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Insurance Sweden’s Response to the European Commission’s Better Regulation consultation on the Solvency II delegated regulation

Insurance Sweden welcomes the possibility to provide feedback on draft changes of the Solvency II Delegated Regulation (DR). As a member of Insurance Europe, we share the views expressed in their response to the Better Regulation consultation. In this response we wish to highlight and elaborate further on two issues important for the Swedish insurance market in the draft changes of DR: 1. The convergence parameter (i.e. alpha) when extrapolating the risk-free interest rate in SEK should be raised to 70 %, 2. It should be introduced in the DR that it is optional either for the insurance companies or the Member States not to apply the symmetric adjustment on unit-linked insurance policies.

The convergence parameter should be 70 % for SEK

The changes in the Solvency II Directive (in (EU) 2025/2) of the extrapolation method for the risk-free interest rate is not motivated by any problems with the risk-free interest for the Swedish krona (SEK). In fact, EIOPA stated in their opinion on the Solvency II review (EIOPA-BoS-20/749) that it should be status quo in comparison to the current risk-free interest rate in SEK.

According to the draft’s Article 1(13) (amendment to current Article 46 in DR) the parameter determining the speed of the convergence, i.e. the convergence parameter, shall be 40 % for SEK. The higher convergence parameter for SEK is motivated by specificities of the Swedish fixed income market. However, even if the convergence parameter is higher than for other currencies it will lead to a reduction of risk-free interest rate in SEK, especially when the interest rates are low. For example, in June 2020 this interest rate would have been more than 20 basis points lower for maturities around 20 years with the new extrapolation method and a convergence parameter of 40 %. Thus, far from status quo. It is not motivated in the draft DR or elsewhere why the risk-free interest rate in SEK shall be lowered. Furthermore, an impact assessment of this reduction has not been presented by EIOPA nor the European Commission.

In their Solvency II review opinion (EIOPA-BoS-20/749), EIOPA didn’t propose any phasing-in for SEK as it according to them would not be needed as a convergence parameter of 40 % for SEK would imply status quo. In the draft DR there is, however, an optional phasing-in for SEK from a convergence parameter of 70 % down to 40 %. We welcome the acknowledgement that with a convergence parameter of 40 % there will not be status quo. A phasing-in of the convergence parameter will, however, not have any effect on the consequences of having a too low convergence parameter, i.e. 40 %, as it is only temporary. In addition, companies will avoid using the phasing-in as it, e.g., must be disclosed in the SFCR.

Our view is, therefore, that the convergence parameter for SEK should be raised to 70% to achieve status quo.

It should be optional not to apply the symmetric adjustment for unit-linked

In the draft DR, the corridor for the symmetric adjustment for the equity risk charge is increased to ± 13 percentage, which follows the amendments to the Solvency II Directive ((EU) 2025/2). This increase of the corridor will make the problems with the symmetric adjustment more severe as it, amongst others, is inconsistent and could create excessive volatility. In order to reduce these problems, it should be introduced in the DR that it should be optional for either the insurance companies or the Member States not to apply the symmetric adjustment for unit-link insurance policies. In the attached note there are a more thoroughly description of the problems with the symmetric adjustment for unit-linked policies. This optionality is also proportional and would improve the Solvency II framework.