

	<p><b>Insurance Europe Do's and Don'ts</b></p>	<p><b>Summary assessment of EC proposals</b>          (note that green indicates either something we wanted or we accepted, and that the assessment of the EC proposals is made relative to the IE Do's and Don'ts, the document is for internal use)</p>
<p><b>Address flaws for long-term business</b></p>		
<p><b><i>Volatility adjustment (VA)/ matching adjustment (MA)</i></b></p>	<p>DO:</p> <ul style="list-style-type: none"> <li>• <b>Make material improvements to the VA:</b> it does not work well enough and needs improving to appropriately mitigate artificial volatility and recognise the returns that insurers can earn by increasing the overall application level and improving its sensitivity to market spread volatility. This can be achieved through the following changes based on elements of EIOPA's proposals: increasing the general application ratio; using an undiluted European reference portfolio; improving the country component; and inclusion of an overshooting ratio adjustment. For improvements to be effective and avoid unnecessary complexity, they must not include EIOPA's unjustified proposals to change the risk correction and add a liquidity adjustment factor (see across).</li> </ul> <p>DON'T:</p> <ul style="list-style-type: none"> <li>• <b>In the VA, do not change the risk correction or add a liquidity adjustment factor.</b> These elements of EIOPA's proposals are prudentially unnecessary and would undermine other improvements, inhibit the ability of the VA to work as a counter-cyclical mechanism and make it more complicated than necessary.</li> <li>• <b>Refine MA as proposed by EIOPA:</b> it works well and only limited refinements are needed.</li> </ul>	<p><b><u>Volatility adjustment: Mixed</u></b></p> <p>Although there are a number of good improvements, if the risk correction change remains it will undermine the other improvements. Also, some of the improvements proposed differ from those proposed by EIOPA and need further analysis to understand the impact.</p> <ul style="list-style-type: none"> <li>• <b>Increasing the general application ratio to 85%</b></li> <li>• <b>Using an undiluted European reference portfolio</b></li> <li>• <b>Improving the country component</b> (although it remains unclear if the technical details are consistent with EIOPA's proposals).</li> <li>• <b>Inclusion of an overshooting ratio adjustment</b> (now called undertaking-specific 'credit-spread sensitivity ratio')</li> <li>• <b>EIOPA's proposed liquidity application ratio not included</b></li> <li>• <b>EIOPA's proposed risk correction changes appear to have been kept</b> (Article 86 states that the EC will need to publish ITS/RTS on the % of the spread attributable to the losses represented in the risk correction)</li> <li>• Also prior approval is proposed for <b>new applications</b> of the VA.</li> </ul> <p><b><u>Matching adjustment: Positive</u></b></p> <ul style="list-style-type: none"> <li>• <b>Diversification benefits proposed by EIOPA appear to be included along with some safeguards</b></li> </ul>

