

Public consultation on the review of prudential rules for insurance and reinsurance companies (Solvency II)

Fields marked with * are mandatory.

Introduction

This consultation is now available in 23 European Union official languages.

Please use the language selector at the top of this page to choose your language for this consultation.

Insurance companies^[1] play an important economic and social role. Indeed, insurance is provided for many events of human life (sickness, car accidents, fire damage, death, etc.) but also for potential liabilities as regards third parties such as medical liability. Insurers also play an important role in non-bank intermediation, for instance by channelling household savings into the financial markets and into the real economy.

The core business model of insurance companies is very specific. Insurers collect premiums from clients (referred to as “policyholders”) up-front but are only obliged to make payments if a predefined adverse event occurs at a later stage^[2]. The insurance sector is also prone to information asymmetry. In general, policyholders are less aware than the insurance company about the own ability of the latter to fulfil the terms of the contract (solvency) or the risks underlying the contract (conduct of business).

Insurance companies perform a key function in the economy, and their failure could have very detrimental consequences for its functioning. Intervention of public authorities is therefore needed, in particular to guarantee that insurance companies are able to honour insurance contracts (i.e. that they are “solvent”). For this reason, there is regulation as regards the solvency of insurance companies and for minimisation of the disruption and losses for policyholders in case of insurance failure (so-called “prudential supervision”).

Since the 1970s, the European Union (EU) has adopted a series of legislative acts (so-called “Solvency I”) aiming at facilitating the development of a Single Market in insurance services, whilst securing an appropriate level of policyholder protection. However, this framework was characterised by a number of structural weaknesses. In particular, it ignored key risks faced by insurers (for instance, risks of negative downturns in financial markets) and did not guarantee an equivalent level of protection for all citizens in Europe.

Solvency II which entered into application in 2016, introduces for the first time a harmonised, sound and robust prudential framework for insurance firms in the EU. It is based on the risk profile of each individual

insurance company but still ensures comparability, transparency and competitiveness. The Solvency II framework consists of three 'pillars':

- quantitative requirements, including the rules to value assets and liabilities (in particular, technical provisions – liabilities towards policy holders), to calculate capital requirements and to identify eligible own funds to cover those requirements (referred to as “Pillar 1”);
- requirements for risk management, good governance, as well as the details of the supervisory process with competent authorities (“Pillar 2”);
- requirements on transparency, reporting to supervisory authorities and disclosure to the public (“Pillar 3”).

The same approach is being applied for insurance groups as for individual insurers, so that groups are recognised and managed as economic entities.

As confirmed by stakeholders' statements at the recent conference organised by the European Commission on the review of Solvency II^[1] on 29 January 2020, the general perception is that the European framework as a whole functions well. At the same time, the experience gained from the first years of application of the Solvency II framework and the feedback received from industry stakeholders and public authorities have identified a number of areas, which could deserve a review. Furthermore, the framework also needs to take into account the political priorities of the European Union (notably the [European Green Deal](#), the completion of the [Capital Markets Union](#), and the strengthening of the single market) and should also be flexible enough to cope with any economic and financial developments (including the unprecedented protracted low – and even negative – interest rate environment).

Following a [formal request for advice](#) that was sent by the European Commission to the European Insurance and Occupational Pensions Authority (EIOPA) in February 2019, EIOPA conducted [three technical consultations](#) covering the [19 topics of the Solvency II review](#) that were identified by the European Commission.

In parallel to EIOPA's work on the review, **the European Commission intends to collect feedback from a wider audience, including policyholders, consumer associations, and financial market stakeholders other than insurers, by conducting its own consultation on the review.** This more general consultation will cover four main areas:

1. long-termism and sustainability of insurers' activities and priorities of the European framework;
2. proportionality of the European framework and transparency towards the public;
3. possibilities to improve citizens' trust, to deepen the single market in insurance services and to enhance policyholder protection and financial stability;
4. new emerging risks and opportunities (e.g. sustainability, technological developments, etc.) that may need to be addressed by the European framework.

The results of the present consultation will complement the one resulting from EIOPA's technical consultations. They will all feed into the European Commission review process of the Solvency II framework.

[1]↑ Note that throughout this consultation document, unless explicitly stated otherwise, the term “insurance” encompasses both insurance and reinsurance.

[2]↑ For instance, a house fire, a car accident causing damages to the policyholder's car or physical injuries, the death of the insured triggering the payment of accumulated capital to pre-determined beneficiaries in the case of a life insurance contract, etc.

[3]↑ [The recording of the conference is available here.](#)

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-s2review-consultation@ec.europa.eu.

More information:

- [on this consultation](#)
- [on the consultation document](#)
- [on Solvency II](#)
- [on the protection of personal data regime for this consultation](#)

About you

* Language of my contribution

- Bulgarian
- Croatian
- Czech
- Danish
- Dutch
- English
- Estonian
- Finnish
- French
- Gaelic
- German
- Greek
- Hungarian
- Italian
- Latvian
- Lithuanian
- Maltese
- Polish
- Portuguese
- Romanian

- Slovak
- Slovenian
- Spanish
- Swedish

* I am giving my contribution as

- Academic/research institution
- Business association
- Company/business organisation
- Consumer organisation
- EU citizen
- Environmental organisation
- Non-EU citizen
- Non-governmental organisation (NGO)
- Public authority
- Trade union
- Other

* First name

Valerie

* Surname

Rein

* Email (this won't be published)

rein@insuranceeurope.eu

* Organisation name

255 character(s) maximum

Insurance Europe

* Organisation size

- Micro (1 to 9 employees)
- Small (10 to 49 employees)
- Medium (50 to 249 employees)
- Large (250 or more)

Transparency register number

255 character(s) maximum

Check if your organisation is on the [transparency register](#). It's a voluntary database for organisations seeking to influence EU decision-making.

33213703459-54

* Country of origin

Please add your country of origin, or that of your organisation.

- | | | | |
|---|--|--|--|
| <input type="radio"/> Afghanistan | <input type="radio"/> Djibouti | <input type="radio"/> Libya | <input type="radio"/> Saint Martin |
| <input type="radio"/> Åland Islands | <input type="radio"/> Dominica | <input type="radio"/> Liechtenstein | <input type="radio"/> Saint Pierre and Miquelon |
| <input type="radio"/> Albania | <input type="radio"/> Dominican Republic | <input type="radio"/> Lithuania | <input type="radio"/> Saint Vincent and the Grenadines |
| <input type="radio"/> Algeria | <input type="radio"/> Ecuador | <input type="radio"/> Luxembourg | <input type="radio"/> Samoa |
| <input type="radio"/> American Samoa | <input type="radio"/> Egypt | <input type="radio"/> Macau | <input type="radio"/> San Marino |
| <input type="radio"/> Andorra | <input type="radio"/> El Salvador | <input type="radio"/> Madagascar | <input type="radio"/> São Tomé and Príncipe |
| <input type="radio"/> Angola | <input type="radio"/> Equatorial Guinea | <input type="radio"/> Malawi | <input type="radio"/> Saudi Arabia |
| <input type="radio"/> Anguilla | <input type="radio"/> Eritrea | <input type="radio"/> Malaysia | <input type="radio"/> Senegal |
| <input type="radio"/> Antarctica | <input type="radio"/> Estonia | <input type="radio"/> Maldives | <input type="radio"/> Serbia |
| <input type="radio"/> Antigua and Barbuda | <input type="radio"/> Eswatini | <input type="radio"/> Mali | <input type="radio"/> Seychelles |
| <input type="radio"/> Argentina | <input type="radio"/> Ethiopia | <input type="radio"/> Malta | <input type="radio"/> Sierra Leone |
| <input type="radio"/> Armenia | <input type="radio"/> Falkland Islands | <input type="radio"/> Marshall Islands | <input type="radio"/> Singapore |
| <input type="radio"/> Aruba | <input type="radio"/> Faroe Islands | <input type="radio"/> Martinique | <input type="radio"/> Sint Maarten |
| <input type="radio"/> Australia | <input type="radio"/> Fiji | <input type="radio"/> Mauritania | <input type="radio"/> Slovakia |
| <input type="radio"/> Austria | <input type="radio"/> Finland | <input type="radio"/> Mauritius | <input type="radio"/> Slovenia |
| <input type="radio"/> Azerbaijan | <input type="radio"/> France | <input type="radio"/> Mayotte | <input type="radio"/> |

- Bahamas
- Bahrain
- Bangladesh
- Barbados
- Belarus
- Belgium
- Belize
- Benin
- Bermuda
- Bhutan
- Bolivia
- Bonaire Saint Eustatius and Saba
- Bosnia and Herzegovina
- Botswana
- Bouvet Island
- Brazil
- British Indian Ocean Territory
- British Virgin Islands
- Brunei
- Bulgaria
- Burkina Faso
-
- French Guiana
- French Polynesia
- French Southern and Antarctic Lands
- Gabon
- Georgia
- Germany
- Ghana
- Gibraltar
- Greece
- Greenland
- Grenada
- Guadeloupe
- Guam
- Guatemala
- Guernsey
- Guinea
- Guinea-Bissau
- Guyana
- Haiti
- Heard Island and McDonald Islands
- Honduras
-
- Mexico
- Micronesia
- Moldova
- Monaco
- Mongolia
- Montenegro
- Montserrat
- Morocco
- Mozambique
- Myanmar /Burma
- Namibia
- Nauru
- Nepal
- Netherlands
- New Caledonia
- New Zealand
- Nicaragua
- Niger
- Nigeria
- Niue
- Norfolk Island
-
- Solomon Islands
- Somalia
- South Africa
- South Georgia and the South Sandwich Islands
- South Korea
- South Sudan
- Spain
- Sri Lanka
- Sudan
- Suriname
- Svalbard and Jan Mayen
- Sweden
- Switzerland
- Syria
- Taiwan
- Tajikistan
- Tanzania
- Thailand
- The Gambia
- Timor-Leste
- Togo
- Tokelau
-

