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Cc: Kai Wynands, Head of Cabinet; Andrea Beltramello, Member of Cabinet; Olivier Guersent, Director General DG FISMA

Pan-European Insurance Forum's views on the Solvency II Review

19 June 2018

Dear Vice-President,

I am writing to you in my capacity as Chairman of the Pan-European Insurance Forum (PEIF), a forum for the CEOs of major European insurers to exchange and present views on policy and regulatory issues amongst themselves and with others.

PEIF members support Solvency II as the most advanced risk-sensitive insurance regulation world-wide, built on broad political consensus and serving strong policyholder protection while also considering financial stability. However, it is currently overly conservative in certain areas and we have, since before its launch, highlighted areas that need improvement.

The impending Solvency II reviews in 2018, addressing the Standard Formula, and 2020, relating to the long-term guarantee package, are rightfully targeted at adjusting for unintended economic consequences and for changes in the economic environment and should be based on careful impact assessments. In this context PEIF is concerned about EIOPA's current own initiatives which would result in a piecemeal approach to amending Solvency II without considering the cumulative impact that ultimately could challenge the underlying political compromise as well as the economic balance of Solvency II.

Changes to Solvency II should be based on the real underlying risks and not driven by undue conservativism. The focus of Solvency II reforms should be on removing unnecessary barriers which limit the ability of the insurance sector to contribute to economic growth and long-term financing of the real economy while not compromising on the current high level of policyholder protection. It is crucial that the regulatory framework allows the insurance industry to continue contributing to economic development by contributing to financial stability, by facilitating trade and commerce, by mobilizing savings, by enabling risks to be managed more efficiently, by encouraging loss mitigation and fostering a more efficient capital allocation.

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Solvency II encompasses a number of very conservatively calibrated elements, such as capital covering a 1-in-200 year loss and technical liabilities including a risk margin to provide upfront-funding of capital costs in case of portfolio transfers, removing a total of €200bn of capital from the industry's overall available Solvency II capital. This reduces our capacity for taking risks on behalf of customers and for investment in support of the productive economy and in line with the political objectives of the EU growth program. In order to strike an optimal and politically acceptable balance, EIOPA's proposals – including on underlying technical parameters and requirements – should be subject to the full political and legislative process. In particular, political decisions need to be made regarding proposals to increase prudence of the parameters of the interest rate term structure (i.e. UFR methodology, last liquid point, convergence period) and to simultaneously tighten the interest rate risk calibration. These changes further reduce the industry's risk taking capacity, and should rather be part of the wider review due in 2020. Another example is an overly restrictive approach to the eligibility of the loss absorbing capacity of deferred taxes in capital requirements. There are however, known issues where calibration is excessive, such as the risk margin where the Commission can and should act now. The industry engaged closely with EIOPA on the Cost of Capital and provided well founded evidence and rationale to support a lower rate. EIOPA's proposal to leave cost of capital rate at its current value of 6% is based on technical errors and inconsistencies with requirements set by the Solvency II directive (see Annex on Risk Margin for more details).

Furthermore, fundamental questions such as improving counter-cyclical tools in Solvency II should be addressed by a better reflection of the long-term business model in the current liability discounting approach rather than by a potential addition of new macro- prudential tools.

PEIF strongly supports that all Solvency II review elements are considered in an integrated way based on a comprehensive impact analyses and following a full political process.

We would welcome the opportunity to discuss this topic in further detail with you.

Best regards,

Thomas Buberl
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, 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.

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