IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

Advice on Consultation paper (EIOPA-CP-19-006) on the Opinion on the 2020 Review of Solvency II

EIOPA-IRSG-19-44
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European Insurance and Occupational Pensions Authority

General Comment	The IRSG supports the overall economic risk-based framework for Solvency II and the benefits this has provided to Europe. The 2020 review provides an opportunity to make focused improvements to the Solvency II regime including to the long term guarantee measures. The review should be utilised to ensure that the LTG measures function appropriately to protect policyholders while ensuring long term product provision and long term investment which are so important to consumers and the economy. The IRSG considers that Solvency II as it stands is a robust risk-based capital regime and that, in aggregate, there is not a good reason for increased capital and reporting requirements. In this regard, we welcome an approach that seeks an 'evolution rather revolution' for Solvency II, but are concerned that the large number of significant changes being considered by EIOPA within the consultation itself go much further than this. The consultation contains a number of options that would increase the level of capital and/or reporting which would be required of undertakings, and has not taken the opportunity to look at areas where reductions are justified. It is essential that potential changes to Solvency II are considered holistically rather than topic by topic so as not to destabilise the overall regime which was carefully developed and overall functions relatively well aside from some specific areas. Some of the questions to be asked as part of this analysis include: • Is Solvency II working as intended? • Have policyholders been sufficiently (or too heavily) protected? • Did Solvency II cause or solve financial stability issues? • Is Solvency II onerous or too complex? • Is market entrance still possible for new insurance companies? • Are insurers investing in long-term investments, supporting the economy? • Are insurers still selling long-term guarantee products? We consider it to be essential that EIOPA establish a clear process between the consultation and final advice to reduce the number of changes currently included within the consultation paper and that the IRSG remain closely involved in these deliberations. We propose that additional complexity, which is a feature of some of the proposals in the consultation, should not be introduced to the regime unless there are clear associated benefits.

	We note that the EC is not looking for fundamental changes in the regime and yet the EIOPA proposals as they currently stand can be expected to increase the capital requirements (increase in SCR or decrease in own funds at solo and/or Group levels) and the reporting and disclosure burden put on European insurance companies. Examples of the latter include various reporting and disclosure proposals by EIOPA in the areas of VA, risk management/disclosure provisions on LTG measures, best estimate and extrapolation (see other areas of the consultation). The IRSG would argue that the Solvency II requirements are already extremely onerous; capital requirements should not increase – and, if anything, they should decrease where there is proof that this is justified. In addition, the reporting burden should not increase, but decrease through streamlining. Similarly, proportionality needs to be more effectively embedded in the framework to ensure its application is facilitated to the fullest extent by National Supervisory Authorities (NSAs) across all pillars. There are certain areas of the consultation where we have made additional comments and/or felt that the issues were not properly addressed, eg • The **last liquid point** for the Euro should not be extended beyond 20 years, and this is supported by a full analysis of markets and the parameters which are applicable. • The **VA mechanism** needs improvements; the level of the VA and its volatility should be addressed. Unfortunately, the proposed EIOPA approaches do not achieve this objective. • The IRSG supports the proposed improvements to the **Matching Adjustment**. • The IRSG considers the **Risk Margin** as currently calculated to be excessive and its sensitivity to interest rates is a source of artificial volatility. This is particularly the case for long-term products; the Risk Margin as currently prescribed can lead to unnecessary impact on the price and/or availability of certain (long-term) products. The IRSG urges EIOPA to identify alternative parameters for Risk Margin in order to address its shortcomings. • The IRSG considers that the proposed changes relating to **Best Estimate** must be carefully considered in the context of their overall impact. Changes relating to contract boundaries should be analysed carefully, understanding the possible impacts on different types of products. All changes which make the already complicated calculation even more complex or burdensome, notably as regards EPIFPs, should be avoided. • The IRSG considers that the recognition of future premiums on in-force business is an economic feature of Solvency 2. **EPIFP** cannot be disaggregated from within the BEL calculation and viewed in isolation of other elements of the Solvency 2 capital assessment. The BEL (including EPIFP), SCR and risk margin need to be viewed

	holistically in the Solvency 2 assessment at the solo and Group levels and any asymetric constraints should be avoided. • The IRSG considers that **real estate risk** should be recalibrated and that there is evidence to lower the stress from the current 25%. • Changes to **correlations** are likely to materially impact the size of SCR. As no new research is available to support changes in correlations, the IRSG agrees with proposals not to change the parameters. The IRSG feels that more work is required particularly in the area of mass-lapse risk. • The IRSG considers the exclusion of **non-proportional reinsurance** from the premium and reserve risk sub-module to be a technical inconsistency of the standard formula that needs to be addressed in the 2020 review. Non-proportional reinsurance being the prominent risk mitigation instrument for the non-life sector, the IRSG welcomes EIOPA’s openness to discuss methods to improve its recognition in the premium and reserve risks. The IRSG believes that a maintenance of the status quo is the worst possible outcome and that all of the alternatives already proposed by the industry strike a better balance between risk-sensitivity, complexity and prudency. • The IRSG considers that additional capital requirements are not the appropriate response to **systemic risks** in the sector. Creating a temporary higher capital cushion once a crisis is about to begin is likely to be pro-cyclical and self-fulfilling, while the additional capital required is likely not to be sufficient to mitigate a full blown crisis impact. Instead, where real systemic risk exists, other mechanisms (for example internal controls and risk management) are essential. The additional tools and measures used in macroprudential assessments should be limited and proportionate. • The IRSG believes that **transitional measures** on technical provisions should remain available from a level playing field, legal certainty and crisis management perspective. • **LTG measures** can be closely monitored but should not be questioned once the requirements to use them are met. In particular, in the case of an undertaking which uses an LTG measure (and meets the SCR with that measure) not meeting the SCR without the application of the LTG measure, it is not appropriate to give NSAs the ability to limit or withhold capital distribution. • The IRSG recognises that the current approach to calculating standard formula **interest rate stresses** has weaknesses. The IRSG welcomes EIOPA's proposal to use a shifted approach model but considers that EIOPA’s proposed calibration of the model is unduly onerous and not suitable for all currencies to which it applies. In particular, the illiquid part of the stressed RFR curve should be extrapolated to the UFR. The IRSG proposes an alternative framework which reflects a divide of interest rate down risk into two

	parts, one that can be quantified using historical data and another that reflects the qualitative drivers of lower rates. • **On spread risk**, the IRSG supports the **extension of the DVA to the standard formula** but also recognises that EIOPA's proposed ways to better enable long term holding of bonds could potentially be an improvement, if appropriately revised. • • In the area of **group supervision**, EIOPA proposes a significant number of changes, largely based on theoretical suppositions, which the IRSG does not support. In particular, (1) proposals to consider EPIFPs and technical reserves transitionals as unavailable for group purposes would create unwarranted significant capital impact, with no justification, (2) modifications of the minimum consolidated group SCR to include intermediate holdings lead to material double counting of risks and increase the likelihood that an unwarranted risk-insensitive minimum consolidated group SCR becomes the binding solvency measure, and (3) artificial limits on the group leverage unnecessarily constrain group company structures. • The IRSG believes that the principle of **proportionality** needs to become more explicitly embedded in the regulation, in a way where it is not seen as an "exception", but rather as an appropriate, justified and meaningful application of the framework, taking into account the risk profile and business nature of undertakings.

Question	Response
Q2.1	*What is your view on the options on the last liquid point for the euro (including the alternative extrapolation method) set out in this section?* The IRSG considers that the last liquid point (LLP) should not be extended beyond 20 years for the following reasons: • Criteria in place to assess the LLP value do not provide strong support for a change from 20 years for the EURO area. • Deep, Liquid and Transparent (DLT) features of markets do not provide a common view for a possible update. In particular, the residual volume criterion (only applicable to the EURO) shows a very stable and deep (from 2006 to 2018) outcome with a LLP always in the range 18-22 years. • While the swap market shows isolated DLT maturities beyond 15 years, i.e. at 20, 25, 30, 40 and 50 years, the "matching criterion" limits the LLP to 15 or 23 years (with and without unit linked liabilities) and the residual volume criterion limits the LLP to 22 years.

Question	Response
	• As insurance liabilities are, and are expected to remain, heavily covered by bonds, the matching criterion (referring to bond volumes being sufficient to cover liability cash flows) remains an important theoretical and practical consideration for setting the LLP. In the absence of support from the three criteria, the IRSG considers that no change should be made. In general, we would reject any of the pillar 2 and 3 amendments. From a perspective of stability of the framework, and the reasons outlined above, the industry is in favour of option 1 (no change). Note that the current EIOPA methodology of changing the UFR also, albeit gradually, addresses a low for long environment. In addition, there are other financial stability tools (such as stress testing) or pillar 2 approaches (ORSA) that can sufficiently address low for long challenges. Also, the matching with bonds criterion has relevance, because for a LLP of 30 years swaps are needed (so the criterion needs to be abandoned) which might be disruptive in the financial market as there will be a spike in demand for swaps to hedge the new LLP. **Additional safeguards considered by EIOPA:** The IRSG does not support the suggested addition of a supervisory intervention point for NSAs, who should receive the power to deny dividend payments and other capital reductions, where a simultaneous non-application of the VA/MA and the transitionals in combination with a LLP of 50 years and a reduction of UFR by 100 bps results in a non-compliance with the SCR. This undermines the role of Pillar 1 as the measurement tool of the current solvency position. As long as Pillar 1 indicates that the SCR is covered, the undertaking is considered solvent under the existing Solvency II framework and should be free to adjust its capital.
Q2.2	*Should the calculation of the VA be based on the CF-Freeze approach or the MV-Freeze approach? Please explain your view* Following the analysis presented by EIOPA only in extreme circumstances is there a real observable difference between the two methods. Elements which should be considered here include the administrative burden of changing from one method to another, how the VA would work in an opposite scenario, and the methodologies would be possible to complete within required timeframes?

