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PUBLIC HEARING ON

SOLVENCY II LEVEL 2 IMPLEMENTING MEASURES

SPEECH FOR JÖRGEN HOLMQUIST

DIRECTOR GENERAL

I would like to begin by thanking you on behalf of the Commission for your active participation in today's public hearing. I am sure you will agree that the large number of delegates present today serves to highlight the importance of this project, which is now entering a critical stage.

I would also like to thank all the panellists, who have shared their views on the major challenges that they see in relation to the Solvency II level 2 implementing measures. The contribution of stakeholders to this project so far has been

invaluable. I can assure you that the Commission will continue to listen to the views of all stakeholders and that we will continue to work with you to develop solutions on the difficult technical issues that we are facing.

You have had the opportunity today to listen to a wide range of Solvency II related topics, including a general overview of the level 2 implementing measures and third country equivalence. However, I would like to spend a short while reflecting further on the fifth quantitative impact study, QIS 5, which will be run from August to November this year. The Commission has set a highly ambitious participation target for QIS5. Ideally, we would like all insurers to participate in this exercise. You may therefore want to cancel your summer holidays now or at least pay for additional baggage allowance to take the 400 to 500 pages of the technical specifications with you.

The reason that the Commission places so much importance on participation in QIS 5 is that we need to know the likely

impact of the new rules on the insurance industry before we finalise these rules. QIS 5 is the best way to get access to the real data. It is clear that QIS 5 must be a success and it cannot be a success without your involvement. We have already taken on board a number of your suggestions in the draft QIS 5 technical specifications that are currently out for consultation. We very much welcome any further suggestions that you have for ways in which the final QIS 5 technical specifications can be improved. The final draft QIS 5 technical specifications will be published on 1 July, so there is still some time for you to come up with new ideas. The insurance sector is well-versed in providing support in matters of life and death, or as we prefer to call it in Solvency II "non-life". So, now this is a great opportunity for you to give Solvency II the QIS [kwis] of life!

We would also like to encourage collaboration amongst yourselves as much as possible in developing these ideas. The aim of Solvency II is to harmonise the solvency regulation of insurance and reinsurance undertakings

throughout Europe. We must find solutions that are suitable for all markets in all Member States. A co-operative approach in developing the right ideas is therefore more than useful.

It has been suggested that some firms are reluctant to participate in QIS 5 in case the results for them are not wholly positive. I would like to say to these firms, that it is equally, if not more, important that you participate in the exercise. We certainly do not want the QIS 5 results to show a biased picture of the real impact. There will still be opportunities to adapt the level 2 implementing measures after the results of QIS 5 are known. It is therefore critical that we have a full and complete picture of what the issues are. Testing the quantitative impact of the proposed rules is the best way of identifying these issues. If your company does not participate in QIS 5, you will not know whether you have a problem and we will not know how to possibly resolve the problem. Therefore, I cannot emphasise strongly enough the importance of your participation.

You will also have seen in the draft QIS 5 technical specifications that there are two areas where the Commission is exploring the possibility of introducing transitional measures. These measures relate to own funds and technical provisions. We have identified these as the two areas where transitional measures are most likely to be needed in order to allow for a smooth transition to Solvency II and to avoid market disruption. We will use QIS 5 to test the impact of introducing Solvency II with and without these transitional measures.

We will also use QIS 5 as a test to see whether transitional measures are needed in other areas so as to avoid market disruption. At a time when the world is still recovering from one of the most severe financial crises seen in a long time, the need to ensure financial stability and limit the potential for market disruption is paramount. We will also consider whether other tools, such as built-in review periods, are needed to make the new regime as flexible as possible and to ensure that we maintain a dynamic risk-based approach.

Commissioner Barnier outlined in his opening remarks this morning the Commission's intention to propose a change in the entry into force date to 31 December 2012. We have listened to your comments about the practicability of an entry into force date of 31 October 2012 and believe that this change is necessary again to ensure a smooth introduction of the new regime. However, I would like to stress that this does not mean that there is time to relax. The introduction of Solvency II is only two and a half years away and there is a lot of work to be done before the project is finalised. The momentum for preparing for Solvency II must continue apace.

On the Commission's side we will continue drafting our proposals for the level 2 implementing measures. We will finalise the QIS 5 technical specifications and we will undertake a rigorous impact assessment of the implementing measures we propose.

On your side, what do we expect from you? As I said before, we want you to participate in QIS 5 in order to test how prepared your business is for Solvency II. But there is more. The Solvency II Framework is not only about introducing new quantitative requirements, known as Pillar I, which will be tested in QIS 5. There are two further pillars, Pillar II and Pillar III. People tend to forget that all pillars are of equal importance.

On Pillar II which relates to issues such as governance and risk management, much work still remains to be done. Companies must also make preparations to ensure that their system of governance is sufficiently robust and can meet the standards set in Solvency II. Many undertakings are already thinking, and have been thinking for some time, about what an Own-Risk Solvency Assessment (known as an ORSA) will look like. The ORSA is a key part of the risk-based philosophy underpinning Solvency II and the preparations needed to carry out such an assessment should not be underestimated. Here, we know that CEIOPS has already

identified the ORSA as an area that will benefit from Level 3 guidance and you are encouraged to provide your input here.

Lastly, on Pillar III, which deals with disclosure and reporting, it is clear that market discipline will play a key role in Solvency II. A harmonised supervisory regime must be supported with clear, timely and accurate supervisory reporting and public disclosure. So, there is clearly plenty to keep you busy over the next few years.

I would like to conclude by thanking you again for your attendance and participation today. I sincerely hope that you have found the hearing useful and informative. More importantly, I would like to stress again the importance of your participation in QIS 5. Even though the opening night will not be until 2012, QIS 5 will be the crucial dress rehearsal.

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