysis of the available solvency capital in relation to the target capital requirement under different scenarios (see separate requests on ALM and Pillar II quantitative measures).

- When the main focus shifts from the solely quantitative "safety measure" rules towards the more qualitative "prudent person" rule, ALM, and specific (target) capital charges, further implementing regulations and guidance may be needed to ensure appropriate investment risk management and asset diversification (see also the chapter on safety measures). These regulations have to take into account the implications of the target capital rule.

Issue 2: Do you agree with the proposals? Do you have any comments or further suggestions?

3. ASSET-LIABILITY MANAGEMENT FOR LIFE AND NON-LIFE INSURANCE COMPANIES

3.1. Introduction

As discussed in earlier Commission papers, life assurance companies would need to have an asset-liability management system (ALM) as a part of their risk management process. ALM is a tool for measuring and managing balance sheet risks in an integrated way, which means that not only asset risks but also their links to the liability side are taken into account. This is usually done by modelling scenarios of future cash-flows for both liabilities and assets while taking relevant actuarial and financial risk factors and their interrelations into account.

The Services believe that ALM analysis in a suitably simplified form would also be useful in non-life business and propose to include a similar article in the non-life directive. In particular, if discounting of technical provisions is used in the future, those business lines that give rise to significant technical provisions should be analysed from an ALM point of view.

3.2. References

"Best practice" in existing national regulations and industry, see the report of the Life working group [MARKT/2528/02](#), especially Annex 1.

The following documents by IAIS:

- ICP 21c, i and 23a
- Investment Subcommittee's work including a forthcoming paper on ALM
- The Solvency Subcommittee's papers, in particular the one on stress testing as well as a forthcoming work on the matching of assets and liabilities.

The new ALM standard of the Society of Actuaries (SOA) in the US can be found at the website: <http://www.soa.org/sections/alm.html>.

Although some specific material on ALM originating from industry, actuaries and consultants can be found on relevant websites³, more in-depth information must be gathered through active communication with these organisations.

³ One example is Swiss Re's Sigma No. 6/2000 on the website: www.swissre.com.

3.3. Proposal of a new article in the directive

In order to establish a requirement that insurance companies would need to have an ALM system as a part of their risk management process, it is envisaged that a new article (“N8” in [MARKT/2539/03](#)) would be introduced for example as follows (a new article after the current Article 22 in the Codified Life Directive. Similarly in non-life.):

"As part of its risk management process an insurance undertaking shall perform an asset-liability analysis that is appropriate for its business."

Issue 3: Do you have comments on the draft wording of the directive?

3.4. Suggestion for a request for preparatory work

3.4.1. ALM in the different pillars – general approach

ALM can take many forms, depending on its goals and the level of sophistication in modelling (for a more detailed discussion see for example the document [MARKT/2528/02](#) and the ALM standard of SOA). In life assurance, the asset-liability mismatch risk is of major importance. In non-life insurance it can also be significant.

In the framework directive it seems sufficient to stress the objectives of the solvency supervision and risk management. The role of ALM models in the first pillar depends on the structure and methods chosen for the target capital formula. Consequently, at this stage this issue cannot be addressed in full detail but must be revised later. One natural role for ALM in pillar I relates to investment planning. If ALM has a greater role to play in the first pillar, it naturally must be treated as an internal model including validation, approval etc. processes. However, the Services believe that the standard formula for the target capital should capture ALM risk in a sufficiently accurate way as the asset-liability mismatch is a major risk in traditional life assurance.

It is obvious that ALM should form a part of the pillar II supervisory review process.

Rules concerning the required minimum role of an ALM system would be given in implementing measures and possibly also in supervisory guidance. Consequently, preparatory work from CEIOPS is requested on these measures and also suggestions on how to make an appropriate split between regulations and guidance.

Issue 4: Do you agree with the proposed approach? Do you have any further comments?

3.4.2. Life assurance

As regards life assurance, the use of ALM models is already common in many Member States although, in most cases, it is voluntary (see MARKT/2528/02 Annex 1). Usually ALM is used to model with-profit type of products although in some cases also unit-linked business is covered (particularly for guarantees). The following list is an attempt to cover the most relevant uses in the EU. At least these aspects of ALM should be addressed in the future work.

