



**Markt/2520/07
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Reinsurance Directive

Proposed Methodology for the annual review of the amount of the Minimum Guarantee Fund

Executive Summary

Under the Article 41 of Directive 2005/68/EC on reinsurance¹, the absolute amount of the minimum guarantee funds (currently 3 million euro for reinsurance undertakings and 1 million for captive reinsurance undertakings) is required to be reviewed annually. These amounts are to be increased where the consumer price index increase exceeds 5% since the last adaptation. This paper proposes a methodology for the conduct of the review and a standard approach for its implementation by Member States.

On the basis of the proposed methodology, no adaptation is currently required. The next review will be carried out in the autumn of 2008.

Questions to the Members of the EIOPC

Do you have any comments on the proposed methodology?

¹ OJ L 323, 9.12.2005

I. BACKGROUND AND OBJECTIVE

In order to avoid an erosion of the real value of the amount of the minimum guarantee funds (MGFs), the Reinsurance Directive requires that these amounts be reviewed annually. This paper suggests a proposed methodology for the conduct of the review and a standard approach for its implementation by Member States.

II. LEGAL REQUIREMENTS

The legal requirements for the review are set out in Article 41 of the Directive 2005/68/EC on reinsurance.

Article 41 states that:

1. The amounts in euro as laid down in Article 40(2) shall be reviewed annually as from 10 December 2007 in order to take account of changes in the European index of consumer prices comprising all Member States as published by Eurostat. The amounts shall be adapted automatically by increasing the base amount in euro by the percentage change in that index over the period between the entry into force of this Directive and the review date and rounded up to a multiple of EUR 100 000. If the percentage change since the last adaptation is less than 5 %, no adaptation shall take place.
2. The Commission shall inform the European Parliament and the Council annually of the review and the adapted amounts referred to in paragraph 1.

III. CURRENT AMOUNTS

The current amounts of the minimum guarantee funds (MGFs) are as follows:

	(million euro)
Reinsurance undertakings minimum guarantee fund	3
Captive reinsurance undertakings minimum guarantee fund	1

IV. PROPOSED REVIEW METHODOLOGY AND STANDARD APPROACH FOR MEMBER STATE IMPLEMENTATION

While the legal requirements are relatively clear, the calculations should be carried out in a systematic way and implemented uniformly by Member States.

It is therefore proposed that the required review be conducted as follows:

- The Directive states that the minimum guarantee fund amounts should be reviewed annually starting from 10 December 2007. In order to avoid the end of the year period and to be consistent with the timing of the review of life and non-life insurance, it is proposed that the review takes place in the autumn of

the year following the review period. For reference, the timetable for the review of life and non-life insurance minimum guarantee funds is the following:

- (1) The review is carried out in the autumn of each year (to reflect the obligation for an annual review starting 20 September 2003).
 - (2) The review period ends on 20 March of the corresponding year.²
- The review period for reinsurance should end on 10 December of the previous year. This produces an integral number of years in the review period which starts on 10.12.2005, the date of entry into force of the Directive on reinsurance. Furthermore, given that the Eurostat publication of monthly statistics necessarily takes place with a certain time lag, this approach allows sufficient time for the preparation of the required index figure.
 - The index used for calculation purposes should be the European Index of Consumer prices³ (EICP) which is produced for the Community by the Commission (Eurostat) based on the HICPs (harmonised index of consumer prices) of Member States. This index has been recommended by Eurostat officials and is defined at Article 2 of Council Regulation (EC) No. 2494/95⁴. It is proposed to use the EU series for this index as this is automatically adapted to take account of the accession of new Member States.
 - The results of the review should be communicated to the EIOPC for comment at the last EIOPC meeting in the review year.
 - The revised amounts should be implemented by Member States under national law with an effective date for application not later than the end of the year following the date of review. Member States should confirm in writing to the Commission the date of national application.
 - In accordance with the legal obligation in the Directive, the Commission will inform annually the European Parliament and the Council of the review and the adapted amounts.
 - Lastly, in the interests of transparency the Commission also proposes to publish the adapted amounts in the Official Journal.

² MARKT/2520/04

³ See:

http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=EU_MAIN_TREE&root=EU_MAIN_TREE/economy/main/shorties/euro_cp/cp000

⁴ OJ L 257, 27.10.1995

V. RESULTS OF APPLICATION OF PROPOSED REVIEW METHODOLOGY

The results of the application of the proposed review methodology are shown in the attached Annex.

The percentage increase in the relevant index over the period December 2005 to December 2006 is 2.16% and below the required 5% threshold.

Questions to the Members of the EIOPC

EIOPC Members are asked to take note of the proposed methodology and to provide any comments?

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