



EUROPEAN COMMISSION

Commissioner Mairead McGuinness
Financial Services, Financial Stability and Capital Markets Union

22 NOV. 2021

Brussels,
Ares (2021)6859452

Dear Mr. Brandstetter,

I would like to thank you for your letter of 15 September on the review of Solvency II. The letter set out Insurance Europe's high-level positions on the review.

As you are aware, the Commission adopted its review package on 22 September. The package is available on the Commission's website:

https://ec.europa.eu/info/publications/210922-solvency-2-communication_en

The legislative proposals and the accompanying Communication reflect our strong commitment to promote a solid insurance sector capable of contributing to the EU's political priorities: recovery, green transition and Capital Markets Union. I believe the package delivers proposals able to lead to several major achievements, including:

- a more effective mitigation of volatility in solvency ratios, notably thanks to improvements to the volatility adjustment and the risk margin;
- an estimated release of capital by up to €30 billion in the long term, depending on financial market conditions, thanks to several elements that compensate for an increase in capital requirements caused by other elements (e.g. the reduction of the cost-of-capital rate in the risk margin calculation).

The package will therefore increase significantly the investment capacity of the insurance and reinsurance sector, once finalised by co-legislators. This is crucial to sustain the post-pandemic recovery.

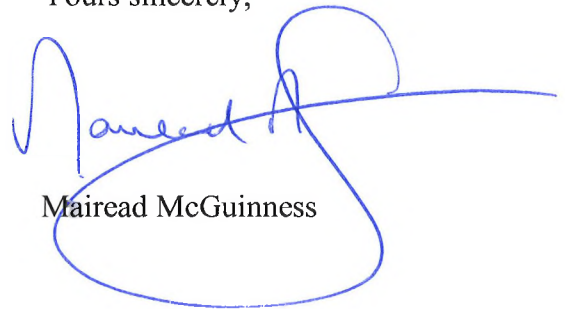
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The review should uphold the good reputation of the European framework for risk-based capital requirements. Therefore, we also needed to ensure that Solvency II remains risk-based and reflects all material risks. The risk-based nature of Solvency II is the reason that it is widely regarded as a success. To remain successful, we must ensure that Solvency II better takes into account new risks, such as the low interest rates and the related risks for insurers and reinsurers. For this purpose, our package sets out how the extrapolation of risk-free interest rates and the calculation of capital requirements for interest rate risk should be aligned with the real underlying risks. We deem the increase in capital requirements attached to those changes as justified in light of their benefit to the protection of policyholders and to financial stability. Moreover, such increases are largely mitigated by capital release associated with other changes proposed.

Against this background, I am confident that our package achieves a good balance between, on the one hand, maintaining the international competitiveness and investment capacity of the EU insurance and reinsurance sector and, on the other hand, the need to safeguard policyholders and beneficiaries as well as preserve financial stability.

I thank you once again for sharing Insurance Europe's view and I look forward to continuing to engage with the insurance and reinsurance sector on the EU's priorities.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Mairead McGuinness", with a large, stylized flourish extending to the right and a large loop at the bottom.

Mairead McGuinness