

EPFSF Lunch Discussion

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What are the benefits of Solvency II?

**Speech from Jos Streppel
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Why Solvency II is important

- The industry has long supported the Solvency II process and, in the months to come, it will continue to do so. We believe that Solvency II will ensure a better alignment of supervision with the way the business is managed and therefore will ensure more effective risk and capital management across the European Union.
- Solvency II will strengthen Europe's insurance industry by allowing a level playing field and by creating a better environment that encourages sound risk management based on economic principles and which in turn benefits all stakeholders in the industry, including its customers

Key elements of the framework

- The proposal contains key elements that we consider are vital for a modern solvency regime: a strong focus on risk-management, supported by market-consistent valuation of assets and liabilities. These objectives are strongly supported by the industry as protection of policyholders and beneficiaries is a particularly important objective for stakeholders
- We believe that for policyholder protection to be effective Solvency II must reflect underlying economic reality. This means that the framework should include the following features: An insurer's solvency position should be assessed based on a total balance sheet valued under market consistent methodology; Diversification of risk should be recognized; the use of internal models should be allowed and appropriated credit should be given for risk mitigation (financial hedges such as derivatives, internal and external reinsurance).
- The framework should also reinforce trust in market mechanism by relying on increased transparency.

Two noteworthy elements in the Solvency II debate

- *Relationship between MCR and SCR.*

Both measures need to be consistent, risk-sensitive and robust. To function, the framework should guarantee an appropriate ladder of intervention in case the available capital falls below SCR. It is important to not that the MCR calculation should not prevent recognition of diversification effects.

- *Group supervision and Group support regime*

These features are from a group perspective, the most important element of the directive. Group support introduces the possibility of having a new form of group supervision that is not merely an additional layer on top of individual entity (solo) supervision. Compared to the current supervisory framework, this would be a major innovation as will enhance the competitiveness of the European industry. However, it needs to be done within an adequate framework which guarantees an adequate protection of policyholders.

Sensitive issues under discussion

- Insurers are aware of the sensitivity of some devoted issues. However, even acknowledging the difficulty of these items, the industry considers it important to maintain a coherent economic framework. We are aware that further political discussion will be needed; nevertheless we encourage policy makers to maintain a sound technical framework when deciding on these issues.

Conclusion

- We believe that this project would lead to the creation of one of the most advanced and effective solvency and supervisory systems in the world, thereby strengthening the European insurances industry and enhancing its overall competitiveness.
- This directive is a great challenge for the insurance sector but also for the supervisory authorities over the coming years and is perhaps the most important EU-driven policy work we are engaged upon. We remain committed to contribute constructively to the process.