Burundi	Hong Kong	Northern Mariana Islands	Tonga
<input type="radio"/> Cambodia	<input type="radio"/> Hungary	<input type="radio"/> North Korea	<input type="radio"/> Trinidad and Tobago
<input type="radio"/> Cameroon	<input type="radio"/> Iceland	<input type="radio"/> North Macedonia	<input type="radio"/> Tunisia
<input type="radio"/> Canada	<input type="radio"/> India	<input type="radio"/> Norway	<input type="radio"/> Turkey
<input type="radio"/> Cape Verde	<input type="radio"/> Indonesia	<input type="radio"/> Oman	<input type="radio"/> Turkmenistan
<input type="radio"/> Cayman Islands	<input type="radio"/> Iran	<input type="radio"/> Pakistan	<input type="radio"/> Turks and Caicos Islands
<input type="radio"/> Central African Republic	<input type="radio"/> Iraq	<input type="radio"/> Palau	<input type="radio"/> Tuvalu
<input type="radio"/> Chad	<input type="radio"/> Ireland	<input type="radio"/> Palestine	<input type="radio"/> Uganda
<input type="radio"/> Chile	<input type="radio"/> Isle of Man	<input type="radio"/> Panama	<input type="radio"/> Ukraine
<input type="radio"/> China	<input type="radio"/> Israel	<input type="radio"/> Papua New Guinea	<input type="radio"/> United Arab Emirates
<input type="radio"/> Christmas Island	<input type="radio"/> Italy	<input type="radio"/> Paraguay	<input type="radio"/> United Kingdom
<input type="radio"/> Clipperton	<input type="radio"/> Jamaica	<input type="radio"/> Peru	<input type="radio"/> United States
<input type="radio"/> Cocos (Keeling) Islands	<input type="radio"/> Japan	<input type="radio"/> Philippines	<input type="radio"/> United States Minor Outlying Islands
<input type="radio"/> Colombia	<input type="radio"/> Jersey	<input type="radio"/> Pitcairn Islands	<input type="radio"/> Uruguay
<input type="radio"/> Comoros	<input type="radio"/> Jordan	<input type="radio"/> Poland	<input type="radio"/> US Virgin Islands
<input type="radio"/> Congo	<input type="radio"/> Kazakhstan	<input type="radio"/> Portugal	<input type="radio"/> Uzbekistan
<input type="radio"/> Cook Islands	<input type="radio"/> Kenya	<input type="radio"/> Puerto Rico	<input type="radio"/> Vanuatu
<input type="radio"/> Costa Rica	<input type="radio"/> Kiribati	<input type="radio"/> Qatar	<input type="radio"/> Vatican City
<input type="radio"/> Côte d'Ivoire	<input type="radio"/> Kosovo	<input type="radio"/> Réunion	<input type="radio"/> Venezuela
<input type="radio"/> Croatia	<input type="radio"/> Kuwait	<input type="radio"/> Romania	<input type="radio"/> Vietnam
<input type="radio"/> Cuba	<input type="radio"/> Kyrgyzstan	<input type="radio"/> Russia	<input type="radio"/> Wallis and Futuna
<input type="radio"/> Curaçao	<input type="radio"/> Laos	<input type="radio"/> Rwanda	<input type="radio"/> Western Sahara
<input type="radio"/> Cyprus	<input type="radio"/> Latvia	<input type="radio"/>	<input type="radio"/> Yemen

- Czechia
- Lebanon
- Saint Barthélemy
- Saint Helena
- Zambia
- Democratic Republic of the Congo
- Lesotho
- Ascension and Tristan da Cunha
- Saint Kitts and Nevis
- Zimbabwe
- Denmark
- Liberia
- Saint Lucia

* Field of activity or sector (if applicable)

at least 1 choice(s)

- Accounting
- Auditing
- Banking
- Credit rating agencies
- Insurance and reinsurance
- Pension provision
- Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- Social entrepreneurship
- Other
- Not applicable

* Publication privacy settings

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

Anonymous

Only your type of respondent, country of origin and contribution will be published. All other personal details (name, organisation name and size, transparency register number) will not be published.

Public

Your personal details (name, organisation name and size, transparency register number, country of origin) will be published with your contribution.

I agree with the [personal data protection provisions](#)

Section 1: Long-termism and sustainability of insurers' activities, and priorities of the European framework

The main objective of Solvency II is the protection of policyholders.

The protection of policyholders requires that insurance companies are subject to effective solvency requirements based on the actual risks they are facing. Such a framework provides incentives for insurance companies to appropriately measure and manage their risks. The framework is defined in such a way that the risk of an insurance failure, even though not null, is of very low probability, as an insurer complying with its requirements is supposed to be able to cope with an extreme adverse event whose probability of occurrence is only 1 in every 200 years.

At the same time, it is important to ensure that insurers are not hindered from providing long-term funding to the European economy in line with the European Commission's political priorities such as:

- the [European Green Deal](#), which should make Europe the world's first climate-neutral continent by 2050. To achieve this ambition, there are significant investment needs as well as opportunities. Their magnitude requires mobilising both the public and private sectors, including insurance companies;
- the completion of the [Capital Markets Union](#) (CMU), which aims to mobilise financial resources in Europe and channel them to all companies, including small and medium-sized enterprises (SMEs), and in infrastructure projects that Europe needs to expand and create jobs.

Solvency II includes a series of provisions aiming to ensure that the framework does not unduly prevent insurers from providing financing to the economy and to offer life insurance products with guaranteed returns (or capital guarantee). However, according to some stakeholders, European legislation has incentivised insurance companies to retrench from more long-term and thus illiquid assets (e.g. infrastructure projects). This may negatively affect European economic growth, and result in lower expected returns for life insurance policyholders.

Moreover, the current heightened equity and credit spreads volatility and the significant stock market contraction stemming from the Covid-19 crisis, as well as the vulnerabilities in the real estate sector^[4] must be taken into account when reviewing the existing rules. The prudential framework should provide the right incentives for robust risk management while avoiding excessive risk-taking, and limiting financial stability implications. At the same time, it should avoid procyclical behaviour and not unduly prevent insurers from contributing to the long-term financing of the economic recovery of the European Union in the aftermaths of the current crisis.

In addition, while insurers' investments are exposed to risks related to climate change and reputational risk, European legislation may not appropriately reflect those risks, hence not providing the right incentives. The European Central Bank recently showed that climate change-related risks have the potential to become systemic for the euro area through possible significant exposures to climate risk, which are currently not included in the prudential framework^[5].

Finally, over the recent years, insurers have faced an unprecedented environment of low interest rates, which is progressively deteriorating their profitability. This can raise several concerns. First, despite the prudential framework, it can incentivise insurers to "search for yield" by taking more risks and investing in more complex securities, as pointed out by the European Central Bank in November 2019^[6]. Second, the low interest rate environment can also materially affect the life insurance landscape, and the ability of insurers to offer insurance products with guarantees. The current trend of risk shifting to policyholders can result in new challenges, depending on customers' risk tolerance and financial literacy.

^[4] See for instance, [ESRB's warnings and recommendations on medium-term residential real estate sector vulnerabilities](#).

[5]↑ See the special feature “[Climate change and financial stability](#)” published in May 2019 as part of the European Central Bank’s Financial Stability Review.

[6]↑ See the ECB’s [Financial Stability Review](#) of November 2019.

Objectives of the framework and priorities of the review

According to the current European legislation, “*the main objective of insurance and reinsurance regulation and supervision is the adequate protection of policy holders and beneficiaries. (...) Financial stability and fair and stable markets are other objectives of insurance and reinsurance regulation and supervision which should also be taken into account but should not undermine the main objective*”.

Question 1: What could be the renewed objectives of European legislation for insurance companies?

On a scale from 1 to 9 (1 being “not important at all” and 9 being “of utmost importance”), please rate, and if possible rank, each of the following proposals.

	1	2	3	4	5	6	7	8	9	Don't know /no opinion
Policyholder protection	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Financial stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fostering investments in environmentally-sustainable economic activities which will be defined in the EU taxonomy ^[7]	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fostering long-term investments in the real economy and providing long-term financing to European companies, including SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ensuring a fair and stable single market	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

[7]↑ The taxonomy is a clear and detailed EU classification system for sustainable and environmentally-sustainable activities, which is currently under development. It is aimed to become a “common language” for all actors in the financial system.

If you identify other political objectives, please specify them and give a rating of their importance from 1 to 9 for each of them:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The main objectives of insurance regulation should remain policyholder protection and financial stability.

However, considering the EU's overarching goals regarding sustainable growth and global competitiveness, it makes sense for Solvency II to reflect these goals too.

Apart from the additional potential objectives identified by the EC in the table above, another objective should be added: namely that Solvency II should support the international competitiveness of the European insurance industry, with an importance set at 8. While Solvency II is the most sophisticated risk-based regime in the world, it is also the most conservative. The industry strongly supports a risk-based regime that ensures a high-level of policyholder protection and supports financial stability. At the same time, the regime should not hamper, but instead support the global competitiveness of the European (re)insurance industry, which is the most international industry in the world, and a success story for Europe. This over-arching objective of the European Union to support European competitiveness at a global level should become an objective of Solvency II itself, and should be added under Art 28 of the Directive.

