

To: Solvency II Working Group, Public Affairs & Communications Committee, Economics and Finance Committee
From: Economics and Finance Department
cc:
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Subject: Summary of Solvency II policy debate - Ecofin Council, 5 October

Summary

This note provides a summary of the policy debate on the Solvency II review at the Ecofin Council meeting on 5 October.

The policy debate included a presentation by Commissioner Mairead McGuinness followed up by an exchange of views by Member States' ministers of finance. A full recording of the debate is available [here](#).

Should members have any additional comments or a different understanding of the comments made during the debate, please contact the secretariat (prudential@insuranceeurope.eu).

■ Presentation by the EC

- Stressed the important role of the insurance sector also light of current challenges and the review is about modernising the framework to meet those challenges. SII has worked well and therefore targeted revisions have been made.
- The EC wants the sector to meet its full potential as long-term investors and make it less costly to invest in long-term equity. The EC also will also improve the framework so that market volatility does not result in short-sighted investment decisions, so it has proposed improvements the long-term guarantee measures (VA and MA).
- To ramp up the sector contribution to the Green transition, insurers will have to fully take into account climate risk in their underwriting and investment activities. The EC has mandated EIOPA to carry out two workstreams:
 - Assess whether a differentiated treatment is justified – no green/brown factor has been proposed now, this will be a report.
 - Assess whether natcat risk is still properly taken into account.
- The EC also wants to ensure that policyholders are protected and that insurers hold enough capital. The EC intends to better reflect the low yield environment in capital requirements and valuation of insurers long-term entitlements to policyholders including pension products.
- As a third objective, the EC wants to make the framework more proportionate and simpler, in particular for small insurers exposed to limited risk.
- The EC intends to close gaps in cross-border supervision, in particular by proposing to give EIOPA a stronger mediation and coordination role.
- The EC has proposed a Recovery & resolution directive following a proportionate approach.
- Insurers are different to banks and so are not exposed to the same risks. Nevertheless, in times of economic distress, public authorities need to be equipped to prevent and address financial stability risks and the proposed changes align SII with international standards on systemic risk.
- All in all – a balanced package that stimulates long term investment while gradually reinforcing the prudential framework.

- Over the long-term, the freed-up capital will be up to €30 bn – this is not a gift to the industry. The EC is fostering investment capacity, which will benefit the wider economy, and delivering on the CMU Action Plan.
 - In terms of process, the EC wants to conduct negotiations on the Level 1 directive and Level 2 delegated act in parallel. The EC will soon convene expert groups to discuss the level 2.
- ECB
 - The proposal is timely and is seen very positively.
 - The ECB welcomes the macroprudential elements.
 - The volatility adjustment proposals are welcome, but can be more symmetric, it will release more capital in stressed times, but it should lead to more buffers in good times.
 - The ECB also welcomes proposals on recovery and resolution and long-term equity.
 - It is important to ensure that natcat risks related coverage is maintained over time.
- EFC (Economic and Financial Committee)
 - Positive reception of the proposals, particularly on recovery and resolution.
 - Some concerns about the impact on national level with respect to capital requirements.
 - The main concern is that some of the issues which are considered politically salient (eg long-term equity- were relegated to be dealt with in the delegated acts).
- Denmark
 - Important to explore how the rules reflect the low interest rates and allow for long term investments in the economy, notably the green transition.
 - Any amendments to capital requirements need to ensure that financial stability and policyholder protection are safeguarded. Capital requirements should reflect actual risk, also on climate risk.
 - It is important to have a clear shared understanding of the effect of changes to the capital requirements, also at the national level.
 - The framework must ensure proportionality and avoid additional costs for insurers.
 - General support for a proposal on recovery and resolution, including recovery plans. Existing and well-functioning national frameworks should be respected.
- France
 - Welcomes the publication of the proposal which is a good basis for the negotiations.
 - The negotiations should not be technical, but highly political as political choices need to be made. The question is how to make insurers stronger investors in the economy. The negotiations should pave the way for having insurers finance better the European economy.
 - The capacity of insurance to be long-term investors should be restored (beyond recovery).
 - The review should be neutral in capital requirements for every national market. Investment levels should not be reduced by setting supplementary capital requirements.
 - Consumer protection should be improved, CMU development is a key priority. Coordination between supervisors should be enhanced and some harmonisation of resolution practices put in place (FR/IT/NL non-paper provides proposals).
 - Climate-related stress test welcome.
- Germany
 - Agrees on the need for political and not only technical level discussions.
 - More specifics needed in some areas, including:
 - Extrapolation: details lacking in terms of EC proposal
 - Equity: careful analysis of why measures are not used by companies and relevance of criteria
 - VA: more consideration of illiquidity needed

