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CONSULTATION PAPER ON SUPERVISORY STATEMENT ON THE AUTHORISATION AND ONGOING SUPERVISION OF (RE-)INSURANCE UNDERTAKINGS RELATED TO PRIVATE EQUITY

EIOPA REGULAR USE

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European Insurance and Occupational Pensions Authority

RESPONDING TO THIS PAPER

EIOPA welcomes comments on the Consultation paper on the Supervisory Statement on the authorisation and ongoing supervision of (re-)insurance undertakings related to private equity.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA, **by Monday, 30 April 2026, 23:59 CET** responding to the questions in the survey provided at the following link:

https://ec.europa.eu/eusurvey/runner/b000dafa-432e-cc68-73dc-bb67df6a329e

Contributions not provided via the EU Survey or after the deadline will not be processed and therefore considered as they were not submitted.

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1. LEGAL BASIS

1.1. The European Insurance and Occupational Pensions Authority (EIOPA) provides this Supervisory Statement on the basis of Article 29(2) of Regulation (EU) No 1094/2010.[2] This Article mandates EIOPA to play an active role in building a common Union supervisory culture and consistent supervisory practices, as well as in ensuring uniform procedures and consistent approaches throughout the Union.

1.2. EIOPA delivers this Supervisory Statement on the basis of Directive 2009/138/EC (Solvency II Directive).[3]

1.3. This Supervisory Statement is addressed to the competent authorities, as defined in Article 4(2) of Regulation (EU) No 1094/2010.

1.4. The Board of Supervisors has adopted this Supervisory Statement in accordance with Article 2(8) of its Rules of Procedure.[4]

2. CONTEXT AND OBJECTIVE

2.1. Over the last 10 years, private equity (PE) firms have shown growing interest in acquiring partially but more often totally insurance and reinsurance undertakings. Although this trend is more developed in the US[5], PE firms have become important buyers/owners also in the EU[6].

2.2. PE firms as owners of (re-)insurance undertakings have often taken an active role in defining the strategy of and managing the (re-)insurance undertaking, referred to in this document as *modus operandi*. When applied properly and fairly this may bring potential benefits in terms of a more diverse investment strategy resulting in higher yields and easier access to capital and guarantees that benefit policyholders. Also from an operational perspective, cost optimization may provide a more efficient and sustainable business.

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[2] Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

[3] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (OJ L 335, 17.12.2009, p. 1-155).

[4] Decision adopting the Rules of Procedure of EIOPA's Board of Supervisors, available at: https://www.eiopa.europa.eu/sites/default/files/publications/administrative/bos-rules_of_procedure.pdf.

[5] According to NAIC, 137 PE-owned insurers held 7.8 of all US insurance industry's total assets as of Year-End 2024 (link).

[6] According to data collected by EIOPA from 14 Member States, 26 PE related insurance undertakings manage asset of total of 260 billion euros, representing 2.4 % of the European market as per end of year 2023 (for more information please refer to the impact assessment accompanying the public consultation.).

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2.3. However, the ownership structures used by some PE firms when acquiring (re-)insurance undertakings, both in terms of number of intermediary holdings, composition and location of entities (in third countries), their modus operandi and governance, can also pose challenges for supervisory authorities, especially during the acquisition process subject to a limited time frame of 60 working days under Article 58 of the Solvency II Directive.

2.4. Indeed, the new business strategy implemented by the PE as the owner might be more challenging to supervise, thus requiring increased resources and scrutiny from supervisory authorities. This is, for instance, the case of PE funds having a short-term investment horizon, changing the asset allocation of targeted (re-)insurance undertakings towards private credit and illiquid assets, material use of reinsurance from third-country jurisdictions, and other forms of balance sheet enhancement.

2.5. The aim of this Supervisory Statement is to ensure high-quality and convergent supervision of (re-)insurance undertakings related to PE firms, considering their specific nature and risks. It sets out supervisory expectations for acquisitions of qualifying holdings, portfolio transfers and mergers, as well as for on-going supervision.

