

IASB MEETING, JUNE 2006
AGENDA PAPER 6A
INFORMATION FOR OBSERVERS
INSURANCE CONTRACTS [EDUCATION SESSION]

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

Alberto Corinti
*CEIOPS Secretary
General*

*IASB Meeting
London, 22 June 2006*

Outline of CEIOPS' structure and work on the Solvency II project

Arguments

- The EU regulatory framework and CEIOPS structure
- CEIOPS and the Solvency II project
 - State of play
 - The framework

The EU Framework

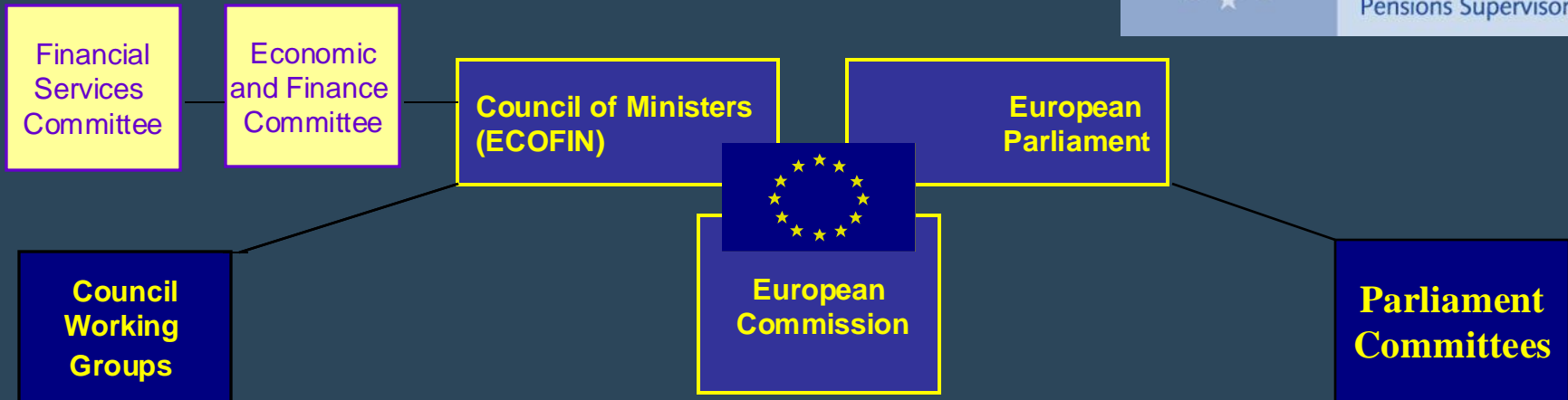
The Four Levels

Level 1 : Framework principles
(EU legislation)