Question	Response
	In principal, we are not against the move from one method to the other. However, the current method is simpler.
Q2.3	*What is your view on the identified deficiencies of the current VA?* **Deficiency 1: Over- and undershooting of the VA** The IRSG considers that this deficiency can be mitigated by directly addressing the three drivers of over- or undershooting. Subject to additional quantitative analysis, these could be addressed by • Giving some consideration to the actual asset portfolio of the company to reduce mismatches between companies' own asset portfolios and the reference portfolio • Applying the parallel shift arising from the VA only to tenors up to the duration of assets or an appropriately designed application ratio (preventing distortions emerging from applying the VA until the LLP, irrespective of the actual duration of the assets held) • Increasing the "general application ratio" to 100% along with the two actions above, reflecting the improved applicability of the VA to the undertaking arising from these actions. While we appreciate EIOPA's considerations on solutions to these deficiencies we strongly believe that a 100% general application ratio would be appropriate and consistent with the fact that identified risks are addressed separately in specific adjustments before the general application ratio is applied. This would eliminate double counting of risks. **Deficiency 2: No consideration of the illiquidity characteristics of liabilities in current VA** The existing requirement for a liquidity plan which provides evidence that the liquidity profile allows the VA to be earned could be complemented by a more formal liquidity test on liabilities. Eligible liabilities should then receive the full VA benefit, without further application ratio adjustments. **Deficiency 3: Cliff effect of company specific increase** The IRSG agrees that the current design of the activation criteria of the country-specific component creates undershooting and undesirable cliff effects which

Question	Response
	introduce volatility in the framework. The IRSG encourages EIOPA to ensure that this deficiency is properly addressed when redesigning the VA. **Deficiency 4: Mis-estimation of the risk correction of VA** A risk correction is only required to reflect the economic risks resulting from the long-term business model, i.e. based on economic risks resulting from holding assets that are not subject to forced selling. Thus the risk correction should account for expected defaults, while unexpected defaults should be covered through capital requirements. **Deficiency 5: VA almost always positive** If credit spreads in the market are negative, this should be recognised in the (undertaking-specific) calculation of the VA to reflect the economics of the long-term insurance business model. **Deficiency 7: interest rates with VA are not market consistent.** Insurance liability valuation should reflect as closely as possible the economic realities of the insurance business model, i.e. reflect that with stable long-term liabilities, there is no exposure to forced asset sales and therefore considerations around valuation and risk capital can focus on expected defaults (risk correction in valuation) and unexpected default (capital). Other components of the asset market credit spread are much less relevant for liability valuation / capital requirements.
Q2.4	*What is your view on this deficiency of the country-specific component of the VA? How should it be addressed? (You may want to take into account in particular the options 1, 7 and 8 set out in the following section.)* As noted above, the deficiency of the country-specific component is one of the most relevant deficiencies. The IRSG notes that a company-specific approach eliminates the need for a country-specific VA solution and, as indicated above, would mitigate some of the basis risk inherent in the current VA. In addition, option 7 seems to address this deficiency quite well as part of a representative portfolio VA approach.

Question	Response
Q2.5	*What is your view on the safeguards to avoid wrong investment incentives? In particular, how can wrong incentives with regard to investments in government bonds best be avoided?* The IRSG does not support risk-corrected spreads which are calculated as a percentage of the prevailing spread. A VA approach that includes rating dependent risk corrections, as currently defined, in the VA as well as rating dependent credit risk requirements to reflect the risk of unexpected defaults (over the credit cycle) complemented by a test/report that provides evidence that assets are not subject to forced selling should be enough to avoid wrong investment incentives.
Q2.6	*Should liquidity buffers be recognised in the VA calculation? If yes, please describe how they should be recognized.* Liquidity buffers should not be used in the VA calculation. However, an appropriately designed liquidity report could be a prerequisite to qualify for a full (general application ratio = 100%) recognition of the VA.
Q2.7	*What are your views on Approach 1 and Approach 2?* Neither Approach 1 nor Approach 2 is a suitable formulation of the VA. • The proposal to alter the risk corrections to be a percentage of the prevailing spread increases procyclicality and is not needed as the capital requirements for spread risk already ensure that this risk is covered in the framework. • The adjustment for the illiquidity of liabilities is not needed or desirable in the VA calculations. Appropriately designed liquidity reporting should address any supervisory concerns about liquidity. • The general application ratio should be increased to 100%. Both approaches attempt to resolve the shortcomings of the current rules for VA but only subsequent quantitative analyses will provide a reliable insight to the relative effectiveness of the two approaches. They appear more complex than the current framework and require higher computational effort and disclosure. The IRSG considers that any additional complexity should be justified. Changing the risk correction to be a percentage of prevailing spreads (option 6) has little theoretical basis, would significantly restrict the ability of the VA to compensate for spread shocks and should be rejected.

Question	Response
	The changes in application ratio (options 4 and 5), though aiming to correct some deficiencies affecting the current VA, appear to limit the benefit of the VA and could make the VA calculation difficult to manage and cumbersome, requiring several stochastic calculations. The macro-economic VA is based on the deviation of the country spread from country historical averages (of the last 5 years) rather than from EU-average spreads. The benefit from the macro-economic VA is therefore diminished if there is a sustained period of stress.
Q2.8	*What is your view on the general application ratio? Should it be changed in case approach 1 or approach 2 to the VA design would be adopted?* The IRSG considers that retention of the 65% general application ratio together with downwards adjustments resulting from considerations of fixed income allocation, duration mismatch and illiquidity features could result in material double counting of corrections. There is a strong argument for increasing the 65% to 100 %.
Q2.9	*Should the dynamic VA be allowed for in the SCR standard formula? If yes, how should it be implemented?* Yes, the IRSG supports the extension of the dynamic VA to the standard formula. This would result in capital charges for bonds and loans within the standard formula which are more consistent with the long-term (default) risks that insurers are exposed to. It is also consistent with the total balance sheet approach of Solvency II. EIOPA notes the disadvantage that the dynamic VA might create an uneven playing field in favour of standard formula users as long as government bond risks are not fully captured in the standard formula. However the analysis in 2.580 shows that the net cumulative impact of sovereign risks and DVA gives an advantage of reducing -3.3% of SCR to internal model users compare to standard formula users. At the end of 2018 assuming a coverage ratio of approximatively 239% (LTG report 2018 page 24), this advantage results in additional 7 points of coverage ratio.

Question	Response
	Additionally, to ensure consistency between risk measurement in the SCR and the derivation of technical provisions we think it may be logical to introduce DVA in the standard formula spread risk valuation. This would limit pro-cyclical behavior by adjusting the SCR charge as already implemented in the computation of own funds. The implementation should be based on the good practices of internal models restricted to assets carrying a capital risk charge such as corporate bonds.
Q2.10	*Should the correlation of risks between the participation and the participating undertaking be taken into account in determining whether a participation can benefit from the lower capital charge for strategic equity investment? Please explain your view.* No, this is practically not feasible, because by definition of strategic equity investments there are not enough market data to evaluate such a correlation.
Q2.11	*Considering the diversification of long-term equity risk with other risks: Do you have evidence to support any of the options set out in this section? If the answer is "Yes", please elaborate on it.* No comment
Q2.12	*Do you consider that the illiquidity of liabilities (and more broadly the characteristics of insurance business) are reflected in an appropriate manner in the current equity risk sub-module? If the answer is "No", please elaborate on the changes that you deem necessary.* No comment
Q3.1	*EIOPA is concerned that this could imply new burdensome calculation for some undertakings and therefore wants to ask the following question: Do you consider that homogeneous risk groups may include profit-making and loss-making policies? If yes, why are these policies considered to be homogeneous even if a key aspect like profitability is so different? Concrete examples to illustrate the answers will be welcome.* The IRSG considers that there may be similar contracts being part of the same homogeneous risk group (HRG)with different levels of profitability. Examples are below; in both cases, valid product differences within the same group may lead to some policies being profit-making and some being loss-making. • The definition of HRGs takes into account different types of financial guarantees of insurance contracts where benefits can be linked to the same fund

Question	Response
	• Features such as management fees and expense loadings can be different within the same HRG. Further, EIOPA did not provide convincing arguments why a net EPIFP should - for supervisory purposes - be split into the group of loss making contracts and the group of profit making contracts (per line of business) with the impact of reinsurance shown separately. Such information does not change its nature as a component of the reconciliation reserve and does not provide meaningful information on realizable cash values, as transactions are typically not mirroring regulatory contract groupings such as Solvency II defined HRGs or Solvency II defined lines of business. Such grouping may also not be practicable when stochastic valuation methods are used (i.e. the same HRG can be profitable in some scenarios and turn unprofitable in others or could be unprofitable up to a certain maturity and profitable thereafter). It could also lead to more volatile and unpredictable EPIFP figures as the profitability of policies may vary according to changing external conditions (e.g. change in interest rates or change in mortality tables), thus impairing the consistency of groupings over time.
Q3.2	*Do you consider that the proposed definition may introduce barriers to entry for new undertakings? If yes, please elaborate the answer.* No comment
Q3.3	*Q3.3: Is your experience, if relevant, consistent with our conclusions that the risk margin can be more sensitive to interest rate changes for longer term business?* The current methodology for the calculation of the Risk Margin may lead to excessive sensitivity of the Risk Margin to interest rates, particularly for longer term business, generating artificial volatility. The IRSG considers that the risk margin is excessive, particularly for long-term products, and can lead to unnecessary impact on the price and/or availability of certain (long-term) products; the CoC at 6% is at an inappropriately high level in light of the level of risk free interest rates and lowering it would be the most straightforward way of achieving more appropriate risk margin outcomes. The IRSG considers that EIOPA's previous conclusions on the Cost of Capital do not give prominence to the range of outcomes in the analysis they discuss and refer to, and this could be leading to a bias in how the results of that analysis are presented. This is particularly the case with respect to the assumptions on equity risk premium (where EIOPA places too much weight on the backward looking approach to derivation), financing structure (where there are internal inconsistencies in EIOPA's approach) and the final adjustment applied (which does not reflect the specificity of the risk margin pure insurance risks framework).

Question	Response
	The IRSG also requests consideration of how to project the SCR over the lifetime of a portfolio in order to ensure that the risk margin is not artificially increased by treating the point in time SCRs as purely independent in the calculation. This requirement, combined with the level of the CoC, can be particularly onerous for long term life assurance contracts, and the level of the risk margin over time should be considered.
Q3.4	*What is your view on the assumptions underlying the reference undertaking where the original undertaking applies the MA or VA? Considering the approaches for risk margin calculation outlined in section 3.2.7.2, are any of the noted pros and/or cons inconsistent with your own views or experience?* See Q3.3 for comments on risk margin.
Q3.5	*Please note any possible approaches to the calculation of the risk margin you believe should be considered that have not been included under section 3.2. Please justify any such approaches.* No comment
Q4.1	*Q4.1: What is your view on the treatment of EPIFPs?* The EPIFP is available to absorb losses in the same way as other assets. To cover operational losses (e.g. in the underwriting result) any asset must be sold to compensate for the loss in cash, similarly the EPIFP can be made available to generate cash, through transactions such as sale of legal entities, portfolio transfers, reinsurance arrangements and securitization. The timeframe for the completion of these transactions in 6 to 9 months is realistic. As such there is no indication for EPIFP not belonging to Tier 1 capital. The same is true in a group context. There is no indication why EPIFP should represent an own fund item of lower quality than any other asset. In our opinion the EPIFP is fully consistent with the approaches and principles of Solvency II. Any risks associated with the EPIFP is also dealt with within the Mass Lapse risk scenarios. So basically, insurers already hold capital against the EPIFP. When assessing the EPIFP, EIOPA should also consider how EPIFP exists. This can be recognised through one-year contracts and through multi-year contracts. One-year contracts are mostly seen in Non-Life insurance and NSLT Health insurance. If an insurer offers a policyholder the possibility to pay the annual insurance premiums in multiple instalments, an EPIFP is recognised. A different treatment of EPIFP could see this option to policyholders being deleted which would not be in the interest of policyholders.

