

To: Valdis Dombrovskis
Vice-president for the Euro and Social Dialogue, Financial Stability, Financial Services and Capital Markets
Union
European Commission
Rue de la Loi, 200
1040 Brussels - Belgium

Our
reference: EXCO-17-137

Subject: Insurance industry follow-up on EIOPA's own-initiative on the UFR

Brussels, 18 December 2017

Dear Vice-President Dombrovskis,

I am writing to highlight the insurance industry's deep concerns over situations in which EIOPA, by making significant use of own-initiative powers, exceeds its political mandate. Such own initiatives can, at times, have negative impacts on both the industry and the European economy as a whole. They could also set precedents that pre-empt the outcome of the current review of the European system of financial supervision.

We are grateful for your ongoing engagement on Solvency II and its important elements, such as the ultimate forward rate (UFR) about which we have raised concerns in previous letters. Your letter, dated 6 September, noted that the European Commission has some leeway to work within the parameters in the Delegated Regulation including the UFR, that it will closely monitor developments and that it will keep an open mind as to what action might be appropriate. Against this background, we would like to reiterate the industry's view that EIOPA's proposed changes to the UFR should not be adopted and that the issue should be deferred until the long-term guarantee (LTG) review in 2020¹.

As well as the own-initiative proposals on the UFR, EIOPA is also in the process of making own-initiative proposals for increasing the interest rate SCR and is testing potential ways to lower the risk-free curves even more through changes to the extrapolation calibrations. EIOPA continues to push for these initiatives despite the level of conservatism already inherent in the Solvency II framework. All three elements relate to the risk-free rate curves, are key elements of the LTG package, and would have major impacts on solvency ratios. Solvency II application started only two years ago and these three topics should be left until the 2020 LTG review, together with other potential changes to the LTG package.

Furthermore, the impact of the UFR change is larger than that indicated by EIOPA's impact assessment, especially on long-term products. EIOPA's impact assessment failed to show this because – for many countries – it did not focus on insurers with long-term liabilities, the potential consequences on transitional measures were ignored, and the impact is very sensitive to the actual interest rate levels. EIOPA reported that, in relation to a potential reduction from 4.2% to 3.7% in UFR, "the impact [...] is very small". However, analysis by our Dutch member association shows that the fall in SCR would be between 14 and 19 percentage points for four out of five of its largest life insurers. Our German member indicates an average drop of 16 percentage points, which would be considerably higher for some individual companies and very much higher if the potential loss of transitionals was included.

¹ This refers to the review due to be completed by 1/1/2021



We have already highlighted in previous engagements how Solvency II creates barriers to insurers' ability to play their part in the Commission's long-term and sustainable finance initiatives, a concern also raised in the interim report from the High Level Expert Group on Sustainable Financing. EIOPA's proposals on the UFR, on interest rate risk SCR, and on lowering the risk-free curves will add to these barriers and make offering long-term guarantees even more difficult for insurers. Long-term liabilities are a prerequisite for insurers' ability to invest in long-term and illiquid assets in a counter-cyclical manner that strengthens the European economy and contributes to financial stability. EIOPA's proposals on the UFR and other current own-initiatives relating to interest rates would mean less investment in the European economy by one of the key groups of investors in Europe, thereby undermining the political objectives of the Commission.

We would, of course, like to stress our commitment to policyholders enjoying comprehensive protection against the risks inherent in insurance. However, Solvency II already takes a conservative approach to interest rates and the existing valuation approach, capital requirements, stress testing and reporting obligations are powerful tools to ensure that companies and supervisors can deal with the low interest-rate environment.

To close, we would like to reiterate that EIOPA's role and powers in relation to those of the Council of the EU, European Parliament and Commission are currently being reviewed and will be discussed at length by the co-legislators in the coming months. Approving EIOPA own initiatives for which it does not have a political mandate – such as its planned changes to the UFR – could set precedents for extending EIOPA's powers, thereby pre-empting the outcome of the review of the European supervisory authorities.

We thank you in advance for considering these comments and we would be happy to discuss these matters with you in greater detail in person.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Balbinot".

Sergio Balbinot
President