



**Room document**

## **A “fast-track” approach for Reinsurance Supervision – Progress update**

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At the April meeting the Insurance Committee strongly supported a fast-track approach for reinsurance supervision based on the existing prudential framework for direct insurance undertakings. For that reason, the Commission Services continued the preparatory reinsurance work.

A new working group was established in order to assist the Commission Services on technical matters involved in the project. In a first step, this group should initiate, prepare and perform simulations and calculations in order to determine appropriate levels for the solvency margin and the minimum guarantee fund.

In addition, the Commission Services elaborated the first version of a draft proposal for a Directive concerning reinsurance and retrocession.

The tentative results of the simulation exercise and the legal text of the draft proposal were presented and discussed in the IC Reinsurance Subcommittee meeting on 4 November 2002. Given the pro-active collaboration with Member States, the Commission Services will soon present a slightly changed draft proposal as well as finalising the simulation results.

The present note highlights the main points of the project and the draft proposal for a directive. It also explains the next steps and tentative timetable.

***Question:***

***Members of the IC are requested to note the progress of the sub-committee on reinsurance and the tentative timetable before a draft proposal for a Directive will be discussed by the IC.***

## **1. Commission Services' discussion document on a "fast-track approach" in reinsurance supervision (MARKT/2520/02)**

The main principles of the draft directive are:

- The relevant articles of the current insurance directives are as far as possible taken into account
- Mandatory licensing via the usual authorisation procedure
- Only pure reinsurers (including captives) fall under the scope, however, in order to guarantee a level-playing-field the same solvency margin requirements should also be applied to reinsurance business accepted by direct insurers
- A system with gross reserving and pledging of assets to cover the reinsured part of outstanding claims provisions and the indirect supervision of reinsurance arrangements are abolished when licensed reinsurers are used

The main elements of the solvency system are the following:

- technical provisions: we propose to follow the qualitative approach for non-life direct insurance provisions;
- investment rules: we propose to adopt the prudent man approach;
- solvency margin: the levels will be discussed after the discussion of the simulations.

Certain aspects of a fast-track regime may have a temporary character, as there may be updates when the Solvency II work is finalised.

A Commission proposal for a fast-track solution could be adopted in 2003.

## **2. Summary of discussion in the IC Reinsurance Subgroup on 4 November 2002**

Member States generally agreed to the main objectives described in the note MARKT/2530/02 and formulated accordingly in the draft of a proposal for a directive. Member States' main observations concern the abolition of collateralisation (F), pure qualitative investment rules through a "prudent person" principle (B, F, I) and the consequential changes to the direct insurers accepting reinsurance business for creating a level-playing-field (D).

### **3. Results of the simulations**

The financial impact of legislative proposals must be analysed in detail. This is particularly true for the quantitative requirements on the solvency margin and the minimum guarantee fund. In order to facilitate simulations on the impact of solvency requirements a short-term working group was established. As outlined in the note MARKT/C2/UL D(2002) 346, the working group and its members should initiate, prepare and perform simulations and calculations in order to prepare the discussion of appropriate levels for the solvency margin and the minimum guarantee fund for reinsurance business. It should also look at the impact of increasing the maximum reduction factor for ceded reinsurance.

Given that some data are still missing, the Commission Services could only present tentative results of the simulation exercise at the last IC Reinsurance meeting. Depending on when Member States provide the raw material the results will be presented in a separate note for the next meeting. However, after analysing the results available it appears that further investigations will be needed. This particularly concerns substantial reinsurance activities carried on by companies falling under the scope of direct insurance directives, the weak capital position of some medium sized and large reinsurers and the numerous small reinsurers including, above all, reinsurance captives concentrated in two markets who would be hurt by even a relatively small minimum guarantee fund.

For that purpose the Commission Services asked for further information on captives and small reinsurers to be presented by the relevant Member States at the next meeting on 18 December 2002. The issue of whether further simulations are needed particularly on reinsurance carried out by direct insurers will also be discussed

### **4. Concluding remarks and next steps**

In the light of the above comments, the Commission Services will continue the work on the preparation of the draft directive.

- Firstly, we will finalise the first simulation exercise on pure reinsurers. The timely outcome of this work depends on Member States' sending in data. In this context, Member States are asked to further explain any particularities of their markets.
- Secondly, we are going to start the second wave of simulations to learn more about the reinsurance activities of direct insurers by collecting data of the absolute amount and relative weight of their reinsurance business. Here, the Commission Services rely on the active support by Member States and other interested or concerned parties.
- Thirdly, we are going to adapt the first version of a proposal for a draft directive according to the comments made by the IC Reinsurance Subcommittee Members as soon as possible.

The indicative timetable for the future work and next steps is:

<b><i>Time frame</i></b>	<b><i>Meeting activity – Output</i></b>
18 December 2002	IC REINSURANCE SUBCOMMITTEE – discussion of the first set of simulation results and the draft of a directive
February -July 2003 (several meetings)	IC REINSURANCE SUBCOMMITTEE – discussion of the second set of simulation results and discussions based on a draft Directive text – finalisation of the work
Early autumn 2003 (tentative date)	INSURANCE COMMITTEE – discussion of the outcome of the work in the Subcommittee – discussion based on an advanced draft Directive text
Late 2003	COMMISSION PROPOSAL for a Directive on reinsurance supervision

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