Group supervision in Solvency II
Additional input questionnaire from the Netherlands

In this paper we would like to touch upon an un-intended consequence of the current legislation on group supervision in Solvency II.

Currently the Solvency II Directive unintentionally encourages international insurance groups with activities in non-equivalent third countries with their head office in the EU to move their head office out of the EU. This is caused by the requirement that an international insurance group is required to comply with the Solvency II valuation rules and capital requirements for all their (non-equivalent) third country insurance business. This results in a double set of prudential rules for this third country insurance business: the local and Solvency II prudential rules. For the part of the group that is located outside the EU, it will result in double supervisory filing requirements, making the default SII consolidation method for group supervision an incentive to move the head office outside the EU. This solvency II information doesn’t give information about any risk that the insurance group could be close to a breach of local (non-EU) capital requirements. If such an event occurs, the insurance group could initiate a transfer of required own funds from its EU operations towards the non-EU part of the group. The current SII framework does not provide insights or warnings for such occurrences.

Moving a head office outside the EU would not result in an improvement of the prudential supervision of such a group. Hence, an EU supervisor will receive less or even no supervisory information from the head office once it is located outside the EU. Also, it would reduce the business activities of such a group within the EU and thereby negatively influence the employment possibilities of EU citizens.

Only in the case that the EC or EIOPA has decided that a third country is equivalent or temporarily equivalent an insurance group may apply for the deduction and aggregation method in group supervision and will send the local supervisory capital positions to the group supervisor.

Our proposal is therefore to delete the equivalence requirement for using the deduction and aggregation method for calculation the Solvency requirements in group supervision for in Europe insurance groups with their head office in the EU that own insurance companies that are located and supervised outside the EU. This would improve the policy holder protection of policy holders within the EU as well as the international level playing field of in Europe located international groups.