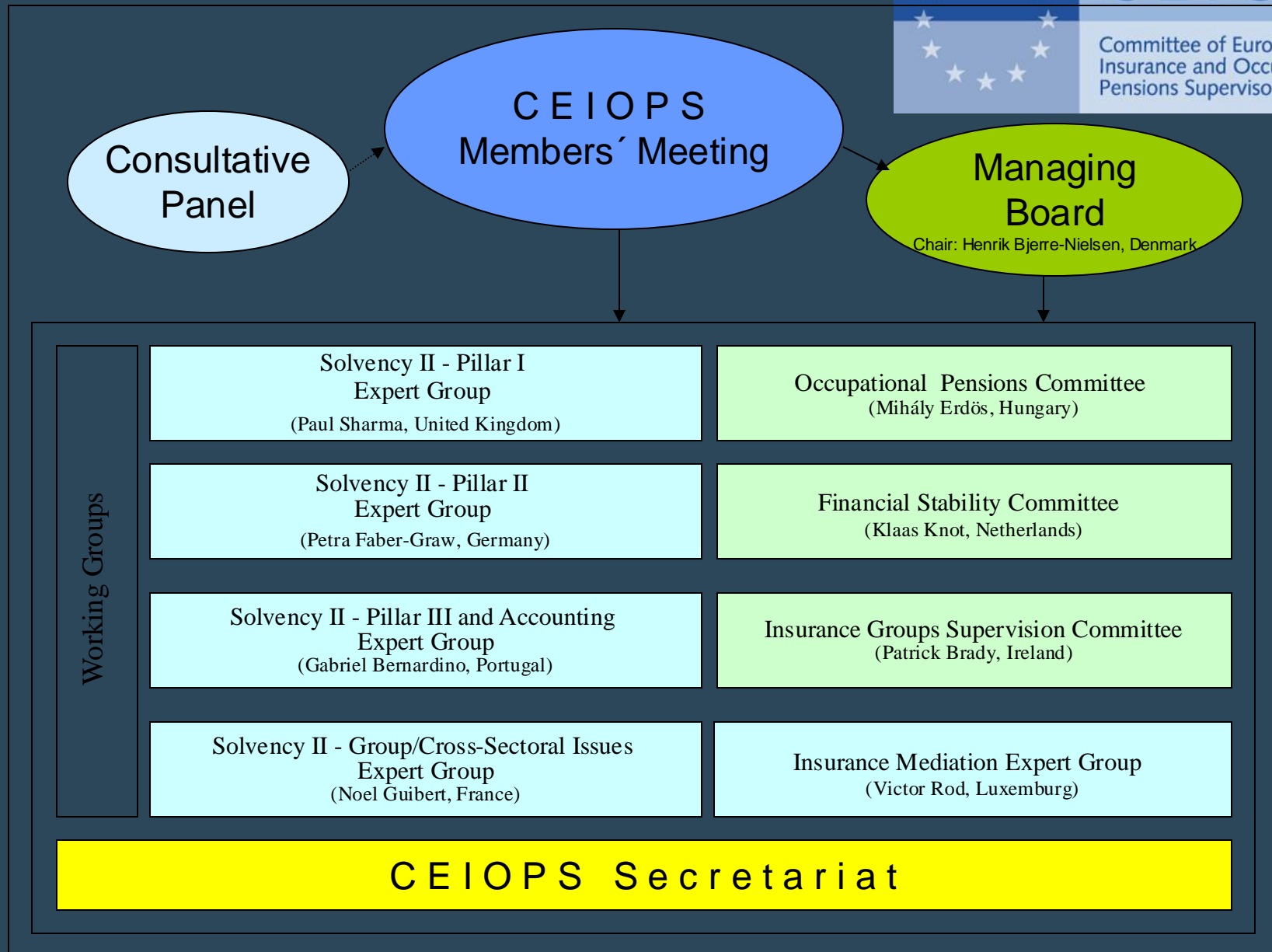
Level 2: Implementing measures
(EU legislation by a comitology procedure)

Level 3: Actual Implementation
(supervisory measures)

Level 4: Enforcement
(traditional infringement procedure)

