

# Solvency II

## The Final Countdown?

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Breakfast Briefing  
4 October 2012



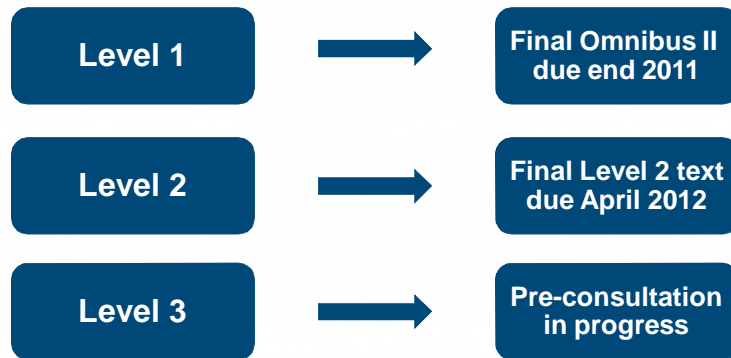
### Agenda

- Where are we now?
  - Level 1 (Omnibus II)
  - Level 2
  - Level 3
- Next steps and expected timeline



## Recap of developments over last 12 months

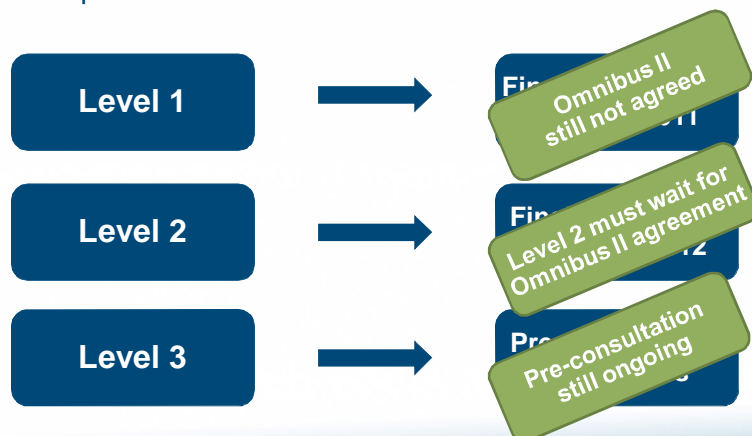
- Position last year (October 2011)



3

## Recap of developments over last 12 months

- Current position



4

## Level 1 – current position

**Sepia-tinted slide  
taken from our  
March 2011  
Breakfast Briefing**

- Text of Directive adopted in 2009
- However, recently-published “Omnibus II” proposes to amend some sections of the 2009 Directive
- Mostly “house-keeping”
  - To change references from CEIOPS to EIOPA
  - To change implementation date from 31 Oct 2012 to 1 Jan 2013
  - To make some changes to terminology
- But, also provides framework for possible transitional periods/provisions for some aspects of Solvency II
- **Omnibus II Directive expected to be adopted in late 2011**
  - **With transposition into national law required pre 1 Jan 2013**

## Level 1 – What happened?

### “Hijacking” of Omnibus II

- Originally conceived as straightforward house-keeping amendment to Directive
- But turned in to vehicle to re-open other issues
  - In particular, Parliament insisted that long-term guarantee issues be dealt with at Level 1 rather than Level 2
  - Other parties not unhappy with this?

## Level 1 – Where are we now?

### Omnibus II

- Recent 'trilogue' discussions on Omnibus II
  - European Commission, European Parliament, Council Presidency
- Successive 'deadlines' missed
  - 'Long-term guarantees package' is the stumbling block
- Deadlock
  - Understand that trilogues now suspended
  - Next step is an assessment of long-term guarantees issues
- Note that Council Presidency moves to Ireland on 1 Jan 2013 !

7



## Level 1 – Where are we now?

### 'Emergency Directive'

- Given that Omnibus II is deadlocked a mechanism was needed to push the start date beyond 31 October 2012
  - Otherwise could have had a position of legal uncertainty
- Short Directive drafted by Commission to amend the date
  - This Directive was adopted last month
- So current position is
  - Directive to be transposed by Member States by 30 June 2013
  - Solvency II 'go live' date of 1 January 2014
- However ...

