European Parliament's Committee on

Economic and Monetary Affairs (ECON)

# Commission proposal amending

# the Solvency II Directive (COM(2021)581)

Public Hearing of

Alberto Corinti, IVASS Board member

Brussels, 21 March 2022

Madame Chair, Honourable Members of the Economic and Monetary Affairs Committee,

I would like to thank you for inviting me to speak today. In today's hearing, I would like to briefly touch upon what I see as the key areas in the review of the European insurance prudential regulation.

Solvency II has proved to be an effective prudential framework also during the Covid-19 crisis. However, some amendments are necessary for a number of reasons:

(i) First, to adjust some of the pillar I requirements to make them more adhering to the risks actually borne by undertakings in light of the current economic situation;

(ii) Second, to better recognize the role of insurers as long term investors;

(iii) Third, to enhance the application of the proportionality principle;

(iv) Last, to complete the prudential regulatory toolbox to reinforce policyholders' protection and to enhance systemic risk mitigation.

On most counts, we welcome the Commission's legislative proposal to amend the Solvency II Directive. However, we observe that, compared to EIOPA's opinion (which we supported), it implies a substantial capital relief. In the intention of the Commission, such a significant capital relief should allow insurers to invest for the recovery and for long-term, sustainable growth. On the one hand, it should not be taken for granted that the proposal will ensure an effective "re-direction" of freed resources to green, long-term, sustainable assets. On the other hand, it is important that the level of protection of policyholders is not reduced.

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In light of the objectives mentioned before, I would like to bring to your attention some key issues of the current review.

(i) Among the proposals aiming at updating the pillar I requirements, in our opinion the Commission proposals go in the right direction by providing for an update of the extrapolation method of the risk free interest rate curve to take account of the current situation of financial markets. We also support the amendments in the delegated acts to the calculation of the capital requirement for interest rate risk to ensure a correct assessment of this risk also in a context of low interest rates. We believe these changes are necessary to ensure the overall credibility of the legislative framework and its effectiveness in protecting policyholders, as they will provide for a robust and sound calculation of the technical provisions and of the SCR.

ii) As to the second objective, we think that the amendments to the LTG measures will make them more effective in mitigating the excessive volatility of the solvency balance sheet, which would, in turn, allow insurers to invest more long term, and in fostering long-term business. As to the volatility adjustment, we welcome the Commission's proposal, as it addresses most of the shortcomings observed in the functioning of this measure over the first years of application. However, we still see room for improvement to better address undue pro-cyclical effects of this mechanism.

Similarly, the EIOPA's proposal on Long Term Equity can be positively assessed from our point of view: qualifying criteria for the long-term equity category have been improved, making them applicable in practice and easier to supervise.

iii) The experience gained during the first years of application of Solvency II clearly showed the need to enhance the application of the proportionality principle. We see the Commission's proposal as an improvement compared to the current situation, as it sets out a clearer and more comprehensive framework that would allow supervisors to apply the principle in practice. We see the merits of the introduction of objective criteria to classify undertakings as low risk profile, but we also think that the proposal should not preclude the ability of supervisors to challenge the undertaking's assessment based on proven evidence.

iv) As to the fourth objective, the Commission's proposal sets out a number of tools to complement the framework with instruments of a macro-prudential nature. We overall see them favourably. As showed in the recent crisis, the framework needs both mitigating measures for risks of systemic relevance and powers on which supervisors can lean on when those risks materialize. In this context, we regret that the

Commission did not take on board the power for the supervisory authorities to set a capital surcharge to address systemic risk when the situation requires it.

We welcome the new tools aimed at improving the policyholders' protection and at strengthening the single market. Changes in the framework have proven to be necessary in light of the recent problems occurred in some markets related to cross-border activity. Policyholders should be granted the same level of protection regardless of the Member State in which the contracts are signed. The current review should be an occasion to enhance Solvency II, foster supervisory convergence and improve information sharing and collaboration between home and host authorities.

To conclude, we fully share the need for insurers and supervisors to do their part in reaching sustainability objectives. We welcome the mandates for EIOPA to work on that and we hope that sustainability considerations will be embedded in the framework without abandoning the risk based approach of Solvency II.

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We remain at your disposal to answer any question or provide you with any technical support you may need.

Ladies and gentlemen, thank you very much.