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Directorate-General for Financial Stability, Financial Services and Capital Markets Union

Director General

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Gabriel Bernardino

EIOPA Chairman

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Germany

Per email:

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Subject: Request to review the methodology for the activation of the “country component” of the volatility adjustment under Solvency II

Dear Mr Bernardino,

The Committee on Economic and Monetary Affairs of the European Parliament, as well as industry stakeholders, have highlighted to my services on several occasions that the current methodology applied by EIOPA to derive the “country component” of the volatility adjustment does not work as intended, and does not allow properly mitigating country-specific spread crises in the valuation of technical provisions. In particular, the recent data show that there are uncertainties regarding the activation of this component due to potential “cliff-edge effects”.

The Directive 2009/138/EC (“*Solvency II Directive*”) sets out the conditions for the activation of the country component in Article 77d (4). We have received internal legal advice to the effect that, with the current wording of the Solvency II Directive, the assessment of the conditions of the activation of the country component can only be based on the most recent market data on the reference date of the valuation of technical provisions (since article 77.2 requires the use of “up to date” data). The proposals brought to the attention of the Commission by the time of writing this letter would deviate from that principle and therefore require changes of the Solvency II Directive.

While changes to the Directive in this respect can be considered as part of the 2020 review of Solvency II, I hereby invite EIOPA to immediately start exploring if there are other possibilities to improve the functioning and efficiency of the country component of the volatility adjustment that would be in line with the current legal framework. Any technical proposal would need to be accompanied by a robust impact assessment. During your work on this request, the Commission services will be ready to discuss any questions that EIOPA may have or to provide clarifications on this request.

As soon as the amendments to Article 43 of Delegated Regulation (EU) 2015/35 ("*Solvency II Delegated Act*") enter into force, the European Commission would be in a position to endorse that proposal by sending a formal request to modify the techniques to derive the country component of the volatility adjustment, in order to make it a more effective crisis tool, while ensuring the compatibility of the proposed approach with Article 77d of the Solvency II Directive.

In the interest of transparency, the Commission will publish this letter on the DG Financial Stability, Financial Services and Capital Markets Union website once it has been sent.

Yours sincerely,

A handwritten signature in blue ink, consisting of a large, stylized 'O' followed by a series of loops and a final horizontal stroke.

Olivier Guersent