8



## Long-term guarantees – what are the issues?

- Risk of Solvency II creating artificial volatility (in own funds) & procyclicality
- Could lead to range of unintended adverse social and economic impacts:
  - Shift from longer-term to shorter-term assets
  - Move away from offering long-term guaranteed products
  - Cost of overly-high capital requirements passed on to customers
  - Limit insurers' traditional role as investors in the European economy
  - Reduce insurers' traditional role as a stabiliser of systemic risk and market volatility

9



## The long-term guarantees 'package'

- Counter-cyclical premium (CCP)
- Matching adjustment (MA)
- Extrapolation methodology
- Transitional provisions

10



## LTG Technical Assessment (1)

- Technical Assessment of the package of LTG measures
  - Agreed in principle by trilogue parties in July 2012
  - Covering CCP, MA, extrapolation, transitionals
  - To be run by EIOPA under ToR from the Commission
  - Details (ToR etc.) not yet agreed
- Timelines
  - Unclear – talk of November launch with 8 weeks to complete
  - EIOPA to summarise and report to Commission
  - Commission to report to Parliament and Council
    - Mid-2013 ?

11



## LTG Technical Assessment (2)

- Participation
  - Unclear – talk of requiring 50% coverage of the life market in each Member State
- What is required of participants?
  - Asked to test impact of prescribed combinations of the various items
    - Full Solvency II balance sheet and SCR calculations
    - Deliver qualitative and quantitative data
  - Also possible (but looking increasingly unlikely) that 'normal' Stress Test work will also be undertaken in parallel
- Purpose / next steps
  - "Ex post" or "ex ante"?

12



## Level 2 – Where are we now?

- Latest draft as at October 2011
  - Not officially published, but widely available
    - Will need revision once Omnibus II is agreed
- Delegated Acts
  - Can only be formally proposed by Commission once Omnibus II is finalised
  - Then need acceptance by Council and Parliament
- Technical Standards
  - EIOPA public consultation is mandatory (pre-consultation in progress)
    - Proposal that TSs would be adapted in same way as DAs to speed up implementation (i.e. no public consultation)

13



## Level 3 – Where are we now?

- Pre-consultation process of Level 3 guidance ongoing
- Several public consultations on key areas
  - Reporting
  - ORSA
- Major release of Level 3 guidance expected once Omnibus II approved

14



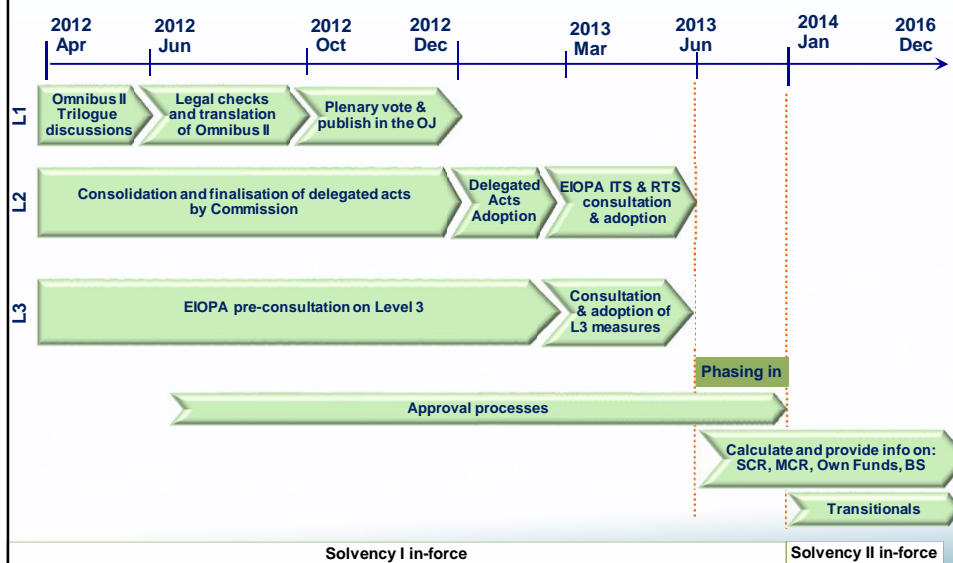
## What's next?

- Finalisation of Omnibus II
  - LTG Technical Assessment (on ex ante basis?)
  - Resumption of trilogues
- Assessments for transitional equivalence
  - Decisions due next year – Australia, Chile, China, Hong Kong, Israel, Mexico, Singapore, South Africa
  - US still not included
  - Japan currently only assessed for reinsurance equivalence
- Internal model applications still in process
- Finalisation of Level 2
- Level 3

15



## Expected Solvency II timeline – June 2012



16





## Current expected Solvency II timeline

