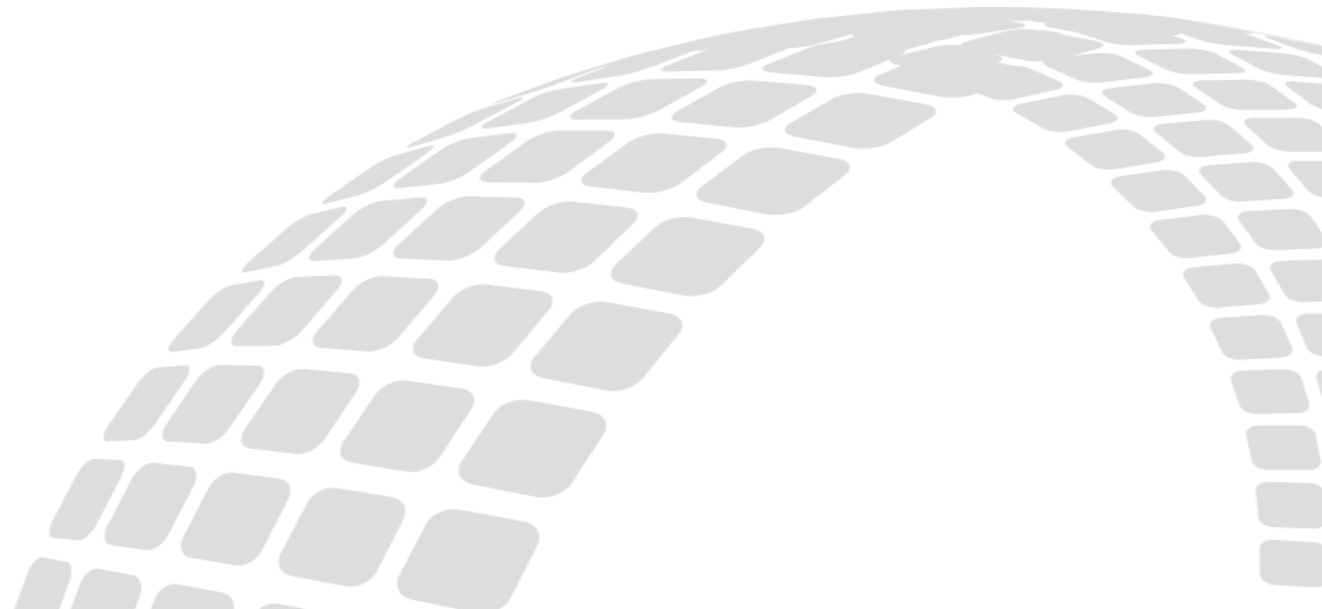




Preliminary industry views on new technical standards for Solvency II

**EIOPA virtual event
27 November 2024**



Agenda

7 ongoing Solvency II consultations

- 1** **RTS** on exceptional sector-wide shocks
- 2** **RTS** on applicability criteria for macroprudential analysis in ORSA & PPP
- 3** **RTS** on liquidity risk management plans (*CFO/CRO Forum*)
- 4** **ITS** on methodology for scenarios for prudent deterministic valuation
- 5** **RTS** on undertakings under dominant or significant influence and undertakings managed on a unified basis
- 6** **RTS** on relevant insurance and reinsurance undertakings in respect to host Member State's market
- 7** Technical **advice** on standard formula capital requirements for crypto-assets

General Comments

Feedback across all consultations

Impact Assessment

- Industry views impact assessments can be **improved** overall.
- Current assessments are primarily **qualitative** and lack comprehensiveness.
- There is no clear understanding of **how many undertakings** would be impacted by some consultation proposals.
 - For example, the number of undertakings with cross-border GWP below EUR 15m?

Language

- Overall, industry finds some of the consultations' **vague** language unhelpful.
- This could lead to **inconsistency** in application.
- For example, the criteria for "dominant or significant influence" and "exceptional sector-wide shocks" establish **broad** ranges of considerations.

Caveat: This presentation contains **preliminary** industry views which are subject to change in the official responses to be submitted to EIOPA.

1. RTS on exceptional sector-wide shocks

Context on RTS

- Insurance industry has proven to be extremely resilient during the past and more recent crises.
 - Regulatory and supervisory regime has worked well
 - Will be further strengthened by new macroprudential measures e.g. LRMP
- Industry reiterates its opposition to supervisory powers to restrict insurers' distributions for macroprudential purposes.
 - Real life tests (eg Covid and Ukraine war) and EIOPA stress tests demonstrate there is no need for such a supervisory tool
- The identification of exceptional sector-wide shocks gives power to NSAs to impose restrictions on undertakings with a particularly vulnerable risk profile.

