CEA
Insurers of Europe

Press Release

4 April 2011

Insurance industry urges EU Commissioner Barnier to correct Solvency II implementing measures

Joint industry letter calls for substantial revisions to implementing measures

Brussels, 4 April 2011: Representatives of the European insurance industry have urged the European Commissioner for the Internal Market and Services, Michel Barnier, to ensure that the overly conservative and prescriptive elements still contained in the draft implementing measures for the forthcoming EU regulatory regime, Solvency II, are urgently addressed.

"It is absolutely imperative that changes are made to the overly conservative approach being adopted in several areas," says the letter, which is co-signed by the CEA, the European insurance and reinsurance federation; the Pan European Insurance Forum; the CFO Forum; and the CRO Forum.

In the letter, the insurance industry stresses its full support for the principles set out in the Solvency II Framework Directive and its willingness to engage constructively with the Commission and the European Insurance and Occupational Pensions Authority (EIOPA) to solve outstanding issues.

The letter details the areas in which changes are sought to the measures being proposed by EIOPA. While the fifth quantitative impact study (QIS 5) demonstrated the health of the European insurance industry, it confirmed that some areas of the implementing measures need correction. These include a more balanced calibration of certain requirements, the tackling of pro-cyclicality and volatility in the Solvency II framework and the need to address unnecessary complexity. Among the requests set out in the letter is the industry's call for an economic treatment of the value of insurers' in-force portfolio, with its value treated entirely as Tier 1 capital.

The letter argues that Solvency II will have failed to achieve its underlying principles if these problems are not addressed. Such a failure would:

- hamper insurers' ability to offer policyholders appropriate long-term protection at a fair price, in the shape of pension or long-term care products;
- penalise the diversified growth of insurance companies, at odds with the EU Single Market Strategy;
- introduce a complex, inconsistent and volatile prudential framework that would neither guarantee financial stability nor policyholders' protection; and
- shorten insurers' investment time horizon.

The CEA continues to be fully engaged in the joint EIOPA/industry working groups on the outstanding issues. It has proposed a number of solutions, the combined application of which would address the issues identified as affecting the ability of insurers to continue to offer long-term savings and pension products. These proposals aim to:

- introduce an appropriate extrapolation of the risk-free rate curve used for the discounting of technical provisions;

- ensure that a formulaic approach is used for the application of the illiquidity premium which should not depend on a subjective assessment by EIOPA to determine a period of "stress";
- address the issues related to the design and calibration of capital requirements and their potential pro-cyclical effects which are amplified for long term products.

The CEA is also currently analysing different proposals for ways to address issues related to asset/liability valuation mismatches, which affect products with long-term guarantees.

On non-life insurance, the CEA has put forward a series of solutions related to the current structure for catastrophe risk, which produces a capital level that does not appropriately reflect the underlying risk of each type of man-made or natural catastrophe.

Attachments:
29/3/11 Industry letter to EU Commissioner Barnier
14/3/11 CEA press release: Solvency II changes needed to preserve strength of Europe's insurers
3/2/11 CEA press release: Important adjustments still needed to EU's new Solvency II regime

- Ends -

Background

The text of the EU's Solvency II Framework Directive was agreed in spring 2009. The European Commission is currently drafting its proposals for the implementing measures that provide the technical detail of the Framework Directive. It is expected to present the implementing measures by the end of this year. The Directive is due to be transposed into national legislation in all EU member states by 31 December 2012.

Notes for editors

1. For further information please contact Janina Clark, head of communications & PR (tel: +32 2 547 5812, clark@cea.eu).
2. Copies of all CEA press releases are available on the CEA's website (www.cea.eu).
3. The CEA is the European insurance and reinsurance federation. Through its 33 member bodies — the national insurance associations — the CEA represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. The CEA, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of over €1 050bn, employ one million people and invest more than €6 800bn in the economy.