Svensk Försäkring

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The symmetric adjustment should be optional for unit-linked insurance policies

The symmetric adjustment does not have the intended effect for unit-linked insurance policies as it is the policyholders that decide what to invest in and bear the investment risk.[1] Instead, there are excessive volatility of the undertakings' financial position and other unwarranted consequences of the symmetric adjustment for the insurance markets and the policyholders. These consequences will be more severe when the corridor is widened to ± 13 percentage points (Directive (EU) 2025/2). It should, therefore, in the Solvency II Delegated Regulation be optional for either the undertakings or the Member States not to apply the symmetric adjustment on equities covering liabilities from unit-linked insurance policies.

The rationale of the symmetric adjustment to the standard equity capital charge in Solvency II is to limit potential pro-cyclical investment behavior of the insurance undertakings due to price changes in the equity market.[2] The purpose is to reduce the risk that undertakings conduct fire sales of equities in bear markets.

The effect of symmetric adjustment on unit-linked policies is inconsistent and could create excessive volatility

For unit-linked policies without a guarantee as in, for example, Sweden, it is the policyholders who decide which collective investment funds the capital, i.e. savings, shall be invested in and who bear the investment risk.[3] The symmetric adjustment is, however, also applicable for equities covering liabilities for such unit-linked insurance policies.

Insurance undertakings' revenue/profit for unit-linked insurance policies comes mainly from premiums/fees, which largely depend on the size of assets held for unit-linked policies. The size of these assets depends, in turn, on the level of new policies and cancellations, i.e. new policyholders or policyholders leaving. It also depends on the development of the investment funds that the policyholders have chosen to invest in. Thus, if the policyholders choose to invest in equity funds, the

[1] In this paper we only discuss unit-linked insurance policies. However, the same also applies for other similar insurance policies where it is the policyholders that choose what to invest in and that bear the investment risk.

[2] The symmetric adjustment increases the equity capital charge (capital requirements for holding equities) when the equity market goes up (i.e. in bull markets) and lowers it when the equity market goes down (i.e. in bear markets).

[3] This in contrast to, for example, traditional life insurance, where it is the insurance undertakings that decide the investments invested and that bears the financial risk for the future pension and savings.

revenues for the undertakings decrease in the event of a decline on the equity market.

A large part of the own funds for insurance undertakings that provide unit-linked insurance policies in, e.g., Sweden is made up of future revenues. Since future revenues are included in the own funds, the revenues must be stressed when deriving the solvency capital requirement (SCR). The future revenues, among other things, depend on the size of the assets, i.e. investment funds, held for unit-linked policies. Therefore, the equities in these investment funds must be stressed in accordance with the equity risk sub-module.[4] Thus, 39 percent for type 1 equities plus/minus the symmetric adjustment.

An effect of this is that when the symmetric adjustment decreases, the solvency capital requirement decreases and the SCR-ratio increases. Thus, due to the symmetric adjustment there is a negative relationship between the equity market and the financial position (SCR-ratio) for those undertakings that provide unit-linked policies where the policyholders bear the investment risk. That there is such a negative relationship can for example be seen among Swedish life undertakings, see Figure 1.

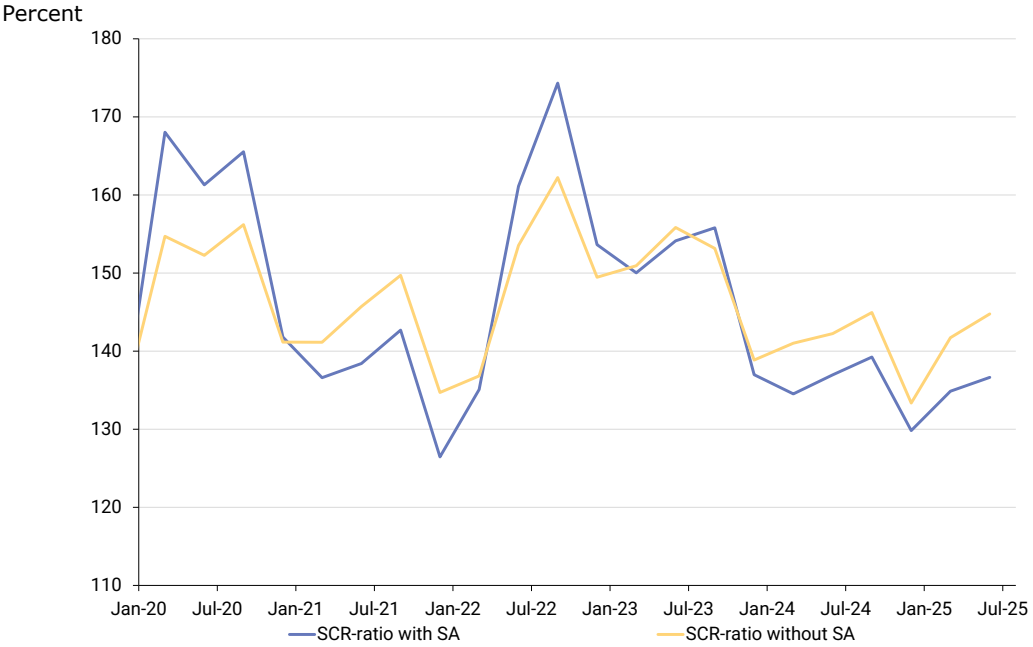
Figure 1. Average SCR-ratio of Swedish life undertakings with unit-linked policies and the symmetric adjustment

