To: Mr. John Berrigan

Director General, European Commission, DG FISMA

Cc: Mr. Ugo Bassi, Director FISMA D Banking, Insurance and Financial Crime

Mr. Tilman Lueder, Head of Unit FISMA D4 Insurance and Pensions

Brussels, 10th March 2025

Dear Mr Berrigan,

As the discussions on the Level 2 aspects of Solvency II review progress, we are contacting you to highlight key areas that require careful consideration to ensure a balanced and effective implementation.

The Solvency II review has introduced valuable potential improvements, particularly to the treatment of long-term business. **To ensure the needed outcome from the Level 1 agreement is achieved, a careful and considered approach is needed in developing the technical details which will be included in the updated Delegated Regulation.**

We have set out below our high-level views on how this could be achieved and would very much welcome the opportunity to discuss these issues with you in more detail, at your convenience.

Delivering the benefits of the review

The development and implementation of Solvency II has overall been a major success, both for supervisors and industry. European insurers have long supported the fundamentals of the framework, including the three-pillar approach, the risk-based quantitative requirements, the alignment between business management and the regulatory framework and the inclusion of internal models. However, industry has always made clear that changes are needed to address excessive capital and volatility, particularly for long-term business.

In the past months, the European Commission has launched a number of important initiatives, such as the Competitiveness Compass and the Omnibus Directive, which aim to deliver on the new Commission's objectives. We fully support these objectives and highlight the importance of the insurance sector being included in these initiatives.

For insurers, Solvency II is fundamental to our business, directly impacting the products that we offer, their pricing, the investments that we can make and how we react to market volatility. As a result, it has a direct impact on our ability to contribute to the Commission's broader policy objectives. Solvency II also directly impacts our international competitiveness and while the industry is one of the few European global success stories, this is at risk and should not be taken for granted.

The Solvency II Review has resulted in a comprehensive assessment of much of the framework. We support many of the changes that have been agreed in the Directive (Dir 2025/2), most notably the potential for improvements to the treatment of long-term business. However, we are of the view that the updated rules and latest calibration proposals that accompany them will not address the excessive prudence and volatility which are detriment to the provision of long-term products and investments. Addressing these concerns is essential to unlocking the benefits of the review.

The Level 2 technical discussions should aim to optimise the industry's risk capacity, reduce the balance sheet sensitivity to short-term market movements, remove duplicative requirements and to enhance proportionality. In our view, the following five key aspects should be prioritised in Level 2:

1. **Volatility adjustment:**
    - The industry's proposed risk correction parameters[1] are technically justified by EU data and correctly capture the downgrade and default risks. The industry proposal aligns more closely with economic realities observed during historical periods of credit spread crises, thereby preventing unwarranted pro-cyclical investment decisions during such periods.
2. **Risk margin**:
    - A lambda parameter calibrated to 92.5% with no floor will reduce the overall size of the risk margin by 50%, aligning it with international levels and lowering its sensitivity to interest rates.
3. **Extrapolation of the risk-free rates**:
    - Setting the residual volume criterion to 8% and the convergence parameter to 15% (and 70% for Swedish Krona) would stabilise the long-term discounting curves and avoid introducing artificial volatility.
4. **Long Term Equity (LTE) Investments**:
    - To help ensure a broad usage of the LTE classification, criteria to demonstrate an insurer's ability to avoid forced selling need to be simple, pragmatic and reflect the long-term perspective.
5. **Sustainability risk plans**:
    - The deletion of this requirement, under the Commission's simplification agenda, would remove overlaps with both risk management and sustainability reporting rules. If retained, a pragmatic implementation of the requirements for sustainability risk plans (Art 44) should leverage the ORSA and avoid duplication with other directives in order to avoid unjustified additional burdens.

We also wish to stress the importance of a suitable definition for "foreseeable dividends", which should clarify less ambiguously that foreseeable dividends may build up gradually over the year, in accordance with each company's profit development and dividend policy.

Beyond those elements, we would like to highlight that the implementation of many other aspects, including proportionality, liquidity risk management plans and the prudency principle for internal models will have an impact on the solvency volatility and additional operational burdens the review brings.

As a general principle, therefore, the changes to the delegated regulation should seek to minimise reporting and operational burdens. The industry has made several pragmatic proposals to achieve this.[2]

[1] ANIA risk correction proposal
[2] Insurance Europe: Avoiding unnecessary operational burdens