

Solvency II review - Proposed focus areas for engagement

	Recap on why it's important?	Council/EP positions for trilogues	Expected impact, industry position and proposed actions
Risk Correction	<p>The EC has proposed to change the calculation of the risk correction in the Level 2 text.</p> <p>EC's proposal would make the VA much less effective in periods of market stress, when it is needed most.</p> <p>The proposed change would undermine the other improvements to the VA that the EC has made.</p> <p>It would increase artificial volatility and procyclicality in the framework and would have a significantly negative impact during a crisis eg. 2008 crisis.</p>	<p>Council does not have official position on this.</p> <p>Limited support to move to EP proposal, general risk that council members default to support EC proposal but some feedback suggests this may be due to lack of awareness/ understanding of the issue.</p> <p>Parliament proposed to maintain the current risk correction in Level 1.</p>	<p><u>Expected impact of Commission's proposal - VERY NEGATIVE</u></p> <p>Maintaining current risk correction is critical to reducing volatility, protecting against procyclicality and so allowing insurers to offer long-term products.</p> <p><u>IE position</u> Support EP proposal.</p> <p>Proposed actions:</p> <ul style="list-style-type: none"> • Keep as highest priority for lobbying. • Increase understanding of the issue among Council representatives (update content for lobby tool box)
Risk Margin (RM)	<p>The current methodology is overly conservative and creates unnecessary volatility.</p> <p>The total industry risk margin is around €140bn, reducing insurers' risk and investment capacity.</p> <p>Improvements to the risk margin would be affected through a reduction in the Cost of Capital (CoC) parameter and the introduction of a lambda parameter.</p>	<p>Council has no official position but is understood to support the Commission's proposal for a 5% CoC and 0.975 lambda.</p> <p>At the same time, there are indications Council seems open to accept a compromise with Parliament on the level of the CoC and the introduction of the idea of a lambda in L1 (but not the calibration).</p> <p>Parliament proposes a CoC of 4.5% and lambda is introduced, but exact calibration of lambda left to L2.</p>	<p><u>Expected impact of reducing risk margin - VERY POSITIVE:</u></p> <p>RM of 4.5% would decrease RM by 25% = €35bn.</p> <p>The lambda impact depends on the calibration but could be an additional reduction of up to 25%.</p> <p><u>IE position</u> Support EP proposals for CoC to be set at 4.5% in Level 1.</p> <p>Push for co-legislators to agree a lambda calibration that together with CoC change would reduce risk margin by at least 50%.</p>

			<p>Proposed actions:</p> <ul style="list-style-type: none"> • Keep as highest priority for lobbying • Increase understanding of the issue among Council representatives (update content for lobby tool box)
Extrapolation	<p>The Commission's proposed extrapolation methodology and calibration will increase the value of long-term liabilities and therefore the cost of providing them, particularly in low yield environments.</p> <p>It will also increase volatility, as was directly shown in EIOPA's impact assessments.</p> <p>An improved calibration of the new "convergence parameter" would reduce the impact of Commission's proposal and avoid increasing volatility and the cost of providing long-term/guaranteed products.</p>	<p>Council has no official position.</p> <p>They are understood to strongly support the Commission's proposal of a "convergence parameter" of 10% and for a First Smoothing Point (FSP) set at 20 years for the Euro.</p> <p>However, Council prefers to discuss LTG issues, including extrapolation as part of L2.</p> <p>Parliament proposed a minimum convergence parameter of 13% and defined a FSP for the eEuro of 20 years, both in L1 text.</p>	<p><u>Expected impact of Commission's calibration-NEGATIVE</u></p> <p>The FSP at 20 years for EUR is already widely supported by all sides. The impact of not gaining the EP calibration of the convergence parameter is limited in the current interest rate environment.</p> <p><u>IE position</u> Support EP proposal.</p> <p>Proposed actions:</p> <ul style="list-style-type: none"> • Keep as highest priority for lobbying. Continue to lobby for extrapolation but prioritise Risk Margin and Risk Correction in LTG discussions due to greater impact and likelihood of achieving a good outcome.
Stress test disclosure	<p>Individual publication of stress test results will lead to confusion about what the actual solvency requirements are.</p> <p>It will inevitably lead to the EIOPA stress tests setting additional capital requirements above those specified by Solvency II, as companies will be expected to and will want to "pass the stress test exercises".</p> <p>Capital requirements would therefore de facto be set by EIOPA and ESRB (who seek scenarios which have an impact eg up to 1 in 1000).</p>	<p>Council is mostly against disclosure.</p> <p>Parliament proposes that NSAs/EIOPA cannot be prevented to disclose individual stress test results.</p>	<p><u>Expected impact of Parliament proposal – VERY NEGATIVE</u></p> <p><u>IE position</u> Oppose EP proposal.</p> <p>Proposed actions:</p> <ul style="list-style-type: none"> • Keep as highest priority for lobbying.

