



Solvency II review

Key industry positions



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

Investment:
Recovery, growth
and sustainable
transformation



Investment needs

Consumers:
Ageing, climate change



Pensions gap

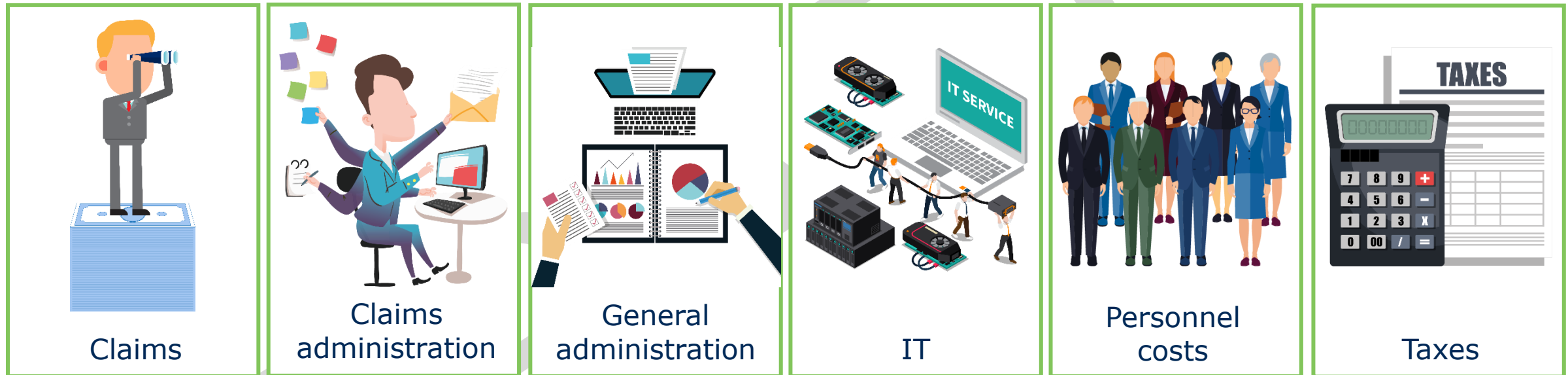


Protection gap

Valuation of liabilities in Solvency II is extremely comprehensive

Unlike banks, insurers must forecast the best estimate of all their claims and expenses projected until all claims are paid.

This includes:



Projection period can be up to 60 years or even more

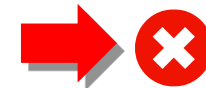
However, the valuation of liabilities also contains the risk margin

Solvency II requires insurers to hold significant extra assets not needed to pay expected claims



Risk margin (€160bn)

