

To: Solvency II Working Group
From: Prudential Team
cc:
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Subject: Summary EIOPA report on 'capital add-ons' (2020)

Comments

The secretariat prepared a high level summary of the fifth **annual report on the use of capital add-ons by national competent authorities (NCAs) under solvency II** ([here](#)).

Summary

- The report on the use of capital add-ons is an Annual Report that EIOPA publishes in order to report to the EP, the EC and the Council the degree of supervisory convergence in the use of capital add-ons between supervisory authorities in different Member States.
- EIOPA launched a survey for NCAs with:
 - **quantitative** questions: information on the number of capital add-ons set per solo undertaking/group and the reason for the capital add on.
 - **qualitative** questions: focusing on changes in comparison to last year, to gain a better understanding of the process of setting/calculating/reviewing the capital add-ons.
- In 2020, one additional NSA formalised its processes to bring greater convergence in its approach, bringing the total of NSAs with a formalised process to eight. However, at this stage only three of these have set capital add-ons.
- Some NCAs continue to see the processes to set capital add-ons as too complex and burdensome. This situation might be the reason why in some member states so called self-imposed capital add-ons were identified, ie capital add-ons set voluntary by some undertakings following a dialogue with the NCA, these self-imposed capital add-ons are not reflected in the report.
- Answering the question on possible improvements, a variety of proposals to facilitate the use of capital add-ons have been identified by some NCAs.
- According to SII Dir Art 31 and DR Art 316, NCAs that set capital add-ons have to disclose:
 - The number of capital add-ons, the average capital add-on per undertaking and the distribution of capital add-ons measured as a percentage of the SCR, with regard to all insurance undertakings supervised under the SII Directive.
 - The criteria used for the application of capital add-ons and the criteria for their calculation and removal.
- Since December 2020, insurers are required to publicly disclose information on capital add-ons on an annual basis. This means the first SFCRs expected to have information on capital add-ons are the ones addressing the financial year end after end-December 2020, ie the SFCRs regarding the end of 2021 and published in 2022 for the majority of the market. The SFCRs for of December 2020 reveal the following:

- Seven of the nine SFCRs have the capital add-on disclosed
- One undertaking with a capital add-on did not disclose the capital add-on in the SFCR
- One undertaking with a capital add-on did not disclose a SFCR as it is in liquidation
- In 2020 only 7 NSAs applied capital add-ons to 9 undertakings, a decrease compared to 2019, when 9 NSAs applied capital add-ons to 10 undertakings. (*Note that this is the first year the UK is excluded from the numbers*).

The following table gives an overview of capital add-ons applied by NCAs at solo and group level in 2020 and the previous years (all numbers exclude UK):

	#NCAs applying capital add-ons to solo undertakings	#NCAs applying capital add-ons to groups
2020	7 NCAs (9 undertakings)	No NCA has set group capital add-ons
2019	9 NCAs (10 undertakings)	No NCA has set group capital add-ons

- Main observations
 - While usage of capital add-ons remains very limited (ie the relative size of the capital add-ons is less than 0.1% of the total SCR), they have a material impact on the SCR of the entities affected. The weight of the capital add-on for the undertakings ranges from 1% to 86%, with an average of 25% (38% in 2019) of their total SCR. In all but one case, the capital add-on increases the SCR by at least 10%.
 - **The United Kingdom (UK) is not included in this report.**
- 7 out of the 9 capital add-ons were set under Art 37(1)(a), because of a deviation of the risk profile from the assumptions underlying the standard formula.