Svensk Försäkring

2019-01-15

Insurance Sweden's response to EIOPA's Consultation paper on the Opinion on the 2020 Review of Solvency II

General comments on the consultation

As a member of Insurance Europe, Insurance Sweden (henceforth we) share the views expressed in the consultation response submitted by Insurance Europe together with CRO and CFO forum. However, we wish to highlight and elaborate a bit further on some of the issues in the consultation.

11. Macroprudential policy

We support the current macroprudential framework in the EU that provides ongoing assurance that systemic risk remains limited in the European financial system and ensures that if there are developments of real systemic concerns these are identified and managed early. However, there is no justification for major new measures for insurers that would create significant initial and ongoing costs for the insurance companies with little, if any, added benefits. The existing regulatory and supervisory tools for the insurance sector already provide a comprehensive macroprudential framework in Europe and there is no evidence of a need for any further tools, including the macroprudential tools proposed in the consultation. In the rare case that there is a need for an intervention due to macroprudential considerations, it is our view that this could be done by national supervisors based on existing intervention powers.

In addition, in the Commission's Call for Advice EIOPA is asked to assess whether the existing provisions of the Solvency II framework should be complemented with macroprudential tools from a closed list of items. Nevertheless, the consultation includes additional tools besides those in the closed list of items, most notably capital surcharges for systemic risk and concentration thresholds. These tools would give EIOPA and national supervisors arbitrary and very far reaching powers that are not proportionate. Our strong view is that only those tools included in the closed list of items should be considered.

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12. Recovery and resolution

We are strongly against introducing at EU-level a recovery and resolution framework for insurers, including requirements of pre-emptive recovery and resolution plans. It has not been demonstrated that normal insolvency procedures would be unsuitable to deal with insurance failures or that existing powers and tools have been inadequate. Further, the fact that some Member States have introduced recovery and resolution frameworks is not a valid argument for introducing a very burdensome EU-framework. In addition, such a framework would to some extent be in conflict with the principles of proportionality and subsidiarity according to article 5 in the Treaty on European Union (TEU).

It is our opinion that with Solvency II and national insolvency laws there already is sufficient legislation in place to deal with insurance failures. Further legislation on this issue is unwarranted and will only lead to unnecessary burden and costs for the insurers, which in turn may have negative consequences for the policyholders without any substantial increase in their protection. Any new EU-framework on recovery and resolution should, therefore, at least include an option for Member states to instead use national insurance regulation for recovery and resolution.

In addition, we believe that caution must be taken when regulatory initiatives primarily aimed at banks are transposed to insurers, without considering that there are fundamental differences. We support appropriate improvements to regulatory and supervisory standards for insurers that will maintain a sound and competitive industry and that will foster consumer confidence. But implementing regulations for banks, such as the proposed recovery and resolution framework, also for insurers can have a severe negative impact on the insurance industry, the policyholders and in the end the whole economy.

For example, the proposed resolution power of stay the early termination rights associated with derivatives transactions will most likely reduce banks' etc. willingness to conduct these transactions with insurers. Thus, this resolution power can lead to higher costs for insurers to use derivatives to manage and mitigate their risk, which would in the end harm the policyholders. In addition, the EU insurance sector consists to a high degree of mutual insurance companies and other cooperatives with no external owners, which makes an EU-framework of recovery and resolution for insurers even less appropriate.

Furthermore, it is important to ensure that any requirement of pre-emptive recovery and resolution planning is only applied to companies where doing so would create a tangible benefit in terms of reduction of material systemic risk at EU level, not least because Solvency II already requires recovery planning when the SCR ratio is breached and the burden and cost associated with these pre-emptive plans. Therefore, there should be no requirement regarding pre-emptive recovery and resolution plans based on the coverage of the market share of the national market.

Comments on specific paragraphs in the consultation:

Paragraph 2.969 (in Section 2.10 Symmetric adjustment to the equity risk charge):
We believe that more aspects should be reviewed for the symmetric adjustment to the equity risk charge besides the composition of the equity index. One such aspect is that the symmetrical adjustment is not suitable for savings products without guarantees and where the policyholder decides the asset allocation (e.g. unit-linked contracts). For these products, where the policyholders often chose a high equity exposure, the changes in the symmetrical adjustment leads to substantial artificial changes in the Solvency ratio, which in practice are impossible to mitigate for the insurers. Therefore, it should be voluntary to apply the symmetrical adjustment on such saving products.

Answers to some of the questions in the consultation:

Q5.3: Do you consider that the correlations within market risk, as well as the correlation between lapse risk and market risks should be amended? If your answer is "yes", you are invited to provide quantitative evidence supporting your reasoning

We think a revision of the correlation parameter between the market risk module and the life underwriting risk module should be conducted. In our view the current parameter is too high, especially when the life underwriting risk module is dominated by mass lapse risk. In such cases there can be double-counting of risks, i.e. mass lapse risks as well as market risks (such as equity risk). This double-counting should be compensated through a lower correlation parameter in the aggregation of these modules. For example, if parts of the insurance contracts are surrendered, a subsequent fall on the equity markets will have less effect in absolute terms (in e.g. euros), and vice versa. As the stresses used in Solvency II are fairly high (e.g. 40% for mass lapse risk and 39% / 49% for equity stress), these effects become significant. As market risks and life underwriting risks is more or less uncorrelated, we believe that it is more consistent that this correlation parameter is 0 and not 0.25 as currently.

For more details, see for example Magnus Carlehed (2019), Practical aspects of the aggregation of two risks in the Solvency II standard formula, *European Actuarial Journal* 9:155–171.

Q12.1: How should the very significant market coverage across the Member States be determined? What are relevant factors to take into account?

A recovery and resolution EU-framework should only focus on those insurers that could pose material systemic risk at the EU-level. Requirements of national coverage will lead to that many other insurers, including some very small, will be required to have burdensome and costly pre-emptive recovery plans, with no positive effects on the financial stability or for the policyholder protection. In addition, requirements of national coverage are in conflict with the proportionality principle and the possibility to waive undertakings from the requirement of pre-emptive recovery planning. We are therefore strongly against any requirement that a specific share of each national insurance market in the EU must have pre-emptive recovery plans.

Q12.2: How should the significant market coverage across the Member States be determined? What are relevant factors to take into account?

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