Question	Response
Q5.1	*Do you know data sources which would help to better calibrate property risk?* The IRSG considers that property risk parameters need changing as the current calibration is based on UK data from 1987 to 2008 and, as EIOPA itself acknowledges, it does not consider key structural differences in other property markets in Europe. There seems to be good evidence available looking at the 1-in-200 risk profile in different areas of Europe (Like the MSCI report from 2017). This evidence suggests lowering the risk factor from the current 25% in many of the countries. EIOPA should investigate a European calibration for real estate.
Q5.2	*For Internal Model users please indicate the approach chosen to model property risk within your Internal Model, when applicable.* No comment
Q5.3	*Do you consider that the correlations within market risk, as well as the correlation between lapse risk and market risks should be amended? If your answer is "yes", you are invited to provide quantitative evidence supporting your reasoning* The call for advice posed this question in relation to the entire correlation structure of SCR, with lapse risk vs market risk referenced as a special request. The consultation is only dealing with the latter, and consideration should be given to the wider range of correlations. The study on interest rate correlations vs. equities and spreads in 5.153 does not provide input on how the correlations should be considered relative to life lapse risk. This rationale needs to be better justified. A positive correlation of 0.25 between market and life risk modules basically means than, in a VaR 99.5% risk event, these two risks amplify each other by 25%. As there clearly is not any data on what happens to lapses during a 1-in-200-hundred market risk event expert judgement should be used to judge whether the two risks amplify each other, are independent or provide a hedge against the other. With some risks, say longevity, the independence seems to be self-evident but with for instance mass lapse shock, which by definition is the risk of losing only the profitable part of the business, the case is not that clear. During a market risk event there would be a lot of different reasons for policyholders to lapse their policies and it is inappropriate and excessive to assume that only the profitable policies would lapse in such an event. Many insurers are immunising their balance sheet as much as possible using ALM techniques. However, basis risk remains because matching cannot be made perfect due to lack of very long-term asset cash flows. Interest Rate Up- and Down risk is almost similar and at the flipping point the solvency ratio moves suddenly by about 5% because of the change in correlation. The volatility of the solvency ratio is

Question	Response
	detrimental to policy holders because of the costs associated with increasing buffers. In addition, the (artificial) volatility is bad for risk management. The issue in general is a moral hazard. In stressed circumstances the correlation matrices could lead to additional risk-taking to improve the solvency ratio by putting more policyholders at risk. Recalibrating the gross risk charges to net risk charges would remove this unjust incentive.
Q5.4	*What is your view on the recognition of non-proportional reinsurance in the SCR standard formula? If you consider changes necessary, please make concrete proposals. How does the proposal address the double counting issue regarding non-proportional reinsurance covers between the CAT risk sub-module and other sub-modules impacted by treaties?* The standard formula recognises the impact of non-proportional (NP) reinsurance in the Catastrophe sub-module of the non-life underwriting risk module of the SCR, however it fails to do so in the premium and reserve risk sub-module. The IRSG considers this to be a technical inconsistency of the standard formula that needs to be addressed in the 2020 review. Moreover, allowing the recognition of NP reinsurance would enable a more proportionate application of the standard formula by small and medium sized companies. Alternatives include adjustment factors for non-proportional reinsurance (described in Article 117(3) of the Delegated Act) in the premium and reserve risks for all lines of business, an extension of the USP approach built-in directly in the standard formula or an additional metric that would recognise reinsurance arrangements in place both at the level of individual lines of business as well as whole account covers. Such alternatives would strike a better balance between risk-sensitivity, complexity and prudence for non-life insurers applying the standard formula. These adjustment factors for non-proportional reinsurance should be risk-sensitive, reflecting the particulars of the reinsurance arrangements in place.
Q5.5	*What is your view on the recognition of adverse development covers in the SCR standard formula? If you consider changes necessary, please make concrete proposals.* The industry believes that adverse development covers would ideally be covered as part of a broader solution for non-proportional reinsurance in the premium & reserve risk module, as described in question 5.4. Any of the alternatives would provide adequate recognition for ADCs as well as other covers.
Q5.6	*What is your view on the recognition of finite reinsurance in the SCR standard formula? If you consider changes necessary, please make concrete proposals.*

Question	Response
	The specific requirements on finite reinsurance should be amended such that the economic risk mitigating benefits of such contracts can be appropriately recognised in the standard formula.
Q5.7	*If EIOPA would to recommend a consistent treatment of contingent instruments (contingent capital and convertible bond instruments) between standard formula and internal models, one possible way of implementing this principle would be to clarify that the definition of SCR (Article 101 of the Directive) does not include planned basic own funds increases. What do you think about this clarification?* A key feature of internal models is to provide flexibility to properly capture risk profile where standard formula cannot do so appropriately. Current regulation which allows the internal models to capture risk profile correctly and recognise the economic impact of contingent instruments under close supervisory scrutiny (via internal model approval processes) is appropriate and does not need to change.
Q8.1	*In your view, are changes to the provisions on the calculation of technical provisions necessary in order to improve the proportionality of the requirements? Please make concrete proposals.* Yes, changes are needed across the three pillars, including for the calculation of technical provisions. However, an exhaustive list of simplifications would be contrary to a principle-based approach. It should be explicit that NSAs have a duty to consider simplified approaches proposed by insurers, and justify when they believe that a proportionate application is not allowed. This comment applies to all requirements across the three pillars, including for the calculation of technical provisions. Some simplifications should be automatically allowed, when some pre-defined risk-based criteria are met. A harmonised risk-based method, to be used by the NSAs in order to evaluate the proportionality needs of their supervised insurance companies, would constitute a rational and more predictable approach, shifting from local sensitivity to increased legal certainty.
Q8.2	*What is your preference with regard to the options on introducing further simplifications to the calculation of the SCR standard formula?* The 2 options are not mutually exclusive. A mixed approach should be considered, where some new simplifications are proposed, as part of a non-exhaustive list of possible simplifications. At the same time, the integrated approach proposed by EIOPA can be allowed, where insurers identify their immaterial risks, to be calculated with a simplified conservative approach, and reassess their materiality every three years.

Question	Response
	The issue is that, in the current structure, it is the insurer who has to prove that the results of the simplified calculation do not materially diverge from the more complicated calculation. For smaller insurers that would mean hiring external advice for a 50-50 chance that the adviser can prove that the results do not materially diverge and on top of that the 50-50 chance that the NSA agrees with that advice, and grants the insurer the simplified calculation. The risk of a negative outcome is too high for a smaller insurer to even attempt this. Simplified calculations should therefore be a default for insurers, that meet certain criteria of scale, complexity and nature of risks. For nature of risk we propose that insurers and reinsurers not insuring or reinsuring class 10 (Motor vehicle liability), liability in class 3 (Road transport liability), class 11 (Aircraft liability), class 12 (Liability for ships), class 13 (General liability), class 14 (credit) and class 15 (suretyship), unless these are ancillary risks, are eligible for default application of the simplified formulas. For the criteria we propose a premium income of no more than €50m (this threshold is based on the European Commission's definition of SMEs, which, as EIOPA says, has a certain arbitrariness to it, of course. We believe a higher threshold, for example € 100m, would also work). In any case, the application of proportionality needs to be risk-based and should not depend solely on the size of the company, and should not need in advance permission by their NSA (see also comment on paragraph 8.2). The NSA should bear the burden of proof that a more complicated calculation shows significantly higher outcomes. This should apply to art. 109 of S II on simplified calculations of standard formula risk module or sub-module and artt. 88, 89, 90, 90a, 90b, 90c, 91, 92, 93, 94, 95, 95a, 96, 96a, 97, 98, 99, 100, 101, 102, 102a, 103, 104, 105, 105a, 106, 107, 108, 109, 110, 111, 111a, 112, 112a, 112b, of Delegated Regulation 2015/35), as well as to articles we may have forgotten to mention and any new EIOPA proposals on simplified calculations. The simplified calculation of the counterparty default adjustment in article 61 of Delegated Regulation 2015/35 should not require permission in advance by the NSA and the NSA should bear the burden of proof that a more complicated calculation shows significantly higher outcomes. The default method for calculating the group SCR in art. 328(1)(d) of Delegated Regulation 2015/35 should be the least burdensome method (method 2 ?) in case of insurance and reinsurance companies that are not insuring or reinsuring class 10 (Motor vehicle liability), liability in class 3 (Road transport liability), class 11 (Aircraft liability), class 12 (Liability for ships), class 13 (General liability), class 14 (credit) and class 15 (suretyship), unless these are ancillary risks, with a premium income of no more than €50m or €100m.
Q9.1	*EIOPA invites all stakeholders to share their experience on the issues discussed above regarding the interlinkages of partial internal models, and integration techniques.*

Question	Response
	In particular to provide EIOPA with information on: - *Are you using integration techniques 2 to 5 for groups or solo undertakings with major business units? Please provide details* - *What are your experience in using such integration techniques?* No comment
Q9.2	*EIOPA invites all stakeholders to share their experience on the issues discussed above regarding the reflection of equity, currency and concentration risk in the group SCR under the combination of methods. In particular EIOPA is interested in input from the perspective of the standard formula and the perspective of internal models.* We do not support the proposal to calculate FX and concentration risk on participations in D&A insurers, as we share EIOPA's view that double counting should be avoided, and that the D&A method applies entity by entity, as also confirmed by EIOPA in para. 9.282. The calculation would be impossible and the D&A method already includes a "conservatism buffer" by not recognizing diversification effects.
Q9.3	*In light of option 2, stakeholders are invited to share their view on how this option contributes to a consistent policyholders' protection of related EEA (re)insurance undertakings regardless of the nature of the parent company of the group (group headed by a holding company vs group headed by an insurance or reinsurance company).* The IRSG supports no change, ie option 1.
Q9.4	*In light of option 3, stakeholders are invited to provide their view on the potential challenges that groups may face to implement this principle*. No comment
Q9.5	*Taking into account that the availability assessment of own fund at group level is a complex issue, EIOPA would like to request feedback from stakeholders on which possible principle-based rules could be considered to reflect more appropriately the effective amount of available own funds at group level.* *In particular, how could the minimum required quality of own funds, which solo insurers must comply with at all times, be reflected in the availability assessment at group level? (i.e. the question is not querying on the quality of the solo own funds at a given point in time, but how the availability assessment by the group supervisor can take into account the impact of a (potential) transfer of own funds within a*