2.6. Supervisory authorities should apply this Supervisory Statement in accordance with the principles of risk-based and proportionate supervision.

2.7. This Supervisory Statement should be read *inter alia* in conjunction with Articles 29, 30, 34 and 36 of the Solvency II Directive, EIOPA's Supervisory Statement on the supervision of run-off undertakings[7], EIOPA's Supervisory Statement on the supervision of reinsurance concluded with third-country (re-)insurance undertakings[8], EIOPA's Guidelines on system of governance[9], and the Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector[10] (Joint Guidelines).

3. DEFINITIONS AND SCOPE

3.1. The term private equity (or "PE") generally refers to the acquisition of an equity[11] participation (either wholly or partially) not publicly traded on a stock exchange.

3.2. The investment partnership typically involves PE firms, also referred to as general partners, which raise capital from various external investors, including pension funds, endowments, and high-net-worth individuals, etc., known as limited partners, to invest in private companies, usually via one or more PE funds.

3.3. Throughout this document, references to related PE are made in a general sense, covering their specific *modus operandi* and characteristics observed by supervisory authorities, rather than specifically referring to PE firms, funds or other alternative investment.

[7] Supervisory statement on the supervision of run-off undertakings

[8] Supervisory Statement on the supervision of reinsurance concluded with third-country (re)insurance undertakings

[9] EIOPA-BoS-14-253 GL on system of governance

[10] Joint Guidelines for the prudential assessment of acquisitions of qualifying holdings

[11] Equity is distinct from other types of investments, such as loans, bonds, or other financial instruments.

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3.4. This Supervisory Statement addresses the major risks identified so far by supervisory authorities in PE's *modus operandi* related to (re-)insurance undertakings[12], therefore it does not attempt to provide an exhaustive list of all potential risks affecting PE related (re-) insurance undertakings. Furthermore, it is acknowledged that the identified risks may also be applicable to (re-)insurance undertakings that are not related to PE.

4. STRATEGY AND *MODUS OPERANDI*

4.1. The PE classic *modus operandi* is usually based on the following premise: identifying investment targets, buying them (or at least a controlling or majority stake) with the attempt to add value to these companies through strategic guidance, and enhance their revenue streams (e.g., by introducing new management, refocusing the business strategy, streamlining expenses, outsourcing in the group or other related parties, etc.) with the ultimate goal of selling the company at a higher price than the initial acquisition cost following typically 5 to 10[13] years investment horizon. However, it can also be observed that PE firms may tend to maximise their investment returns by extracting value from the acquired undertakings in the short-term. More recently, PE related firms also have adopted other *modus operandi* without the explicit intention to sell the acquired undertakings on a short time horizon. A particular case is where PE related firms are interested in using the assets backing the long-term liabilities of an insurance undertaking as a source of long-term funding, lending and/or investing in activities of other undertakings owned by the PE firm. Next to the increase of investment returns following an asset portfolio optimisation, they might also get a fee compensation for advice and/or for managing those assets.

4.2. Another example is where the *modus operandi* of the acquired insurance undertaking is modified into a back-book consolidator with the intention to acquire or reinsure on a regular basis other companies or portfolios in run-off.

4.3. The changes typically implemented by the PE to unlock value and improve returns across the insurance value chain, along with related risks, are described below.

4.1. CHANGES IN THE BUSINESS MODEL OF THE (RE-)INSURANCE UNDERTAKING

4.4. During the acquisition phase, supervisory authorities need to develop a comprehensive understanding of the future business model and request that the proposed PE acquirer provides a complete list of any planned changes to be implemented after the authorisation phase. In accordance with the third assessment criterion (Annex 1, section 12) of the Joint Guidelines, it is recommended to require at least a 3-years business plan. The supervisory authorities should assess how the future business model of the undertaking will allow it to

[12] See also impact assessment page 14.

