REPORT ON THE USE OF LIMITATIONS AND EXEMPTIONS FROM SOLVENCY II REPORTING DURING 2022 AND Q1 2023

19 December 2023

European Insurance and Occupational Pensions Authority

CONTENTS

EXECUTIVE SUMMARY

This annual report focuses on the limitations and exemptions from regular supervisory reporting under Solvency II, as granted by the national competent authorities (NCAs) in the European Economic Area (EEA)[1] to the 2022 year-end and to the first quarter of 2023 reporting.

Compared to the previous report[2], the same 11 NCAs granted limitations and/or exemptions to 649 individual ('solo') undertakings regarding the first quarterly reporting in 2023 (compared with 671 'solo' undertakings in Q1 2022). In Q1 2023, two NCAs, the French and Luxembourgish, made the most use of this measure accounting for almost 75% of all the granted limitations and/or exemptions.

For annual reporting with reference to 2022 year-end, four NCAs, one more than in the previous year, granted limitations and/or exemptions from annual reporting regarding the item-by-item templates to 139 'solo' undertakings in 2022 (111 in 2021), showing an increase in number of undertakings benefiting from such decision. As well as for quarterly reporting, also the French and Luxembourgish NCAs made the most use of this annual measure accounting for almost 70% of all the granted annual limitations and/or exemptions in 2022.

With regards to the quarterly reporting requirements at group level, four NCAs (the same four as in Q1 2022) granted limitations and/or exemptions to 24 groups for Q1 2023 (compared to 41 in Q1 2022) and two NCAs (the same as in 2021) granted limitations and/or exemptions from annual reporting to ten groups in 2022 (eight groups in 2021).

Similarly to the previous years, the report evidences that proportionality is embedded in the reporting requirements. The results for 2022 are once more in line with the findings of the last year's report with the average number of templates submitted by undertakings with different sizes varying substantially: in the first quarter 2023, large undertakings reported on average around 10 templates, nearly twice as many as small undertakings. Furthermore, regarding annual reporting the ten largest undertakings by total assets reported on average 37 templates, while the ten smallest undertakings reported on average only 28 templates. Furthermore, the number of the templates reported is not the only aspect to consider. Indeed, it should be noted that the numbers of reported templates still do not take into account the complexity of the business and the effort required to fill them in. For smaller undertakings, for example, with limited lines of business or only domestic business, the level of complexity of some templates is much lower than for undertakings with a broader business structure.

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[1] The European Economic Area comprises 27 European Union (EU) countries together with the 3 European Free Trade Association (EFTA) countries of Iceland, Liechtenstein and Norway.

[2] Report on the use of limitations and exemptions from Solvency II reporting during 2021 and Q1 2022 (europa.eu)

Regarding the possibility to exempt information on credit ratings in the assets and derivatives templates, it was once more evidenced that only a few limitations were granted.

Finally, it is worth reminding that in May 2023 the European Commission published the new Implementing Technical Standards (ITS) 2023/894 and 2023/895 on reporting and disclosure under Solvency II to be applicable as of 31 December 2023 introducing a number of changes impacting proportionality, including additional simplification/elimination of some annual/quarterly reporting templates for all undertakings and introducing new proportionality measures in the form of risk-based thresholds, which will lead to more reporting exemptions for many undertakings.

