

To: Solvency II WG
From: Prudential Team
cc:
Date: 28-03-2025
Reference: ECO-SLV-25-120

Subject: Assessment of EIOPA Advice on standard formula capital requirements for crypto assets

Summary

EIOPA has submitted its technical advice to the European Commission on standard formula capital requirements for **crypto assets** ([here](#)), including a resolution of comments ([here](#)).

The secretariat has provided an assessment of the comments to Insurance Europe feedback ([ECO-SLV-24-417](#)) and how these suggestions were considered. The full responses from EIOPA are included in an annex table.

EIOPA advice

EIOPA recommend that a **one-to-one capital requirement** be applied consistently to all crypto holdings of EU (re)insurers (i.e. **100%** stress, without diversification). The advice states that investments of undertakings in crypto assets are immaterial (**less than 0.01%** of the total assets of insurance and reinsurance undertakings at 2023 Q4).

This publication comes in response to the European Commission's [Call for Advice](#) and follows a [public consultation](#) on the topic with stakeholders.

EIOPA also advises that the **future developments** and expected amendment to the Capital Requirements Regulation (CRR), **be reviewed** to assess whether a specific treatment in Solvency II would be appropriate.

Next steps: The Commission will now consider EIOPA's technical advice in the review of level 2 provisions of Solvency II.

Assessment of Insurance Europe feedback

- Insurance Europe supported the 100% charge proposed, with the implementation of **diversification**.
 - EIOPA state that given the limited evidence supporting assumptions about diversification benefits, it is **prudent** to assume that no diversification.
- Insurance Europe suggested an **alternative approach** with a **zero balance sheet valuation** (instead of a separate SCR stress).
 - EIOPA note there would be advantages from simplicity and also a likely reduction in balance sheet volatility, however, the approach:
 - falls outside the **scope** of the Call for Advice
 - conflicts with **market consistency** valuation principles
 - presents **practical challenges** when applied to crypto assets investments within Unit-Linked products.
 - present difficulties with regard to potential **differentiated treatment** of specific categories of crypto assets being introduced in the future.
- Insurance Europe asked for clarification on how "no diversification" would work in the **calculation**.
 - EIOPA clarified there is no diversification as for **SCR intangible risk**.
- Insurance Europe noted there appears to be **limited value** in introducing a separate shock for the limited exposure.
 - EIOPA acknowledge this and state the advice aims to be **proportionate**. However, the current standard formula stresses are **not sufficiently prudent** for the risk associated with crypto assets.

Annex – Responses to Insurance Europe consultation feedback

Question	Insurance Europe Comment (extracts)	EIOPA Resolution (in full)
Q1. General comments	<p>Crypto assets form an extremely marginal portion of insurers' assets.</p> <p>The industry supports Option 3, combined with the implementation of diversification, as the most technically accurate approach.</p> <p>Alternatively, the industry proposes a different approach that involves accounting for cryptos as intangibles but specifying that they should have a zero value.</p>	<p>EIOPA notes the comment and acknowledges the current minimal exposures to crypto assets of (re) insurers.</p> <p>Regarding Option 3, at this stage given the limited evidence supporting assumptions about diversification benefits, it is prudent to assume that no diversification effect should be considered.</p>
Q8. Other regulatory background	<p>Independent from the outcome of the consultation, EIOPA should ensure there are no conflicts with other legislation.</p>	<p>Noted.</p>
Q10. Analysis	<p>It is not clear whether "no diversification possible" mentioned in Options 2 and 3 means no diversification at all like the Solvency Capital Requirement (SCR) operational risk, thus to be added to the basic SCR (BSCR), or merely no diversification within the module market risk.</p>	<p>Under Option 2 and 3, there is no diversification as for SCR intangible risk.</p>
Q11. Draft advice	<p>Complexity vs. limited exposure - Given the very limited exposure to crypto assets in the industry, which stands at less than 0.01%, there appears to be limited value in introducing a separate shock in the SCR calculations, specifically for crypto assets.</p> <p>Alternative proposal - Insurance Europe proposes a simple but equally effective solution. Rather than introducing a specific stress calculation, a zero balance sheet valuation for crypto assets could be applied, setting the market value of these assets to zero. As such, investing in crypto assets will lead to a 100% loss of the own funds, aligning with the outcome of a 100% stress in SCR without the need for diversification adjustments.</p>	<p>EIOPA advice aims to be proportionate, and we acknowledge that introducing a separate shock while (re)insurers exposure to crypto-assets is very limited may raise concerns. However, the current standard formula stresses are not sufficiently prudent for the risk associated with crypto assets.</p> <p>Regarding the alternative approach, although there would be advantages from simplicity and also a likely reduction in balance sheet volatility, it falls outside the scope of the Call for Advice.</p> <p>Furthermore, this approach conflicts with market consistency valuation principles and presents practical challenges when applied to crypto assets investments within Unit-Linked products.</p> <p>Finally, calibrating capital requirements by means of valuation adjustments would present difficulties with regard to potential differentiated treatment of specific categories of crypto assets being introduced in the future.</p>