- Agrees with the risk-based approach to sustainable finance
- Welcomes harmonisation of recovery and resolution, but proportionality is crucial.

- Czech republic
 - Appreciates the decision not to include IGS proposal.
 - Will emphasize longevity and risk-based solutions rather than short-term ones.
 - Appreciates the assurance that delegated acts will be discussed in parallel.

- Spain
 - Support for the EC proposal overall, a step in the right direction.
 - Many technical issues are to be discussed and clarified. The direction of improvements in proportionality, extrapolation, VA, etc are the correct ones.
 - On recovery and resolution, currently there are national systems that are working well so it is important to take advantage of positive experiences and allow for adaptation through transitional period.

- Belgium
 - Three guiding principles for the negotiations:
 - Need to preserve the insurance industry ability to play a significant role in the recovery
 - The review should not weaken the prudential framework
 - Consumer protection needs to be ensured
 - The economic context has evolved since the introduction of SII.
 - VA: Investment portfolios of companies in Belgium differ so the suggested amendments are likely to impose higher volatility so supervisory discretion is needed.

- Ireland
 - Key priorities: targeted measures that will not negatively affect the competitiveness of European insurers and ensure protection of consumers.
 - Important for proposals to progress together, along with the DAs.
 - Art 159a – strong reservation as it may have an impact on the Single Market.
 - Recovery and resolution:
 - Generally supportive harmonise IRR framework and hoping that funding mechanisms will be considered.
 - It needs to be ensured that the framework is tailored appropriately for the insurance sector.

- Italy
 - Overall support, in particular for proposals on VA, but the risk correction mechanism needs some further improvements.
 - Welcomes that the proposal will foster supervisory convergence cross-border cooperation.

- Slovakia
 - Welcomes the fact that rules are being fine-tuned. In particular, the proposals on:
 - Home-host cooperation
 - Climate-related stress test
 - Proportionality
 - Macroprudential tools and resolution and recovery: supportive but it is crucial that rules do not undermined other SII aspects and do not lead to unlevel playing field.

- Croatia
 - Welcomes the package, which strikes the right balance. Croatia will focus in particular on:

- Low interest rates environment
- Roles of insurers as investors in the real economy (CMU, Green Deal)
- Enhancing policyholder protection
- Outcome should strengthen the Single Market and ensure a level-playing field

■ Hungary

- Welcomes the EC proposals on proportionality, but this is not sufficiently respected for the macroprudential and recovery and resolution aspects.
- Regrets that no proposal was made on IGS.

■ Luxembourg

- Welcomes that the review is focusing on targeted improvements to SII.
- Supervision: welcome convergence, but duplication of supervision should be avoided.
- Proportionality: welcome the low risk undertaking proposal.

■ Lithuania

- Welcomes proposals on cross-border supervision and emphasis on proportionality principle.
- New provisions of macroprudential measures need to be discussed carefully to preserve balance.
- Recovery and resolution: welcome the objective but the new regime should not place an excessive burden on small markets.

■ Bulgaria

- Welcomes proposals aimed at enhancing insurers' capacity in line with the CMU and Green deal, proportionality, cross-border supervision and macroprudential tools.
- However, it is a long process and small markets may have specific issues and need guidance (eg the notion of systemic importance and low-risk may be very different in Bulgaria than in other markets).

■ Malta

- The principle of proportionality is key, as well as cross-border issues.
- IGS: welcomes the EC study and calls for further work in this area.