

To: Solvency II Working Group
 From: Prudential Team
 cc:
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Summary EIOPA reports on limitations and exemptions and capital add ons

Subject:

Comments

The secretariat has made an assessment of two reports published by EIOPA last December:

- Third report on the use of limitations and exemptions from reporting during 2017 and Q1 2018 ([here](#))
- Second annual report on the use of capital add-ons by national competent authorities (NCAs) under Solvency II ([here](#))

Note that specific elements of the report on limitations and exemptions will be considered in the context of the Solvency II 2020 review.

Summary

Report on the use of limitations and exemptions from reporting during 2017 and Q1 2018

- The report addresses the proportionality principle on the reporting requirements, and notes that proportionality in SII is reflected in:
 - The provisions on limitations and exemptions foreseen in Art 35 of the directive
 - Natural embedded proportionality (eg undertakings not invested in collective investment undertakings do not have to report look-through)
 - Risk-based thresholds
- In Q1 2018, 13 NCAs granted limitations to 791 solo undertakings, this is an increase compared to 2017, when only 10 NCAs granted exemptions to 703 solo undertakings.
- The following table gives an overview of limitations/exemptions granted by NCAs at solo and group level in 2017 and Q1 2018:

	#NCAs granting limitations for solo quarterly reporting	#NCAs granting exemptions for group quarterly reporting		#NCAs granting exemptions for solo annual reporting	#NCAs granting exemptions for group annual reporting
Q1 2018	13 NCAs (791 Undertakings)	3 NCAs (33 groups)	2017	5 NCAs (133 undertakings)	3 NCAs (7 groups)
Q1 2017	10 NCAs (703 undertakings)	4 NCAs (21 groups)	2016	4 NCAs (134 undertakings)	3 NCAs (8 groups)

- In **total** 27% of the undertakings are allowed a limited quarterly reporting with the market share of such undertakings varying between 0% and 14.6% for non-life Gross Written Premiums and between 0% and 4.5% for life Technical Premiums. At **country level**, the top three countries allowing exemptions by number of undertakings are Luxembourg, France and Norway with 70%, 67% and 64% respectively. Looking at the exemptions in terms of total assets, however, a different picture emerges: Liechtenstein ranks highest, followed by Malta and France with 7.1%, 6.5% and 5.4% respectively.
- **Process for granting limitations and exemptions:**
 - EIOPA’s third survey reconfirmed that the majority of NCAs does not have formal policies in place for granting the authorisation to use limitations/exemptions from reporting and to withdraw such authorisation.
 - It is worthwhile noting that after two years of Solvency II-implementation, some undertakings, even if allowed not to report, prefer to continue doing it. Not only because their systems are already in place but also because the limitation/exemption may be withdrawn at the end of one year, which creates uncertainty and instability to undertakings.
 - A revision of this study will take place in 2019 to take further actions, and the results of the previous EIOPA reports will be taken into account in the Solvency II 2020 revision.

Report on the use of capital add-ons

- The objective of the report is to contribute to a higher degree of supervisory convergence in the use of capital add-ons between supervisory authorities and highlight any concerns regarding the capital add-ons framework.
- During 2017, six NCAs have set capital add-ons to 23 solo (re)insurance undertakings (in 2016, 4 NCAs set capital add-ons to 20 undertakings).
- The following table gives an overview of capital add-ons applied by NCAs at solo and group level in 2016 and 2017:

	#NCAs applying capital add-ons to solo undertakings	#NCAs applying capital add-ons to 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 1% to 83%, with an average of 30% 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.
 - 14 out of the 23 solo undertakings that had to apply a capital add on, are UK undertakings.
 - 4 out of the 6 groups that had to apply a capital add on, are UK groups.
- In terms of next steps, EIOPA will continue to analyse the development on the use of capital add-ons to monitor whether more experience will encourage NCAs to make more efficient use of this tool that seems to have been hampered by various difficulties in the recent past (scarce resources, lengthy processes, difficulties in calculating capital add-ons or simply the lack of experience or the fact that capital add-ons have been tagged as a negative perception so far added to the overall low use around Europe).