

VALDIS DOMBROVSKIS

Vice-President of the European Commission

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Brussels,
Ares (2019)

Dear Mr Brandstetter,
Dear Mr Buczkowski,

I am writing in response to the letter of 30 November 2018 from Insurance Europe and AMICE on the review of Delegated Regulation (EU) 2015/35 ('Solvency II Delegated Regulation').

The amended Solvency II Delegated Regulation, which the Commission adopted on 8 March, is part of the Action Plan on Building a Capital Markets Union. It addresses several issues that you and others raised in the Call for evidence on the EU regulatory framework for financial services. In particular, the Delegated Regulation will enhance proportionality and remove several of the technical inconsistencies that you identified. It will also facilitate insurers' investments in private equity and privately-placed debt. On this, we decided to go beyond EIOPA's advice by not limiting the amount of unlisted equity or unrated debt that may benefit from the new preferential treatment.

The Commission did not follow EIOPA's advice on interest rate risk. In addition, the Delegated Regulation clarifies the framework to change parameters such as the ultimate forward rate and the last liquid point, with the objective of increasing transparency, prudence, reliability and consistency over time.

I would like to come back to the four specific items that you mentioned in your letter.

Regarding the creation of a new asset class for long-term investments in equity, you considered that some of the eligibility criteria, namely the ring-fencing requirement and the minimum average holding period of 12 years, were inadequate. To address your concerns, we significantly reduced the minimum holding period requirement to 5 years. We also removed any reference to ring-fencing, while preserving the underlying concept of matching the portfolio containing long-term equities with a portfolio of clearly identified liabilities, with no possibility for the assets portfolio to absorb losses arising from other activities of the undertaking. This new preferential treatment will help to achieve the Capital Market Union objective of facilitating insurers' long-term investments in European companies, while preserving the level of prudence of the Solvency II framework.

You also referred to the high aggregate level of the risk margin. You considered that the cost of capital rate, that is used to compute the risk margin, should be lowered. In response to our call for advice, EIOPA provided an extensive analysis on this matter 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 decided to follow this recommendation in the interest of the stability of the regulatory framework. However, my staff asked EIOPA to conduct a broader analysis of the risk margin as part of its advice for the review of the Solvency II Directive in 2020.

You also drew my attention to issues regarding the design and calibration of the volatility adjustment. I note that the concerns regarding the triggering of the country component directly stem from the provision in Article 77d (4) of the Solvency II Directive. To address them, we asked EIOPA to provide advice on how to improve the functioning of the volatility adjustment in the context of the review of the long-term guarantee measures in 2020.

Finally, you requested the Commission to reconsider the provisions of the draft Delegated Regulation that frame the calculation of the loss-absorbing capacity of deferred taxes. On this topic, I note that there are currently widely diverging practices between national jurisdictions, especially regarding the hypotheses of future profits, which cannot be justified by differences in tax regimes. Our amendments will improve the level-playing field between national markets, while having a limited impact on insurers' capital requirements at aggregate level. However, in order to address your concerns, we decided to postpone the date of entry into application of the new requirements for the loss-absorbing capacity of deferred taxes to 1 January 2020. This will give more time for stakeholders to implement the new prudential rules and associated reporting requirements.

I take this opportunity to thank you for the valuable inputs that you provided throughout the whole process of review of the Solvency II Delegated Regulation.

Yours sincerely,



Valdis DOMBROVSKIS