

FINAL REPORT

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on revised Guidelines on supervisory review
process

EIOPA-BoS-25/660
13 February 2026



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European Insurance and
Occupational Pensions Authority

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1. EXECUTIVE SUMMARY

INTRODUCTION

In accordance with Article 16 of Regulation (EU) No 1094/2010, EIOPA issued guidelines to provide guidance on the supervisory review process in 2015. In the context of the Solvency II review, EIOPA is reviewing all existing guidelines on Solvency II to ensure that they are up to date and in line with the amended legal framework. This final report sets out the final text of the revised Guidelines on supervisory review process, the explanatory text and a feedback statement on the public consultation.

CONTENT

Based on the practical application of the Guidelines during the last years, improvements have been identified to enhance their flexibility and adaptability, reflecting the evolving supervisory landscape across Europe. The main changes focus on two objectives: first, to update the current content ensuring its alignment with the latest advancements and best supervisory practices; secondly, to integrate processes and best practices to deal with new emerging topics and trends that have gained prominence since the initial guidelines were formulated.

PUBLIC CONSULTATION

EIOPA conducted a public consultation on the revised Guidelines between 2 July and 24 September 2025. Seven stakeholders provided feedback on the consultation paper. Based on the stakeholder feedback, the drafting of the revised Guidelines was refined, without changing the general approach set out in the consultation paper.

NEXT STEPS

A consolidated version of the Guidelines will be published on EIOPA's website. They will become applicable on 30 January 2027.

2. BACKGROUND

In the context of the review of Directive 2009/138/EC (Solvency II Directive)¹, EIOPA reviews all existing guidelines related to that Directive. In view of the large number of these guidelines, the review will be sequential. The main objective of the review is to ensure that the guidelines are up to date and in line with the legal framework as amended by the Solvency II review. Another objective of the review is to simplify and shorten the guidelines, in particular where the guidelines are relevant for insurance and reinsurance undertakings. The corpus of the guidelines has grown over the years, while the Solvency II review mandates EIOPA to issue additional guidelines. EIOPA believes that the corpus of guidelines should be limited to what is strictly necessary to ensure a sound and consistent application of Solvency II. These guidelines are primarily relevant for supervisory authorities.

The current Guidelines on supervisory review process have been applied since 2015. Based on the practical application of the Guidelines, improvements have been identified to enhance flexibility and adaptability, reflecting the evolving supervisory landscape across Europe. The main changes focus on two objectives: on the one hand, to update the current content ensuring its alignment with the latest advancements and best supervisory practices; on the other hand, to integrate processes and best practices to deal with new emerging topics and trends that have gained prominence since the initial guidelines were formulated.

In terms of amendments, further clarifications have been introduced regarding the risk assessment framework (RAF), particularly concerning the impact assessment and risk classification of insurance undertakings and groups. Additionally, more detailed specifications have been developed for the sections on supervisory measures, including enhanced guidelines on the ladder of intervention, and on the creation of a supervisory plan that determines the intensity of supervision, specifying a minimum level of supervisory engagement.

Regarding the new guidelines on existing supervisory practices, the drafting focused on key areas, such as the business model analysis, principles and procedural aspects governing joint on-site inspections, early intervention measures in cases of risk of non-compliance with solvency capital requirements, pre-emptive recovery planning, as well as the supervision of conduct of business.

Concerning the new guidelines on emerging risks, a general guideline was introduced to remind supervisory authorities to integrate the assessment of emerging risks into the supervisory review process. Furthermore, specific references have been made to the supervision of IT risks, Supervisory Technology (SupTech), and sustainability risks.

All in all, the amendments to the guidelines on supervisory review process aim to bridge the gap between the original framework and the evolution of supervisory practices, ensuring that the Guidelines continue to serve their intended purpose effectively.

¹ 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 (Solvency II), (OJ L 335, 17.12.2009, p. 1).

Although these changes do not directly apply to the insurance industry, they are expected to improve predictability in their interactions with the supervisory authorities. By confirming its commitment to achieve regulatory simplification, EIOPA limited the amendments to what it is strictly necessary to support the implementation of Solvency II and to promote a common approach and convergence of practices across Europe.

The revised Guidelines in this final report keep their initial numbering. The revised Guidelines will be renumbered sequentially in the consolidated version that will be published on EIOPA's website.

