

High level messages on EC Solvency II review proposals

On the importance of the review:

- The Solvency II review provides a **key opportunity to make a number of improvements**. In particular, it is an **opportunity to correct the existing flaws** in the framework which result in artificial volatility and excessive capital requirements especially for long-term business.
- This is crucial because **Solvency II has a major impact on the insurance industry's capacity** to cover risks, the ability to offer guarantees and the level and type of investments that can be made.
- Beyond this, **the review needs to be regarded in the context of the broader economic, demographic and environmental developments** that Europe is facing. This includes unprecedented challenges related to achieving economic recovery, global competitiveness and addressing climate change and the ageing society.
- With their investment capacity, risk-taking and protection capacity, **insurers play a key role in helping to achieve the EU's ambitions and objectives** outlined in the Green Deal and the Capital Markets Union projects, as well as support the economic and social recovery of Europe. For this, the right regulatory conditions need to be in place.

On the proposals: The EC's aim to make improvements to Solvency II in order to ramp up investment capacity are welcome, but their proposals on changes to capital requirements need improvements if this is to be achieved. Other EC proposals would very significantly increase the operational burdens for insurers.

- While **some of the European Commission's proposals are undoubtedly positive and are key for achieving the aims of the review**, other proposals, unless improved, will not help and will even hinder achieving the objectives.
- There is a need to **correct the flaws in Solvency II** which **currently result in exaggeration of the capital** for long-term business and in **artificial volatility** in the solvency measurement.
- The **EC recognises the need for a reduction in insurers' capital requirements** and to mitigate excessive short-term volatility and their **proposals include some of the necessary corrections**.
- However, the EC's impact assessment shows that most of the overall **positive impact of its proposals will be temporary and will in fact ultimately result in lower solvency ratios for the industry**. The proposals intended to reduce volatility include changes which will undermine the other improvements.
- Hence, the **EC proposals, if approved as presented, will not have the intended impact** to remove barriers and enhance insurers' ability and incentives to contribute **to the long-term sustainable financing of the economy, support recovery, channel funds to the Green Deal, and progress on the CMU**.
- As stated by the Commission an increased capacity of €90bn would help insurers to ramp up their contribution as private investors. However, given the long-term nature of their business, insurers need to base their investment and product strategy on the long-term capital requirements. Therefore, **only a permanent correction in capital requirements will allow insurers to increase their contribution. Short-term impacts or limited improvements will not**.
- **Permanent corrections would also help European insurers regain global competitiveness**.
- Beyond capital considerations, the EC proposals **would significantly increase inconsistencies of supervisory measures and operational burdens for insurers**, in particular due to the changes proposed in the areas of reporting, group supervision and recovery and resolution. These require careful assessment to ensure they are necessary, proportionate and that the benefits exceed the costs which ultimately impact customers.

Looking ahead:

- The current **EC proposals need significant improvements** by co-legislators in order to achieve the aims of the review outlined by the EC. This can be achieved while maintaining very high levels of policyholder protection and financial stability.