Non-life insurance: solvency margin for undertakings (amend. Directive 73/239/EEC)

2000/0251(COD) - 25/10/2000 - Legislative proposal

PURPOSE : to present a proposal for a Directive amending the solvency margin requirements for non-life insurance undertakings. CONTENT : the basic purpose of this Directive is to improve the protection of insurance policyholders by improving rules regarding the solvency of margin of insurance undertakings. A companion proposal (refer to COD/2000/0249) to amend the solvency margin for life assurance undertakings has also been prepared. The two proposals have many common measures and for coherence should be read together. The existing solvency margin requirements were established more than 20 years ago and since then have remain substantially unchanged. Therefore, there was a need to review the solvency margin requirements. With this in mind, the Commission conducted an in-depth analysis and also extensive discussion has taken place and all this work has culminated in the present package of proposals. The present proposal for a Directive significantly clarifies, simplifies, improves and updates the existing rules. Taken as a whole, it represents a significant strengthening and improvement of the current system. Overall, it reinforces the existing system by the following measures: - minimum harmonisation: the harmonised solvency margin (SM) rules are not to be considered strict. Thus, Member States are free to establish more stringent rules for the undertakings they authorise. This approach reflects differences between existing systems and allows national authorities to further strengthen RSM in line with their market specificities; - indexation of MGF (Minimum Guarantee Fund) and premium/claims thresholds: the MGF's have been strengthened and indexed in line with inflation; so have the thresholds for the application of the split percentage rates for the premiums and claims. The number of MGF's has been simplified and reduced to 2 (from 4). Generous transitional periods arrangements are foreseen (5 plus additional 2 years from entry into force); - changes to solvency margin for reinsurance: the existing formula for the reinsurance reduction to the RSM has been slightly improved. It is now based on a three-year average (as opposed to one single year); - increased power of early intervention for supervisors: regulatory supervision has been strengthened by expressely endowing the competent authorities with the power to take remedial action where policyholders interests are threatened; - class enhancement: a higher RSM is now established for non-life classes of business that have a particularly volatile risk profile. These are classes 11, 12 and 13 corresponding to marine, aviation and general liability. The proposal is to increase the current RSM by 50%; - solvency margin requirement for run-off companies: previously the RSM formula produced an unsatisfactory result for insurance undertakings in run-off. This is now corrected by requiring a proportionate run-down in the RSM; - the different items eligible for the ASM have been clarified and categorised into three groups according to their relative financial strength. The eligibility of certain items has been further limited, thus reinforcing the financial quality of thesolvency margin.