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COVER NOTE

From:	Mr Gabriel BERNADINO, Chairman, European Insurance and Occupational Pensions Authority (EIOPA)
date of receipt:	17 December 2020
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

Subject:	EIOPA's technical advice to the European Commission on the review of the Solvency II Directive
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Delegations will find attached a letter regarding the subject mentioned above.

EIOPA's full report can be viewed here:

https://www.eiopa.europa.eu/sites/default/files/solvency_ii/eiopa-bos-20-749-opinion-2020-review-solvency-ii.pdf

Encl.

E-MAIL

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17.12.2020

Gabriel Bernardino
Chairman

Olaf Scholz
Federal Minister of Finance
President of the Council of the European Union
(Economic and Financial Affairs)
General Secretariat of the Council of the EU
Rue de la Loi 175
1040 Brussels
Belgium



EIOPA-20/818
17 December 2020

EIOPA's technical advice to the European Commission on the review of the Solvency II Directive

Dear Mr Scholz,

I am pleased to forward to you EIOPA's response to the request of the European Commission for technical advice on the review of the Solvency II Directive of February 2019. The advice was unanimously approved by EIOPA's Board of Supervisors.

The response covers all the 19 topics that were set out in the request. I would like to stress the following main themes of our advice.

Firstly, the need for proper recognition of the economic situation, notably with respect to the capital requirement for interest rate risk. The current interest rate requirement does not reflect the steep fall of interest rates experienced during the last years and ignores the existence of negative interest rates. This mistake should be corrected.

Secondly, that apart from the correction of the capital requirement for interest rate risk the updating of the current regulatory framework should be overall balanced in its European impact consistent with the belief that the Solvency II framework has so far been effective. A balanced impact could lead to phased introduction of key components depending on the impact of the prevailing economic situation on insurers.

Thirdly, the need to supplement the current microprudential framework with the macroprudential perspective including the introduction of specific tools and measures, as well as the need to develop a minimum harmonised recovery and resolution framework and achieve a minimum harmonisation in the field of insurance guarantee schemes. Such harmonisation of the recovery and resolution framework and of insurance guarantee schemes is essential to complement the supervisory framework in order to contribute to ensuring similar level of protection to policyholders across the European Union.

With regard to the capital requirements for equity risk, EIOPA did revise the criteria for the ability to hold equity long-term, by making a link with long-term illiquid liabilities with the aim to better reflect risks and further encourage long term investments in a sound and prudent way.

EIOPA – Westhafen Tower, Westhafenplatz 1 - 60327 Frankfurt – Germany - Tel. + 49 69-951119-20;
Fax. + 49 69-951119-19; email: info@eiopa.europa.eu site: <https://eiopa.europa.eu/>

EIOPA also recommends to introduce a new process for applying and supervising the principle of proportionality. Clear risk-based quantitative criteria are proposed to identify low risk undertakings eligible for applying proportionality measures. These will capture not only the size but also the nature and complexity of the different risks and will provide legal certainty regarding the application of the proportionality principle. The undertakings complying with such criteria will be able, after a notification, to apply automatically a number of proportionality measures. These measures focus mainly on the system of governance and reporting.

In consultation with the European Commission, EIOPA has delayed the delivery of the advice in order to take into account the outbreak of the Covid-19 pandemic in the advice and its impact assessment. The additional analysis carried out in this respect resulted in proposals to strengthen countercyclical measures and to limit the impact of changes to the valuation of insurance liabilities in case of extremely low interest rates.

The advice includes a full impact assessment, which considers the combined impact of the advice as well as the impact of the individual proposed changes.

The advice also reflects the intensive engagement with stakeholders since the start of the exercise in February 2019.

If you require any further information on our technical advice, my colleagues and I remain at your disposal.

Yours sincerely,



Annex:

EIOPA Opinion on the Review of Solvency II

Background documents on the Opinion are available on EIOPA's website at https://www.eiopa.europa.eu/content/opinion-2020-review-of-solvency-ii_en.

SOLVENCY II

OPINION ON THE 2020 REVIEW OF SOLVENCY II

EIOPA-BoS-20/749
17 December 2020