At the same time, it is key to understand that what generates insurers' ability to invest with a long-term perspective is the flow of premiums that they receive from policyholders for their long-term savings/pension products. Removing barriers to long-term investments is key, but equally key is removing barriers to the offering of long-term products, including long-term guarantees, which are the generators of the industry's long-term investment capacity. Therefore, the review of Solvency II should give the highest priority to insurers' ability to offer long-term guarantees. (see Q2)

Question 2: In light of market developments over the recent years, in particular the low or even negative interest rates environment and the Covid-19 crisis, what should be the priorities of the review of the European legislation for insurance companies?

On a scale from 1 to 9 (1 being "low priority" and 9 being "very high priority")? Please rate, and if possible rank, each of the following proposals.

	1	2	3	4	5	6	7	8	9	Don't know /no opinion
Ensuring that insurers remain solvent	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ensuring that insurers' obligations to the policyholders continue to be fulfilled even in the event that they fail	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ensuring that there are no obstacles for insurance										

companies to contribute to the investment needs of the European Green Deal, i.e. fostering insurers' investments that help the transition to carbon neutrality by 2050	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Ensuring that there are no obstacles for insurance companies to invest in accordance with the objectives of the Capital Markets Union, i.e. fostering insurers' long-term financing of the European economy, including SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Facilitating insurers' ability to offer (sufficiently) high returns to policyholders, even if this implies taking more risks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Facilitating insurers' ability to offer products with long-term guarantees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Ensuring that insurers do not face liquidity issues (i.e. that they have sufficiently liquid assets) to meet at all times short-term obligations ^[8]	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Preventing the build-up of systemic risk and ensuring financial stability	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

^[8] i.e. cash or other highly marketable securities.

If you identify other priorities, please specify them and give a rating from 1 to 9 to each of them:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Insurance Europe understands that this question is not about the general importance of certain objectives, but rather about whether and how/where the existing regulatory framework needs to be improved in order to achieve these objectives.

- Reducing the unnecessary burdens and costs of the regulation should be one objective of the review, with an importance set at 9. The overly high costs and strains of Solvency II make long-term guarantee products very capital intensive, to the detriment of policyholders. Increasing operational efficiency can be achieved by:
- Making proportionality work in practice.

- Simplifying & streamlining reporting requirements, in line with the EC's fitness check of supervisory reporting requirements.
- Improving regulatory and supervisory convergence to avoid additional regulatory burden due to additional layers and diverging regulation, avoid gold-plating and ensure a level-playing field.

Capital requirements for investments in SMEs (both in equity and debt), for long-term investments and for sustainable investments

Question 3: Have the recent changes to the prudential framework regarding equity investments appropriately addressed potential obstacles to long term investments?

- Yes
- No, the recent changes will not have a material impact on insurers' ability to invest for the long term
- Don't know/no opinion

Please specify what the remaining obstacles are, and how to address them while preserving the necessary prudential safeguards to ensure policyholder protection:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The industry appreciates the EC's previous work in this area and acknowledges the steps taken with the objective to improve the framework for long-term equity (LTE) in Art 171a of the Delegated Regulation. However, some application criteria are hard to fulfil and reduce the applicability of the sub-category, as evidenced in the EIOPA data collection exercises. The criteria for LTE in the Delegated Act are too strict, making it very difficult or even impossible for insurers to apply this sub-module to their LTE portfolio. The recent alternative criteria proposed by EIOPA as part of its Holistic Impact Assessment are also inadequate because the LTE would only qualify for the reduced risk factor under prohibitive conditions. The industry therefore calls for a review of the LTE submodule to address the problems raised by the current and EIOPA's proposed criteria and enhance the applicability of the submodule in practice With respect to the specific criteria:

Criterion (b) to (d) of Art. 171a can be problematic for some markets as they can only be implemented in EU legal systems with corresponding balance sheet structures

The industry proposes to remove such criteria Criterion (e) on the average holding period effectively mandates a buy and hold strategy for insurers' equity portfolios with little or no flexibility for ongoing management The industry proposes to substitute this criterion with a commitment-to-hold approach Criterion (f) on EEA shares considerably restricts the investment universe The industry proposes an extension to OECD shares Criterion (g) of Art. 171a is hardly implementable. EIOPA's alternative criterion is also a step back to a very conservative approach The industry considers that criterion (g) should be relaxed and the threshold lowered. Should the EC consider EIOPA's proposal, it should account for the features of countries with business characterised by lower durations and asset liability management (ALM) practices of non-life insurers

Question 4: Does the prudential framework set the right incentives for insurers to provide long-term debt financing to private companies, including SMEs (i.e. to invest for the long-term in long-maturity debt instruments)?

Please indicate the statements with which you agree.

at least 1 choice(s)

- Yes, the framework provides the right incentives
- No, investments in long-maturity bonds (more than 15 years) should be less costly for insurers, regardless of whether they hold their investments for the long term
- No, there should be a preferential treatment for long-term investments in bonds that are held close to maturity, with appropriate safeguards^[9]
- No, and in order to effectively reduce the cost of investment in bonds, Solvency II should allow all insurers to apply the dynamic modelling of the volatility adjustment
- No, and I have another proposal to address this issue
- Don't know/no opinion

^[9]↑ Note that in this case, it may be justified that the capital relief cannot exceed the one stemming from matching adjustment.

Please specify your answer to question 4 (if needed):

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

First, it is important to note that the industry is not seeking incentives to long-term investment but only to remove unjustified disincentives. Solvency II is a risk-based framework and should remain this way. Concretely, this means that the treatment of long-term investment should be improved by better measurement of the true long-term risk of these exposures.

The dynamic volatility adjustment (DVA) is a tool which enables insurers to partially reflect their risk-bearing capacity as long-term liability driven investors in their capital calculations. It creates a more realistic assessment of the credit risks to which they are exposed and should be available for all insurers.

Internal model users are currently able to apply the DVA make the correct adjustments subject to supervisory approval - this should continue without changes. No new restrictions should be introduced.

For the specific case of corporate debt, Insurance Europe supports the extension of the DVA to the standard formula.

The current standard formula risk charges for corporate bonds are based on the incorrect assumption that

insurers may have to sell all their corporate bonds at depressed prices during a crisis. However, insurers typically invest in a specific portfolio of corporate bonds which is tailored to provide income to match their expected claims and expenses. If there is no significant change in the expected claims and expenses, then there is no need for insurers to sell their bonds during crisis period. In these circumstances, because the insurer does not have to sell the bonds, the short-term price fluctuations are irrelevant as the expected cashflows remain the same. Therefore, the true risk to the insurer in this case is default risk as defaults will change the cashflow pattern.

As a final remark, the industry notes that the introduction of the DVA for corporate debt in the standard formula would not impact the 0% risk weighting for member state sovereign debt.

Insurers' contribution to the objective of a sustainable economic growth and policyholder protection

Solvency II is a risk-based and evidence-based framework. This implies in particular that the quantitative rules governing capital requirements for insurers' investments are supported by quantitative evidence. This entails a need for sufficient and robust data to support changes to Solvency II, which could further incentivise insurers to contribute to the long-term and sustainable financing of the European economy, while preserving the necessary level of policyholder protection embedded in the framework.

In particular, there is a need for sufficient evidence that the risk of investment in SMEs or in environmentally-sustainable economic activities and associated assets is lower than what the current prudential rules would imply.

Question 5: Do you agree or disagree with each of the following proposed change to quantitative rules in Solvency II?

	Agree	Disagree	Don't know /no opinion
We should make it less costly for insurers to invest in SMEs	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
We should make it less costly for insurers to invest in environmentally-sustainable economic activities and associated assets (so-called "green supporting factor")	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
We should make it more costly for insurers (and therefore provide disincentives) to invest in activities and associated assets that are detrimental to the objective of a climate-neutral continent (so-called "brown penalizing factor")	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

Please explain your reasoning for your answer to question 5 (if needed):

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The industry is not seeking incentives to long-term investment, including SMEs, but to remove unjustified disincentives that limit insurer's willingness and ability to invest long-term. Solvency II is a risk-based framework and should remain this way. It is key to seek ways to improve the treatment of long-term

investment under Solvency II by precisely better reflecting a risk-based measurement of the exposures On investment in SMEs: The current capital requirements for some SMEs investments are excessively high compared to the actual risk exposure. They should be reduced in a risk-based manner ♦ Insurers invest in SME in various ways: eg via listed/unlisted equity, debt, funds, securitisation, covered bonds. Improving the treatment of equity and debt under Solvency II will implicitly support investment in SMEs At the same time, insurers' investment capacity in SMEs (and other assets) would be enhanced by addressing other flaws of the framework, such as the VA and the RM (see Q6) On green/brown factors: The industry does not support artificial incentives/disincentives based on green/brown qualifications. Solvency II is, and should remain, a risk-based framework. Any differential treatment between green or brown assets, including a green supporting factor (GSF) or a brown penalising factor (BPF), should be based on the difference in underlying risks The priority should be on ensuring that the outcome of the Solvency II 2020 review results in focused changes that help, and do not hinder, insurers in fulfilling their key role in supporting Europe's need for investment to achieve carbon neutrality and economic growth. This means a reviewed Solvency II framework that adequately reflects transition risk, and appropriately measures the risks of long-term business without exaggerating long-term liabilities or the risks of long-term assets that back them (including sustainable investments). This is also key to avoid disincentives to offering long-term products to customers (Q41)

Short-term volatility, procyclicality, and insurance products with long-term guarantees

The current Covid-19 crisis, characterised by heightened volatility in financial markets, drops in stock markets, rises in spreads and a series of rating downgrades by credit rating agencies, has resulted in more volatility of insurers' solvency positions over the last months, according to industry stakeholders and public authorities. This requires assessing the effectiveness of the mechanisms embedded in the Solvency II framework (in particular, the so-called "long-term guarantee measures and the measures on equity risk") aiming at mitigating volatility of insurers' solvency and at avoiding procyclical behaviours. If this volatility becomes excessive, it may hinder their ability to offer products with long-term guarantees and may incentivize them to largely shift the risk to policyholders (via the distribution of unit-linked or index-linked products). This could question the sustainability of the traditional life insurance business.