Note: The average SCR-ratios are weighted averages for the Swedish insurance companies that are classified as life insurance companies in EIOPA's statistics. These companies' assets mainly consist of those held for unit-linked insurance policies.
Source: EIOPA.

[4] That the symmetric adjustment should be applied for unit-linked and similar insurance policies has been confirmed by EIOPA, see EIOPA Q&A 1894 (https://www.eiopa.europa.eu/qa-regulation/questions-and-answers-database/1894_en).

In addition, the SCR-ratio for these undertakings becomes more volatile due to the symmetric adjustment, see Figure 2 and 3. This excessive volatility will increase when the corridor for the symmetric adjustment is widened to ±13 percentage points.[5]

Figure 2. SCR-ratio with and without the symmetric adjustment (SA) for a Swedish life undertaking with unit-linked policies



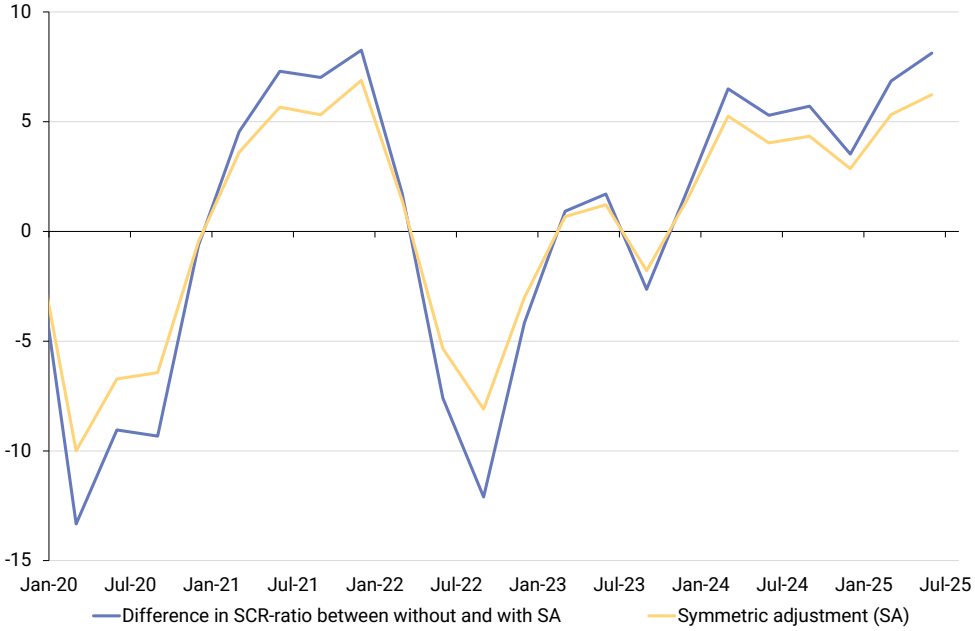
Note: The SCR-ratio is for a Swedish life insurance company whose assets (investment funds) predominantly consist of those held for unit-linked insurance policies.
Source: Own calculations by the life insurance company.

There could be unwarranted consequences of the symmetric adjustment

The negative relationship between the development on the equity market and the SCR-ratio due to the symmetric adjustment, see Figure 3, shows that there are inconsistences in Solvency II for unit-linked policies. For example, when there is a fall in equity markets the SCR-ratio is biased upwards, which is counterintuitive. This is problematic for policyholders as, for example, the SFCR becomes more complex and harder to understand. The excessive volatility of the financial position (SCR-ratio) due to the symmetric adjustment increase this problem.