Question	Response
	group on the composition of solo own funds and on ongoing compliance with solo tiering limits – As an illustration, please refer to the case presented on the identification of the policy issue, paragraphs 9.325 to 9.327). The issue that EIOPA raises is fair, but difficult to solve, because the availability assessment that EIOPA demonstrates is dependent on the starting position of the available capital. There is no uniform linear relationship between availability and quality of own funds (with the exception of the situation where restricted tier 1 is at its eligible limit).
Q9.6	*Which methods/tools would be possibly used to make own funds available within 9 months from one undertaking to another when large amounts of EPIFP exist?* The IRSG disagrees with the proposal that EPIFP and transitionals should be considered not available at Group level. EPIFP can be made available through transactions such as sale of legal entities, portfolio transfers, reinsurance arrangements and securitization, and transitionals are a justified core part of the Solvency II Framework. The timeframe for the completion of these transactions in 6 to 9 months is realistic. Besides, we don't see why excess own funds from using transitionals should be treated differently to excess own funds from the difference in solo SCR and contribution to group SCR, which EIOPA acknowledges. Assuming the non-availability of EPIFP would go against the economic reality of Groups. It would treat EPIFP differently depending on its location rather than its economic value to the insurance group - this creates "regulatory arbitrage" . A company no longer allowed to include EPIFP in group available capital would rationally restructure to aggregate EPIFP in a single entity to make the capital available.
Q9.7	*EIOPA invites all stakeholders to share their experience on the issues discussed above regarding the clarification of the definition of the item Minority interest in Solvency II and the approach to be followed for its calculation. In particular, EIOPA is interested in input from stakeholders to assess if the calculation of the minority interest should include of external subordinated debts.* No comment
Q11.1	*What principles should be taken into account by NSAs in their decision to trigger, set, calculate and remove capital surcharge for systemic risk?* The capital surcharge for systemic risk is not one of the "closed list of items" mentioned in the macro-prudential section of the European Commission's Call for

Question	Response
	Advice. The IRSG considers that additional capital requirements are not the appropriate response to systemic risks in the sector. It is widely acknowledged that traditional (re)insurance activities are generally less systematically important than banking (EIOPA consultation p. 623). At the same time it needs to be acknowledged that - in contrast to banking activities, where the concrete transmission mechanisms for systemic risk have been identified from practical experience, such as inter-banking market, the credit cycle and collateral requirements in derivative trading - the transfer mechanisms for traditional insurance - such as direct contagion of other institutions by the failure of another insurer and common exposures in the sector, that could give rise to common reactions that may trigger or amplify market wide effects in asset prices or liquidity - are theoretically conceivable mechanisms for which very little practical experience is available and that have never even come close to systemic dimensions. As such there is little evidence or practical guidance available for concrete quantitative prevention approaches. Creating a temporary higher capital cushion once a crisis is about to begin is likely to be pro-cyclical and self-fulfilling, while the additional capital required is likely not to be sufficient to mitigate a full blown crisis impact. Instead, where real systemic risk exists, other mechanisms (for example internal controls and risk management) are essential. We consider that NSAs having the power to set a capital surcharge could result in an uneven playing field with the perception of systemic risk likely to differ from one NSA to another, and guidance not being adequate to ensure uniform application. At this time, discussing capital surcharges for systemic risk may also be premature, and further analysis of the impact of systemic risks on insurers as well as of other possible measure is required. As long as the concrete economic circumstances under which capital surcharges can be imposed are not laid out, it is not possible to design the principles that should govern the triggers, calculation and removal of such charges. Also, we note that Solvency II already allows for capital add-ons in the case where specific situations require. It already caters for eventualities where risks are not adequately reflected and does not limit the nature of those risks.
Q11.2	*What factors should be taken into account by NSAs when setting soft thresholds at market-wide* *level?* Setting market-wide investment limits is at odds with a risk-based approach, reflecting each undertaking's risk profile, diversification policy and ALM strategy. It

Question	Response
	is hard to fathom how it can work as intended. If mechanistically applied across EU jurisdictions, it could foster divestments and prove pro-cyclical. If loosely applied, it may give rise to inconsistent treatment from one jurisdiction to another. It is also unclear how EIOPA would reconcile investment limits with e.g. ECB's monetary policy. The search for yield for instance cannot be seen in isolation from the unconventional monetary policy. In any case, limits can only be set after acquiring experience of how relevant indicators (to be defined) indicate the development of macro-economic and financial stability variables that are crisis relevant. Only after this has been accomplished can meaningful limits be set.
Q11.3	*How to ensure that the relevant macroprudential information from the ORSA reports of undertakings can be extracted and used at national level for macroprudential purposes?* We support the use of ORSA as an appropriate management process to monitor systemic risk. However, we do not believe that significant enhancements are necessary as the current ORSA already contains analysis on concentrations, stress scenarios as well as top risk assessments which naturally also look at external events that are not necessarily restricted to the single entity. The very nature of the ORSA is to be tailored to the specific situation of the insurer and the IRSG notes that any requirement which is too restrictive could result in the ORSA not being considered to be "own" again. For instance, preparation of meaningful information that can be aggregated market-wide would require information to be provided in standardized form. Loss of relevance to the individual undertaking in this way could result in less attention from the AMSB, potentially outweighing the value which insurance companies see in the current process as constructive and company specific.
Q11.4	*What are the relevant factors to be taken into account to determine the scope of undertakings subject to SRMPs?* SRMPs may offer a useful way for insurers to take corrective action on systemic risk before supervisory measures are necessary, but these need to be justified by clearly quantified and articulated evidence of systemic risk in advance, with a clear commitment to proportionality. As long as it is not clear how systemic risk is measured and which activities are considered systemically relevant, it is not clear what companies should address in their systemic risk management plans. The determination of the scope should follow from from an agreed definition of systemically relevant non-traditional (re)insurance activities. Since traditional (re)insurance business is not exposed to bank-run type of systemic stress, only companies conducting a material level of such

Question	Response
	systematically relevant non-traditional (re)insurance activities should be required to prepare a report, since in order to assess the systemic impact, the impact of all such activities would need to be aggregated.
Q11.5	*What are the relevant factors to be taken into account to determine the scope of undertakings subject to LRMPs?* The scope of undertakings should be limited and based on a proportionality assessment. This would also be in line with the IAIS holistic framework, which requires LRMPs only from insurers with activities that could generate unexpected liquidity needs. As for the SRMP, the focus should be on those undertakings pursuing material non-traditional activities. For traditional (re)insurance business, systemic stress is more a solvency issue than a liquidity issue as (re)insurance obligations do not settle overnight as it may be the case for bank deposits. The LRMP could be a significant additional reporting burden in breach of the objective to simplify and alleviate the reporting costs. Moreover, since even EIOPA agrees that there is no macro liquidity risk arising from (re)insurance activity, there is no need to go beyond what is already required in Solvency II. It should also be acknowledged that the spread risk charges and the mass lapse risk charges already capture the main sources of liquidity risk in the insurance sector.
Q11.6	*What are the relevant factors to be taken into account to define the term “exceptional circumstances”?* The definition of circumstances for the imposition of a temporary stay for financial stability reasons, i.e. not for micro-prudential reasons to secure policyholder protection, should not be codified in law or EIOPA guidelines before practical experience is gained with first applications in concrete cases. Otherwise, inappropriate restrictions or parameters could act to limit the effectiveness of this tool.
Q12.1	*How should the very significant market coverage across the Member States be determined? What are relevant factors to take into account?* It is important to ensure that the requirement to develop pre-emptive recovery plans is not applied to all companies, but only where doing so would have a tangible benefit in terms of systemic risk, not least because Solvency II already requires recovery planning from all companies when the SCR is breached. It is not appropriate for member states to have flexibility in deciding which insurers are subject to the framework as this undermines the effectiveness of implementing

Question	Response
	a harmonised framework. The scope of any requirements to have a recovery plan before breach of the SCR should be limited through proportionality to firms for which it would provide tangible benefits and should in such cases, be seen as part of their regular ORSA rather than an additional process. Correct application of proportionality will in practice mean very few insurers will actually be required to develop such plans. In a Solvency II context, the pre-emptive recovery plan helps to prepare for a situation where the firm can no longer meets its SCR following a (severe) stress scenario (see above discussion on conditions for implementation of the pre-emptive recovery plans). Having a pre-emptive recovery plan in place means that if the firm suffers a severe stress, it will be better prepared to restore policyholder protection to the target level. In this sense a pre-emptive recovery plan can provide a degree of insurance in event of solvency falling below the target level. In practice the level of enhanced policyholder protection (or insurance) provided by a pre-emptive recovery plan will become more important as the firm gets closer to the trigger point. For example, policyholders of a firm which has 110% coverage of its SCR and an ORSA which shows a deteriorating solvency coverage trend in the central scenario would see their protection increase significantly more from a pre-emptive recovery plan than those of a healthier firm. This suggests that the recovery planning framework should be targeted at firms which meet some or all of the following criteria; they are vulnerable to not meeting their SCR in stress scenarios (from the ORSA for example) or are vulnerable to sudden and unpredictable shock events which could lead to a significant breach in SCR coverage before recovery options could be implemented. On the other hand, policyholders of healthy firms are unlikely to need the insurance provided by recovery plans to maintain the target level of SCR coverage post shock. To the extent that pre-emptive recovery plans give firms the confidence to hold less capital, on the basis that an effective recovery plan provides a layer of insurance in the event of deteriorating solvency, such recovery planning could be counter-productive. In fact it may be more effective to require pre-emptive recovery plans in the event of a firm having insufficient funds to cover SCR in a severe stress scenario, as this would act as an incentive for firms to carefully monitor capital and exposures around those levels. Regulatory recovery plans for healthy firms, could be significantly out of date given the change in circumstance which would be necessary before implementation. This is a likely outcome where the firm is implementing preventative measures in the pre recovery state to avoid entry into regulatory recovery. This could be overcome by regularly updating the recovery plan as regulatory recovery nears, but this only serves to highlight that the pre-emptive regulatory recovery plan could be expected to go out of date as the financial position deteriorates. The recovery options a firm takes are likely to be specifically contingent on the circumstances which lead to the recovery. It is difficult to anticipate in advance the circumstances which would lead to a firm entering regulatory recovery and the economic and market environment when this occurs for a healthy firm which shows no breach in SCR in severe stress