Question 6: Does Solvency II appropriately mitigate the impact of short-term market volatility on the solvency position of insurance companies?

- Yes
- No
- Don't know/no opinion

Please indicate how the framework could mitigate the volatility of:

- **fixed-income assets**
- **stock markets**

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Solvency II does not provide sufficient mitigation against artificial volatility of insurers' solvency position caused by short-term market volatility

Artificial volatility in Solvency II generally arises where the market consistent approach and 1-year time horizon used to quantify the insurer's solvency position have not been properly adapted to deal with long-term insurance business. The result of these inconsistencies is that small risks for an insurer are often reflected as big changes in the solvency position, typically experienced during periods of market turbulence. As a result, Solvency II can provide incorrect signals on the solvency position during these periods

There are already mechanisms in Solvency II which aim to improve the recognition of long-term business. Some provide good mitigation against artificial volatility. However, targeted but important improvements are still needed:

- The level of the VA should be increased and its ability to mitigate artificial balance sheet volatility arising from short-term fluctuations in both European and national fixed income markets should be improved
- EIOPA's proposed risk correction and liquidity adjustment factor should be rejected as these would make the VA less effective.
- No changes should be made to the current risk-free rate extrapolation as it is already effective in countering artificial volatility. The matching and residual volume criteria are necessary and justified elements and must be retained
- The MA is also effective in removing artificial solvency volatility. EIOPA's proposals to remove the restriction on diversification between MA and non-MA portfolios are welcomed

The risk margin is a source of artificial volatility because of its high sensitivity to interest rates. To address this and its excessive size, an appropriate lambda parameter should be introduced, there should be increased recognition of diversification and the cost of capital (CoC) rate should be lowered to 3%.

Question 7: Does Solvency II promote procyclical behaviours by insurers (e.g. common behaviour of selling of assets whose market value is plunging or whose credit quality is decreased), which could generate financial instability?

- Yes
- No
- Don't know/no opinion

Over the recent years, in some countries, insurers have favoured the supply of insurance products where the investment risk is shifted to policyholders (i.e. higher risk for policyholders, but also prospects of potential higher returns over the long run), instead of traditional life insurance products with guarantees.

In a recent report^[10], the International Monetary Fund recommended public authorities to consider "policies serving as a disincentive to new life insurance products offering guaranteed returns".

^[10] See the [Global Financial Stability Report: Lower for longer](#) (October 2019), and in particular page 47.

Question 8: Some stakeholders claim that Solvency II has incentivised insurers to shift investment risk to policyholders. Do you agree with this statement?

- Yes

- Yes, but it is not the most important driver
- No
- Don't know/no opinion

Question 9: Do you agree with the International Monetary Fund that public authorities should aim to provide disincentives to the selling of new life insurance products offering guaranteed returns?

	Yes	No	Don't know/no opinion
From the point of view of a policyholder	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
In terms of financial stability	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

Please explain your reasoning for your answer to question 9 (if needed):

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

A combination of Solvency II rules and the prolonged low-interest rate environment has adversely affected the ability of insurers to provide products with LTG. Preserving the ability of the industry to provide LTG should be a priority of the review. LTG can refer to both the amount and duration of the future claim (in some markets insurers can provide a pension for as long as you live) The calibrations of Solvency II however overstate long-term liabilities and exaggerate balance-sheet volatility, resulting in capital requirements and buffers that are too high. Consequently, Solvency II unnecessarily and adversely affects the cost of offering long-term products Refining SII would help insurers play an even bigger role in the provision of safe, long-term savings products, for example by addressing the exaggerated volatility of solvency ratios by fixing the VA flaws

The demand for guaranteed saving products varies across Europe and depends on personal circumstances and national differences, although it remains very high on average. A recent Insurance Europe pension survey, interviewing 10 000 citizens across ten countries, clearly confirmed a strong appetite for certain features typically offered by insurers including guarantees: The highest priority was security of the money invested (60% respondents) Respondents overwhelmingly chose investment safety over performance of investments (73%) Information about guarantees was deemed the most important one (67%) It is therefore crucial that regulatory obstacles are avoided so that pension and long-term investment policies enable insurers to meet the demand for guarantees and allow them to fulfil their role in tackling the pension savings gap and more generally in channelling more private savings into capital markets. Given the potential for life insurance products to provide savers with simple and less risky access to an appropriate asset mix, policymakers should support industry efforts to make wider use of these products

Prudential rules and Covid-19

The Covid-19 outbreak allows assessing the robustness of the regulatory framework under a crisis situation. As Solvency II requires insurers to set aside capital to absorb losses stemming from extreme events – including sanitary crises such as a pandemic – that occur once in two hundred years, the insurance sector proved to be in general well-prepared to cope with the current adverse financial and economic conditions^[11].

[\[11\]](#)↑ By the end of 2019, insurers held on average an amount of capital which was more than twice as high as the one required by the legislation.

Question 10: In light of the Covid-19 crisis, have you identified any major issues in relation to prudential rules that you were unaware of or considered of lesser importance prior to the pandemic?

- Yes
- No
- Don't know/no opinion

Other issues

Some insurance companies are subsidiaries of (and therefore belong to) wider insurance groups. The European legislation identifies such insurance groups as integrated “economic entities”, which are therefore subject to Solvency II rules on a consolidated basis. However, under current rules, public authorities focus on ensuring that both the solo entities of the group and the group as a whole have enough capital to cover their risks.

Some stakeholders are of the view that it might be sufficient for public authorities to supervise the solvency position of insurance groups only (and not of individual insurers), and to ensure that they are sufficiently well-capitalised to support all funding needs of insurance subsidiaries. This would imply that individual insurers belonging to a group could be left under-capitalised, provided that the group as a whole is well-integrated and has sufficient available capital to cover all risks to which insurance companies within the group are exposed, and therefore to meet each subsidiary's financing needs on demand.

Question 11: From the point of view of policyholders, would it be acceptable to waive Solvency II requirements to insurance companies that belong to a group, if the group as a whole is subject to “strengthened” supervision?

- Yes, it is sufficient for the insurer to rely on the group's wealth
- No, it is not sufficient for the insurer to rely on the group's wealth
- Don't know/no opinion

Some stakeholders claim that Solvency II focuses too exclusively on the monitoring of individual insurers without taking into account their exposure to and interconnectedness with other insurers, the broader financial sector and the real economy.

Question 12: Should the European legislation be amended to better take into account insurers' exposure to and interconnectedness with the broader financial sector and the real economy? Please indicate the statements with which you agree.

at least 1 choice(s)

- Yes, in targeted areas of the framework [\[12\]](#)
-

Yes, a number of gaps in the framework need to be addressed in areas other than those mentioned in the previous answer (for instance, insurers' significant exposure to specific types of assets)

- No
- Don't know/no opinion

[12][↑] Reference can be made to the closed list of topics identified in section 3.10 of the European Commission's [Call for advice](#): the own risk and solvency assessment, the prudent person principle, liquidity risk management and reporting, and systemic risk management planning.

Section 2: Proportionality of the European framework and transparency towards the public

Scope of Solvency II

Solvency II is a sophisticated while often complex prudential framework. Applying it appropriately is a costly exercise.

Therefore, certain companies that provide insurance services are not covered by the European framework due to their size, their legal status, their nature – as being closely linked to public insurance systems – or the specific services they offer. In practice, Solvency II does not apply to very small insurance companies (it is worth mentioning that the exclusion from Solvency II also prevents the insurers concerned from doing business on a cross-border basis). However, the quantitative thresholds of exclusion have not been reviewed since the entry into force of the Directive in 2009.

Increasing the quantitative thresholds of exclusion of Solvency II would result in an increase in the number of insurance companies which are not in the scope of the European framework. This increase could be justified by the objective of further alleviating undue regulatory burden for small insurers, and might result in lower premiums to be paid by policyholders of those small firms with (possibly) higher fixed costs.

On the other hand, for policyholders of those firms, which would be excluded from the scope of Solvency II, there is no guarantee that the level of protection introduced at national level would be as high as the one stemming from Solvency II rules. In addition, from a European perspective, it might be argued that new exclusions from the scope of Solvency II would go against the objectives of integration of the Single Market for insurance services and of level-playing field within the European Union.

Question 13: From the point of view of policyholders, should the scope of small insurance companies, which are not subject to Solvency II be extended?

- Yes
- No
- Don't know/no opinion

Please explain your reasoning for your answer to question 13 (if needed):

Exempting very small companies from costly and overly complex regulation is necessary to maintain a diversified market, by avoiding unnecessary burden. As such, very small companies should be excluded of the scope of Solvency II.

The companies out of the scope of Solvency II remain under the supervision of national supervisory authorities, in a more appropriate regulatory regime created by national regulators.