1. RTS on exceptional sector-wide shocks

Industry concerns

- RTS is very broadly defined (as per EIOPA's intention).
 - This risks to create confusion, particularly in moment of crisis
 - Also risks inconsistent declarations across member states
- Article 1 (2 d and 2e) recognises existence of other "situations" of financial instability and potential linkage to exceptional sector-wide shocks.
 - Increasing number of these special "situations" only serves to create additional layers of complexity in real crisis.
- Inability of (significant part of) market to meet (re)insurance obligations is already measured by solvency capital requirements.
- Vague concepts and definitions provide further unclarity.
 - E.g. "Sector" is not defined.
 - E.g. "Vulnerable undertaking" (although out of scope of RTS)

1. RTS on exceptional sector-wide shocks

Industry requests

- A careful and restrictive approach to the RTS is needed
 - recognising the exceptional nature of the exceptional sector-wide shock; and
 - the enduring nature of the shock.
- RTS should clarify that existence of sector-wide shock does not necessitate dividend restrictions, share buy backs, bonuses etc. Instead, it triggers identification of “vulnerable” undertakings.
- A clearer definition of “sector” is needed.
- A holistic overview and understanding of interactions of supervisory powers and regulatory tools during periods of financial instability is needed, if these are to be effective in crisis.

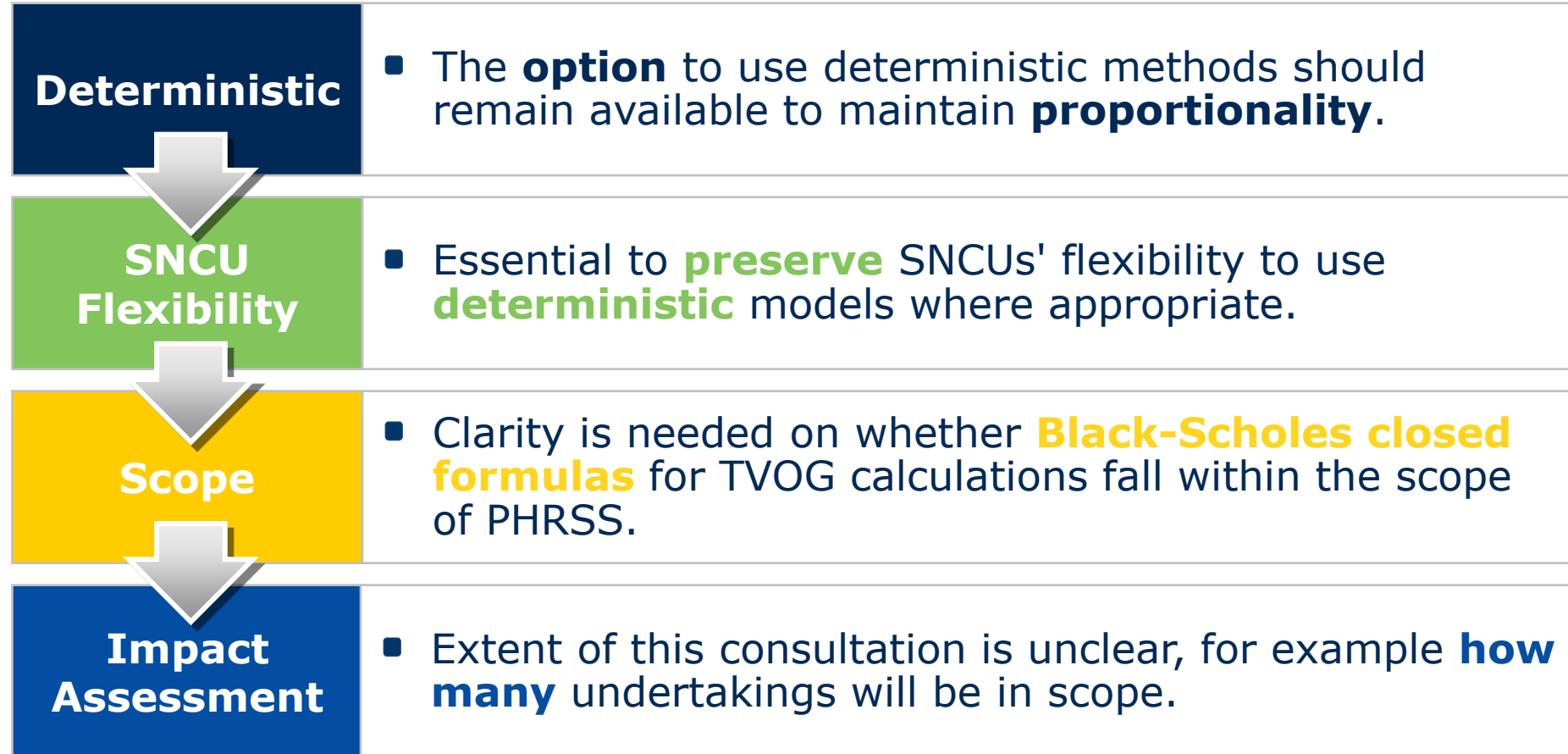
2. RTS on applicability criteria for macroprudential analysis in ORSA and PPP