1. BACKGROUND

1. The report on the use of limitations and exemptions from Solvency II is an EIOPA Annual Report evidencing how many National Competent Authorities (NCAs) grant limitations and/or exemptions from Solvency II reporting requirements to 'solo' undertakings and groups.[3] Indeed, as described in Article 35, paragraphs 6 and 7 of the Solvency II Directive, 'solo' undertakings may be subject to limitations or exemptions to report certain information as follows:
    - Limitation: Submit quarterly reporting information of reduced scope, where this information is reported at least annually. All templates, but the minimum capital requirement (MCR) template[4], can be subject to a limitation (Article35(6)).
    - Exemption: Be exempted from both quarterly and annual reporting in case of reporting templates on an item-by-item basis under certain conditions (Article35(7)).
2. The limitation to regular supervisory reporting can be granted only to undertakings that do not represent more than 20% of a Member State's life, non-life and reinsurance market share respectively.
3. Groups, under Article 254(2), paragraphs 2 and 3, can benefit from limitations or exemptions from reporting only in cases in which all insurance or reinsurance undertakings within the group would benefit from the limitation or exemption.
4. Moreover, Article 35 requires supervisory authorities to give priority to the smallest undertakings when determining the eligibility of the undertakings for those limitations.
5. As outlined in this report (see section VI), the limitations and/or exemptions foreseen in Article 35 are a concrete proportionality measure, but also embedded proportionality and risk-based thresholds are additional aspects that alleviate the administrative burden of reporting, namely:
    - Embedded proportionality: the extension of reporting is directly connected to the nature, scale and complexity of the risks inherent to the business. As an example, the types of investments or the lines of business have a direct impact on the type and extension of reporting to be submitted to NCAs.
    - Risk and size-based thresholds: the risk profile is the main trigger for proportionality reporting, as a number of thresholds were incorporated in the relevant regulation

[3] The same possibility applies also to third-country insurance undertakings when the submission of the reporting information would be unduly burdensome in relation to the nature, scale and complexity of the risks inherent to the business of the branch (see Guidelines on the supervision of branches of third-country insurance undertakings | Eiopa (europa.eu), 18 March 2022).

[4] Template S.28.01 or S.28.02

and apply to different templates (Commission Implementing Regulation (EU) 2023/895[5] laying down Implementing Technical Standards (ITS) with regard to the templates for the submission of information).

6. This report also includes an additional analysis of the application of Articles 35(6) and 35(7) with respect to reporting of External Credit Assessment Institutions (ECAI) ratings, related to item-by-item list of assets and derivatives, in a separate section (see section VII).

2. DATA SOURCES

7. The report is based on answers provided by NCAs in a survey 6 covering both qualitative and quantitative questions as well as the data reported to EIOPA through the quantitative reporting templates (QRTs).
8. The survey includes qualitative questions that aim to gain a better understanding of the processes followed by each authority to grant limitations and/or exemptions in the regular supervisory reporting.
9. The quantitative information is submitted to EIOPA by NCAs via the QRTs with reference date 2022 year-end and first quarter of 2023 and is obtained from the following QRTs:[7]
    - Solvency capital requirement (SCR): from the 'Own funds' template (S.23.01);[8]
    - Gross written premiums (GWPs): from the 'Premiums, claims and expenses by line of business' template (S.05.01);
    - Technical provisions (TPs): from the 'Balance sheet' template (S.02.01);
    - Total assets: from the 'Balance sheet' template (S.02.01).
10. The reporting information was converted to EUR based on the European Central Bank (ECB) exchanges rates on the relevant dates, when necessary.

[5] Commission Implementing Regulation (EU) 2023/894 of 4 April 2023 replaced the original Implementing Regulation (EU) 2015/2450.

[6] EIOPA received answers from all NCAs in the EEA.

[7] All these templates may be exempted quarterly for some undertakings according to Article 35 of the Solvency II Directive.

[8] Limitations cannot be granted for the S.28.01 or S.28.02 MCR templates.

3. CHANGES ON PROCESSES FOR GRANTING LIMITATIONS AND/OR EXEMPTIONS

11. NCAs confirmed that their processes for granting limitations and/or exemptions remained unchanged in 2022 and Q1 2023. Hence, this report should be read in conjunction with the previous year's report.
12. The vast majority of NCAs confirmed they continued granting limitations and/or exemptions both for 'solo" undertakings and groups on a case-by-case basis, mainly for their annual reporting, depending on the risk the undertaking faces.
13. NCAs do not consider this approach as burdensome and therefore do not consider setting an automatic process to grant limitation/reporting to be a better approach.

