

14 January 2022 (13.00-14.30)

Webinar: Understanding Solvency II

Opening remarks:

- **Michaela Koller**, Director General, **Insurance Europe**

Presentation:

- **Olav Jones**, Deputy Director General and Director, Economics & Finance, **Insurance Europe**
- **Angus Scorgie**, Head of Prudential Regulation and International Affairs/Reinsurance, **Insurance Europe**
- **Carolien Afslag**, Senior Policy Advisor, Prudential Regulation, **Insurance Europe**
- **Tobias Buecheler**, Head of Regulatory Affairs, **Allianz**
- **Axel Kleinlein**, President, **BETTER FINANCE**

Q&A

Closing remarks:

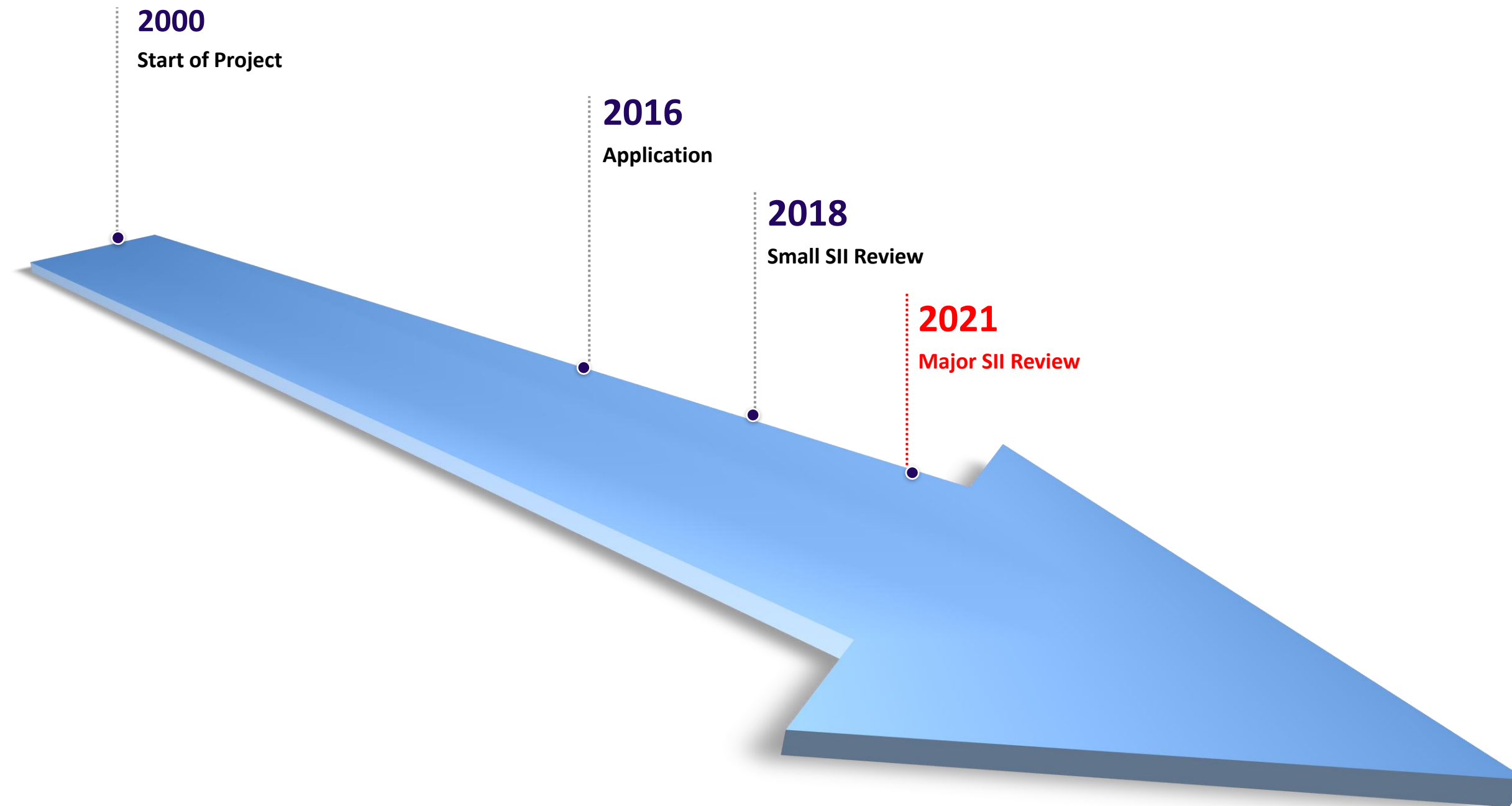
- **Michaela Koller**, Director General, **Insurance Europe**

Chapters:

- 1 Fundamentals of Solvency II
- 2 Long term insurance business and investment
- 3 Proportionality and reporting
- 4 Sustainability in Solvency II
- 5 Systemic risk in insurance
- 6 Regulatory Outlook: SII Directive review and IRRD

Solvency II ... a long journey... and not over yet

An ambitious and fundamental change to create a truly risk-based framework



Generally has been a success but some key improvements are needed

Objectives for Solvency II & the Solvency II Review

Solvency II¹: To introduce a “harmonised, sound and robust prudential framework ... based on the risk profile of each individual insurance company” and to:

- “promote comparability, transparency, competitiveness” and “optimal allocation of capital for shareholders”
- “trigger proportionate and timely supervisory intervention” and “promote greater cooperation between national insurance supervisors”
- “avoid artificial volatility” and “not unduly restrain insurers' appetite for long-term investments, while properly capturing the risks”

Solvency II Review²: The overall aim is to ensure that insurers and reinsurers in the EU keep investing, and support the political priorities of the EU – in particular:

- Financing the post-Covid recovery
- Completing the capital markets union
- Channelling funds to implement the European green deal”



¹ From https://ec.europa.eu/commission/presscorner/detail/fr/MEMO_15_3120

² From https://ec.europa.eu/info/publications/210922-solvency-2-communication_en

Capturing insurers' business model is vital but challenging

Their business model is why insurers can take risk on behalf of customers, invest long-term, avoid procyclical behaviour



Long-term nature



Interaction and matching between assets and liabilities



Mutualisation/pooling of risks and diversification



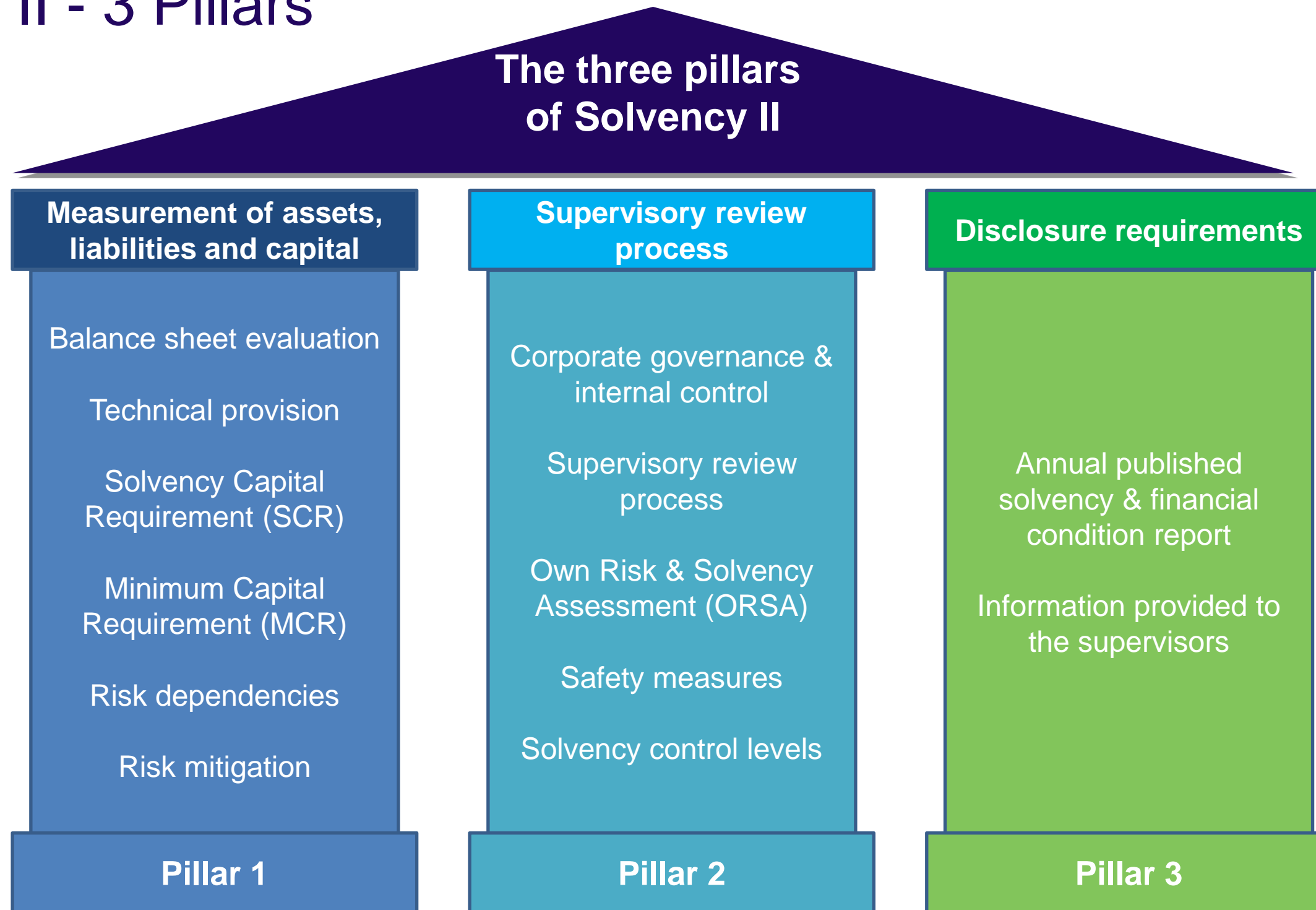
Risk mitigation (policy limits, profit sharing, reinsurance, hedging)

Ensuring these key elements are captured is a key reason why Solvency II needed to be a fully economic, risk based framework and explains many aspects of its design

Solvency II fundamentals & key principles

- **Aligned to developments in good risk management**
- **3 pillar approach:** 1. Solvency capital 2. Risk management 3. Disclosure
- **Risk-based**, aiming to capture the real economics of insurers
 - Total balance sheet: valuing all assets and all liabilities and assessing impact of risks to both sides of balance sheet
 - Sophisticated standard formula (covers 28 different risks) OR internal model
 - Scenario based: 1-in-200-year stress-tests, taking into account interaction between assets, liabilities and risk mitigation
- **Covers groups and solo entities**
- **2 levels of capital** allows for early intervention
 - Minimum Capital Requirement (MCR) and much higher, Solvency Capital Requirement (SCR)
 - Supervisory intervention starts if SCR is breached
- **Proportionality** as a key principle

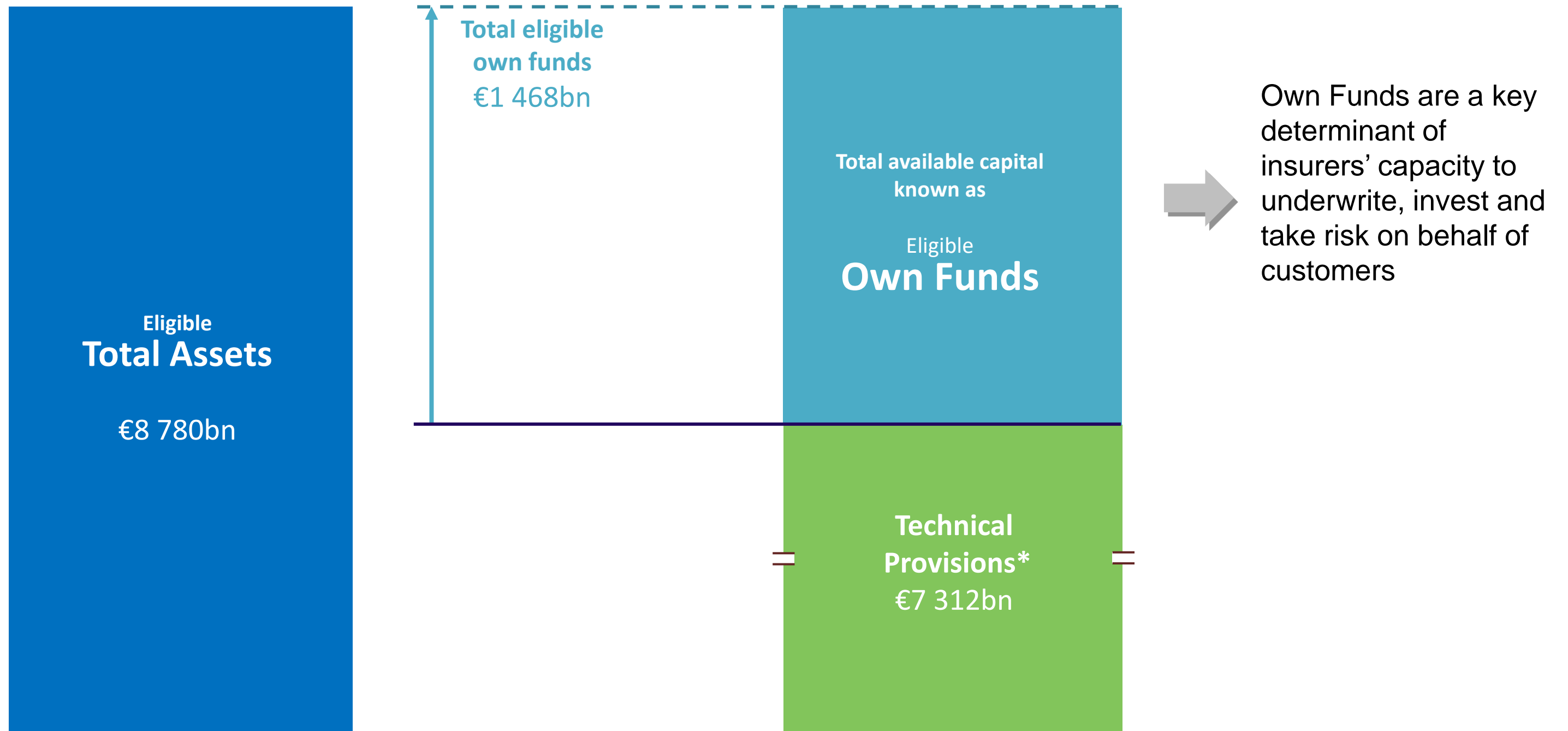
Solvency II - 3 Pillars



All three pillars have very extensive requirements described in detail in the Directive, Delegated Acts, Implementing measures (RTS, ITS) and Guidelines

The Solvency II Balance Sheet and Solvency Ratio ...