13 See https://privateequityinfo.com/blog/2023-holding-periods-reach-record-highs-as-private-equity-recovers-from-covid-19

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comply with the prudential requirements laid down in Article 59(1)(d) of the Solvency II Directive, especially if undertakings' revenues and/or solvency position is expected to be optimized. When the information on the business plan for the target undertaking is not considered sufficient, the supervisory authorities could assess the benefits of requiring, among others, the minutes of the PE investment committee or the Board that has decided on the acquisition.

4.5. With regard to the risk of misalignment of interest, supervisory authorities should pay particular attention to whether the PE firm's business plan ensures sufficient and sustained investment in the undertaking's long-term operational capabilities. In particular, supervisors should assess whether critical investment programmes, including those related to IT infrastructure and digital resilience, are adequately safeguarded against short-term value extraction incentives.

4.6. When analysing the business model and planned changes, if areas of significant risk are identified, supervisory authorities should consider measures to mitigate the identified risks, which potentially includes setting up conditions in their Declaration of no objection (DNO).

4.7. During on-going supervision, supervisory authorities should be vigilant about potential increased influence and dependencies, direct or indirect, from general partners or related parties. To prevent potential conflicts of interest, they should ensure that the (re-)insurance undertaking has robust governance and remains independent in terms of decision making.

4.8. From an operational perspective, when organizations implement cost reduction programs or adopt more effective cost management strategies, such as different IT systems or internal outsourcing, supervisory authorities should evaluate how the potentially material risks of the methods including operational risks, are managed and reflected in the own risk and solvency assessment (ORSA).

4.2. TIMESPAN OF INVESTMENTS

4.9. As shareholder, PE may have a limited investment horizon, and their planned changes to unlock the expected embedded value, as well as their exit strategy, may be unrealistic and misaligned with the undertaking's long-term commitment to policyholders.

4.10. When assessing the financial soundness of a proposed acquisition, as per Article 59(1)(c) of the Solvency II Directive, supervisory authorities should assess the capital commitments and their triggers, specifically whether they are limited to the targeted (re-)insurance undertaking or extend to the PE fund as a whole.

4.11. Supervisory authorities need to carefully assess the shareholder agreement of the targeted undertaking and the partnership agreement of the PE fund itself.

4.12. When evaluating a proposed acquisition, supervisory authorities should assess how the investment horizon and the proposed business plan aligns with the insurer's obligations to policyholders. In cases of significant mismatches, supervisory authorities may conclude that the business model is not viable. This may, in particular, be the case if the mismatch is accompanied by high initial distributions to shareholders, other short terms gains, in case of

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incentives for an early exit or in case of changes in the investment strategy which are not in the best interest of policyholders and beneficiaries.

4.13. Supervisory authorities should request, whenever necessary (e.g. recurrent low or negative revenues, or a significant decline in the solvency position), that the (re-)insurance undertaking includes different scenarios considering the potential exit strategy in its risk assessment framework and in ORSA and engage with the (re-)insurance undertaking's shareholders to assess scenarios and determine proportionate supervisory measures.

4.14. Supervisory authorities should monitor the financial stability of the proposed acquisition, especially when approaching the maturity of the investment horizon or when sale attempts of the (re-)insurance undertaking have failed. They should assess whether supervisory measures are necessary, to ensure the undertaking's financial stability and policyholder protection, since incentive for the fund owners to provide financial support may be significantly reduced or even eliminated. By way of example, capital policies should ensure self-financing of the (re-)insurance undertaking and not be biased because of unrealised gains and consider the PE fund's commitment dedicated to all companies within the specific fund.

4.3. SIMPLICITY AND TRANSPARENCY OF THE ACQUISITION STRUCTURE

4.15. The acquisition structure may involve many entities, with multiple holdings in various jurisdictions (e.g. in non-equivalent third countries) between the PE firm and the targeted (re-)insurance undertaking.

4.16. Supervisory authorities should pay attention to Article 59(1)(d) of the Solvency II Directive and assess the effectiveness of supervision taken into account the complexity of acquisition, information exchange among the supervisory authorities and how the allocation of responsibilities among the supervisory authorities can be determined based on the structure of the group of which it will become part.