3. GUIDELINES ON SUPERVISORY REVIEW PROCESS

INTRODUCTION

1. In accordance with Article 16 of Regulation (EU) No 1094/2010², EIOPA issues Guidelines on supervisory review process.
2. These guidelines relate to Article 36 of Directive 2009/138/EC (Solvency II Directive)³. Further relevant provisions concern in particular Articles 27, 29, 34, 71, 213(2), 248, 249, 250 and 255 of the Solvency II Directive.
3. These Guidelines aim at identifying the manner in which a risk-based, prospective and proportionate approach to supervision may be achieved within the supervisory review process.
4. The supervisory review process refers to all activities conducted by the supervisory authority in order to comply with its obligations under Article 36 of the Solvency II Directive. The supervisory review process includes the evaluation of strategies, processes and reporting procedures for insurance and reinsurance undertakings.
5. Therefore, the objective of these Guidelines is to attain consistent outcomes through the convergence of supervisory processes and practices within the supervisory review process, whilst ensuring sufficient flexibility for supervisory authorities to be able to appropriately adapt their actions on a case-by-case basis, taken into account the specificities of the insurance and reinsurance undertakings and groups involved, their own markets and other supervisory priorities.
6. These Guidelines are summarised in the diagram presented in the explanatory text of Guideline 1 and in the document “SRP Guidelines Diagram” published together with these Guidelines.
7. For the supervisory review process of insurance groups where there is a college of supervisors in place, these Guidelines have taken into consideration the Guidelines on operational functioning of colleges and the college’s specific coordination arrangements and any other processes or plans agreed by the college of supervisors.
8. These Guidelines are not intended to restrict the group supervisor and the college of supervisors from additional communications or information sharing arrangements that are consistent with the Solvency II Directive, including the proportionate and risk-based approach of the supervisory review process in line with Article 29 of the Solvency II Directive.
9. Supervisory authorities that are part of a college will have ongoing responsibilities to communicate and involve the college in the supervisory review process, particularly when taking supervisory measures, or when insurance and reinsurance undertakings or groups enter into financial difficulties. Where appropriate, examples with cross references to various requirements and Guidelines are provided in the explanatory text.

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 (Solvency II) (OJ L 335, 17.12.2009, p. 1).

10. These Guidelines apply to the supervisory review process performed by supervisory authorities regarding all insurance and reinsurance undertakings, both individual undertakings and insurance and reinsurance groups subject to group supervision under Article 213 of the Solvency II Directive (insurance groups). Regarding the application of the Guidelines to the supervisory review process of insurance groups the following needs to be considered:
- Guidelines 10, 16, 18, 21, 35, 37 and 40 are group-specific and are only applicable to the group supervisor, with the exception of Guidelines 37 and 40 which can apply to both group supervisor and individual supervisory authority;
 - Guidelines 15 and 17 apply only to supervisory authorities of individual insurance and reinsurance undertakings and do not apply to supervisory authorities in their role as group supervisor. The group supervisor should comply with the relevant group-specific Guidelines 16 and 18;
 - Guidelines 5, 6, 7, 11, 13, 19, 21, 23, 25, 28, 29, 32, 37, 39 and 40 also include provisions that apply only if the insurance group has a college that is established under Article 248 of the Solvency II Directive. These provisions may apply to both the group supervisor and the supervisory authorities of individual insurance and reinsurance undertakings within the college, with the exception of Guideline 21, which only applies to the group supervisor.
11. Where there is group supervision established at national level pursuant to Article 216 of the Solvency II Directive, these Guidelines apply *mutatis mutandis* both to group supervision carried out at national level under Article 216 of the Solvency II Directive and group supervision carried out under Article 213 of the Solvency II Directive.
12. These Guidelines are addressed to the supervisory authorities under the Solvency II Directive.
13. The Guidelines apply from 30 January 2027 and repeal and replace the Guidelines on Supervisory Review Process (EIOPA-BoS-14-178).
14. For the purpose of these Guidelines the following definitions apply:
- When applying these Guidelines to group supervisors:
 - the term “supervisory authority” refers to the supervisory authority responsible for group supervision pursuant to Article 247(1) of the Solvency II Directive;
 - When applying these Guidelines to group supervisors, the term “insurance and reinsurance undertakings” refers to “insurance groups” (excluding guidelines 12, 19, 33, 36 and 38, which refer to both groups and the undertakings within the group);
 - “Group supervisor” refers to the supervisory authority that fulfils the criteria set out in Article 247(1) of the Solvency II Directive;
 - “College” refers to the college of supervisors as defined in Article 212(1)(e) of the Solvency II Directive;
 - “Members” and “participants” refer to members and participants as defined in the Guidelines on operational functioning of colleges;
 - “On-site inspection” refers to an organised assessment or formal evaluation exercise, performed at the location of the supervised undertaking, or the service providers to whom the supervised undertaking has outsourced functions, which leads to the issuing of a document communicated to the undertaking.

