

To: Public Affairs & Communications Committee, Solvency II WG

UK Treasury publishes consultation outcome on the Solvency II review

On 17 November, the UK Treasury [published](#) a document on the outcome of the consultation on the Solvency II review, which ran from 28 April to 21 July.

In short, the consultation sought views on the following proposals:

- releasing capital by changing the calculation of the risk margin and cutting the risk margin substantially, including by 60-70% for long-term life insurers in recent economic conditions
- reforming the fundamental spread of the matching adjustment
- unblocking long-term productive investment by making it easier to include a wider range of assets in matching adjustment portfolios
- reforming reporting and administrative requirements to reduce EU-derived burdens.

The government's final reform package is introducing a simpler, clearer, and much more tailored regime:

- ensure the risk margin is changed to reduce the risk margin for long-term life insurance business, including Periodic Payment Orders, by 65%, and for general insurance business by 30%, under recent economic conditions and to enable a modified cost of capital approach to its calculation;
- maintain the existing methodology and calibration of the fundamental spread, while allowing for the use of notched ratings; and
- broaden the matching adjustment eligibility criteria to include assets with highly predictable cashflows, subject to adjustments to the fundamental spread allowance and safeguards to be implemented by the PRA;
- slashing red tape lingering from the EU, which imposes unnecessary burdens on firms, restricting innovation in the UK market.

For more info

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