		<b>on the inclusion of structured assets in MA portfolios.</b> (Level 2 improvements)
<b>Risk Margin</b>	<p>DO:</p> <ul style="list-style-type: none"> <li>Pursue a <b>significant reduction</b> through an appropriate combination of reducing the cost of capital, recalibration of the proposed lambda, and allowing for group diversification. The risk margin is a purely theoretical amount added over and above the real reserves needed to pay all future expected claims and expenses. It currently reduces the risk-taking capacity of the industry by up to €160bn, is another source of artificial volatility and should be significantly reduced.</li> </ul>	<p><b>Risk Margin: Positive</b></p> <p>The EC is proposing level 2 changes which would increase the reduction of the Risk Margin compared to EIOPA's proposal. (~€50bn vs EIOPA's ~€25bn).</p> <ul style="list-style-type: none"> <li><b>lowering the CoC from 6% to 5%</b></li> <li><b>introduce a lambda without the floor proposed by EIOPA</b> (but lambda calibration is not specified)</li> </ul>
<b>Extrapolation of risk-free interest rates</b>	<p>DON'T:</p> <ul style="list-style-type: none"> <li><b>Do not change the current approach to the extrapolation of long-term risk-free rates.</b> The methodology already reflects the current very low rates, including negative rates when they occur. EIOPA's proposals add further complexity and are unnecessary because there are already mechanisms in place to ensure that, even if rates stay very low, insurers will hold enough assets for very long-term liabilities</li> </ul>	<p><b>Extrapolation: Negative</b></p> <p>EC proposes to adopt EIOPA's proposed alternative extrapolation methodology which will increase cost of long-term liabilities significantly.</p> <ul style="list-style-type: none"> <li><b>Change to extrapolation in line with EIOPA's proposals but with a transitional to phase-in until 2032</b> (No details on calibration are given but the impact assessment suggests that the EC will propose EIOPA's convergence parameter of 10% and 40 % for SEK).</li> </ul> <p>EC also proposes public disclose of solvency positions with the final convergence parameter during phase-in/transitional period (ie ignoring the impact of the transitional measure).</p>
<b>Interest rate risk SCR</b>	<p>DO:</p> <ul style="list-style-type: none"> <li><b>Allow for negative interest rates</b>, using the shifted calibration approach with an appropriately calibrated floor.</li> <li><b>Use the agreed Solvency II extrapolation methodology</b> to calculate the stresses for long-term</li> </ul>	<p><b>IRR SCR: Mixed</b></p> <ul style="list-style-type: none"> <li><b>EIOPA's shifted methodology but with illiquid part of the stressed curve extrapolated to a stressed UFR</b> (maximum UFR stress would be 15 bps).</li> </ul>

	<p>interest rates, ensuring consistency with how rates would change in practice.</p> <p>DON'T:</p> <ul style="list-style-type: none"> <li>• <b>Do not use EIOPA's floor and do not use factor-based shocks for long-term rates</b>, as these elements of EIOPA's proposals assume unreasonable scenarios, would result in procyclicality and overstate the risk for long-term products</li> </ul>	<ul style="list-style-type: none"> <li>• <b>No mention of including a floor (EIOPA's proposed floor is not appropriate)</b></li> </ul>
<b>Spread risk SCR</b>	<p>DO:</p> <ul style="list-style-type: none"> <li>• <b>Maintain the current dynamic VA for internal model users</b>, without changes and new limitations such as those proposed in EIOPA's enhanced prudency principle. Applying the dynamic VA is an effective way to address the flaw in the measurement of spread risk and recognise the actual risk exposure when investing in corporate bonds.</li> <li>• <b>Allow the dynamic VA to apply in combination with the existing spread risk charges for standard formula users.</b></li> </ul>	<p><b>Spread risk SCR: Negative</b></p> <ul style="list-style-type: none"> <li>• <b>New enhanced prudency principle for internal model users in the level 1 texts</b></li> <li>• <b>No mention of dynamic VA in the standard formula</b> (also does not appear to be included in the impact assessment calculations. But any changes would only be part of the level 2 texts.)</li> </ul>
<b>Equity risk SCR</b>	<p>DO:</p> <ul style="list-style-type: none"> <li>• <b>Improve the criteria for the long-term equity category.</b> Much of insurers' equity investment is generally exposed to the risk of long-term under-performance and not to short-term market price movements. This equity category was created in the 2018 review in recognition of this, but the current qualifying criteria do not work and almost no equity qualifies in practice. The criteria need to be improved so that a significant amount of equity investments qualify as long-term, thus removing a barrier to greater investment by insurers</li> </ul>	<p><b>Equity risk SCR: Mixed</b></p> <ul style="list-style-type: none"> <li>• <b>Plan to revise the LTE criteria to improve eligibility under the submodule – with estimated impact of +€10bn but it appears that EC's ambition is limited (they mention 15% of equity investment as the basis for impact assessment and the details, which will be under level 2 are unclear and might be disappointing.)</b></li> <li>• <b>The corridor of the symmetric adjustment to equity risk is proposed to be widened to 17% points. The application of the symmetric adjustment remains mandatory.</b></li> </ul>
<b>Real estate SCR</b>	<p>DO:</p>	<p><b>Real Estate SCR: Negative</b></p>

