Annex

Own Asset Volatility Adjustment *(Question 6)*
We support Insurance Europe's reply. In addition we would like to propose an Own Asset VA as an option in the Currency VA.
With respect to the fixed-income assets, the volatility could be reduced by multiple solutions:
1. Change the methodology to assess the counterparty default risk rather than spread risk if there is an ability to avoid forced sales in a going concern perspective;
2. If the spread perspective is maintained: The current volatility adjustment should be improved by allowing for the calculation of the risk weightings on the own asset portfolio rather than EIOPA's reference portfolio; and a dynamic volatility adjustment should be introduced for the standard formula for those fixed income assets which have a spread risk.

With respect to stock markets, it is difficult to mitigate the volatility as this is a direct consequence of the economic measurement. Even with a more balanced calibration of the equity investments, the volatility remains if stock markets become erratic/volatile. If the calibration is more balanced, the absolute volatility will be less.

The current approach of the VA and EIOPA's approach tested in the Holistic Impact Assessment (HIA) and complementary HIA have one feature in common. Both use a currency reference portfolio as their basis for the calculation of the VA. In our opinion, the current VA should be improved to address the issues of artificial volatility of the Solvency ratio.

The artificial volatility can be the result of 1) a duration mismatch between assets and liabilities on the balance sheet of the insurer; or 2) a credit quality difference in the investment portfolio of the insurer versus that of the currency reference portfolio. In the proposals of the European industry and EIOPA, the former is addressed by including a duration ratio and scaling factor. However, the latter is not addressed. In our opinion, that can only be properly addressed by means of allowing – if certain conditions are met and after approval of the supervisory authorities – the calculation of the VA based on the weightings of the own assets of the insurer (and in combination with solving current flaws of reflecting the appropriate spreads as well, see next paragraph). Allowing this approach would properly address the artificial volatility. The under- and overshooting would be significantly reduced. The Solvency ratio would be less volatile, which would increase the predictability and understandability of the Solvency ratio over time.

Mortgages
Another element of the VA that should be addressed is the treatment of mortgage loans in the reference portfolio. In the Netherlands, a significant proportion of the investment portfolio of insurers is invested in mortgage loans. The (risk) characteristics of these mortgage loans in the Netherlands are such that these are an excellent match with the long-term liabilities of insurers. In the current EIOPA reference portfolio, there is no index applied for mortgage loans. Also, mortgage loans are non-rated because the counterparty is the consumer. A proper treatment of mortgage loans in the currency reference portfolio, and therefore in the country adjustment, would reduce the volatility and not punish the insurers who have invested in these products nor the homeowners who have benefitted from the lower costs and increased choice resulting from Dutch insurers' participation in this market.

The ability of insurers to invest in the mortgage loans is actually increasing the competition of the suppliers of these products, which lowers the cost for consumers and provides an excellent opportunity for insurers to include these products in their ALM and reducing the actual risk profile. As a consequence there is material exposure on individual Dutch insurers' balance sheet to Dutch mortgages. We understand that there might be scepticism about the investment in mortgages by insurance companies. This is understandable, since not all insurers in all markets across Europe do so. However, it is important to recognize the unique characteristics of Dutch mortgages, which have a lower risk profile than mortgages in some European markets. As noted,

the ability of insurers to invest in the mortgage loans is actually increasing the competition of the suppliers of these products, which lowers the cost for consumers and provides an excellent opportunity for insurers to include these products in their ALM and reducing the actual risk profile. Green mortgages and the broader decarbonization of the built environment will form an important pillar of the transition to a carbon-neutral economy. We do not think it makes sense to exclude insurers, with their experience in risk management, from this market. Reducing the "Dutch mortgage penalty" under the current VA represents an important first step in the right direction.

Protection of policyholders *(Questions 25 and 26)*
The Solvency II framework provides a solid prudential framework with a high level of protection for EU policyholders against failures of insurance companies in Europe. In addition, the Solvency II framework contains a ladder of intervention that enables supervisors to step in when there is an imminent need when capital requirements are breached. In addition, although not fully harmonised, the Solvency II framework grants a high priority to policyholder claims in insolvency, should an insurer fail, despite the safeguards that the Solvency II framework provides to protect insurers from failing. It is conceivable that, when an insurer has failed (i.e. an irreparable breach of the MCR), it still maintains a capital buffer in excess of its technical provisions on a Solvency II basis and might still be able to cover policyholder claims, should it continue on a going concern basis. However, should an insurer be liquidated in ordinary bankruptcy proceedings, this could well lead to unnecessary losses (e.g. fire sales of assets) that could be prevented by orderly resolution of an insurance company or an insurance portfolio, e.g. through a run-off over time of the insurance portfolio/ insurers potentially complemented by a protection of policyholders against a breach of the no-creditor-worse-off principle.

In addition, subject to proportionality, we believe that a certain level of ex ante recovery and resolution planning can be beneficial, provided that this is justified given the size of the insurance companies. Furthermore, ex-ante recovery should not unnecessarily intervene with the going concern situation of the insurer, taking into consideration the robustness of the overall framework. This means that the ex ante removal of impediments to resolution should only be required in a limited number of exceptional circumstances and take into account the conditions under which an insurer is likely to be resolved.

Several Member States, including the Netherlands, have introduced legislation that complements the Solvency II framework by the creation of a dedicated recovery & resolution framework for insurers, tailored to local specificities and to local legislation. We believe that such national framework should be maintained, but be complemented by a level of minimum harmonisation of recovery and resolution at European level, to deal with issues that cannot be fully dealt with at national level or would otherwise strengthen the local frameworks: identification by each Member State of a national resolution authority, scope of the resolution in terms of insurance undertakings, preventive recovery and resolution plans, conditions and criteria for the entry into resolution, powers and tools given to national resolution authorities, and cooperation between authorities on a cross-border basis.