[5] In Figure 3, the largest difference between without and with the symmetric adjustment is in March 2020 when the adjustment is –10 percentage points. With a corridor of ± 13 percentage points, the symmetric adjustment at that time would have been -13 percentage points. This would have resulted in an even larger difference between without and with the symmetric adjustment in Figure 3.

Figure 3. Difference in the SCR-ratio between without and with symmetric adjustment (SA) for Swedish life undertaking with unit-linked policies
Percentage



Note: The difference in SCR-ratio is for the Swedish life insurance company in Figure 2.
Source: Own calculations.

Furthermore, undertakings that offer unit-linked policies have to take this inconsistency and excessive volatility into account in e.g. their ORSA and hold additional own funds. These additional own funds can be seen as a buffer for the risk that the symmetrical adjustment reaches its maximum value, i.e. currently + 10 percent. The forthcoming widening of the corridor therefore implies that undertakings must hold even more own funds. Unnecessary high levels of own funds lead to higher fees for policyholders or even that undertakings being reluctant to offer some investment (equity) funds. This could have negative implications of investments necessary to strengthened EU's competitiveness in line with the ambition of the Savings and Investment Union as well as the transformation to a sustainable society.

Make it optional to apply the symmetric adjustment

The rational of the symmetric adjustment is to prevent insurance undertakings acting in a pro-cyclical manner by fire sales of equities in falling markets. However, for unit-linked policies in e.g. Sweden investment decisions are not taken by insurance undertakings, but only by the policyholders. The symmetric adjustment will therefore not act to prevent such procyclical behavior and will have no effect on the risk of fire sales by neither the undertaking nor the policyholders. Thus, the symmetric adjustment does not have the intended effect for such unit-linked insurance policies.

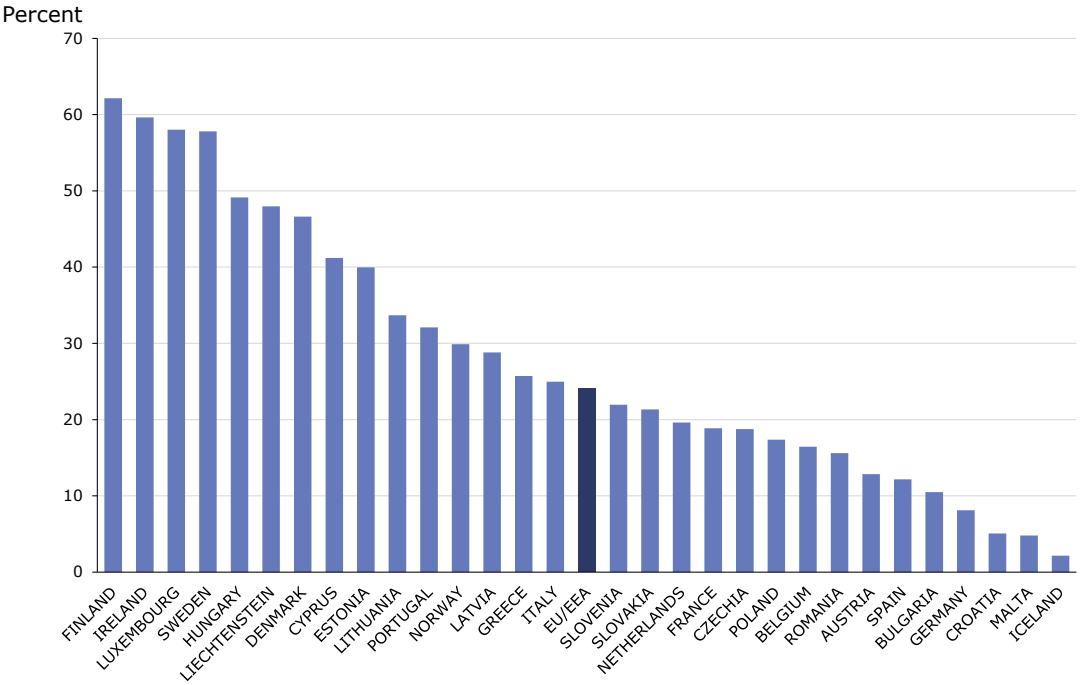
In addition, the symmetric adjustment does not make it easier for the undertakings to be long-term equity owners because it is the policyholders, not the undertakings, who decide the investment to different funds. Instead, the symmetric adjustment could lead to less investments into equity funds. This due to that the symmetric adjustment lead to higher need for own funds, which is compensated by higher fees for the policyholders.

