

PricewaterhouseCoopers LLP has welcomed the publication by the European Commission of the Draft Framework Directive about the future of insurance regulation in the EU.

Annette Olesen, director, PricewaterhouseCoopers LLP, commented:

“At the heart of Solvency II is a drive towards a European Single Market for insurance, combined with enhanced policy holder protection. This is a welcome move away from the existing patchwork of insurance regulation across Members States towards harmonisation and greater transparency.

“Solvency II is an ambitious proposal that seeks to introduce an economic view of the balance sheet and a risk-sensitive, forward-looking solvency regime. The proposed valuation rules are based on the concept of market consistency and are conceptually in line with the IASB’s recent discussion paper on insurance contract accounting.

“The new solvency requirements are not only about how much capital a company should hold but will drive a change in behaviour, promoting sound risk management and robust internal controls. Solvency II will promote convergence between enterprise risk management and regulatory requirements, potentially impacting strategic decisions in the areas of investment management, capital allocation and pricing. The new rules require disclosure of information publicly to a much greater extent than is currently the case.

“The proposal seeks to streamline the approach to group supervision with the introduction of a dedicated group supervisor and with the potential opportunity for lower capital requirements, recognising diversification across the group. A distinction is made between EU and third-country (non-EU) groups with the introduction of an equivalence concept for regulatory regimes outside the EU. Whilst EU groups may well benefit from these proposals, the full implication for third-country groups is difficult to assess at this point in time and the debate is likely to continue.

“While it presents a significant implementation challenge, the move to Solvency II provides an opportunity for a more informed and forward-looking basis for decision making and could lead to significant changes in the shape of the market in the EU.

“We encourage firms to assess the implications for their business and to make their voice heard during the period of consultation before the Draft Directive becomes law.”