



To: Mairead McGuinness
Commissioner for financial services, financial stability and Capital Markets Union
European Commission
Rue de la Loi/Wetstraat 200, 1049 Brussels

Our
reference: ECO-21-066

Subject: Insurance Europe's views on the Solvency II review

Brussels, 15 September 2021

Dear Commissioner McGuinness,

The European insurance industry has previously communicated its strong support for the EC's key political priorities of facilitating a strong economic recovery from the global pandemic, creating a sustainable and climate-neutral European economy and completing the Capital Markets Union (CMU).

Our ability to contribute to the EC's political objectives is driven by a number of factors, not least the prudential rules that insurers must follow.

We appreciate that you are in the latter stages of finalising your legislative proposals on the Solvency II Directive review, and we would like to take one last opportunity before adoption to communicate our concerns about the review.

As you know, our aspiration is that the review will address the flaws of the framework, namely the excessive capital requirements for long-term business, the artificial volatility of the regime and the unnecessary regulatory complexity and burden. We were, therefore, very concerned when we saw that the EIOPA advice would, in fact, result in even higher capital requirements, increase artificial volatility and add to the complexity and regulatory burden.

While you have communicated that you and your team are looking very carefully at EIOPA's technical advice and that you will deviate wherever this seems justified, our concern remains that the key flaws of the framework need to be addressed permanently and not only temporarily.

We are looking forward to seeing the specific proposals and understanding how these will impact our industry in both the short and long term, however, we wanted to take this opportunity to highlight that insurers are very much long-term investors and their capital and investment planning are typically based on their expected long-term capital requirements.

The insurance sector's ability to contribute to the EC's political objectives will therefore be dependent on the long-term outcomes of the review, ie those that will be applicable after any phasing-in mechanisms expire and temporary benefits are not likely to have the beneficial effect expected. Fixing the flaws in the framework that we have highlighted would result in **a justified reduction in the aggregate level of capital for the sector on a permanent basis, an approach which we hope the EC will pursue in its proposals.**

Here, it might be helpful to consider the international environment in which our industry finds itself. Unlike banking regulation, which — we understand — needs to align with international banking standards, Solvency II is globally considered as a gold standard for insurance regulation. It probably has the highest capital requirements of any prudential regime currently in place which has resulted in European insurers losing global



market share over the past years. It should also be noted that some international supervisors have raised concerns over how the current design and calibration of Solvency II treats long-term business and investment.

In the Solvency II review, a permanent reduction in aggregate capital requirements for long-term products and the addressing of the volatility in the system, for both internal model and standard formula users, would not only make it easier for the European insurance sector to contribute to the EU's political objectives, but would also improve its competitive position globally by helping it regain the market share lost in recent years. This can be done without putting policyholders at risk, if capital is adequately aligned with the real underlying risks.

Finally, from a process perspective, we note that the scope of the 2020 review of Solvency II is very comprehensive and will impact almost all parts of the Solvency II framework. We welcome the EC's intention to outline the changes that can be expected to be proposed in the Solvency II Delegated Regulation alongside the legislative proposal on the Solvency II Directive.

In summary, we strongly encourage the EC to ensure that the review results in a permanent reduction of capital to positively impact European insurers' ability to contribute to the green recovery, CMU, sustainable transformation and maintain global competitiveness.

We look forward to the publication of the EC's legislative proposals and continued engagement with you and your services on the EC's political objectives.

Yours sincerely,

(e-signed)

Andreas Brandstetter
President, Insurance Europe

cc.

Peter Power, Head of Cabinet, Commissioner McGuinness
Tommy De Temmerman, Member of Cabinet, Commissioner McGuinness
Michael Hager, Head of Cabinet, Executive Vice-President Dombrovskis
Andrea Beltramello, Member of Cabinet, Executive Vice-President Dombrovskis
Valeria Miceli, Policy Coordinator, Financial Services, Cabinet of President von der Leyen
John Berrigan, Deputy Director General, DG FISMA
Martin Merlin, Director, FISMA D
Didier Millerot, Head of Unit, FISMA D.4

About Insurance Europe

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out almost €1 100bn annually — or €2.9bn a day — in claims, directly employ over 900 000 people and invest nearly €10 200bn in the economy.