

Global Regulation Solvency II & Equivalence

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Overview



Regulators and regimes

- ▶ Europe – SII – European Insurance and Occupational Pensions Authority (EIOPA)
- ▶ Japan – SII Equivalence – Japan’s Financial Services Agency (JFSA)
- ▶ Switzerland – SII Equivalence – Financial Market Supervisory Authority (FINMA)
- ▶ Bermuda – SII Equivalence – Bermuda Monetary Authority (BMA)
- ▶ Others – SII Equivalence?
- ▶ US – National Association of Insurance Commissioners (NAIC)

Solvency II



What is Solvency II?

- ▶ European-wide insurance regulatory regime covering:
 - ▶ quantitative aspects including capital requirements
 - ▶ governance and risk management requirements
 - ▶ reporting and disclosure requirements
- ▶ Key aspect is risk-based capital (RBC)

Solvency II status

- ▶ Repeated delays of European implementation
- ▶ Most national regulators implementing some requirements
- ▶ Never implemented?

Solvency II timeline

- ▶ Proposed start date of 1 January 2014 “no longer achievable”
- ▶ No new timetable approved by the European Commission (EC)
- ▶ Interim measures to be announced in 2013, effective from 2014, covering governance, risk management and internal model approval
- ▶ Some countries ahead of others (UK unlikely to be affected much by interim measures)
- ▶ Prudential Regulatory Authority loosely working toward January 2016 (used as a planning assumption)

Solvency II equivalence



Solvency II equivalence

Solvency II equivalence is defined at three levels:

	Reinsurance supervision (Article 172)	Group solvency calculation (Article 227)	Group supervision (Article 260)
Affects	Non-European Union (EU) reinsurers	Groups with EU parent	Groups with non-EU parent
Non-equivalence	May have to post collateral in EU	Required to use Solvency II basis for foreign entity's contribution to group solvency calculation	EU-level holding company needs to be established, regulated by EU supervisor
Equivalence	Collateralization not required	Can rely on local capital calculation for foreign entity (e.g., RBC for the US)	Rely on domestic supervisor for group regulation

- ▶ **Switzerland (FINMA), Bermuda (BMA)** (*all articles*) and **Japan (JFSA)** (*RI supervision only*) have been deemed “largely equivalent” (i.e., with caveats) in Consultation Papers in October 2011.
- ▶ Seven more countries expressed interest in being equivalent on a “transitional” basis: **Australia, Chile, Hong Kong, Israel, Mexico, Singapore** and **South Africa**.
- ▶ Other countries are in preliminary discussions with EC (e.g., **Brazil, China** and **Turkey**)
- ▶ **US** is being assessed via the ongoing EU-US Dialogue Project

Solvency II equivalence

Equivalence assessments

United States

EU-US Dialogue Project

▶ NAIC

- ▶ Solvency Modernization Initiative

- ▶ US Own risk and Solvency Assessment (ORSA)

▶ Dodd-Frank

- ▶ US Systemically Important Financial Institution

- ▶ Fed supervision
- ▶ Federal Insurance Office (FIO)