4.17. In this regard, PE firms should aim for ownership structures that are not overly complex, e.g. limit the levels above the targeted (re-)insurance undertaking to enable supervisory authorities to exercise effective supervision.

4.18. Supervisory authorities should in this context assess that ownership structures allow, in addition of paragraph 4.19, the sound and prudent management of the targeted (re-) insurance undertaking/group and the best possible control of relevant risks.

4.19. To achieve this, in case of complex or opaque PE structure, the proposed acquirer should be requested to provide a description of the PE firm's governance mechanisms, information on entities influencing PE decision making, details on agreements regulating relationships between general partners and these entities, a justification for each level of the ownership chain in case of complex or non-transparent acquisition structure, and information about third-party interest that could impact management decisions related to the targeted (re-) insurance undertaking.

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4.20. Supervisory authorities are recommended to require in the DNO, specific reporting, on a regular basis, related to the PE entities, namely the relevant changes in the group structure and financial information regarding the main holdings of the PE group.

5. MAINTAINING A SOUND AND EFFECTIVE SYSTEM OF GOVERNANCE

5.1. The general partners often exercise significant control over their portfolio companies, while those investors may not have sufficient (local) experience in the insurance sector.

5.2. Supervisory authorities should ensure that, after the acquisitions by PE, the (re-)insurance undertaking continues to have an effective system of governance in place providing a sound and prudent management of the business in accordance with Article 41 of the Solvency II Directive.

5.3. Supervisory authorities should pay special attention to ensuring that the (re-)insurance undertaking maintains sufficient independence and countervailing power, proportionate to the risks involved, in order to prevent undue influence or control.

5.4. Supervisory authorities should, in accordance with Articles 49(2) and 59(1(b) of the Solvency II Directive, verify that the insurer's Administrative, Management or Supervisory Body (AMSB) members collectively possess the necessary expertise and knowledge of insurance products, services, and markets in which the undertaking operates, as well as a comprehensive understanding of the legislative and regulatory framework, including financial aspects.

5.1. CORPORPATE GOVERANCE ASPECTS

5.5. Supervisory authorities should assess whether the influence from PE related entities or management is consistent with Article 62 of the Solvency II Directive and ensure that decisions are made in the best interests of policyholders and beneficiaries.

5.6. Supervisory authorities should pay special attention to, and assess appropriateness of, affirmative votes within the AMSB of the (re-)insurance undertaking, special shareholder rights, such as the capacity to appoint executive board members or veto significant changes (e.g. capital distribution, specific internal policies, or the risk appetite framework).

5.7. When shareholder representatives participate in company committees, supervisory authorities are recommended to check the purpose of these committees and their responsibilities, their activities and their interaction with the persons who effectively run the undertaking or have other key functions, including how those are documented.

5.8. Supervisory authorities should examine management remuneration and potential leveraged share schemes provided by the shareholder (e.g., including multipliers if specific targets are met) to ensure they align with the best interests of the undertaking.

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5.2. CONFLICTS OF INTEREST

5.9. In line with Article 258(5) of Commission Delegated Regulation (EU) 2015/35[14], supervisory authorities should monitor intragroup transactions (IGT) and any related transactions (e.g. asset management agreement, reinsurance, outsourcing) ensuring the application of the arm's length principle, a fair value of commissions, and adequate IGT policy in place.

5.10. Supervisory authorities should ensure that asset management decisions remain independent (e.g., countervailing power in case of potential conflicts of interest with an affiliated asset manager/advisor that is also a shareholder or a group entity) and that there is no misalignment of interests between the asset manager and the (re-)insurance undertaking in line with prudent person principle laid down in Article 132 of the Solvency II Directive.

5.3. SPECIFIC GOVERNANCE ARRANGEMENTS AND GROUP STRUCTURE

5.11. Supervisory authorities should ensure that the ownership and voting rights (including additional rights and obligations) of all shareholders have been explained, from the ultimate beneficial owner down to the targeted (re-)insurance undertaking subject to acquisition.

