

Brussels, 9th February 2015

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Mr Roberto Gualtieri
Chair of the Committee on Economic and Monetary Affairs
European Parliament
B-1047 BRUSSELS

Dear Roberto,

Thank you for your letter of 18 December 2014 on the subject of insurance, particularly the work in the International Association of Insurance Supervisors on possible global capital standards for globally systemic and internationally active insurers. I understand that your letter follows up on a letter to my predecessor Michel Barnier on 18 September, and that the European Parliament wishes to find an appropriate mechanism to be informed and give its views on the international discussions, which I very much understand.

Perhaps a word of background. As Mr. Barnier pointed out in his letter of 9 October, while the European Commission is an IAIS member, it is not a member of the highest decision-making body of the IAIS, the Executive Committee, and therefore does not have a vote on the decisions or output of the IAIS. EIOPA, and the insurance supervisors of the UK, France, Poland and Germany, are represented on the 26-strong Executive Committee and can vote there. The Commission does participate actively in the Technical Committee and the Financial Stability Committee of the IAIS. EIOPA organises preparatory calls of EU members of the IAIS in advance of IAIS meetings with the aim of coordinating positions.

The Commission has pointed out many times in both the IAIS and the FSB that any international agreements on global capital standards for insurers could be implemented in the EU only via an EU-level legislative proposal adopted by the co-legislators; the Commission has refrained in those bodies from making any firm commitments on behalf of the EU as a whole, and it has consistently stated that its positions are without prejudice to the future decisions of the co-legislators.

I am happy to inform the ECON committee about IAIS matters, both in writing and orally, in as much detail as possible. I hope that the willingness of the Commission to liaise closely with the ECON Committee on international affairs in the area of financial services regulation was demonstrated by the appearance of the Director General of DG FISMA, Jonathan Faull, before the Committee on 2 December. I have included a brief summary of recent IAIS developments below.

My officials who take part in IAIS committees will be happy to answer further questions from the ECON Committee. I would recommend the inclusion of EIOPA in any such exercise, given its prominent position in the IAIS Executive Committee.

With best wishes,


JONATHAN HILL

Good to see you in Strasbourg.

Annex:

On 17 December 2014 the IAIS launched a public consultation on a consultation document on an International Capital Standard (ICS) for Internationally Active Insurance Groups. The consultation is not on a specific proposal for the ICS, but on various options for different aspects of the ICS. The deadline for comments to be submitted to the IAIS is 16 February 2015. Within the IAIS, discussion on the ICS is currently focusing on valuation standards, with a key question of whether valuation in the ICS should be based on market value with adjustments or on adjusted local GAAP (Generally Accepted Accounting Principles); Solvency II is of course based on market value, while US rules are based on US GAAP. This question is left open in the current consultation.

It is clear that no ICS can be achieved if all jurisdictions in the IAIS require it to be the same as their current domestic insurance capital standard; on the other hand, there are clear risks in seeking significant revisions to Solvency II shortly after its application. The Commission considers that any international capital standard for Internationally Active Insurance Groups must be broadly compatible with Solvency II.

The IAIS is currently, at the request of the Financial Stability Board, reviewing its methodology for the designation of Globally Systemically Important Insurers. Currently, nine insurers worldwide (but no reinsurers) are on the list of G-SIIs, including five insurers based in the EU. The FSB has asked for a review of the methodology, in particular with regard to reinsurers, before adding any reinsurers to the G-SII list. The Commission is taking part in a high-level FSB working group on this question; the Commission's position is that, while some technical improvements to the G-SII designation methodology can be envisaged, differences in methodology for designating insurers and reinsurers are not justifiable, and that the G-SII list needs to include reinsurers in order to be demonstrably fair to both insurers and reinsurers.

Notwithstanding this issue, work is progressing on a Higher Loss Absorbency (HLA) for G-SIIs to complement the Basic Capital Requirement (BCR) developed by IAIS and agreed by the FSB in 2014 (the BCR, despite its misleading name, is not a binding capital requirement in itself, but simply a basis for the calculation of HLA; the two together are intended to constitute a

binding requirement). Impact analysis of different HLA approaches will be carried out in the early part of 2015, and the FSB wishes to receive a finalised HLA proposal from IAIS in time for its plenary meeting in the autumn of 2015. For the moment it looks like BCR and HLA will be non-risk-based measures, which will be a different approach from Solvency II. EU G-SIIs might therefore be faced with two sets of solvency calculations. The Commission's position in discussions has been that it does not rule out a BCR/HLA combination which raises the effective Solvency Capital Requirement for EU G-SIIs somewhat; but this must be the case for G-SIIs in other jurisdictions too. The IAIS's target application date for BCR and HLA is in principle 2019, like that of ICS. The Commission will keep the Parliament informed on the progress of this HLA file, which, as stated above, is due for completion this year.

On non-bank resolution, international work is under way, not just that on capital standards. The Financial Stability Board published in October 2014 revised "Key attributes of effective resolution regimes for financial institutions", and launched a consultation on "Guidance on the Identification of critical functions and critical shared services". Designated G-SIIs must have resolution plans and crisis management groups in place.

When the Commission carries out its first review of Solvency II, it will consider the state of play on BCR, HLA and ICS and the discussions on the G-SII list, before deciding whether to incorporate any of these standards in a legislative proposal to Parliament and Council amending Solvency II.