



To: Valdis Dombrovskis  
Vice-President for the Euro and Social Dialogue, Financial Stability, Financial Services and Capital Markets Union  
European Commission  
200 rue de la Loi  
B-1049 Brussels

Our  
reference: EXCO-18-102

Subject: Comments by the insurance industry on the draft Solvency II review proposals

Brussels, 30 November 2018

Dear Vice-President Dombrovskis

We are writing to you in relation to the proposed amendments to the Solvency II Delegated Regulation. We welcome the EC proposals aimed at introducing simplifications and a more proportional application of the framework. However, we are disappointed by the limited ambition to include workable solutions to address wider flaws in the framework in three areas: long-term equity calibration, the risk margin and the volatility adjustment.

Addressing these three areas would not only help to improve the Solvency II framework and its risk-sensitive nature but also make a material contribution to the EC's Capital Markets Union project. While further work will be needed in the 2020 review, any beneficial impacts from the 2020 review remain many years away and it is very important that for each of these important issues first steps are taken now in the 2018 review.

A further key concern relates to the EC proposed restrictions to the loss-absorbing capacity of deferred taxes (LAC DT).

We therefore call for swift action and changes by the Commission in the following four areas:

### ***1. The capital requirement for long-term investment in equity***

We welcome the European Commission's recognition of the need to take action in the 2018 review to remove unjustified barriers to more equity investment and the inclusion, in the draft amendments to the Delegated Act, of a capital adjustment to better reflect insurers' real risk exposure. However, the proposed criteria aimed at identifying "long-term equity", namely the ring-fencing and average duration criteria, are not appropriate and are unlikely to permit any company to qualify for the calibration. A recent study by the Institut des Actuaire<sup>1</sup> estimates that between €50bn to €100bn of additional equity investment is at stake.

We urge you to make changes to the draft text that lead to a meaningful application in practice and thus have a real impact.

---

<sup>1</sup> [https://www.institutdesactuaire.com/global/gene/link.php?news\\_link=2018163013\\_lteip-report-institut-des-actuaire-pwc-nov-2018.pdf&fg=1](https://www.institutdesactuaire.com/global/gene/link.php?news_link=2018163013_lteip-report-institut-des-actuaire-pwc-nov-2018.pdf&fg=1)

## ***2. The risk margin cost of capital***

The current risk margin is excessive (more than €200bn<sup>2</sup>) and negatively impacts insurers' offering of long-term products and investment. We strongly believe that a reduction of the currently excessive 6% cost of capital in the risk margin is necessary, on the basis of extensive evidence that we have provided to your services.

The European Commission should not miss the opportunity provided by the Solvency II 2018 review to reduce the cost of capital on the basis of existing evidence, and it should use the 2020 review to address wider concerns about the design of the risk margin.

## ***3. The volatility adjustment***

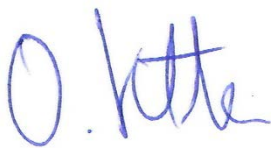
There are significant concerns regarding the design and calibration of the volatility adjustment (VA). We call for the current review to be used as an opportunity to fix the critical issue of the trigger for the country adjustment. Wider improvements to the VA design, dynamic application and calibration need to be assessed and introduced in the 2020 review.

## ***4. The loss absorbing capacity of deferred taxes (LAC DT)***

The current EC proposals unfortunately contradict key elements of Solvency II, such as the going concern principle and supervisory judgement and dialogue. We call for adjustments to the draft text to remove arbitrary limits.

We thank you in advance for considering our comments and we would be happy to provide further details on the points raised above.

Yours sincerely,



Andreas Brandstetter  
President  
Insurance Europe



Grzegorz Buczkowski  
President  
AMICE

---

<sup>2</sup> EIOPA statistics