5.12. Supervisory authorities should pay special attention to the assessment of the targeted (re-) insurance undertaking or undertakings with decision-making power, for instance, when there is a management company that exercises its voting rights independently from the parent undertaking, pursuant to Article 63 of the Solvency II Directive.

5.13. Supervisory authorities should verify if the acquirer can exert control or significant influence over the (re-)insurance undertaking, regardless of the amount of equity or voting rights (e.g. through special rights granted in the shareholders' agreement).

6. PRUDENTIAL ASPECTS

6.1. INVESTMENTS

6.1. The PE *modus operandi* is sometimes linked with the change of the asset allocation of targeted (re-)insurance undertakings towards so called private credit assets, non-rated credit or any other alternative assets which typically provide higher yields, but also tend to be more complex, less liquid and more difficult to value. In some cases, the targeted (re-)insurance undertaking's assets are used to support other businesses owned or related to the same PE firm/fund, including by providing funding for leveraged buyouts.

6.2. Supervisory authorities should assess the adequacy of control structures in terms of skills and procedures in line with the complexity of the assets.

6.3. In case of material alternative / illiquid assets, supervisory authorities should assess:

[14] Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance.

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- the complexity in determining the Solvency II market-consistent valuation of these assets, whether the (re-)insurance undertaking has sufficiently knowledgeable staff to understand the models used and their limits, to carry out independent valuation notably when the valuation process is outsourced, and to implement proper governance requirements including the oversight of the AMSB;
- whether these investments, including illiquidity risk, remains compatible with the prudent person principle;
- how the underlying risks of these assets are adequately captured in the SCR;
- the robustness of the asset-liability management in conjunction with the insurance liabilities' profile.

6.2. REINSURANCE AND TRANSFER OF ASSETS

6.4. The PE *modus operandi* often incorporates the increase of the use of reinsurance to reduce capital requirements, which is only partially offset by a higher capital requirement for counterparty default risk, depending on the reinsurer's credit risk profile.

6.5. While the targeted (re-)insurance undertaking may benefit from an extended use of reinsurance as risk-mitigation, supervisory authorities should assess the effective risk transfer associated. Particular attention should be paid to the risk associated to the material increase of the use of reinsurance and to reinsurance contracts with high or variable commissions or termination clauses which can compromise the effective risk transfer. Additionally, an extensive reliance on reinsurance increases counterparty risk and potentially liquidity risk.

6.6. Supervisory authorities should pay particular attention to reinsurance contracts where investments and/or investment risks and rewards are passed to a PE related reinsurer through the premium paid by the cedent and without constraints for the reinsurer to invest in alternative and/or less liquid assets.

6.7. When a substantial transfer of investments takes place within an insurance undertaking — whether through reinsurance or any other arrangement — supervisory authorities should closely monitor compliance with all applicable regulatory requirements. In the case of life products with profit-sharing, a high transfer rate may result in a reduction of policyholder benefits given the reduction in assets and returns. The undertakings concerned are expected to conduct a precise assessment and effective management of both the risks they retain and those associated with the transferred assets. In particular, in the event of recapturing the ceded assets on their balance sheet, undertakings must ensure they have sufficient funds to support the increase in capital requirements. Moreover, public disclosures related to such asset transfers must be appropriate and detailed to uphold transparency in the market.

6.3. SOLVENCY POSITION AND ENHANCEMENT OF THE BALANCE SHEET

6.8. The consequence of the PE *modus operandi,* which focuses on enhancement of the balance sheet (e.g. asset allocation, derivatives, increased used of reinsurance, different assumption

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in the technical provisions, etc.), may sometimes lead to over-optimization and / or change of assumptions underlying the calculation, for instance different expenses (claims handling, investment and administrative expenses), evolution of the future management actions, etc.

6.9. In this context, supervisory authorities could assess the flow of money, namely how cash moves in and out of the business, broken down into operating activities (e.g. reinsurance premiums and commissions), investment activities (e.g. investments fees), financing activities (e.g. borrowing or debt reimbursement) and other (e.g. outsourcing, etc.).