Consequently, the industry supports an increase of the thresholds for the application of Solvency II. The thresholds set in Article 4.1.a and 4.1.b of the Solvency II Directive should therefore be changed as follows and as proposed by EIOPA:

- €10m for the undertaking's annual gross written premium income [currently €5m] with the option for member states to increase the thresholds to €25m.
- €50m for the total of the undertaking's technical provisions [currently €25m].

Proportionality in the application of Solvency II

Solvency II aims at limiting the burden for small and medium-sized insurance companies within its scope. One of the tools by which to achieve that objective is the application of the proportionality principle. In other words, the requirements should be adapted and simpler when such an approach is justified by the nature, scale and complexity of the risks. That principle should apply both to the requirements imposed on insurance companies and to the exercise of powers by public authorities.

As Solvency II is a "principle-based" framework, its implementation by public authorities heavily relies on supervisory judgement by public authorities. In particular, as regards proportionality, there are only broad principles regarding the way of assessing whether a given insurer may be allowed to implement certain requirements in a more proportionate and flexible way.

In practice, this high level of supervisory discretionary power may have limited the effective implementation of the proportionality principle, and the effective possibilities for small insurers with a low risk profile to implement the framework in a simplified way.

For this reason, some stakeholders claim that Solvency II should be more "rules-based" regarding the implementation of the proportionality principle, which would require setting clear and unambiguous criteria in the legislation - for automatic allowance for simplified rules when those criteria are met. However, it may be challenging in practice to define appropriate criteria, which would take into account the actual risks faced by each insurer.

Question 14: Should public authorities have less discretion when deciding whether insurers may apply simplified approaches and/or implement Solvency II rules in a more proportionate and flexible way? Please explain your reasoning (if needed).

- Yes
- No
- Don't know/no opinion

Please specify the criteria that should be introduced in the European legislation, in order for an insurer which meets them to be automatically granted the use of simplified approaches and/or a more proportionate and flexible application of the rules:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

While Insurance Europe is of the view that some mandatory aspects in the application of proportionality should be introduced – in the view to ensure a minimum application of proportionality in all markets – the discretion of NSAs and the supervisory dialogue with companies should not be deterred. Instead, changes in the regulation are needed to improve the NSAs' ability to largely apply proportionality.

The Insurance Europe proposal (detailed in the attached document) is based on the following:

- Making clear that applying proportionality is a duty for NSAs and allow them to comfortably consider proportionality more broadly.
- Making clear that proportionality can apply to all, and is based on the nature, scale and complexity of the risks.
- Creating a toolbox of proportionality measures with pre-defined risk-based criteria for their automatic application.
- Giving to the newly created EIOPA committee on proportionality the responsibility to publish an annual report on proportionality including proposals on how to improve its effectiveness and consistency.

Scope of reporting obligations

The European framework requires insurance companies to regularly submit to public authorities the information which is necessary for the purpose of prudential supervision. However, it also contains some exemptions and limitations that national authorities can grant if the companies concerned do not represent more than 20% of a Member State's insurance market.

Question 15: Should the exemptions and limitations always be subject to the discretion of the public authorities? Please indicate the statements with which you agree.

at least 1 choice(s)

- The current system of exemptions and limitations is satisfactory
- The framework should also include some clear criteria for automatic exemption and limitation
- The 20% limit should be increased
- The 20% limit should be reduced
- There should be no discretion at all
- I have another answer
- Don't know/no opinion

Please specify your answer to question 15 (if needed).

In particular, if you think that there should be clear criteria for automatic exemption and limitation, please specify those criteria:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The application of proportionate measures should be a duty for NSAs, and at the same time it needs to consider the specific characteristics of the national markets. While the industry supports the use of waivers up to the current 20% level of this threshold, the industry strongly highlights that the automation of risk-based proportionate measures yields huge potential for insurance companies and policy holders. The industry supports the use of the waivers foreseen in Art 35(6) (7), and believes that the application of waivers up to the current level of 20% of the market by NSAs should be made mandatory instead of optional. At the same time, the application of these proportionate measures should remain a choice on the insurer's side: companies exempted should still be able to report data voluntarily. The limitations and exemptions set out in Article 35 of the Solvency II Directive are a concrete proportionality measure in reporting requirements (see EIOPA reports on the use of limitations and exemptions from reporting). This measure is an additional tool and should in no way not prevent application of other simplifications under the cover on proportionality (see answer to Q14).

Specificities of not-for-profit insurers

Most Solvency II rules apply uniformly to all insurers regardless of their legal form or corporate structure. This is in particular the case for governance requirements (e.g. requirements for directors and board members to have appropriate knowledge and experience).

The European legislation has required changing and strengthening the governance of mutual companies (i.e. not-for-profit companies, which are collectively owned by their members who are at the same time their clients) and paritarian institutions (i.e. not-for-profit institutions that are jointly managed by the social partners).

Question 16: Should the European framework take into account the specific features of not-for-profit insurance companies (e.g. democratic governance, exclusive use of the surplus for the benefit of the members, no dividend paid to outside shareholders)?

- Yes
- No
- Don't know/no opinion

The European framework has substantially improved transparency towards the public. Indeed, each insurer subject to Solvency II has to disclose – that is to say make it available to the public in either printed or electronic form free of charge – at least on a yearly basis, a report comprising information on its business strategy, financial and solvency situation, and risk management (so-called “Solvency and Financial Conditions Report” – SFCR).

Some insurers claim that this report is burdensome to produce and is not fit for purpose, as it may appear too complex and too detailed for current or prospective customers. On the other hand, other stakeholders in the financial industry (e.g. investors) are requesting further transparency on solvency data.

Please note that the European Commission is also reviewing the rules concerning non-financial reporting for public interest entities, including insurance companies^[13]. One of the aims of this review is to improve publicly available information about how non-financial issues, and sustainability issues in particular, impact companies, and about how companies themselves impact society and the environment. As part of this review, the European Commission launched a public separate consultation between 20 February and 11 June 2020.

[13][↑] [More information on the review of the rules concerning non-financial reporting for public interest entities, including insurance companies.](#)

Transparency towards the general public

Question 17: How can the framework facilitate policyholders’ and other stakeholders’ access to the SFCRs?

	Agree	Disagree	Don't know / no opinion
The current framework is sufficient, as it already requires insurers to publish their SFCR on their website if they own one	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
The framework should clearly require that insurers’ publication on their website is easily accessible for the public	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Insurers should be required to send (electronically or by mail) on a regular basis a summary of the SFCR to each policyholder	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Insurers should be required to send (electronically or by mail) the SFCR to each policyholder who explicitly requests for it	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other options	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please specify your answer to question 17 (if needed).

In particular, if you identified other options, please elaborate:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The industry agrees with the current provisions specified in Art 301 and believes these are appropriate. As such the industry agrees with the statement that ‘the current framework is sufficient, as it already requires insurers to publish their SFCR on their website if they own one’.

However, undertakings already have to publish the SFCR on their website if they own one. Most undertakings provide the SFCR on their website in an easily accessible manner, often on the same page as annual reports/similar publications. As such there is no need to require a change in legislation that ‘insurers’

publication of the SFCR on their website is easily accessible for the public’.

The sector disagrees with the suggestion to require insurers by default to send (electronically/by mail) a summary of the SFCR to each policyholder, as this would trigger costs, be environmentally unfriendly and put more administrative burden on insurers, with little or no benefit for the policyholder. Indeed, the policyholder can easily access the SFCR on the website of the insurer. Furthermore, the industry highlights that policyholders already receive numerous documents and information when concluding an insurance policy.

Regarding the statement that ‘Insurers should be required to send (electronically or by mail) the SFCR to each policyholder who explicitly requests for it’, the industry notes that Art 301(5) already requires insurers to send a printed copy of the SFCR to each policyholder who explicitly requests it within two years of the disclosure date, as such the industry believes there is no need to modify the existing article. However, the existing requirement could be amended to include electronic copies.

Regarding other options, the industry would support the idea to request insurers to provide the direct links to the SFCRs in the regulatory reporting and to have these SFCR-links published on the websites of EIOPA /NCAs, as this would be helpful for finding the reports.

Question 18: If you have already consulted a SFCR, did you find the reading insightful and helpful, in particular for your decision making on purchasing (or renewing) insurance, or investing in/rating an insurance company? Please indicate the statement(s) with which you agree.

at least 1 choice(s)

- The reading was insightful
- The information provided was in the right level of details
- The information provided was too detailed
- The information provided was redundant with what can be found in other public reports by insurers
- No, the reading was not insightful
- I have never consulted a SFCR
- Don't know/no opinion.

Question 19: Which information should be provided to policyholders on insurers’ financial strength, business strategies and risk management activities? What should be the ideal format and length of the SFCR?

3000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The low level of public interest in the SFCR is significantly surpassed by the enormous effort put into preparing the information. Indeed, the level of detail of the current SFCR is excessive and is not helpful in understanding the actual financial strength of the insurer for the normal policyholder.

Therefore, the industry believes that, in order to increase its impact, the SFCR should be split in two sections, with clearly defined target stakeholders, namely a policyholder section and a professional section, containing the following information:

A brief narrative report for policyholders, comparable to the executive summary of maximum two pages, which would enable the average policyholder to acquire an overview of an insurer's key information. It should be standardised and include an overview of an insurer's risk appetite, key risks and solvency and financial situation and it should not require expert knowledge to fully understand the information provided.

A detailed quantitative report without narrative explanations for the professional public consisting of the set of public QRTs, disclosed already. Limiting the SFCR for professionals to quantitative information would facilitate report comparison, and would also enable cross-border analysis, which is currently complicated due to the language barriers arising from the narrative content. Additional narrative explanation should be possible, at the discretion of the reporting company.