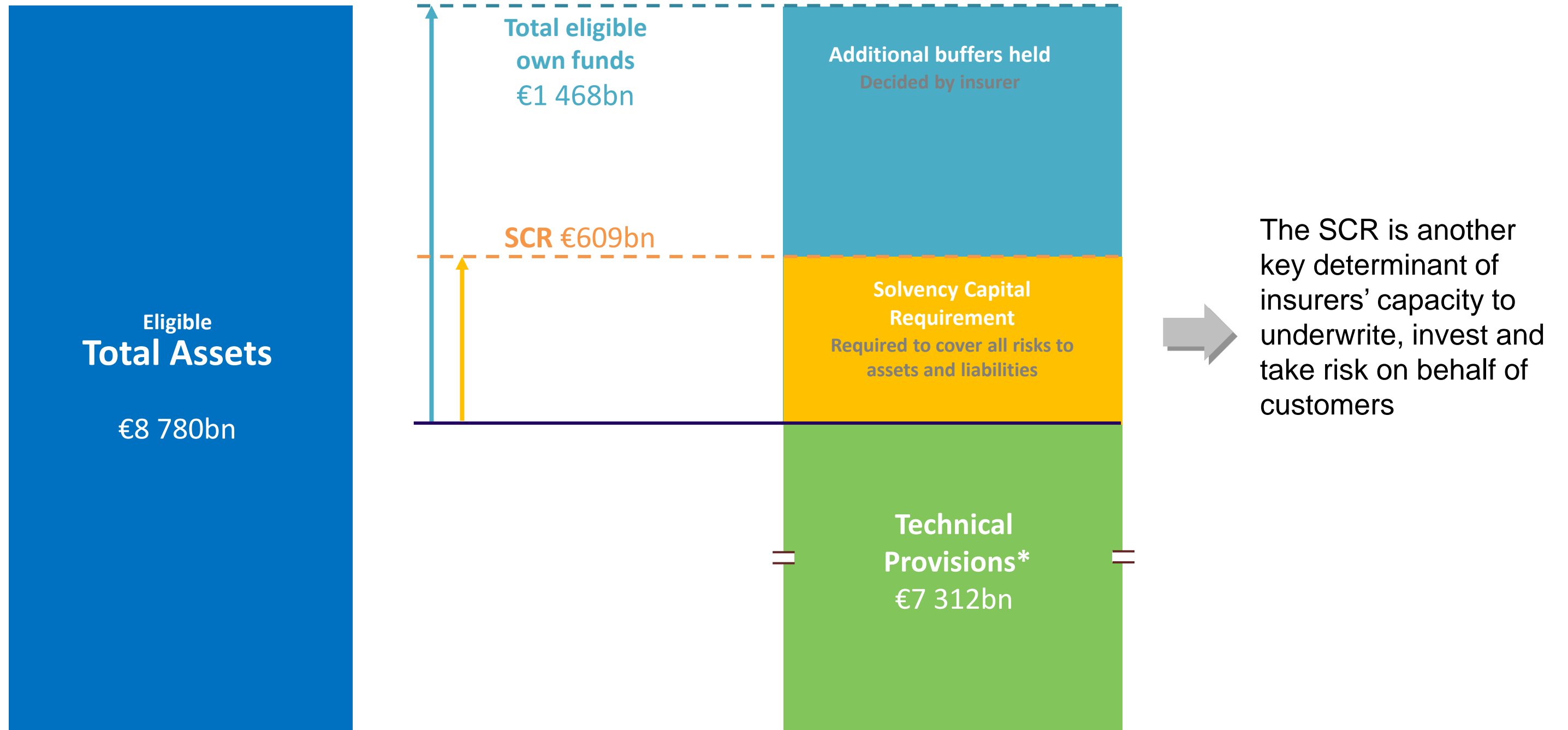
How Available Capital (Own Funds) is determined ...



* Not to scale
Figures Q2 2020, source: EIOPA

The Solvency II Balance Sheet and Solvency Ratio ...

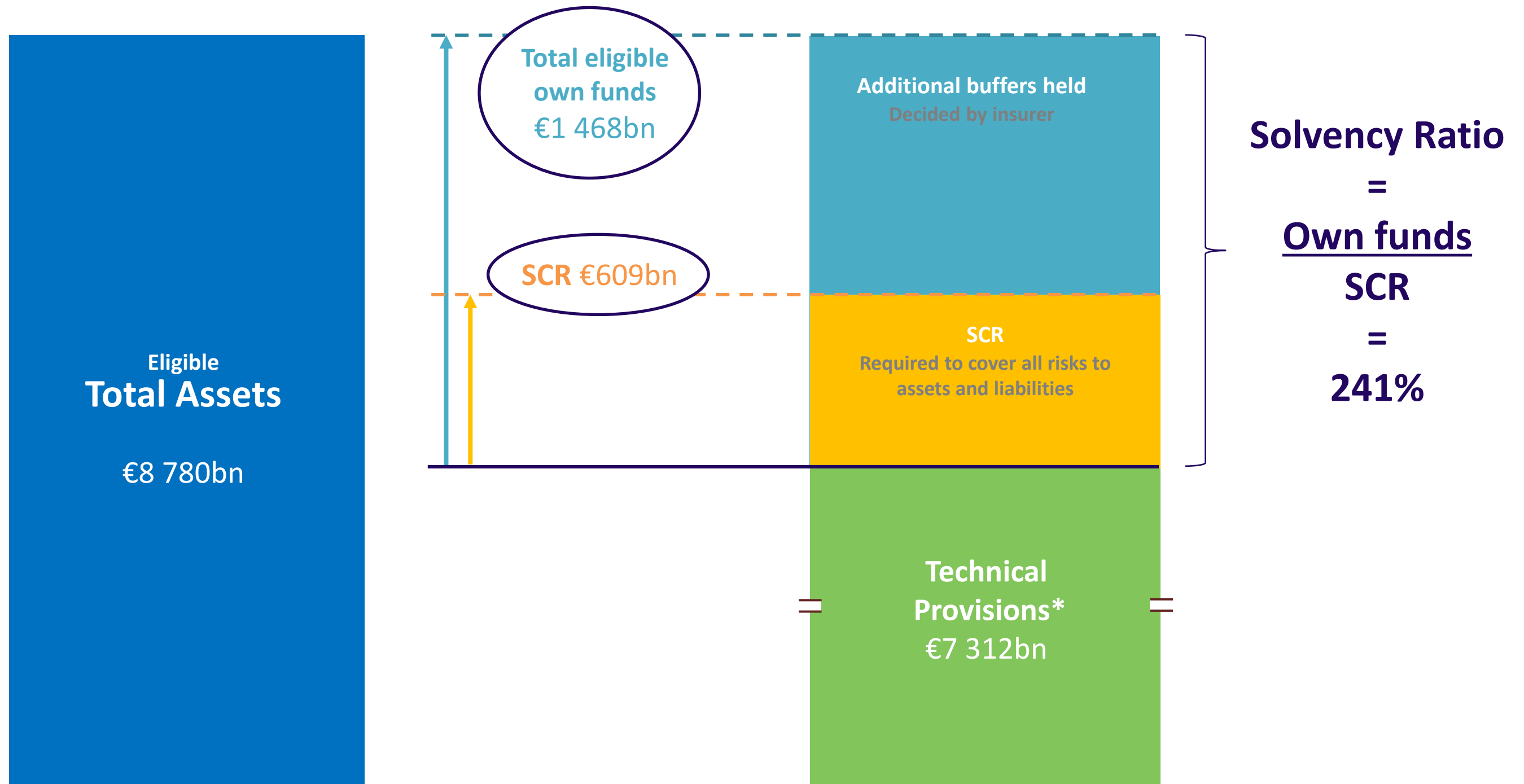
Solvency Capital Requirement ...



The SCR is another key determinant of insurers' capacity to underwrite, invest and take risk on behalf of customers

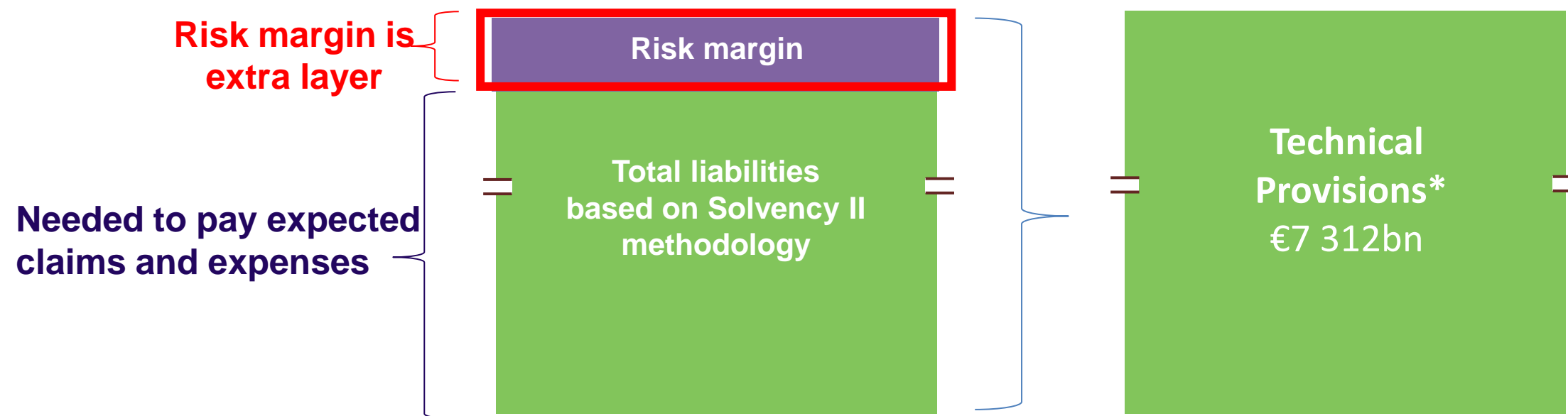
The Solvency II Balance Sheet and Solvency Ratio ...

The Solvency Ratio ...



The valuation of SII technical provisions

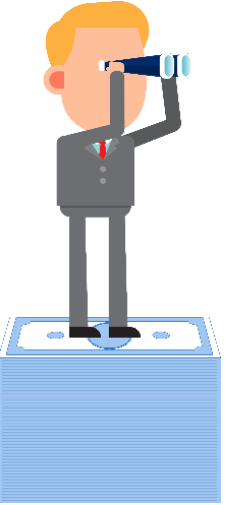
Solvency II technical provisions: Valuation of liabilities + Risk Margin



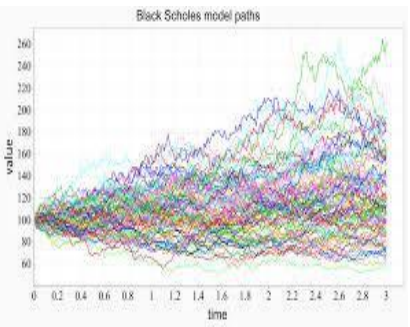
Valuation of liabilities in Solvency II is very comprehensive

Unlike banks, insurers must forecast the best estimate of all their claims and expenses, projected until all claims are paid, and the value of options and guarantees

This includes:




Claims



Value of options and guarantees



Claims administration



General administration



IT



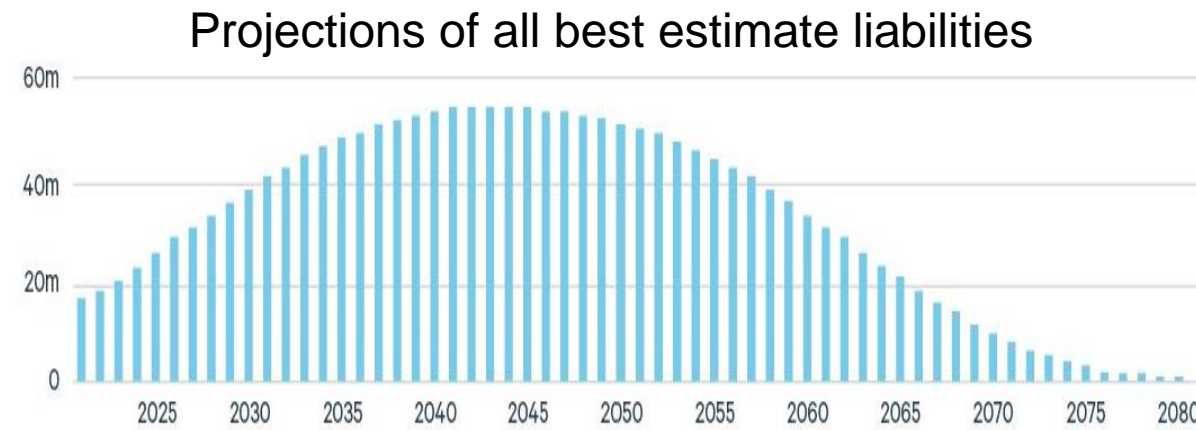
Personnel costs



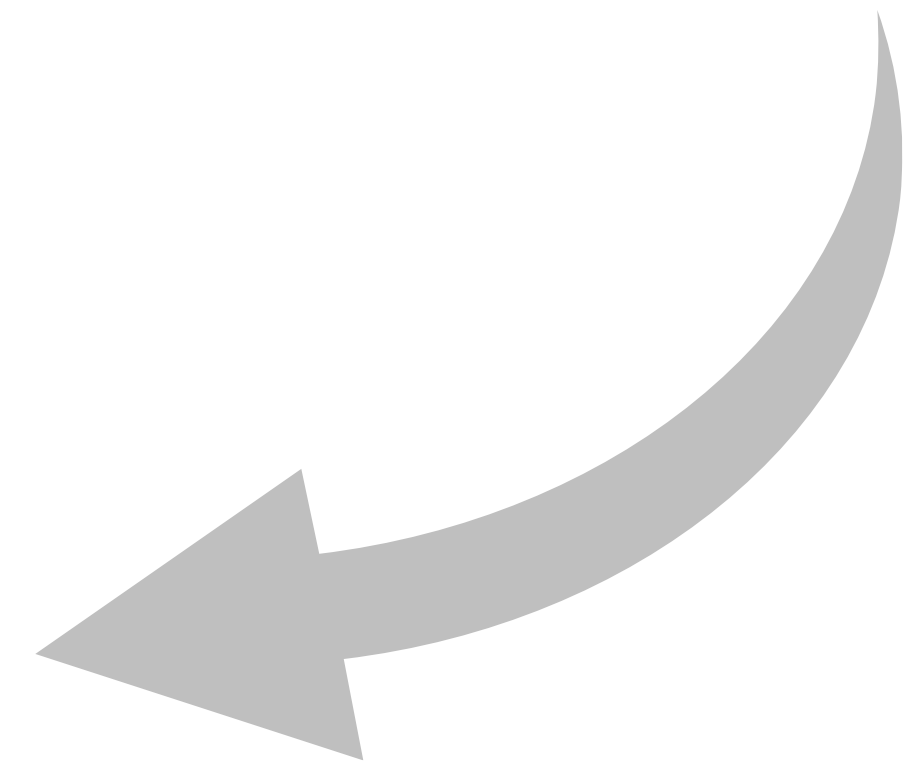
Taxes

Projection period can be up to 60 years or even more

Valuation of liabilities in Solvency II is very comprehensive



**Discount rate curves
defined by SII**



**Amount needed to pay
policyholder claims and
other liabilities**



= Total Liabilities =

What is the risk margin?



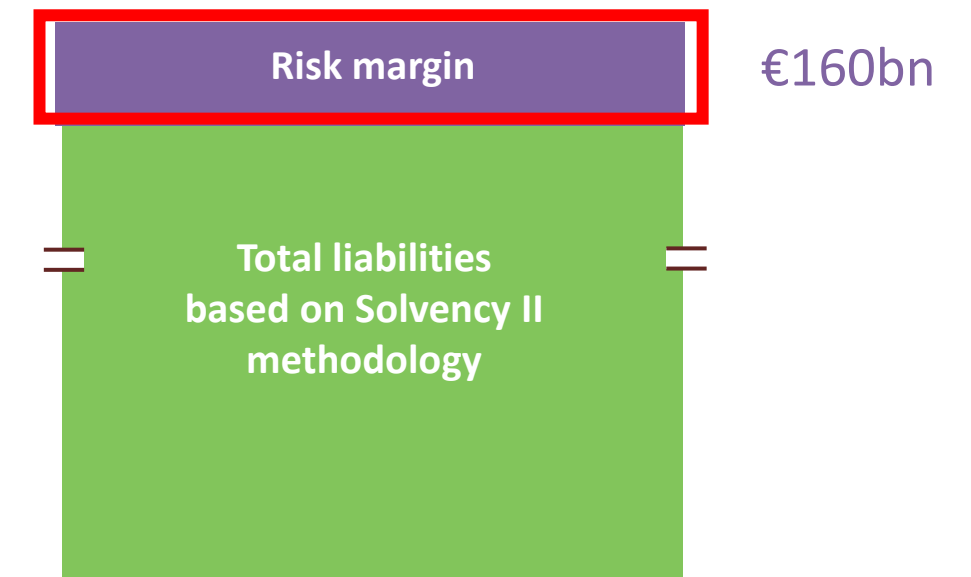
Theoretical concept...

Amount needed to arrive at a market consistent valuation of liabilities based on the cost of holding capital to cover non-market risks



More practically...

