

To: Solvency II Working Group  
 From: Prudential Team  
 cc:  
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Subject: Summary EIOPA reports on 'limitations and exemptions' (2018 and Q1 2019) and 'capital add ons' (2018)

## Comments

The secretariat has made high level summary of two reports recently published by EIOPA:

- Fourth report on the use of limitations and exemptions from reporting during 2018 and Q1 2019 ([here](#))
- Third annual report on the use of capital add-ons by national competent authorities (NCAs) under Solvency II ([here](#))

## Summary

### Report on the use of limitations and exemptions from reporting during 2018 and Q1 2019

- The report addresses the proportionality principle on the reporting requirements, and highlights that the besides the limitations and exemptions foreseen in Art 35 of the directive, there are other proportionality measures to be considered, ie embedded proportionality and risk-based thresholds.
- In total, in Q1 2019, 13 NCAs granted limitations to 838 solo undertakings, this is an increase compared to 2018, when 13 NCAs granted exemptions to 791 solo undertakings. And the market share of undertakings that are allowed limited quarterly reporting is far from the 20% market share allowable under the Solvency II Directive.
- The following table gives an overview of limitations/exemptions granted by NCAs at solo and group level in 2018 and Q1 2019:

	#NCAs granting <b>limitations</b> for <b>solo quarterly</b> reporting	#NCAs granting <b>exemptions</b> for <b>group quarterly</b> reporting		#NCAs granting <b>exemptions</b> for <b>solo annual</b> reporting	#NCAs granting <b>exemptions</b> for <b>group annual</b> reporting
Q1 2019	13 NCAs (838 undertakings)	5 NCAs (37 groups)	2018	5 NCAs (136 undertakings)	2 NCAs (6 groups)
Q1 2018	13 NCAs (791 undertakings)	3 NCAs (33 groups)	2017	5 NCAs (139 undertakings)	3 NCAs (7 groups)

- In **total** 29.8% (vs 27% last year) of the undertakings are allowed a limited quarterly reporting. At **country level**, the top three countries allowing limitations by number of undertakings are

France, Luxembourg, and UK with 68%,70% and 56% respectively. (In total, across Europe, 2819 solo undertakings and 360 groups are supervised.)

- EIOPA highlights that for undertakings with limitations, the templates exempted vary from undertaking to undertaking indicating, once more, a risk-based approach being taken.
- In line with last year, EIOPA introduces **two examples** how proportionality is implemented in the reporting, reflecting the nature, scale and complexity of the risks inherent to the business.
  1. The look-through reporting of collective investment undertakings (CIUs) for unit-linked contracts. EIOPA concludes that that proportionality is implemented through risk-based thresholds and the limitations.
  2. The number of templates to be reported by different sized companies. EIOPA concludes that proportionality is implemented more in quarterly reporting than in annual reporting, and additional risk-based thresholds are needed, as proposed in 2020 review.
 

*For **quarterly** templates, in Q1 2019, large undertakings were required to complete 9 templates on average, while small undertakings were required to complete 5 templates. Hence, large undertakings have to complete nearly twice as many templates as small insurance undertakings in this quarter.*

*For **annual** templates, largest undertakings were required to complete 36 templates, whereas small undertakings completed 26 templates on average.*
- Process for granting limitations and exemptions:
  - The report reconfirmed that the majority of NCAs does not have formal policies in place for granting the authorisation to use and/or withdraw limitations/exemptions from reporting.
  - No further changes are foreseen in this area as NCAs have SRP's and Risk Assessment Frameworks in place, helping them to evaluate the need for potential limitations in reporting requirements and some NCAs have published Q&As to help clarifying the conditions under which an application for limitations to quarterly reporting may be granted.
- It is important to note that, some undertakings, even if allowed not to report, prefer to continue doing so. In addition, many undertakings that could be eligible for limitations/exemptions do not make use of this possibility. This is also due to the fact that the limitations/exemptions are granted only for 1 year, which is creating uncertainty and instability for undertakings.

#### Report on the use of capital add-ons

- The objective of the report is to report to EP/EC and Council on the degree of supervisory convergence in the use of capital add-ons between supervisory authorities, in the report emphasis is put in particular on changes in the use of capital add-ons reported over the past three years.
- EIOPA notes that *'according to the regulatory framework, capital add-ons are to be used as a measure of last resort, when they are exceptional and transitory and should be considered only when other supervisory measures have failed, are unlikely to succeed or are not feasible.'* This context contributes to the current limited use of capital add-ons, with NCAs recognising that **additional capital add-ons should have been set from a prudential point of view but have not been set because of the complexity of the process.** EIOPA notes that in this sense, a streamlining/simplification of the process for setting capital add-ons would allow better use of this tools.
- During 2018, eight NCAs have set capital add-ons to 21 solo (re)insurance undertakings (in 2017, 6 NCAs set capital add-ons to 23 undertakings).

The following table gives an overview of capital add-ons applied by NCAs at solo and group level in 2018 and the previous years:

	#NCAs applying capital add-ons to <b>solo</b> undertakings	#NCAs applying capital add-ons to <b>groups</b>
2018	8 NCAs (21 undertakings)	1 NCA (3 groups)
2017	6 NCAs (23 undertakings)	2 NCAs (6 groups)
2016	4 NCAs (20 undertakings)	1 NCA (4 groups)

- Main observations
  - While usage of capital add-ons remains very limited, they have a material impact on the SCR of the entities affected. The weight of the capital add-on for the undertakings range from 0% to 80%, with an average of 32% (30% in 2017) of their total SCR.
  - For most undertakings, capital add-ons will need to be publicly disclosed on an annual basis from December 2020 onwards with the aim of improving market transparency and discipline.
  - 12 out of the 21 solo undertakings that had to apply a capital add on, are UK undertakings.
  - Only the UK applied capital add ons to 3 groups in 2018.
  - 18 out of the 21 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.
  - Only 1 life undertaking using an internal model had to apply a capital add on.