

# EIOPA Consultation Paper on the Opinion on the 2020 Review of Solvency II

## About NFU

NFU – Nordic Financial Unions is an organization that promotes the interests of the Nordic financial trade unions in Europe. Through a high level of competence and dialogue, NFU contributes to shaping a sustainable financial sector, fundamental for job creation. Currently, NFU represents seven trade unions in the bank, finance and insurance sector in Denmark, Finland, Iceland, Norway and Sweden.

For more information, please visit [www.nordicfinancialunions.org](http://www.nordicfinancialunions.org)

## Consultation Paper replies

### General comments

NFU welcomes EIOPA's initiative to provide a transparent and all-encompassing documentation regarding the technical advice pertinent to the Solvency II review in 2020, and specifically the accompanying impact assessment documentation. While NFU is in support of measures that contribute to stability in the sector, we find it essential that the impact of these measures is also examined from a wider sectoral and social context, including its effects on employment and working conditions in the insurance sector. On a more general note, due attention needs to be given that the cost of measures and policies that are supposed to strengthen the sector are not leveled with reduced personnel, thus affecting customer service and the capacity for regulatory compliance in general. On a more specific note, the annexed impact assessment makes a mention of staff impact when assessing various policy options, but in the context of the costs to the industry. In that assessment, the costs are identified with the time that a staff member would spend on performing the

tasks connected to a particular policy option. No reference has been made to any costs, time or other resources needed for appropriate training and competence development of employees, nor potential impact to the working conditions and implementation of measures. Thus, NFU encourages EIOPA, in the scope of the further work with Solvency II and in general, to include impact assessments on insurance sector employees when assessing different policy options and their implementation.

### Questions to stakeholders

**Q2.5: What is your view on the safeguards to avoid wrong investment incentives? In particular, how can wrong incentives with regard to investments in government bonds best be avoided?**

The setup of safeguards, particularly for Pillar II, could strengthen the intended effect of avoiding 'wrong' incentives, as long as it is provided that there is an organizational setup in place that will aid the creation, implementation and follow through. Not only the existence but also the inclusive approach in creating and the implementation of risk management policies, connected to the corporate culture, should be reflected upon. When it comes to the setup of internal safeguards, it is important to consider the scope and impact that these safeguards would have on employees, given the variety of roles and risk profiles. Thus, there are benefits of involving employees in the design and implementation of internal safeguards. This would ensure that control and monitoring systems, if any, are balanced, fair and ultimately lead to sustainable actions and decisions. The responsibility for implementing or acting upon agreed organizational policies or practices should not be filtered down to the individual employee.

**Q8.1: In your view, are the changes to the provision of the calculation of technical provisions necessary in order to improve the proportionality of the requirements? Please make concrete proposals.**

We would like to highlight the importance of the proportionality principle, and the continuous efforts to strengthening it. Considering the varied landscape of the insurance sector in Europe it is essential to ensure diversity in the sector, stimulate local growth and development, and reduce burdens for smaller companies that cater to specific customers and types of services. In addition to that, and in light with the current discussions in

sustainable finance, it is important to consider the role of insurance undertakings as investors, who could, among else, contribute to bridging the investment gap of 180 bil EUR annually on EU level, needed for the achievement of EU´s climate goals and targets<sup>1</sup>.

**Q11.1: What principles should be taken into account by NSAs in their decision to trigger, set, calculate and remove capital surcharge for systemic risk?**

NFU is in support of measures that are ensuring more stability in the insurance sector and safeguarding against systemic risks. With that in mind, the proposed policy option to allow NSAs the power to impose capital surcharge is a serious measure that could significantly impact the sector. While the section 11.8 makes reference to the foreseen impact that a lack of macroprudential policies would have on the sector, in terms of rising social costs and unemployment, a thorough analysis is needed to explore the effects of the introduction of such policies as well, such as granting the capital surcharge powers to NSAs. Without clearly defining the impact, considering principles (such as proportionality, business model, size, interconnectedness) and safeguards to that proposal, there is a risk of preemptive action.

