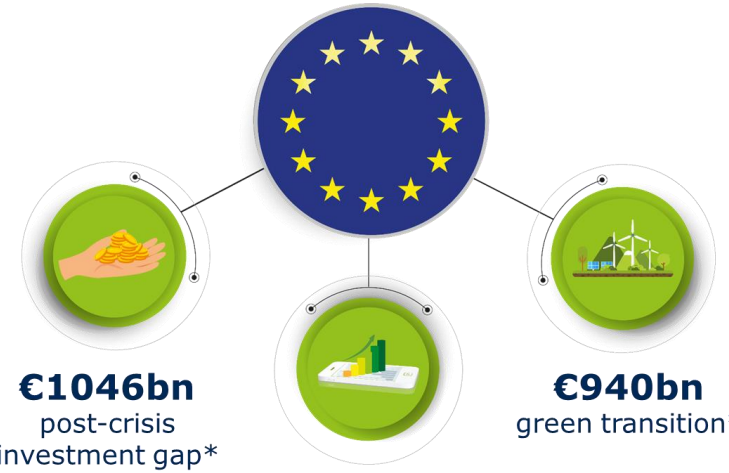
Solvency II review:

Impact of EIOPA proposals

Insurers can play a key role in helping to meet Europe's challenges

Investment:
For recovery, growth and sustainable transformation



€1046bn
post-crisis investment gap*

€940bn
green transition*

€250bn
digital transition*

-7.5%
COVID-19 impact on GDP in 2020

* European Commission figures on investment needs for 2020-2021

Customers:
Ageing, climate change

Pensions gap

Protection gap

SII requirements already too high and too volatile

Due to measurement/calibration flaws which the Solvency II Review can address

- Risk Margin too high
- VA too low and not effective enough at mitigating volatility
- Standard Formula SCR for investments too* high because driven by a short-term view

insurance europe

*Only SCR for interest rate should increase to allow for negative rates but this change should be more than offset but other justified reductions

Unnecessarily high capital & volatility = unnecessary impact

Lower benefits for pensions and other products

Less long-term investment

Less sustainable investments

Hinders role in support of CMU objectives

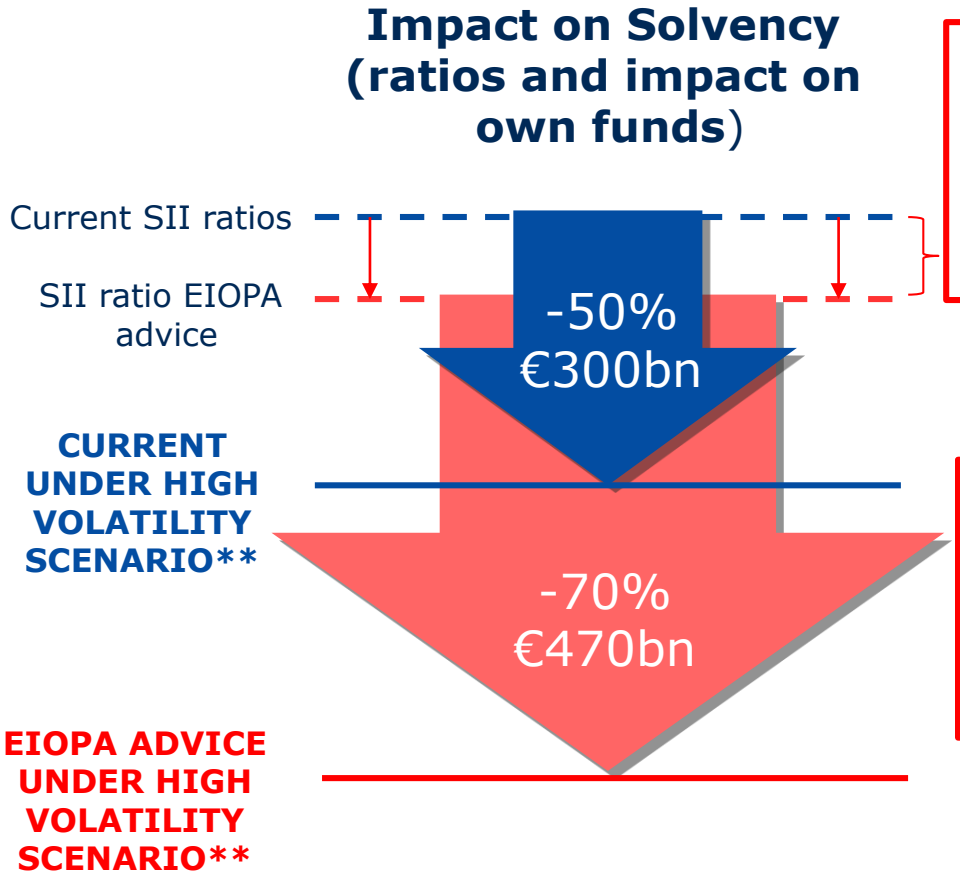
Higher premiums

Procyclical behaviour

Fewer products available

EIOPA's proposals add even more capital and volatility

EIOPA's advice **increases capital requirements**:



