Michel Barnier
European Commissioner for Internal Market and Services
European Commission
BERL 10/034
B - 1049 Brussels
Belgium

Cc: György MATOLCSY, Minister for National Economy, chairman of the ECOFIN Council
Gabriel Bernadino, Chairman of EIOPA
Peter Skinner, MEP, Rapporteur Solvency II

29 March 2011

Dear Commissioner,

Members of the Pan European Insurance Forum (PEIF), of the CEA (European insurance and reinsurance federation), of the CFO Forum and of the CRO Forum would like to express their strong concerns with developments in the Solvency II process.

At the very time that Europe is experiencing significant economic, financial and social challenges, the insurance sector's aim is to contribute to the objectives of growth and financial stability.

Unfortunately, the options tested by QIS 5 and the draft Solvency II implementing measures/delegating acts **risk driving insurers out of their long-term business and would introduce pro-cyclicality into the framework.**

Such an unfortunate development should not happen as it would have consequences on the availability and affordability of insurance products.

It is of the utmost importance that the objectives set for Solvency II and the principles enshrined in the Framework Directive are achieved: i.e. creating an economic and risk-based approach. If the Level 2 measures do not achieve the underlying principles of the Level 1 Directive, the Solvency II project will have failed. Such a failure would ultimately:

- 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 Single Market Strategy;
- introduce a complex, inconsistent and volatile prudential framework that would neither guarantee financial stability nor policyholders' protection;
- shorten insurers' investment time horizon.

It is absolutely imperative that changes are made to the overly conservative approach being adopted in several areas of the current Level 2 text. The results of QIS 5 confirm the need for these changes.

As we have repeatedly stated, we observe that EIOPA advice and, as a result, several areas of the current draft of the Level 2 implementing measures/delegating acts, are characterised by a systematic injection of excessively conservative and prescriptive elements.

The genuine and valid concerns of the industry have been largely ignored or remain unaddressed. The latest draft Level 2 implementing measures/delegating acts have intensified our concerns rather than assuaged them. In fact, if anything, the text has moved further away from the economic principles enshrined in the Framework Directive.

The key outstanding issues that must be urgently addressed before Level 2 can be completed are:

- **A respect for the economic approach:**
  - **An alignment of the current drafting for contract boundaries to economic realities** and thus the correction of an overly restrictive approach that is not supported by clear economic principles.
  - **An economic treatment of value of in-force portfolio (VIF): fully (100%) retain the value of in-force as Tier 1 capital** as foreseen by the Commission in QIS 5. The VIF is the excess of the value of assets backing contractual obligations measured on an economic basis over the life of these contracts.
  - **A full recognition of diversification effects and the loss absorbency of taxes in the risk margin.**
  - **A recognition of deferred tax assets (DTA) in Tier 1 in line with the economic total balance sheet approach under Solvency II.**
  - **Solvency II solo and group calculations shall not be influenced by national statutory regulations, especially accounting rules**.

- **Ensuring that long-term guarantee products can continue to be offered to policyholders and that pro-cyclicality is addressed:**
  - **A formulaic approach to the application of the illiquidity premium** which should not depend on a subjective assessment by EIOPA to determine a period of "stress". The application of the illiquidity premium should follow a pragmatic, independent and predictable approach.
  - Our concerns relate to the potential pro-cyclical effects introduced by the prescribed method for the discount rate and the design and calibration of capital requirements. These should be addressed by the **determination of an appropriate extrapolation of the risk free rate curve and the introduction of relevant dampeners**, respectively.

- **Balanced calibrations: correction to the calibration of all non-life underwriting risk and CAT risk modules,** which is still excessively high.

- **The need for appropriate transitional measures to avoid market disruption**, especially on technical provisions, the recognition of hybrid capital, use of internal models, equivalence recognition in the treatment of non-EEA subsidiaries and reporting requirements.

- **The need to address the unnecessary complexity** of the default approach that will be required for some risk modules and the disproportionate burden that this will place on insurers, in particular when compared to the relative materiality of their capital charge.

It is important that the various working groups established by EIOPA and the Commission deliver effective solutions that address these concerns, and do so before summer 2011.

We remain supportive of maintaining the implementation date of 1 January 2013. The timeline does not now allow for any slippage or change, especially since Omnibus II will not to be ratified until January next year. We urge the European Commission to provide clarity on how this delay will impact the negotiation and adoption of the level 2 and level 3 of Solvency II.

We also urge the European Commission, Parliament and Council to ensure that there are no further changes to the dates and, should that not be possible, to consider whether a delay to the date on which Solvency II enters into force should be made before Omnibus II is ratified.

We are ready to engage in a constructive dialogue with the European Commission and EIOPA, are at your full disposal and are committed to providing you with further input if and where required.

Stakes are high and time is running out: a failure to properly implement this reform would have dire consequences for an industry that represents a significant component of the EU economy, capital markets, old age savings and jobs.

Yours sincerely,

Henri de Castries, Chairman PEIF

Tommy Persson, President CEA

Alex Wynaendts, Vice-chairman PEIF

Sergio Balbinot, Vice-President CEA

Axel Lehmann, Chairman CRO Forum

Dieter Wemmer, Chairman CFO Forum

Robin Spencer, Vice-Chairman CRO Forum

About the CEA:

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.

About the PEIF:

The Pan-European Insurance Forum (PEIF) is a group of CEOs of major insurance companies in Europe, consisting of AEGON, Allianz, AVIVA, AXA, GENERALI, ING, MAPFRE, Munich Re, RSA, Swiss Re, UNIQA and ZURICH Financial Services. PEIF Members strive for a strongly competitive and fully integrated European insurance market. PEIF companies represent 68% of the STOXX® Europe Insurance.

About the CFO Forum

The European Insurance CFO Forum ("CFO Forum") is a high-level discussion group formed and attended by the Chief Financial Officers of 21 major European listed, and some non-listed, insurance companies. Its aim is to influence the development of financial reporting; value based reporting, and related regulatory developments for insurance enterprises on behalf of its members, who represent a significant part of the European insurance industry. The CFO Forum was created in 2002.

About the CRO Forum

The CRO Forum is a group of 24 CROs of large multi-national insurance companies with significant presence in Europe. The CRO Forum was formed in 2004 as a professional risk management group that focuses on developing and promoting industry best practices in risk management.

The CFO Forum and the CRO Forum cover around 30% of the European insurance market and represent 75% of the STOXX® Europe Insurance.