European Commission

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Insurance and reinsurance firms - review of technical rules (Solvency II) (./have-your-say/initiatives/13690-Insurance-and-reinsurance-firms-review-of-technical-rules-Solvency-II-)
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Feedback reference	F3605869
Submitted on	02 September 2025
Submitted by	Marika Carlucci
User type	Non-governmental organisation (NGO)
Organisation	ShareAction
Organisation size	Medium (50 to 249 employees)
Transparency register number	75791956264-20 (http://ec.europa.eu/transparencyregister/public/consultation/displaylobbyist id=75791956264-20&locale=en)
Country of origin	Belgium
Initiative	Insurance and reinsurance firms - review of technical rules (Solvency II) (/info/law/better-regulation/have-your-say/initiatives/13690-Insurance-and-reinsurance-firms-review-of-technical-rules-Solvency-II-_en)

‘ShareAction appreciates the European Commissions efforts to update the Solvency II framework. In particular, we welcome the proposed changes to the calculation of capital requirements for natural catastrophe risks, and the introduction of internal procedures to avoid overreliance on historical data for assessing climate-related risks. However, ShareAction is concerned about the Commission's broader approach to insurance legislation. We believe that many of the proposed changes would introduce greater risk into the financial system without meaningfully advancing the green transition, posing significant threats to people and the planet. According to the Commission, the

amendments introduced through this Delegated Regulation aim to improve the way the EU financial system channels savings to productive investments, creating more financial opportunities for people and businesses, notably sustainable businesses. Specifically, the Commission expects that reducing capital requirements for insurers, including via preferential treatment for long-term equity and securitisation investments, will help finance productive investments in the real economy and strengthen the EUs economic resilience and competitiveness. From a sustainability standpoint, ShareAction finds this narrative, and the suggested amendments, both short-sighted and misleading. Firstly, we consider that the proposed amendments would be to the benefit of the insurance industry without imposing any conditionalities or guarantees that freed-up capital will be directed toward positive or sustainable EU investments. The Commission merely hopes and expects that insurers will align their investment decisions with current political priorities, despite the simultaneous emphasis on competitiveness and market logic. Meanwhile, supervisors will only be encouraged, not mandated, to monitor how capital is spent, with no consequences in cases of non-alignment. Secondly, we find the narrative misleading in terms of environmental impact, as we believe that the changes may lead insurers to invest more in harmful but high-return activities (such as fossil fuels) rather than sustainable ones, with severe consequences for the EUs sustainability agenda. It is also misleading with regards to financial stability impacts. Given securitisation's role in the 2008 crisis and how it increases uncertainty, complexity, and interconnections across financial markets, the Commission's plan to reduce risk factors for both STS and non-STS securitisations is concerning. Far from simply allowing insurers to diversify their portfolios, these measures aim to boost returns for insurers. As insurers returns have been peaking in recent years, it is questionable whether profitability should be increased at the expense of financial stability. Overall, by enabling riskier investments, including increased exposure to equities and securitised products, while simultaneously reducing available capital buffers, reporting and disclosure requirements, ShareAction believes that the proposed amendments may weaken insurers solvency and financial stability at large. This would undermine, not strengthen, the EUs economic resilience and competitiveness. Notably, the Commission ignores EIOPAs November 2024 recommendation to apply higher capital requirements to fossil fuel assets, therefore missing an opportunity to *address both financial and climate-related risk through prudent regulation. In light of the above, ShareAction calls on the Commission to: -Introduce sustainability-linked conditionalities for insurers investments; -Establish a robust monitoring and enforcement system, led by supervisory authorities, to ensure that capital flows align with EU decarbonisation goals; -Add a review clause to the Regulation to set a timeline for the Commission to reassess these measures based on outcomes; -Urgently implement higher capital requirements for fossil fuel assets, as per EIOPAs 2024 recommendation.'*

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