



Press Release

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EIOPA RECOMMENDS FURTHER SIMPLIFICATIONS TO THE CALCULATION OF INSURERS' CAPITAL REQUIREMENTS

- *EIOPA issues its second and final set of Advice to the European Commission on the Solvency Capital Requirement (SCR) standard formula*
- *EIOPA recommends further simplifications and improvements to the calculation of capital requirements*
- *EIOPA's ultimate goal is to ensure a proportionate and technically robust, risk-sensitive and consistent supervisory regime for the insurance sector*

Frankfurt, 28 February 2018 – Today, the European Insurance and Occupational Pensions Authority (EIOPA) submitted its second and final set of Advice to the European Commission. Previously, EIOPA submitted a first set of Advice to the European Commission in October 2017.

Reflecting developments in the insurance sector and in the wider environment, EIOPA recommends a mixture of revised calibrations, simplifications and, where needed, proposals to achieve greater supervisory convergence.

The availability of more recent data requires revised calibrations in a number of areas such as natural catastrophe risks, assistance and medical expenses, as well as legal expenses risks.

EIOPA advises to further simplify calculations for natural, man-made and health catastrophes, in particular fire risk and mass accident. Other simplifications include the treatment of look-through to underlying investments.

With respect to the treatment of unrated debt and unlisted equity, EIOPA outlines circumstances and recommends objective criteria, such as financial ratios, when these important asset classes can be given the same treatment as rated debt and listed equity.

In the area of the calculation of interest rate risk, where the current approach does not cater for negative interest rates and is not effective when interest rates are low, EIOPA recommends new calibrations that take recent evidence such as negative rates into account. In some areas the analyses of recent developments do not provide for sufficient reason to change the calibrations. That is the case for mortality and longevity risks, but also for the cost-of-capital, the latter one of the key elements of the risk margin. Other elements of the risk margin should be assessed in the upcoming overall review of the Solvency II regime due in 2021.

As a follow-up to its analysis of the loss-absorbing capacity of deferred taxes (LAC DT), which showed divergent supervisory practices of 25% of LAC DT, EIOPA has developed a set of key principles to strike a reasonable balance between flexibility and to foster greater supervisory convergence. For example these principles specify the assumptions for projecting future profits after a loss based on credible evidence.

The Advice is accompanied by a full impact assessment, which considers the overall impact of both sets of Advice and provides an assessment of the components of this second Advice. It also reflects the intensive engagement with stakeholders since the start of the exercise in 2016.

Gabriel Bernardino, Chairman of EIOPA, said: *"EIOPA's goal is to simplify the supervisory regime to remove technical inconsistencies and at the same time to ensure that Solvency II remains fit for purpose, proportionate, technically robust, risk-sensitive and consistent. In changing economic circumstances the proposed adjustments to the capital requirements are necessary. With the SCR review, EIOPA has started a rigorous, evidence-based and transparent review of the Solvency II regime."*

The Advice and Frequently Asked Questions are available via [EIOPA's Website](#).

Notes for Editors:

The **European Insurance and Occupational Pensions Authority (EIOPA)** was established on 1 January 2011 as a result of the reforms to the structure of supervision of the financial sector in the European Union. EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union. EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

SCR standard formula is a key requirement of Solvency II that aims to capture the material quantifiable risks that most undertakings are exposed to. It follows a modular structure of different risks such as market risk, life underwriting risk, non-life underwriting risk, counterparty default risk and takes into account diversification benefits.

Loss-absorbing capacity of deferred taxes is the phenomenon that insurers are able to transfer part of a loss to their tax authority via a tax reduction which is reflected in the SCR standard formula. The impact of the loss on their own funds is therefore lower than the original gross loss itself.

The review of Solvency II is a formal process following the legislative texts from the Solvency II Directive. Recital 150 of the Solvency II Delegated Regulation defines a timeline for **the review of the SCR standard formula**, the first phase of the review, which should be finalised by the European Commission before December 2018. The **Solvency II regime** as a whole will be reviewed by 2021.