Question	Response
	scenarios for example. The recovery plan could detract from direct preventative risk management and supervision and requirements would be likely to increase costs for supervisors and firms which will be directly passed on to policyholders in mutual companies and are likely to be indirectly passed on in shareholder companies. In light of the above comments there is a strong case for targeting the requirement for regulatory recovery plans at less financially healthy firms. Pre-emptive recovery planning can be of value for certain companies but any initiative must be based on proportionality and considered part of their ORSA reporting and not used as a backdoor tool for intervention before SCR is breached.
Q12.2	*How should the significant market coverage across the Member States be determined? What are relevant factors to take into account?* Comments above regarding pre-emptive recovery planning are generally also relevant to pre-emptive resolution plans .
Q12.3	*What factors need to be considered by NSAs for early interventions?* We acknowledge EIOPA's opinion that hard triggers for early intervention should be avoided. We consider that the current supervisory ladder of intervention as defined by Solvency II is sufficient, in particular in view of Art. 141 which grants comprehensive rights to supervisors in case of deteriorating solvency positions. It is not necessary to include further early intervention triggers in EU legislation, in particular if they are judgement based as proposed by EIOPA. Supervisory convergence in the area of ongoing supervision (i.e. before the breach of the SCR) can be achieved by guidelines. The introduction of recovery plans, which set out early warning indicators to be monitored as well as all options and possible actions following an SCR breach, make further early intervention triggers unnecessary. Early intervention, which is primarily a preventative framework, needs to be linked to what is already in Solvency II in respect of supervisory intervention and the general supervisory framework. Rather than developing new frameworks, correct and harmonised application of Solvency should be the priority given that Solvency II was designed to allow early intervention and already: • Gives supervisors powers to: intervene if the high target SCR is breached, take increasing action through the ladder of intervention, and fully take control of the company, at the MCR level, when there is still significant solvency capital remaining. • Also requires companies to take a forward looking view and cover all risks, including liquidity. • Also has very extensive monitoring through the reporting requirements

Question	Response
	The SCR should therefore remain across Europe as the only intervention point – as there does not appear to be convincing evidence indicating that this will be insufficient. The mechanisms regulated currently under Solvency II are conservative enough to protect policyholders where there is non-compliance with the Solvency Capital Requirement (SCR) or even when there is a risk that would lead to such non-compliance. Solvency II already includes certain requirements in terms of recovery (recovery plan in case of non-compliance with the SCR and supervisory powers in deteriorating financial conditions…). Therefore, the purpose of supplementing the current supervisory framework should have very strong arguments and reasons. Implementation of early intervention has the potential to lead to an effective increase in capital requirements for insurers. Any such requirements would need to be implemented in a fully harmonised manner, otherwise they would contradict the maximum harmonisation Solvency II directive.
Q12.4	*How could resolution authorities determine whether undertakings are likely to be no longer viable and have no reasonable prospect of becoming so?* Existing Solvency II triggers and internal triggers in capital management plans should be sufficient to enable effective analysis of an undertaking's strength. No new soft or hard capital levels should be required. Rigid pre-defined triggers (an absolute obligation for the authority to intervene when a specific situation arises) for entry into resolution are not appropriate, as an assessment of when an insurer's liabilities exceeds its assets requires significant judgment on the part of the resolution authority. While it is essential that a resolution framework provides strong legal certainty for undertakings, flexibility is also important when determining points of entry into resolution. We would like to clarify that ex ante removal of impediments to resolution should be very exceptional and very well motivated by supervisors/resolution authorities. Suspension of policyholder rights during recovery should only be possible if there is an imminent risk of an insurance 'run' (likely this proposed tool is inspired by a risk that can occur in exceptional cases where policyholders can cancel policies without incurring prohibitive costs (this happened with Ethias in Belgium)). At the same time, the use of this tool could lead to financial hardship (if customers rely on these policies for pensions etc.) Note that this tool is also considered in the macro-prudential chapter. We would like to draw attention to the capital requirements (if any) that might apply during an insolvent resolution (after an insurer has failed). Currently no capital requirements apply (Solvency II does not cover this phase of the 'life' (or

Question	Response
	almost death) of the insurer)which can make supervisors reluctant to allow a long run-off in resolution, but full Solvency II requirements are disproportionate as well.

Chapter (enter 1, ..., 14 or A for Annexes)	**Paragraph** (enter only the second number, e.g. 11 for paragraph 3.11)	**Comment**
2	267	The objective of the VA to mitigate "exaggeration of bond spreads" requires a reference point to measure "exaggeration" in the context of the insurance business model. Assets backing insurance portfolios that result in stable cash outflows are not subject to forced selling and therefore all components of the spread, except for the spread relating to expected defaults, can be earned by the insurer in such cases. The asset loss compensation resulting from the VA for such portfolios should therefore include all spread components except the default component. Unexpected default losses is covered by capital requirements (in the spread risk module).
2	599	The IRSG supports the need to have a homogeneous application of supervisory approval for the VA. However, it is inconsistent to have the combination of: - A supervisory approval, - A mandatory audit of the balance sheet which, by nature, include technical provisions and VA application, - Sensitivities and constraints in case of non-compliance of the SCR without VA application. For a global consistent approach, we recommend to require a supervisory approval for the VA and avoid mandatory sensitivities. It is a permanent measure, which should not be treated as transitional measures. The supervisory approval process should be proportionate to ensure the ability of smaller insurance companies to submit an application form.

Chapter (enter 1, …, 14 or A for Annexes)	**Paragraph** (enter only the second number, e.g. 11 for paragraph 3.11)	**Comment**
2	719	Transitional measures on technical provisions should remain available from a level playing field, legal certainty and crisis management perspective. Disallowing the new application of transitionals would create an uneven playing field with inconsistent treatment of companies in relation to transitionals.
2	762	The IRSG notes that the LTG measures were introduced in the Solvency II framework in order to *ensure an appropriate treatment of insurance products that include long-term guarantees* (as stated by EIOPA in the consultation). Considering this objective, the LTG measures can be closely monitored but should not be questioned once the requirements to use them are met. In particular, in case of an undertaking which uses an LTG measure not meeting the SCR without the application of the LTG measure, e.g. as set out in the consultation in the case of simultaneous non-application of the VA and the transitionals in combination with a LLP of 50 years and a reduction of UFR by 100 bps, there is no consistency to give NSAs the ability to limit or withhold capital distribution. The consequence of such decisions would be, for some undertakings, to consider that the Solvency II ratio should be measured without LTG measures to avoid such constraints. This would not meet the objective of ensuring appropriate treatment of long-term guarantees and would undermine the role of Pillar 1 as the measurement tool of the current solvency position. It could adversely affect the ability of insurers to provide such insurance products with a consequent impact on policyholders. Besides, long-term guarantees need stability in their treatment to ensure consistency in the long-term in particular in the current low interest rate environment. As long as Pillar 1 indicates that the SCR is covered, the undertaking is considered solvent under the existing Solvency II framework and should be free to adjust its capital. Furthermore introduction of constraints in this way would effectively introduce a 50 year LLP combined with a 100bp lower UFR as the Solvency measurement parameters that are the binding constraints for risk management, since risk management cannot assume that supervisors can be "convinced" by any demonstrations of the undertaking that capital

Chapter (enter 1, …, 14 or A for Annexes)	**Paragraph** (enter only the second number, e.g. 11 for paragraph 3.11)	**Comment**
		measures "do not put at risk the protection of policyholders...", given that this is a subjective assessment for which EIOPA has not outlined any further criteria.
2	795	Sensitivities in the SFCR should be limited to transitional measures, to ensure the ability of an undertaking to adapt to the Solvency II framework. LTG measures (in particular VA and LLP) are permanent measures; there is no consistency to disclose their impact in the SFCR. They could be disclosed for supervisory monitoring only in the QRT. QRT showing impacts of LTG and transitional measures should be split as these 2 types of measures do not address the same objective.
3	38	Paid-in premiums are an important part of the existing contract and therefore option 2 seems to be a better approach, as suggested by EIOPA.
3	40	The IRSG considers that the additional complexity involved in unbundling may not be justified by the benefits brought to policyholders as a consequence of such a change.
3	51	Option 3, the deletion of the third paragraph of Art 18(3), should not be included as it is highly important for life insurance and enables the risk profile of the insurance contract to be recognised.
3	73 & 74	EIOPA's rationale to change the calculation of EPIFP seems hard to follow and the proposal disproportionate. EPIFP being an own fund item, it is only natural that the reporting figure be positive. Reporting negative own funds would blur the picture of the firm's solvency. In turn, unprofitable future cash-flows are rightly captured in the BEL as a liability. Furthermore, the grouping of policies according to their profitability is unlikely to be consistent over time as whether policies are profitable may change when conditions change (e.g. through changes in interest rates or mortality rates), resulting in more volatile and unpredictable figures.

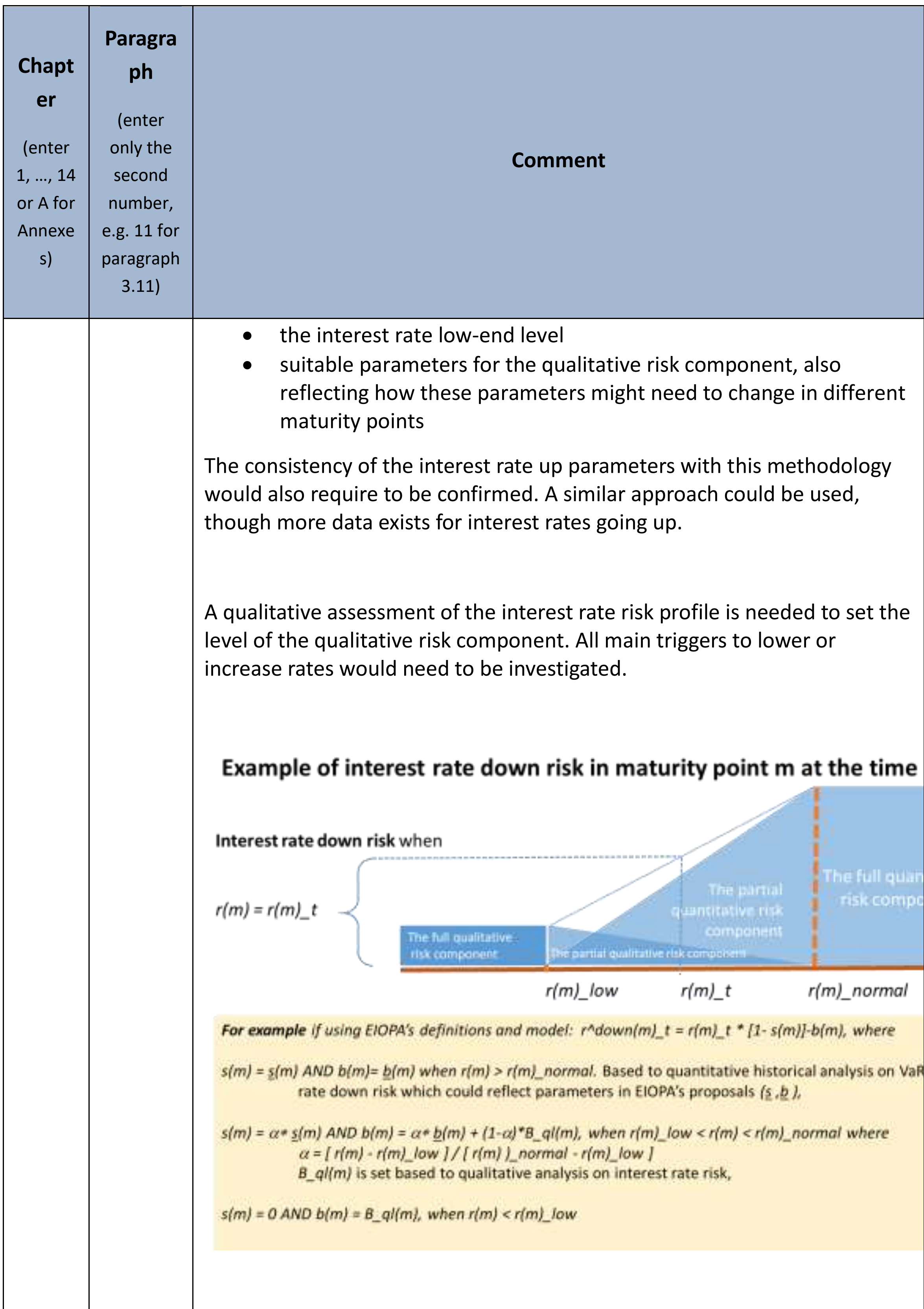
Chapter (enter 1, …, 14 or A for Annexes)	**Paragraph** (enter only the second number, e.g. 11 for paragraph 3.11)	**Comment**
		It is also disproportionate to require the complete restructuring HRG and model points in undertakings' systems, let alone the fact that the concept of profitable/unprofitable HRG is questionable and hardly practicable when stochastic valuation methods are used (i.e. the same HRG can be profitable in somr scenarios and turn unprofitable in others or could be unprofitable up to a certain maturity, turning profitable thereafter).
3	85	It is important not to be overly prescriptive in the range of management actions to enable undertakings make allowance for realistic actions in assessing their liabilities.
3	102	The new clarification raises the question of whether these decisions (of the administrative, management and supervisory bodies) should be taken into account when it comes to expenses relating to the existing business. Also, with calculation of future expenses it is crucial to balance the requirements with any changes to contract boundaries and unbundling requirements as there is the risk that the projection of future expenses may not give the right picture of the expenses. This may encourage undertakins to make changes which are not in the interests of policyholders.
3	120	The IRSG supports EIOPA's proosal not to bring in new requirements for dynamic policyholder modelling. This modelling is highly complex and there is a serious lack of data. It would add complexity to the BE calculation which itself would need a lot of justification.
4	112	The suggested addition of a supervisory intervention point for group supervisors, who should receive the power to take action if the "leverage ratio" within the holding company of a group is above 100%, is not warranted, since Solvency II ensures that legal entities within groups are appropriately capitalized and can function on a stand-alone basis. The argument that the parent undertaking may be unable to service debt, in the (extreme) case that participations do not pay dividends, does not substantiate a requirement to have participations only financed through equity, since (in extreme cases) the participation can be sold. On the