4. STATISTICS ON LIMITATIONS AND/OR EXEMPTIONS AT SOLO LEVEL [9]

14. No major changes were detected with regard to the number of limitations and/or exemptions for 'solo' undertakings in 2022 and Q1 2023 as compared with previous years.
15. For the quarterly reporting in Q1 2023, the same 11 NCAs as in Q1 2022 granted limitations to 649 'solo' undertakings, showing a slight decrease from 671 'solo 'undertakings (see Table 1.1.).
16. This means that about 27% of the total number of 'solo' undertakings in the European Economic Area (EEA) were either granted authorisation to submit quarterly reporting information of reduced scope (i.e. limitation) or were exempted from quarterly reporting in case of reporting templates on an item-by-item basis (i.e. exemption).
17. Although representing more than one quarter in terms of number of undertakings, these undertakings represent only 2.6% of the market in terms of total assets and 4.4% in terms of the volume of the Solvency Capital Requirement (SCR) (see Table 1.1 and Figure 1.1).
18. NCAs from France and Luxembourg continue making the most use of this measure granting

[9] Undertakings that are only exempted from reporting credit rating information, but need to fulfil all other reporting obligations, are not included in this quantitative chapter. They are treated separately in chapter VII of this report.

limitations and/or exemptions to quarterly reporting to 479 undertakings (291 and 188 respectively), corresponding to 73% (65% and 72% of the total number of undertakings respectively in their markets).

19. Focusing on the countries where this measure of proportionality is used the most the following could be noted:

- in Luxembourg almost 72% of the undertakings (the highest) are impacted by either limitations or exemptions, representing a market share of total assets of 5.5% and a market share of SCR (%) of 25%;
- in Malta, the undertakings benefiting from limitations or exemptions represent 15.5% of the market share of total assets (the highest) representing 22% in terms of market share of SCR.

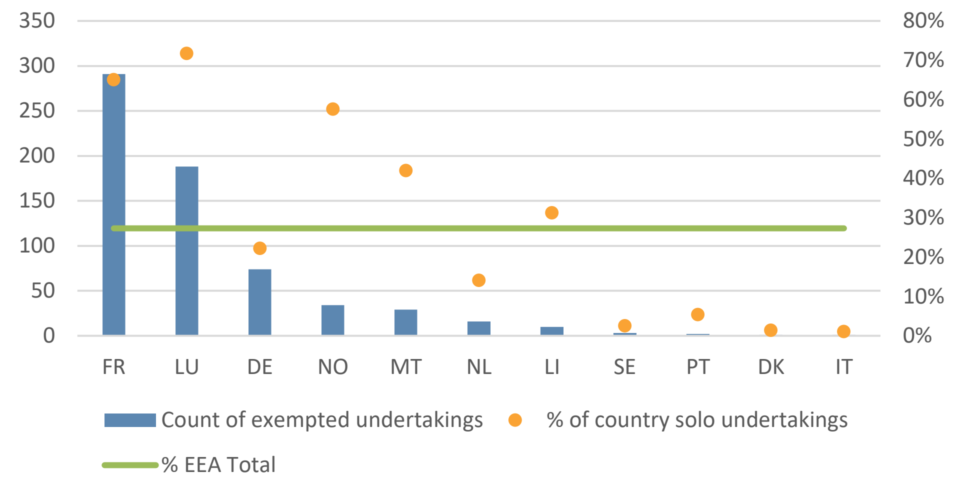
20. To be noted that only 7 NCAs use this possibility to an extent that is considered to lead to a material impact to undertakings (FR, LU, DE, NO, MT, NL, LI), while 4 NCAs used it to a very limited extent and the remaining do not use it at all.

Table 1.1 — Summary of limitations/exemptions to quarterly reporting in number for ‘solo’ undertakings in Q1 2023 (compared to Q1 2022)

	Number of under-takings	Incidence in term of:				
		Total number of undertakings (%)	Total assets (%)	SCR (%)	Non-life GWP (%)	Life TP (%)
Total for EEA	**649 (671) ↓**	**27.3**	**2.6**	**4.4**	**5.0**	**1.9**
FR	291 (314) ↓	65.1	5.1	8.4	14.9	3.6
LU	188 (180) ↑	71.8	5.5	24.7	13.2	0.2
DE	74 (75) ↓	22.3	3.7	3.9	3.2	3.7
NO	34 (34) =	57.6	1.0	7.0	7.0	0.0
MT	29 (33) ↓	42.0	15.5	22.0	8.2	6.3
NL	16 (16) =	14.2	0.2	0.8	0.6	0.0
LI	10 (10) =	31.3	7.5	16.2	3.4	5.4
SE	3 (4) ↓	2.6	0.0	0.0	0.1	0.0
PT	2 (2) =	5.4	0.1	0.3	0.2	0.0
DK	1 (2) ↓	1.4	0.0	0.0	0.0	0.0
IT	1 (1) =	1.1	0.0	0.0	0.2	0.0

21. Figure 1.1 below shows the limitations and/or exemptions to quarterly reporting for ‘solo’ undertakings in Q1 2023 in terms of number and percentage of number of undertakings.

