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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 2020 Solvency II Review**

16 November 2018

Dear Vice-President,

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

I would like to thank you for your letter of 18 July responding to the PEIF's analysis of the 2018 and 2020 Solvency II reviews. As previously expressed, the PEIF supports Solvency II for being the most advanced economic, risk-sensitive insurance regulation world-wide, built on broad political consensus and ensuring strong policyholder protection while considering financial stability. At the same time, it is important and therefore welcome to allow for a regular reflection on the functioning of Solvency II. As the 2018 review is entering its final stage and the Commission is about to launch the preparation of the 2020 review with a Call for Advice to EIOPA expected soon, PEIF members wish to reiterate their willingness to actively contribute to the review by laying out the fundamental principles and areas which, in our view, should underpin this important initiative.

First and foremost, it is essential we acknowledge the merits of Solvency II in terms of advanced risk-management and supervision, which confirmed the sector's strong capitalization. The framework's economic nature and risk-based approach constitute key building blocks which should be preserved. Likewise, internal models are essential tools that allow for tailored risk management and supervision and it is therefore of concern to see various initiatives to further challenge their use. While maintaining the framework's economic nature, a key priority of the review should be to address excessive conservatism and insufficient reflection of the long-term products and investments. It should ensure that no further tightening is enacted so that the industry is able to provide attractive products to customers while also contributing to growth in the future.

On this point, PEIF members can only welcome your view of the need to take a holistic approach and to carefully assess the cumulative impact of all potential amendments on insurers' investment behavior. This is indeed the only way to make sure the pivotal role insurance plays both in the economy and in society, is duly considered, and that Europe can fully benefit from the presence of leading well-diversified institutions that are able to help meet the challenges of today and tomorrow.

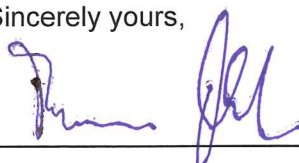
Insurers are indeed well-placed to design innovative solutions to manage new or increased risks that individuals, companies or societies face as a whole, be it insuring new forms of mobility or cyber risks, or complementing a financially constrained public sector with further long-term retirement savings for increased longevity or extended health insurance. Reinsurers support and expand the ability of insurers to take on risk, which requires adequate recognition of all forms of reinsurance. Moreover, with their EUR c.10 trillion balance-sheet, the European insurance sector can be decisive contributors to the European Commission's ambitious Action Plans on Capital Markets Union and Financing Sustainable Growth.

An exhaustive impact assessment should be evidence-based and serve to identify the areas where the insurance business model is insufficiently reflected and, conversely, where excessive prudence exists. While maintaining strong policyholders' protection, it should also take into account protection of policyholder interests in terms of product pricing, availability and innovation. In addition, it should ensure the sector's competitiveness is weighed vis-à-vis major third countries. The Long-Term Guarantee measures should be reassessed to better reflect the long-term nature of the insurance business and insurers' investment portfolio. Indeed, insurers play an essential role in providing long-term products to customers and long-term funding to the economy, which also serves as a financial stabilizer. PEIF members also appreciate the Commission's interest in further examining the design of the risk margin, which represents around EUR 200 billion and has a significant impact on the industry's risk-taking capacity. PEIF, along with other European trade bodies, had already identified the inadequate calibration of the Cost of Capital in the context of the 2018 review. The treatment of non-proportional reinsurance must also be reviewed. Finally, existing governance (Pillar II) as well as reporting requirements and deadlines under Pillar III (SCFR, RSR) provide another avenue for possible revisions given their sometimes excessive nature and restrictive timeframe.

Lastly, PEIF members maintain that the Solvency II review should take place in an open public debate format as it touches upon major economic and social choices. The Commission as well as Member States and the European Parliament should all be fully and actively involved. Any newly envisaged measures should be subject to a full political and legislative review and endorsement process to ensure they establish the right balance. This is why PEIF members are concerned about the emerging desire to develop a European-specific macroprudential framework with no clear political mandate nor any informed economic impact assessment. Such an initiative not only risks duplicating existing effective tools already put in place by Solvency II but could also jeopardize Europe's competitiveness and long-term growth potential.

PEIF members would appreciate the opportunity to discuss this topic with you in further detail.

Sincerely yours,



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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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