**Q11.4: What are the relevant factors to be taken into account to determine the scope of undertakings subject to SRMPs?**

Differences in business model, risk profile should be duly considered when making the assessment. However, NFU would like to stress the importance of involving employees in risk management. Employees have detailed knowledge and experience about how daily practices can impact risk and can therefore contribute to providing a more complete picture of the company's risk profile. Employees' involvement in the risk management of their company could be achieved through ensuring employee representation on boards and particularly the boards' risk committees, but also through the setup of effective whistleblowing mechanisms and internal/external reporting systems. In this way, a bottom up approach and streamlined communication can be put into the function of managing risk in the company.

**Q12.1: How should the very significant market coverage across the Member**

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<sup>1</sup> European Commission, Action Plan: Financing Sustainable Growth, available [here](#)

### **States be determined? What are relevant factors to take into account?**

Without further elaboration on the criteria, NFU would like to highlight the role of the employees in the development of such plans, as well as the importance of including their perspective. While it has been highlighted in several occasions throughout the consultation that the main objective of Solvency II is to guard the interests of policyholders/consumers, this objective can only be achieved with the involvement of employees and the existence of solid governance. Furthermore, in order to reduce administrative burdens, a streamlined and proportional composition of the report needs to be developed, avoiding any additional compliance hardship.

#### **Comments**

##### **Chapter 8, Paragraph 27**

Protection of policyholders/consumers is a cornerstone and an important driving force behind Solvency II. However, the economic interests of consumers and general competition rules are only one part of the complex environment of the insurance sector. The connection between consumers and the insurance sector employees is central and essential for ensuring personalized advice, quality service, sound consumer protection and sustainable insurance sector.

##### **Chapter 8, Paragraph 121**

NFU would encourage expanding on the formation and composition of a remuneration committee with the possibility for employee representation, if provided by national law, or following a culture or practice in companies or Member States. Employee representation in governing bodies enhances corporate governance and helps building business models and sound remuneration policies.

##### **Chapter 8, Paragraph 125, 127**

While we support the principle of proportionality and the efforts to reduce economic and/or administrative burden, we would also highlight the need for ensuring independence of certain functions in order to avoid additional pressure on employees. There needs to be a clear definition of the scope of responsibilities, adequate training, and an understanding that

the accountability for following rules and procedures still resides with the AMSB.

#### **Chapter 8, Paragraph 152**

NFU would like to draw caution to the mention of identified staff and highlight the need for precise definition of which groups of staff would this segment apply to. This is because not all employees are risk-takers and an open definition might leave space for a wide consideration of who identified staff is.

On another note, NFU strongly supports the idea of remuneration policies that are consistent with and promote sound and effective risk management but believes that remuneration policies and practices should be left to the social partners to decide upon. This is the cornerstone of the Nordic model, and in accordance to Article 153,5 TFEU.

#### **Chapter 8, Paragraph 154**

NFU finds that the remuneration rules should not, as a general point, undermine the social partners' right to decide on pay through collective bargaining. How the variable pay should be set should according to NFU therefore be decided by the social partners. Therefore, rules on remuneration, if any, should not interfere with pay decided in collective agreements.

However, in the context of the paragraph, and in order to maintain proportionality, it is important that the requirements are only applied to identified staff and not to all employees, as well as to exclude certain small, non-complex institutions from applying the remuneration principles regarding deferral and payment in instruments for variable remuneration, and to limit the scope of those remuneration principles with reference to staff receiving low amounts of variable remuneration, including in large institutions.

#### **Chapter 9, Paragraph 501**

Similarly to the comment to Chapter 8, Paragraph 121, we would highlight the importance of involving and establishing dialogue with employees in the scope of governance of undertakings.

#### **Chapter 12, Paragraph 155**

Depending on jurisdictions and national traditions, certain components of total remuneration awarded to 'identified staff' is directly foreseen by collective agreements that cannot be changed unilaterally by institutions.

**Chapter 14, Paragraph 44**

Regarding the importance of exchange of information in the context of governance, from the employee perspective, ensuring sound and efficient whistleblowing systems and structures would be one measure that adds value to that process. Whistleblowing ensures that early warnings from the bottom and up will reach the competent supervisory authority which should have the power, the mandate and resources to follow-up on the warnings and, where necessary, carry out further investigations.