Furthermore, it should be noted that insurers are not supportive of the addition of various reporting disclosure proposals from EIOPA (eg on VA, risk management/disclosure provisions on LTG measures, best estimate and extrapolation) suggested by EIOPA in the context of the consultation on the Solvency II review. The industry also has strong objections against the new auditing requirements, as proposed by EIOPA. While only leading to limited benefits, and clearly duplicating work in the remit of supervisors, the proposals would have significant additional burden and costs across the industry.

Question 20: Some insurers belong to wider insurance groups, which also have to publish a Solvency and Financial Conditions Report at group level (so-called "group SFCR"). Do policyholders (current or prospective) need to have access to information from group SFCRs?

- Yes
- No
- Don't know/no opinion

Question 21: Should all insurers publish a SFCR on a yearly basis? Please indicate if you agree or disagree with the following statements.

- Yes, all insurers should publish a SFCR on a yearly basis
- Yes, but some insurers should only be required to publish a summary of their SFCR on a yearly basis
- No, a yearly publication of the SFCR should not be required for some insurers
- No, a yearly publication of the SFCR should not be required for any insurer
- Don't know/no opinion

Question 22: Some insurers use their own internal models to calculate their solvency requirements, after approval and ongoing supervision by public

authorities, and not the prescribed standard approach defined by the legislation. For those insurers that use an internal model, should European legislation require them to also calculate their solvency position using standard methods for information purposes, and to disclose it to the public?

- Yes
- No, insurers that use their own internal models should not be required to publicly disclose their solvency position using standard methods, although they should be required to calculate it and to report it to public authorities
- No, insurers that use their own internal model should not be required to calculate their solvency position using standard methods
- Don't know/no opinion

Please explain the issues stemming from such a disclosure:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The requirement to calculate both (partial) internal model (IM) and standard formula (SF) figures is onerous and unnecessary, with long-lasting consequences. Should such a requirement be introduced, it would effectively undermine not only the IMs but also the suitable processes underlying their effective management and supervision.

IMs are designed to reflect a company's specific risk profile when it is proven that the standard formula is not suitable, as such IMs are the critical part of the Solvency II framework for many (re)insurers. It is important to recognise that true comparability of outcomes should mean that regulatory capital is aligned to the actual risk profile of insurers. Therefore, a continuous comparison between the SF and IM figures with public disclosure would only lead to confusion and wrong conclusions.

In fact, IMs facilitate a risk-sensitive approach to supervisors' and insurers' assessments of capital adequacy, by considering insurers' idiosyncratic risk profiles. As such, transparent insights into the risk management practices of insurers with specific risk profiles are provided, which is the most valuable information for supervisors. Supervisors might even require firms to use an IM (Art. 119 Directive) when a company's risk profile deviates significantly from the underlying assumptions of the SF. It would hardly make sense, from a policyholder protection perspective, to ask firms required to use an IM by supervisors to disclose SF results.

Further, supervisors are responsible for the original IM approval, they approve any major changes to the IM and they will be notified regularly of all other changes. During these processes, NSAs receive the SF figures as part of the mandatory information required for the authorisation. As such, supervisors have an extensive suite of tools available to them to ensure that IMs continue to generate appropriate SCR numbers.

Section 3: Improving trust and deepening the single market in insurance services

Supervision of cross-border business

The rationale for the EU insurance legislation is to facilitate the development of a Single Market in insurance services, whilst securing an adequate level of policyholder protection.

Insurers that have obtained a licence to operate in a Member State under Solvency II rules are allowed to operate in any other Member State of the Union (so-called “EU passporting” system).

The harmonised requirements under Solvency II aim to ensure uniform levels of policyholder protection throughout the Union.

The supervision of insurance activities (including cross-border) is the responsibility of the national public authority that granted the licence to the insurer (the “Home” authority), and not the public authorities of the other Member States where the insurer operates (the “Host” authorities). However, a European Supervisory Authority (the European Insurance and Occupational Pensions Authority) is in charge of ensuring supervisory convergence, and contributes to the coordination of the supervision of cross-border activities.

Some insurers operating cross-border have failed over the recent years, with negative impacts on policyholders. Such cases may have unduly affected public trust in the Single Market for insurance services.

Question 23: When the Home authority does not take the necessary measures to prevent excessive risk taking or non-compliance with the European rules by an insurer for its cross-border activities, should the Host authority be provided with additional powers of intervention, in order to protect policyholders?

- Yes
- No
- Don't know/no opinion

Question 24: Should the supervision of cross-border activities by insurers be exercised by national authorities or by a European authority?

- By national authorities only
- By a European authority only
- By national authorities, with European coordination where needed.
- Other answer
- Don't know/no opinion

Preventing and addressing insurance failures

Policyholders across the EU have different levels of protection in the event of their insurer's failure. National public authorities have different sets of powers to deal with an insurer whose financial position is deteriorating or that is failing.

Solvency II already provides authorities with a general power to take any measures, which they deem necessary to safeguard the interests of policyholders. It further requires firms to set up a recovery plan (“ex-post”) when they do not

comply with their quantitative solvency requirements. However, some Member States require insurers to also draft and maintain pre-emptive recovery plans setting out possible measures to deal with crisis scenarios. Resolution regimes, which aim to address the fall-out of an insurance failure in an orderly manner and to prepare authorities for such events with resolution plans and resolvability assessments, are mostly incomplete and uncoordinated. The lack of availability for national authorities of the right tools to deal with failures, leads to different levels of policyholder protection and affects public authorities' ability to safeguard financial stability.

In addition, a majority of Member States have introduced national Insurance Guarantee Schemes (IGS) that provide last-resort protection to policyholders. When insurers are unable to fulfil their contractual commitments, IGS offer protection against the consequences of a failure of an insurance company. These IGS are generally funded by the insurance industry. An IGS can offer protection by paying compensation to policyholders or by ensuring the continuation of insurance contracts.

However, not all Member States have created such a safety net for the protection of policyholders and the geographical scope, the coverage and powers of the current IGS differ. This implies that policyholders of insurers located within some Member States would not benefit from the same IGS protection in the event of an insurance failure as in other Member States. This situation leads to gaps and overlaps in IGS protection.

Note that the protection of victims of motor accidents in the case of the insolvency of an insurer is already covered by the proposal amending the Motor Insurance Directive, which is currently negotiated by the European Parliament and the Council of the European Union.^[14]

[\[14\]↑ More information on the Motor Insurance Directive.](#)

Question 25: Do you consider that insurers and public authorities are sufficiently prepared for a significant deterioration of the financial position or the failure of an insurer and that they have the necessary tools and powers to address such situations, in particular in a cross-border context?

- Yes
- No
- Don't know/no opinion

Question 26: Should it become compulsory for all Member States to set up an IGS, in order to ensure that a minimum level of policyholder protection is provided across the EU?

- Yes
- No
- Don't know/no opinion

Please explain your reasoning for your answer to question 26 (if needed):

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

IGS currently in place vary significantly across Europe but work generally well within their local context and laws. In fact, IGS often predate Solvency II requirements, which in some cases have rendered IGS protection redundant. Some member states currently have arrangements equivalent to an IGS that protect policyholders in the same way, whereas other member states do not have an IGS, but consider that policyholder protection is nevertheless sufficient.

Insurance Europe takes the view that the legal structure of policyholder protection schemes should be left to the discretion of individual member states. More generally, Insurance Europe believes that national authorities should be allowed significant flexibility to choose the IGS features that best suit their market, to reflect that there are important differences between member states regarding social welfare systems, winding-up process for insurers and insurance product lines.

Insurance Europe notes that Solvency II was designed to take into account analysis of past insurance failures and was calibrated to provide an adequate level of policyholder protection, without there being harmonised IGSs across the EU.

Subsequent analyses of insurance failures by EIOPA have substantially come to the same conclusions as the initial analysis, and therefore does not indicate there is an issue with the design of Solvency II in this respect.

There are already substantial existing layers of prudence built into the Solvency II framework – such as the SCR, the MCR and the risk margin – all of which sit above the best estimate of the liabilities. If additional layers of prudence were to be added to Solvency II through a harmonised IGS, which was not considered when determining its original calibration, then the calibration of the overall framework would need to be reviewed to ensure that the overall cost of the regime (which ultimately falls to customers) is still appropriate (in particular the risk margin).

Question 27: Which of the following life insurance products should be protected by IGS?

- All life insurance products
- Some life insurance products
- No life insurance products
- Don't know/no opinion

Question 28: Which of the following non-life insurance products should be protected by IGS?

	Should be covered	Should not be covered	Don't know/no opinion
Health	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Workers' compensation	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Insurance against Fire and other damage to property	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
General liability	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

Accident (such as damage to the driver)	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Suretyship for home building projects	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

Please elaborate your answer to question 28.

In particular, if you consider that other non-life insurance products should be protected please specify which products:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Insurance Europe takes the view that the legal structure of policyholder protection schemes should be left to the discretion of individual member states and therefore does not endorse a minimum harmonisation on any type of product (life and non-life). However, Insurance Europe would like to highlight the following:

In contrast to life insurance, non-life insurance is generally characterised by a short contract duration (often a one-year policy) and lacks a savings element. In the case of insolvency of a non-life insurance undertaking, the consumer can easily switch from the insolvent insurer to another insurer since, in contrast to life insurance, there is no deterioration of the insured risk with time. Unlike in the case of bank deposits or investments, compensation must only be paid if the insured event occurred and the policyholder's claim is justified. Consequently, the affected number of policyholders is considerably smaller in relation to the total insured portfolio.