Acts as the extra funds available to “transfer” a portfolio to a third party or a run-off in the extremely rare event of failure

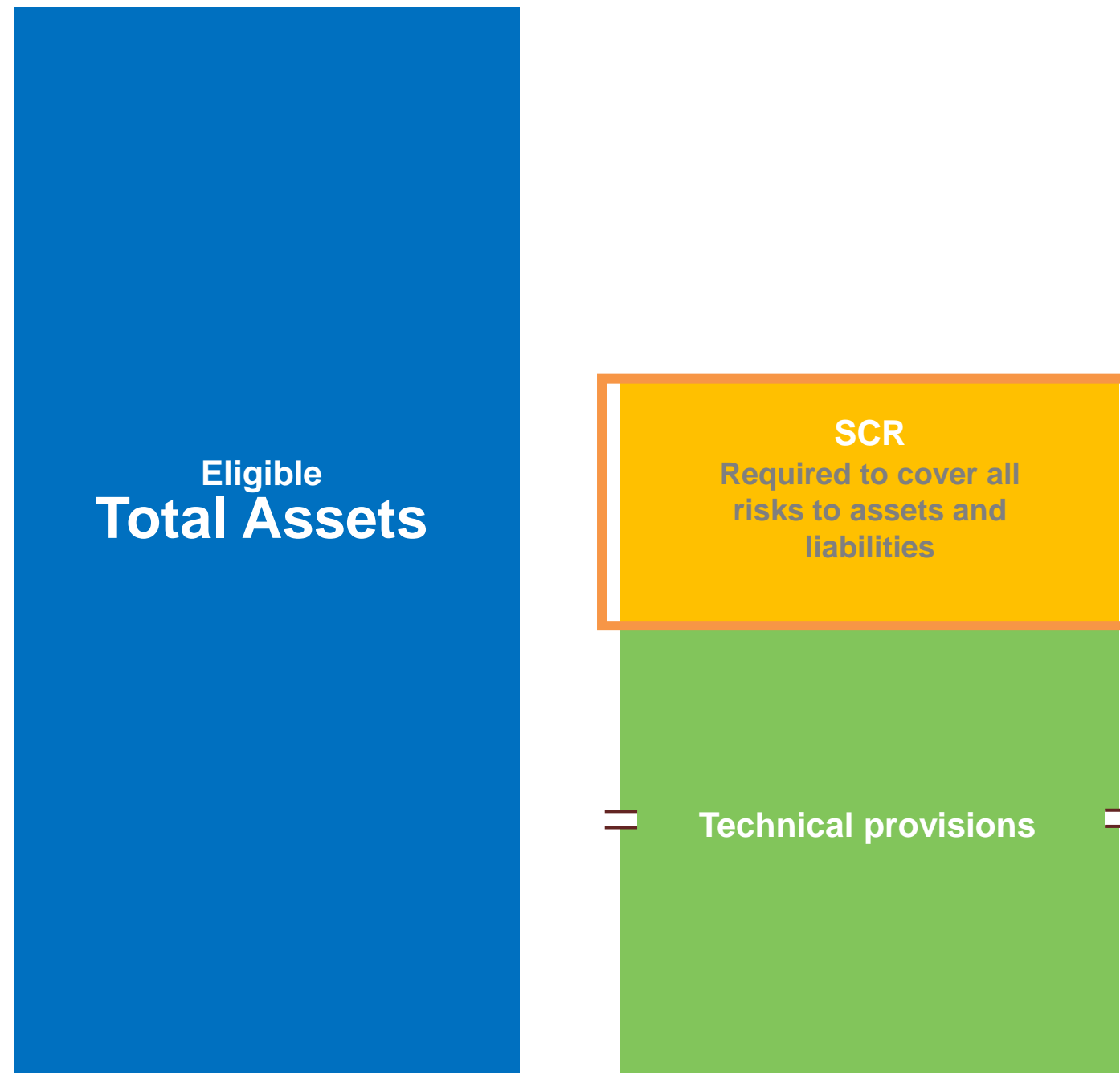


It reduces the Own Funds...

Because it is a very significant additional item on top of assets needed to cover of liabilities

How the Required Solvency Capital (SCR) calculated ...

The SCR is determined through a series of stress tests calibrated to 1-in-200-year type scenarios

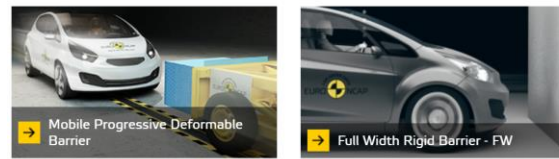


These SCR stress tests for insurers are similar to the car crash tests

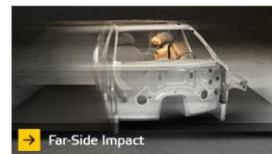
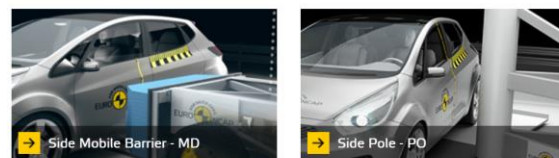
The crumple zone will be damaged, but the focus is on whether passengers are protected

Euro NCAP tests different scenarios, mostly at speeds of 50km/h

Frontal Impact



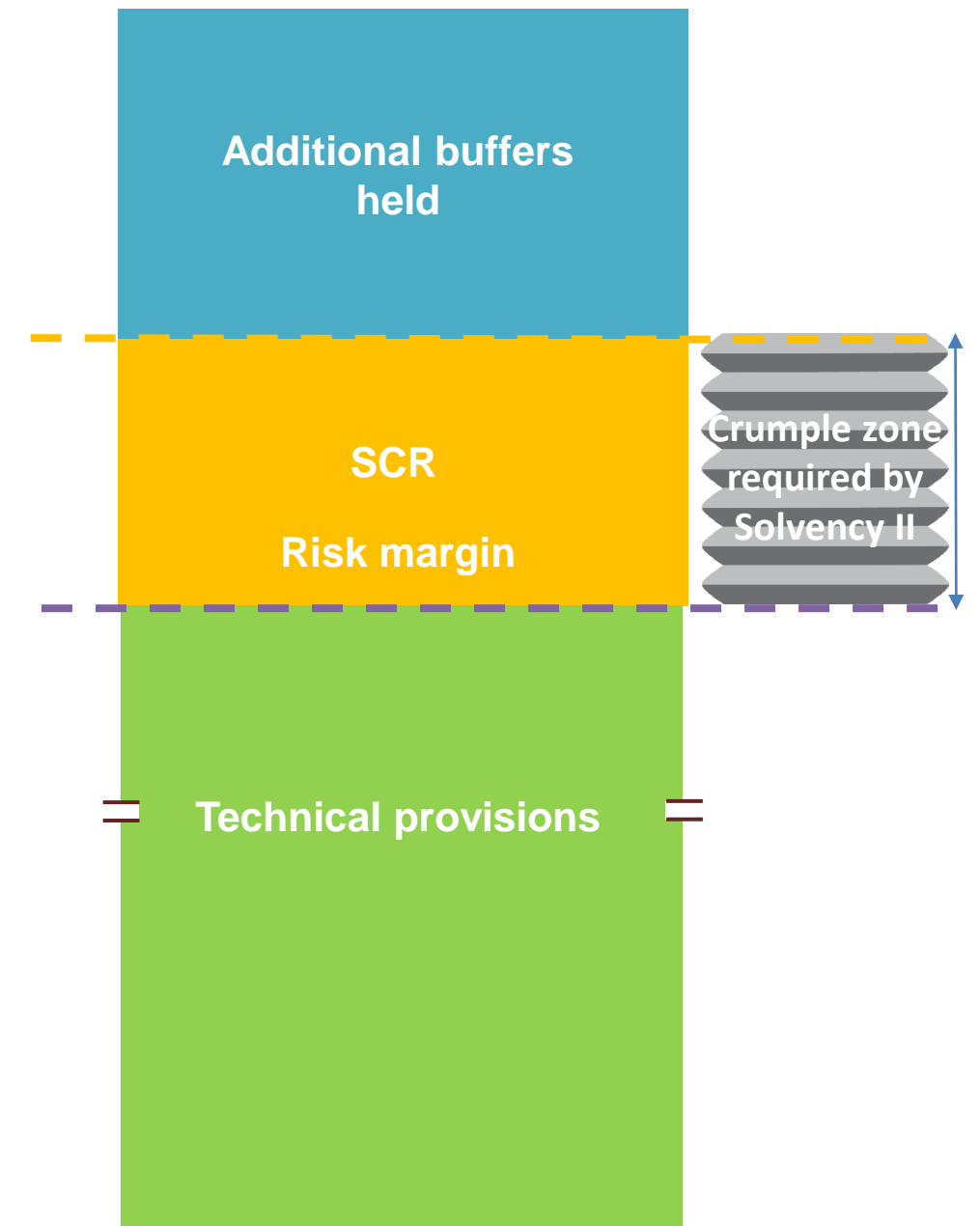
Lateral Impact



Rear Impact



Rescue and Extrication



Best estimate reserves = passengers

Own Funds = Total crumple zone

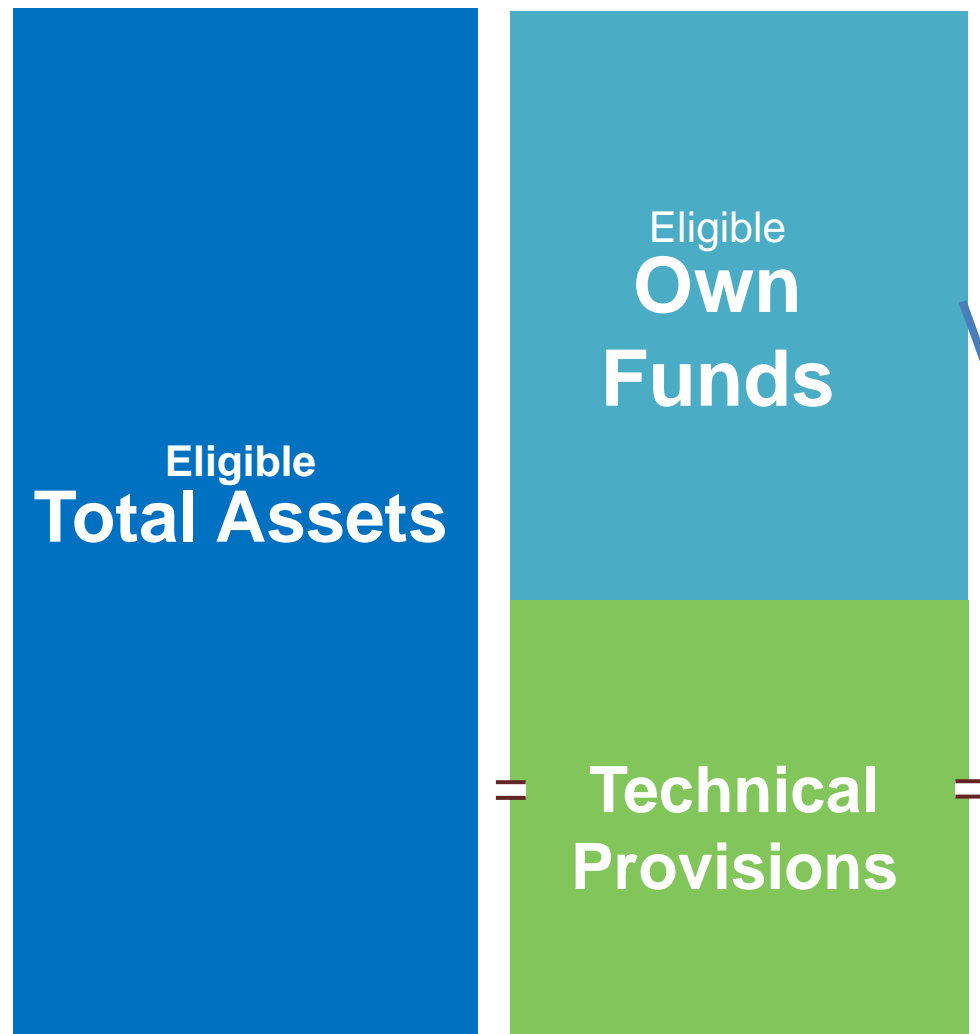
SCR = Required crumple zone

Solvency II sets the scenarios for determining capital to a 1-in-200 level of safety. The framework Pillars II and III add further safety levels through non-capital requirements and measures

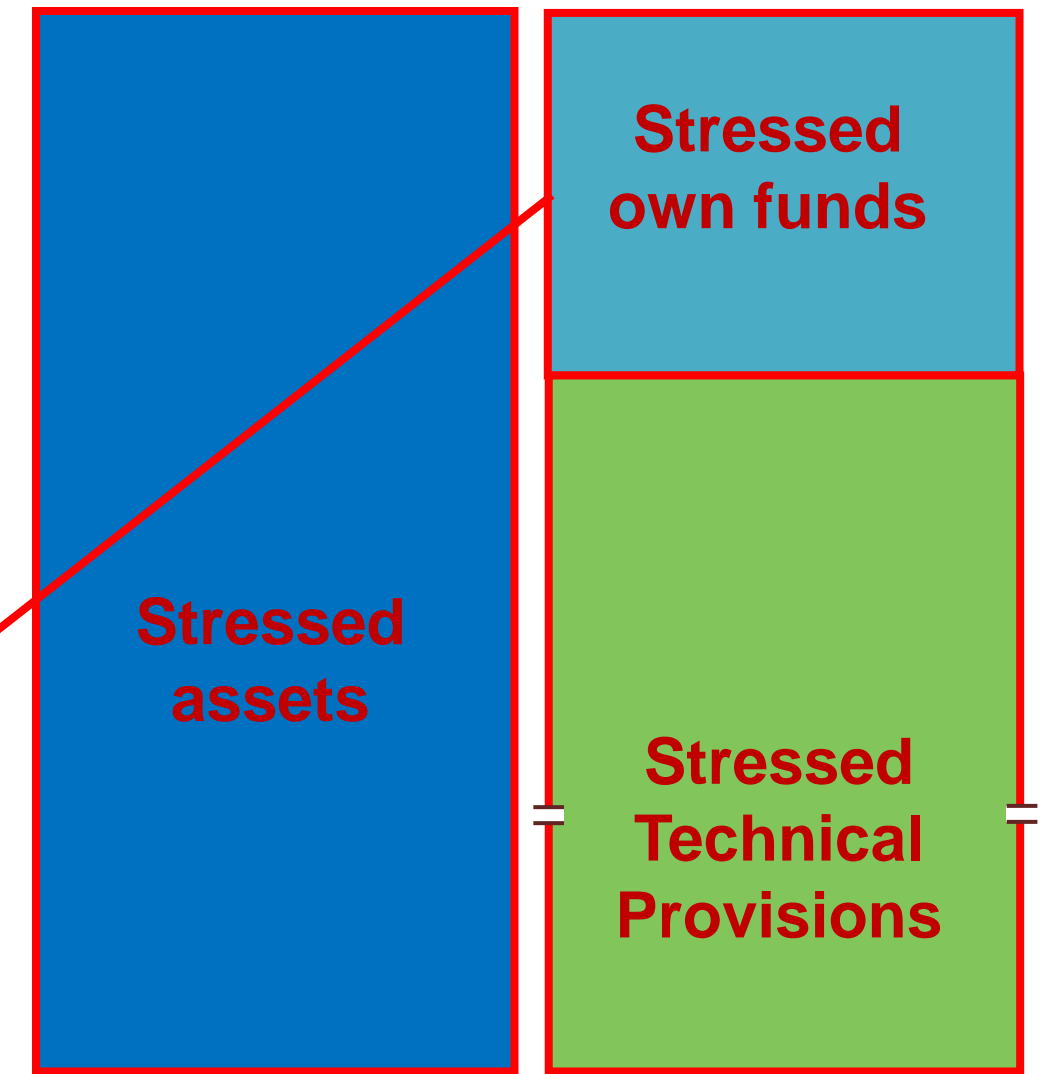
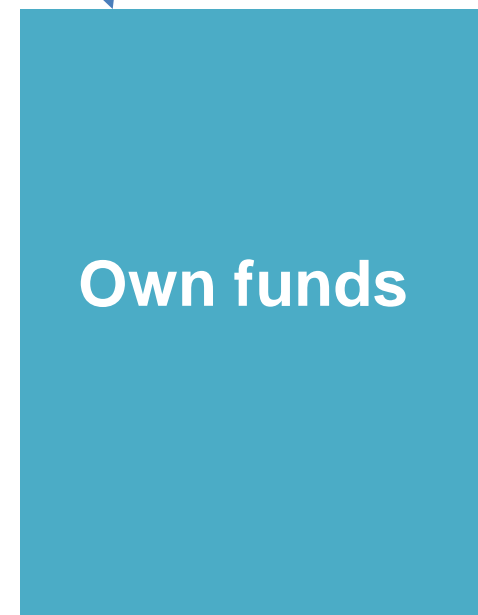
More severe crash tests with faster speeds could have been chosen, but there is a recognition that there is a **trade-off between safety and the cost/usability of a car for consumers**

Calculating the Solvency Capital Requirement (SCR)

