

To: Economics & Finance Committee, Solvency II WG, Public Affairs & Communications Committee
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Subject: EP ECON Exchange of views on SII & IRRD, 20 April - Summary

Summary

On 20 April, the European Parliament's Committee on Economic and Monetary Affairs (ECON) held a first exchange of views on the Solvency II review and Insurance Recovery and Resolution Directive (IRRD) proposals. Members will find below a short summary of the main points raised by MEPs.

The full recording of the meeting can be viewed [here](#).

Solvency II

- Markus Ferber (EPP, DE) – Rapporteur
 - He stated that, even though since Solvency II (SII) came into force the world has changed, the objectives have remained the same, regarding both policyholders and EU economy.
 - Insurers must be recognized and incentivized as long-term investors, especially in light of the Green Deal and the digitalization challenges that require huge effort of investments. The role of the co-legislators is therefore to strike a good balance between these objectives.
 - According to Ferber, SII is too conservative. Namely, investment products (eg life insurances) are not sufficient for a proper asset building, given the fact that many people use life insurance not only to cover their risks but to build up capital in the long term.
 - One of his major concerns regarding proportionality: a “one size fits all” approach is not good enough and it is important to consider the single risk profile to implement a good proportionality principle.
 - On sustainability, he stated that the idea of new climate stress tests is questionable.
- Eero Heinäluoma (S&D, FI) – Shadow Rapporteur
 - He started by saying that SII is in the first place a prudential framework, not an investing program. Therefore, the protection of policyholders and financial stability are central.
 - He agreed with the ESRB on the fact that the solvency risks arising from the low level of interest rates and volatile capital markets need to be better addressed, otherwise this could end up in solvency ratios being overstated.
 - He stated that the VA should be well calibrated in order to fulfil its objectives.
 - Regarding stress tests, he pointed out that the problem of disclosure of results by insurance companies should be addressed in this review and he supports EIOPA. The latest stress test was not satisfactory from this point of view (only 8 out of 44 disclosed their results), therefore more transparency is necessary.
 - He cited the Slovak case to point out that cross border issues should be addressed.
 - He highlighted the importance that NSAs have the powers to limit dividend distribution in exceptional circumstances.
 - For him, insurers must use their influence as investors to work for a more sustainable economy, since climate risk is probably the biggest risk we are facing, also in the insurance sector.
 - His last point regarded the importance of gender balance in senior positions and companies' boards.

- Stephanie Yon-Courtin (Renew, FR) – Shadow Rapporteur
 - Her first priority regarded the importance of freeing up insurers’ economic capacity in order to provide sustainable financing for the economic recovery in a long-term perspective.
 - Another priority for her is adapting to the current economic context models and considering the competitiveness of the sector.
 - She also highlighted the importance of strengthen protection for consumers by stepping up the role of EIOPA and NSAs, as well as simplifying the framework in order to make it more operational.
 - On the parameters’ calibration, she agreed with MEP Ferber about the necessity to review them. She also stressed the importance of having a stable balance between Level 1 and Level 2.
 - Regarding the EP working document, she highlighted two topics that could be improved:
 - Climate risk is not bold enough, more study and more transparency are needed on this topic, especially with respect to pillar II (governance).
 - It is important to be more ambitious about consumers’ protection, ensuring a fully European supervisory mechanism.
- Marco Zanni (ID, IT) – Shadow Rapporteur
 - He stated that his priorities are: proportionality, striking a balance between the technical and the political discussions, having the insurance sector to be able to properly invest in the economy.
 - On Capital Markets, he pointed out that it would be good for this regulation to be supportive to help the insurance sector to become a pillar of the capital market, diversifying financing sources.
- Johann Van Overtveldt (ECR, BE) - Shadow Rapporteur
 - He shared the rapporteur’s view on the different objectives of good insurance regulation and that it will be up to co-legislators to strike a balance between financial stability, level playing field, protection and decent returns for policyholders, and supporting adequate long-term investments.
 - For him, an absolute priority is that solvency capital requirements remain risk based. There is no scientific evidence that green investments are inherently less risky. Therefore, from a risk perspective, he stated that he sees no reason for a different prudential treatment for investments based on their sustainability characteristics.
 - He pointed out that, to enhance capability to invest long-term, further improvement to the EC proposal are needed in three areas: VA, RFR, Long term equity investments.
 - His other remark concerned proportionality: he agreed that “one size fits all” approach is not suitable and the proposed new category of LRPU is a step in the right direction. Moreover, the threshold is appropriate, but the absolute threshold should be replaced with a relative one.
- Chris Macmanus (The Left, IE) - Shadow Rapporteur
 - His first shared priority was that financial stability and protection must be preserved in any case.
 - He also highlighted the importance to guarantee single market work, without cross border restrictions and without adding unnecessary impediments to cross border activities.
 - For him, other priorities regarded: climate risk, forcing industry to take seriously the climate change issues; ensuring that any deviation from EIOPA’s opinion is very well justified, using Level 1 law making as much as possible; on dividends, empowering EIOPA to ban dividends in times of crisis is not counterproductive.
- Eniko Gyori (non-attached, HU)
 - She noted that one issue that the revision has not touched upon yet is the one of composite insurers. For her, EIOPA should have a mandate to assess whether the ban for life and non-life activities within the same insurance company should be maintained or not. This decision of allowing or not could be up to single member states.