Chapter (enter 1, …, 14 or A for Annexes)	Paragraph (enter only the second number, e.g. 11 for paragraph 3.11)	Comment
		contrary, capital and dividend management in a holding context is well established and has been functioning well without such constraints.
4	151, 152, 153	The IRSG agrees with EIOPA that the level of EPIFP is the reflection of the characteristics of each undertaking's (re)insurance portfolios. There is no "good" or "bad" levels of EPIFPs per se and, assuming that the BEL is derived properly according to Solvency II rules and principles, having a large amount of EPIFPs should not be seen as a bad thing. Therefore, the IRSG strongly disagrees with the proposal to impose capital add-on in case of high EPIFP. Uncertainties relating to future cash-flows, including future premiums as well as associated claims, are modelled in the best estimate and thus mechanistically reflected in the amount of EPIFP. Unexpected events are accounted for in the SCR (and double-counted in the risk margin) and therefore EPIFP gives rise to capital charges. As a consequence, any amount of EPIFP that would contribute positively to the SCR ratio (i.e. in excess of the insurance obligations, risk margin and SCR that they generate) are *de facto* de-risked. Capital add-ons have been designed to address gaps in the SCR calculations. EPIFP arises from the calculation of the BEL and supervisors are granted full power to review BEL calculations, methods and assumptions. The rationale for capital add-ons on the BEL seems remarkably unclear in that it is silent on the type of issues in the derivation of the BEL which cannot be remedied with existing supervisory powers. Moreover, the IRSG disagrees that the proposals to change the calculation of EPIFP would improve the information provided to the supervisors and decrease the volatility of this figure. It is actually quite the contrary (see comments to chapter 3 paragraphs 73 & 74).
5	1	The IRSG agrees that the current approach to interest rate stress has some deficiencies. The IRSG welcomes the use of the shifted approach methodology, as suggested by EIOPA. However, it disagrees with the way the new parameters have been introduced and considers that the parameters may be at too extreme a level, having the lower bound in -

Chapter (enter 1, …, 14 or A for Annexes)	Paragraph (enter only the second number, e.g. 11 for paragraph 3.11)	Comment
		200bps and the interest rate down risk being some –100 bps relative to the current level of short term interest rates. Furthermore, the illiquid part of the extrapolated curves should be derived using the normal extrapolation procedure, i.e. with SW-methodology and consistent UFR. As there is no data available the IRSG considers that any parameters should be backed with a clear and understandable expert judgement and rationale on what are the dynamics behind the interest rate changes and what could be expected. Especially the IRSG asks EIOPA to study how the ECB actions have been changing interest rates in Euro-area/Europe and on any possible expectations of the future. IRSG also finds that other possible risks, like investing into cash, digital currencies, global interest rate and currency arbitrage correction and the ways the short and long end risk profile of the curve might change, should be studied more. Finally, the IRSG finds that any possible ways that the discount rate or interest rate risk might change in the Solvency II review can force some of the insurers into interest rate hedging which again could push the Euro-swap rate even lower. The market impact of such scenario should be taken into account. The IRSG would be happy to provide input to EIOPA on an alternative framework (outlined below) which could address the lack of supporting evidence for the proposed approach as well as the extreme nature of the associated parameters. This could be achieved using a methodology which reflects a divide of interest rate down risk into two parts, one that can be quantified using historical data and another that reflects the qualitative drivers of lower rates. **Possible alternative approach for assessing interest rate stresses** An alternative approach should have the following features: a. There is always a downside risk but where there is no quantitative evidence this should be set by using qualitative arguments. Backed by these qualitative arguments, a risk component would be set.

Chapter (enter 1, …, 14 or A for Annexes)	Paragraph (enter only the second number, e.g. 11 for paragraph 3.11)	Comment
		This would also reflect a minimum level of interest rates, after which no data exists (r(m)_low from the image below). b. We can quantify and therefore calibrate a Var 99.5 interest rate down risk from a period when rates were higher than they are now, say 2 percentage points or such (r(m)_normal from the image). The quantitative interest rate down risk above this interest rate level would be equal to this calibrated risk but would reduce to zero as it gets closer to the minimal level (above in a.) The interest rate down risk would then be the sum of the qualitative risk component and the quantitative risk component The rationale for this model would be the following: a. It is possible to calibrate risk parameters where we have data and this work needs to be part of the interest rate risk renewal b. We are generally aware of the dynamics behind the drivers of change (up or down) in risk free rates in Europe; ECB tool pack (including QE, forward guidance and ECB rates), investing into cash, use of digital currencies, higher/lower demand for Euro-swap hedging, investing into liquid alternative asset classes (e.g. gold), global arbitrage correction relating to differences between currencies and interest rates, etc. c. We consider that there is always a possibility that rates can go lower but, where we are in a new scenario where no data exists, the risk should reflect only the expert judgement on the risk dynamics. d. If interest rates were at a higher level, the risk of rates going down would be much higher and analysis of the risk would be supported by quantitative evidence The parameters for such a model (examples listed below) could be identified using available data and appropriate expert judgement, e.g. • historical Var 99.5 interest rate down risk • the level after which the interest rate (relative) risk would no longer increase

Chapter (enter 1, …, 14 or A for Annexes)	**Paragraph** (enter only the second number, e.g. 11 for paragraph 3.11)	**Comment**
		• the interest rate low-end level • suitable parameters for the qualitative risk component, also reflecting how these parameters might need to change in different maturity points The consistency of the interest rate up parameters with this methodology would also require to be confirmed. A similar approach could be used, though more data exists for interest rates going up. A qualitative assessment of the interest rate risk profile is needed to set the level of the qualitative risk component. All main triggers to lower or increase rates would need to be investigated.



Chapter (enter 1, …, 14 or A for Annexes)	**Paragraph** (enter only the second number, e.g. 11 for paragraph 3.11)	**Comment**
5	26	If capital requirements for interest rate risks are changed, it is of great importance to avoid any exaggerations in order not to endanger financial stability and the important role of life insurers not only in the supply of long-term guarantees but also in the long-term financing of the European economy. Given the expected large impact, affected (re)insurers should be granted at least a phasing-in or transitional phase.
5	31	There is no evidence shown to support the shock parameters introduced here. Given the importance of the interest rate risk matter (highlighted as one of the most critical subjects in the SII review) and the impact on the total SCR of the industry that even say 20bps higher interest rate risk would bring, any proposal to introduce new parameters needs to be addressed in an understandable and transparent way. The impact of introducing parameters that cause a drastic increase in SCR in an environment where own funds already are stressed with liability valuations at record highs due to the ultra-low interest rates must be challenged. The shock parameters for the first year indicate that, after -200bps. the shock would no longer be negative. We understand that there needs to be a convergence point but do not find any justification that this -200 bps is the right one. The consequence in the 1Y maturity point is that if interest rates are at zero then the one year VaR 99.5% risk for interest rates going down is -116bps down and if at -50bps then the risk down is -95bps. For a down shock of this size there should be some possible triggers pointed out that might cause such a downfall. For instance, we have seen that ECB actions and the expectations of those actions have caused a drop in the rates and currently the public understanding is that ECB lowering rates in one year time frame for more that 20 to 30 bps would not be very easy to push through. ECB actions have had a big impact on the Euro risk free rates in the last 5 years (-90bps for 2Y and -135bps for 10Y, which is evidence from ECB. Philip Lane, 25th Nov 2019) and if the expectation is that this monetary policy can't continue same way we might not see similar decrease of risk free rates anymore. There is also other evidence that a scenario with such a drop

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		would not seem to be possible. However, it is questionable in the current environment if drops of the scale proposed are feasible.
5	59	The IRSG potentially supports Options 2 and 3, to better enable long term holdings in both bond and loan investments, if these are proven to be implementable in practice. The IRSG notes that the criteria governing the long-term equity submodule appear to be overly burdensome in practice. Possibilities to invest into private markets and unrated debt might be something that could be better enabled (CMU plans of EU). Also the sustainable development of EU might need different ways for insurers to be able to re-invest. New options on VA, dynamic VA should be considered in the context of the options on spread risk.
5	73	On spread risk, the IRSG supports the extension of the DVA to the standard formula but also recognises that EIOPA's proposed ways to better enable long term holding of bonds could also be an improvement. New ways to calculate spread risk should be tested to ensure that they can work in the overall Solvency II framework.
5	322	The IRSG recommends that solutions be identified on the requirement for insurers to use external ratings. It is clearly important to understand the risk profile of assets, and ratings can support this. However, the cost arising from this work needs to be acknowledged and actions should be taken to enable this cost to be reduced. The IRSG notes that all insurers report every asset they have for EIOPA every quarter so there is considerable inefficiency in assets all being separately risk assessed by each undertaking.
7	1	The IRSG supports the EC CfA in the area of reporting and disclosures, and its mandate to EIOPA to assess "*the ongoing appropriateness of the requirements related to reporting and disclosure, in light of supervisors' and other stakeholders' experience; and whether the volume, frequency and deadlines of supervisory reporting and public disclosure are appropriate and*