<p>Internal Models (IM)</p>	<p>The Commission's proposal to introduce standard formula reporting for IM users would lead to misleading and erroneous interpretation of the Solvency position of (re)insurers, as the standard formula (SF) does not appropriately capture the risk profile of all undertakings.</p> <p>Mandatory reporting would result in de facto supervision by of internal models by EIOPA and create inevitable pressure for convergence/caps/floors</p>	<p>Council proposes mandatory annual requirement for IM users to report SF SCR.</p> <p>Council understood to be open to consider reduced frequency ie a requirement based on biennial estimates.</p> <p>The Parliament opposes the Commission's proposals and maintains the status quo (NSA still have power to request this information). However, the Parliament is understood to be open to negotiating on this position.</p>	<p><u>Expected impact of Council proposals – NEGATIVE</u></p> <p><u>IE position</u> Avoid mandatory requirements.</p> <p>Avoid the need for detailed calculations (ie the need to complete the SF QRTs) and instead to continue to only require "estimates".</p> <p>Proposed actions:</p> <ul style="list-style-type: none"> • Keep as highest priority for lobbying
<p>Group supervision</p>	<p>The Commission has proposed to address the trigger inversion issue (where MCR can be triggered before SCR) by introducing a new MCR measure.</p> <p>In addition to this, the Commission has proposed to change the calculation method of the minimum consolidated group SCR. This results in double counting of risks and the increased likelihood of the group floor being breached for some groups.</p>	<p>Council proposes to remove the trigger inversion solution proposed by EC and partially addresses double counting, by removing mixed financial/ insurance holding company requirement.</p> <p>Parliament remains aligned with EC proposal, solving trigger inversion but with the introduction of double counting.</p> <p>It is understood that Commission would support the resolution of the issue at technical level (ie. in technical trilogues). However, it does not support the full joint industry position.</p>	<p><u>Expected impact of industry proposal – POSITIVE:</u> Introduction of the industry solution would lead to an appropriate ladder of supervisory intervention application and avoidance of double counting in the group SCR floor.</p> <p><u>IE position</u> Joint industry position developed to support for EC solution on trigger inversion but Council proposal to remove double counting.</p> <p>Proposed actions:</p> <ul style="list-style-type: none"> • Keep as highest priority for lobbying
<p>Sustainability</p>	<p>Transition plans There is already cross-sectoral regulation, such as CSRD and CSDDD regulating transition plans for all sectors.</p> <p>Including in SII text could result in extra costs and complexities if there are inconsistencies between SII and those other regulations and if NSAs supervise transition plans.</p>	<p>Council does not propose transition plans in Solvency II.</p> <p>The Parliament adds transition plan requirements (as well as SFCR disclosure requirements for climate scenario analysis).</p>	<p><u>Expected impact – Limited</u></p> <p><u>IE position</u> Council text preferred but adjusted version of EP approach could work if improved to explicitly avoid overlaps and inconsistencies with other regulation and to remove disclosure of individual climate change scenarios.</p> <p>Proposed actions:</p>

			<ul style="list-style-type: none"> • Continue to push IE position lobby
<p>Proportionality</p>	<p>The current application of the principle in Solvency II is ineffective leading to excessive unnecessary cost and administrative burden is placed on companies.</p> <p>Alignment of recognition of LRPUs and SME in CSRD Currently, insurers cannot benefit from reduced reporting requirements under CSRD because they cannot be defined as SMEs. Its essential that LRPUs status is recognised in CSRD.</p>	<p>Both Council and EP include helpful proposals to reduce burdens for LRPUs but ...</p> <p>While there is agreement on a number of criteria, such as the size criterion, the Council and Parliament still have diverging views on the non-traditional investment criterion, the cross border criterion and the default classification of captives as LRPUs by the Parliament.</p> <p>At the same time, it appears that in the context of the trilogues progress is being made on a number of the LRPUs criteria</p> <p>In addition, the Parliament introduces a proposal to allow insurance undertakings qualifying for LRPUs status under SII to be recognised as SMEs for the purpose of CSRD.</p>	<p><u>Expected impact of proportionality proposals – POSITIVE:</u> Introduction of automatic application of proportionality is expected to alleviate the burden on insurers to a certain extent.</p> <p>IE position Support improvements to non-traditional investments and cross border criteria but note that we have no specific solutions for this that members can agree to.</p> <p><u>Expected impact – POSITIVE:</u> Aligning the SME status with the LRPUs status would reduce reporting requirements in CSRD.</p> <p>IE position Support EP proposal</p> <p>Proposed actions:</p> <ul style="list-style-type: none"> • Keep as priority and push for an early review to assess the effectiveness of the changes (in particular the number of companies benefiting from reduced burden). • Continue to support recognition of LRPUs status in CSRD where relevant.
<p>Cross border supervision</p>	<p>A strengthened host/home supervisor cooperation is important to address known issues in the provision of FoS/FoE activities.</p> <p>However, the home state supervision principle should be adhered to at all times.</p>	<p>The Parliament proposes mandatory collaboration platforms for all significant cross border activities, defined by a quantitative threshold (30 Mio/15%GWP).</p> <p>It also proposes that home NSA should coordinate a joint on-site inspection, at request of any</p>	<p><u>Expected impact of Parliament position – POSITIVE:</u> The introduction of an appropriate definition and digital collaboration platforms may alleviate the administrative burden for insurers.</p>

