Press Release

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Insurance Europe backs testing of Solvency II measures

Important adjustments still needed to Europe's new regulatory regime

Brussels, 28 January 2013: Insurance Europe welcomes today's launch by the European Insurance and Occupational Pensions Authority (EIOPA) of a technical assessment to find the most appropriate treatment of long-term guarantees under the forthcoming Solvency II regulations.

"The decision to carry out the assessment shows that legislators recognise that changes are needed to ensure that Solvency II measures the real risks in insurers' long-term business," said Olav Jones, deputy director general of Insurance Europe.

Insurers are able to take a long-term approach to investment because of the long-term protection, savings and pension products they provide to policyholders. This long-term approach allows the insurance industry to provide better returns to policyholders and can have an important impact on the nature of the risks faced by an insurance company. It also helps the insurance companies to fund growth and stability in Europe. Without such long-term investors the recent financial crisis would have been far worse.

It is crucial that Solvency II does not jeopardise insurers' ability to maintain this function. Solvency II should recognise the impact different business models have on risk and take this into account in measuring insurers' balance sheets and capital requirements. Achieving this will avoid Solvency II unnecessarily forcing the industry away from providing long-term guarantees and becoming more short-term in its investments.

EIOPA will test a package of measures (see "Background" below) to address the long-term issue. It is of the utmost importance that alternatives are tested to enable the European Parliament, Council and Commission discussions to come to suitable solutions when they resume after the impact assessment. The final Solvency II measures must be designed and calibrated in a way that allows them to work in all European markets and not to be artificially limited or unnecessarily conservative.

"If these seemingly technical details of the new regime are not correct, the impact on the European insurance industry, its clients and the economy would be severe," warned Jones. "Solvency II must not create unnecessary barriers to insurers providing guarantees for customers and investing long-term, not least because the insurance industry is by far the largest institutional investor in Europe, with over €7.7trn in assets."

The timetable for the technical assessment will be challenging, since it runs for just nine weeks and coincides with companies' busy reporting period. Insurance Europe and its member associations will encourage as many companies as possible to take part.

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Background

The insurance industry proposed a package of three measures to address the issue of long-term guarantees: a matching adjustment, a counter-cyclical premium and an extrapolation methodology.

The matching adjustment is a mechanism to ensure that, where assets can be held to maturity, Solvency II focuses on default risk rather than spread risk and thereby removes the impact of artificial volatility from the asset/liability management of insurance portfolios.

The counter-cyclical premium is a measure that would apply in exceptional market circumstances to ensure that Solvency II can cope with periods of crisis.

An extrapolation methodology is needed because insurance liabilities can be significantly longer than the market data available. The methodology therefore provides a way to extrapolate the interest rate curve beyond the point at which the market is deep and liquid and to avoid creating volatility in the valuation of long-term liabilities.

EIOPA will test various versions of these measures and is expected to publish its report on the assessment in June 2013.

Notes for editors

1. For further information please contact Janina Clark, head of communications & PR (tel: +32 2 894 30 70, clark@insuranceeurope.eu).
2. Copies of all Insurance Europe press releases are available on the Insurance Europe website (www.insuranceeurope.eu).
3. Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, 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 almost €1 100bn, employ nearly one million people and invest around €7 700bn in the economy.