SII Balance sheet: using current best estimates and market data

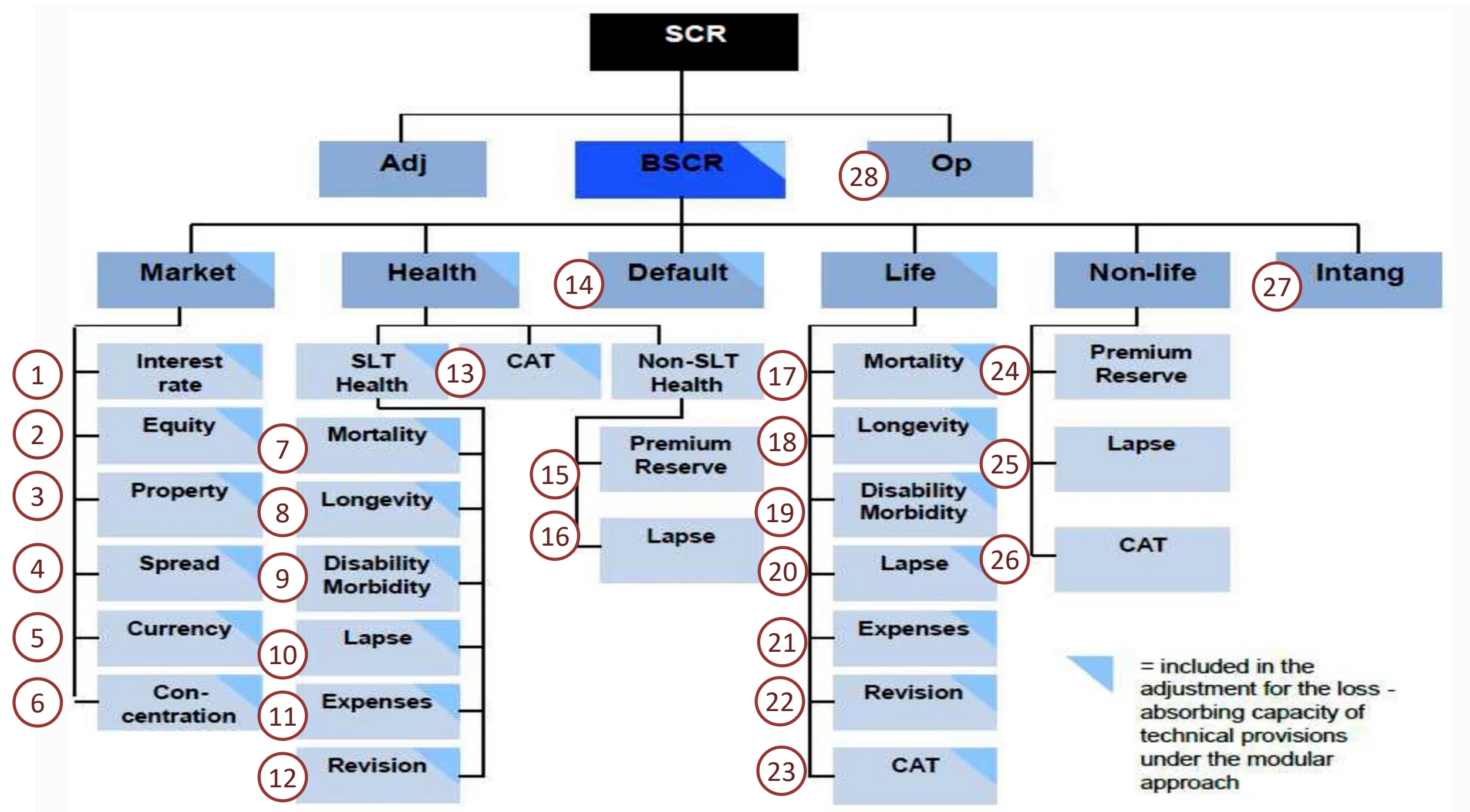


SII Balance sheet: 1-in-200-year stress scenario

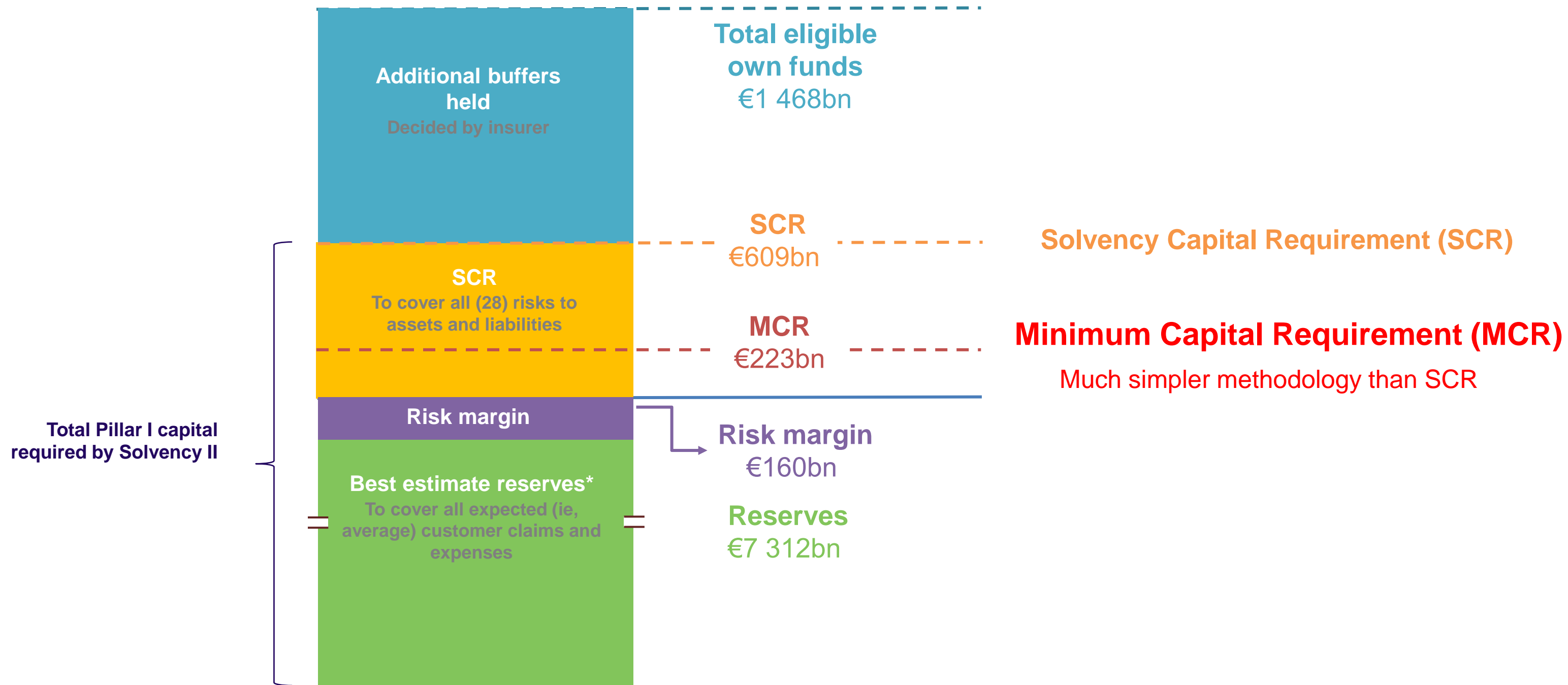


Solvency Capital Requirements are very comprehensive

The standard formula SCR is calculated by aggregating up to 28 different risks



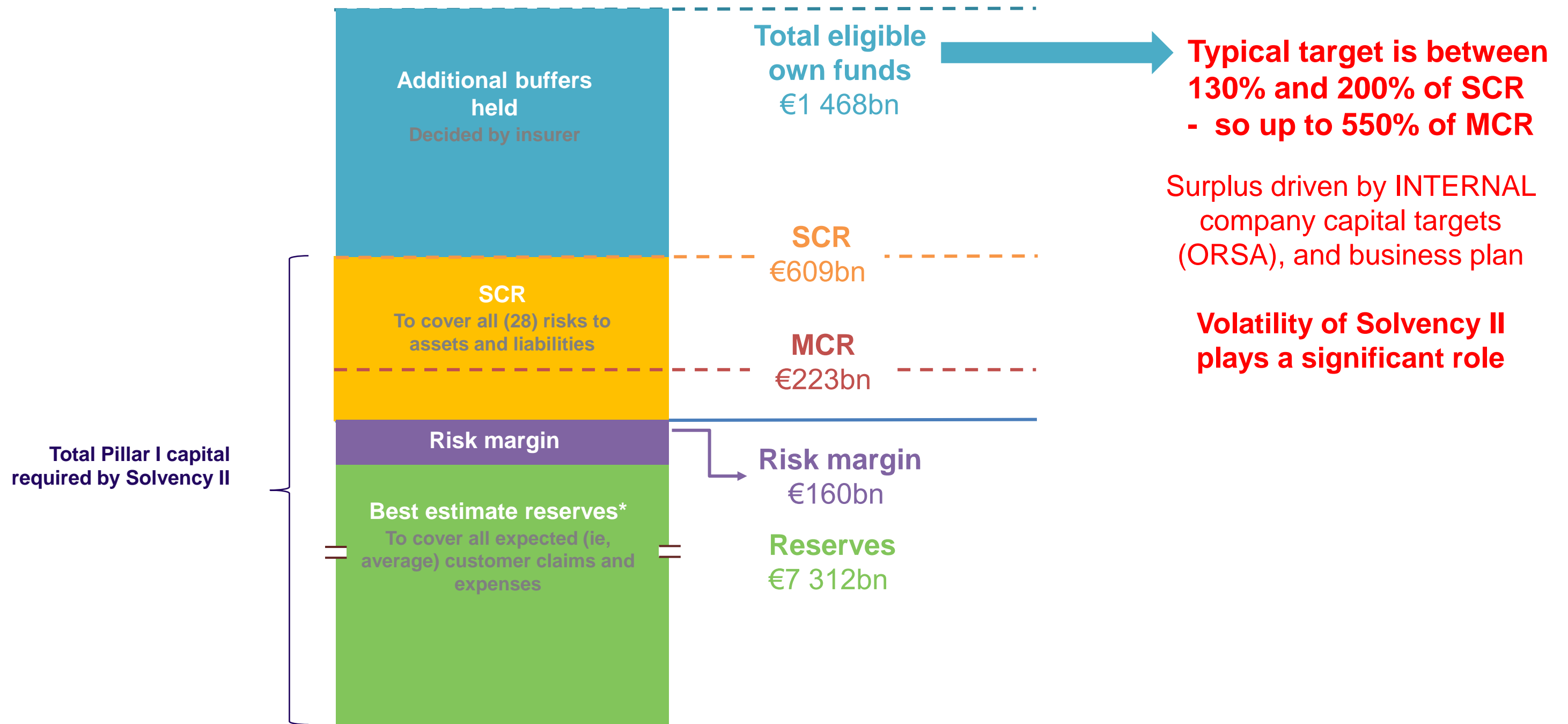
Other key levels of capital: Minimum Capital Requirement



* Not to scale
EIOPA Q2 2020 figures

Other key levels of capital: Insurance company additional buffers

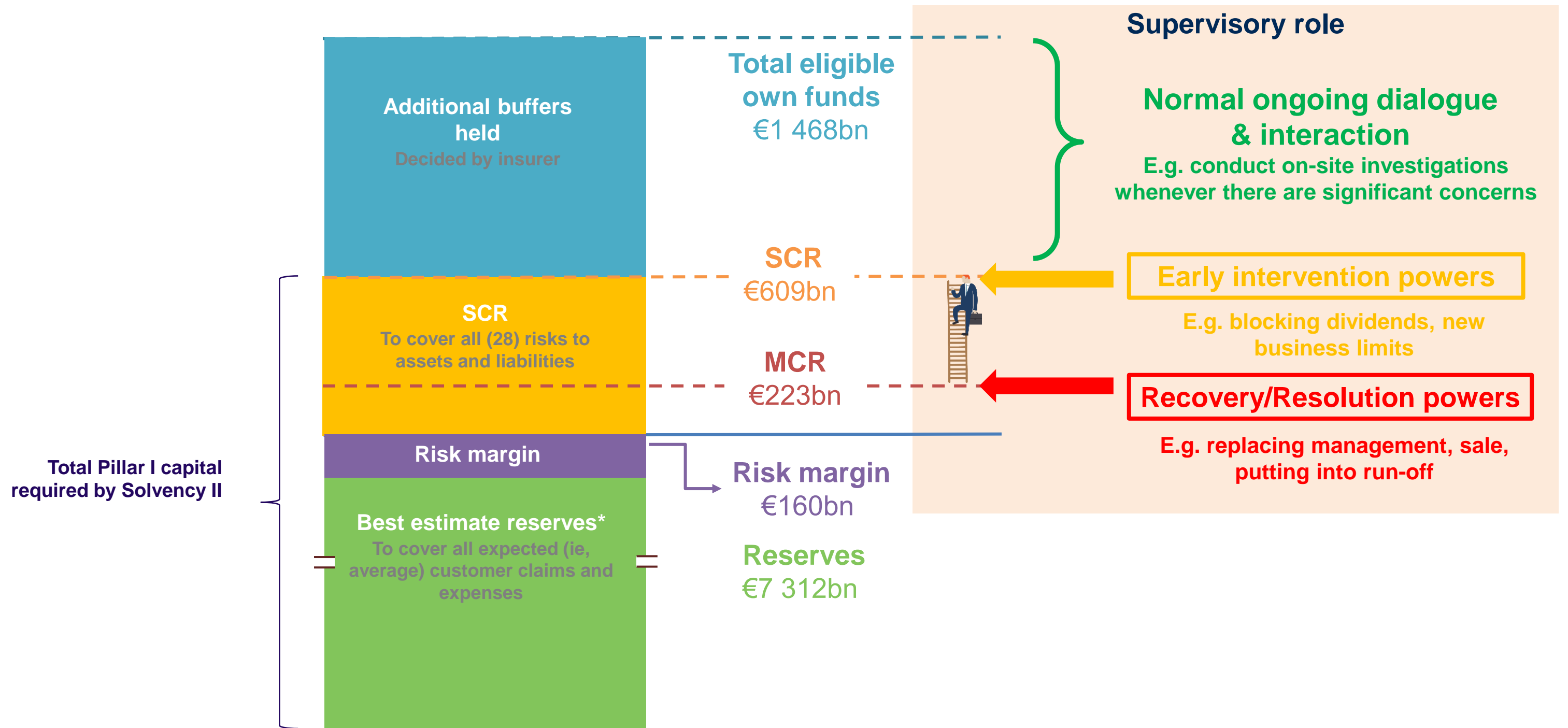
Insurers decide how much capital to hold above the SCR



* Not to scale
Figures Q2 2020, source: EIOPA

Not just about capital: Supervision and ladder of intervention

The framework was designed with 2 capital levels so early intervention can take place if the SCR is breached



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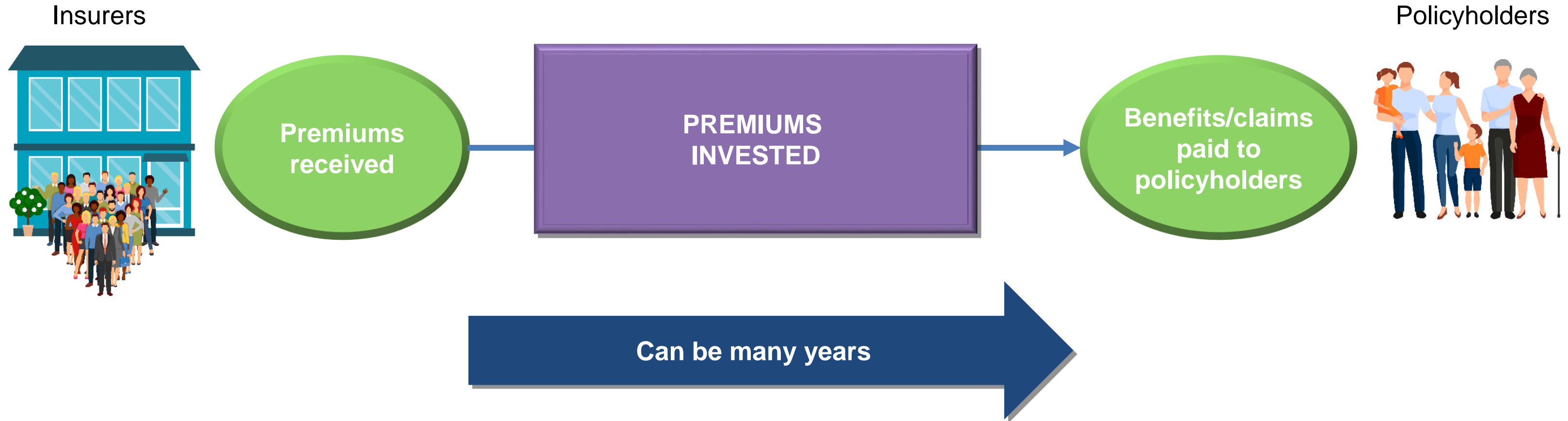
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Benefits of the insurance business model

Insurers invest long term because of long-term products and predictable liabilities (eg long-term guarantees)



Investments in the wider economy

Policyholders pay
Premiums ...

... to insurers



... who then invest **over €10.4trn** in the wider economy via ...



