MFSA MALTA FINANCIAL SERVICES AUTHORITY

Circular

27 September 2021

Solvency II

Commission adopts a comprehensive review of EU insurance rules (known as “Solvency II”) so that insurance companies can scale up long-term investment in Europe's recovery from the COVID-19 pandemic.

Introduction

This MFSA circular intends to inform licence holders that on 22 September 2021, the European Commission adopted a comprehensive review of EU insurance rules (known as “Solvency II”) so that insurance companies can scale up long-term investment in Europe's recovery from the COVID-19 pandemic.

- a legislative proposal to amend the Solvency II Directive (Directive 2009/138/EC);
- a Communication on the review of the Solvency II Directive;
- a legislative proposal for a new Insurance Recovery and Resolution Directive.

Aim

Today's review aims to make the insurance and reinsurance (i.e. insurance for insurance companies) sector more resilient so that it can weather future crises and better protect policyholders. Moreover, simplified and more proportionate rules will be introduced for certain smaller insurance companies.

Insurance policies are essential for many Europeans and for Europe's businesses. They protect people from financial loss in the case of unforeseen events. Insurance companies also play an important role in our economy by channeling savings into financial markets and the real economy, thereby providing European businesses with long-term financing.

1. A legislative proposal to amend the Solvency II Directive (Directive 2009/138/EC);

   The aim of the review is to strengthen European insurers' contribution to the financing of the recovery, progressing on the Capital Markets Union and the channeling of funds towards the European Green Deal. In the short term, capital of up to an estimated €90 billion could be released in the EU. This significant release of capital will help (re)insurers ramp up their contribution as private investors to Europe's recovery from COVID-19.

The amendments to the Solvency II Directive will be supplemented by Delegated Acts at a later stage. Today's Communication sets out the Commission's intentions in this regard.

Some key points from the package:

- The proposed changes will better protect consumers and ensure that insurance companies remain solid, including in difficult economic times;
- Consumers ("policyholders") will be better informed about the financial situation of their insurer;
- Consumers will be better protected when buying insurance products in other Member States thanks to improved cooperation between supervisors;
- Insurers will be incentivised to invest more in long-term capital for the economy;
- Insurers' financial strength will take better account of certain risks, including those related to climate, and be less sensitive to short-term market fluctuations;
- The whole sector will be better scrutinised to avoid that its stability is put at risk.

2. A Communication on the review of the Solvency II Directive;

In its communication, the CION underlines that the insurance and reinsurance sector has a key role to play to achieve several high priority EU objectives. The review of Solvency II is instrumental in that respect, as it makes the sector more resilient and efficient as well as boosting its capacity for investment.

The Commission therefore calls on the European Parliament and the Council to advance swiftly in inter-institutional negotiations on the amendments to Directive 2009/138/EC – and the creation of a resolution framework for insurers.

3. A legislative proposal for a new Insurance Recovery and Resolution Directive.

The aim of the Insurance Recovery and Resolution Directive is to ensure that insurers and relevant authorities in the EU are better prepared in cases of significant financial distress.

It will introduce a new orderly resolution process, which will better protect policyholders, as well as the real economy, the financial system and ultimately taxpayers. National authorities will be better equipped in the event of an insurance company becoming insolvent.

Through the establishment of resolution colleges, relevant supervisors and resolution authorities will be able to take coordinated, timely and decisive action to tackle problems arising within cross-border (re)insurance groups, ensuring the best possible outcome for policyholders and the broader economy.

Conclusion

The MFSA will be assessing all documents and proposals published. It will also be actively participating in discussions at EU level which commence next month, and will be issuing other informative circulars or request information as necessary and warranted to keep all stakeholders up to date. Notwithstanding, market participants should not hesitate to send any comments or questions they may have.