European Insurance and Occupational Pensions Authority

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Petra Hielkema
Chairperson

Maria Luís Albuquerque
Commissioner for Financial Services and the Savings and Investments Union
European Commission

Subject: Public consultation on level 2 amendments for Solvency II

Dear Commissioner Albuquerque,

Let me start by expressing our appreciation that the Commission's proposal for the Solvency II level 2 amendments, which was subject to public consultation this summer, has taken on board many of the technical recommendations from EIOPA. These changes will ensure that Solvency II remains fit for purpose, as well as to apply lessons learned from supervisory experience to refine the framework. At the same time, I have to express our strong concerns as a supervisory community about the extensive capital relief that the Solvency II review, based on the already agreed level 1 changes and the proposed level 2 changes, would provide.

In particular, level 2 of Solvency II specifies the valuation of insurance liabilities and the calculation of capital requirements. The level 1 agreement and the proposed level 2 amendments would result in a significant reduction of quantitative requirements, which is in our view not technically justified. Our concerns are particularly focused on the risk margin of insurance liabilities which would be reduced by 39%, going beyond what would be necessary according to the level 1 agreement.

We understand and fully support the need for Europe to boost economic growth and competitiveness in order to continue to thrive in a changing world. More investment in infrastructure, technology, defence and climate resilience is needed for Europe to overcome its current challenges. The insurance sector is well-placed to answer this call, given its position as long-term investor with considerable sums at its disposal. In fact, EIOPA recognised this in its opinion on the review, indicating that some lowering of capital requirements for long term investments would be appropriate while ensuring that the overall capital in the sector remains adequate.

Our experience has shown that Solvency II proved itself as a solid foundation, withstanding a number of market turbulences, such as caused by COVID-19, and more recent high inflation. If requirements are lowered with the significant impact as now envisaged in the consultation proposal, the overall resilience of the sector could be eroded. The capital, which is set free now, may be missing when a next crisis hits the sector, more so if the sector is simultaneously requested to take on board more risks in their investment strategies.

In particular this combination, lowering the resilience of the insurance sector while incentivising risk taking, is concerning, even more where it takes place in a period of increasing economic and geopolitical uncertainty. It is comparable to increasing speed limits on our roads while eliminating simultaneously the requirement to have airbags in our vehicles to protect citizens in case of accidents.

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The key objectives of Solvency II are the protection of policyholders and financial stability. Any revision of the framework needs to be risk and evidence based taking those objectives into account.

EIOPA stands ready to further support the Commission in its work.

Yours sincerely,

[signed]

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