EIOPA’s comment on Solvency II proposals from the European Commission

NEWS
DATE:
01 Oct 2021

The European Insurance and Occupational Pensions Authority (EIOPA) welcomes the proposals of the European Commission on the review of Solvency II. The proposals largely share EIOPA’s approach and follow the objectives set in EIOPA’s Opinion from December 2020. EIOPA particularly welcomes the proposal of the European Commission to develop an Insurance Recovery and Resolution Directive, to include the macroprudential perspective in Solvency II, to enhance the proportionality principle, and to give mandates for further action on sustainable finance. Furthermore, the new extrapolation methodology of the Risk Free curve, the adjustments of the interest risk rate as well as additional tools and measures to address systemic risk are welcome steps.

Effective cross-border supervision is a precondition for consumer protection therefore the intention of the European Commission to strengthen EIOPA’s role in cross-border supervision is of particular importance. We need to consider the extent to which EIOPA has the means to act in cases where identified problems in the market are not being resolved. The ability of EIOPA to identify these issues is a real benefit of the Solvency II framework, however, without the tools and powers to act leaves EIOPA in an uncomfortable position given the mission to safeguard financial stability and protect policyholders.

From a perspective of consumer protection, EIOPA deeply regrets that the minimum harmonisation of the Insurance Guarantee Schemes at EU level has not been considered. The review of Solvency II and the newly proposed Insurance Recovery and Resolution Directive constituted an excellent window of opportunity to address the existing fragmentation in the field of Insurance Guarantee Schemes. As a result of the current fragmentation, policyholders receive different levels of protection in the event of an insurer’s failure operating within the EU, depending on the country from where the insurance policy originates. Consequently, EIOPA continues to believe that this issue needs to be tackled as it may seriously undermine the functioning of and trust in the European Single Market.

To avoid scenarios that harm policyholders, an important element of Solvency II is its prudence. EIOPA’s advice recommended a more favourable but prudent treatment of illiquid liabilities as well as a balanced update overall. In EIOPA’s view the removal of illiquidity considerations for the purpose of volatility adjustment calculations on the one hand and relaxations regarding the calibration on the risk margin and interest risk capital charge on the other, pose potential risks.

Finally, while EIOPA is pleased with the consideration taken on board that low-risk insurers would be relieved of certain requirements, it is important that the proportionality principle in Solvency II is embedded in the supervisory review process. This approach would give the supervisors more flexibility to allow application by insurers of proportionality also during the supervisory review process. This would keep proportionality as a principle instead of transforming it into a ‘set of rules’.

Taking into account that the review process is only starting, EIOPA stands ready to support further the European Commission, the European Parliament and the Council in the review process.