Corporate bonds
and loans



Unrated debt



Government bonds



Public equity



Private/SME equity



Infrastructure



Property



Mortgages/ covered
bonds

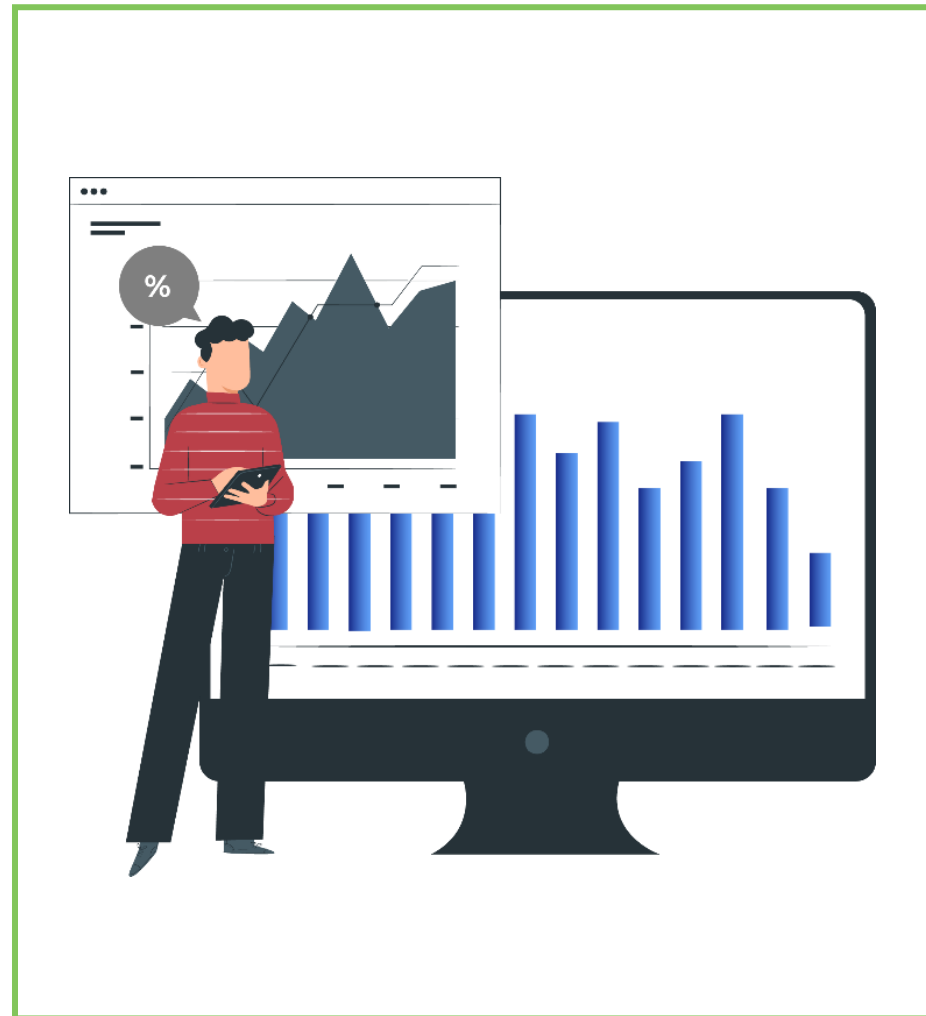


Direct SME
loans

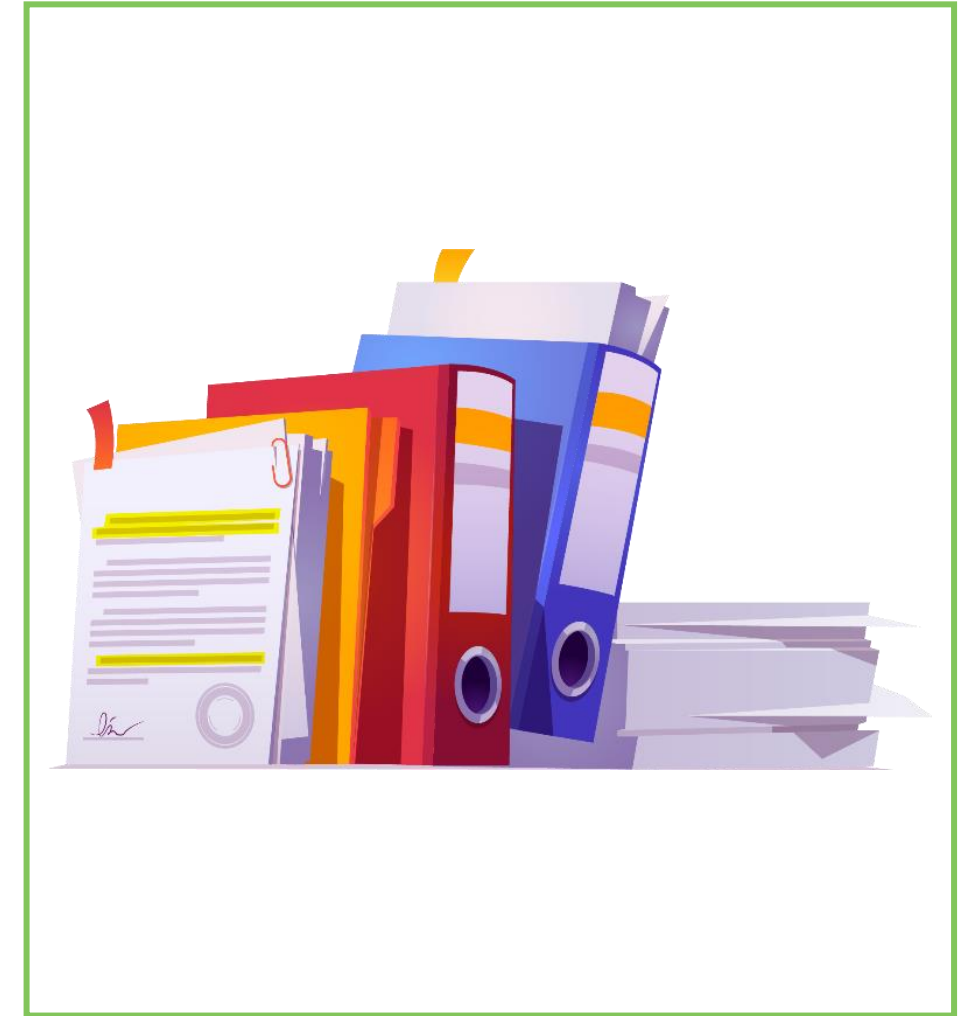
Insurers' ability to invest long-term depends on:



Having long-term and/or stable liabilities



Availability of appropriate investments and their risk/return characteristics



Regulatory treatment of assets and liabilities

Key measures were introduced to better reflect the real risks, and avoid barriers for long-term business and investment

The 'long-term guarantees' measures (LTG)

- The LTG measures were introduced before Solvency II was finalised after testing of the original design showed that there were significant problems
- Their aim is to “smooth out artificial volatility and ensure that insurers can continue to provide long-term protection at an affordable price” and “increase insurers' appetite for long-term assets” by “incorporating the long-term investment strategies of insurers in the market-consistent valuation framework” so that “the long-term ability of insurers to meet their cash-flow needs is more accurately captured”.
- Key parts of the LTG measures
 - **“Volatility adjustment:** to avoid pro-cyclical investment behaviour of insurers
 - **Matching adjustment:** to also avoid pro-cyclical investment behaviour of insurers and reflect the benefits of strict cash-flow matching
 - **Extrapolation:** To provide risk free rates beyond the point where reliable market data are unavailable

Other measures

- Improvements have been made to the calibrations and design of certain assets to better reflect the real and lower risks faced by insurers
 - Infrastructure investments
 - simple, transparent and standardised (STS) securitisations
 - a long-term equity (LTE) category

The need for improvements to Solvency II are well recognised

European Commission Action Plan on Capital Markets Union (CMU):

“Action 4: The Commission will seek to remove regulatory obstacles for insurance companies to invest long-term, without harming financial stability and policyholder protection.” *September 2020*

European Commission expert group on corporate bonds:

“The fact that the current prudential requirements for corporate bonds are overstated for long-term investors creates disincentives to invest in a major asset class. It thus hinders the funding of the economy. *February 2017*”

European Parliament report on further development of the CMU:

“...requests the Commission and EIOPA to assess, on the basis of a targeted impact assessment, the potential benefits and prudential justification of adjusting capital requirements for investments in equity and private debt, in particular of SMEs.” *October 2020*

Council of the EU conclusions on the EC Action Plan on the CMU:

“URGES the Commission...to prioritise and to accelerate its work in parallel on... c) Strengthening the role of insurers, banks and other institutional investors as long term investors and assessing ways to incentivise long-term investments by institutional investors in corporates and particularly SMEs without endangering financial stability or investor protection and ensuring risk adequate regulatory treatment of long term investments. *December 2020*”

The SII Review and long-term business and investment

EC has proposed a number of changes which will directly impact insurer's ability to offer long-term products and to invest



EC Proposed changes include:

To reduce artificial volatility, changes to ...

- *Volatility Adjustment (VA)* (see below)
- *Risk Margin* (see below)

To adjust the SCR to better reflect the real risks, changes to ...

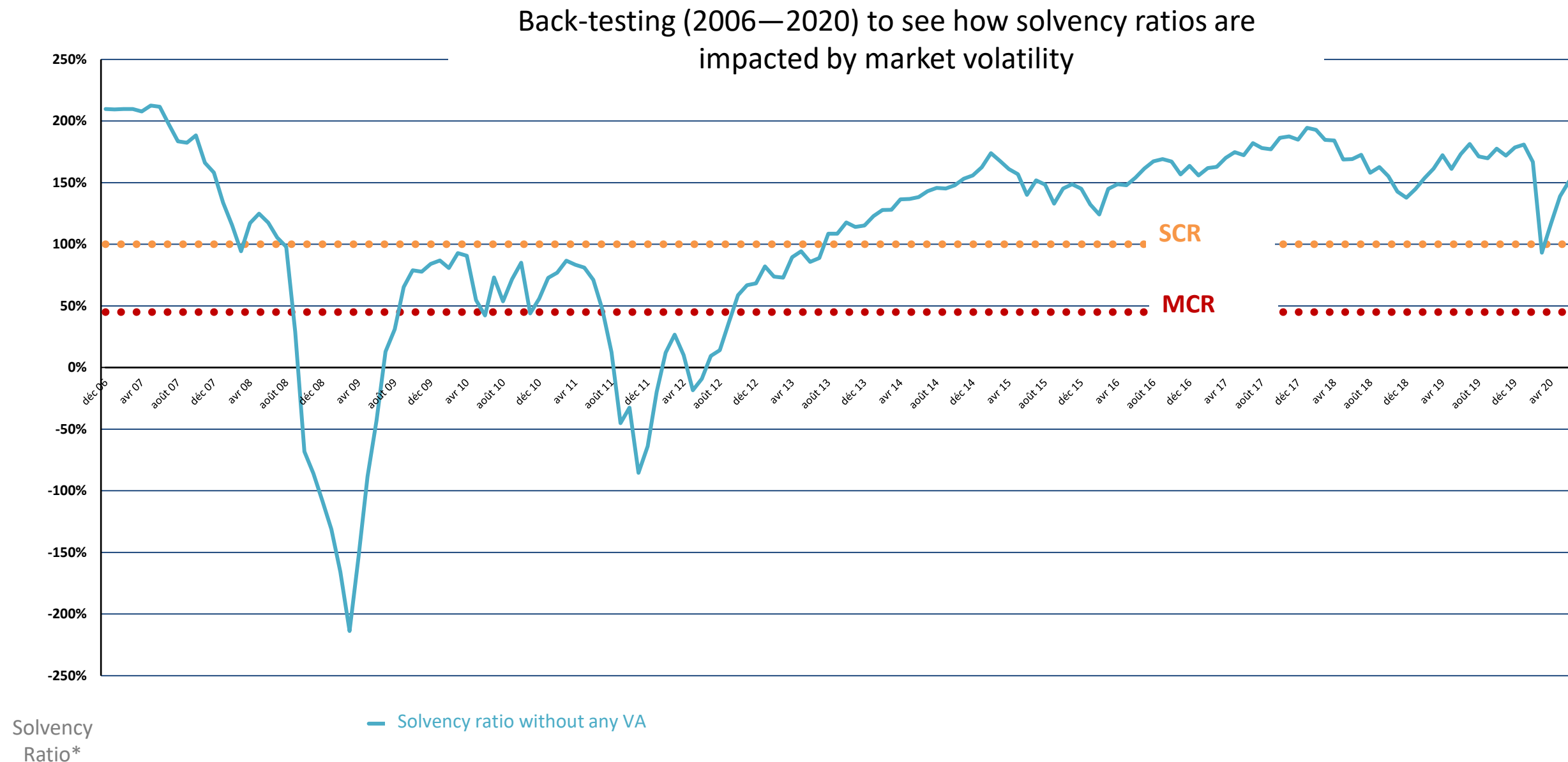
- *Long-Term Equity (LTE)* asset class so it works and allows a suitable amount of insurer's equity investments to qualify for a lower capital requirement
- *Low Interest Rate Risk (LIRR)* capital charge so that it increases to reflect negative interest rates

To adjust the valuation of Technical Provisions, changes to ...

- *Risk Margin* to lower it and to reduce the volatility it creates due to sensitivity to fluctuations in market interest rates
- *Volatility Adjustment* to improve how it mitigates volatility due to fluctuation in market credit spreads
- The *risk free rates (RFR) extrapolation methodology* used for setting long-term RFR

Why the VA is so important and why it needs improving

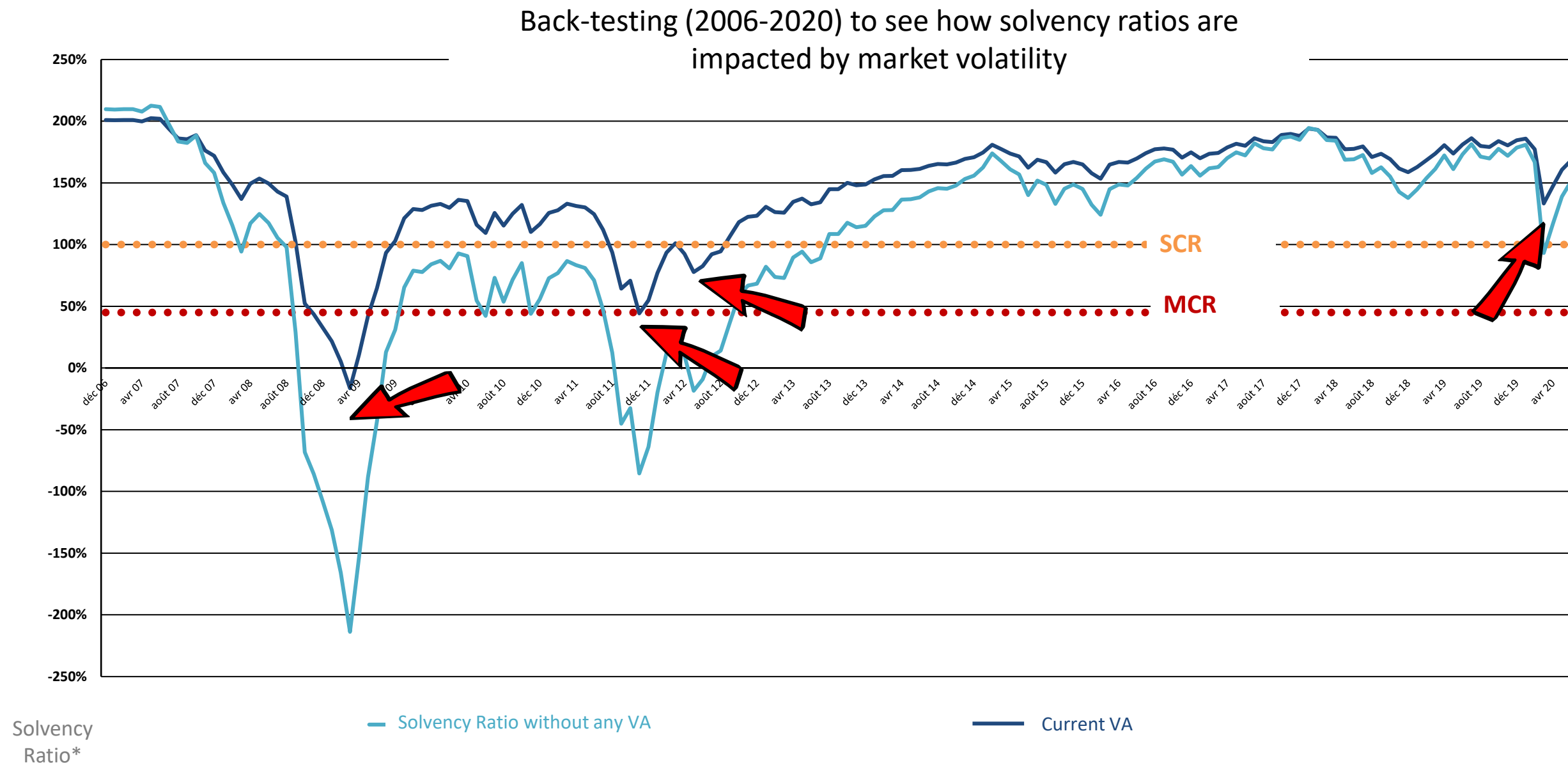
Without any Volatility Adjustment, even a perfectly cashflow matched and low-risk insurer* can experience enormous and unmanageable artificial volatility



* Simplified example of an insurance company with 10-year liabilities, fully matched with 10-year maturity fixed-income assets invested in exactly the reference portfolio. As our focus is on balance-sheet volatility, for simplicity the SCR is assumed to stay constant over time.

