INTERVIEW

SOLVENCY II REVIEW

The Editorial Board posed Markus Ferber, Member of the European Parliament, the following questions about the recently achieved agreement on the Solvency II review.

MARKUS FERBER

Agreement on the Solvency II review, which began in 2020, was reached at the end of last year. What do you think are the most relevant changes?

'The changes in the long-term guarantees and long-term equities framework will probably have the biggest overall impact. Through the adaption of the calibrations, we will achieve meaningful capital release for European insurance undertakings, so that capital becomes available for productive investments. This will not only help insurance companies, but also policyholders who can invest in life insurances with a more attractive return profile. We have also made sure that the key parameters are set directly >

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in the Directive and not via implementing legislation. That provides clarity and predictability for insurance undertakings.'

Would you say that the agreements reached were a good compromise in terms of proportionality?

'Yes, this agreement is a large step in the right direction. The agreement constitutes a more proportionate approach to insurance supervision by creating a dedicated regime for small and non-complex undertakings that can benefit from proportionality measures in supervision. However, this should only be the starting point for more proportionate insurance supervision. I hope that we can build on this special regime for small and non-complex undertakings in future revisions of the file.'

A major topic in the context of the review was the issue of recovery and resolution/ insolvency protection. What has happened here and what is important from a European perspective?

'We have introduced a recovery and resolution regime that helps deal with failing insurance undertakings. The idea is to make sure that failing insurance undertakings can be dealt without the taxpayer footing the bill. Unfortunately, the Commission proposal was not entirely fit for purpose. We managed to improve it by making it more risk-based and more focussed on protecting policyholders. Specifically, we limited the number of companies that are subject to resolution planning to those that actually pose a risk for financial stability. This is important as resolution planning can be quite complicated and burdensome.'

Did the European Insurance and Occupational Pensions Authority (EIOPA) ensure that insurers can turn into investors in the Green Deal and if so, how?

'EIOPA has only been involved in the preparatory work on the Solvency II review. All material decisions have been made by the legislator. I think we managed to make long-term investments, which often are investments in sustainable projects, more attractive. We have also made sure that insurance undertakings better take into account sustainability-related risks in their operations in general and in their risk management practices and investment policies in particular. However, we have opted against a lower capital charge for green investments that some stakeholder have called for. From a financial stability perspective that is the right call as we cannot compromise financial stability for sustainability.'

What do you think of EIOPA's conclusion that the Solvency Capital Requirement (SCR) for the underwriting risk of natural catastrophes should be regularly updated? In your view, does this help to reflect the expected impact of climate change, protect policyholders and ensure the stability of the insurance market?

'In general, the precise calibration of the Solvency Capital Requirement should be a data-driven exercise that factors in changing risk factors >

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such as climate change. If there are trends in the frequency and severity of natural catastrophes that are not yet sufficiently reflected in insurer's and reinsurer's underwriting policy that needs to be addressed. In my experience, insurance undertakings are already at the forefront of addressing those issues in their underwriting policies.'

Can you already see what will be next on the agenda? What will actuaries have to pay particular attention to in their work in the future?

'On the one hand, the implementation of Solvency II and the Insurance Recovery and Resolution Directive will keep us all busy for some time. There is still a lot of implementing legislation that it is worth paying attention to. On the other hand, there are of course a few megatrends like sustainability, digitalisation and cyber risks and the rise of artificial intelligence that all have implications for insurance undertakings and will be in the crosshairs of the European legislators in the next term.' <

MARKUS FERBER