Gabriel Bernardino Chairman

Mr Olivier Guersent Director-General European Commission DG FISMA SPA2 8/20 1049 Brussels



EIOPA-18/038 28 February 2018

EIOPA's second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation

Dear Mr Guersent,

I am pleased to submit to you EIOPA's second and final response to your request for technical advice on the review of specific items in the Commission Delegated Regulation (EU) 2015/35.

Reflecting developments in the insurance sector and wider environment, EIOPA recommends a mixture of revised calibrations, simplifications, removal of technical inconsistencies and, where needed, proposals for achieving greater supervisory convergence.

The availability of more recent data allows for revised calibrations in a number of areas such as natural catastrophe risks and assistance and medical expenses.

In the area of the calculation of interest rate risk, since the current approach does not cater for negative interest rates and is not effective when interest rates are low, EIOPA recommends new calibrations to correct this unintended technical inconsistency.

In other areas, the analyses of recent developments do not provide for sufficient reason to change the calibrations. That is the case for mortality and longevity risks, but also for the cost-of-capital, the latter one of the key elements of the risk margin. Other elements of the risk margin should be assessed in the upcoming overall review of the Solvency II regime due in 2021.

With respect to the treatment of unrated debt and unlisted equity, EIOPA recommends objective criteria, such as financial ratios, when these important asset classes can be given the same treatment as rated debt and listed equity.

As a follow-up to our analysis of the loss-absorbing capacity of deferred taxes, which showed divergent supervisory practices in respect of about 25% of LAC DT, we developed a set of key principles. These principles intend to strike a reasonable balance between flexibility and greater convergence.

The advice includes a full impact assessment, which considers the overall impact of both sets of advice and provides an assessment of the components of this second advice. It also reflects the intensive engagement with stakeholders since the start of the exercise in 2016.

If you require any further information on our second set of technical advice, my colleagues and I remain at your disposal.

For your information, I have also sent a copy of this letter and EIOPA's technical advice to the European Parliament and the Council of the EU.

Yours sincerely,



Annex:

EIOPA's second set of advice to the European Commission on the Solvency II Delegated Regulation.

cc:

Andrea Beltramello, Member of Cabinet;

Jan Ceyssens, Member of Cabinet;

John Berrigan, Deputy-Director, Financial System surveillance and crisis management; Felicia Stanescu, Head of Unit, Financial Services policy and international affairs; Martin Merlin, Director, Regulation and prudential supervision of financial institutions, DG

Nathalie Berger, Head of Unit, DG FISMA;