Why the VA is so important and why it needs improving

Current Volatility Adjustment (VA) helps, but is not good enough especially during severe market volatility

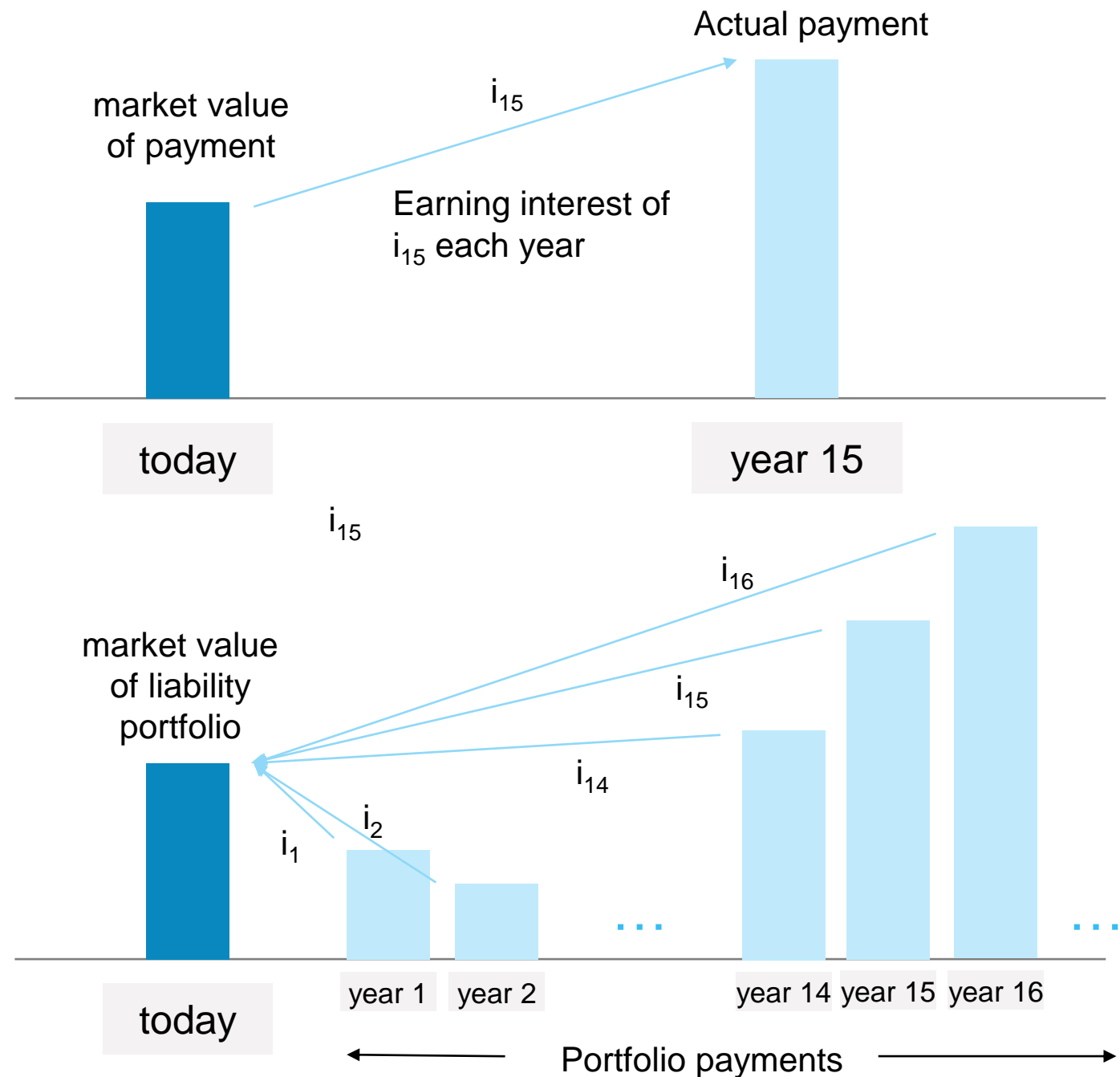


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Understanding the *extrapolation of risk-free rates* issue

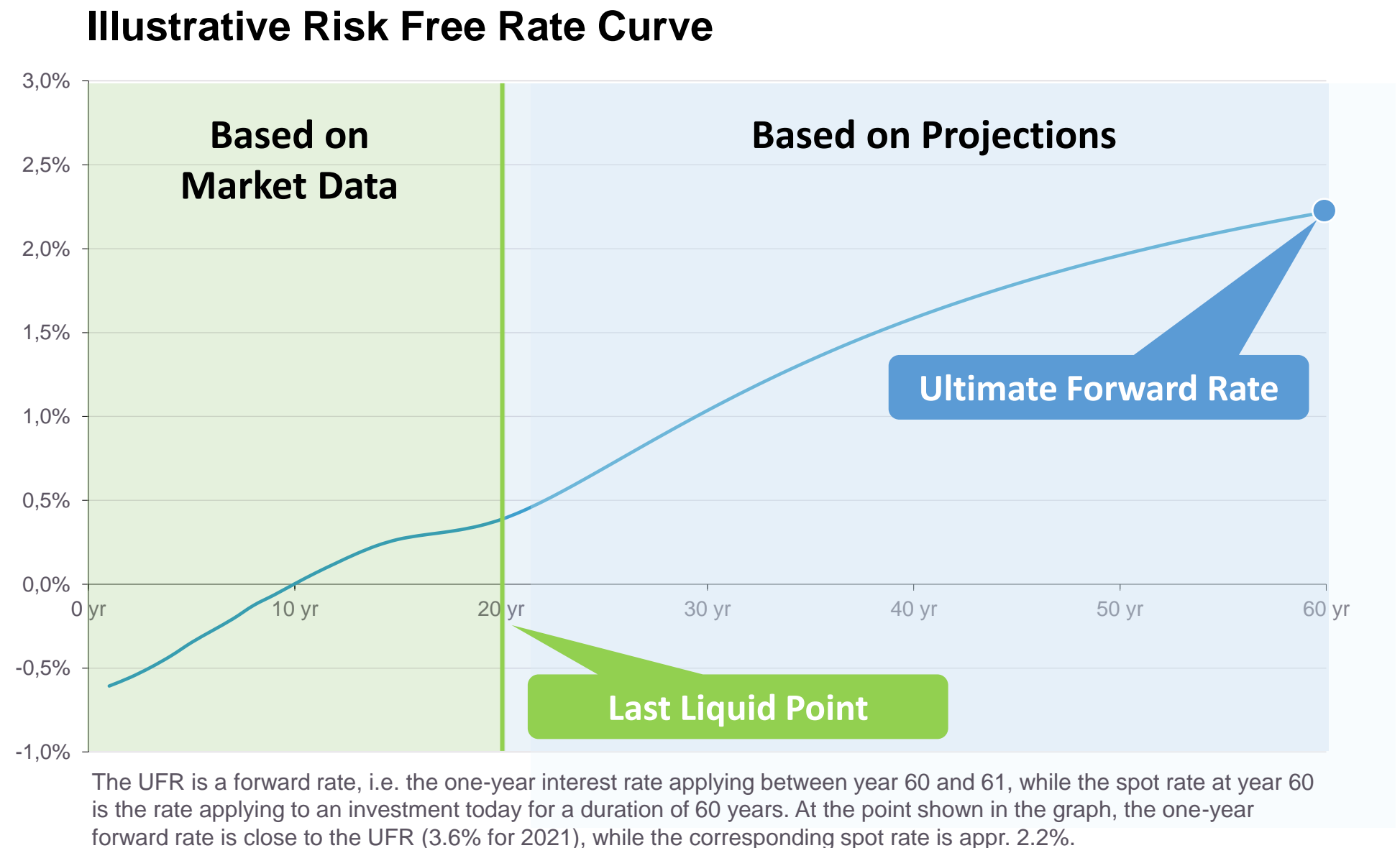
The current value of future payments ...

- Long-term (life) insurance policies accumulate capital for benefits (= liabilities to policyholders) paid out in the future
- **Solvency II requires to record those liabilities in the balance sheet at “market value”**
- **The market value is calculated by applying an interest rate to “discount” the payment.**
- **Insurers have to hold sufficient assets to cover the current (market) value of the liabilities**, so that policyholders can always be paid their benefits.



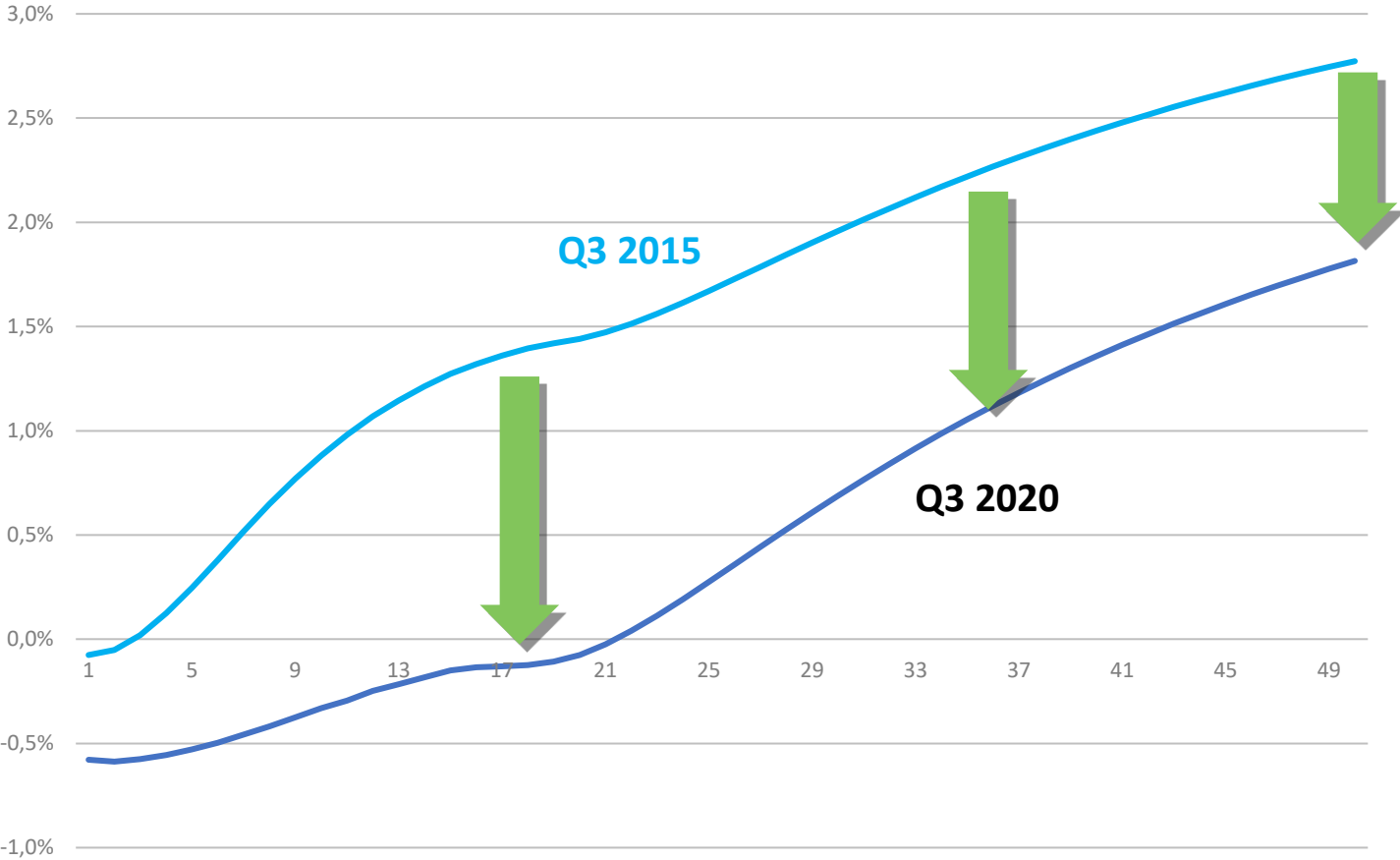
The Solvency II risk-free interest rate curve

- Risk-free rates for discounting can be derived from market data as long as markets are deep and liquid
- **Last Liquid Point (LLP)**: Markets for the EUR are deep and liquid up to a maturity of 20 years
- Projection of interest rates beyond LLP
 - **Ultimate forward rate (UFR)** is a long-term equilibrium rate set at year 60 and calculated annually based on EIOPA methodology.
 - Extrapolation between the LLP and the UFR is done using dedicated mathematical methods.