Reserves based on Solvency II methodology*



Not needed to pay claims and other liabilities

Needed to pay expected claims and expenses

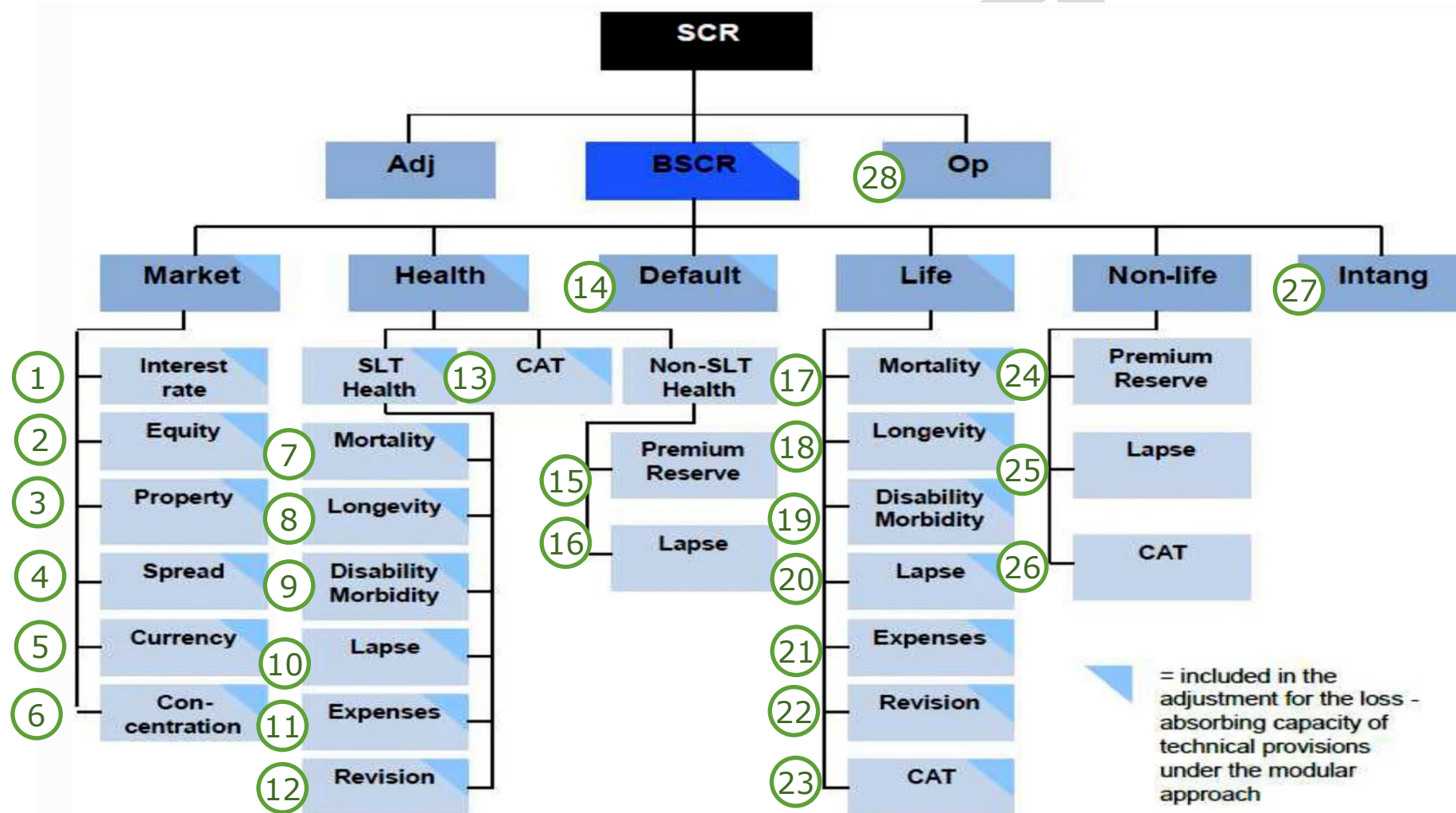