	<ul style="list-style-type: none"> <li>• <b>Recalibrate the real estate asset category to 15%</b> to better reflect the real risks of this asset class.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>No mention of any plans to reduce the capital charges in the property risk submodule in the level 2 change.</b></li> </ul>
<b>Sustainable investments</b>	<p>DON'T:</p> <ul style="list-style-type: none"> <li>• <b>Do not introduce artificial incentives or disincentives to hold assets on the basis of green or brown qualifications.</b> Appropriate improvements in the review, combined with the EC's powerful green finance strategy (eg SFDR and taxonomy) will provide strong incentives for insurers to accelerate their transition to sustainable investments.</li> </ul>	<p><b>Sustainable investments: Positive</b></p> <ul style="list-style-type: none"> <li>• <b>The EC does not introduce artificial incentives or disincentives based on green or brown qualifications.</b> (However, in the context of the EC Renewed Sustainable Finance Strategy, EIOPA is given a mandate to investigate this possibility by 2023).</li> <li>• Climate stress testing is proposed as a formal requirement (but EIOPA is already planning for this under existing powers – details of any requirements will be key)</li> </ul>
<b>Other</b>	<p>DO:</p> <ul style="list-style-type: none"> <li>• <b>Remove the requirement to publicly report solvency with and without the long-term measures.</b> The long-term measures are there to reflect the true economics and the real risks. Requiring public reporting of solvency with and without them creates confusion and undermines their purpose, especially during periods of market volatility when they are most needed.</li> </ul> <p>DON'T:</p> <ul style="list-style-type: none"> <li>• Do not change transitional measures — they should be left in place until they expire.</li> </ul>	<p><b>Other: Mixed</b></p> <ul style="list-style-type: none"> <li>• <b>Reporting of solvency numbers with and without MA and VA and transitional measure on extrapolation kept</b> (but moved to the part of the SFCR addressed to market participants.)</li> <li>• <b>New applications of transitional measures on risk-free rates and technical provisions will be restricted.</b> In addition, increased public disclosure on the use and impact of the transitional measures is requested.</li> <li>• <b>Plans to reduce the correlation parameter between interest rate risk and spread risk in the SCR, in line with EIOPA recommendation.</b></li> <li>• <b>Plans to improve the treatment of non-proportional reinsurance in the standard formula, in line with EIOPA's advice. However, the proposal only covers non-proportional reserve risk, not premium risk.</b></li> <li>• <b>No improvement on mass lapse.</b></li> </ul>

**Do not gold-plate international agreement on systemic risk measures**

**Macro-prudential package/recovery & resolution**

- DO:
- **Only consider measures referenced in the EC call for advice.** The implementation of the holistic framework for addressing systemic risk should be done with proportionality in mind and should go no further than what was agreed internationally.:
    - Empower supervisors to be able to temporarily prohibit redemption of policies in specific circumstances
    - Consider pre-emptive recovery planning for insurers only where it would provide a tangible benefit in terms of reduction of material systemic risk at EU level.
    - Employ resolution only as a last resort, once all recovery options have been exhausted. Resolution plans should exclusively address the rare situation that an insurer ends up at a point of non-viability.
    - Recognise the importance of cross-border cooperation and coordination between supervisory and/or resolution authorities within the European Economic Area and in third countries, as well as the mutual recognition of resolution actions.

- DON'T:
- **Do not introduce new intervention powers before the SCR is breached.** Solvency II is already designed with early intervention powers for supervisors. With its two levels of capital – the MCR and significantly higher SCR – the framework was already designed for early intervention, which starts

**Macro prudential: Mixed**

**Very extensive set recovery and resolution planning** (cost/impact of this needs further assessment but appears excessive and going beyond what is needed to provide a tangible benefit in terms of reduction of material systemic risk at EU level). Reinsurers and captives in the scope.