Figure 1.1 — Summary of limitations/exemptions to quarterly reporting for 'solo' undertakings in Q1 2023 (% in terms of numbers of undertakings)



22. At country level, when looking at the type of templates in quarterly reporting for 'solo' undertakings in Q1 2023 (Table 1.2), it is evident that approaches across countries differ in terms of the specific templates that are exempted.

For example:

- Luxembourg, Malta, Portugal and Sweden are exempting all templates for those undertakings subject to limitations and/or exemptions from quarterly reporting;
- Denmark, Italy, Liechtenstein and Norway never exempt the balance sheet, even for the undertakings exempted of reporting other templates; and
- Germany continues exempting almost all quarterly templates except for the own funds template.

Table 1.2 — Overview of limitations/exemptions in number for 'solo' undertakings in quarterly reporting in Q1 2023

	Number of undertakings	Balance Sheet	Premiums, claims, expenses	List of assets	Collective investment	Open derivatives	Derivatives Transactions	Life and Health SLT TP	Non-Life TP	Own funds
Total for EEA	**649 (671) ↓**	**581**	**604**	**632**	**621**	**594**	**591**	**565**	**590**	**518**
DE	74 (75) =↓	63	73	71	70	70	70	65	70	0
DK	1 (2) ↓	0	0	1	1	0	0	0	0	0
FR	291 (314) ↓	280	283	280	277	257	254	263	273	279

IT	1 (1) =	0	1	0	1	0	0	0	1	1
LI	10 (10) =	0	9	10	4	3	3	4	8	0
LU	188 (180) ↑	188	188	188	188	188	188	188	188	188
MT	29 (33) ↓	29	29	29	29	29	29	29	29	29
NL	16 (16) =	16	16	16	15	11	11	11	16	16
NO	34 (34) =	0	0	32	31	31	31	0	0	0
PT	2 (2) =	2	2	2	2	2	2	2	2	2
SE	3 (4) ↓	3	3	3	3	3	3	3	3	3

23. For annual limitations and/or exemptions, four NCAs (three in 2021) granted limitations and/or exemptions from annual reporting regarding the item-by-item templates to 139 'solo' undertakings for 2022 (111 in 2021) (Table 1.3), showing an increase in number, mostly justified by the new NCA using this possibility.

TABLE 1.3 — SUMMARY OF ANNUAL LIMITATIONS/EXEMPTIONS IN NUMBER FOR 'SOLO' UNDERTAKINGS IN 2022 (COMPARED TO 2021)

	Number of undertakings	**Incidence in term of:**				
		Proportion of total number of undertakings (%)	**Total assets (%)**	**SCR (%)**	**Non-life GWP (%)**	**Life TP**
Total for EEA	**139 (111) ↑**	**5.8**	**1.1**	**1.6**	**1.5**	**0.8**
DE	63 (67) ↓	19.0	3.5	4.2	3.6	3.2
FR	32 (0) ↑	7.1	0.5	1.0	1.8	0.3
LI	10 (10) =	31.3	19.6	17.4	3.4	22.8
NO	34 (34) =	54.8	1.0	7.0	7.0	0.0

24. In the EEA only 5.8% of the total number of undertakings, representing 1.1% of the total assets and 1.6% of the SCR are benefiting from annual limitations or exemptions.

25. For the 4 NCAs that use limitations and/or exemptions from annual reporting one can note the following:

- Norway and Liechtenstein granted exemptions from 2022 annual reporting to the same undertakings as it did for quarterly reporting and the same number as last year, indicating a stable sample of undertakings benefiting from this proportionality measure;
- Germany, on the other hand, differentiates slightly between quarterly and annual exemptions, providing annual limitations and/or exemptions to 19% of the undertakings against 23% that benefit from exemptions from quarterly reporting;
- France used this power for the first time, granting limitations and/or exemptions from annual reporting to 7.1% of undertakings under their jurisdiction.