Risk margin reduces risk-taking capacity of industry by **up to €160bn**

* Not to scale
Figures Q2 2020, source: EIOPA

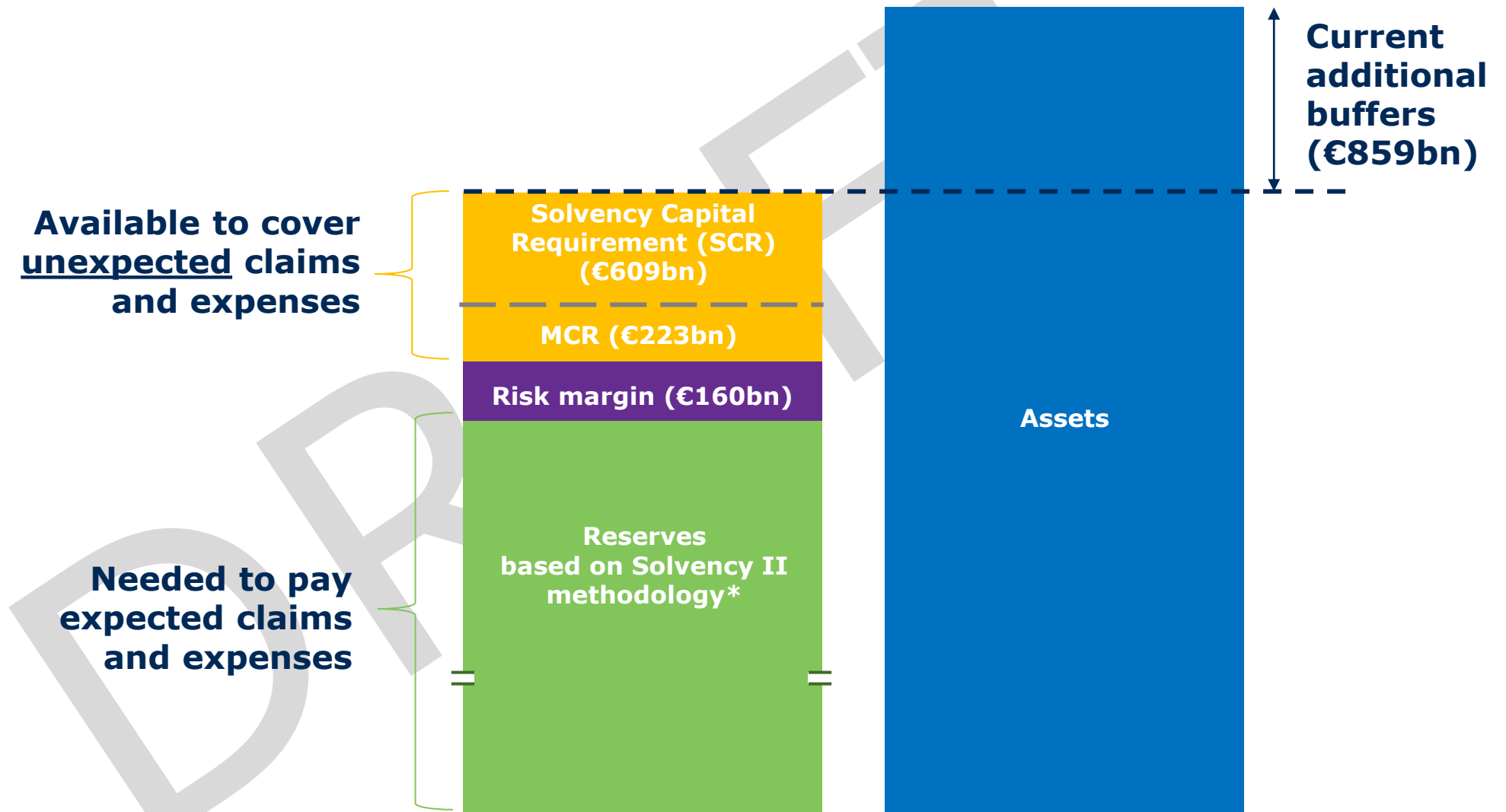
Solvency Capital Requirements in Solvency II are extremely comprehensive

