

To: Solvency II WG, International Affairs & Reinsurance WG
From: Prudential Team
cc:
Date: 05-09-2022
Reference: ECO-SLV-22-299

Subject: For information – SII & IRRD: EP ECON committee consideration for amendments, 31 August

Summary

On the 31 August, the Committee on Economic and Monetary Affairs (ECON) of the European Parliament discussed the amendments in relation to the draft reports on the Solvency II review and the Insurance Recovery and Resolution Directive (IRRD) proposals.

The secretariat prepared a summary of the discussions below.

Solvency II

M. Ferber (EPP, DE):

- Key issues:
 - The proposal from the Commission to establish a **Low-Risk Profile Undertaking** category is a good starting point. The same, positive opinion is shared by the other MEPs. However, along with the proposal, the right criteria for the identification of such LRPU are needed. There is room for improvement of the proposal, and the objective should be the **automatic application of proportionality rule**, rather than requiring intervention from the local supervisory authorities. The Commission should clarify how many undertakings would fall in scope.
 - The framework for **Long-Term Guarantees**, given the importance of this issue for insurance undertakings' health, should be treated at legislative level, and not being an exclusive responsibility of the Commission and EIOPA through delegated acts. Likewise, the decisions regarding **Risk Free Interest Curve** should be taken at the political level.
- Insurance regulations should focus on the interests of the policyholders, and not on those of the supervisory authorities. **EIOPA** should adhere to its mandate of providing technical advice to the Commission.
- **Calibration** of Solvency II is very conservative, investments in insurance products such as life insurance are not very attractive now.
 - The amendments by the Rapporteur proposed a number of adjustments to release capital and to allow insurers to be more flexible in their investment choices, with the objective to make the products more attractive to policyholders.
 - Regarding investments in **Long-Term Equity**, the idea of increase their attractiveness with a proper regulatory treatment of equity investments gained a lot of support.
- Regarding the amendments on **Supervision**, there are major divergencies in the views:
 - There is not enough **Cross-Border** collaboration between NSAs. The Rapporteur proposed mandatory collaboration platforms and ESAs review and remains open to other proposals.
 - Regarding the new **Macroprudential Powers** proposed by the Commission, banking regulation is being transposed into in insurance regulation, but the longer-term business model of insurance must be taken into account to find a sensible solution.
- **Sustainable Finance** is another topic characterized by many divergent views:

- The Rapporteur does not think that there is clear evidence that insurers systematically underestimate sustainability risks. Insurance undertakings have long-term risk models that consider climate change and sustainability risks.
- The proposals to add sustainability risks in every single article are not proportionate. Attention must be paid to not create false incentives causing a green bubble, with some economic activities becoming uninsurable (eg for SMEs).

E. Heinäluoma (S&D, FI):

- Only a moderate **capital relief** can be justified for the insurance sector, under certain conditions.
 - There are huge differences between the levels of capital relief granted by EIOPA text, the Commission proposal, and the Rapporteur's draft report. The Rapporteur is proposing a capital relief larger than 100bn €, more than the double of what the Commission proposes.
- Amendments regarding the **cost of capital**, the **extrapolation rate**, and **volatility adjustment** have a balanced and prudent approach, in line with the macroeconomic environment.
- Solvency II cannot be silent on **sustainability risk** and on the EU Climate Agenda and there is a need to re-include and extend the parts on sustainability risks. Transition plans have to be set up and remuneration need to be linked to sustainable targets.
- The companies should be able to invest more in **Long-Term Equity**, and that capital requirement for LTE should be reduced, however clear conditions should be adapted in terms of taxation and AML guarantees.
- The outcome of **Stress Tests** needs to be public.
- Supervisory authorities can **suspend distribution of dividends** in exceptional circumstances and should have the power to set **capital add-ons for systemic risk** reasons.

G. Boyer (on behalf of S. Yon-Courtin) (Renew, FR):

- 3 main objectives:
 - Adaptation of the **legal framework** based on risk.
 - Strengthening of supervision of **cross border activities**.
 - Better coverage of all of the risks affecting business and citizens, such as environmental risk, and cyber-risk. Amendments have the objective to create the conditions for companies to be able to finance the environmental change.
- Support **Long-Term Equity** with criteria and backing measures for insurers as well as the Delegated Act of 2019 which, at the moment, is not used so much by insurers.
- **Long-Term Guarantees** and **Extrapolation Mechanism**: given the impact on capital requirements, the methodology needs to be carefully calibrated. A revision should be done every 5 years, starting from 2025.
- **Proportionality**: objective to reach a reasonable amount of proportionality, with thresholds adapted specifically for groups. It was proposed an increase for the technical threshold. We need to have a more flexible definition for Low-Risk Profile Undertakings.
- A good definition of **cross-border** activities is important to ensure an effective role by supervisors. Support for a **collaboration platform**.
- **Climate risk, macroprudential risk, and cyber risk**: following the Commission proposal, some areas should be strengthened:
 - Elements, such as climate and environmental risks, should be specifically included in stress testing.
 - Macroprudential requirements introduced by the Commission are supported, but the modalities of introduction can be discussed.
 - Need to increase resilience of the sector towards cyber risk.