26. Table 1.4 shows the specific templates from annual reporting that were exempted showing that derivatives templates are the most exempted in total.

27. However, it should be noted that the derivatives transactiontemplate was eliminated from the reporting package in the last amendment of the technical standard that will enter into force for the end of 2023 reporting.

TABLE 1.4 — OVERVIEW OF COUNTRIES WITH LIMITATIONS/EXEMPTIONS FROM ANNUAL REPORTING FOR 'SOLO' UNDERTAKINGS IN 2022

	Number of undertakings	List of assets	Collective investment	Structured products	Open Derivatives	Derivatives Transactions	Securities lending and repo	Assets held as collateral
Total for EEA	**139 (111) ↑**	**43**	**35**	**67**	**119**	**120**	**2**	**93**
DE	63 (67) ↓	0	1	61	59	60	1	59
FR	32 (0) ↑	0	2	4	26	26	1	2
LI	10 (10) =	10	1	2	2	2	0	1
NO	34 (34) =	33	31	0	32	32	0	31

28. The templates exempted vary from undertaking to undertaking indicating once more a risk-based approach. As such, straightforward conclusions from the table are not possible as for some undertakings some templates are not applicable like structured products or securities' lendings and repo and hence simply no limitations and/or exemptions may be granted for these cases.

5. STATISTICS ON LIMITATIONS AND/OR EXEMPTIONS AT GROUP LEVEL

29. Four NCAs (the same four in Q1 2022) granted limitations and/or exemptions to quarterly reporting to 24 groups in Q1 2023, 17 groups less compared to Q1 2022 (41 groups) due to a significant decrease in France (Table 1.5).
30. Malta has granted limitations and/or exemptions to 1 additional group in Q1 2023 representing 75% of the groups under their group supervision.
31. For both Germany and Luxembourg, the groups that are exempted from quarterly reporting remain unchanged.

TABLE 1.5 — SUMMARY OF QUARTERLY LIMITATIONS/EXEMPTIONS FOR GROUPS IN Q1 2023

	Number of groups	**Proportion to total number of groups under group supervision in %**
Total for EEA	**24 (41) ↓**	**19.5**
DE	7 (7) =	13.0
FR	4 (22) ↓	9.5
LU	1 (1) =	9.1
MT	12 (11) ↑	75.0

32. Two NCAs (the same two as in 2021) granted limitations and/or exemptions to annual reporting to ten groups in 2022 (eight groups in 2021) (Table 1.6).
33. France exempted two additional groups from annual reporting in 2022, while Germany kept the number unchanged.

TABLE 1.6 — SUMMARY OF ANNUAL LIMITATIONS/EXEMPTIONS FOR GROUPS IN 2022

	Number of groups	Proportion to total number of groups under their group supervision in %
Total for EEA	**10 (8) ↑**	**8.6**
DE	7 (7) =	13.2
FR	3 (1) ↑	4.7

6. PROPORTIONALITY PRINCIPLE IN REPORTING

34. To evidence how proportionality is implemented in supervisory reporting, EIOPA has updated the example that has been included in the previous year's reports as well.

35. This example confirms once more the previous conclusions that proportionality requirements incorporated in technical standards deliver the intended results:
    - In Q1 2023, large undertakings had to fill in on average almost ten quarterly templates (same as in Q1 2022), nearly twice as many as small undertakings;
    - On an annual basis, the 10% largest undertakings by total assets, had to fill in on average 37 templates in 2022, while the 10% smallest undertakings had to complete only 28 templates in 2022.

36. Aditionally, it should be noted that the numbers of reported templates still do not take into account the complexity of the business and the effort required to fill them in. For smaller undertakings, for example, with very limited lines of business or only domestic business, the level of complexity of some templates is much lower than for undertakings with broader business structures.[10]

[10] For instance, template S.19.01 (Non-life insurance claims) is counted as one template and no consideration is given to the potential multiple reporting by lines of business or currencies (when material); if this was to be considered it would increase the gap in the number of templates even further.