Including compulsory non-life products under the scope of minimum harmonisation would be also problematic because types of insurance that are compulsory vary greatly across member states. Moreover, since life and non-life insurance contracts differ significantly and are handled differently in the event of insolvency, it could be preferable that life and non-life insurance are treated and administered by separate IGS entities. This should, however, be up to member states to decide.

Question 29: Should all mandatory insurance be covered by IGS?

- Yes
- No
- Don't know/no opinion

Please specify your answer for your answer to question (if needed):

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Insurance Europe takes the view that the requirement for and legal structure of policyholder protection schemes should be left to the discretion of individual member states and therefore does not endorse a minimum harmonisation on any type of product (life and non-life).

Including compulsory non-life products under the scope of minimum harmonisation would be also problematic because types of insurance that are compulsory vary greatly across member states. Moreover, since life and non-life insurance contracts differ significantly and are handled differently in the event of insolvency, it could be preferable that life and non-life insurance are treated and administered by separate IGS entities. This should, however, be up to member states to decide.

Question 30: If your insurer fails, what would you prefer?

- Receiving compensation from the IGS
- That the IGS ensures that your insurance policy continues, for example by transferring it to another insurer
- It depends on the type of insurance policy
- Don't know/no opinion

Question 31: The coverage level of IGS determines the level of protection provided to policyholders. Should the European legislation set a minimum coverage level at EU level?

- Yes
- No
- Don't know/no opinion

Preventing financial stability risks and ensuring policyholder protection

Question 32: In order to limit the risk of insurance failures and protect financial stability, should public authorities have the power to temporarily prohibit redemptions of life insurance policies? Please indicate the statement (s) with which you agree.

at least 1 choice(s)

- Yes, at sectoral level, to the extent that such a measure is absolutely necessary to address major threats to the insurance sector
- Yes, in cases where a specific insurer is in a weak financial position
- Yes, in cases where a specific insurer is in financial distress, and as long as policyholders would be better off than in the event of the insurer's failure
- No
- Don't know/no opinion

Question 33: In order to limit the risk of insurance failures and protect financial stability, should public authorities have the power to reduce entitlements of a life insurer's clients (e.g. reducing the right for bonuses that policyholders were initially entitled to receive)? Please indicate the statement (s) with which you agree.

at least 1 choice(s)

- Yes, if the insurer is in deteriorated financial position
- Yes, as a last resort measure, and as long as policyholders would be better off than in the event of a failure
- No
- Don't know/no opinion

Flexibility of the framework under crisis situations

Solvency II provides that when exceptional adverse situations are identified by the European Insurance and Occupational Pensions Authority, national authorities may give more time for insurers to restore compliance with quantitative requirements (from six months to up to seven years). Still, there is a need to evaluate whether the Solvency II framework is sufficiently flexible and reactive to crisis situations (such as the current Covid-19 pandemic), in order to preserve insurers' solvency and financial stability, but also to restrict the regulatory burden stemming from reporting and disclosure requirements.

Question 34: Please specify whether other exceptional measures than those mentioned in Question 32 and Question 33 should be introduced in order for public authorities aiming to preserve insurers' solvency and financial stability to intervene timely and in an efficient manner during exceptional adverse situations.

Please also clarify if those measures should apply at the level of individual insurers or widely to the whole sector:

3000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The industry believes that no further exceptional measures are needed if the shortcomings of the framework are addressed, making it fit for purpose to overcome crisis situations.

Indeed, while the Solvency II framework works well overall, it does not correctly capture the real economics and risks of insurers' long-term business. This leads to an underestimation of solvency strength and excessive volatility in the solvency measures. This is of particular relevance in times of stress since, during periods of high market volatility, these flaws can push insurers into unnecessary procyclical behaviour. The industry has highlighted the need for the Solvency II review to result in focused improvements, including increasing the volatility adjustment and significantly reducing the risk margin, while keeping the risk-free rate calibration and methods unchanged for the euro as well as for other currencies.

Additionally, the possibility to provide an extension of the recovery period allows for flexibility in times of exceptional adverse situations.

Please also clarify if those measures should apply at the level of individual insurers or widely to the whole sector:

N/A

Question 35: In your view, should the framework provide for flexibility to alleviate certain regulatory requirements during exceptional adverse situations?

- Yes
- No
- Don't know/no opinion

Section 4: New emerging risks and opportunities

A. European Green Deal and sustainability risks^[15]

The European Commission recently unveiled its European Green Deal for the EU and its citizens, with the aim for Europe to become the world's first climate-neutral continent by 2050. The European Green Deal is a new growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. To achieve the ambition set by the European Green Deal, there are significant investment needs. These also represent opportunities for sustainable investment.

Insurance companies can contribute to these investment needs and can benefit from new opportunities arising from the green transition. Their underwriting activities can also help increase the Union's resilience to sustainability risks, in particular when it comes to damage arising from natural catastrophes. However, insurers are exposed to climate change, both through their investment and underwriting activities. The European Insurance and Occupational Pensions Authority (EIOPA) indicated in a recent opinion^[16] that the European legislation may currently not appropriately reflect those risks, hence not provide the right incentives. Insurance companies are also exposed to the transition risks.

While this consultation serves to prepare the review of Solvency II, it has to be noted that the European Commission is also preparing a renewed sustainable finance strategy for the 3rd quarter of this year and an upgraded EU Adaptation Strategy for the 4th quarter of this year, with dedicated public consultations.

^[15]↑ The questions in this section address similar issues as the questions in section 3.5. (Improving resilience to adverse climate and environmental impacts) of the consultation on the [renewed EU Sustainable Finance strategy](#) which was launched on 8 April 2020. Stakeholders that submit responses to both consultations do not need to reiterate the comments already made in responses to the questions of the consultation on the renewed EU Sustainable Finance strategy.

^[16]↑ [Opinion on Sustainability within Solvency II](#), Reference EIOPA-BoS-19/241.

The Solvency II standard approach for the calculation of capital requirements for natural catastrophes covers the most common types of natural catastrophes, namely windstorm, flood, hail, earthquake and subsidence. Where an insurance company uses an approved internal model for the calculation of the capital requirements, either on own initiative or on request by the national authority, additional types of natural catastrophes can be covered in the calculation of capital requirements. However, a large number of insurance companies, in particular most small and medium-sized ones, are currently not using an internal model for the calculation of natural catastrophe risk.

Question 36: Are there additional types of natural catastrophes that might become relevant to the broader insurance sector in the next years and therefore warrant an inclusion in the standard approach for the calculation of capital requirements (e.g. drought or wildfire)?

- Yes, and sufficient data is available for the calibration of capital requirements for the additional types of natural catastrophes
- Yes, but the calibration of capital requirements is not possible at this stage, as the data will only become available over the next years
- No, additional types of natural catastrophes will continue to have lesser relevance for insurers, and they can be addressed by internal models and qualitative requirements (“Pillar 2”).
- Don't know/no opinion

Please elaborate your answer to question 36:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The Solvency II standard formula is not intended to, and should not be changed to, quantify every risk. Although no evidence has yet been presented to support the inclusion of new risks in the standard formula, Insurance Europe recognises that the materiality of risks may change in the future and that there may be justification for the future inclusion of new risks, as data will become available over time. For example, there is a more consistent impact of atmospheric events such as wind, rain, lightning: such events, considered altogether, even if not referable to a single catastrophe event, are becoming more relevant. It is to be noted that a sufficiently long period of time would be necessary for any data signals to be distinguishable from random variation.

The justification for the future inclusion of any risks needs to be assessed with respect to 1) the significant operational challenges of sourcing data and calibrating the natural catastrophe risks parameters for the standard formula, 2) the materiality of other peak perils in a given country and 3) the existing Solvency II provisions for dealing with idiosyncratic risks (eg internal models and Pillar II requirements).

The 2018 review of Solvency II included the revision of a number of natural catastrophe parameters. This was carried out by the EIOPA CAT working group which consisted of EIOPA, nat cat modellers, brokers as well as supervisory and industry representatives. The process demonstrated that there is often limited data available to calibrate these parameters.

Insurance Europe further highlights that the materiality and calibration of several of the existing standard formula natural catastrophe risk parameters remains questionable. These include the Italian earthquake risk and Greece earthquake risk country factors.

Use of historical data

Solvency II sets out several requirements on the use of data in the valuation of liabilities to policyholders. Notably, the data should contain “sufficient historical information” and “appropriately reflect the risks” to which the insurance company is exposed^[17]. In business lines materially affected by climate change, historical data may not capture sufficiently the trends caused by accelerated climate change. EIOPA therefore recommends that insurers combine historical data with knowledge gained from recent scientific research and, where appropriate, the output of forward-looking models when valuing their liabilities towards policyholders.

^[17] See Article 19 of [Commission Delegated Regulation \(EU\) 2015/35](#).

Question 37: Beyond the general rules on the use of data, should Solvency II rules explicitly require insurers to assess whether the data used in the valuation of liabilities to policyholders captures sufficiently trends caused by climate change?

- Yes, and requiring this assessment is of high importance
- Yes, and requiring this assessment is of medium importance
- Yes, but requiring this assessment is of low importance
- No
- Don't know/no opinion

Solvency II allows insurance companies to use internal models for the calculation of capital requirements after approval by the supervisory authority. For that purpose, the insurer has to forecast the probability distributions for the relevant risks. Similar rules apply to the data used in the probability distribution forecast in the context of internal models as for the valuation of liabilities towards policyholders^[18].

