insurance europe

Press Release

12 March 2014

Draft Solvency II Delegated Acts dilute aims of EU legislators

Under current proposals, regulatory regime would not work as intended

Brussels, 12 March 2014: Insurance Europe's president, Sergio Balbinot, has warned that the details of the EU's new Solvency II regulatory regime must be drafted correctly to ensure that the legislation works as intended and does not have negative consequences for the insurance industry and its customers.

Yesterday the European Parliament approved the Omnibus II Directive, which updates the Solvency II Directive of 2009. This formal adoption by the Parliament of the political agreement that was reached last November is another important step towards the introduction of Solvency II. However, the Delegated Acts that are currently being drafted to put the detail on to the Solvency II Directive deviate from the intentions of the legislators in several respects, such as long-term guarantees and third-country equivalence.

"If not corrected, the Delegated Acts would seriously limit insurers' ability to provide the long-term investment and stability Europe's economies need. They would have a major impact on the availability and price of insurance products, and would harm the ability of European insurers to compete internationally," said Balbinot.

"In important areas, the wordings and calibrations would not work as intended. The insurance industry believes that workable solutions exist, without delaying the timetable for finalising Solvency II. In the interests of Europe's economies, we must get Solvency II right."

Among the many issues of concern in the current version of the Delegated Acts, Insurance Europe has highlighted eight priority areas:

- The method for setting the **credit risk adjustment**, which is a significant component of the discount rates used for valuing all liabilities, is flawed. Changes are needed to ensure it is not calibrated too high and is not too volatile.
- The **volatility adjustment** is applied to portfolios that do not meet the matching adjustment criteria, to provide some shelter from the short-term market volatility that is not relevant for insurers. The methodology for setting this lacks detail and requires further improvement to ensure the calibration does not deviate from the decisions made in Omnibus II.
- The **matching adjustment**, which is applied for portfolios with very strict criteria, was designed to recognise the economic benefits of having highly matched long-term assets and liabilities. A number of improvements and clarifications are required to ensure that it works as intended.
- Adjustments need to be made to **extrapolation** methods and calibrations, as well as to how these interact with the interest rate stress test, because the current draft adds significant unnecessary costs, particularly for long-term products.
- The risk charges for **long-term investments**, such as infrastructure projects, investment in small and medium-sized enterprises and securitisations, are unnecessarily high. These faults can be corrected without jeopardising policyholder protection. The Delegated Acts must be improved for those asset classes most important for growth and employment in Europe.
- The Acts negate the provisions on granting provisional equivalence to third-country regimes that are important to Europe's internationally active groups.

- The text for determining the capital charges for **currency risk** is flawed. It penalises entities for meeting local solvency capital requirements and creates incentives for poor currency management.
- Unnecessary and costly restrictions on the classification of and limits to **own funds** need to be removed.

-Ends-

Background

The EU's Solvency II Framework Directive was agreed in 2009 (2009/138/EC). The Omnibus II Directive makes changes to it to reflect developments such as the EU reforms in the Lisbon Treaty. It also addresses concerns over artificial volatility and pro-cyclicality created by the Solvency II measures when they were tested in the fifth quantitative impact study (QIS 5) run in 2010.

Under the current timetable, Solvency II Directive is due to come into force on 1 January 2016.

Notes for editors

1. For further information please contact Janina Clark, head of communications & PR (tel: +32 2 894 30 70, clark@insuranceeurope.eu).
2. To receive Insurance Europe's news and press releases:
    - follow us on Twitter @InsuranceEurope
    - sign up to the RSS feeds at www.insuranceeurope.eu
    - e-mail Amélie Chantrenne, Chantrenne@insuranceeurope.eu, to be added to our mailing list
3. Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of more than €1 100bn, employ almost one million people and invest almost €8 400bn in the economy.