3rd CONFERENCE
"THE REVISION OF SOLVENCY II"

WELCOME ADDRESS

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Rome, 1 October 2018
Auditorium Antonianum

Ladies and gentlemen,

I am delighted to welcome you to this Conference.

I would like to thank Gabriel Bernardino, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA), Nathalie Berger, Head of Insurance and Pension Unit of the European Commission, and all the other panelists, for kindly accepting our invitation.

I also want to thank you all for being so numerous. This is the proof that the topic we will be discussing today - namely the revision of Solvency II - is of great relevance, for both regulators and the industry.

We will start with a keynote speech by Gabriel Bernardino. As usual, two panel discussions will follow, the first one with a more international flavor, the second focused on the Italian market.

The panelists are very distinguished representatives of the regulatory community, the industry and the academic world. The moderators are well known journalists, Alessandra Migliaccio and Riccardo Sabbatini.

Our aim today is to provide a forum for an in-depth discussion of some topics at the core of the Solvency II revision. The first phase of the revision, which is supposed to fine-tune the delegated regulation, is underway: EIOPA has already delivered its pieces of advice and the Commission is expected to adopt the amendments to the delegated regulation before the end of the year; the second phase, the more pervasive one which will focus on the whole Solvency II directive, is planned for 2020.

I am sure that we will receive important insights from today's debate, thanks to the practical experience we made in the past three years of application of Solvency II.

None of us has any doubt that the new European regulatory framework of the insurance sector has been a historic achievement, one that has finally recognized and applied the very same concept of risk in insurance supervision.

But criticisms have been made, some of which were discussed in past editions of this conference. For my part I mentioned some of those criticisms last June when presenting IVASS Annual Report for 2017.

First of all, measuring the capital requirement of an insurance company or group can now be a very complex exercise. Too much? This is an issue raised with much energy by the industry, especially by small undertakings, but even regulators sometimes have the impression that the effort the new framework is requiring to companies, and to themselves, could be made more proportionate to the nature and complexity of the risks involved.

The revision of Solvency II is now starting to address the so called standard formula for the calculation of the capital requirement, the one supposed to be the simplest of the methods allowed by the new regime. We don't expect upheavals from that revision: just improvements aimed at simplification and elimination of inconsistencies.

But we also expect that some excessive regulatory constraints to insurance companies wanting to invest in certain asset classes will be attenuated, though maintaining the necessary prudence.

Solvency II has already been amended in order not to pose unnecessary obstacles to economic growth, in the field of investment in infrastructures and standardized and transparent securitization. Further amendments could be introduced regarding the investment in unrated bonds and unlisted equities, with all the cautiousness required by the circumstances.

Strategic participations by insurance companies are now raising a lot of interest in Europe. EIOPA has already collected information on this issue from national authorities and companies on how these participations are held and supervised, and I hope the review of Solvency II will benefit from it.

It is important that insurance undertakings, as long-term investors, integrate environmental, social and corporate governance factors in their investments and product design and disclose such risks to the public. But it is also important from a prudential point of view that sustainable and green investment be covered by the appropriate requirements reflecting their specific risks, in order not to jeopardize the fair protection of policyholders.

A second criticism to Solvency II has been directed at the market valuation approach. Though right in principle, this approach has in practice given rise to a marked, and perhaps undesired, volatility in the solvency ratio.

In 2020 there will be a wider re-examination of the long term guarantees (LTG) measures, which include the volatility adjustment. As we know, LTG measures are conventional mechanisms conceived to temper the principle of market value, given the extraordinary short term volatility financial markets may have. The aim is to allow insurers to continue offering long-term guaranteed products.

EIOPA annual reports clearly show that, although these measures have been widely used throughout Europe, they have had an impact on solvency positions that has much varied according to the country in which they have been applied. This is an issue that needs to be addressed in the revision of Solvency II. The current design and calibration of LTG measures may not work as intended, and create competitive distortions in Europe. Since we want a credible, solid and well-functioning internal market in the continent we would like that these mechanisms achieve the intended purpose, without implying artificial competitive disadvantages for some participants.

The volatility adjustment, which is the most frequently used LTG measure, is not functioning well in our opinion. We have collected evidence on its limits and we want to work actively with EIOPA and the European Commission to improve it.

A third criticism to Solvency II is that the playing field in Europe, as far as insurance regulation and supervision are concerned, is not always level. The upcoming reviews of the legislative framework are meant to take into consideration some aspects of this problem, but not others, that are nonetheless very important.

For instance, we know that cross-border activities of European insurance companies are treated differently by different national supervisory authorities, and this results in different levels of policyholders' protection. Some recent cases of defaults that have caused losses to policyholders in several countries require coordinated action. Indeed, a more comprehensive harmonization of national rules is necessary, but it is not enough: we also need greater convergence of supervisory practices. EIOPA, supported by all national authorities, is actively working on this. I think that the ongoing review regarding the

European Supervisory Authorities is a good occasion, without waiting for the Solvency II review, to equip EIOPA with supplementary tools of a preventive nature, like the possibility of early intervention when authorizing companies willing to operate exclusively or predominantly cross-border.

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To conclude, ladies and gentlemen, I think that the Solvency II review, both the present one and the more far-reaching 2020 one, give us a chance to strike a new balance between policyholders' protection, a sound and prudent management of insurance companies, and the role the insurance sector is asked to play in supporting economic growth in our countries.

Solvency II was negotiated under different economic, social, environmental, technological and political conditions compared to the ones prevailing today. This doesn't mean that the new system already needs profound changes. A solid regulatory framework should, at least in its fundamental principles, stand the test of time.

But the world is changing, and so is the insurance market.

The evolution of technology is key. All the innovations that are grouped under the InsurTech label are revolutionizing the insurance business. Big data, artificial intelligence, roboadvisors, wearable devices are getting more and more pervasive along the whole value chain, from designing a new product, pricing it, down to its distribution among customers.

New technologies allow for the creation of non-standardized insurance services, tailored to the needs of each specific policyholder. And this with all the pros and cons that we know and can imagine, in terms of engineering and distributing insurance services, but also in terms of supervision, consumer protection, level playing field.

The difficult task we are now facing is to accommodate technological innovation without losing our capacity to regulate and supervise the system. We should amend Solvency II in

a way that does not prevent innovation to fully develop its potential benefits for policyholders, but without jeopardizing the solidity of the system and of each company.

We should bear this in mind when going through the review of Solvency II. The discussions we are going to have today will give us a contribution to this collective endeavor that I am sure will be precious.

Thank you for your attention.