- **Supervisors to be able to temporarily prohibit redemption of policies in specific circumstances**
- **Pre-emptive recovery planning applied proportionately with simplified requirements and resolution planning and powers to be applied after entry in resolution (but details require further assessment). Coverage 80% and 70% coverage per country respectively with the risk that both group and subsidiary level recovery plans are needed.**
- **The importance of cross-border cooperation and coordination between supervisory and/or resolution authorities within the European Economic Area and in third countries, as well as the mutual recognition of resolution actions has been recognised. Threshold for application of cross-border cooperation unclear and potentially negative for smaller markets.**
- **Include macroprudential considerations in the ORSA and Prudent Person Principle**
- **Liquidity risk management plans and reporting.**
- **The EC did not take forward EIOPA’s proposals for capital surcharges for systemic risk and concentration thresholds.**
- **Some powers for intervention before SCR is breached**
- **Supervisory powers to restrict or suspend dividend distributions, bonuses, share buybacks and other**

	<p>as soon as the SCR is breached. This should not be changed.</p> <ul style="list-style-type: none"> <li>• <b>Do not take forward additional proposals on capital surcharges for systemic risk.</b> Solvency II is already too conservative, adding even more buffers is unnecessary and would increase the barriers to long-term products and investments and impact global competitiveness. Instead the focus should be on correcting the current measurement flaws so that they are not procyclical.</li> <li>• <b>Do not take forward additional proposals on new powers for controlling dividends.</b> Solvency II already provides a strong basis and safeguards the framework for dividend distributions, including in the ORSA and risk appetite limits approved by Boards. The current case-by-case approach is appropriate. Blanket bans can have damaging effects, such as disruption of income flows for investors (eg pension funds) that rely on regular dividends.</li> <li>• <b>Do not take forward proposals for additional concentration thresholds.</b></li> </ul>	<p><b>payments during periods of exceptional stress and before the SCR is breached.</b></p>
<p><b>Address operational complexity and burden</b></p>		
<p><b>Proportionality</b></p>	<p>DO:</p> <ul style="list-style-type: none"> <li>• <b>Amend legislation to ensure proportionality works in practice.</b> This should include: <ul style="list-style-type: none"> <li>○ Making clear that not only are NSAs legally able to allow insurers to apply proportionality, but they have a legal obligation to facilitate this.</li> <li>○ Creating a non-exhaustive toolbox of proportionality measures with pre-defined, risk-based criteria for their automatic application. EIOPA's proposals for automatic application of proportionality are welcome, but need some adjustments and must be</li> </ul> </li> </ul>	<p><b>Proportionality: Positive</b></p> <ul style="list-style-type: none"> <li>• <b>Automatic proportionality for Low-Risk Undertakings and extended to low risk groups</b></li> <li>• <b>Definition of Low Profile Undertakings is too narrow as the criteria for LRU, including size, are too restrictive.</b></li> <li>• <b>List of proportionality measures that apply automatically for LRUs including reduced reporting</b></li> <li>• <b>Proportionality for large companies possible, but subject to NSA approval:</b></li> <li>• <b>Simplifications allowed for non-material risks</b></li> </ul>

