

## Inappropriate MCR calculation could threaten Solvency II regime

*CEA calls for risk-sensitive approach to calculating minimum capital requirement*

*Brussels, 10 June 2008:* The CEA believes that failure to adopt a risk-based approach to the calculation of the minimum capital requirement (MCR) in the European Commission's proposed Solvency II Framework Directive would perpetuate the disadvantages of the current regulatory system.

"Approaches to calculating the MCR that are not consistent with the overall system could jeopardise the effectiveness of the whole Solvency II regime. The MCR should be appropriately linked to the solvency capital requirement so that both reflect the true risk profile of the insurer," said Michaela Koller, director general of the CEA, the European (re)insurance federation, who was also speaking today at a London conference on Solvency II organised by the Association of British Insurers (ABI).

The proposed Solvency II Framework Directive proposes two regulatory capital requirements, the solvency capital requirement (SCR) and the MCR. The MCR is the level of capital below which policyholders are deemed to be exposed to an unacceptable level of risk and at which the supervisor is obliged to consider ultimate sanctions.

It has so far proved difficult to achieve consensus among stakeholders on the methodology for calculating the MCR. The CEA therefore suggested a compromise solution in which the solo MCR is calculated as a percentage of the SCR. This percentage is then re-expressed as a percentage of the insurer's technical provisions (or premiums as appropriate) to address the issues of legal certainty and auditability as well as to avoid any interim calculation of the SCR.

The CEA believes that other MCR calculation proposals are too simple or too complex. The simple approaches are not sufficiently risk-based and the complex approaches increase the work required without satisfying the underlying regulatory concerns.

The CEA's so-called "compact" approach to the calculation of the MCR is supported by the Chief Risk Officer Forum (see joint letter of 25 January 2008 on the CEA website, [www.cea.eu](http://www.cea.eu)).

"The compact approach strikes a balance between risk sensitivity and simplicity. A risk-based economic approach is an essential prerequisite for the success of Solvency II," said Koller. "We must avoid Solvency I-type principles in the new Solvency II framework."

### Background

Solvency capital requirements for EU insurers have been in place since the 1970s. Following a review required by the third generation Insurance Directives of the 1990s, limited reforms, known as Solvency I, were agreed by the European Parliament and the Council in 2002. The European Commission adopted the Solvency II proposal for a more fundamental and wider ranging review in July 2007 and an amended proposal on 26 February 2008.

The current Solvency II timetable envisages that the Directive will be adopted by the European Parliament and the Council in 2009 and transposed into law in Member States by 2012.

*- Ends*

**Notes for editors**

1. For further information please contact Janina Clark, head of communications & PR (tel: +32 2 547 5812, [clark@cea.eu](mailto:clark@cea.eu)).
2. Copies of all CEA press releases are available on the CEA's website ([www.cea.eu](http://www.cea.eu)).
3. The CEA is the European insurance and reinsurance federation. Through its 33 member bodies, the national insurance associations, the CEA represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. The CEA represents undertakings that account for approximately 94% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of €1 110bn, employ over one million people and invest more than €7 200bn in the economy.