PEIF

Valdis Dombrovskis
Vice-President
European Commission
Rue de la Loi / Wetstraat 200
1049 Brussels

Pan-European Insurance Forum's views on the changes in the UFR methodology in Solvency II

Munich, 26 April 2017

Dear Commissioner,

I am writing to you in capacity of Chairman of the Pan-European Insurance Forum (PEIF), a forum for the CEOs of major European insurers (Aegon, Allianz, AVIVA, AXA, GENERALI, MAPFRE, Munich Re, Prudential Plc, RSA, Swiss Re, UNIQA, and Zurich) to exchange and present views on policy and regulatory issues amongst themselves and with others.

Recently EIOPA's Board of Supervisors introduced a new methodology for setting and updating the Ultimate Forward Rate (UFR) to become effective from January 2018 onwards as part of the broader EIOPA risk free rate calculation framework. As a consequence the current stable UFR level of 4.2% for Euro denominated insurance liabilities will be lowered in yearly steps of 15bp towards a target of 3.65% under current economic conditions. The UFR target and level will be updated each year taking into account the most recent data on interest rate level and inflation.

We acknowledge that ahead of this decision EIOPA conducted an impact assessment and subsequently improved the methodology to strike a better balance between the need of stability – as requested by the Solvency II directive – and reflecting changed expectations regarding future interest rates underlying the UFR estimate.

However, we remain concerned about the timing chosen by EIOPA to apply substantial changes to one of the fundamental elements of the long-term guarantee compromise that underpinned the implementation of Solvency II, while not considering the interplay with other key elements (such as the volatility and matching adjustment). Modifying the UFR in isolation is inconsistent with the political compromise and may distort the overall balance and dynamics of the Solvency II framework. Since the long-term guarantee measures are scheduled for review in 2020 it seems inappropriate to selectively bring forward one element of that package without closely considering the other elements.

As such, we would like to urge the Commission to ensure a balanced and consistent further development of Solvency II with a view to support growth and ensure financial stability in Europe to allow insurers to provide long term products and fulfil their underlying long-term investment role. The upcoming review of Solvency II would provide an opportunity to consider the nexus of the UFR with other elements of Solvency II including the LTG package appropriately. As an alternative, the suggested UFR changes could be implemented as originally foreseen by Solvency II as part of the LTG review in 2020 only.

Oliver Bäte
Chairman of the Pan-European Insurance Forum

About the Pan-European Insurance Forum (PEIF)

PEIF is an informal forum for the CEOs of major European insurers (Aegon, Allianz, AVIVA, AXA, Generali, MAPFRE, Munich Re, Prudential Plc, RSA, Swiss Re, UNIQA, and Zurich) to exchange and present views on policy and regulatory issues amongst themselves and with others. PEIF companies represent around two-thirds of the STOXX® Europe Insurance.

PEIF Secretariat: peifsecretariat@allianz.com

EU Transparency Register: 03667978021-69