^[18] See Article 231 of [Commission Delegated Regulation \(EU\) 2015/35](#).

Question 38: Beyond the general rules on the use of data, should Solvency II rules explicitly require insurers to assess whether the data used in an internal model captures sufficiently trends caused by climate change?

- Yes, and requiring this assessment is of high importance
- Yes, and requiring this assessment is of medium importance
- Yes, but requiring this assessment is of low importance
- No
- Don't know/no opinion

Scenario analysis

Scenario analyses are common practice for insurers' risk management to challenge the plausibility of balance sheet valuation and the level of capital requirements. EIOPA also recently recommended that insurers should conduct analyses of climate scenarios as part of their risk management.

Question 39: Should Solvency II rules for insurers explicitly require climate scenario analyses as part of the qualitative rules ("Pillar 2")?

- Yes, and climate scenario analyses are of high importance
- Yes, and climate scenarios analyses are of medium importance
- Yes, but climate change scenario analyses is of low important
- No
- Don't know/no opinion

Please explain what opportunities and challenges you foresee for the insurance industry when it comes to climate scenario analyses including, for example, whether standardisation of these scenarios would be useful:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The European stress testing exercise and the overall solvency needs assessment (in the ORSA) can be helpful for certain insurers to assess their exposures to climate change risk. With respect to the ORSA, it is important that scenarios remain relevant for each company's risk profile. Insurance companies that do not identify significant climate risks in their risk profile should not be forced to consider climate scenarios.

For insurers with significant climate risk, the development of a standardised set of quantitative scenarios to be included in the ORSA should be avoided, as it creates a number of issues including the lack of consensus among experts regarding the choice of scenarios and their evolution in the future. Defining a standardised set of quantitative scenarios for all countries across the EU is even more challenging (see the existing modules for natural catastrophe risk).

It is important to note that:

- It is unclear how to separate the various effects of climate change risk from other factors.
- While historical data is not enough to predict climate change risks, forward-looking company data (pathways) is not available in a systematic manner and is not of sufficiently high quality.
- There are no agreed scenario assumptions and methodologies to project key variables, including insurance uptake/exposures and vulnerabilities into the future, eg for a period 2030-2040.
- Undertakings need to have full flexibility to reflect differences in time horizons (climate change has a longer time horizon compared to that of long-term scenario analysis in risk management, governance and ORSA) and company specificities (the measurement and quantification of these risks is necessary only when these effects are financially material for the undertaking, which depends on company-specific strategy).

Impact underwriting

EIOPA recently suggested that insurers engage in 'impact underwriting', whereby insurers develop new insurance products, design and price products with the aim to contribute to adaptation to and mitigation of climate change without disregard for actuarial risk-based principles of risk selection and pricing.

Question 40: In your view, does Solvency II contain rules that prevent the practice of impact underwriting by insurers?

- Yes
- No
- Don't know/no opinion

Question 41: Do you have proposals for changes others than those provided in your answers to Question 5 and Questions 36 to 40 that would make Solvency II a more conducive framework for sustainable activities by insurance and reinsurance companies?

3000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The EC focus should be on fixing the treatment of the long-term business and assets. Any regulatory barrier to long-term investing by the insurance industry will also be a barrier to sustainable investment. While not all long-term assets are sustainable, improving the design and calibration of regulations to better reflect the long-term nature of the business will therefore implicitly benefit sustainable investment.

The EC should investigate how Solvency II could be adapted to facilitate further long-term investment while maintaining its strong risk-based nature. In this respect, it is essential that Solvency II remains risk-based and does not attempt to artificially support green assets or penalise brown ones via artificially adjusted capital requirements.

Apart from Solvency II, a uniform European company database could be useful to broaden the investor base for SMEs through more accessible company information.

B. Challenges arising from digitalisation and other issues

While this consultation serves to prepare the review of Solvency II, the European Commission organised between 19 December 2019 and 19 March 2020 a consultation on the need for legislative improvements to make the financial sector more secure and resilient against cyberattacks^[19].

In addition, the European Commission is also preparing a new Digital Finance Strategy for Europe that sets out strategic objectives that should guide public policy in the coming five years. This new strategy planned for the third quarter of 2020 will build on the work carried out previously, in particular in the context of the [FinTech Action Plan](#). It will take into consideration all the recent market and technological developments that are likely to impact the financial sector in the near future. A separate public consultation^[20] took place between 3 April 2020 and 26 June 2020.

Insurance companies increasingly rely on Big Data analysis in order to set prices and customise insurance product offering for policyholders. While such innovations could provide some potential benefits to policyholders, they also raise questions about privacy, discrimination, fairness and exclusion.

In the context of the digitalisation of the economy, cyber risk has gained increasing relevance as one of the main – if not the top – operational risks faced by organisations. The increasing frequency and sophistication of cyber-attacks and the continued digital transformation and use of new technologies also make insurers increasingly exposed to cyber threats. In addition, there is a rising demand by businesses and individuals for insurance protection against internet-based risks, for instance to cover losses from data or network security breaches, and theft of intellectual property (so-called “cyber-insurance”). While insurers have to be granted authorisation for conducting business in various “classes” of insurance, there is no specific authorisation process (or dedicated reporting requirements) for cyber-insurance products.

[19][↑] [More information on the public consultation on the need for legislative improvements to make the financial sector more secure and resilient against cyberattacks.](#)

[20][↑] [More information on the public consultation on a new digital finance strategy for Europe.](#)

Question 42: Should the European legislation introduce enhanced requirements for insurers to monitor and manage information and communication technology (ICT) risks, including cyber-risks as part of their risk management practices ("Pillar 2")?

- Yes
- No
- Don't know/no opinion

Question 43: Should the European legislation consider that cyber-insurance is a distinct class of insurance, which would need to be subject to its own authorisation process by public authorities?

- Yes
- No
- Don't know/no opinion

Insurance companies may decide to conclude an agreement with another entity (for instance a FinTech company), by which the latter performs certain activities, which would otherwise be performed by the insurance company itself (for instance, in relation to IT services).

Insurance companies can also outsource these activities to another entity belonging to the same insurance group. Solvency II does not differentiate intra-group and extra-group outsourcing, in terms of requirements. Some stakeholders claim that intra-group outsourcing, in particular in the area of digital services, should be “lighter”, as insurance groups are treated and managed as integrated economic entities and are subject to all Solvency II requirements on a consolidated basis.

Question 44: Should the legislation differentiate intragroup and extra-group outsourcing, and introduce “lighter” requirement in the former case?

-

Yes, but the lighter requirements should be conditioned to the satisfaction of some criteria at the level of the group, for instance appropriate centralised risk management processes and internal control mechanisms of the group

- Yes, and those lighter requirements should not be conditioned to any additional criterion
- No
- Don't know/no opinion

Please specify which requirements should be alleviated in the case of intra-group outsourcing:

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The following criteria should be simplified for intra-group service providers:

- During the selection/tender of service provider.
- During the ongoing cooperation/collaboration between the involved insurance entities.

Selection/tender of service providers for services to be outsourced:

- Simplified examination of the service provider (Art 274.3.a of the Delegated Acts).
- Simplified examination of the same provisions of the safety and confidentiality of information (Art 274.3.f DA).
- Simplified terms and conditions of the outsourcing agreement (Art 274.3.d DA).

Ongoing cooperation/collaboration between involved intra-group entities for outsourced services:

- Simplified right to issue general guidelines and individual instructions to service provider (Art 274.4.f and 274.4.j DA).
- Simplified reporting and disclosure obligations of the service provider (Art 274.4.c, 274.4.h and 274.4.j DA).
- Simplified compliance of the service provider's risk and internal control system (Art 274.5.a DA).
- Simplified monitoring of the service provider by the outsourcing insurance undertaking (Art 274.1 DA).
- Simplified coordination of contingency plans of the service provider by the outsourcing insurance undertaking (Art 274.5.d DA).

In particular, the designation of a person within the undertaking with overall responsibility for the outsourced key function – as required by EIOPA – should be dispensable. The same applies to the exhaustive requirements on selecting an adequate service provider.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

Please upload your file

The maximum file size is 1 MB.

You can upload several files.

Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

c642445d-6fab-472a-beac-8a5ef8540d2a/ECO-SLV-20-231.pdf

Useful links

[More on this consultation \(https://ec.europa.eu/info/publications/finance-consultations-2020-solvency-2-review_en\)](https://ec.europa.eu/info/publications/finance-consultations-2020-solvency-2-review_en)

[Consultation document \(https://ec.europa.eu/info/files/2020-solvency-2-review-consultation-document_en\)](https://ec.europa.eu/info/files/2020-solvency-2-review-consultation-document_en)

[More on Solvency II \(https://ec.europa.eu/info/business-economy-euro/banking-and-finance/insurance-and-pensions/risk-management-and-supervision-insurance-companies-solvency-2_en\)](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/insurance-and-pensions/risk-management-and-supervision-insurance-companies-solvency-2_en)

[Specific privacy statement \(https://ec.europa.eu/info/law/better-regulation/specific-privacy-statement_en\)](https://ec.europa.eu/info/law/better-regulation/specific-privacy-statement_en)

[More on the Transparency register \(http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en\)](http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

[Inception impact assessment \(https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12461-Review-of-measures-on-taking-up-and-pursuit-of-the-insurance-and-reinsurance-business-Solvency-II-#publicati details\)](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12461-Review-of-measures-on-taking-up-and-pursuit-of-the-insurance-and-reinsurance-business-Solvency-II-#publicati details)

Contact

fisma-s2review-consultation@ec.europa.eu