15. If not defined in these Guidelines the terms have the meaning defined in the legal acts referred to in the introduction.

SECTION I - OVERALL SUPERVISORY REVIEW PROCESS (SRP)

Guideline 1 – Conducting the supervisory review process

16. The supervisory authority should, in carrying out the supervisory review process and whilst recognising the need for flexibility and supervisory judgement, ensure it comprises three sub-processes as set out in these Guidelines: the risk assessment framework, the detailed review and the supervisory measures.

Guideline 2 – Consistency of the supervisory review process

17. The supervisory authority should ensure that the supervisory review process is applied in a consistent manner over time, across insurance and reinsurance undertakings and within the supervisory authority.

Guideline 3 – Proportionality in the supervisory review process

18. The supervisory authority should ensure that the principle of proportionality is observed throughout all the stages of the supervisory review process.

Guideline 4 – Supervisory judgement in the supervisory review process

19. The supervisory authority should ensure that supervisors use their supervisory judgement at each stage of the supervisory review process. The supervisory authority should ensure that the supervisory review process is kept flexible enough to allow appropriate supervisory judgement to be used.

Guideline 5 – On-going communication with insurance and reinsurance undertakings

20. The supervisory authority should ensure that there is an appropriate level of communication between the personnel of the supervisory authority and the insurance and reinsurance undertaking throughout the entire supervisory review process in order to facilitate effective supervision.
21. If there is a college, the communication with the supervised undertakings should be coordinated as described in Guideline 15 of the Guidelines on operational functioning of colleges.

Guideline 6 – On-going communication with and involvement of other supervisors

22. The supervisory authority should undertake an appropriate level of communication and involvement with other relevant supervisory authorities throughout the entire supervisory review process.
23. Communication with third-country supervisory authorities should be in line with any relevant memoranda of understanding in place.
24. If there is a college, communication should follow the relevant requirements and guidelines.

Guideline 7 – Inclusion of market-wide risks in the supervisory review process

25. The supervisory authority should take into account market wide analyses throughout the supervisory review process.
26. If there is a college the supervisory authority should take into account the outcome of any relevant market-wide analysis that has been shared within the college.

Guideline 8 – Documentation

27. The supervisory authority should ensure that information supporting the conclusions from the supervisory review process is documented and easily accessible within the supervisory authority whilst also observing appropriate confidentiality standards in relation to this information.

Guideline 9 – Governance over and regular review of the supervisory review process

28. The supervisory authority should have an adequate governance mechanism in place to properly monitor the conduct of the supervisory review process.
29. The supervisory authority should regularly review their method of implementation of the supervisory review process to ensure its on-going appropriateness.

Guideline 10 – The scope and focus of the insurance group supervisory review process

30. The group supervisor should apply the supervisory review process consistently with the scope and cases of application of group supervision described in Title III, Chapter I of the Solvency II Directive, taking into account the type of the ultimate parent undertaking of the insurance group, the geographical location of its head office (EEA or a third country), the equivalence status of the third country, if any, and any financial conglomerate aspects.
31. The group supervisor should consider in the supervisory review process all relevant entities within the insurance group including regulated and non-regulated as well as EEA and non-EEA entities.
32. The group supervisor should focus on the group-specific issues, including:
- a) intra-group transactions, complexity and interconnectedness of the insurance group;
 - b) the group risk profile including any diversification effects, risk concentrations and risk transfer across the insurance group;
 - c) any other risks from a group-wide perspective, including those that arise at group level, such as risks from non-insurance entities;
 - d) aspects of the group governance and group strategy including any conflict or any potential conflict of interests;
 - e) aspects of the group-wide risk management, including any centralised risk management functions; and
 - f) the group's management of its group capital, including transferability and allocation within the insurance group.

SECTION II - INPUT TO THE SUPERVISORY REVIEW PROCESS

Guideline 11 – Input to the supervisory review process

33. Throughout the supervisory review process the supervisory authority should, where appropriate, consider relevant information arising from different sources, including from:
- a) the insurance and reinsurance undertaking or the insurance group: quantitative reporting templates, regular supervisory report, solvency and financial condition report, ORSA report, other undertaking or group information or any other information requested from the insurance and reinsurance undertaking or insurance group by the supervisory authority;
 - b) the supervisory authority or the group supervisor itself: historical information, early warning indicators, risk indicators, previous findings on insurance and reinsurance undertakings or groups, thematic reviews or stress tests results;

- c) the college: individual outcomes of the risk assessment framework, individual supervisory plans shared within the college, college work plan, any relevant analysis or reviews or supervisory measures shared within the college;
- d) other competent authorities;
- e) other external parties: market or sector information, information from consumer or industry bodies or associations, technical research papers or press or media information.

