EUROPEAN COMMISSION
IMPACT ASSESSMENT BOARD

Brussels, 24 April 2007
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Opinion

Title	**Impact Assessment on: Solvency of insurance companies (Solvency II) (draft version of 3 April 2007)**
Lead DG	**DG MARKT**

1) Impact Assessment Board Opinion

(A) Context

The Solvency II project is one of the main outstanding items from the Financial Services Action Plan 1999-2005, aiming to modernize prudential regulation and deepen integration of the EU insurance market. Solvency I raised the minimum guarantee fund in 2002 but was just a stop-gap measure, needed to improve policyholder protection whilst a more fundamental reform project was undertaken. Solvency II is the result of this process, proposing a wider revision of the financial position of insurance undertakings.

(B) Positive aspects

(1) The IA report is very thoroughly documented, supported by a variety of reports covering different aspects of the initiative based on extensive involvement of stakeholders.

(2) Although indicators have not been identified yet, the detailed outline of monitoring and evaluation arrangements, involving both external and internal input within a proposed timeframe, deserves praise.

(C) Main recommendations for improvements

The recommendations below are listed in order of descending importance. Some more technical comments will be transmitted directly to the author DG.

General recommendation: Overall the quality of the impact assessment work carried out is of high standard. All the relevant information for this level of the directive seems to be available, but some key considerations on costs and benefits and on the definition of objectives should also be cited in the main IA report.

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(1) The analysis of impacts on policyholders should be expanded. The IA report should set out more clearly the implications of the proposed measures from the perspective of policyholders/consumers, notably those arising from changes to the insurability of certain risks, the distributional impact on certain consumers, the transfer of risks to policyholders notably in areas where social impacts could result from this, trends in overall prices and spread in prices, changes in cross-subsidising, and the consequences of an increased number of (dis)orderly failures.

(2) The IA report should more clearly compare costs and benefits. Although it can be accepted that many of the costs and benefits can only be quantified and monetised when the implementing (Level 2) proposals are drafted, this IA report should do more to give a feel of at least the order of magnitude of not only costs but also benefits of the proposed initiative. Preferably this should be done on a net basis, taking into account the costs and benefits associated with the current national arrangements which will be suppressed. These considerations apply especially to the estimate of administrative costs, for which the IA report should also explain the remark on a possible doubling of costs depending on implementation measures and present the underlying calculations in the standard reporting format required by the IA Guidelines. Finally, the consequences for SMEs should be better developed by defining them more precisely in terms of asset size and having more regard of the possible outcome of accelerated consolidation and how special rules for SMEs might alter this situation.

(3) The links between problem definition and objectives, and the balance between the various objectives should be better explained. The IA report should more clearly link identified problems (in particular market barriers) with the objectives, explain how the objective of market integration relates to the objectives of increasing policyholder protection and improving efficiency and competitiveness of European insurance firms, and discuss the balance between these two last objectives.

(4) The role of equities under the current and future regimes and the relevance of anticipation by the market should be discussed. The IA report should more clearly explain how the impacts described (e.g. the move from equities to bonds) may be dampened by the fact that this initiative has been prepared over a long time and in cooperation with market parties. Potential impacts in sensitive areas such as life insurance products with a quasi pension character should be mentioned.

(D) Procedure and presentation

It appears that all necessary procedural elements have been complied with. With regard to presentation, the IA report should include key findings of the analysis from the annexes into the main report in order to allow for easier and more informed comparison of policy options, even at the expense of a somewhat longer IA. Furthermore, a glossary would be welcome.

2) IAB scrutiny process

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