SOLVENCY Directive

Reference Text: European Directive 2009/138/EC
Link:

Date of Application:
1st January 2016

Presentation
The SOLVENCY II Directive has the aim of modernising and harmonising the solvency rules applicable to insurance companies in order to reinforce the protection of policyholders, encourage companies to improve their risk management and ensure harmonised application of legislation in the European Union. After SOLVENCY I, which stipulated a solvency margin determined only according to percentages on premiums and/or claims, insurance legislation moved to more sophisticated rules integrating the different types of risk (market risk, credit risk, life and non-life subscription risk, operational risk) and now draws on valuations of assets and liabilities at market values (i.e. the “fair value” as defined in the IFRS). The former solvency margin is now replaced with 2 new concepts: the MCR (Minimum Capital Requirement), minimum amount of equity below which the insurer loses its approval, and the SCR (Solvency Capital Requirement), target equity amount which is calculated either from the standard model proposed by the regulator, or from a model developed internally but validated by the regulator, on the understanding that it will of course be possible to mix standard model and internal model according to the peculiarities of the company.

Like its “Basel II” banking counterpart, Solvency II is based around three pillars:
Pillar I determines quantitative requirements to be respected, particularly in harmonising the calculation of technical provisions and the MCR and SCR.
Pillar II requires the establishment of risk governance systems (processes, responsibilities, production and monitoring of indicators, etc.)
Pillar III fixes market discipline to increase transparency of the information sent to policyholders and to the regulatory authorities.

Current Situation:
Final adoption on March 11, 2014 of the Directive Omnibus II, officialising the date of January 1, 2016 for the implementation of SOLVENCY II and giving widened powers to the EIOPA to specify the implementation framework, particularly regarding guidelines and “Implementing Technical Standards" (ITS).

Application since January 1, 2014 and through January 1, 2016 of the preparatory measures published on September 27, 2013 by the EIOPA, the European insurance regulator. These transitional measures focus on pillars II (governance) and III (reporting).

On 10 October 2014 the Commission adopted a Delegated Act containing implementing rules for Solvency II (publication of the delegated act on 17 January 2015)

On January 1, 2016, Application of SOLVENCY II.

Find out more
- EIOPA website

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