E. Urtasun (on behalf of H. Hahn) (Greens, ES):

- There is considerable consensus on some of the issues.
- Focus on 3 objectives:
 - The insurance sector should be made fit to support the **Green Agenda**. Insurers should run climate change scenarios analysis and apply transition plans to ensure that their business plans are in line with climate neutrality objectives. Insurers should also introduce a stewardship approach, to

incentivize the companies which they invest in to align their activities with the objectives of climate neutrality.

- EIOPA should also demand assessments of **biodiversity loss** and specifically include the liability side of insurers balance sheet when assessing whether ESG risks associated with some assets would warrant a dedicated treatment for these assets.
- Supervisors should be able to set up additional **capital requirements** for insurers facing higher ESG risks which are probably not reflected in SCR. Fossil fuels exposure should pertain to the riskiest asset class.
- Another key objective of Solvency II is to ensure that the insurance sector remains well capitalised. SII should stay **risk-based** and any change to capital requirements should be justified by empirical evidence.
- A comparison between capital requirements resulting from **standard formula** and **internal model** should be published by insurers. In case the usage of internal model results in capital requirements lower than 75% of those resulting from the standard formula, insurers should provide empirical evidence.
- From the supervision side, EIOPA's role for **Cross-border** coordination should be strengthened.
 - Enabling EIOPA to launch mediation for its own initiatives, to issue and disclose individual recommendations, and perform joint onsite inspections on their own initiatives.
 - It would be beneficial to introduce information sharing in macroprudential measures and include new supervisory-independent requirements such mandatory cooling-off periods and prohibition of trading certain securities.

M. Zanni (ID, IT):

- The work on Solvency II will be very important as the insurance sector is in a different situation compared to when the Commission proposal was initially published. The financial sector needs to be in the position to support growth and investment.
- Main objectives:
 - Provide stability to the sector and ensure that savings of policyholders is protected.
 - Ensure that capital can be invested. To achieve this, the regulation should not aimlessly affect players that are not **systemically risky**.
- Need to look at the indicators to ensure that there is the right balance between risk management and ensuring that money is available for investment. For this, proposal **Volatility Adjustment** is very important. VA must fit the role of insurers as long-term investors, as they need to absorb a certain amount of volatility in the market.
- Regarding calculation of **Interest Rate Risk**, the specificities of the sector should be considered, particularly regarding long-term investments, and setting up a floor that should not leave the sector exposed to bear market.
- Regarding the amendments on **calibration of capital requirements**, need a proper implementation of the **Capital Market Union** and instruments need to be made more useful.
- On **Sustainability**: the work that insurance companies are doing today already provides a framework allowing for a granular analysis of sustainability risks. Need to ensure that all financial market players and economic operators are helping citizens. Also need to facilitate investments that make the continent more secure and ensure alignment with the Taxonomy.

C. Macmanus (The Left, IE):

- The approach of the Rapporteur goes way too far. The amendments need to get closer to EIOPA's position.
- The Left will not support any amendment that clashes with need to protect **financial stability**.
- More parts need to be inserted into **primary law**, which is the most transparent and democratic approach.
- The **Capital Relief** included in the draft report would grow by 2.5 of what is proposed by the Commission. It is a wild gamble not based on any policyholder or real economic interests, just on that of the industry.
- Amendments on encouraging cross-border trade in insurance would help consumers of small countries.
- There is no way that the **climate crisis** can be ignored. Insurers need to consider climate risk both in their underwriting and investment activities.

E. Gyori (non-attached, HU):

- The European economy needs a record number of **investments** to face Covid, war, etc. Need for a **level playing field**. In particular, attention must be paid to the current rules which are not allowing for setting up new **composite insurance companies**.

European Commission:

- The Commission stands ready to help to the Parliament find a good compromise.