	<p>supplemented by criteria to allow automatic application where the insurer’s exposure to risks or activities is not material.</p> <ul style="list-style-type: none"> <li>○ Making clear that proportionality can go beyond the toolbox and apply to all, based on the nature, scale and complexity of the risks and activities (without a focus on the size of the company).</li> <li>○ An annual report assessing the application of proportionality, including proposals for how to improve its effectiveness and consistency</li> </ul>	<ul style="list-style-type: none"> <li>• <b>EIOPA will report based on NSA requirement to report statistics to EIOPA on the use of proportionality measures and simplifications</b></li> <li>• <b>Recognition of captives.</b></li> </ul> <p><b>Negative:</b></p> <ul style="list-style-type: none"> <li>• <b>5% criterion for cross-border business maintained</b></li> </ul>
<p><b>Reporting and disclosure</b></p>	<p>DO:</p> <ul style="list-style-type: none"> <li>• <b>Reduce the compulsory Quantitative Reporting Templates (QRTs).</b></li> <li>• <b>Simplify the Solvency and Financial Condition Report (SFCR)</b> by allowing a short (eg , 2-page) summary together with a simple extract of QRT data (with no mandatory narrative).</li> </ul> <hr/> <p>DON'T:</p> <ul style="list-style-type: none"> <li>• <b>Do not make many changes to existing QRTs or add unnecessary templates</b> such as the disclosure of standard formula numbers by internal model users.</li> <li>• <b>Introduce external audit requirements for the SFCR</b>, on top of the existing supervisory review processes</li> </ul>	<p><b>Reporting: negative</b></p> <p><b>Significant increases in reporting with only limited improvements/reductions</b></p> <ul style="list-style-type: none"> <li>• <b>Standard formula reporting for IM companies.</b></li> <li>• <b>While the SFCR is split in two parts, it is not simplified, and extensive mandatory narrative is still requested in the ‘other market participants SFCR’.</b> The introduction of external audit requirements – even though limited to the balance sheet – and the mandatory reporting of sensitivities for undertakings relevant for financial stability will add to the burden.</li> <li>• <b>Limitations and exemptions are still at the discretion of the supervisor</b></li> <li>• <b>New auditing requirement for balance sheets</b></li> <li>• <b>Reporting deadlines: Even though the EC extends the Reporting deadlines for annual QRTs (16 weeks), RSR and SFCR (18 weeks), the timelines for the Quarterly QRTs are kept (5weeks), the additional time will not enough with requirement of external audit of the SFCR.</b></li> <li>• <b>Groups would have the option to submit a single group RSR.</b></li> </ul>

		<ul style="list-style-type: none"> <li>• <b>RSR is requested at least every three years, only when duly justifying NSAs can require a yearly RSR</b></li> <li>• <b>LRU and captives are exempted from external SFCR audit and only have to publish a complete SFCR only every 3 years, for other years the public QRTs are sufficient.</b></li> </ul>
<b>Thresholds</b>	<p>DO:</p> <ul style="list-style-type: none"> <li>• <b>Double the gross written premium threshold and allow member states to increase the premium threshold at which Solvency II is applied, in line with EIOPA's proposal, but with a range of €10- 25m rather than €5m- 25m. Below this, local requirements apply.</b></li> </ul>	<p><b>Thresholds: Mixed</b></p> <ul style="list-style-type: none"> <li>• While it is positive that the EC doubled the technical provision thresholds to €50Mio, the premium thresholds were increased only to €15Mio, although not subject to NSA discretion.</li> </ul>
<b>Focus on areas of proven need, avoid changing what works</b>		
<b>Insurance guarantee schemes (IGS)</b>	<p>DON'T:</p> <ul style="list-style-type: none"> <li>• <b>Do not introduce minimum harmonisation of IGS.</b> Solvency II, when implemented appropriately, offers sufficiently high protection. The focus should be on ensuring Solvency II is calibrated and applied appropriately and on cooperation and coordination between supervisory and/or resolution authorities. The IGS currently in place vary significantly across Europe but generally work well in their local context and laws. The requirements and legal structures of IGS should continue to be decided by member states.</li> </ul>	<p><b>IGS: Positive</b></p> <ul style="list-style-type: none"> <li>• <b>No proposal on IGS</b> (However, it will reconsider this at a later stage.)</li> </ul>
<b>Internal models</b>	<p>DO:</p> <ul style="list-style-type: none"> <li>• Preserve (re)insurers' ability to reflect their own assessments of risks through the use of internal models. There are already extensive and rigorous supervisory approval processes in place.</li> </ul>	<p><b>Internal models: Negative</b></p> <ul style="list-style-type: none"> <li>• <b>Regular standard formula reporting for internal models</b> (although at least no public disclosure of this information).</li> <li>• <b>The new enhanced prudency principle for internal model users of the DVA is proposed in the Directive.</b></li> </ul>

