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EU REGULATIONS

OPINION OF THE ECONOMIC AND SOCIAL COMMITTEE OF THE EUROPEAN UNION ON AMENDMENTS TO THE SOLVENCY II DIRECTIVE

In accordance with Article 13 of the Treaty on European Union, the main task of the Economic and Social Committee (EESC) is to act in an advisory capacity to the European Parliament, the Council and the Commission.[2] It is an institution that represents the interests of economic and social organizations from various member states of the EU, whose assistance by the above stated institutions is mandatory in areas directly related to its competencies; in addition, the EESC can autonomously publish its expert opinions on various aspects, and on average can issue a total of about 180 opinions each year.[3] The EESC is composed of 329 delegates from twenty-seven member states of the EU, classified into three groups - Workers, Employers and Diversity.[4] In the opinion adopted on the 567th plenary session held on 23 and 24 February 2022, the EESC welcomed the Commission's proposal to improve the content of the Solvency II Directive in legal terms, underlining the considerable interest of civil society in ensuring the stability of the financial sector and calls for sound capital requirements and risk preparedness in the insurance sector.[5] The main

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[2] European Economic and Social Committee, About, 2022, *https://www.eesc.europa.eu/en/about* (accessed: 8. 4. 2022).
[3] Ministarstvo za evropske integracije, Ekonomski i socijalni komitet, 2022, *https://www.mei.gov.rs/srl/srbija-i-eu/ukratko-o-eu/najvazniji-pojmovi-o-eu* (pristupljeno: 10. 4. 2022).
[4] European Economic and Social Committee, About, 2022, *https://www.eesc.europa.eu/en/about* (accessed: 08.04.2022).
[5] European Economic and Social Committee, A stable and resilient European insurance sector could contribute much more to the green and digital transition and the COVID-19 recovery, 2022,

parts of the expert opinion of the EESC on proposed amendments to the Solvency II Directive will be presented below.[6]

In the first part of the Opinion (conclusions and recommendations), it is pointed out that the EESC agrees that the Solvency II Directive showed good results in terms of quantitative capital requirements, organizational structure and reporting, provided that, given the crises of recent years (increase of government debt, interest rate variations, pandemic challenges), it is necessary to improve this document. The EESC strongly welcomes the fact that the European Commission is addressing the issue of systemic risks in the insurance sector, given the changes in the origin of risks ranging from climate change and environmental challenges to the growing investment role of insurance companies. The insurers can play a significant role in creating more sustainable economic conditions and overcoming the challenges arising from pandemics and climate challenges**.** On the other hand, the necessity of more stable capital requirements and readiness to deal with risks is emphasized.

The second part of the Opinion (general comments) recognizes the Commission's commitment to improve business conditions and functioning of the Solvency II Directive, including the intention to simplify its implementation. It is also stated that this area should be viewed in the context of other European regulations and policies. In this regard, the Green Deal and overcoming the consequences of the COVID-19 pandemic are top-priority policies of the European institutions, given the enormous resources that are needed. The EESC estimates that European insurers, which have had over 10 trillion euros in their portfolios in previous years, could contribute far more to the goals of climate-neutral economy as well as infrastructure projects. On the other hand, as stated in the opinion, this greater role of insurers must not be to the detriment of the quality of insurance services provided or the stability of that or wider financial framework. In this regard, the assessment of investment risk must continue to be strictly taken into account, regardless of whether it is a green investment or some other investment - the risks must be subjected to the same analytical tools. With regard to capital requirements, the EESC agrees with the Commission's proposal to improve standards in situations resulting from inadequate requirements in order to preserve stability.

The EESC considers positive the intentions of the Commission to support the realization of the Capital Markets Union, assessing that building of the internal

https://www.eesc.europa.eu/en/news-media/news/stable-and-resilient-european-insurance-sector-could-contribute-much-more-green-and-digital-transition-and-covid-19#downloads (accessed: 08.04.2022).