Pillar 1 capital requirements include 28 different risks in the standard formula



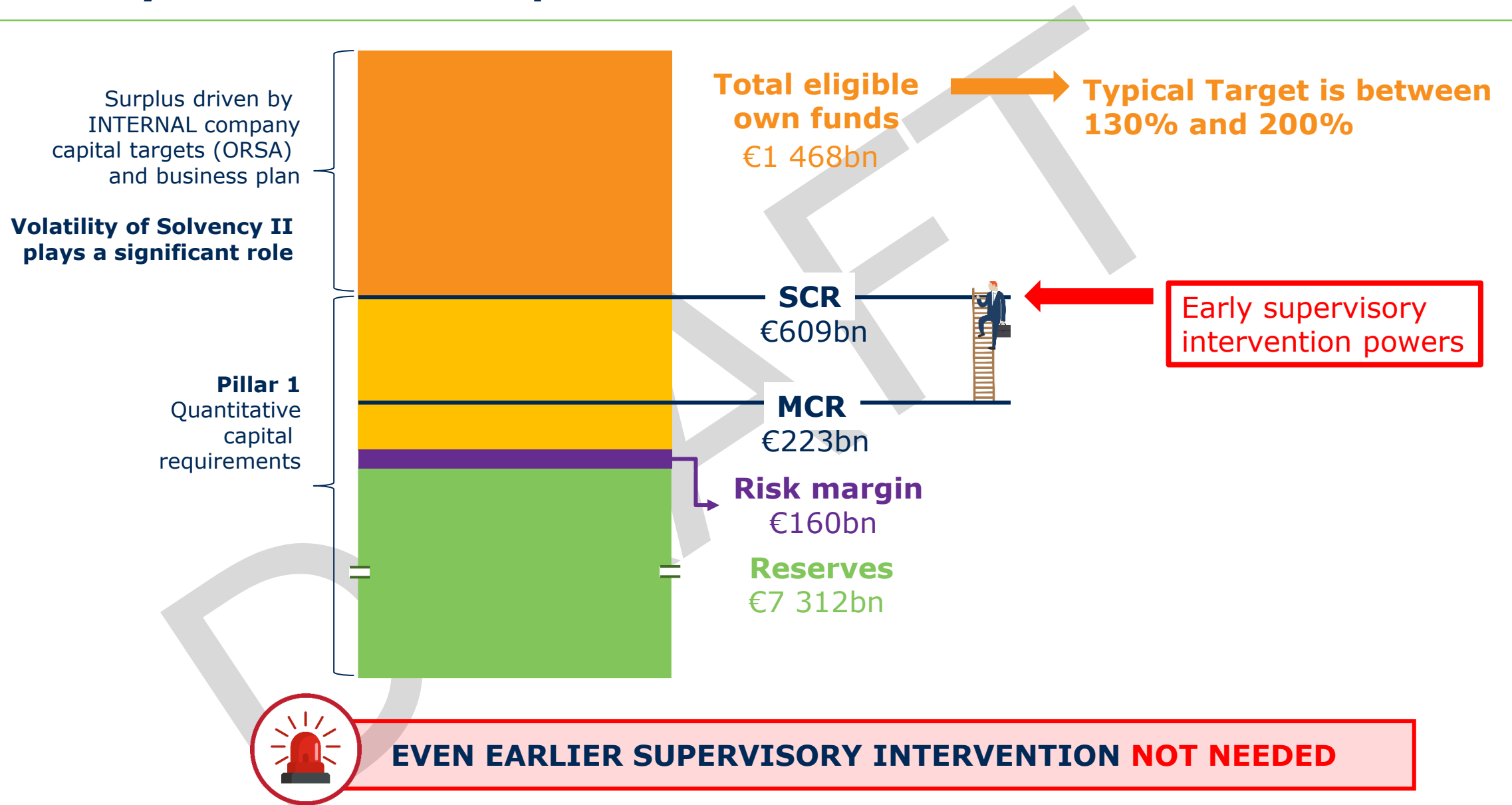
Insurers hold capital against all the risks to which they are exposed

It also holds assets significantly in excess of regulatory requirement



* Not to scale
Figures Q2 2020, source: EIOPA

Solvency II – levels of capital



* Not to scale
Figures Q2 2020, source: EIOPA

There have been very few failures of European insurance companies ...