- ALM analysis should be taken into account when preparing the investment plan of a life assurance company. The main objects of analysis would include asset allocation (and resulting expected investment returns and volatility) in relation to the nature of liabilities (solvency and mismatch issues, guaranteed interest rates, bonus policy, liquidity, diversification, etc). In sophisticated models hedging strategies and other more complex risk management techniques could also be incorporated into ALM.
- Continuity and stress testing and other quantitative analysis in the pillar II supervisory review could make use of ALM models (see a separate discussion in MARKT/2543/03).
- ALM could be used when addressing some of the risk management issues of life assurance, e.g. profitability analysis of new products, business and profit planning, etc.
- An internal model approach for calculating the target capital requirement for the asset-liability mismatch risk could make use of ALM models and techniques. ALM could be used for detailed modelling and analysis of cash-flows and investment related parts of life assurance contracts (e.g. interest rate guarantees, bonuses, embedded options).
- Requirements concerning ALM models, i.e. the integration of ALM into management and control processes, validation criteria etc, should be appropriate and proportional to the role of ALM. If ALM is used in Pillar I, rules concerning internal models have to be applied (the topic of internal models will be addressed in a coming paper). On the other hand, if ALM is used only in Pillar II, more general guidelines might be adequate.

The regulatory framework for ALM should be both practical enough to be applied in the whole EU and fit in the new overall solvency regime by motivating better risk management.

Issue 5: Do you have any comments or additions?

Issue 6: In the list above we have not distinguished between different technical approaches or levels of sophistication (e.g. deterministic or stochastic, what risk indicators and assumptions to use etc). Neither have we defined the scope of ALM nor how long a time horizon should be used in the analysis. The organisational aspects of ALM modelling (the role of ALM committee, actuaries etc) have not been addressed either. CEIOPS and other stakeholders are asked to give their opinion if a more harmonised framework and higher level of standardization regarding these issues should be given in implementing measures or supervisory guidance.

3.4.3. *Non-life insurance*

As regards non-life insurance, the use and the role of ALM are different because the nature of liabilities is different. In many cases, elementary methods of analysis and simple models would be appropriate. However, there are lines of business where ALM analysis is crucial. For example the possibility of large claims requires careful liquidity analysis, and those lines which generate significant amounts of technical provisions and/or have long tails, necessitate ALM analysis (regarding the maturity structure, liquidity requirements, expected investment return and volatility vs. discount rate etc). The results of this ALM analysis should be taken into account when preparing an investment plan.

As for life assurance, preparatory work from CEIOPS is requested on implementing measures and supervisory guidance as well as suggestions on how to make an appropriate split between these two types of measures. The link between ALM and the target capital calculation needs to be taken into account as well.

4. MINIMUM SOLVENCY MARGIN AND OTHER SAFETY MEASURES

4.1. Introduction

Currently some forms of safety measures are applied to assets, technical provisions, and solvency capital of an insurance undertaking. The common denominator of these measures is that they constitute simple and objective quantitative limits, which provide absolute floor levels. Insurance undertakings normally use more strict criteria in their internal risk control. Solvency II will introduce more sophisticated risk indicators and capital charges complemented with qualitative tools of risk management and insurance supervision. Notwithstanding this fact, the Services believe that in the future safety nets will still be needed for supervisory and risk management purposes. The main benefits of safety measures are objectivity, clarity (no room for different interpretations), and reduction of modelling risk (this risk will increase in the future regime). However, to ensure the consistency of the new Solvency II regime, the need for safety measures must be analysed and current solutions modified where necessary. International developments, particularly IAIS work, need to be taken into account. At this stage, the key points are raised for discussion in order to be able to decide on the content and timing of requests for preparatory work to CEIOPS.

4.2. Issues for discussion

Safety measures can relate to the minimum solvency margin, the assets or the technical provisions.

4.2.1. Solvency safety measures

Issue 7: How should the minimum solvency margin be defined, i.e. what kind of formula would be most appropriate?