6 Full text of the Opinion of the EESC (COM(2021) 581 final 2021/0295 COD), adopted on the 567th Plenary Session held on 23–24 February 2022, which is the subject of the analysis in this paper, is available within a separate file on the link: *https://www.eesc.europa.eu/en/news-media/news/stable-and-resilient-european-insurance-sector-could-contribute-much-more-green-and-digital-transition-and-covid-19#downloads.*

market would contribute to the pandemic challenges as well as the Green Deal. It is further stated that not only the insurance sector should be more represented in terms of realization of the European Union's climate goals, but also the environmental and social consequences of investments should be taken into account, especially those in the areas of workers' and human rights. Generally speaking, having in mind the scope and significant economic relevance of European regulations, the EESC emphasizes that it would be preferable to make decisions in important areas as much as possible by using the principle of regular legislative procedure (with the participation of the European Parliament and consultation with other groups), rather than in the form of delegated acts. In addition, the EESC proposes that a full evaluation of the Solvency II framework be carried out in the coming years due to expected changes, especially given the implications for the global competitiveness of European insurance sector.

The third part (specific comments) first emphasizes the good intention to apply the principle of proportionality, stressing that in addition to the size of insurance companies, aspects such as the adequacy of prudential requirements to real insurance risks are also important, which would contribute to maintaining the pluralism of the market, where both larger and smaller companies operate. This diversity should not be put at risk by overburdening insurers with excessive red tape. With regard to long-term guarantees, the EESC believes that insurers can be more involved in achieving climate goals and those defined by the Green Deal, as well as tackling the consequences of the COVID-19 pandemic. It is considered that the standards regarding capital requirements must be adjusted in order to stop encouraging industries that pollute the environment. It is necessary to work on a balance between supporting insurers to contribute to the goals of society and the environment, on one hand, and the adequacy of prudential requirements, on the other. This section further discusses the volatility from long-term investment (3.2.2), welcomes the correlation between the spread risk and interest rate risk without jeopardizing Solvency II objectives (3.2.3), as well as revision of the eligibility criteria for long-term equity investments while at the same time ensuring financial stability (3.2.4), while drawing attention to the need to be cautious in adopting a new extrapolation method (3.2.5). In section 3.3 the EESC fully supports the need for insurers to include in their strategies any climate change risks and to assess the medium and long-term impact on their business. The EESC recommends extending this scenario analysis to all environmental risks and removing harmful environtmental practice. The EESC agrees that EIOPA should propose adjustments to the capital requirements with regard to sustainability risks as soon as possible (3.3.2). The EESC supports the European Commission's proposals to bring insurance holding companies into the scope of the EU prudential framework (3.4). The EESC agrees with the European Commission's assessment that the pandemic has highlighted the need for clearer and simpler information on the terms of insurance cover and guarantees offered to consumers, especially as regards business interruption and travel insurance, and the need to constantly verify that insurance products continue to be in line with consumer needs. Current product oversight should be more efficient and therefore EIOPA's opinion is expected (3.5.1). Having in mind new risks, as well as the increasing presence of old ones (as a result of climate change and the COVID-19 pandemic), it is necessary to develop long-term models of insurance cover for these situations. The EESC stated that a discussion between various parties, including insurers, should be initiated as soon as possible in order to strengthen resilience to climate change.

Finally, regarding the insurance guarantee schemes (IGSs), the EESC criticizes the Commission for not making proposals for their harmonization at the level of the European Union, noting that this has an adverse effect on insureds. The EESC believes that a pan-European IGSs would improve both trust and customer safety, and that there is an urgent need to at least harmonise a set of minimum principles for the IGSs, taking into account transition periods and the fact that excessive requirements for certain member states could be counterproductive. It is further stated that the European recovery strategy has expanded the supervisory tools to enable more efficient intervention in the event of a crisis, separating more precisely the measures falling within the domain of Solvency II from those aimed at recovery and overcoming crisis consequences (3.6.2). Although the Directive has shown its effectiveness during a pandemic, the EESC advocates early crisis intervention even before capital falls below the minimum ladder if there is a negative development perspective.

Based on the above, it can be concluded that the EESC is in favour of greater participation of insurers in creating a more climate-responsible, post-pandemic economy. The strongest possible implementation of regular legislative procedure is supported in consultation with relevant socio-economic and political parties, instead of the adoption of delegated acts. It can also be concluded that systemic and other challenges will require further changes in Solvency II in the coming years.

Sources

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