Industry proposes a fully risk-based criteria

- Preserve ORSA as an own risk assessment **without mandatory asks** which dilute its purpose.
- €12bn threshold lacks a risk-based justification.
 - i.e. Can €12bn of assets have impact on inflation levels / stock markets?
 - Art 2 (3 e) implies subsidiaries should all be captured in group plan
 - Group analysis should (almost) always be sufficient
 - NSAs can be reluctant to grant waivers
- Some criteria are not well defined/unclear.
 - E.g. Art 2 (4 b) – “*activities related to exposures with macroprudential implications.....potentially creating spillover effects*”

4. ITS on methodology for scenarios for prudent deterministic valuation (PDV)

The new PDV and scenarios are welcomed as optional simplification



5. RTS on undertakings under dominant or significant influence and undertakings managed on a unified basis

Concerns with scope

Criteria

- **Overly broad** risking an unintended expansion beyond the **Directive's intent**.
- **Industry proposes refinement** to avoid over-inclusive application.
- Articles describe **common practices** (e.g., reinsurance, outsourcing, shared functions) which do not inherently imply significant influence.
- NSAs might **interpret** these broadly, leading to over-classification.

Impact Assessment

- Not clear **how many** undertakings in scope.
- Unclear whether the proposed solution **proportionately addresses** the identified problem.
- Lack of detail on broader **implications**.

Clarification

- Criteria should support a **holistic assessment** rather than imply influence in most cases.
- **Suggestion:** Add wording to recital 3 to refine criteria **application**.

5. RTS on undertakings under dominant or significant influence and undertakings managed on a unified basis

Proposals

Financial Reporting

- Group scope changes should align with local **GAAP, IFRS**, or other frameworks to prevent inconsistencies.

Third-Country Groups

- Broad criteria may inadvertently capture stand-alone undertakings from **equivalent** third-country groups.
- Shared brand, goals, or administrative links may lead to unnecessary classification as horizontal sub-groups.
- **Suggestion**: Add a paragraph clarifying that Articles 1–4 **do not apply** if links are solely due to third-country group membership.

Implications

- Clarification needed on implications for group **classification**.
- Not clear how SCR and balance sheet **calculations**, governance adjustments, supervisory collaboration, and the inclusion of **non-insurance** entities in group classification would work.

6. RTS on relevant insurance and reinsurance undertakings in respect to host Member State's market

Industry supports EIOPA's proposal for option 3 (without thresholds)

- (Very?) limited impact given the scope.
- Industry views Option 3 to have **sufficient flexibility** without overengineering cross border supervision, beyond Level 1 quantitative threshold.
- In terms of **market share**, the term "*reinsurance market*" is not defined and could lead to confusion.

Currently wording considers:

- life insurance market; **or**
- non-life insurance market; **or**
- reinsurance market

The industry suggests:

- life insurance **and** reinsurance market; or
- non-life insurance **and** reinsurance market

7. Technical advice on standard formula capital requirements for crypto-assets

Crypto assets are **extremely marginal** portion of insurers' portfolio assets. The industry recognises that these assets are extremely volatile and generally **not well suited** to be significant part of insurers' investment portfolios.

However, EIOPA seems to be **overly prudent** in their assessment of the risk related to crypto assets. The 100% stress without diversification does not appear risk-based.

Industry **supports Option 3**, combined with the implementation of **diversification**, as the most technically accurate approach.

Alternative proposal: Insurance Europe expects to make a simple but equally effective proposal.



For more information

www.insuranceeurope.eu

X: @InsuranceEurope

