

Insurance Europe key position on proportionality ahead of the French Presidency council meeting on 11 March

Key messages to convey

Low risk profile undertakings (LRPU)

- The industry **fully supports the introduction of the automatic application of proportionality.**
- However, to make it work for all markets **some improvements to the criteria are needed.**
 - **Size criterion** – the default size criteria should be, in line with what EC proposed, €1bn of technical provisions for life insurers and €100m of gross written premiums for non-life insurers. However, member states should have the option to increase the criterion from €1bn to max €5bn for life insurer's technical provisions and from €100m to €500m gross written premiums for non-life insurers, as long as this does not exceed 20% of market.
 - **Cross border criterion** – the 5% limit for cross border activity would only apply if member states To ensure a level playing field.
 - In case the size criterion is not modified as suggested, the cross-border criterion should be reviewed.
 - **Non-traditional investments criterion** – an increase in the 20% threshold is necessary and clarity needs to be provided on how the criterion is exactly to be calculated.
 - The exclusion of LRPU status of (re)insurers that calculate the SCR using an approved partial/full internal model is too restrictive. The use of an Internal Model does not mean the (re)insurer represents a high risk, only that the standard formula does not well enough capture the risk profile. The industry has proposed text which would solve this issue.¹

Simplifications for immaterial risks

- The **simplifications for immaterial risks** which are achievable for any company **should not be temporary and should be allowed automatically.**

General application of proportionality

- the exclusion of LRPU status of (re)insurers that calculate the SCR using an approved partial/full internal model is too restrictive. The use of an Internal Model does not mean the (re)insurer represents a high risk. It is important that the general principle of proportionality also remains beyond the LRPU and immateriality provisions. This means that any company should be able to use proportionality measures such as simplifications and combination of key functions.

¹ The industry proposes that entities of a group using an internal model should not be automatically excluded from being identified as an LRPU, as the banking regulation has text which avoids this problem:

The following insurance and reinsurance undertakings shall never be classified as low-risk profile undertakings:
(a) *undertakings using an approved partial or full internal model to calculate the Solvency Capital Requirement, in accordance with the requirements for full and partial internal models set out in Chapter VI, Section 4, Subsection 3; **With the exception of the case where the undertaking does not use internal models to meet the prudential requirements in accordance with this Regulation except for subsidiaries using internal models developed at the group level.***

Views on questions/options put forward by French Presidency

- **Question 1** - None of the options proposed for the cross-border criterion would be helpful for the industry. See our suggestion above, which proposes that the cross-border criterion should only apply in case members make use of the option to deviate from the default size criteria.
- **Question 2** - The industry supports option 1, the EC definition is considered to be the best approach and could work as long as it is calculated appropriately, for example elements like Insurance/Reinsurance Receivables and Recoverables would NOT be classified as non-traditional investments.
It is not possible to assess the alternative proposal put forward in option 2/3 at the moment, and it would require further analysis/impact assessment to determine whether it works.
- **Question 3** - The industry supports option 1, the EC definition is considered to be the best approach and could work as long as it is calculated appropriately, for example elements like Insurance/Reinsurance Receivables and Recoverables would not be classified as non-traditional investments.
- **Question 4** - The industry supports option 1, as an SCR breach is not relevant for the proportionality measures. Option 2 is wrong because transitionals are a valid part of SII, and companies using these should not be automatically excluded from LRPV status.
- **Question 5** - No comment