	<p>DON'T:</p> <ul style="list-style-type: none"> <li>• <b>Do not impose new reporting and disclosure of standard formula figures for internal models.</b> This would be onerous and undermine their purpose.</li> <li>• <b>Do not seek standardisation of the design of internal models.</b> The purpose of internal models is to capture different and complex risks.</li> <li>• <b>Do not add unnecessary limitations to internal models</b>, such as those proposed by EIOPA in the enhanced prudency principle on the DVA.</li> </ul>	
<b>Group supervision</b>	<p>DON'T:</p> <ul style="list-style-type: none"> <li>• <b>Do not make any changes to group supervision or capital calculations for groups</b> except for the trigger inversion issue, where there is a clear flaw to address. Other EIOPA proposals (eg changes to the recognition of future profits and other changes to the availability assessment, new requirements for aggregation method 2 and the addition of a notional SCR for holdings) are not needed.</li> </ul> <p>There are already sufficient supervisory convergence tools. It is important to avoid additional complexity, costs and capital charges in order to preserve:</p> <ul style="list-style-type: none"> <li>○ the European industry's competitiveness globally; and,</li> <li>○ the flexibility and supervisory dialogue to ensure national supervisory authorities can adapt to the various group structures and risk profiles.</li> </ul>	<p><b><u>Group supervision: Negative</u></b></p> <ul style="list-style-type: none"> <li>• <b>EC has adopted most of EIOPA's proposals in the area of group supervision, creating as such an unnecessary burden and cost for groups. Eg:</b> <ul style="list-style-type: none"> <li>• Definition of the group, including issues of dominant influence; and scope of the group supervision</li> <li>• Clarification how IHC/MFHC/3<sup>rd</sup> country companies should be treated for the purpose of the group solvency calculation, in particular of a notional SCR, Min.Cons.SCR and own funds for such calculation</li> <li>• Responsibilities of AMSB of the head of the group extended to ensuring compliance with all group requirements</li> </ul> </li> <li>• <b>EC to follow EIOPA's suggestion to introduce in the DA a requirement to consider EPIFPs as part of the regular availability assessment.</b></li> <li>• <b>The issue of trigger inversion is addressed</b></li> </ul>
<b>System of governance</b>		<p><b><u>System of governance: negative</u></b></p> <ul style="list-style-type: none"> <li>• <b>General reinforcement of the supervision of system of governance, see new Art 30(2), 42b(4), 41(1), 41(3)</b></li> </ul>
<b>Supervision of cross-border business</b>	<p>DO:</p> <ul style="list-style-type: none"> <li>• In line with EIOPA's proposals: <ul style="list-style-type: none"> <li>○ Strengthen and enhance cooperation between home and host authorities.</li> </ul> </li> </ul>	<p><b><u>Cross-border business supervision: Positive</u></b></p> <ul style="list-style-type: none"> <li>• <b>Follows very closely EIOPA's advice which we supported except for a few details.</b></li> </ul>

	<ul style="list-style-type: none"><li>○ Improve coherence and convergence in the supervision of activities based on freedom of services/ freedom of establishment and protection of consumers</li></ul>	<ul style="list-style-type: none"><li>• <b>But 5% threshold to determine significant cross-border activity may be problematic for some members.</b></li><li>• <b>Ability for host NCAs to circumvent the home NCA when requesting information.</b></li><li>• <b>No standing exchange mechanism proposed</b></li></ul>
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