... even fewer have resulted in losses to customers ... capital more than enough

Causes before introduction of Solvency II*

- Lack the necessary skills, experience or professional qualities
- Inadequate or failed systems of corporate governance and overall control
- Inadequate provisioning
- Fraud

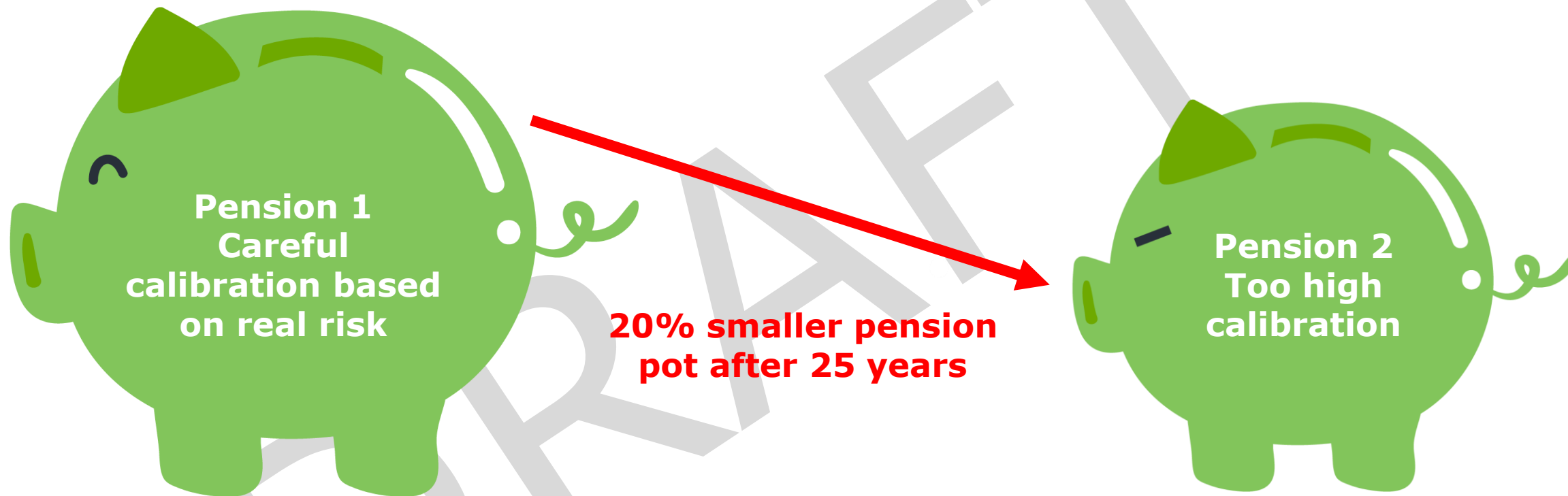
Causes after introduction of Solvency II**

- Company did not apply Solvency II Requirements
- Supervisor did not enforce Solvency II Requirements
- Lack of coordination across Supervisors



We are not aware of failures because Solvency II capital requirements were too low

Consumers can suffer from too high capital requirements



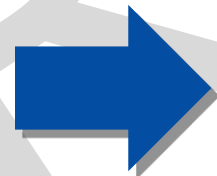
Solvency II – a global perspective

The European insurance industry is a global success story – the right environment is needed to be competitive



Solvency II

European industry concerns with treatment of long-term business are recognised in the ICS context



OSFI: *"ICS is not fit for purpose... the proposed capital requirements for long-term products are too high."*