TABLE 1.7 — AVERAGE NUMBER OF TEMPLATES PROVIDED BY UNDERTAKINGS

	Q1 2023 (Q1 2022)	Annual 2022 (2021)
Large (10% largest by total assets)	9.6 (9.5) ↑	37.2 (37.0) ↑
Rest (80%, medium-sized by total assets)	7.1 (7.1) =	33.9 (33.8) ↑
Small (10% smallest by total assets)	5.4 (5.4) =	27.5 (27.6) ↓

37. Finally, it is worth reminding that in May 2023 the European Commission officially published the new Implementing Technical Standards (ITS) 2023/894 and 2023/895 on reporting and disclosure under Solvency II to be applicable as of 31 December 2023. These ITSs introduced a number of changes from a proportionality perspective amongst which additional simplification/elimination of some annual/quarterly reporting templates for all undertakings, introduced as well new proportionality measures in the form of risk-based thresholds, which will lead to more reporting exemptions for many undertakings once applicable from year-end 2023.

7. PROCESS FOR GRANTING LIMITATIONS FROM CREDIT RATING INFORMATION

38. This section focuses on limitations from reporting the credit rating information in the templates 'list of assets' (S.06.02) and 'open derivatives' (S.08.01) only.

39. The information regarding the external rating and nominated External Credit Assessment Institutions may be limited (not reported) in the following circumstances:

- through a decision of the national competent authority under Article 35 (6) and (7) of the Directive 2009/138/EC; or
- through a decision of the NCA in the cases where the insurance and reinsurance undertakings have in place outsourcing arrangements in the area of investments that led to this specific information not being available directly to the undertaking. According to Article 44 (4a) of the Solvency II Directive, in order to avoid overreliance on external credit assessment institutions, insurance and reinsurance undertakings shall assess the appropriateness of those external credit assessments (when used in the calculation of technical provisions and the Solvency Capital

Requirement) as part of their risk management by using additional assessments, wherever practicably possible.

40. Undertakings which are exempted from the full templates S.06.02 and S.08.01 are not included in the analysis below.

41. The survey performed among NCAs confirmed there were no changes to the processes on formal policies for granting limitations from reporting external credit assessment institutions (ECAI) for the same reasons as mentioned in the past. In particular, NCAs do not grant limitations to reporting external credit rating information as they consider credit rating information as an important information, with data being available and easily accessible.[11]

42. Based on Q1 2023 data provided to EIOPA, the granting of limitations and/or exemptions for the reporting of credit rating information remains relatively limited (applied only to 355 solo insurance and reinsurance undertakings) (Table 1.8), in line with the findings of last year's survey.

43. However, although limited in numbers, exemptions from reporting of data on credit rating information is not limited to a few specific NCAs but is common in the whole EEA.

TABLE 1.8 — OVERVIEW OF LIMITATIONS AND/OR EXEMPTIONS FOR ASSETS AND DERIVATIVES BASED ON Q1 2023 REGARDING CREDIT RATING INFORMATION

Type of exemptions	**%** **(in terms of numbers of undertakings)**
Exemption for assets	4.2%
Of which: based on Article 35(6) and (7)	*2.6%*
Of which: based on outsourcing	*1.6%*
Exemption for derivatives	0.4%
Of which: based on Article 35(6) and (7))	*0.1%*
Of which: based on outsourcing	*0.3%*
Exemption for assets and derivatives	4.3%
Of which: based on Article 35(6) and (7)	*2.8%*
Of which: based on outsourcing	*1.5%*

[11] If 'solo' undertakings are part of a group applications are simply not received.

Not exempted	91.1%

44. Overall only 4.2% of the total number of undertakings were exempted of such reporting in the list of assets in Q1 2023).

45. The percentage of undertakings exempted only in the derivatives template is 0.4% in Q1 2023 .

46. A total of 4.3% of the total number of undertakings were exempted of the reporting of the credit rating information both in the assets and derivatives templates in Q1 2023 2.8% based on Article 35 (6) and (7) of the Solvency II Directive and 1.5% (based on outsourcing reasons.

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