insurance europe

Press Release

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EIOPA assessment shows Solvency II adjustments are essential

Proposals on changes to Solvency II are disappointing

Brussels, 17 June 2013: The EU's insurance supervisor, EIOPA, has published the results of its assessment of measures to deal with long-term guarantees in the forthcoming Solvency II regulatory regime for insurers.

The key concern, highlighted by the quantitative impact study that was carried out back in 2009, is that the Solvency II framework — in its current form — does not correctly assess the available capital or required capital for insurance companies offering long-term guarantees backed by long-term assets. This is because the long-term perspective of insurance can reduce or eliminate insurers' exposure to short term market volatility, while the current version of Solvency II incorrectly assumes that insurers are always affected by all market volatility.

The importance of addressing this issue has been widely recognised. It has been raised by such bodies as the Bank for International Settlements, the OECD, the IMF and the Group of 30 consultative group. They, along with the insurance industry, have voiced concerns that if appropriate solutions are not found, the ability of insurers to continue to offer long-term guarantees and their role as long-term investors and providers of financial stability during volatile markets could be at risk.

"It is imperative that Solvency II measures the right risks and takes into account how the largely long-term nature of the industry's liabilities and hence its investment strategies affect those risks," said Sergio Balbinot, president of Insurance Europe. "Otherwise the amount of capital that insurers are required to hold will be needlessly increased and unnecessary volatility will appear in insurers' balance sheets."

Significant efforts have gone into finding solutions and the insurance industry has supported a package of measures to address the problems related to long-term guarantees. If implemented correctly, these measures would reflect the way in which insurers manage their long-term business, ensure that the risks to which their balance sheets are exposed are not overstated and avoid unnecessary balance-sheet volatility.

Insurance Europe welcomed the decision to carry out an impact assessment to test some of these measures before the finalisation of Solvency II. EIOPA's report on the study confirms very strongly the need for adjustments to Solvency II and provides valuable insight into the types of solutions that work well across the diverse European markets and those that do not.

EIOPA has also put forward, based on its findings, some proposals for a set of improvements to the current Solvency II framework that it believes could ensure Solvency II captures adequately the benefits of the long-term perspective. Insurance Europe's preliminary review raises significant concerns that the measures proposed would not work as intended. "We will examine carefully EIOPA's report and proposals, explaining our concerns and identifying the adaptations that are needed to avoid unnecessarily damaging insurers' ability to provide long-term guarantees and invest long-term." said Balbinot.

The industry remains committed to supporting efforts to correct the outstanding problems with Solvency II and to finalising the regime as soon as possible.

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Background

The long-term guarantee assessment by the European Insurance and Occupational Pensions Authority (EIOPA) ran from 28 January to 31 March 2013. It tested various options for the measures to deal with long-term guarantees in Solvency II to assess their effects on policyholders and beneficiaries, (re)insurance undertakings, supervisory authorities and the financial system as a whole. This technical assessment will inform the debates on the EU's Omnibus II Directive, which will update the Solvency II Framework Directive of 2009 before it comes into force.

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. Copies of all Insurance Europe press releases are available on the Insurance Europe website (www.insuranceeurope.eu).
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