To: Valdis Dombrovskis
Vice-President, DG Financial Stability, Financial Services and Capital Markets Union
European Commission

Cc: Gabriel Bernardino
Chairman
EIOPA

Didier Millerot
Head, Insurance and Pensions Unit
European Commission

Our reference: ECO-19-076

Subject: European insurance industry views on the global Insurance Capital Standard

Brussels, 26 August 2019

Dear Vice-President Dombrovskis,

We are writing to you to share the European insurance industry's views on the current stage of development of the global Insurance Capital Standard (ICS).

The coming months are crucial ones in the efforts of IAIS members to reach agreement on key elements of ICS 2.0. The ICS project is of particular relevance to and impact for the European industry, given that more than half of the IAIGs that are in the scope of ComFrame/ICS are European groups and that the ICS has a direct impact on insurers' global competitiveness.

Ahead of the monitoring period, the European industry calls for a **global level playing field for all IAIGs and all participating jurisdictions to be ensured**. This means that all jurisdictions and IAIGs commit to the Kuala Lumpur (KL) Agreement, which includes:

- Confidential reporting, by <u>all IAIGs</u>, of the reference ICS 2.0, which is based on <u>market-adjusted valuation</u> (MAV).
- The existence of <u>supervisory colleges</u> for <u>all IAIGs</u> (in which ICS 2.0 would be discussed). These should have a similar composition and role and should be in place before the monitoring period starts.

The **monitoring period** is key to making progress towards a meaningful and consistent, global, single, group-wide ICS. The industry therefore believes that:

- The IAIS should publicly state and ensure that the monitoring period is for monitoring how well ICS 2.0 works as a standard and not for monitoring the solvency of individual IAIGs or for any level of use by third parties. As foreseen in the KL Agreement, the monitoring period should remain a **confidential** exercise between IAIGs and group-wide supervisors and the results should not be disclosed to external stakeholders and third parties.
- The **ICS framework should be stabilised** before adoption of ICS 2.0. Currently, key elements (eg valuation, capital calibrations, the margin over current estimate) are still under discussion. It is important that decisions on key aspects of the ICS are made before adoption of ICS 2.0 to confirm that convergence and agreement within the supervisory community is achievable.

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- The monitoring period should **identify potential flaws in the ICS and fix them** as and where needed. The process should be similar to the Solvency II quantitative impact studies (QISs) conducted between 2005 and 2013. Europe is engaged in the Solvency II 2020 review, which will consider a range of improvements, in particular addressing flaws in the treatment of long-term business. The work done on the Solvency II 2020 review should inform the contributions by European NSAs and EIOPA to the ICS project.
- The monitoring period should **limit the reporting burden on companies**, which are already faced in Europe with extensive Solvency II requirements, biennial stress-testing exercises and data calls for the 2020 review, as well as the implementation of future changes that emerge from that review.

In addition, the European industry calls on EIOPA and European NSAs to focus the necessary attention on **internal models,** which are a key risk management and capital measurement tool and should be a permanent and integral part of the ICS framework in the same way as they are in Solvency II. Such internal models — intended solely for a more accurate calculation of the capital requirements at the same confidence level as the standard method and subject to a number of appropriate requirements — will enhance the ICS. European supervisors should take the opportunity of the monitoring period to highlight how internal models are necessary for the ICS to work in practice by ensuring the correct measurement of more complex risks and structures not addressed by the standard method.

In line with the KL Agreement, the second phase of the ICS will be its implementation as a group-wide PCR. The ultimate decision on whether the final ICS will be implemented in Europe lies, of course, with the European co-legislators. Solvency II is already based on a market-adjusted-valuation, which is a key element of the ICS. Should Europe decide to implement the standard, the industry expects, therefore, that the **post-2020 review version of Solvency II** (including internal models and other key elements such as transitionals and equivalence) will be Europe's **implementation of the ICS**.

It is difficult to be confident about future developments in the political and regulatory landscape. If the relationship between the ICS and Solvency II does not develop as we hope, then the European industry believes that **the ICS should be considered for implementation in Europe only if all major jurisdictions commit to implementing it consistently**. This is the only way to guarantee a global level playing field for the European industry.

A **single set of prudential rules within Europe**, covering group and solo levels, is key today and in the future. An outcome in which the industry would have to run business under two parallel and differing prudential regimes would be unworkable.

European stakeholders engaged in the ICS project should ensure that **the ICS does <u>not</u>**:
- create competitive disadvantages for Europe vis-à-vis other jurisdictions;
- endanger the availability and raise the cost of products that are highly valued by consumers;
- threaten the ability of insurers to continue to invest in long-term economic growth; or,
- create macroprudential and financial stability risks, including pro-cyclical investment behaviour.

We would be grateful if you would take the points above into consideration in your engagement with the IAIS.

Yours sincerely,

Andreas Brandstetter	Thomas Buberl
President, Insurance Europe	Chairman, Pan-European Insurance Forum

About Insurance Europe

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, 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 more than €1 200bn, directly employ over 950 000 people and invest over €10 200bn in the economy.

About the Pan-European Insurance Forum (PEIF)

The PEIF is a forum for the CEOs of major European headquartered international (re)insurers (Aegon, Allianz, AVIVA, AXA, GENERALI, MAPFRE, Munich Re, RSA, Swiss Re, UNIQA, and Zurich) to exchange and present views on policy and regulatory issues impacting the European insurance sector. PEIF aims to promote a better understanding and recognition of the role of the insurance business model in the European Union and to provide its Members with the opportunity to discuss major policy and strategic issues affecting the insurance business in Europe and worldwide.