Alternatives:

- a simple and objective formula based on balance sheet and profit-and-loss items in line with the current solvency system
- a formula based on the target capital requirement
- other

Proposal: The Services prefer the first option as it would allow a robust and objective calculation as well as provide a smooth transition to the new solvency regime.

However, it may be necessary, in the light of the risk analysis and knowledge gained when developing the target capital requirement, to adapt the minimum solvency margin at a later stage. The definition of the minimum solvency margin might also have to be changed to take into account accounting developments.

Issue 8: At what level should the requirement be calibrated?

Alternatives:

- at the current level (approximately)
- at a level determined using probability and time horizon analysis as for the target capital. In this case, which parameters should be used?
- some other approach

Proposal: The Services see some benefits in the first option although this issue must be analysed in-depth as the level of prudence in technical provisions will have immediate implications to the calibration.

The current guarantee fund is one third of the required solvency margin with a minimum absolute amount (article 29 of the codified life directive and article 17 of the first non-life directive). In the Solvency II system, there will be a required target capital and a required minimum capital, the former being higher than the latter. The required minimum capital will have a minimum floor expressed in euros (equal to the current guarantee fund's floor).

Issue 9: Do you agree with the proposal and do you have any other comments?

4.2.2. *Safety measures relating to assets*

Issue 10: Are there reasons to change the authorised categories of assets (codified life Art. 23)? If so, what changes should be made? More specifically, should the asset classes be the same for covering technical provisions, the target capital requirement⁴, the minimum solvency requirement and the guarantee fund?

Proposal: Further analysis is needed before a proposal can be made. However, from a practical point of view, the goal should be to have simple and general rules.

Issue 11: Regarding the ceilings for asset diversification (Art. 24), a) do we need limits in a future prudent person approach? If the answer is yes, b) how should we define them, and c) should these levels be compulsory (i.e. maximum harmonisation rather than minimum as today)?

Alternatives:

- delete asset limits and take concentration risk into account solely in the target capital and risk management requirements
- keep a few quantitative limits as today, revise the percentages and have maximum harmonisation

⁴ In order to address the asset risk, a classification of assets seems necessary in the target capital formula.

- preserve current rules exactly as they are
- some other approach

Proposal: The second option seems to be prudent and to appropriately take into account new features included in the solvency regime. A possible revision may be appropriate after the introduction of the target capital requirement.

Issue 12: The available solvency margin is outlined, for example, in Art. 27 of the codified life directive. Do you believe that modifications would be needed?

Alternatives:

- make necessary modifications to take the new Solvency II prudential levels as well as international developments (IAIS, IASB, Basle II etc) into account
- make no changes

Proposal: The first option seems necessary as the prudence levels of technical provisions and capital requirements will be changed and harmonised.

4.2.3. *Safety measures relating to technical provisions*

Issues relating to technical provisions were discussed in detail in the earlier staff paper MARKT/2543/03. Depending on the choices made in Solvency II, there may also be a need to define a suitable safety level. This issue relates to risk margins and should be discussed in conjunction with accounting developments

The two following subjects bring up issues for discussion concerning pillar II. These issues are linked to other subjects, so they will need to be studied in two steps, first now, and secondly, once the overall framework is more defined. CEIOPS' advice on these issues would be very valuable, so that draft requests for preparatory work can be drawn up.

5. SUPERVISORY AUTHORITIES' POWERS

5.1. Introduction

The Sharma report indicated that it would help prudential supervision to include some principles concerning supervisory authorities' powers in the directive.

Note: The area of Supervisory authorities' powers is linked with transparency (see point 7.5 of [MARKT/2543/03](#)).

Today, the insurance directives confer powers to supervisory authorities. These powers can be classified into four categories: specific ones related to specific moments in the lifespan of an insurance company, general powers, powers concerning certain objects of supervision and powers of sanction (when policy holders' rights are threatened or when an undertaking fails to comply with its obligations).