In order to reduce these problems with the symmetric adjustment it should be optional in the Solvency II regulation either for the undertakings or the Member States to not apply the symmetric adjustment for unit-linked insurance policies.

Differences between the insurance markets call for optionality

There are a number of reasons why it should be optional for either the undertakings or the Member States not to apply the symmetric adjustment for unit-linked policies. Firstly, the importance of the unit-linked policies varies among the Member States. As shown in Figure 4, assets held for unit-linked policies stand for a significant share of EU/EEA insurance companies' total assets. There are, however, different impacts between the insurance markets depending on, among other things, how much of the assets that are held for unit-linked policies. In some countries, e.g. Finland, Ireland, and Sweden, a majority of the assets are held for unit-linked policies, while in others, e.g. Germany, Malta, and Croatia, it is just a rather small fraction.

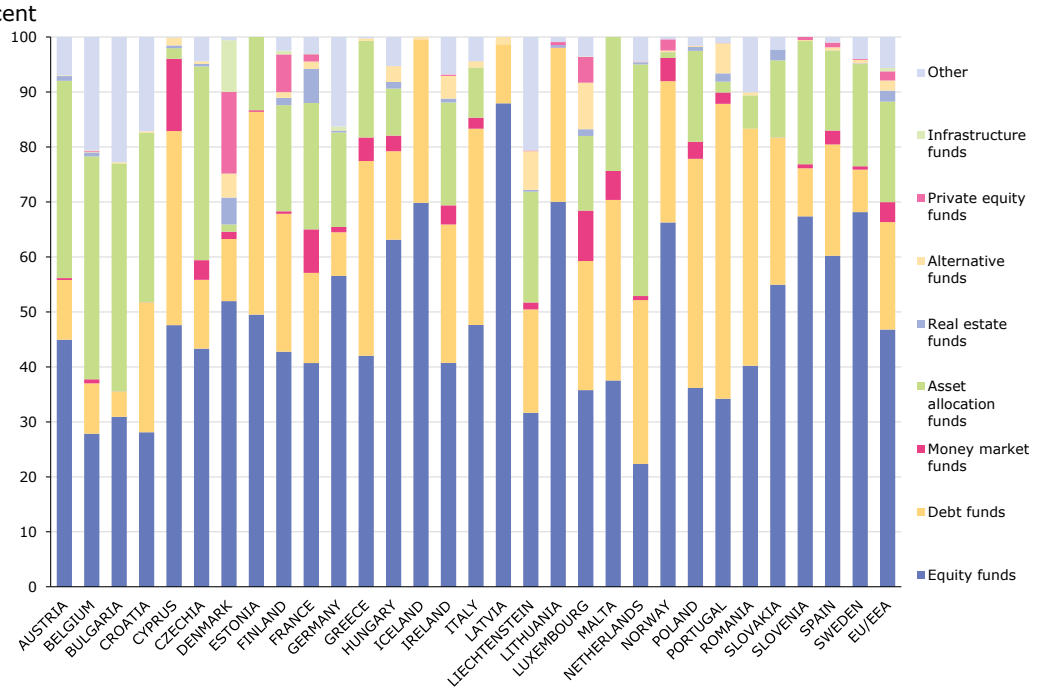
Figure 4. Share of undertakings' total assets held for index-linked and unit-linked policies, Q1 2025



Source: EIOPA *Statistics Q1 2025 - Accompanying note*.

Secondly, there are differences between the insurance markets in which type of collective investment funds the policyholders have chosen to invest in. In EU/EEA nearly half are invested in equity funds affected by the symmetric adjustment, see Figure 5. However, for some markets fixed income funds, e.g. debt and money market funds, are common and for these the symmetric adjustment is not relevant. Furthermore, in some countries there could be guaranteed returns also for unit-linked policies. In those cases, the undertakings bear some of the investment risk.

Figure 5. The collective investments funds held for index-linked and unit-linked contracts, Q1 2025



Source: EIOPA (*Asset exposures*).

Altogether, these differences motivate why it should be optional either for the undertakings or the Member States not to apply the symmetric adjustment on equities covering liabilities from unit-linked policies. This is also proportional and would improve the Solvency II framework.