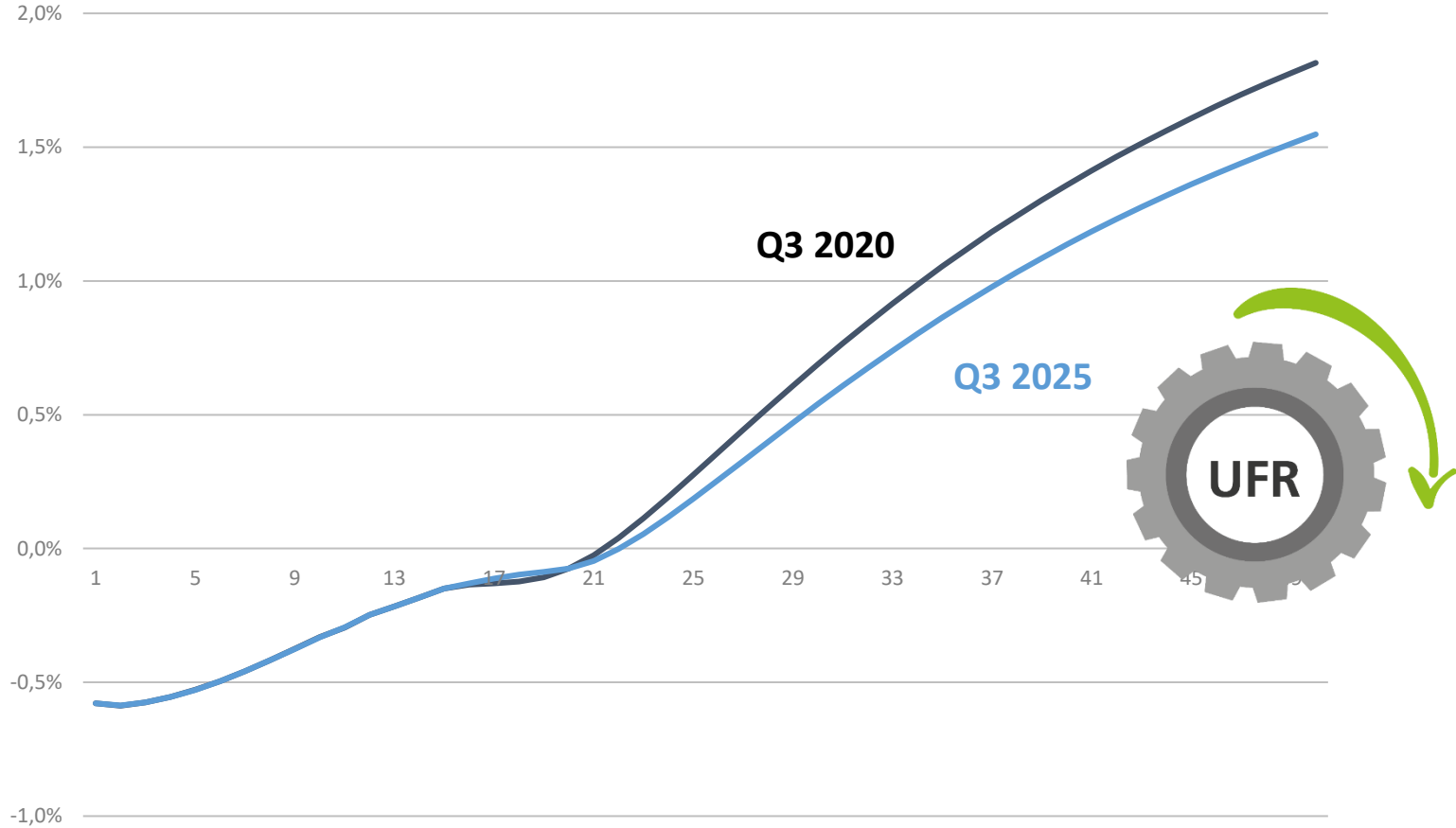


Current methodology already incorporates low and negative interest rates

Risk-free rate curve 2015/2020



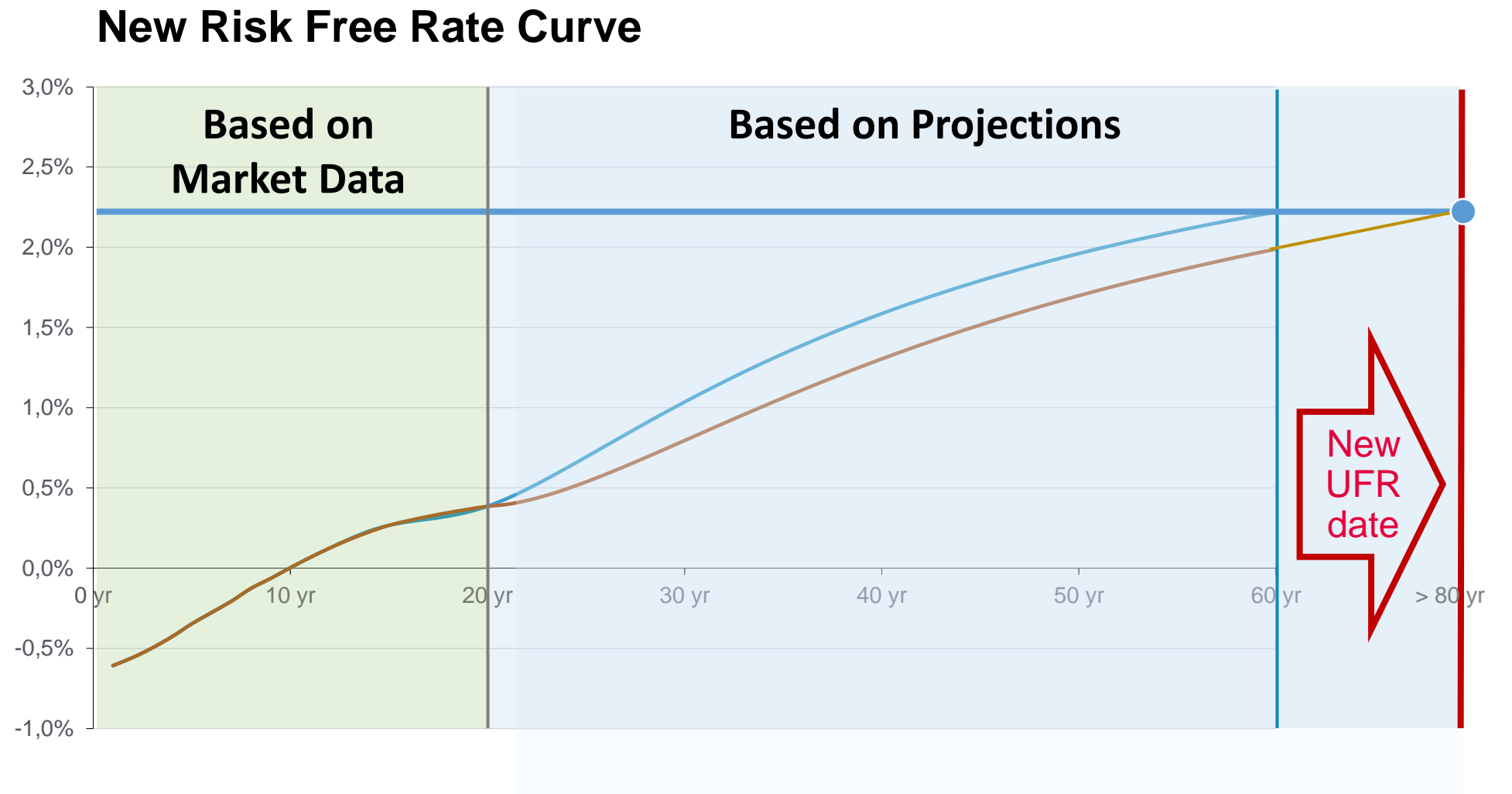
Risk-free rate curve 2020/2025*



Solvency Capital Requirement for Interest Rate Risk will ensure sufficient capital to cover the eventuality that risk-free rates fall even further

The new extrapolation methodology

- UFR approach and Last Liquid Point (LLP) remain effectively unchanged but with the new methodology, market data beyond the LLP is now also included into the extrapolation and the UFR date is pushed further into the future
- The “*alpha*” parameter is the key calibration which determines how much the new methodology would increase the cost of long-term liabilities
- There is **no underlying science** regarding the “correct” calibration of this key *alpha* parameter



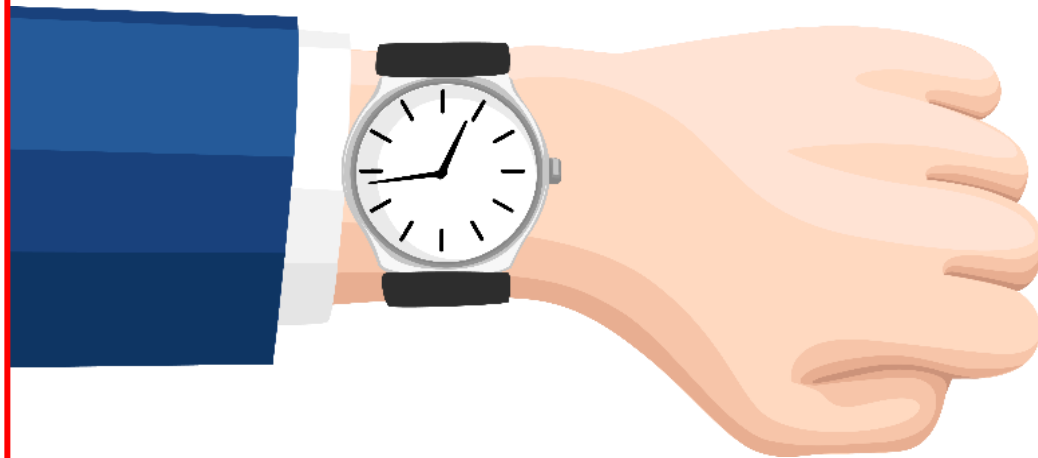
Implications: Reduction of industry total Own Funds of approx. EUR 80bn¹ and an increase in volatility due to market interest rate fluctuations

1) Based on data from EIOPA's comprehensive information request as of 06/2020 complemented with further data and own estimations by Insurance Europe

Capital charges for investment assets

The key challenge: How to capture the long-term nature of insurers' business and risks in a one year framework?

There are concerns about current approach



- ✘ Wrongly assumes insurers would always have to sell assets at worst possible time
- ✘ Currently generally only calculates capital requirements as if insurers were trading
- ✔ Can the risk of long-term underperformance be included instead where appropriate?

The SII Review and changes to the SCR calculations

Long-term equity (LTE)



- EC has committed to improve the criteria for LTE category but not yet made any specific proposals
 - The LTE category reflects risk of underperformance rather than trading risk
 - Qualifying equities are subject to a reduced 22% capital charge
 - However, current criteria do not work

Debt / property



- EC has made no proposals to change the capital charges for debt (SME or corporate) or property

Interest rate risk



- EC has made a proposal to change IRR capital charges to include negative interest rates

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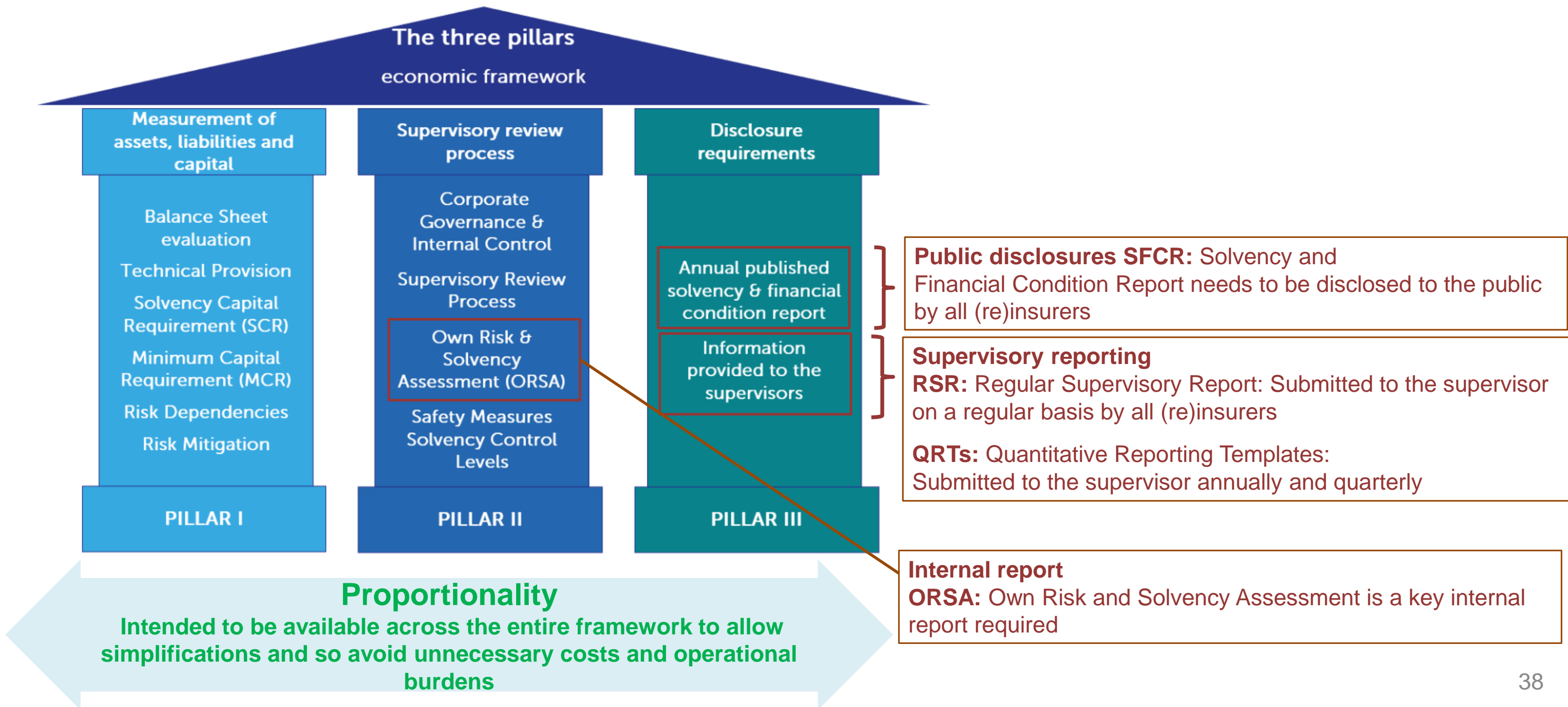
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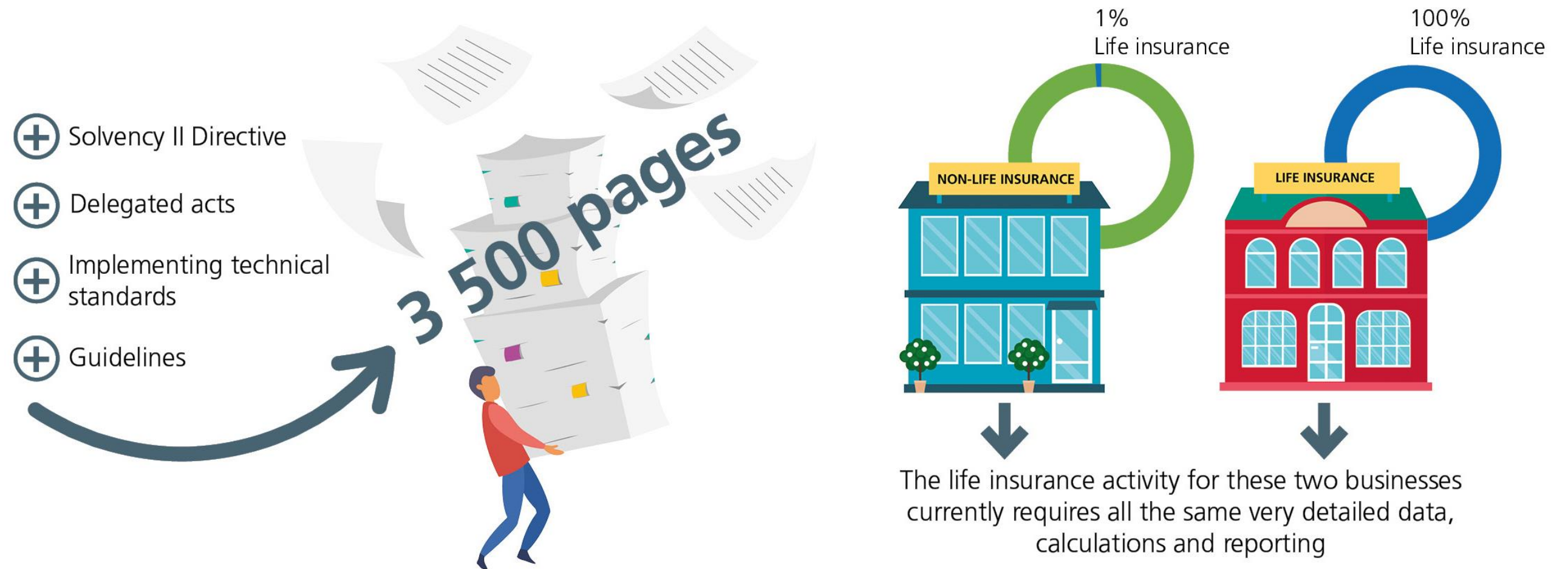
6 Regulatory Outlook: SII Directive review and IRRD

Proportionality and Reporting



Proportionality

The challenge



The problem

Proportionality does work as intended, and is currently hardly applied in practice

Key EC proposals for the Solvency II Review

- The EC introduced the **automatic application of proportionality** for (re)insurers fulfilling specific criteria. These **Low Risk Profile Undertakings** (LRPU), can benefit from proportionality measures (eg no external audit requirement), by simply notifying the supervisor.
- Non-LRPU can submit a request to their supervisor to apply specific proportionality measures
- A **simplified calculation** for immaterial risks, subject to specific criteria, was introduced.