6.10. When evaluating the business plan and the adequacy of an undertaking's capital position and solvency ratio, supervisory authorities should require a comprehensive analysis of any changes in the Best Estimate, Solvency Capital Requirement (SCR) computation at the most granular levels and own funds. This analysis should provide a clear and transparent explanation for any changes including in investment management expenses and demonstrate consistency between future management actions, valuation models, and the business plan. Supervisory authorities should also pay attention to data quality.

6.11. In the event of significant enhancements of the balance sheet, as described in paragraph 6.8, the insurance undertaking is expected to evaluate whether the Standard Formula remains suitable for the SCR calculation.

6.12. Supervisory authorities should assess if the different changes in the business model are correctly reflected in the best estimate. By way of example, a change in the investment strategy or/and a more dynamic strategy usually comes with higher fees which should be accordingly reflected in the best estimate.

6.13. Supervisory authorities are recommended to assess whether group supervision is applicable considering intermediate holdings owning the targeted (re-)insurance undertaking. Additionally, supervisory authorities should put in place a college of supervisors or, at least, cooperation agreements with relevant supervisory authorities involved with undertakings owned by the same ultimate shareholder to enhance exchange of information.

7. HIGH LEVERAGE AND CAPITAL ENHANCEMENTS

7.1. The PE *modus operandi* sometimes uses collateralized debt, secured by the (re-)insurance undertaking's operations and assets, to finance the acquisition. This can result in high leverage and significantly increased risks for the targeted (re-)insurance undertaking.

7.2. Supervisory authorities should assess that business plan ensures the targeted insurer's ability to generate value and remunerate both capital and debt, while granting adequate levels of solvency, liquidity and policyholder protection.

7.3. Sometimes, the debt and/or deferred payment used to finance the acquisition is not directly the responsibility of the (re-)insurance undertaking but is instead held at the parent company level. However, this may pose similar challenges when the primary source of revenue of the parent company is the acquired (re-)insurance undertaking. Supervisory authorities should scrutinize the entire financing structure of the acquisition, not only at undertaking level. If the debt is placed at the holding company level outside the EEA,

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supervisory authorities should consider calculating a group SCR at the level of the ultimate parent undertaking outside the EEA even if a subgroup in the European Union exists.

7.4. In making the above assessment, supervisory authorities should consider different scenarios including reverse stress tests such as decreasing premium volumes, breaking of distribution, etc. including the ability to repay the debt. Regarding the baseline scenario, the assumption has to be realistic. By way of example, it is not considered realistic that the loans can be repaid leveraging almost all the undertaking's profit.

7.5. The supervisory authorities should pay particular attention to direct or indirect liens or pledges that might be placed on the targeted (re-)insurance undertaking to secure the indebtedness and the leverage. By way of example, it is considered high risk when these exceed the amount of PE fund's commitments invested for the acquisition and management of the targeted (re-)insurance undertaking.

7.6. Supervisory authorities are recommended, on a case-by-case basis, to require undertakings to provide tailored financing reporting to inform the supervisory authorities of any changes in the funding arrangements and their extent, as well as to provide it with periodic updates on the status of the debt.

7.7. Supervisory authorities should request additional tailored and stress test information which should include at least potential future significant changes in the risk profile and consequent potential effects on the sustainability of the business plan in the ORSA.

8. EARLY DIALOGUE AND GUIDANCE

8.1. In view of the timeline applicable to the assessment of a formal notification relating to the acquisition of a qualifying holding or a portfolio transfer, especially, in accordance with Articles 57 and 39 of the Solvency II Directive respectively, and more so in the case of a planned significant changes in the business model of the targeted (re-)insurance undertaking, proposed PE related acquirers/shareholder(s) should be encouraged by supervisory authorities to enter in an early dialogue with the supervisory authorities before the submission of formal notification.

This Supervisory Statement will be published on EIOPA's website.

Done at Frankfurt am Main, on 27 January 2026.

[signed]

For the Board of Supervisors

Petra Hielkema

Chairperson

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