

## Safeguarding international competitiveness through the Solvency II review

**European (re)insurers are an international success story. Over recent decades they have expanded their presence and business not only within Europe, but also beyond Europe's borders. As a result, today the European (re)insurance industry is the world's most international (re)insurance sector. Almost half of all internationally active insurance groups are European.**

**However, Solvency II is putting this at risk and the end of provisional equivalence with the US by end 2025 will add significantly to the competitive disadvantage. For example, a European insurer offering business in the US under S II would have to operate with 20-30% higher levels of capitals putting them at a considerable disadvantage in one of the largest markets.**

While, Solvency II is best-in-class framework, and its advanced risk-based approach is strongly supported, elements of its current calibration are putting European insurers at a global disadvantage.

The current Solvency II review is the key opportunity to address this imbalance and the improvements needed are the same as those needed for European insurers to play their full role for European citizens and the European economy. The right calibrations and adjustments will allow insurers to do more as investors in the European economy, support the recovery and the transition to a sustainable economy and to maintain or increase its offering of long-term products that help take risk away from individual investors, especially those who are vulnerable and, therefore, very risk averse investors.

- **Solvency II is likely the most capital-intensive insurance standard in the world. It is also more volatile and procyclical than other global frameworks.**

European insurers have to hold more capital for the same business than other global insurers and have more regulatory pressure to act in a short-term instead of long-term way. As result European insurers have less investment capacity and ability to offer long-term products than insurers in other jurisdictions and have a competitive disadvantage on international business.

- **The IAIS's Insurance Capital Standard (ICS) project, which is based on Solvency II, was intended to create a more level-playing field for internationally active groups, is generally considered to require less capital than Solvency II but more than other global frameworks. Whether any final ICS will be agreed remains highly uncertain.**

While the current version, ICS 2.0, has lower capital requirements and less volatility compared to Solvency II, it is considered generally as significantly too onerous and volatile. **This view is also shared by a number of key supervisors.** The Canadian supervisor (OSFI) withdrew from the ICS monitoring process because it said that *"in its current form [the ICS] is not fit for purpose for the Canadian market. Specifically, the proposed capital requirements for long-term products are too high to be compatible with OSFI's mandate of allowing Canadian insurers to compete and take reasonable risks."* Even the Japanese supervisor who plans to use the ICS as inspiration for updating their national framework has made clear they will make changes, as needed, to avoid unintended consequences on their industry and economy.

- **At the start of Solvency II, to avoid damaging European insurers, the EC designated the USA, the largest insurance market globally, "provisionally equivalent". This will expire end-2025 and it appears unlikely that it can be renewed given the rigorous requirements for ongoing equivalence.** Without equivalence, EU insurers will have to apply Solvency II capital rules rather than US rules to their US business, making them uncompetitive.