

Gabriel Bernardino
Chairman

Mr Olivier Guersent
Director-General
European Commission
DG FISMA
SPA2 8/20
1049 Brussels



EIOPA-18/879
7 December 2018

Dear Mr Guersent, *Dear Oliver,*

I am writing to you in response to the public consultation that your services have launched on draft amendments to the Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC ("Solvency II"). The following points have been discussed by the members of EIOPA's Board of Supervisors.

I was pleased to see that the draft Regulations largely reflected both of our advices sent on 30 October 2017 and on 28 February 2018. Our advices contain proposals to ensure the proportionality of the framework, with several new simplifications, and its technical consistency, with revised calibrations of the solvency capital requirements. They also contain criteria for the identification of those unrated bonds and loans and of those unlisted equities that may benefit from a different capital charge, given their lower risk-profile. Both advices have been complemented by a detailed and holistic impact assessment, taking account of the financial stability and potential pro-cyclicality impact of the proposals.

In February 2018, the EIOPA Board of Supervisors unanimously supported to make modifications to the current design of the interest rate risk sub-module. There is indeed unambiguous evidence that it under-estimates the real risk, since it does not cater for negative interest rates and is less effective at very low rates. Our proposal corrects these deficiencies. It is easily implementable, widely used by insurance professionals and its impact, comparable to that observed in internal models, is manageable, particularly with the transition period we proposed. This is also demonstrated by our impact assessment. Further, our proposal incentivises long-term investments, because the better the long-term assets match the long-term liabilities, the smaller the capital charge is. Considering the current economic environment and perspective, it is time for regulators to take this counter-cyclical action and for the insurance industry to build capital.

In preparation of the Solvency II 2020 review and as part of its structured process that enables all points of view to be considered, EIOPA is conducting investigations on the treatment of illiquid liabilities and related investments. Your services are proposing a reduced capital charge of 22% for a portfolio of long-term equity investments backing long-term liabilities. In order to ensure that Solvency II continues to be a risk-based framework built on evidence, and before any stand-alone amendments are proposed, I would advise the Commission to await and take into account the outcome of EIOPA's comprehensive analysis as part of a holistic approach.

I took note of your services' proposal to modify the general provisions on the relevant risk-free interest rate term structure. Let me first emphasise that EIOPA's current process ensures that the relevant risk-free interest rate term structure is derived in a transparent, prudent, reliable and objective manner. Markets affected by any change are duly informed and consulted, using the help of the National Competent Authorities where appropriate. Secondly, it is impossible to overstate the importance that the risk free interest rate term structure, which underpins the calculation of technical provisions, remains objective and technically sound for all insurance undertakings in Europe, and not influenced by short-term political considerations. If I understand the aim of this new provision that material changes are considered at an appropriate level, the current drafting raises practical issues. The proposed definition of a 'substantial change' is too wide for a well-functioning process and puts at risk the market consistent valuation of technical provisions.

My staff and I remain at your disposal for further exchanges on the above points.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'G. G. G.', with a long horizontal flourish extending to the right.

cc:

Andrea Beltramello, Member of Cabinet;

Jan Ceysens, Member of Cabinet;

Martin Merlin, Director, Regulation and prudential supervision of financial institutions, DG FISMA;

Nathalie Berger, Head of Unit, DG FISMA;

Felicia Stanescu, Head of Unit, Financial Services policy and international affairs.