Mexico

Solvency II:
Potential 2nd wave

Chile

Solvency II:
Potential 2nd wave

Brazil

Solvency II:
Preliminary discussions

Bermuda

Solvency II:
1st wave

Europe

Solvency II

Switzerland

Solvency II:
1st wave

Turkey

Solvency II:
Potential 2nd wave

Israel

Solvency II:
Potential 2nd wave

Japan

Solvency II:
1st wave

China

Solvency II:
Preliminary discussions

Hong Kong

Solvency II:
Potential 2nd wave

Singapore

Solvency II:
Potential 2nd wave

South Africa

Solvency II:
Potential 2nd wave

Australia

Solvency II:
Potential 2nd wave

Solvency II equivalence

NAIC/FIO

▶ EU-US Dialogue Project

- ▶ NAIC and FIO jointly negotiating with EIOPA and EC around a way forward with regard to treatment of the respective jurisdictions within their regimes (“equivalence” under Solvency II, and similar within US regulations).
- ▶ Objective is an enhanced understanding and cooperation for the benefit of insurance consumers, business opportunity and effective supervision.
- ▶ With the involvement of technical experts in both jurisdictions, in December 2012 the Project produced a factual report on commonalities and differences between the jurisdictions in key areas of supervision. This was followed immediately by a document titled “The Way Forward,” laying out the next steps over the following five years.
- ▶ Seven main areas of focus:
 1. Professional secrecy/confidentiality
 2. Group supervision
 3. Solvency and capital requirements
 4. Reinsurance and collateral requirements
 5. Supervisory reporting, data collection and analysis
 6. Supervisory peer reviews
 7. Independent third-party review and supervisory on-site inspections

Solvency II equivalence

BMA

- ▶ BMA issued “*Roadmap to Regulatory Equivalence*” in May 2012, focusing on eight topics:
 1. Economic balance sheet
 2. Eligible capital/own funds
 3. Standard capital model (Bermuda Solvency Capital Requirement)
 4. Internal capital models
 5. Commercial Insurers’ Solvency Self-Assessment and Group Solvency Self-Assessment (*Bermuda’s ORSA*)
 6. Enhanced regulatory reporting (*disclosure*)
 7. Groups
 8. Long-term business framework

Solvency II equivalence

Equivalence assessments (1)

Country (Regulatory body)	Japan (JFSA) All	Small captives [Class 1 and 2]	Large captives [Class 3]	Bermuda (BMA) Small insurer [Class 3A]	Medium sized insurer [Class 3B]	Large insurers [Class 4]	Switzerland (FINMA) All
Principle 1	Equivalent	Partly equivalent	Largely equivalent	Largely equivalent	Largely equivalent	Largely equivalent	Equivalent
Principle 2	Equivalent	Equivalent	Equivalent	Equivalent	Equivalent	Equivalent	Equivalent
Principle 3	Largely equivalent	Partly equivalent	Partly equivalent	Partly equivalent	Partly equivalent	Partly equivalent	Equivalent
Principle 4	Largely equivalent	Not equivalent	Not equivalent	Not equivalent	Partly equivalent	Partly equivalent	Partly equivalent
Principle 5	Largely equivalent	Not equivalent	Not equivalent	Not equivalent	Not equivalent	Not equivalent	Equivalent
Principle 6	Partly equivalent	Not equivalent	Not equivalent	Largely equivalent	Largely equivalent	Largely equivalent	Equivalent
Principle 7	Not applicable	Not equivalent	Not equivalent	Largely equivalent	Largely equivalent	Largely equivalent	Equivalent
Principle 8	Not applicable	Equivalent	Equivalent	Equivalent	Equivalent	Equivalent	Equivalent
Principle 9	Not applicable	Partly equivalent	Partly equivalent	Partly equivalent	Partly equivalent	Partly equivalent	Equivalent
Principle 10	Not applicable	Partly equivalent	Partly equivalent	Partly equivalent	Partly equivalent	Partly equivalent	Largely equivalent
Principle 11	Not applicable	Not equivalent	Not equivalent	Not equivalent	Not equivalent	Not equivalent	Equivalent
Principle 12	Not applicable	Largely equivalent	Largely equivalent	Largely equivalent	Largely equivalent	Largely equivalent	Equivalent

■ Not equivalent
 ■ Partly equivalent
 ■ Largely equivalent
 ■ Equivalent
 ■ Not applicable

Solvency II equivalence

Equivalence assessments (2)

Principle		Article 172	Article 227	Article 260
1	Powers and responsibilities of third country supervisory authorities	●		●
2	Professional secrecy, exchange of information and promotion of supervisory convergence	●	●	●
3	Taking up of business	●		
4	System of governance and public disclosure	●		
5	Changes in business, management or qualifying holdings	●		
6	Solvency assessment (reinsurance)	●		
7	Solvency assessment (all insurers)		●	
8	Parent undertakings outside the community: scope of group supervision			●
9	Parent undertakings outside the community: cooperation and exchange of information between supervisory authorities			●
10	Group system of governance and public disclosure			●
11	Group changes in business, management or qualifying holdings			●
12	Group solvency assessment			●

Summary



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