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Consultation on the Level 2 implementing measures for Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

Reply from the European Federation of Investors

EuroInvestors

EuroInvestors (the European Federation of Investors or EFI) was created in the summer of 2009, following the financial crisis which demonstrated the limits of the almost exclusive dialogue between regulators and the financial industry, largely ignoring the user side. EFI aims at representing and defending at the European level the interests of financial services users in order to promote training, research and information on investments, savings, borrowings and Personal Finances of individuals in Europe, by grouping the organisations pursuing the same objectives at a national or international level. Already about 45 national organizations of investors and other financial services users have joined us, and EFI already represents about two million European citizens.

We are providing only a general reply as most specific questions are more directed at the insurance industry than at policy holders.

As its very name indicates, Solvency II has been primarily designed to prevent insurance companies bankruptcies, not to protect policy holders. These are two different and sometimes conflicting objectives.

The conflict of objectives between the solvency of insurers and the protection of policy holders has recently been identified by the US, UK and Belgium, who are adopting the “twin peaks” approach.

Solvency II heavily penalizes insurers holding equities and thoroughly raises capital requirements and therefore insurers’ equity issues needs, while insurers already derive higher profit margins from unit-linked products where the equity risk is transferred to holders. We have not found any impact assessment from the EC of the impact of these three consequences of Solvency II.

Solvency II also pushes insurers to hold more bonds (especially government ones) and less equities. History demonstrates the severe drawbacks of this regulation-induced asset allocation for long term savings and pension products performance and value. Indeed bond -intensive long term and pension products are unlikely to protect the value of EU citizens’ savings as the experience of the 1930’s shows: a full generation of pension savers was ruined because of the impact of inflation on their fixed income based retirement savings.

We ask for long term impact studies being launched asap on European equity markets and on individual investors, especially long term savings and pension products value & performance.