Reporting

The Challenge

150 000 datapoints to report



Entails significant costs and use of scarce expert resources

- ⊕ IT projects
- ⊕ Data-gathering
- ⊕ Validation processes
- ⊕ Management review



Every change or new requirement involves more costs and more resources



The problem

The current reporting burden is extremely high and significantly more reporting/reporting changes are planned both within SII and beyond (sustainability, IFRS 17 & IFRS 9 etc)

Key EC proposals for the Solvency II Review

- Introduction of standard formula reporting requirements for internal model users
- External audit requirement for the balance sheet disclosed as part of the SFCR, and an extension of the annual reporting deadlines to allow for this
- Split of the SFCR in two parts, one addressed to 'policyholders and beneficiaries' and a second part addressed to 'other market participants'

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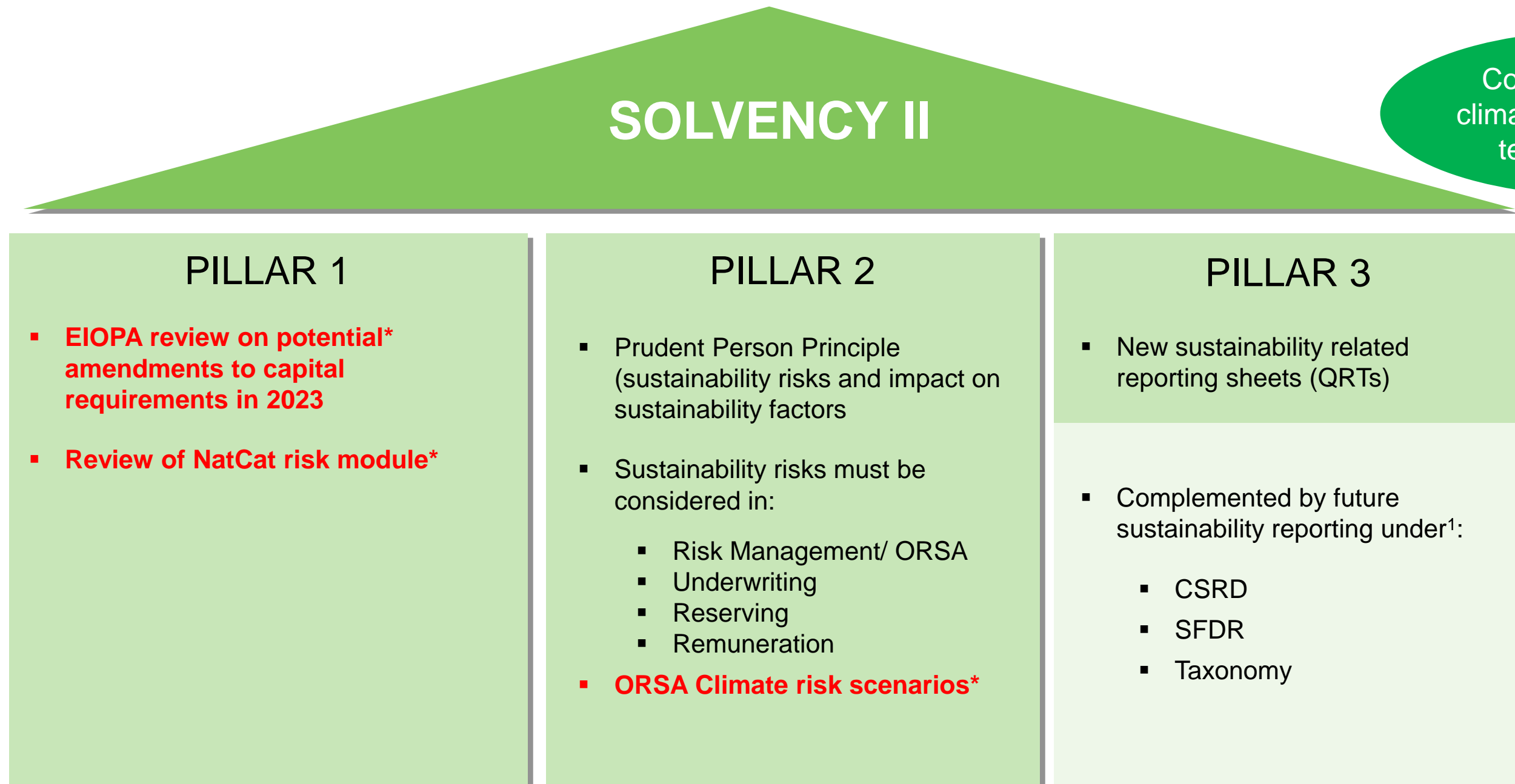
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Solvency II covers sustainability across all Pillars

Existing SII requirements, together with already planned changes from the review and beyond will ensure sustainability is fully embedded



* EC Proposals for the SII Review

1) CSRD: Corporate Sustainability Reporting Directive; SFDR: Sustainable Finance Disclosure Regulation

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Systemic risk in insurance

Systemic risk means a risk of disruption in the financial system with the potential to have serious negative consequences for the internal market and the real economy.

Macroprudential policy should be understood as a framework that aims at mitigating systemic risk (or the build-up thereof), thereby contributing to the ultimate objective of the stability of the financial system and, as a result, the broader implications for economic growth.

Macroprudential instruments are qualitative or quantitative tools or measures with system-wide impact that relevant competent authorities (i.e. authorities in charge of preserving the stability of the financial system) put in place with the aim of achieving financial stability

Insurers and Banks: different roles, business models and risk profiles



BANKS

- Banks are financial intermediaries, connecting depositors and savers with borrowers
- The core activity of banks is collection of deposits and issuing of loans, facilitating payments and money transfers, together with provision of fee-based services



INSURANCE

- Insurance protects people and businesses against the risk of adverse events and helps them invest and save for retirement
- The core activity of insurers is risk underwriting and investment

Key differences

- Banks typically engage in maturity transformation ie. longer term lending than borrowing
- Banks are typically interlinked with other banks through interbank market and derivative markets
- Banks provide many services which can be considered to be critical functions

- Insurers have an inverted production cycle ie. collect premiums before they pay out for claims
 - Liquidity risks are naturally very limited
- Insurers are not widely interlinked and risk tend to diversify more as portfolios grow
 - Risk of contagion between insurers is limited
- The discontinuity of insurance products would impact policyholders but not typically adversely impact financial stability or the real economy

Systemic risk in insurance sector is recognised as limited

European Insurance and Occupational Pensions Authority (EIOPA)

“It is widely acknowledged that the traditional insurance activities are generally less systemically important than banking.”

European Systemic Risk Board (ESRB)

“Liquidity risk or an “insurer run” is not considered a great risk or a likely event.”

International Association of Insurance Supervisors (IAIS)

“While some components of the financial system, such as the banking sector, may be consistently assessed as highly systemic, the significance of other sectors like the insurance sector may vary depending on a number of factors, including the state of the overall economy, the relative size of the activities or the overall resilience of financial markets.”

Existing macroprudential policy and instruments

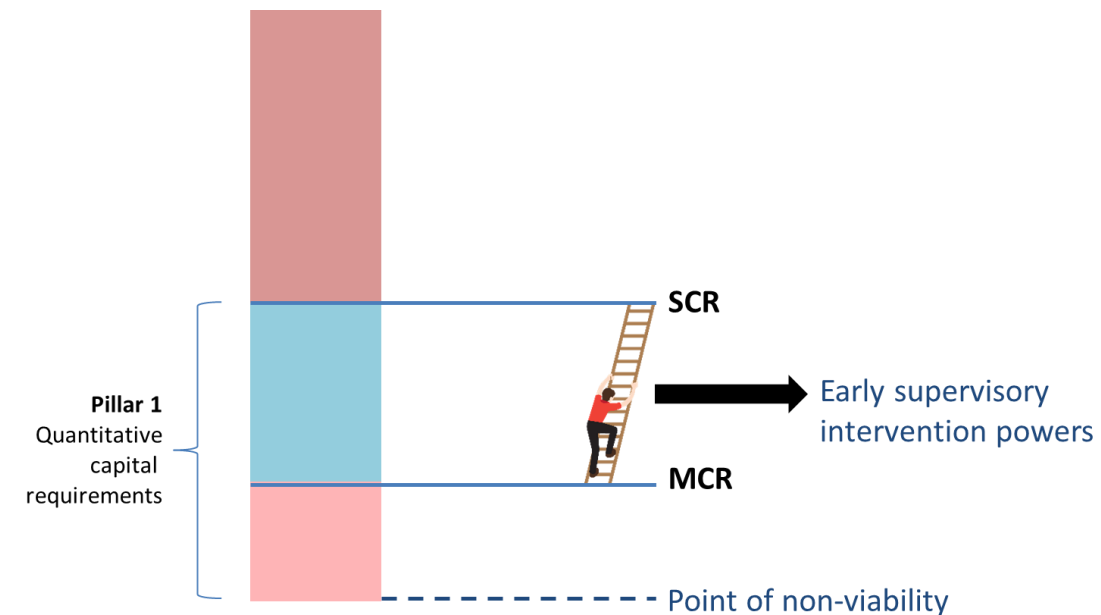
EIOPA is mandated, as part of ESFS, to safeguard the financial stability of the insurance sector

- ➔ Financial stability reports
- ➔ Risk dashboard
- ➔ Insurance Stress Tests



Solvency II also incorporates instruments and well designed ladder of supervisory intervention point which protect against systemic risk

- ✔ Symmetric adjustment to equity risk sub-module
- ✔ Volatility adjustment / Matching adjustment
- ✔ Extension of recovery period in case of non-compliance with SCR
- ✔ Liquidity risk management plans (for VA/MA users)
- ✔ Prudent person principle



EC's proposed new macroprudential tools in the SII review



- 1 New supervisory powers
 - a) to intervene where liquidity vulnerabilities are not addressed by insurer
 - b) to impose temporary freezes on redemption options of life insurance policies
 - c) to suspend or restrict distributions to shareholders and other subordinated lenders during exceptional circumstances
- 2 Liquidity risk management plans for all insurers
- 3 Explicit integration of macroprudential considerations and analysis in the ORSA
- 4 Explicit integration of macroprudential considerations and analysis in the Prudent Person Principle

Chapters:

- 1 Fundamentals of Solvency II
- 2 Long term insurance business and investment
- 3 Proportionality and reporting
- 4 Sustainability in Solvency II
- 5 Systemic risk in insurance
- 6 Regulatory Outlook: SII Directive review and IRRD**

SII Review Directive & Insurance Recovery and Resolution Directive

The EC has made very extensive sets of proposals



EUROPEAN COMMISSION

Brussels, 22.9.2021
COM(2021) 581 final
2021/0295(COD)

Proposal for a

DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Directive 2009/138/EC as regards proportionality, quality of supervision, reporting, long-term guarantee measures, macro-prudential tools, sustainability risks, group and cross-border supervision

(Text with EEA relevance)

{SEC(2021) 620 final} - {SWD(2021) 260 final} - {SWD(2021) 261 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- Reasons for and objectives of the proposal**

The economic and social importance of insurance ¹ warrants intervention by public authorities, in the form of prudential supervision. Insurers provide protection against future events that may result in a loss, and channel household savings into the financial markets and the real economy. Directive 2009/138/EC ² (“Solvency II”) sets out



EUROPEAN COMMISSION

Brussels, 22.9.2021
COM(2021) 580 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the review of the EU prudential framework for insurers and reinsurers in the context of the EU’s post pandemic recovery

1. SOLVENCY II AND THE CONTEXT OF ITS REVIEW

Insurance policies form an integral part of the daily life of European citizens. For many social and economic activities, holding an insurance policy is necessary as a protection against potential risks. An insurance contract can also be a savings product, which will determine the long-term welfare of the holders while insurers channel these savings via financial markets into the real economy. Insurance and reinsurance companies also play an essential role in the real economy as they cover risks for individuals and businesses in exchange for the payment of premiums. By pooling premiums from a multitude of clients and diversifying across a large number of individual risks, private insurance provides protection at an affordable price for individuals and businesses against otherwise potentially financially devastating events, thereby contributing to the resilience of our economies and societies.

Insurers’ investment capacity is geared towards the real economy and contributes to the economic recovery and the long-term financing of European businesses, including SMEs, and infrastructure, that create jobs and growth in the Union. According to data from the European Insurance and Occupational Pensions Authority (EIOPA), in 2020 EU

The challenge will be to ensure the final directives achieve the intended outcomes while avoiding unintended consequences and excessive costs

Solvency II Directive – Main changes proposed by EC

EC key proposals

Proportionality

- The EC introduced the **automatic application of proportionality** for (re)insurers fulfilling specific criteria. These **Low Risk Profile Undertakings** (LRPU), can benefit from proportionality measures (eg no external audit requirement), by simply notifying the supervisor.

Reporting

- SFCR is split into two parts (one addressed to policyholders and one to other stakeholders)
- External audit requirement for balance sheet
- Introduction of standard formula reporting requirements for internal model users

Long-term guarantees (LTG)

- New extrapolation method for risk free interest rates (phased in)
- Changes to the VA, ie becomes subject to NSA approval, increased application ratio and introduction of an undertaking specific credit-spread sensitivity ratio and the replacement of the VA country component with the macro VA.
- Changes to the Symmetric Adjustment and Asset eligibility criteria for the Matching Adjustment
- Transitional measure users have to disclose the reasons for the use

Macroprudential

- New supervisory powers for liquidity vulnerabilities and extraordinary circumstances
- Liquidity risk management plans for all insurers
- Explicit integration of macroprudential considerations and analysis in the ORSA/PPP

Solvency II Directive – Main changes proposed by EC

EC key proposals

Amendments related to the European Green Deal

- Obligation for insurers to identify material exposures to climate change risks, and where relevant assess the impact of long-term climate change scenarios on their business.
- EIOPA is requested to explore, by 2023, a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives.

Group Supervision

- Extensive changes were proposed, including:
 - a revised Minimum Consolidated Group SCR mirroring the rules on the MCR at individual level.
 - a minimum set of powers that may be applied to insurance holding companies and mixed financial holding companies.
 - amendments to bring insurance holding companies and mixed financial holding companies directly in the scope of the EU prudential framework

Supervision of cross-border business

- Minimum requirements regarding the exchange of information between the home and host supervisor concerning the insurers and their activities in the host Member State.
- Empowers the host supervisor to request from home supervisor information on the solvency position of the undertaking and, in case of strong concerns, to request a joint onsite inspection. EIOPA is given a role in resolving disagreements between supervisory authorities.
- Enhanced role for EIOPA in complex cross-border cases where NSAs involved fail to reach a common view in a cooperation platform.

Insurance Recovery and Resolution Directive

EC key proposals

Pre-emptive Recovery Plan

- Recovery plan to mitigate significant deterioration of solvency situation (irrespective of SCR breach)
- Recovery plans to cover 80% of (national) market
- Group and related subsidiaries (upon request)

Insurance Resolution Authorities

- Set-up of new resolution authorities responsible to draw up resolution plans (Group level and related subsidiaries upon request)
- Resolution plans to cover 70% of (national) market
- EIOPA to set up procedural and content requirements and define criteria for critical functions

Resolvability Assessment & Resolution Plan

- Resolution authority to perform resolvability assessment
- In case of resolvability impediments, insurer to provide removal plan
- Resolution authority can mandate removal of resolvability impediments (by e.g. changing the legal/operational structure, limit exposures, adjust activities, stop/reduce sales)

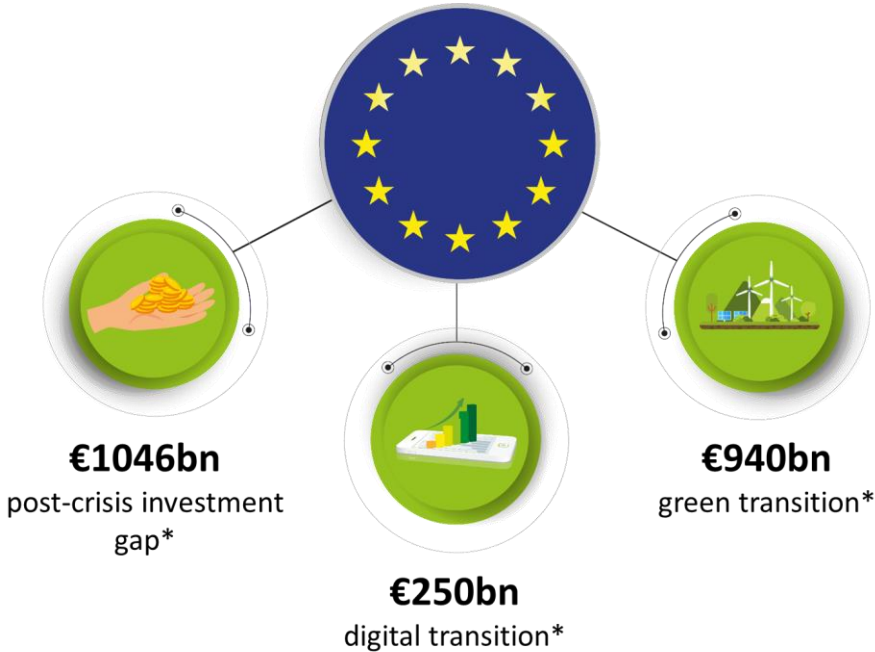
Resolution

- Trigger: Insurer is failing/likely to fail (breach/likely breach of MCR, inability to pay debt/claims)
- Far-reaching powers for resolution authority in case of resolution¹

1) Write down/conversion of capital instruments, solvent run-off, sale of business on commercial terms, transfer to public bridge undertaking, separation of assets/liabilities

The changes matter because they will impact insurers' ability to play a key role in meeting Europe's challenges

Investment:
Recovery, growth and sustainable transformation



-7.5%
COVID 19 impact on GDP in 2020

Investment needs

Consumers:
Ageing, climate change



Pensions gap



Protection gap

Understanding the potential benefits

Insurance Europe estimates* that €1 of additional capital freed-up could generate:



Under current calibrations:

€1.70 in equity investments

€6 investment in green bonds

€3 investment in property

If capital requirements corrected:

€3 if the capital charge for long-term equity is properly corrected

€9 if the dynamic volatility adjustment is extended to the standard formula in combination with existing spread risk charges

€5 if the capital charges for property are appropriately adjusted

*Based on a simplified model of an insurance company and standard formula

Q&A

