

To: Economics and Finance Committee  
From: ECOFIN Team  
cc: Solvency II Working Group, Long Term Investment Project Group, Public Affairs & Communications Committee  
Date: 07-07-2017  
Reference: ECO-17-047

Subject: Recent meeting with DG FISMA and follow-up actions

## Comments

Last week Insurance Europe met with the Insurance Unit of DG FISMA to discuss a number of ongoing Solvency II related issues. Given that there is no Ecofin meeting foreseen until after the summer break but yet significant work expected during summer, the secretariat is providing an overview of the key points discussed. A number of issues (highlighted in the summary) require **feedback and/or follow-up**. Members are therefore invited to contact Insurance Europe on the various points as soon as possible. Please address your comments to [ecofin@insuranceeurope.eu](mailto:ecofin@insuranceeurope.eu).

## Summary

The Commission was particularly interested to discuss the Insurance Europe views on the upcoming work on the review of Solvency II recalibrations for STS securitisations. At Insurance Europe request, other topics were added on the agenda, as indicated below (note: the topics below are listed in alphabetical order).

### **1. Equity**

- We reiterated our interest in having changes made for long-term equities as part of the 2018 review. We asked the Commission to run its planned study on equity as soon as possible.
- The Commission indicated that a procurement process will be launched for the equity study. The process itself is expected to be finalised in end-2017 so that work can start in early 2018. It also highlighted that the 2018 review may include some proposals on equity on the basis of preliminary results of the study – so changes do not need to wait for the study to be finalised in Q4 2018.
- We pointed out to our recent equity proposal – the Commission said that it doesn't have any feedback for us on this yet.

### **ACTION POINTS:**

- *We invite members to share with us data on their equity exposures, as requested in ECO-LTI-17-045 of 6 July and to engage with their NCAs and Council/EP members on the need for early action to improve the equity treatment in Solvency II.*

### **2. EU-US bilateral agreement**

- We reiterated our support for the agreement, and welcomed the swift process and progress on the EU side.
- The Commission said that it is in contact with Treasury and USTR representatives and waiting for a resolution on their side.

### **ACTION POINTS:**

- *Insurance Europe continues to liaise with American colleagues to encourage a positive decision from the US side.*
- *Insurance Europe will engage at EP level to support a smooth conclusion of the agreement. Note for members: the rapporteurs and shadows have been appointed so engagement at EP level is imminent (Roberto Gualtieri (S&D, IT) is the rapporteur, while the shadows are Burkhard Balz (EPP, DE) and Sven Giegold (Greens, DE)).*

### **3. Loss absorbing capacity of deferred taxes**

- We highlighted concerns on the EIOPA work on LAC DT and indicated that we strongly oppose any changes. We also raised the point to the Commission that it had only asked for an assessment of practices across MS, while EIOPA seems to be very focused on making recommendations for changes. We also highlighted that EIOPA's reference to the banking approach in the draft advice is not appropriate given the very significant differences between insurance and banking in overall approach to balance sheet measurement.
- The Commission confirmed that it has only asked for an investigation, and will wait for EIOPA's advice on the investigation.

#### **ACTION POINTS:**

- *We invite members to continue to highlight to their NCAs that there is no need for changes in this area.*
- *We also encourage members to engage in the ongoing consultation and provide the secretariat with technical arguments against EIOPA's analysis on differences across MS as well as the reference to the banking approach.*

### **4. Recalibration of STS securitisations in Solvency II**

- Key messages delivered by Insurance Europe:
  - The significantly low default experience of STS compared to their SII capital requirements should be a strong justification for the EC to support more ambitious changes in Solvency II. For example, the actual default experience of AA securitisations during the financial crisis was 0.14%, and insurers are now forced to hold 15% capital for a 5-year AA securitisation.
  - While we understand that a change in the calibration approach from spreads to defaults is not envisaged in the 2018 review, we believe this should still be used as an argument to have changes in the 2018 review.
  - Capital requirements of STS should be aligned to those of corporate debt for similar credit ratings.
  - No differentiation should be made between senior and junior tranches of the same STS, and the credit ratings should be considered the differentiator of risk.
  - We further noted that insurers invest in both senior and junior tranches, and both are important. We also noted that the non-STs calibrations are significantly higher than their actual credit experience (however it is unlikely that the EC would make changes to non-STs).
- The Commission indicated that it is currently working on preparing a Solvency II recalibration proposal to be put forward after the summer break. They didn't want to share more information at this stage, but they were keen to listen to our views.
- The secretariat believes that at this stage the highest risk is a differentiation of capital charges between senior and junior tranches (Note: on the banking side there is a differentiation). It is therefore key to bring as many arguments as possible in favour of junior tranches to help substantiate the point that there should be no differentiation. For example, it would help to know what kind of features of junior tranches make these attractive to insurers.

#### **ACTION POINTS:**

- *We invite members to help us answer the following questions raised to us by the Commission:*
  - *What kind of exposures do insurers have on this asset class? Namely, can members provide us data/anecdotes about investments in senior vs junior tranches?*
  - *With suitable capital charges, what would make junior tranches attractive, in particular vs senior tranches?*

- *What kind of securitisations are insurers interested to invest in? (eg ABS, RMBS, etc)*
- *If the capital charges are set at appropriate levels, could this have a (big) impact on increasing the allocation to these assets?*

#### **5. Risk margin (RM)**

- Insurance Europe reiterated its positions on the RM, along the following two key messages:
  - RM is a concern and a priority for more than just the UK and this is also shown by the recent EIOPA data
  - The scope of the review should go beyond addressing the cost of capital (CoC) only
- The Commission indicated that it is open to have a review wider than the CoC however it indicated that it would welcome some proof on why addressing the CoC is not enough and in which cases. It further advised us to engage not only with EIOPA, but also with the NCAs who work on this topic.

#### **ACTION POINTS:**

- *We invite members to share with us, wherever available, examples of products where reviewing the CoC would not be enough. For example, can members provide data where the risk margin is fully disconnected from eg a market pricing for the transfer of the same risk?*
- *We also invite members to raise the issue of Risk Margin in their advocacy engagements, to reflect the widespread concern on this issue.*

#### **6. Ultimate Forward Rate (UFR)**

- We have reiterated our views on the UFR and in particular that the Commission should not accept EIOPA's proposal now but instead review the UFR as part of the 2020 package. We also highlighted that this own initiative by EIOPA creates a risk of precedence and could lead to further inappropriate changes (eg LLP, extrapolation).
- The Commission highlighted that the impact assessment by EIOPA showed no major impact, and referred to the unanimous vote of the EIOPA BoS.
- We have highlighted that the reading of the letter from Commissioner Dombrovskis is, to some extent, ambiguous.
- The Commission indicated that it is in no hurry to formalise a decision because the EC implementing regulation relating to this point is not required until May 2018. So the Commission noted that EIOPA's proposal on the UFR change will be "assessed at its due time".

#### **ACTION POINTS:**

- *We invite members to continue to raise the UFR issue in their engagements with NCAs and Council representatives. Members are advised to emphasize that this own-initiative raises concerns about other actions by EIOPA (eg LLP) and such significant changes should be considered only as part of a wider review.*
- *Should members have data which shows that, contrary to EIOPA's analysis, the UFR changes will/do already have an impact, please share this with Insurance Europe.*