VALDIS DOMBROVSKIS
Vice-President of the European Commission

Mr Roberto GUALTIERI
Member of the European Parliament
Chair of the Committee on Economic and Monetary Affairs
EUROPEAN PARLIAMENT
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Brussels, 27 NOV. 2018
Ares (2018)

Dear Chairman, dear Roberto!

I am writing in response to your letter of 18 September 2018 on the review of the Delegated Regulation (EU) 2015/35 ('*Solvency II DA*') and the suggestions that you outlined in that letter.

On the treatment of equity investments, you ask for further encouragement of long-term investment strategies. As mentioned by my services during the scrutiny slot on 18 May, the Commission shares the objective of avoiding unduly high capital requirements for investment in the real economy and in particular for equity investments. For this reason, we will introduce, within the 2018 review, a new asset category of long-term equity investments subject to tailored prudential criteria and a shock of 22%.

Also related to insurers' equity investments, you propose exploring a possible simplification of the correlation matrix between different asset classes. We will take your suggestion into account in an upcoming request to EIOPA for technical advice in advance of the review of the Solvency II Directive in 2020 ('*2020 review*'). Other preparatory work for the 2020 review is already ongoing, in particular related to DG FISMA's request to EIOPA for information on insurers' behaviour as long-term investors and related risks. EIOPA's work will inform any further conclusions to be drawn by the Commission on the treatment of equity investments.

Moreover, you raise the issue of uncertainty and related cliff-edge effects regarding the activation of the "national component" of the volatility adjustment as referred to in Article 77d (4) of Directive 2009/138/EC the ('*Solvency II Directive*'). To address your concerns on uncertainty in the market, we are liaising with EIOPA to explore whether the frequency of the publications of the volatility adjustment by EIOPA can be increased beyond the current monthly schedule. We believe this would serve three objectives: 1) improve the transparency, prudence, reliability and objectivity of the process in the short term; 2) facilitate dialogue between supervisors and insurance undertakings during periods of increased market spreads; and 3) provide more quantitative evidence to inform the 2020 review.

Referring to your proposal for changing the activation of the national component, we note that the relevant mechanism is set out in the Solvency II Directive. While we are aware of the sensitivity of the activation to the daily levels of credit spreads, the legal framework does not seem to allow modifications within a Delegated Act.

Regarding the recalibration of the premium risk parameters, you refer to a potential underestimation of the impact for the credit and suretyship line of business by EIOPA. However, EIOPA performed its impact assessment for the recalibration on the full sample of EEA non-life insurers using data available from supervisory reporting[1]. As regards the impact of the changes, we take note of your concern on possible disruptions and we will move the application date for the respective changes to 1 January 2020 in order to allow affected trade credit insurers sufficient time to prepare.

Turning to the risk margin, you refer to its high aggregate level although this balance sheet item makes up less than 1.5% of EEA insurers' balance sheets[2]. For the current review, the Commission decided to look at the Cost of Capital rate, currently set at 6%. EIOPA provided an extensive analysis on this matter as part of its technical advice and concluded that, if changed, the cost of capital rate would have to be increased. EIOPA advised to maintain the current level of 6% and the Commission intends to follow this recommendation in the interest of the stability of the regulatory framework. However, we will ask EIOPA to conduct a broader analysis of the risk margin as part of its advice on the review of the long-term guarantee measures in 2020.

Finally, I welcome your continued support for the Action Plan on Financing Sustainable Growth adopted by the Commission on 8 March. In line with this Action Plan, we submitted a Call for Opinion to EIOPA on 28 September asking for its assessment on the impact of Solvency II on sustainable investments. The Commission will take the EIOPA advice into account for the 2020 review.

Yours sincerely,

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Valdis DOMBROVSKIS

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[1] See section 24.5 of EIOPA's second set of the technical advice on this review:
https://eiopa.europa.eu/Publications/Consultations/EIOPA-18-075-EIOPA_Second_set_of_Advice_on_SII_DR_Review.pdf

[2] Based on EIOPA statistics at solo-level for the year 2016:
https://eiopa.europa.eu/Publications/Insurance%20Statistics/SA_Balance_Sheet.xlsx