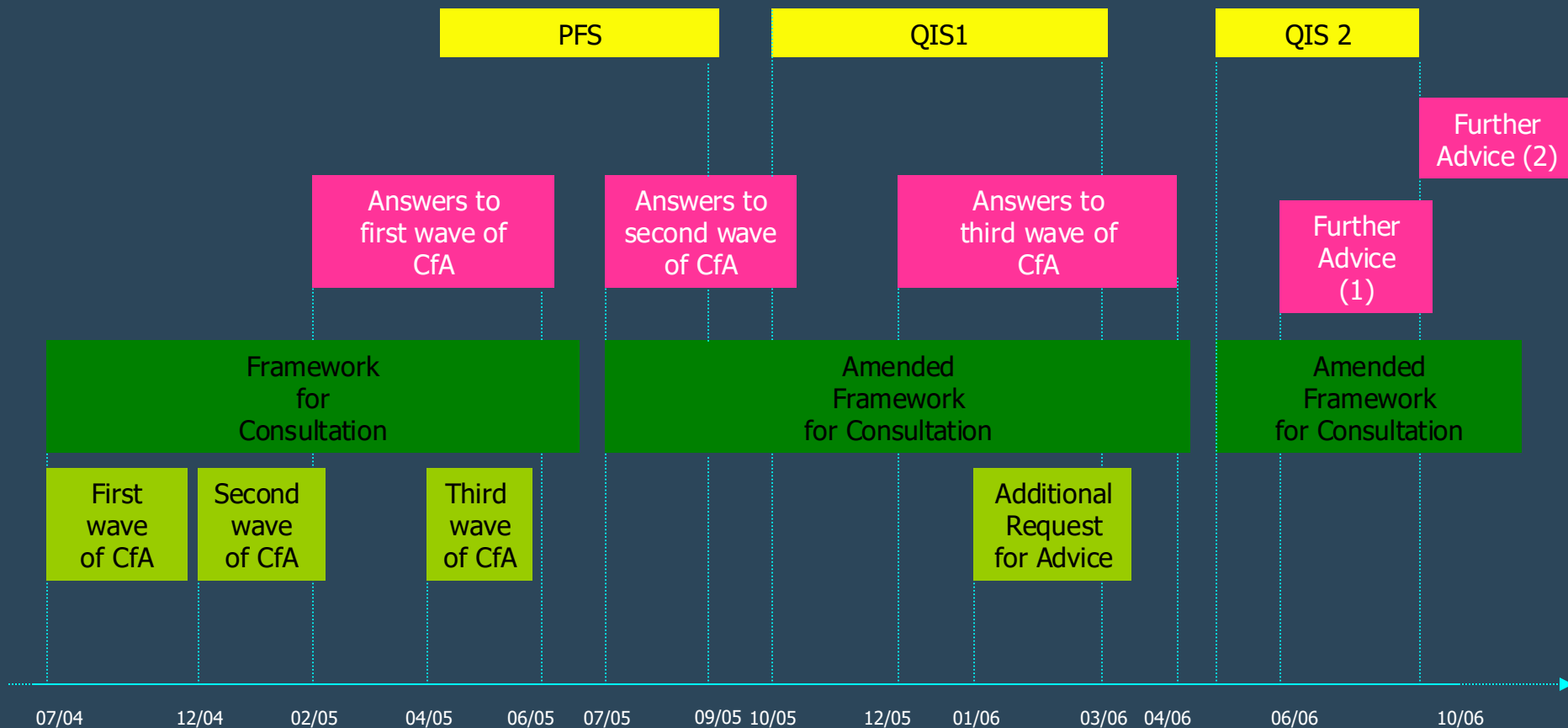


“3L3”



The Solvency II Project

State of the play



The Solvency II Project

State of Play



Expected future advice (Consultation Papers)
in **June 2006**:

