

Industry proposals regarding thresholds for the application of Solvency II

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Summary

The industry proposes to **raise the current thresholds for the application of Solvency II**. Currently, the sheer volume of rules imposed to very small companies is disproportionate and unnecessarily burdensome.

Exempting very small companies from costly and overly complex regulation is necessary to maintain a diversified market.

The companies out of the scope of Solvency II remain under the supervision of national supervisory authorities, in a more appropriate regulatory regime created by national regulators.

Specific proposals

In order to avoid an unnecessary burden, very small companies should be excluded of the scope of Solvency II. For that purpose, the thresholds set in Article 4.1.a and 4.1.b of the Solvency II Directive should be changed as follows:

- €10m for the undertaking's annual gross written premium income [currently €5m].
- €50m for the total of the undertaking's technical provisions [currently €25m].

For the same reason, small companies belonging to a group should be excluded from the scope of Solvency II. The thresholds set in Article 4.1.c of the Solvency II Directive should be changed as follows:

- €50m for the total of the technical provisions of the group, where the undertaking belongs to a group [currently €25m].

In addition, all companies operating in the areas of liability, credit and surety ship insurance risks are currently automatically in the scope of Solvency II, even if they only earn a few hundred euros in premiums, for a negligible proportion of the company's total risk exposure. Article 4.1.d of the Solvency II Directive should provide extra exclusion thresholds to better reflect the market situation, ie liability, credit and surety ship insurance risks as an ancillary operation for small insurers:

- €0.5m of gross written premiums or €2.5m of technical provisions for liability, credit and surety ship [currently no threshold].

The current thresholds for reinsurance activities should be adjusted accordingly to the above, while maintaining the relative threshold to ensure reinsurance remains an ancillary risk for companies out of the scope of Solvency II. The thresholds set in Article 4.1.e of the Solvency II Directive should be changed as follows:

- €1m of the undertaking's gross written premium income or €5m of its technical provisions gross of the amounts recoverable from reinsurance contracts and special purpose vehicles, or more than 10 % of its gross written premium income or more than 10 % of its technical provisions gross of the amounts recoverable from reinsurance contracts and special purpose vehicles [currently €0.5m premium, €2.5m provisions and 10% of provisions].

No changes are needed to Article 4.4 of the Solvency II Directive, which foresees that exclusion from the Solvency II scope due to size shall not apply when a company makes use of the right of establishment or the freedom to provide services.

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