

To: Economics & Finance Committee, Solvency II SG, Public Affairs Group, Communications & PR Committee

EP ECON Committee votes on Omnibus II draft proposal

The European Parliament Economic and Monetary Affairs Committee voted today on Burkhard Balz's MEP report on the Omnibus II draft proposal. The outcome of the vote shows that some of Insurance Europe's concerns were taken into consideration but the majority of them were left out.

All the compromise amendments that were previously agreed between the rapporteur and shadows have been adopted in the Committee, however one included an oral amendment tabled by Sven Giegold MEP (Greens, DE). Therefore, notably Compromises J and K were adopted, which address the package measures to resolve artificial volatility and procyclicality, namely the Matching Premium (MP), Counter-Cyclical Premium (CCP) and extrapolation. The adopted text as it stands now on the MP is very detailed and sets out a very restrictive application and does not allow for an EU solution. On the CCP, equally disappointingly, undertakings will have no predictability on its application and which is also limited to certain illiquid liabilities (to be defined). On extrapolation, MEPs voted in favour of the 20 years cut-off point and 10 years extrapolation period, something Insurance Europe has been lobbying for, however there also exist some concerns with the clarity of the wording in this area.

Compromises R, V and X were adopted, which address equivalence. A 5 plus 1 year transitional equivalence period was therefore agreed, whilst we have requested 5+5 years. Additionally, very demanding criteria around the ability to apply transitional equivalence remain.

Compromise L has been adopted together with an oral amendment that was tabled by Sven Giegold, which reads the following:

Art 109a(1)(3): *"In order to avoid overreliance on external credit assessment institutions, insurance and reinsurance undertakings shall verify the appropriateness of external credit assessments as part of their risk management by using additional assessments wherever possible in order to avoid any automatic dependence of risk management on external assessments."*

Art 109a(2), introductory part: *"2. For the purpose of facilitating the calculation of the health underwriting risk module referred to in Article 105 (4), EIOPA shall publish, in accordance with based on the calculations provided by the supervisory authorities of the Member States concerned and adapted where necessary to ensure harmonisation of inputs to the standard formula, standard deviations in relation to specific national legislative measures of Member States which permit the sharing of claims in respect of health risk amongst insurance and reinsurance undertakings and which meet the following criteria: [...]."*

Other amendments that dealt with key concerns of the industry have been voted in line with the industry views:

- Amendment 48 - adopted: ensures that the principle of proportionality is incorporated

- Amendment 303 - adopted: requires the risk-free curve to be such that insurers are able use the risk-free curve in their risk management policies
- Amendment 310, 382 - rejected: rejects the requirement to hold counter-cyclical capital buffers
- Amendments 335, 339, 340 - rejected: rejects having mandatory auditing requirements
- Amendment 343 - rejected: rejects the requirement for prudential margins for assets and liabilities
- Amendment 377, 379, 380 435 - rejected: rejects the application of proposals which attempt to align specific parts of Solvency II and CRD IV (e.g. increased operational risk capital requirements)

...and against industry views:

- Amendments 56, 57, 75, 76, 78, 79, 81-99, 135-149, 153-155, 157, 164-166, 170, 172-176, 220, 242, 245, 246 - adopted: shifts the power from the EC to EIOPA (delegated acts moving to regulatory technical standards) on issues which could have political implications e.g. technical provisions, own funds, SCR etc. However, there will be a sunrise clause, meaning the shift of power will not take place immediately.
- Amendment 253 - adopted: requires group structure disclosure

Additionally, a new concerning oral amendment was tabled by Giegold on the treatment of sovereign debt, which was voted positively:

Recital 28e(new):

"The sovereign debt crisis and the statement of 26 October 2011 of the Heads of State or Government of Member States whose currency is the euro have demonstrated that a zero risk treatment for government bonds no longer corresponds with economic reality. The Commission should submit a report to the European Parliament and the Council proposing options to adapt the calculation of own funds requirements for such exposures accordingly as soon as possible, while taking into account potentially destabilising effects of tabling such proposals during periods of market stress."

The rapporteur Balz expressed content with the work done in the Committee and his desire to commence, and conclude, the trialogues quickly with the Council and the EC. Giegold, however, expressed concern with the process around the drafting of the compromises and his worries for policyholder protection; he also expressed concern with industry involvement in the compromise text negotiations, as well as the involvement of the press. Skinner concluded by saying he doesn't believe this vote has resolved all the issues with long-term guarantees.

The first trialogue will take place on 11 April and the second on 20 April.

The Internal Market and Services Commissioner Michel Barnier had an exchange of views later today with ECON MEPs. He said he that the work with the insurance sector is not finished yet and time will show what will be the effects of Omnibus II and Solvency II texts. He also reminded MEPs that these two piece of legislation include revision clauses.

For more info

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