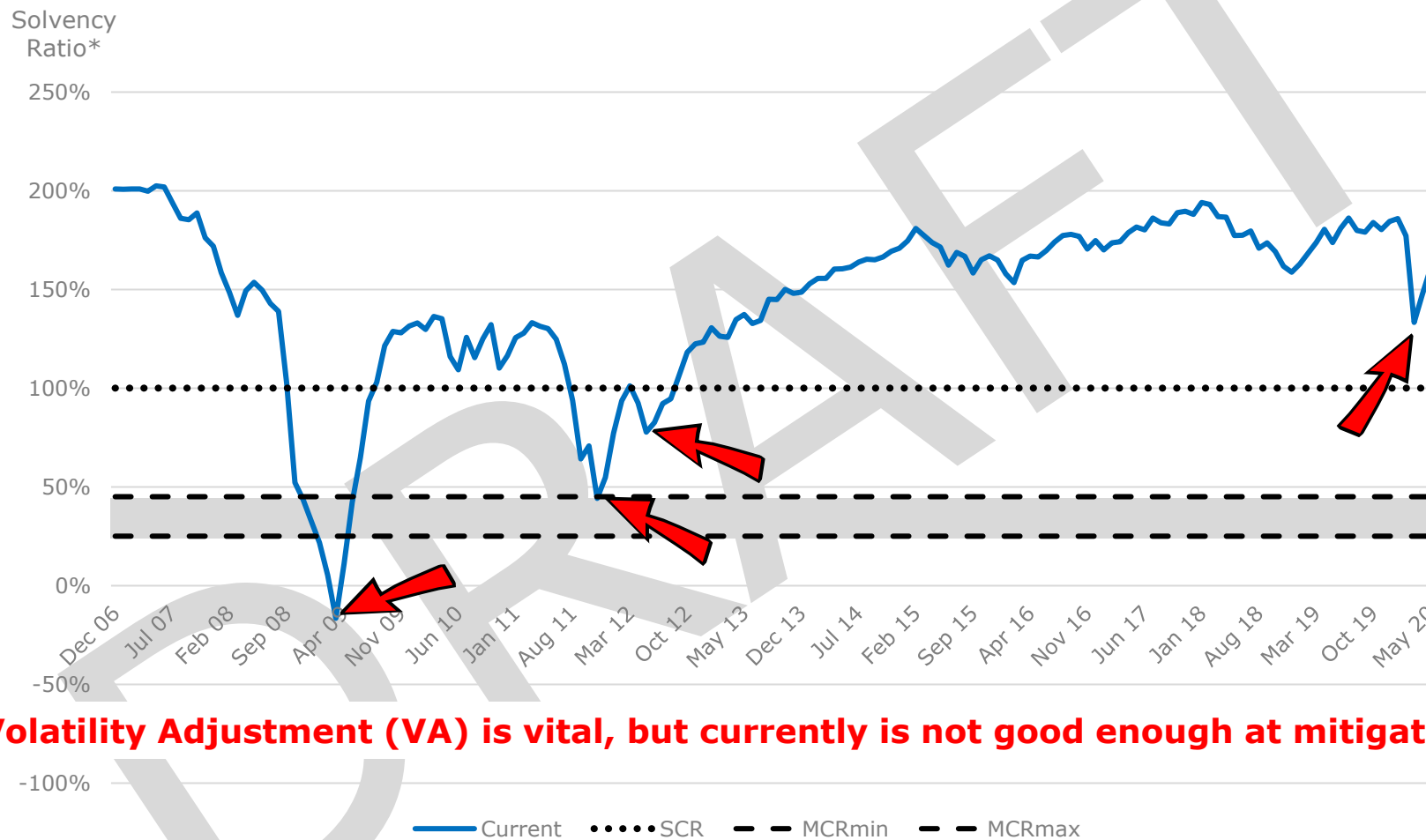
JFSA: *"International competitiveness needs to be considered when designing a national framework"*



Insurance Capital Standard (ICS)

Volatility of the framework is a major issue to address

Back-testing example to show extent of the volatility problem for a simplified insurer



Volatility Adjustment (VA) is vital, but currently is not good enough at mitigating volatility

* Simplified example of an insurance company with 10-year liabilities, fully matched with 10-year maturity fixed-income assets invested in exactly the reference portfolio. As our focus is on balance sheet volatility, for simplicity the SCR is assumed to stay constant over time.

