



Review of the prudential rules for the insurance and reinsurance sector (Solvency II)

Joint EIOPA-ECB workshop, 20 October 2021





General background on the Solvency II review package

Solvency II review - context

- **Legal mandates** for COM to review several pivotal components of the Solvency II framework in 2021 (including “long-term guarantee” measures, risk-sensitivity of capital requirements, group supervision)

Beyond legal mandates, an opportunity to...

- ... **enhance contribution of the (re)insurance sector to Capital Markets Union (CMU) and European Green Deal**, in the context of the recovery phase after the pandemic
- ... **adapt the framework to a changed market environment and strengthen single EU market for (re)insurance**
- ... **assess the first five years of implementation** of the framework, including in light of the pandemic experience

Solvency II review package of 22 September

The package consists of **three** main elements:

- **Legislative proposal to amend Directive 2009/138/EC (Solvency II Directive) – COM(2021)581**
- **“Chapeau” Communication** setting out intentions for technical rule changes that will follow the high level legislative proposals in this package – COM(2021)580
- **Legislative proposal to create an EU framework for the recovery and resolution of (re)insurers – COM(2021)582**



Amendments to Solvency II rules

Solvency II amendments (1/3)

Objective: Provide incentives for insurers to long-term sustainable financing of the economy, in line with the political priorities of the Union



- Ensure that climate risks are better taken into account by risk management systems of (re)insurers (e.g. the impact of **long-term climate change scenarios** will be analysed as part of the Own Risk and Solvency Assessment (ORSA) by (re)insurers, *Level 1*)
- Continue to assess whether **capital requirements for sustainable investments** are an obstacle to the green transition (i.e. mandate to EIOPA to conduct further **technical investigation by 2023**, *Level 1*)
- Simplify the criteria to qualify for the **preferential prudential treatment associated to investments in long-term equities** (*Level 2*)
- Ensure an **overall “balance”** of the proposal and facilitate contribution to the CMU: no increase in solvency requirements and release of additional “surplus” during the recovery phase (*Level 1 (e.g. volatility adjustment) and Level 2 (e.g. risk margin)*)

Solvency II amendments (2/3)

Objective: Improve risk-sensitivity and mitigate excessive short-term volatility in (re)insurers' solvency position



- Reflect the “new normal” of low interest rates in the valuation of liabilities and in the calculation of standard formula capital requirements (*Level 1 (extrapolation) and Level 2 (interest rate risk)*)
- Remove excessive short-term volatility in solvency valuations that could cause frictions with long-term investments (i.e. enhance the effect of the volatility adjustment, *Level 1*)

Objective: Enhance legal certainty for the use of proportionality and eliminate unnecessary compliance costs for small and less complex (re)insurers



- Provide more clarity on when and how “low risk profile” (re)insurers should benefit from lower regulatory burden and “proportionate requirements” (*Level 1*)
- Raise thresholds for exemption from the scope of the Solvency II Directive (*Level 1*)

Solvency II amendments (3/3)

Objective: Reduce deficiencies in the supervision of cross-border (re)insurance and improve quality of supervision including groups, to improve the protection of policyholders



- Ensure better **exchange of information** among supervisory authorities and **enhance the role of EIOPA** in case of complex cross-border insurance activities (*Level 1*)
- Enhance **supervision of insurance groups** and improve rules on group capital management (*Level 1*); however, no change to equivalence rules or treatment of third country branches;

Objective: Introduce targeted macro-prudential tools to address potential build-up of risks for the financial stability through (re)insurance



- Introduce a **new macro-prudential toolkit** for supervisors applicable in exceptional macroeconomic situations, such as Covid-19 (e.g. dividend restrictions subject to criteria and tools to address liquidity risks that may cause threats to financial stability, *Level 1*)
- Integrate **macro-prudential considerations** (including climate change effects) within **ORSA** and investment decisions ("**Prudent Person Principle**") of (re)insurers (*Level 1*)



Impact on capital requirements

Quantitative impact of the proposals

- **Proposals are largely based on EIOPA's Opinion**, with the **exception of some targeted deviations** that ensure an overall balanced outcome at EU level
- **Phasing-in of the most costly changes** until the end of 2031, e.g. adjustments to reflect the 'new normal' of low interest rates in valuation and capital requirements
- Overall a **decrease in capital requirements** across the EU at the end of the phasing-in
- **Additional “surplus” released in the first year of the phasing-in**, to help insurers ramp up their contribution to the post-COVID-19 economic recovery
- **Limited costs for implementing the new rules** as regards both Solvency II and (Re)Insurance Recovery and Resolution (*no MREL/TLAC-like requirements or resolution funds*)



Supervisory reporting and disclosure

Reporting

- Reporting **deadlines** are set out in Directive (Art. 35b)
 - 16 weeks (annual QRT), 5 weeks (quarterly QRT), 18 weeks (RSR);
 - Exceptional changes to deadlines possible in case of extreme events;
- **Exemptions** from quantitative reporting (Art. 35(9) and (10), 35a):
 - Low-risk profile insurers should be given priority for the exemptions;
 - Captives exempted from quarterly item-by-item reporting;
 - Further captive-specific exemptions possible subject to criteria that will be spelled out in Level 2;
- Narrative part – regular supervisory report / “**RSR**” (Art. 35(5a), 256b):
 - RSR requirement set out in Directive;
 - no fixed frequency, but at least every three years;
 - Frequency for low-risk profile insurers no higher than every three years;
- Companies using an **internal model** need to report the results of a standard formula calculation (Art. 122)

Disclosure

- New structure of **SFCR** (Art. 51, 256):
 - part addressed to **policyholders and beneficiaries** -> exemption for reinsurers and captives
 - part addressed to **other market participants** -> only quantitative part for low-risk profile insurers and captives, but low-profile insurers have to publish narrative part every three years;
- **Deadline:** 18 weeks after end of each financial year;
- Minimum harmonisation on **audit** requirements (Art. 51a, 256c):
 - prudential balance sheet needs to be audited;
 - Exception: low-risk profile insurers, Member State option as regards captives;

EIOPA mandate on integrated data collection

- EIOPA is asked to draw up a report on potential measures to develop an **integrated data collection** (Art. 35(12));
- **Objectives:**
 - reduce duplications and inconsistencies in reporting rules across sectors;
 - maximise utility of data gathered;
- One priority: data reported on collective investment undertakings (“**funds**”) and **derivatives**;
- Timeline: within **2 years after publication** of adopted Directive;
- Context: COM is working on **strategy on supervisory data** (planned adoption: Q4/2021);

Thank you for your attention!