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		proportionate, and whether the existing exemption requirements are sufficient to ensure proportionate application to small undertakings." However, the IRSG believes that with the current proposals, EIOPA fails to deliver on its mandate. This view was also shared by the IRSG in relation to the recent EIOPA consultation on reporting. In fact, **EIOPA's proposals would overall increase rather than decrease the burden**. Examples of this include various reporting and disclosure proposals by EIOPA in the areas of VA, risk management/disclosure provisions on LTG measures, best estimate and extrapolation (see other areas of the consultation). These are additions to the already extensive reporting package – and the outcome would be a clear increase in reporting burden. Another example of increased burden is represented by the proposed new mandatory auditing requirements applied to the **Group Solvency and Financial Condition Report** (SFCR). These would result in additional costs that would be disproportionate compared to the regulatory benefits and also challenges regarding the deadlines for meeting the reporting and disclosure requirements. The current audited financial statements are appropriate to provide insurers' stakeholders with sufficient assurance about the completeness and correctness of the disclosed financial data. Also, with respect to the SFCR, the IRSG believes that improvements in the SFCRs at solo level should be reflected in improvements to the SFCRs at group level, and the approaches between solo and group should be aligned. Such improvements should include a split between a section for the policyholders and a section for the professional public. The IRSG welcomes the removal of the requirement to translate the summary of the group SFCR into the official language(s) of the MS where any of the (re)insurance subsidiaries has its head office. With respect to the Regular Supervisory Reporting (**RSR**), it is positive that EIOPA intends to revise the structure and content, however the proposals themselves are not decreasing the reporting burden. With respect to the RSR frequency, the IRSG believes that leaving this to the discretion of the

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		supervisors is not helpful. Instead, EIOPA should propose a harmonised three-year frequency across member states. In addition, the IRSG supports a single group RSR to replace the individual RSR reporting – and strongly advises EIOPA to reconsider its decision to not allow for this. In fact, allowing for a single group RSR would be in line with the objective of simplifying reporting requirements in a meaningful way. For the **Quantitative Reporting Templates (QRT)** package, the IRSG welcomes the proposal to allow for an unconditional exemption of group reporting in cases where not all solo insurance undertakings belonging to that group are exempted. On the other hand, the IRSG disagrees with the proposal to compel internal model users to report a SCR based on the standard formula. This would create an unnecessary additional burden as this figure would only illustrate that internal models and the standard are de facto based on different sets of inputs, assumptions and methods – something that supervisors already know as internal model are approved after extensive scrutiny. More generally on the QRT package, the IRSG believes that there should be close alignment between information in the QRTs and information in the SFCRs – to avoid unnecessary efforts for delivering the same information. With respect to **proportionality** applied in the area of reporting, the proposals seem very limited. In fact, proportionality with respect to the risk nature of a business could be applied by, for example, reducing group reporting requirements where materially/substantially all group figures are mainly driven by figures and numbers of one large solo entity that belongs to the group. In such a case, all relevant information from a risk-based perspective would be obtained from an entity perspective so no additional group perspective is needed. As a more **general comment**, the IRSG finds it difficult to grasp at this stage the **overall impact** of EIOPA's proposals on reporting – not least because these are covered in two waves of consultation, with some inconsistencies between them. As a key message, the IRSG encourages EIOPA to deliver an

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		opinion in this area that creates a meaningful review and avoids more reporting burden as an outcome. The IRSG also notes EIOPA's proposal to introduce new templates, requiring internal model users to complete standard formula reporting. The IRSG does not support this proposal. First, this proposal would go against the objective of decreasing the burden of reporting. Second, this proposal is also not meeting the "appropriateness" objective of the review – as it makes no sense for IM users to report on the basis of an approach that does not actually reflect its risk profile and exposure. The IRSG believes that any potential EIOPA concerns on internal models should be addressed via sharing best practices and issues among EIOPA, NSAs and internal model experts. Beyond this, the IRSG emphasises that all internal models are subject to very thorough and strict approval and review processes by the NSAs. The IRSG would also like to raise the issue of **national reporting requirements** which exist in addition to Solvency II requirements. Prior to the introduction of Solvency II, supervisory regular reporting requirements were based on Solvency I which derived from national GAAP. An analysis of these regular reporting requirements within the Member States showed a wide range of different levels of detail of information to be provided to NCAs. With the introduction of Solvency II the regular supervisory reporting based on national GAAP was not harmonised and the (high) required depth and detail - in some Member States, e.g. Austria - remained unchanged. Therefore the insurance industry (especially in those Member States which kept the extensive and detailed regular reporting requirements to NCAs based on national GAAP unchanged) continues to be faced by a significant burden of regular reporting requirements which is no longer justified with the introduction of Solvency II.

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		To reduce the overall burden of regular reporting requirements to NCAs, we recommend that all regular reporting requirements outside the scope of Solvency II should be required to be analysed by NCAs with a view to being discontinued unless there is clear rationale for retention.
8	2	The IRSG supports the EC CfA in this area and the EC request to assess whether proportionality in the application of the Solvency II framework could be enhanced. It welcomes that EIOPA, through its proposals, is taking some steps in the right direction. However, the current proposals would have little impact, and would not solve the main concern regarding the lack of application in practice of the proportionality principle. Concretely, proportionality needs to become more explicitly embedded in the regulation, in a way where it is not seen as an "exception", but rather as an appropriate, justified and meaningful application of the framework, taking into account the risk profile and business nature of undertakings. **On thresholds:** - EIOPA's proposal to maintain the methodology for exclusion of the scope of Solvency II and raise the level of the thresholds is welcome. - A €50m threshold for technical provisions and a threshold between €5m and €25m for premiums, at the discretion of member states, seem appropriate. - Indeed, the complex and sophisticated Solvency II regime is not suited for very small undertakings, and exempting some very small actors is important in order to preserve a diversified market. **On proportionality:**

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		- It is positive that EIOPA aims at enhancing the effective application of the principle of proportionality in Solvency II. - However, proportionality across the three pillars cannot be regarded as an exhaustive list of simplifications. This would be contrary to a principle-based approach. - The biggest challenge when applying proportionality is NSAs argument that a simplified approach is not explicitly allowed by the regulation, even if Article 29 of the Directive already provides that "*the requirements laid down in this Directive are applied in a manner which is proportionate to the nature, scale and complexity of the risks inherent in the business of an insurance or reinsurance undertaking*". Consequently, what is most needed to ensure an effective application are explicit provisions allowing NSAs to deviate from legal texts when the scale, nature and complexity of an entity or of a risk justify it. - A list of non-exhaustive simplifications, which would apply automatically when some pre-defined risk-based criteria are met, is much needed to ensure an immediate release. - It is positive that EIOPA is open to proposals to enhance proportionality on technical provisions, but stakeholders' proposals across the three pillars should be considered in this consultation. The following proposals would ensure that proportionality is effectively applied: 1- Providing in the Directive that NSAs have a duty to always consider proportionality and a potential deviation from any specific requirements where appropriate to the risk profile. 2- A simplified application of requirements, or even in some cases a non-application, must be allowed where it is justified by the nature, scale and complexity of the insurer, ie where it has no significant impact on the evaluation of the solvency position or on policyholder protection.

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		• For any risk with an impact of lower than approximately [1]% on total solvency, the company can avoid all detailed reporting and insert zero's where needed • For any risk with an impact of lower than approximately [5]% on total solvency, the company can avoid detailed reporting and use estimation techniques to provide total figures where needed 3- A "tool-box" of non-exhaustive pre-defined simplifications that can automatically be applied by companies need to be created. Predefined simplifications should be allowed automatically when some predefined and risk-based criteria are met. Specific simplifications could include alternative calculation methods or exemptions from certain reporting templates. 4- Through the new Committee on proportionality (created by the ESAs review), EIOPA should publish an annual report on proportionality including proposals on how to improve its effectiveness and consistency. Similar to the EIOPA report on the use of limitations and exemptions from reporting, it would evaluate the application of the proportionality principle per Member State and make propositions on how to improve its effectiveness and consistency. Pillar 1 - In general on Pillar 1, proportionality cannot be regarded as an exhaustive list of simplifications. This would be contrary to a principle-based approach. - The 2 options proposed by EIOPA on the calculation of the SCR are not necessarily exclusive. It would be beneficial to include some additional simplifications, as proposed by EIOPA These should be part of the non-exhaustive list of possible simplifications. At the same time, an integrated approach can be possible, as EIOPA proposes it, where the insurer identifies immaterial risks to be calculated with a simplified conservative approach, and reassesses their materiality every three years.

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		- The IRSG is of the view that a combination of both approaches, together with a duty for NSAs to consider also simplifications not explicitly listed in the regulation, is likely to have a real impact and foster an effective application of the principle of proportionality. Allowing an automatic application of some simplifications based on pre-defined risk-based thresholds will reduce the burden of justification both for insurers and for NSAs and guarantee an immediate release. Pillar 2 - In the ORSA, EIOPA's proposal to assess the significance of the deviation from the assumptions underlying the SCR only every 2 years when there is no material change of the risk profile is welcome. The wording proposed by EIOPA could lead to an overly conservative approach, and NSAs may see "by way of derogation" as a very exceptional measure, while in fact, this should always be allowed when there is no material change in the risk profile. In general, the wording of legal texts should encourage proportionality measures and not encourage an approach where proportionality remains the exception. A one-size-fits-all approach is not in line with Solvency II principles. In addition, the frequency could be every 3 years, for more consistency with some other requirements (eg RSR, reassessment of non-significant risks in the SCR calculation). - Also in the ORSA, more effort should be made to introduce proportionality in the minimum content of the report. - The proposal to introduce more flexibility in the review of the written policies, up to every three years, is welcome. Indeed, an annual review is very burdensome for less complex undertakings for which there has not been any significant change in the risk profile. However, as highlighted above, the wording should support NSAs in applying this measure in practice.

