

Response to EIOPA consultation paper on capital requirements for direct exposures to CCPs

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Q1. Do you have general comments on the consultation document?

Insurance Europe welcomes the opportunity to comment on the consultation on the standard formula capital treatment of direct exposures to CCPs.

As noted by EIOPA, there are only a small number of insurers who are interested in this proposal and the impact of any changes are minimal. However, Insurance Europe appreciates EIOPA's work on the topic and the economic and risk sensitive approach taken.

The industry supports Option 3, to extend treatment of indirect exposure to direct exposure to QCCPs and to further align the treatment of default fund contributions to CRR. This option provides the most balanced approach.

Option 3 enhances risk management by leveraging the robust infrastructure of QCCPs and facilitates greater direct participation by (re)insurers in the clearing process. By supporting these amendments, the industry aims to remove uneconomic regulatory barriers to direct clearing of derivatives through QCCPs, consistent with EIOPA's previous approach for indirect clearing.

The possibility of extending the proposed framework to repos and other securities should be carefully considered. The industry generally supports this proposal, only if it is designed as an additional option. Expanding the proposed approach for derivatives to include repurchase transactions and other securities should not replace or undermine the existing practices.

Lastly, the industry believes that no additional treatment for liquidity risks consequent to the change in CCP treatment is necessary. Recent amendments to the Solvency II Directive mandate that (re)insurers maintain a Liquidity Risk Management Plan (LRMP) and any liquidity requirements should be integrated into this plan if they present relevant risks.

Q8. Do you have comments on Section 2.4 'Other regulatory background'?

The industry supports the proposed Option 3, which suggests further aligning with the CRR. It is a step towards more risk-sensitive capital requirements that better reflect the realities of direct exposures to QCCPs. By treating direct exposures similarly to indirect exposures and simplifying the treatment of default fund contributions, Option 3 provides a balanced approach that enhances the prudential framework without imposing unnecessary burdens on insurance and reinsurance undertakings.

However, the support for Option 3 should not be interpreted as an endorsement of complete alignment of Solvency II with the CRR or any other banking regulation provisions in all respects. It is important to maintain a distinction between the regulatory frameworks applicable to banks and those applicable to insurance entities, as the risk profiles and business models of these sectors are fundamentally different.

Q11. Do you have comments on Section 2.7 'Draft advice'?

The industry generally supports the draft advice of EIOPA, although currently very few (re)insurers act as a direct clearing member. This situation may change in the future. In-line with changes in the applicable regulatory framework that enables (re)insurers to act as a direct clearing member and subject to corresponding offers from QCCPs, (re)insurers may opt to do so. However, it remains unclear how to deal with the credit risk on assets posted as collateral to a CCP or a clearing member that is bankruptcy remote. These assets are currently excluded from the counterparty default risk module (Article 189 (6) (e) Delegated Regulation 2015/35). As these assets are bankruptcy remote, it is suggested to maintain the exclusion.

The final bullet point of the draft advice currently states: *"To extend Article 199(12) to capture the new paragraphs 7 and 8 of Article 192, in order to have the appropriate probability of default used in the capital requirement calculation, such that – in combination with the loss-given-defaults established in Article 192 – relative consistency with the CRR capital treatment is achieved."* It is implied that for direct clearing, the probability of default should be set at 0.002% if all conditions are met and at 0.01% if only some conditions are met, aligning with the treatment for indirect clearing. The industry recommends revising the wording in the draft advice to explicitly state these specific probabilities instead of referring to an "appropriate probability of default."

Q12. EIOPA is exploring to extend the proposed approach for derivatives to repurchase transactions and possibly other securities. Would you consider such an extension appropriate?

Currently some undertakings in specific member states are trading cleared repurchase transactions (repos) via a sponsored model as described in the Consultation Paper and they are under the assumption that also for cleared repurchase agreements the same methodology would be an appropriate option for cleared repurchase transactions. The sponsored model used for repurchase agreements has the same advantages as for cleared OTC derivatives and therefore it would be appropriate to extend the proposed approach to repurchase transactions. In Insurance Europe's view, it is important that this is an additional option and that it does not penalise the current prevailing practice.

Q14. Do you have comments on the treatment of liquidity risk faced by insurance and reinsurance undertakings when they are members of a QCCP?

The latest amendments to the Solvency II Directive oblige (re)insurers to have a liquidity risk management plan (LRMP). Any potential requirements for liquidity should be considered in such a plan, if the arising liquidity risks are relevant. Therefore, there is no necessity for a special treatment of such risks.

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