Specific procedures:

- Licensing (fit and proper, structure of group, scheme of operations; share holders, Articles 4–9⁵)
- Authorisation of transfer of portfolio
- Qualifying holdings (Article 15)

General supervisory process:

- Access to information (Article 13)
- Investigation (not detailed, Articles 10 and 13)

Concerning the main objects of supervision:

- Sound administrative and accounting procedures and adequate internal control mechanisms (Article 10)
- Calculation and cover of technical provisions (Articles 10 and 20)
- Verification of assets (Articles 10, 22–25)

Sanctions (Articles 37–39 and 46):

- limits to the free disposal of assets
- financial recovery plan
- plan for the restoration of a sound financial position

⁵ The articles all refer to the Recast Life Directive [2002/83/EC](#). Similar rules exist in non life directives.

- short-term finance scheme
- higher required solvency margin or downward revaluation of the available solvency margin
- withdrawal of authorisation
- refusal of authorisation and prohibition to conclude new contracts in case of non compliance with right of establishment or freedom to provide services provisions

5.2. Issues for discussion

Issue 13: *Should additional powers be given to supervisors? If yes, what additional powers should be given to supervisors?* For example, should supervisors have additional powers to investigate? Should fit and proper criteria be more explicitly defined? Should supervisors be able to increase the solvency margin for reasons other than the threat to policy holders' rights?

Member States' supervisory authorities do not necessarily have the same level of powers today, in the regulation and/or in practice. Given the objective of increasing the level of harmonization, it might be necessary to explicit some powers in order to make sure all authorities exercise them. While this would result in additional powers for certain supervisory authorities, it would not be the case for all.

Issue 14: *Should the supervisors' powers (currently held or increased) be reflected in a new general article of the directive in addition to the current existing ones mentioning supervisory powers?* If yes, should this article include the provision on transparency of supervisory action (see point 7.5 of [MARKT/2543/03](#))?

Proposal: The Commission Services think that harmonization would benefit from explicitly formalizing the powers of the supervisory authorities.

Including provisions on transparency would be logical given that these powers are partly the counterparty of the transparency.

5.3. References

Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS):

Report on prudential supervision of insurance undertakings (December 2002), under the chairmanship of Paul Sharma

Report on "Fit and proper" (DT/A/133/01 Rev 2), under the chairmanship of Peter Baran

International Association of Insurance Supervisors (IAIS):

Many of the IAIS documents deal directly or indirectly with supervisory authorities' powers. See their website on <http://www.iaisweb.org/>.

European Commission:

"Review of capital requirements for banks and investment firms", Commission Services Third Consultation Paper, Working Document, 1 July 2003, Article 127

For ease of reference, these articles are quoted in full below.

Note: this text is currently being redrafted by the Commission Services (Banking and financial conglomerates unit). This is the latest public version.

Article 127 – Competent authorities' powers

- (1) Member States shall empower the competent authorities to require any institution to take a range of prudential measures based on the analysis and results of the evaluation process referred to under Article 126.
- (2) At a minimum, the prudential measures referred to under paragraph 1 shall include the obligation to hold own funds in excess of the minimum level laid down under Article 3 and those listed in Annex J, Section 2.

Member States shall empower the competent authorities to enforce their powers in such a way as to achieve an appropriate treatment by institutions of all risks, including non-measurable ones, and compliance with qualitative requirements.

Article 128 – Prudential measures and intervention

- (1) Competent authorities shall require from any institution appropriate prudential measures at an early stage with the objective of preventing the adequacy of own funds of that institution from falling below the minimum levels necessary to support its risk and control characteristics.
- (2) A specific own funds adequacy requirement shall be imposed by the competent authorities at least on those institutions whose inadequacy in the level of own funds in relation to the exposure to risk and the effectiveness of the control environment is unlikely to be rectified within an appropriate timeframe solely through the application of other prudential measures.
- (3) Competent authorities shall consider requiring the more prescriptive prudential measures if the institution concerned does not timely and effectively comply with the required measures.
- (4) In the event of an institution's failure to comply with the requirements prescribed in Article 3 or by competent authorities under this Article, Member States shall ensure that the institution in question takes appropriate steps to achieve compliance with those requirements as quickly as possible.

- (5) Competent authorities shall monitor the adequacy of the own funds held by institutions in respect of individual securitisation transactions. This shall be aimed at ensuring that institutions hold appropriate own funds in respect of securitisation transactions having regard to the economic substance of the transaction and the risks arising. Aspects to be considered in determining whether additional own funds are required to be held include those prescribed in Annex J, Section 4.