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		- On remuneration, the proposal to reduce the scope of the requirement to defer a part of the variable component, depending on the size of company and the absolute and relative amount of variable component, is welcome. Pillar 3 - Like in the first wave of the consultation on reporting, EIOPA lacks ambition to effectively reduce the unnecessary burden of reporting and effectively increase the application of proportionality. EIOPA should realign the proportionality principle with the fundamental supervisory objectives of Solvency II • Proportionality criteria (nature, scale and complexity) should not be regarded as separated but assessed all together as a whole, i.e. as defining a (re)insurance undertaking's overall risk profile. • The ultimate objectives of Solvency II (i.e. financial stability, consumer protection and market discipline) are intrinsically part of the overall risk profile assessment. On proportionality, EIOPA should also at least: • Promote a better consistency in the way the proportionality principle is applied throughout EU countries without losing the local flexibility. • Encourage practicality and proportionality for captives in order to ensure efficiency in EU companies' risk management and financing strategy. • Place substance over form by focusing regulatory actions where they are delivering the expected results and avoid "tick-the-box" regulatory exercises which are detrimental to both the industry

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		(because of extra workload and costs) and the objectives of the regulations. • Allow supervisory authorities to more effectively use their limited resources and focus them on what is relevant for the regulation (e.g. critical risk areas in an industry segment, customer protection, etc.). • Aim at ensuring that the EU (re)insurance market remains diverse, dynamic, secure, competitive and innovative in the international business environment, to the benefit of the end customer. For smaller companies, compliance and regulatory costs are high relative to their size. There is always a minimum in absolute value for compliance costs; irrespective of the company's size, which can be detrimental to small entities. Overall, the aim should be to achieve better proportionality and more efficiency in the way risks are actually mitigated and meaningfully reported. More proportionality should not compromise regulatory objectives and core principles.
8	18	EIOPA should take stock of the various actions undertaken since 2016 by national supervisors as regards the application of the Principle of Proportionality by carrying out a full review of the different ways used by national supervisors to implement the Principle of Proportionality, for instance where there is a pragmatic approach regarding key functions (e.g.: one single governance body holding several functions) and to understand the reasons for such treatment for small insurance businesses.

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		There is still an inconsistent application of the proportionality principle depending on the country: • Not applied or in very limited way for Technical/Actuarial and Capital Requirements. • Some reporting proportionality is allowed in some countries according to different criteria. • Some countries implemented a classification of insurance carriers based on size, risk and complexity criteria, allowing for a differentiated regulatory approach. • Reporting and governance burden is a key concern for the majority of small and less complex insurers. • The lack of "fit-for-purpose" rationale of many requirements is often highlighted. • Requirements for certification and assurance in relation to reporting and disclosure as well as for technical provision and SCR calculations differ between countries The IRSG proposes that EIOPA should take measures to ensure that proportionality is evaluated and implemented consistently by EU national supervisors, while keeping a flexibility in the intensity of the proportionality measures
8	118	The IRSG supports the advice of EIOPA to improve the application of the proportionality principle to the Pillar 2 requirements. The application of such principle *inter alia* depends on the nature, scale and complexity of the risks inherent in the undertaking's business. These parameters do not eliminate the legal uncertainty and ultimately increase the differences between member states in the interpretation of Solvency II rules. Thus, level I & II measures should provide further details to avoid uncertainty and inconsistencies between member states.

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8	123	It is important to keep a pragmatic approach regarding key functions (e.g.: one single governance body holding several functions) and to understand the reasons for such treatment. EIOPA should also be clear on the difference between a "person" and "a governance body" (e.g. the Board of Directors). This is to ensure the Board of Directors of a smaller or less complex entity is collectively assuming supervision of the key functions without the need for having a "person" individually nominated for the said key functions, obviously in line with Fit & Proper, Conflict of Interest, Outsourcing and Independence requirements.
9	477	The IRSG does not support the proposal to further clarify the reference to *mutatis mutandis* in the proposals on group supervision. The IRSG believes the *mutatis mutandis* concept serves the useful purpose to adapt requirements that are written essentially for solo insurance undertakings to a group level (rather than transposing the requirements 1 for 1 to the level of the group). Thus, further defining group governance requirements reduces flexibility of insurers to organise themselves while prescriptive requirements do not necessarily contribute to good governance. On the other hand, the IRSG calls on EIOPA to reflect in its approach to the *mutatis mutandis* concept the principle that insurers must organize a governance system at group level in an *appropriate manner*.
8	176	The IRSG supports the proposal that the regular ORSA is only provided with annual frequency. However, we would extend the consideration of required frequency to potentially justify on proportionality grounds that, for some undertakings, the ORSA should only be provided following any significant change in the risk profile of the undertaking. An annual frequency increases

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		bureaucracy for undertakings when there is no significant change in the risk profile to be registered.
8	180	The IRSG supports the proposal that the review of the written polices can be less frequent in accordance to the principle of proportionality. This principle could, for some undertakings, also justify a review only where a significant change has taken place in the system or area concerned without requesting mandatory minimum frequency of review.
8	182	Currently, the ORSA process already implies an assessment of the governance system, board effectiveness as well as the regular reporting and disclosure. EIOPA's proposal to require undertakings to continuously demonstrate to the NSA the adequacy of the composition, effectiveness and internal governance that has the potential to become an overly burdensome exercise. Moreover, this does not relate to proportionality but to Pillar 2 provisions, out of the scope of the call for advice.
8	185	The IRSG notes EIOPA's proposal to limit the scope of requirements on variable remuneration . We would ideally have appreciated consideration of a change in the current rules on the basis of the principle of proportionality rather than deferral to a future opinion.

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9	168	EIOPA proposes to add holding companies to the calculation of the Group MCR. If this meant a notional solo MCR of 35% of notional Solo SCR (with equity risk charge), then there is a high risk that the minimum consolidated Group Solvency Capital Requirement becomes the binding floor for the Group SCR thereby limiting the recognition of diversification benefits. However the minimum consolidated Group Solvency Capital Requirement construction implies substantial double counting (in fact multiple-counting of equity risk) of risks, so that it is an inappropriate floor for the carefully prepared risk-sensitive Group SCR.
9	399	We are concerned that EIOPA both recommends to (i) add holding companies to the calculation of the minimum consolidated Group Solvency Capital Requirement (9.399) and to (ii) leave the calculation of the minimum consolidated Group Solvency Capital Requirement hanged (9.400). This substantially increases the risk that the minimum consolidated Group Solvency Capital Requirement is breached before the Group SCR (trigger inversion) based on inappropriate multiple-counting on risks in the minimum consolidated Group Solvency Capital Requirement calculation methodology.
10	18	FOS and FOE share the same principle, i.e. the insurer is subject to the supervision of the home member state and not the host member state. The IRSG supports the objective to prevent failures of insurers operating cross-border. However, this must be consistent with the principle of supervision by the authority of the home member state. To support efficient supervision by the home country, EIOPA has a key role to structure the exchange of information between national supervisors about: - their local insurance market specificities - how to supervise correctly the insurers involved in a specific line of insurance business (long-tail liability, provisions needed…) Thus, in principle, the IRSG is supportive of advice aimed at intensifying collaboration between the authorities of the home member state and the

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		host state while supervising insurers operating cross-border, nut is not supportive of advice aimed at introducing obligations for the authorities of the host member state to such insurers
10	27	The IRSG agrees that insurers should be required to inform the supervisory authority of the home member state of material changes in their FOS activities. However, the IRSG is of the opinion that this obligation should only arise in respect of changes which are material to the nature, scale and complexity of the risks inherent in the undertaking's business in the host member state.
10	39	The IRSG agrees with the need to prevent risks that can also result in consumer protection issues. With reference to the point 10.39, however, the IRSG calls to amend the expression "or other emerging risks, including consumer protection risks" as it seems to introduce a new type of risk to those already referred to by Solvency II. A reformulation could be the following: "or other emerging risks, including those detrimental to consumers". In addition, the IRSG notes that EIOPA uses the term "consumers", which has a precise legal meaning in European law being distinct from that of customer. Thus, the IRSG asks to specify if the use of the term "consumer" is really wanted (see also below). In accordance with the principle of proportionality and the rules introduced in the IDD, the term "consumer" should refer to the customer exposed to risks other than large risks.
10	56	The IRSG believes that the regulatory change recommended by EIOPA under point 10.56 must be limited to the supervisory authority of the home state only. The host authority, in fact, already has the power to request the information relating to the relevant insurer from the authority of the home state.

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11	31	The IRSG supports the concept of an effective macro prudential framework to ensure that activity-based systemic risk is identified, limited and under permanent control with a pragmatic and proportionate approach. On the other hand, any entity-based systemic risk is yet to be demonstrated and should therefore not be the basis to increase the burden on (re)insurance undertakings . We remind that the insurance and reinsurance business model has several specificities such as a reverse production cycle or long-term guarantees (e.g. retirement products) backed by investments managed with ALM constraints. These aspects contribute to provide loss absorbing capacity to the real economy and limit largely leverage effects. Consequently, the insurance and reinsurance sector is, by its natures, not as systemic as other financial sectors. These observations should be taken into account carefully in considering the macro-prudential framework to: - Ensure the capacity for insurers to invest in real economy and illiquid assets; - Limit the indirect impacts that could affect the policyholders (product design by limiting some activities, performance of contracts, increase of costs, etc.); - Limit the burden for insurer and reinsurer undertakings with a proportionate approach compared to other financial sectors Regarding behaviour-based systemic risk, it is surprising that EIOPA does not emphasize the role of (re)insurers as counter-cyclical investors, a feature that is widely recognized by the FSB and the BIS Committee on the Global Financial System (CGFS). It is therefore a weak basis to increase the burden on (re)insurance undertakings. The toolkit with additional tools and measure should thus be limited and proportionate to activity-based systemic risk arising from non-traditional (re)insurance activities. The activation of the tools should not distort the economic functioning of the markets used by insurers nor should it put insurers at a competitive disadvantage compared to other (financial) institutions and entities.

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11	106	More clarification is needed regarding the inclusion of reference of the Prudent Person Principle (PPP) in article 132 if the Solvency II Directive. We do not see a need for an enhancement. While the PPP is a micro-prudential tool, if applied by all companies it should – by definition – reduce any potential overall macro-prudential risk. Regarding macroprudential surveillance and supervision, the principle of “No one size fits all” approach is appropriate.
12	150	Additional safeguards for restructuring, limiting or writing down insurance liabilities and allocating losses to policyholders: EIOPA should clarify that policyholder rights (such as accrued guarantees, and ongoing guarantees) can be restricted by supervisors (within quantitative limits to be defined) before transfer to an Insurance Guarantee Scheme.
14	60	The proposed advice at point 14.60 claims to introduce the “governance” under the scope of supervision under article 30 of Solvency II. The IRSG supports this advice in principle, but notes that the term “governance” does not coincide with “system of governance”, which is wording used in chapter IV of Solvency II. Thus, the IRSG asks to specify whether this discrepancy is intentional and, if so, to specify the reason.
14	61	The proposed advice at point 14.61 claims to the on-going assessment *inter alia* of the “qualifying shareholders”. In line with the definition of “close links”, also referred to, it should be specified that “qualifying shareholders” are the “controlling shareholders”.