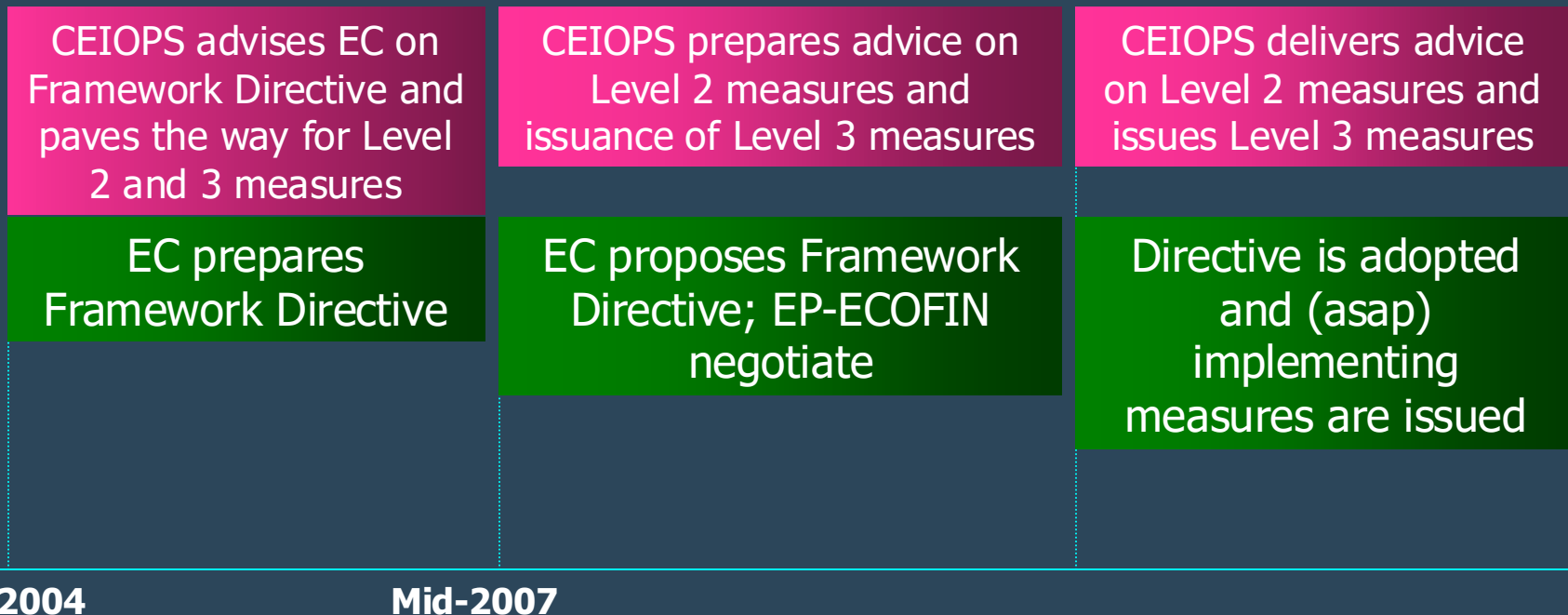
- Supervisory Powers and other Pillar II issues
- Treatment of reinsurers (Pillar II)
- Group diversification effects on SCR
- Sub-group supervision

and in **October 2006**:

- Technical provisions
- MCR and SCR standard formulas
- Other Pillar I issues

The Solvency II Project

“Long term” overview



The Solvency II Project: The Framework



- General features of the new system:
 - should allow supervisors to assess the “overall solvency” of re-insurance undertakings based on a prospective risk oriented approach;
 - based on a three pillar structure, inspired by, but not necessarily identical to, Basel II/CRD
 - contains two capital requirements: MCR and SCR
 - Should give incentive to appropriate internal risk management
 - Should give access to (or require) internal models
 - Should enhance efficiency of group supervision
 - Should be compatible with approach used in banking (when appropriate)
 - Should be compatible with IAIS/IAA work

The Solvency II Project: The Framework

- General features of the new system:

In order to ensure convergence of valuation rules, supervisory reporting and public disclosure, as well as to limit the administrative burden for supervised institutions, the system should be compatible with IASB standards

- Likely outcome of IASB work (Insurance contracts phase II) should be taken into account
- Solvency II will not require full use of IFRS by all insurance undertakings, but
- Prudential rules similar to IFRS will foster wider use of IFRS-like methods.

The Solvency II Project: The Framework

- Pillar I:
 - Technical provisions should be prudent, reliable and objective and should make optimal use of and be consistent with market information
 - They are the sum of a best estimate and a risk margin
 - Best estimate is based on current and credible information and realistic assumptions (e.g. no surrender floors) and equals expected present value of cash flows (discounting)
 - The level of prudence in technical provisions should be harmonized
 - Two working hypothesis for calculating the risk margin
 - SCR as a capital for absorbing significant unforeseen losses (ruin probability of 0,5% in a one year time horizon)
 - Calculation of SCR by a standard formula or (validated) internal model (also partial)
 - MCR as a capital below which ultimate supervisory action would be triggered; its calculation should be robust and simple

The Solvency II Project: The Framework



- Pillar II:
 - Includes qualitative requirements on management
 - The Supervisory Review Process could lead to
 - capital “add on”/measures for reducing risk
 - Increased harmonization of supervisory practices
 - Increased supervisory cooperation and convergence (Peer Reviews)
- Pillar III:
 - Enhanced public disclosure for reinforcing market discipline
 - Harmonization of supervisory reporting

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