Financial Services
Commission

Response to Consultation Paper

Proposed Solvency II Levy to be paid by Gibraltar licensed insurers

Date of Paper : 14 August 2014

Version Number : V2.00

Summary

The Commission is proposing to apply a Levy on Gibraltar insurers covering the period up to the implementation of the Solvency II regime in Gibraltar, currently expected to be 1 January 2016. The Commission will not be amending any other fees at this time.

The Levy will be used to cover the extraordinary and one-off expenses to be incurred by the Commission during the periods 1 June 2014 to 31 March 2015 and from 1 April 2015 to 31 December 2015 in operating its Solvency II Implementation Project.

These expenses will include:

(a) hiring a Project Manager;

(b) contributing to the costs of a Consultant currently preparing a regulatory reporting IT solution for the Commission;

(c) contributing to the costs of a Business Change consultant who will assist the Commission in adapting its procedures and processes to comply with EIOPA's Supervisory Review Process; and

(d) engaging the services of other specialists to work on specific aspects of the Solvency II framework.

The expenses will not include salaries and related costs of existing Commission employees, who will continue to support the implementation work. The Levy will not be used to cover costs of the IT solution that the Commission will adopt to facilitate regulatory reporting nor any other general expenses of the Commission. The Commission is developing a common IT solution to allow it to meet its obligations in respect of COREP, AIFMD and Solvency II reporting.

Income from the Levy will be ring-fenced within the Commission's accounts, maintained in a separate bank account and will not be used for any purpose other than as described above.

The Commission estimates that the recoverable costs that it will incur in the current financial year ending 31 March 2015 will total £400,000, with costs for the remaining period up to 31 December 2015 totalling £350,000, i.e. a total of £750,000.

The Commission proposes that the basis of the Levy calculation will comprise two elements; Gross Written Premiums ("GWP") and Gross Technical Liabilities ("GTL"), for which the Levy for the period ending 31 March 2015 for each element would be based on the following table:

Size	*GWP Levy*	*GTL Levy*
Less than £5m	£2,000	£2,000
≥ £5m and < £25m	£3,000	£3,000
≥ £25m and < £100m	£4,000	£4,000
≥ £100m and < £250m	£7,500	£7,500
≥ £250m	£10,000	£10,000

The Levy payable by Insurers who have not yet had a financial year end will be based on the projected gross written premiums and gross technical liabilities for the first period of business annualised. The Levy payable for all other insurers will be based on gross written premiums and gross technical liabilities in the financial year immediately preceding the due date for payment of the Levy. Technical liabilities in respect of property linked liabilities will not be included. For those with a 31 December year end the amount will be based on the 31 December 2013 figures.

The Commission intends to reduce the Levy paid by Captive (re)insurers by 50% from the relevant base Levy.

Any applicant that receives 'in principle' approval from the Commission to be licensed as a Gibraltar insurer will be required to pay the relevant levy prior to receiving its licence.

The factors to generate the Levy for the period from 1 April 2015 will be calculated closer to the time. Invoices for this period will be sent out on 1 April 2015 and will be payable within 30 days.

The Commission does not rule out the possibility of introducing application fees for those Gibraltar insurers that seek approval for:

(a) undertaking specific parameters in accordance with Article 104(7) of the Solvency II Directive; or

(b) a full or partial internal model in accordance with Articles 112 and 113 of the Solvency II Directive.

Basis of consultation

The Commission is committed to consulting in an open, transparent and accountable way and welcomes any comments and/or observations from the industry. We would like to thank those individuals and organisations who took the time to respond. As mentioned in the consultation paper, the Commission previously informally consulted the Gibraltar Insurance Association.

A total of 4 responses were received, all of these were from insurance companies.

Outcome of consultation and summary of responses received

One respondent advised that it considered the proposed levy to be fair and reasonable, although it would like to have clarification as early as possible of the Commission's approach to the internal model approval process, including time-frames and an indication of any cost structures. The Commission has not yet made a decision on the quantum or timing of internal approval fees or any other additional fees it may wish to introduce.

Two respondents requested clarification as to how the run-off criteria would apply. The Commission will not apply the Levy to firms which, in its sole opinion, will not fall with the scope of Solvency II supervision. Such firms will include those that are, at the Levy payment date:

- in Liquidation; or
- in Provisional Liquidation; or
- subject to a Direction issued under section 105 of the Financial Services (Insurance Companies) Act prohibiting them from undertaking new business and have satisfied the Commission that they will terminate their activity before 1 January 2019.

One respondent enquired whether there would be one Levy for a Protected Cell Company ("PCC") or whether a Levy would be payable by each Cell. The Commission will apply the levy to the PCC, not to individual cells.

Two respondents advised that they were happy with the proposed approach.

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