- Fabio Massimo Castaldo (non-attached, IT)
 - He listed some issues to address: volatility in the prudential system, volatility in the market, proportionality.
 - The adjustments that are made have to achieve the industry's long-term goals of stability, sustainability, as well as providing necessary support to climate change critical situations, and providing anticyclical instruments.
- Larisa Dragomir (EC)
 - She stated that the EC shares the appointed main objectives: stability, sustainability, recovery, protection, proportionality.
 - She pointed out that for the EC the key challenge is to get a balance between all the objectives, the elements of the package, the robustness of the framework and the political priorities. Therefore, it is fundamental that co-legislators consider the changes as part of the framework and not in isolation.
 - The division between L1 and L2 has to be a key point in the discussion to strike an overall balance.
 - She stated that EC is worried to import too much of the level 2 in the level 1 at this stage because it could have consequences in adjusting technical aspects.
 - For her the compromise text is overall good but less ambitious with respect to proportionality, cross border supervision and macroprudential tools.
- Markus Ferber (EPP, DE) – Rapporteur
 - Regarding L1/L2 flagged by the EC, he stated that a number of colleagues are concerned that none of the institutions will be able to have a proper level of influence on delegated acts.
 - He highlighted that policyholders are very important to stakeholders, and that he is more concerned about them rather than shareholders.

IRRD

- Markus Ferber (EPP, DE) – Rapporteur
 - He started saying that he was surprised when the EC published this proposal alongside to SII and that this is not the right way to start working on this topic.
 - For him, the EC proposal is based too much on the bank resolution system. And since the bank and the insurance systems are very different, this copy pasting will not give the adequate tools.
 - He stated that the scope (eg 70% of the companies) has to be addressed and that there are some inconsistencies with Solvency II Directive.
- Aurore Lalucq (S&D, FR) – Shadow Rapporteur
 - She pointed out that there are no paragraphs regarding the financing and subordinated debt. Simply copy and pasting from banking framework is pointless and is not going to serve the insurance sector well.
 - She listed some issues: the covering of recovery and resolution plans, proportionality, roles of NCAs, entrance point (parent/subsidiary level).
- Stephanie Yon-Courtin (Renew, FR) – Shadow Rapporteur
 - She highlighted the importance of having a harmonized approach for Recovery and Resolution, and a reliable structure for the future to deal with crisis situations in order to protect consumers.
- Marco Zanni (ID, IT) – Shadow Rapporteur
 - He agreed with Ferber on the inappropriate timing and banking-based approach of the IRRD EC proposal.
 - Nevertheless, he stated that we can learn from the BRRD in order to avoid their mistakes (eg applicability of the regulation for the supervisory authority, subsidiarity).
 - He added that it is important to avoid a regulation too difficult to understand, apply and supervise.

- Johann Van Overtveldt (ECR, BE) - Shadow Rapporteur
 - For him, the creation of a level playing field should be the number one priority. He suggested to focus in first place on the early intervention power and instruments of the NSAs. The instruments and triggers for interventions proposed by the EC seems appropriate but need to be applied in the right way.
 - He expressed doubts regarding the BRRD to be a blueprint for the IRRD as well.
- Heinrich Wollny (EC)
 - On the rationale, he stated that the whole framework is about introducing minimum standards and tools to better prepare for failures, harmonized in EU. The idea of this framework is to guarantee continuity and minimize losses for policyholders.
 - He highlighted that the tools provided by SII to deal with these kinds of problems for large groups lead to a slow process that brings unnecessary losses.
 - The proposal for IRRD is intended to improve the current situation by giving the right tools to resolution authorities and protect policyholders from insolvencies, replacing their insurance covers.
 - He stated that this is not a copy of BRRD but it is based on the work of FSB and IAIS and EIOPA. Triggers and functioning are therefore insurance specific.