Position Paper

Comments on the proposal for the establishment of the InvestEU Programme

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General comments

Insurance Europe would like to take the opportunity to comment on the European Commission (EC) proposal for a Regulation establishing the InvestEU Programme.

The insurance industry represents the largest European institutional investor, with more than €10tn of assets under management. Insurers invest most of their assets with a long-term perspective, and in their investment strategies they target portfolio diversification and attractive returns, to the benefit of their policyholders. **The insurance industry welcomes the InvestEU Programme, but will only be able to act at its full investment potential if the EC addresses both the scarce availability of suitable assets and the barriers to long-term investment created by Solvency II.**

In fact, the availability of a wide range of investment assets is key to meet insurers' investment needs. There is clear potential in the InvestEU Programme to create new long-term assets that insurers can invest in. Equally important is ensuring the prudential rules defined in Solvency II, which play a key role in investment decision making, correctly reflect the risks and economics of the business. The current Solvency II measurement creates unnecessary barriers to long-term business and investment. While improvements in the treatment of infrastructure investments were very much welcome and had a positive effect on investment, more changes are needed. Important first steps can be taken in the Solvency II 2018 review and completed in the wider 2020 review.

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Detailed comments

Comments on the InvestEU proposal

The insurance industry continues to strongly support the objectives and tools of the Investment Plan for Europe, including the European Fund for Strategic Investments (EFSI) and the Capital Markets Union (CMU) project. Insurance Europe believes that the InvestEU Programme proposal represents a further positive step building on these EU initiatives aimed at mobilising investment and contributing to the EU objectives related to competitiveness, sustainability and growth.

With regards to the proposed InvestEU Programme, Insurance Europe supports in particular:

- The general and specific objectives of InvestEU, as described in Article 3
- The four policy windows, as described in Article 7
- The use of a wide range of eligible types of financing, as foreseen in Article 13
- The emphasis on additionality and the need to crowd-in private investment, as well as the recognition that some projects that received EFSI support may have crowded out private investment and this should be avoided in the future
- The InvestEU Portal and Advisory Hub, which have also been key tools of the EFSI package – these have supported transparency and long-term interest by private investors in assets such as infrastructure

For the insurance industry, a key aspect of the InvestEU proposal remains the issue of **additionality and the focus on crowding-in private investors**. Public support foreseen in the InvestEU programme should be directed to economically viable projects that would not otherwise receive private investment. In recent years insurers have, on a number of occasions, been crowded out by public intervention in projects that would have received full private support with no need for credit enhancement. The EC should ensure that such cases are avoided in the context of the InvestEU Programme. One way to support this would be the involvement of private sector investors, including the insurance industry, in the governance bodies, for example in the Investment Committee foreseen under Article 19. In addition, to avoid crowding-out, public support as foreseen in the InvestEU programme should only be used in case of market failures and not simply in suboptimal investment situations.

The insurance industry also believes that the InvestEU Programme has the potential to stimulate the currently limited supply of sustainable assets, in line with insurers' demand for attractive investments meeting sustainability criteria, without prejudice to quality and security requirements. Specifically, the creation of the policy windows described in Article 7, notably **on sustainable infrastructure and on social investment**, could support investments towards sustainable long-term projects.

At the same time, since **sustainability has different meanings** to different investors across markets, Insurance Europe believes that reaching a **shared and unified understanding of sustainability** must be the key priority of the EC and that the development of all elements of the framework to facilitate sustainable investment, as described in the EC Action Plan for Financing Sustainable Growth, should be sufficiently advanced before implementing other sustainability measures.

Comments on Solvency II barriers to long-term investment

Insurance Europe very much welcomed action by the EC to review the Solvency II capital requirements for infrastructure investment. This has led to an increased interest by the industry in this asset class, and an increased attractiveness of infrastructure, given that capital charges were more aligned to the actual risks.

Unfortunately, Solvency II continues to represent a barrier to long-term investment because it does not correctly measure the real impact of long-term business on insurers balance sheet and their exposure to risk. An overly short-term approach results in excessively high capital requirements compared to the real long-term risks. The Solvency II 2018 review offers a great opportunity to address some of the barriers to long-term investment. Insurance Europe calls on the EC to take meaningful steps to align capital and risk, which will also support the objectives of increased investment and growth. While the 2020 review provides the opportunity for a wider set of improvements, **action is needed now** to ensure insurers can play their natural and significant role in the InvestEU initiative. Such action would represent a clear and significant signal from the Commission that steps are being taken to safeguard the long-term business model going forward.

Specifically, the Solvency II 2018 review should address the following long-term investment issues:

- **Risk margin**: This is a theoretical concept of Solvency II, not needed to pay any claims/liabilities, yet currently removes over €200bn of potentially productive capital from insurers' Solvency II balance sheets. For some long-term products, it has the same effect as doubling the solvency capital requirements. There is extensive evidence that the cost of capital — a key element in the calculation of the risk margin — should be significantly lower than the current 6% and this evidence should not be ignored. The cost-of-capital needs to be reduced, and this will increase insurers' capacity for risk taking, in particular for long-term products with long-term investments.
- **Equity capital requirements**: Equity investments are key for economic growth. Unfortunately, the extremely high Solvency II capital requirements for listed and unlisted equity (39% and 49%) limit the industry's ability to invest more and have even pushed some companies to reduce allocations to equity investments. Solvency II currently sets the equity calibrations based on the wrong assumption that insurers are exposed to having to sell their entire portfolio of assets after a market crash. In reality, due to the nature of their business, insurers can avoid forced sales and can and do invest with a long-term perspective, reducing the level of risk. The Commission should therefore recognise that the current capital requirements for listed and unlisted equities are unnecessarily high. A correct calibration of long-term equity, equal to 22% and based on the actual long-term risks, will result in a meaningful decrease in the capital requirements and allow more investment in equities.

The industry remains keen to contribute to achieving the best outcomes that would support increased engagement and investment by insurers in long-term sustainable growth.