

To: Economics and Finance Committee

From: ECOFIN Team

Meeting: 7 December 2018

Reference: ECO-18-113

Subject: Solvency II – 2018 review.docx

Objective

For discussion

Input requested

Members will be invited to share information on their respective lobbying actions for the 2018 review and the Insurance Europe priorities.

Recent developments

In early November the EC launched the 1-month consultation of the draft amendments to the Solvency II Delegated Regulation, to which Insurance Europe is (at the time of writing this note) preparing a response covering all the areas of the review. Compared to the earlier version shared with Council representatives for feedback in September, the text revealed no major change, except for the introduction of a new 22% calibration for "long-term equity" (Art 171a). Unfortunately, the EC proposal is not right, in particular because it requires ring-fencing and imposes a 12-year average duration of equity.

Insurance Europe prepared an extensive [analysis](#) of the newly proposed Art 171a with targeted criticism, which it shared with the Dombrovskis Cabinet. It was then invited by the Cabinet to have a verbal exchange of views, where it reiterated the fact that the proposal, as it is, would not be applicable in practice. It became obvious during the meeting that the Cabinet representative asked the Insurance Unit representatives to defend the EC proposal – which turned to be a very difficult task for them.

In addition to technical engagement at cabinet level, the secretariat initiated a high-level political level letter to Commissioner Dombrovskis, raising concerns on four top priorities of the review (ie equity, risk margin, LAC DT and the volatility adjustment). Given that AMICE also engaged technically on the review and raised concerns similar to those of Insurance Europe, they were invited to join the initiative and the letter became a [joint Insurance Europe AMICE letter](#), which was sent on Friday 30 November. It highlights the need for improvements of the proposal on equity, and reiterates the industry positions on other outstanding priorities – risk margin, volatility adjustment and LAC DT.

The publication of the draft EC proposals also triggered interest and reactions from MEPs, who sent a [letter](#) to the Commission in September highlighting its priorities for the review. On late November it received a [response from Dombrovskis](#), largely pushing back on the ECON requests. This was not positively received by ECON MEPs and, in a structured dialogue with Dombrovskis that took place the day after the receipt of the letter, targeted questions were asked and concerns were raised on the EC actions for the review.

It is highly likely that MEPs in ECON would follow up with more actions in the coming days, as they are obviously frustrated by the EC ignoring their priorities.



At Council level, a number of member states are sympathetic to the industry concerns, especially on equity – where FR and NL have a strong alliance supporting a change in the long-term equity calibration. Insurance Europe’s recent engagement includes an exchange with the Luxembourg Finance Minister, who seemed supportive of a discussion on long-term equity calibration the Council ECOFIN level. The secretariat has also reached out to the upcoming Romanian Council Presidency and requested a meeting to discuss industry priorities, including Solvency II. In the recent Executive Committee meeting, the Insurance Europe President encouraged all members to liaise with their Finance Ministers on the Solvency II review, to enhance the chances of a targeted Solvency II discussion in the Council ECOFIN.

There is therefore still a chance of last-minute improvements by the Commission, should pressure by all parties (industry, EP, Council) remain high. Ultimately, independent of the short-term results of this engagement, the higher the profile of the issues becomes, the better the leverage and preparation for the 2020 review. The secretariat believes it is important to emphasize that improvements to the long-term equity calibration are part of a necessary set of wider improvements needed in order to remove barriers that Solvency II currently creates for long-term products and investments.

Next steps

- The consultation on the draft DAs via the Better Regulation portal closes on 7 December. The EC is expected to submit the adopted DAs to the European Parliament and Council for scrutiny in December.