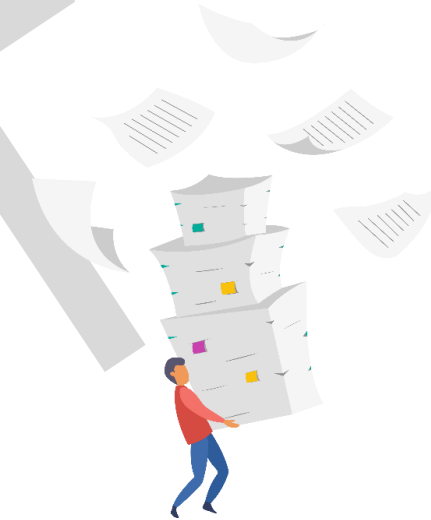
Solvency II : the problems



Capital too high



Too volatile



Too burdensome



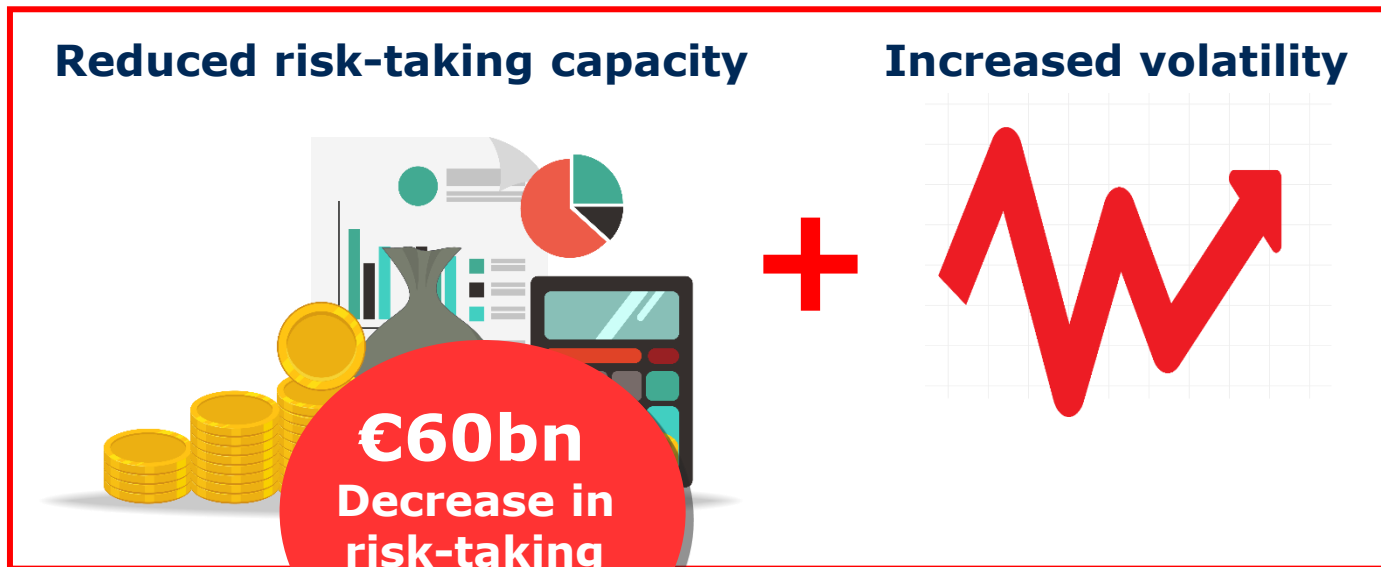
Negative impact on insurers' ability to offer long-term/guaranteed products



