To: Olivier Guersent
Director General, DG Financial Stability, Financial Services and Capital Markets Union
European Commission

Cc: Didier Millerot
Head, Insurance and Pensions Unit
European Commission

Our reference: ECO-19-083

Subject: Emerging concerns on EIOPA's work on Solvency II 2020 review

Brussels, 12 September 2019

Dear Olivier,

In March 2019, Insurance Europe and the CFO Forum wrote to the European Commission highlighting the industry's views on key elements in the Call for Advice on the Solvency II 2020 review. We are now writing to bring to your attention emerging concerns with respect to the European Insurance and Occupational Pensions Authority's (EIOPA) current work.

The European industry strongly supports the Solvency II framework and we have highlighted this on many occasions over recent years. The industry needs stability in the framework.

While the overall framework works well, it is already conservative, so the outcome of the 2020 review should not be an increase in capital, and for certain products, a better reflection of the real risk should lead to a justified release of capital. There is a strong desire for simplicity and therefore the potential complexity of improvements need to be assessed, as well as their potential benefits. Any changes should also be economically justified and based on sound risk management principles.

At this stage, we are unfortunately very concerned by EIOPA's work on the review. Its early proposals point to a piecemeal approach with no clear objective and potentially significant increases in capital and/or costs. We believe that this course of action is clearly contrary to the Commission's intended objectives: unlocking funding for Europe's growth and ensuring the availability of long-term insurance products.

We remain fully committed to working with all the institutions involved on a meaningful review process, which should result in refinements and improvements to ensure that the insurance industry can:

- support greater economic growth within and across the EU;
- provide a diversified and affordable choice of insurance products;
- be the source of capital for long-term and sustainable investments; and
- continue to be competitive internationally.

Please find below key areas on which we have concerns at this stage in the process:

- **Change to the last liquid point (LLP) of the risk-free rate curve:** This is currently set at 20 years for the euro and should remain so. The industry needs stability in this area and other areas of the interest rate curve (namely the extrapolation methodology and the UFR) to avoid unnecessarily disrupting existing risk management and ALM practices.

- **Volatility adjustment (VA):** There is a broad consensus that some improvement to the VA is needed. While some ideas with some helpful potential were discussed at the workshops, we are concerned that EIOPA appears to be considering changes that would make this measure less rather than more effective.
- **Risk margin**: The current level of the risk margin is excessively high and its volatility unjustified. There are a number of technical justifications for lowering the risk margin and its associated cost of capital. We are concerned that EIOPA is not assessing potential improvements in this area and that no discussion on the points raised in the Call for Advice were included in the EIOPA workshops.
- **Dynamic VA:** This is a key tool that allows Solvency II's total balance sheet approach to be appropriately reflected in the spread-risk module for users of both internal models and the standard formula. EIOPA appears to be ignoring this perspective, despite the fact that spread risk is an area mentioned in your Call for Advice on the CMU.
- **Long-term investments:** EIOPA should work on sound and simple technical proposals to support long-term investments. An assessment of the success of recent measures introduced on long-term investment (unrated debt, unlisted equity, long-term equity, infrastructure) would be welcome.
- **Macroprudential/Recovery and resolution:** The very limited relevance of systemic risk for insurers and the very comprehensive nature of Solvency II mean that there is no justification for significant further supervisory tools. In particular, new capital requirements and new limits or intervention points would run counter to the overall risk-based nature of Solvency II and should be avoided.
- **Reporting requirements:** There is a clear need to reduce the cost and burden of Solvency II reporting requirements. However, EIOPA's current draft proposals could actually increase the overall burden. For internal model users, the standard formula would not provide meaningful results in most cases and cannot be used as a comparison tool.
- **Review of interest rate risk:** Any decision on changes in this area must be made very carefully, as they can have an enormous impact on insurers' long-term business model. It is important that, in its work and upcoming consultations, EIOPA considers different proposals to those in its 2018 review.
- **Treatment of future premiums:** We are concerned that EIOPA is considering changes to the treatment of future premiums — in both the definitions of own funds (tiering) and contract boundaries — which could have a material impact on the solvency positions of companies and further constrain long-term investment. Expected profits included in future premiums should be retained as unrestricted tier 1.
- **Transitionals:** These have played a key role in allowing the industry to adapt to the significant changes introduced by Solvency II and we are concerned that EIOPA has raised ideas for limiting their use. The transitionals should be allowed to run off over time and not be changed.

As a more general point, we strongly believe that EIOPA should focus its resources on the areas the Commission requested it to, not on own initiatives. For instance, EIOPA has put significant effort into macroprudential elements not asked for by the Commission, yet we are not aware of any work in the area of risk-mitigation tools, where the treatment of non-proportional reinsurance needs to be fixed.

Looking ahead, we believe **it is key that all proposals are appropriately tested and their impact properly assessed**. We appreciate that the Commission has already asked EIOPA in its Call for Advice for a "holistic and robust impact assessment". It will be very important to take all relevant elements into account to avoid a misleading impact assessment. We would kindly encourage the Commission to insist that EIOPA produces a holistic impact assessment that takes into account:

- changes that are not yet in force but are likely;
- different economic environments, including the current one of extremely low interest rates and spread levels; and
- proposals made by the industry.

Thank you for considering the above-mentioned points. We look forward to continuing the dialogue.

Yours sincerely,

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About Insurance Europe
Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of more than €1 200bn, directly employ over 950 000 people and invest over €10 200bn in the economy.

About the Pan-European Insurance Forum (PEIF)
The PEIF is a forum for the CEOs of major European headquartered international (re)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 impacting the European insurance sector. PEIF aims to promote a better understanding and recognition of the role of the insurance business model in the European Union and to provide its Members with the opportunity to discuss major policy and strategic issues affecting the insurance business in Europe and worldwide.

About CFO Forum
The European Insurance CFO Forum ('CFO Forum') is a high-level discussion group formed and attended by the Chief Financial Officers of major European listed, and some non-listed, insurance companies. Its aim is to influence the development of financial reporting, value based reporting, and related regulatory developments for insurance enterprises on behalf of its members, who represent a significant part of the European insurance industry.

About CRO Forum
The CRO Forum is a group of professional risk managers from the insurance industry that focuses on developing and promoting industry best practices in risk management. The Forum consists of Chief Risk Officers from large multi-national insurance companies. It aims to represent the members' views on key risk management topics, including emerging risks.