Which reduces the average current solvency ratio by **25%***

This equals a drop in surplus own funds of **€85bn**

Which would increase already high volatility to **70%**

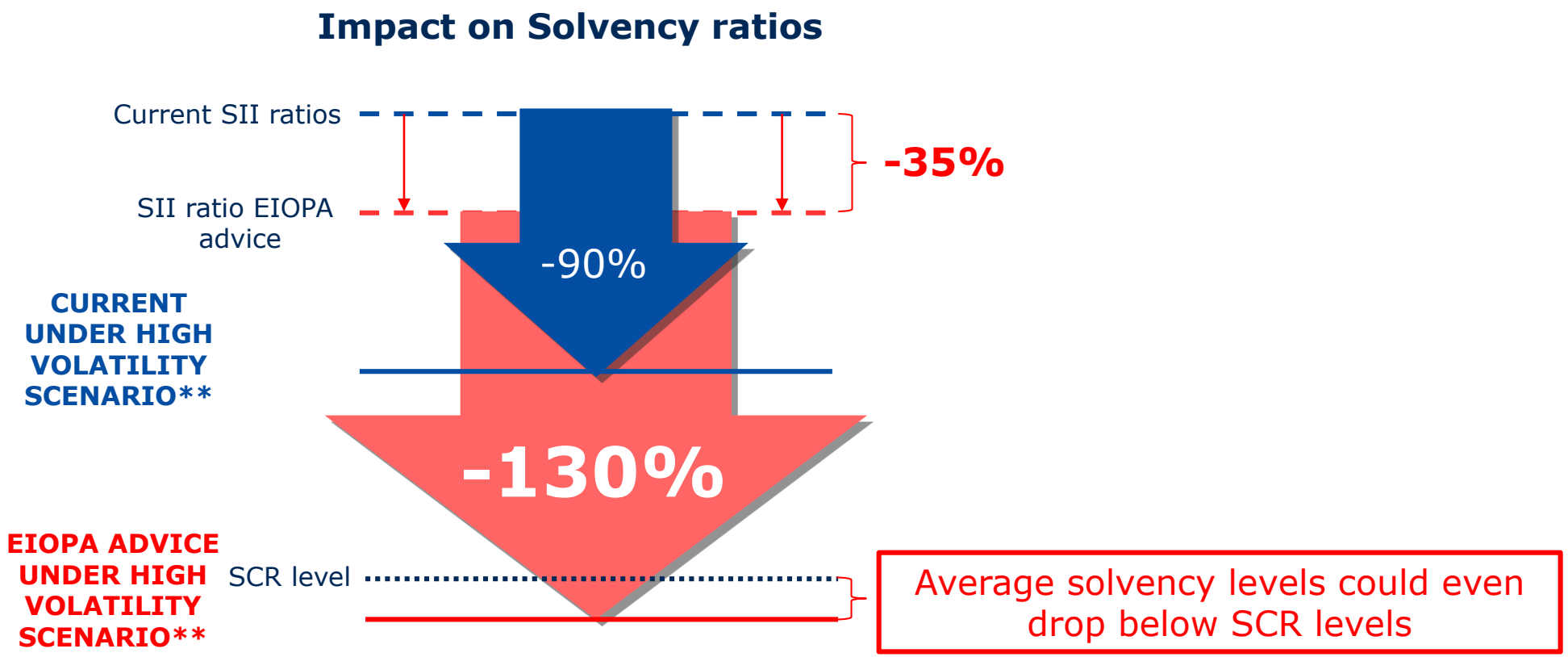
This equals an impact on own funds of **€470bn** in adverse conditions

*Excludes impact of transition mechanism
Impacts scaled to EEA-market (excludes UK)

** Based on market volatility experienced in 2009

EIOPA's proposals add even more capital and volatility

The impact on **life business*** is even greater:



*Estimates made using EIOPA SII Review impact assessment data relating to life & composites

Negative impacts of EIOPA's proposals

Higher capital requirements and volatility creates pressure on insurers to …

Raise product prices

€8bn-€16bn per year of extra charges for consumers

De-risk investment portfolio

€225bn less invested in equities or **€900bn less invested in private & corporate debt (BBB)**

Withdraw products

Some of the benefits of getting the capital right …

Every €1 of extra capital available for insurers can generate…

€1.70 in equity investments

€3 if the capital charge for long-term equity is properly corrected

€6 investment in green bonds

€9 if the dynamic volatility adjustment is extended to the standard formula in combination with existing spread risk charges

€1000 in windstorm protection

Based on a simplified model of an insurance company and standard formula