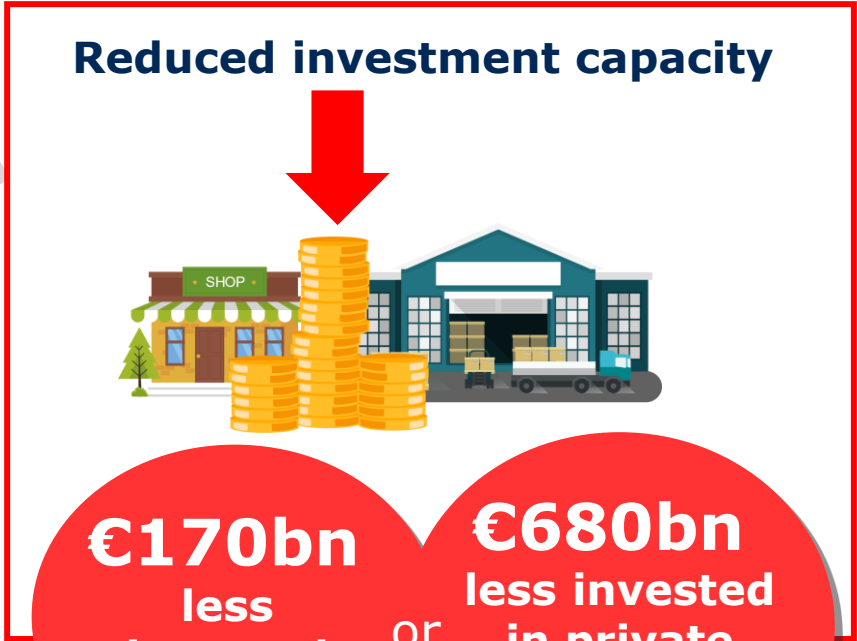
Negative impact on insurers' ability to invest in the wider economy



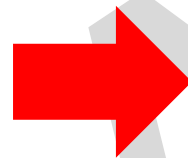
EIOPA advice – would increase the problems



€60bn
Decrease in
risk-taking
capacity



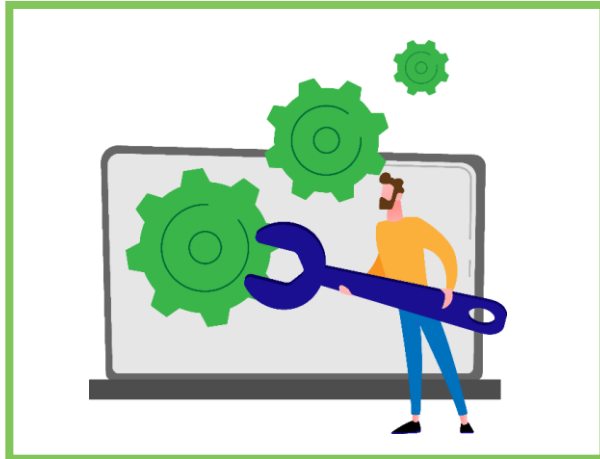
EIOPA advice – would not result in a balanced outcome ...



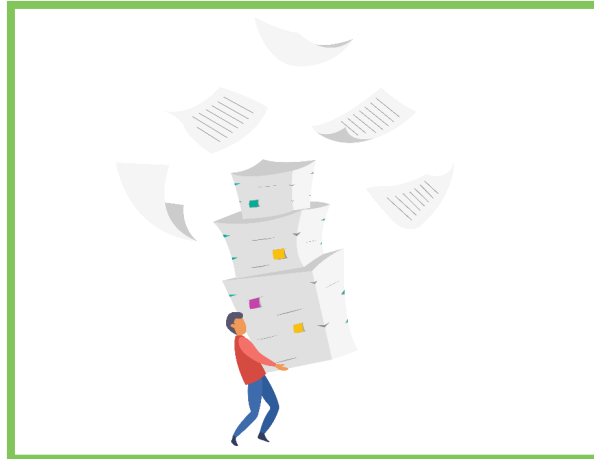
- ✘ Certain EU markets would be affected very negatively
- ✘ Certain products would be affected very negatively
- ✘ The objectives set out by the EC for the review would not be achieved

Solvency II review: the solutions

Proposed priorities



Address flaws for long-term business



Address operational complexity and burden



Do not gold-plate international agreements on systemic risk



Focus on areas of proven need, avoid changing what works



Enhance insurers' ability to serve customers better according to their needs



Enhance insurers' capacity to invest in line with EU objectives in Green Deal and Capital Markets Union



Some of the benefits of getting the capital right ...

Every €1 additional capital capacity would support...



€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

Some of the benefits of getting the capital right ...

Allow insurers to take more risk for consumers





For more information

www.insuranceeurope.eu

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