S U M M A R Y

2008-12-20

Finansinspektionen
Box 7821
SE-103 97 Stockholm, Sweden
[Brunnsgatan 3]
Tel +46 8 787 80 00
Fax +46 8 24 13 35
finansinspektionen@fi.se
www.fi.se

On the way to new European insurance regulations
Report 2008:20

Summary

We are facing great challenges in the insurance sector. A previously typically national, tightly regulated and protected market has been internationalised and subjected to competition. In addition to this is the EU's overall ambition to create a genuinely integrated and common financial market. The aim is to increase competition and efficiency, thereby increasing growth and welfare in Europe. The new regulations for solvency calculation, Solvency 2, are an important step along the way. This is going to lead to improved methods for analysis and governance of the companies' risks.

In order to manage this change, the companies should already now be clarifying and identifying their strategies and resource investments in order to confront upcoming regulatory requirements in terms of compiling data and adapting IT systems. It is important that the companies participate in existing reference groups in order to be able to monitor the work with the new regulations.

The changed regulations require additional and modified supervision throughout Europe. The authorities must act consistently and in a uniformed manner, taking into consideration the increase of cross-border operations. This is going to require increased cooperation in order to ensure that insurance companies in all countries can operate on equal and fair conditions.

The new capital requirements are assessed to be more stringent than the current ones for Swedish as well as other European companies. At the same time, it is assessed that the technical liabilities will decline due to changed valuation principles. This will increase own funds and improve the opportunity to meet the capital requirements.

There are going to be two capital requirements. One is the solvency capital requirement, which the companies shall normally fulfil and which is determined by a careful review of the risks in the operations. The second is the minimum capital requirement, which is a standard calculation and a requirement that the company is only allowed to temporarily fall below. If the company cannot manage the lowest level, then the operations must be terminated.

Numerous questions in the new solvency system remain undecided. One such question deals with which requirements shall be set for insurance groups and how the regulations for so-called group support will be formulated. This especially applies to insurance groups with companies in different countries, where the division of roles between the different supervisory authorities is still unclear. Some other questions are how the

lower capital requirement shall be calculated and how the consolidation fund shall be managed in mutually working life insurance companies.

On the whole, the Swedish companies that participated in QIS 4 managed the capital requirements well. Because it is still uncertain how the lower capital requirement shall be calculated, the result on that point is not entirely relevant. Only a couple of companies reported results from internal models, so no general conclusions can be drawn from that.