Annex J – Additional criteria on the evaluation process, prudential measures and transparency

Section 2 – Prudential measures

Member States shall set out the following minimum range of prudential measures available to the competent authorities:

- (a) To require institutions to enhance their control environment;
- (b) To require a specific provisioning policy or capital treatment of assets by the institutions;
- (c) To require restrictions or limitations on the institutions' business, operations and network;
- (d) To require the institutions to reduce the risk inherent in their activities, products and systems.

6. SOLVENCY CONTROL LEVELS

6.1. Introduction

In Solvency II, solvency is viewed in the widest sense, including not only the available capital but also the coverage of liabilities by admissible assets. In short, solvency concerns the whole balance sheet and is not restricted to the available capital. The supervisor safeguards the interests of the policyholder and must therefore be aware if there is a growing threat to the insurer's solvency. Effective supervisory action is enhanced by the establishment of solvency control levels.

6.2. Definition

Although previous papers had referred to "target level intervention", the terminology used from now on will be the IAIS one, "solvency control levels". Solvency control levels are the levels at which the supervisory authority either can or must intervene.

The objective of these control levels is to allow the supervisor to "safeguard policyholders from excessive loss due to an insurer's inability to meet its obligations" (IAIS Guidance paper paragraph 7).

The IAIS Guidance paper points out that "The control level should be set high enough to allow intervention at a sufficiently early stage in an insurer's difficulties so that there would be a realistic prospect for the situation to be rectified" (paragraph 9). This implies that the time horizons used when defining the control levels should be consistent with the time horizons allowed for the financial recuperation plans.

6.3. Reference

IAIS Solvency Control Levels Guidance Paper (October 2003)

IAIS Draft Standard on Capital Adequacy Requirements (February 2004)

6.4. Current situation

Today, there are two existing solvency control levels (though the directives do not use this terminology):

- guarantee fund
- minimum required solvency margin

The consequences of reaching these control levels are the following sanctions:

- for breaching the minimum required solvency margin: plan for the restoration of a sound financial position etc
- for breaching the guarantee fund: short-term finance scheme and, given the case, withdrawal of license.

6.5. Issues for discussion

Solvency II will introduce a target capital requirement at a higher level than the minimum solvency level and a wider range of supervisory actions. Solvency II will also generalize the obligation of coverage by admissible assets to include not only technical provisions but also the target capital. There is a need for supervisors to elaborate on formal or informal control levels concerning both the amount of available capital and its coverage by admissible assets. As for the amount of available capital, the control levels should be set over and above the target level as well as between the target level and the minimum level. The obligation to cover liabilities and target capital by admissible assets should also give rise to a control level.

These issues are clearly linked to the working methods of supervision and CEIOPS views on these issues would be appreciated. The Services believe that it is sufficient to include only a general reference in the framework directive to these control levels and that the details should be laid down in implementing measures and supervisory guidance.

CEIOPS should consider if the rules on control levels should be more principles-based or rules-based. The two are not mutually exclusive. One could envisage a system that is more principles-based if the overall solvency is still high (available capital near target level and admissible assets over 100% but with a downward trend) and more rules-based if the situation deteriorates (available capital close to safety net level and/or coverage under 100%).

Issue 15: Do you agree with the outlined approach?

Amongst the control levels for available capital, the Commission Services recommend that one should be the required target capital and the other the minimum required capital. CEIOPS should also consider the possibility of setting control levels for each of the different elements of the available capital.

Issue 16: The Commission seeks CEIOPS' advice on the number and the definition of the solvency control levels.

The control levels trigger supervisory action. What sort of actions does each control level trigger? Are these actions compulsory or optional for the supervisory authority?

Issue 17: The Commission seeks CEIOPS' advice on the consequences (actions and/or sanctions) that should be attached to each level.

6.6. Back testing

Ideally, CEIOPS should include in its advice the results of a field test on companies that have failed, updating the report on prudential supervision of insurance undertakings (reference in paragraph 5.3). This field test would allow to evaluate the control levels that would have been necessary for policyholders' interests to be better protected.

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