M. Ferber (EPP, DE):

- The Council has already agreed its position.
- There is a great will to resolve issues and reach an agreement. The first meeting among shadow rapporteurs to discuss the amendments will be in Strasbourg in 2 weeks. At the latest by the end of the year, the EP should be able to enter triilogue negotiations.

IRRD

M. Ferber (EPP, DE):

- The Commission proposal is not sensible as it does not add value to the current Solvency II framework, and it creates more bureaucracy. More requirements do not add yield to policyholder policies.
- The proposal to delete of minimum coverage requirement in scope, which appears not to be risk based and rather arbitrary, is a concern shared by other parties.
- The Commission wants to transfer banking regulations to the insurance companies, but insurers do not represent a major danger for financial stability as banks. Insurers have almost no short-term liabilities, therefore there is no danger of an insurance run and no major dangers for financial stability. An MCR breach would be an alarm before there is any insolvency. There should be an intervention hierarchy based on SCR and MCR. National funds would be the reasonable dealing point.
- With respect to guarantee schemes, the Commission should draft a Roadmap. Minimum standards for national systems should be the first step before moving to EU-level systems. We would need a separate legislative proposal and consultation from the Commission with the help of EIOPA.
- Setting up a national system is a long and difficult process. Some countries that need IGS might be forced to have one in place. Need for a serious analysis by EIOPA and for a new legislative proposal from the Commission.

A. Lalucq (S&D, FR):

- Do not want to add bureaucracy, but want to participate into the harmonisation of the insurance sector.
- There are macroeconomic, cyber risk, environmental, and geopolitical risks. Insurers are different from banks but can also fail.
- Necessity to provide funding for resolution and an institution that can ensure the resolution of undertakings, and independent authorities.
- Found the amendments by the Greens and Renew providing for a more “federal” approach interesting.

G. Boyer (replacing S. Yon-Courtin) (Renew, FR):

- The main points for Renew aim at:
 - Adapting the scope to allow for an appropriate coverage of each market.
 - Inclusion of safeguards to protect policyholders, especially in cross-border resolutions.
 - Solution for financing resolution.
 - Ensuring an effective and risk-based framework, with a proportional application. We need qualitative and quantitative criteria (level of premiums paid, public interest, critical functions).
 - Definition of critical functions covering functions which are essential for insurance/the economy.
 - Preference for resolution rather than liquidation for protection of policyholders.
 - Measures to protect loss of value in case of resolution. Lack of guarantee of compensation would be an issue. Clear division of responsibility among supervisors in case of cross-border resolution.
 - Liability compensation paid out by the home country in case of cross-border failing institution.

- Possibilities for authorities to have freedom of manoeuvre in applying group rules.
- Internal financing of Member States needs to have an external financing mechanism, based on contribution from insurers.
- Possibility to create a dedicated authority for resolution, or to give the power to an existing supervisory authority, by creating a new independent department.

E. Urtasun (Greens, on behalf of S. Hahn) (Greens, ES):

- The Commission's proposal on minimum percentage is arbitrary and not risk based. The Greens propose that all undertakings must be subject to IRRD. Nonetheless, LRP undertakings and groups, as defined in SII, can be granted simplified obligations by supervisory and resolution authorities.
- Adequate planning requirements should apply to all undertakings covered by the IRRD, but such requirements are not sufficient to ensure the preparedness of undertakings.
- There is a lack of external funding and harmonization of IGS.

M. Zanni (ID, IT):

- Sceptical about the EC proposal. There are substantial differences between supervision of banks and insurers. This framework is creating an additional burden.
- ID thinks that the current route is the wrong one. The number of failings is low, and they have often been solved in an efficient manner using national IGS. Moreover, risk controls have also improved in the last decades, in making companies safer and better supervised.
- Current IGS and Internal Risk Modelling seem to work well already for the protection of policyholders.

C. Macmanus (The Left, IE):

- Need harmonised IGS to protect consumers and financial stability. It should be a priority for the EU.
- There should be a mention to mutuals in legislation, looking forward to hearing the Commission on the topic.
- In line with the Greens, the Left is supportive of extending the scope.

European Commission:

- The Commission remains convinced of the usefulness of this proposal, EIOPA figures show several failings during the years. The Commission focus is on policyholder protection. In absence of an IGS proposal, the IRRD increases the policyholder's protection. Commission stands fully open to discuss the scope of the IRRD.

M. Ferber (EPP, DE):

- Need for an impact assessment by the Commission, or advice by EIOPA on the technical level for discussing a European guarantee scheme.
- SII and IRRD should not overlap.
- In two weeks, the discussions will continue with the shadow rapporteurs in Strasbourg.