		<p>concerned NSA and EIOPA to receive remedial powers, in case of disagreements in platform, eg EIOPA may issue a recommendation to NSA concerned.</p> <p>The Council supports criteria for significant cross border to be an absolute threshold combined with a qualitative threshold based on NSA discretion.</p> <p>Feedback from the trilogues is that progress is being made on the best approach to increase information sharing and the use of collaboration platforms. The EC has prepared non-papers to facilitate the discussions.</p>	<p><u>IE position</u> Support Parliament’s proposal for to share QRT data triggered by significant cross-border activities, joint on-site inspections being conducted by the home national supervisory authority and powers for EIOPA to mediate.</p> <p>For the definition of significant cross border activities, a combination of quantitative and qualitative threshold is advisable.</p> <p>Proposed actions:</p> <ul style="list-style-type: none"> • Continue to push IE position
<p>Macprudential supervision</p>	<p>Commission’s proposal to introduce new prudential tools, such as liquidity risk management plans are likely to increase reporting costs/burden.</p> <p>New supervisory powers aimed at remedying undertakings’ liquidity vulnerabilities and preserving their financial position during exceptional circumstances and market/sector-wide shocks could be helpful but powers must remain limited and proportionate.</p> <p>Supervisory ladder of intervention Article 144c is particularly problematic as it introduces new supervisory intervention points before the SCR is breached. Creating powers for new, even earlier intervention points, before the SCR is breached, is unnecessary and will indirectly increase capital requirements, potentially significantly, because insurers, supervisors and the market can consider the</p>	<p>The Council follows the EC proposal on Article 144c but includes the welcome improvement to limit the scope of liquidity risk management plans. The Council also proposes that prudential considerations in ORSA and PPP shall be included only at a supervisory request.</p> <p>The Parliament follows the EC proposal and also includes that supervisory powers shall be applied when liquidity risks and deficiencies are identified, including cases where there is an imminent risk of non-compliance with the SCR.</p> <p>Macprudential topics have been moved to technical trilogues.</p>	<p><u>Expected impact of Art. 144c – NEGATIVE</u></p> <p><u>Expected impact of other Articles– Limited</u></p> <p><u>IE position</u> Support Council’s proposal which incorporates welcome improvements concerning LRMPs, which shall be provided upon supervisory request, as well as a reduced scope of prudential considerations in the ORSA and PPP.</p> <p>Proposed actions:</p> <ul style="list-style-type: none"> • Continue to push IE position

	<p>new intervention point as the implicit new solvency requirement.</p> <p>Moreover, the EC proposes macroeconomic considerations to be integrated in ORSA and PPP.</p>		
<p>Long-term equity</p>	<p>The Commission has committed to developing a workable set of criteria that would incentivize insurers to increase their equity investments in line with the CMU objectives.</p> <p>Improvements in the LTE sub-modules are needed to better reflect the characteristics of long-term investments and to adjust the conservativeness of the existing criteria, which would allow more companies to benefit from a 22% equity charge.</p>	<p>On the Council's side, the LTE criteria have been discussed as part of the EGBPI meetings. In the last meeting, Member States were requested to provide their views on the approach proposed by EIOPA or an equity-forced sales test.</p> <p>The Parliament incorporated simplified and workable criteria in its Level 1 proposal.</p>	<p><u>Expected impact of Parliament position – POSITIVE:</u></p> <p><u>IE position</u> Support the EP proposal.</p> <p>Proposed actions:</p> <ul style="list-style-type: none"> • Support the Parliament's proposal and monitor EGBPI discussions once they recommence.