

Committee on Economic and Monetary Affairs  
The Chair

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Mr Valdis Dombrovskis  
Vice-President for the Euro and Social Dialogue,  
also in charge of Financial Stability, Financial  
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European Commission  
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**Subject:** *Review of Delegated Regulation (EU) 2015/35 under Directive 2009/138/EC*

Dear Vice-President,

on behalf of the ECON Committee, I am writing to you regarding the discussion we had with your services and the EIOPA Executive Director during our Committee meeting on 16 May 2018, at our Scrutiny session on the review of the implementing measures contained in Delegated Regulation (EU) 2015/35 under Directive 2009/138/EC (“Solvency II DA”), on the basis of the two technical advices that the EIOPA prepared for this review.

The largest share of the discussion focussed on the review of specific items of the Solvency II Capital Requirement Standard formula (SCR) through the Solvency II DA, expected by the end of 2018. In this regard, I would like to draw your attention to the priorities below to which, as ECON Committee, we attach great importance.

At the scrutiny slot, your services confirmed that the proposal of EIOPA on the review of the methodology for the calculation of the interest rate risk would be postponed to the review of the Solvency II Directive. We supported reviewing the methodology for the interest rates shocks as part of a holistic assessment of the risk free interest rate term structure, only in the review foreseen by 1 January 2021 under Article 77f of the Solvency II Directive. However, we would like to draw your attention also to the risk margin, which in aggregate is very high and can have a significant impact on product pricing, design and availability as well as investment decisions, especially for those insurers with long-term business. A more comprehensive review of the risk margin is envisaged as part of the 2020 review, however, we believe a first step should be undertaken, as part of the 2018 review, in order to address the technical and economic grounds for a reduction of the current cost of capital rate.

Second, in the spirit of fostering long-term investment and sustainable growth, we believe that other initiatives, such as review of the treatment of equities, touched upon during the Scrutiny session, should also be taken aboard in the Solvency II DA review foreseen for the end of 2018. We consider that this review should include a revision of measures on equity shock in 2018 for long-term equity investments. Moreover, long-term investments strategies of insurance companies would be encouraged through both a revision of the solvency requirements on “Type 1” equity, calibrated at 39%, as well as the non-listed equity, calibrated at 49%, and a creation of a new equity class in the Solvency II DA, with capital charges that are better aligned with the actual long-term risk. An equity shock of 22% for this class would be more appropriate and would be

in accordance with the one adopted for strategic participations (Article 171) or the duration-based equity investment module (Article 304). In such a framework, we believe proposals to simplify the correlation matrix between different asset classes (Article 164 of the Solvency II DA) and extending the use of the "strategic participations" (Article 171), should be explored to include a broader scope of investments, including those in sectors relevant for the financing of European economies.

Third, during the scrutiny session, we highlighted that, as evidence shows, the "national component" of the Volatility Adjustment (VA) does not work as intended. As the uncertainty and cliff-edge effects regarding the activation of this component could lead insurance companies to engage in wrong incentives, we therefore ask to address this issue already in the framework of the review of Solvency II in 2018. In particular, we believe that the national component would function better, if it is applied at the end of a reporting period once it is activated at any time during the period. For example, we ask the Commission to explore the option that the value at the end of each month shall be the highest value observed on a daily basis in that reference month.

Moreover, these improvements will help but not address wider concerns, meaning that the Solvency II framework will not function as intended prior to the 2020 review. It is therefore important to provide a short-term fix by integrating current provisions to specifying how to handle extraordinary situations such as "stressed liquidity periods" as stated in Article 49(2) of the Solvency II DA.

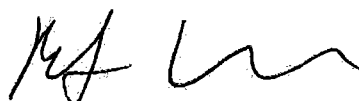
In any case, this proposal could not be regarded as an exhaustive intervention to fix the critical issues related to the VA, and on the other LTG measures, which will need to be properly assessed and addressed during the 2020 Review.

Along with these priorities, we would like to draw your attention to the recalibration of premium risk of the credit and suretyship line of business, we are concerned that the data sample used by the EIOPA appears to lack representativeness, including only a few export credit insurers, and therefore the impact could be higher than the one estimated in EIOPA advice published on 28 February. Given this imbalance, we find it necessary to crosscheck thoroughly the increase in the calibration, including its impact, in order to avoid any disruption of the trade credit insurance market that could harm the financing conditions of the economy.

Finally, we believe that the European Commission is aligned with the recent position of the European Parliament, further to the Action Plan, to integrate the principles of Sustainable Finance in their work on the above with a view of enhancing investment in long-term and sustainable growth.

I trust you will address these priorities for my Committee within the 2018 review of the Solvency II DA.

Yours sincerely,



Roberto Gualtieri

cc: Gabriel Bernardino, Chairman of the European Insurance and Occupational Pensions Authority  
Olivier Guersent, Director General for Financial Stability, Financial Services and Capital Markets Union,  
European Commission