SECTION III - RISK ASSESSMENT FRAMEWORK

Guideline 12 – Risk assessment framework structure and use

- 34. The supervisory authority should use a risk assessment framework to identify and assess current and future risks that insurance and reinsurance undertakings face or may face including the insurance and reinsurance undertaking's capacity to identify, measure, monitor, manage and report on those risks.
- 35. The supervisory authority should use this approach for the purposes of:
 - a) conducting the effective supervision of insurance and reinsurance undertakings;
 - b) prioritising supervisory activities;
 - c) setting the frequency of the regular supervisory reporting;
 - d) determining the scope, depth and frequency of off-site analysis and on-site inspections or any other matters needed for the supervision of insurance and reinsurance undertakings.

Guideline 13 – Scope of the risk assessment framework

- 36. The supervisory authority should apply a risk-based and forward- looking approach to supervision that is established in the following stages:
 - a) assessment of information;
 - b) determination of insurance and reinsurance undertaking impact classification;
 - c) determination of insurance and reinsurance undertaking risk classification;
 - d) determination of outcome of risk assessment framework;
 - e) creation of supervisory plan and determination of intensity of supervision.
 - f) in the case of insurance groups, if there is a college established under Article 248(2) of the Solvency II Directive, the contribution of aspects of the supervisory plan to the college work plan, where appropriate.

Guideline 14 – Assessment of information

- 37. The supervisory authority should perform at least a high-level assessment of the information when regular reporting is received and consider the need to reappraise the components of the risk assessment framework.

Guideline 15 – Determination of undertaking impact classification

- 38. The supervisory authority should include in the risk assessment framework an assessment of the potential impact of all insurance and reinsurance undertakings. This assessment should reflect the potential impact that the failure of a particular undertaking would have on its policyholders and beneficiaries, on the market or the objective of the supervisory authority.
- 39. The supervisory authority should assign an impact classification to each undertaking and elaborate on the outcome. It should be conducted on a scale with 4 categories, from 'Impact class 1' the

lowest impact on policyholders and beneficiaries and on the market to 'Impact class 4' the highest impact on policyholders and beneficiaries and on the market.

40. The impact should in principle be assessed at least on an annual basis through quantitative indicators and where applicable qualitative factors. The supervisory authority may carry out an impact classification on an ad-hoc basis in cases where an extraordinary event occurs.

Guideline 16 – Determination of impact classification for insurance groups

41. The group supervisor should include in the group risk assessment framework an impact classification for all insurance groups.
42. The impact classification at insurance group level should reflect the potential impact of the failure of the insurance group, through its entities, on the group's policyholders and beneficiaries, on the markets where the insurance group is active or the objective of the supervisory authority.
43. The group supervisor should, when assigning an impact classification, take into account the complexity and inter-connectedness of the insurance group.
44. The group supervisor should assign an impact classification to each insurance group on a scale with 4 categories, from 'Impact class 1' the lowest impact of the insurance group on policyholders and beneficiaries and on the market to 'Impact class 4' the highest impact of the insurance group on policyholders and beneficiaries and on the market.
45. The impact should in principle be assessed at least on an annual basis through quantitative indicators and where applicable qualitative factors. The supervisory authority may carry out an impact classification on an ad-hoc basis in cases where an extraordinary event occurs.

Guideline 17 – Determination of undertaking risk classification

46. The supervisory authority should identify and assess the current and future risks that insurance and reinsurance undertakings face or may face, including the ability of the undertaking to manage and control those risks and to withstand possible events or future changes in economic conditions, and their potential adverse effect on the solvency and financial position, the viability of the undertaking and its ability to meet its obligations to policyholders and beneficiaries if the risks materialise.
47. The supervisory authority should carry out this risk identification and assessment for all insurance and reinsurance undertakings taking into account quantitative and qualitative criteria and measures relevant to each undertaking.
48. The supervisory authority should assign insurance and reinsurance undertakings a risk classification on a scale with 4 categories: from 'Risk class 1' that corresponds to being best able to withstand the risks materialising, to 'Risk class 4' that corresponds to being least able to withstand the risks materialising.
49. Undertakings' risks should in principle be assessed at least on an annual basis. The supervisory authority may carry out risk classification on an ad-hoc basis in cases where and extraordinary event occurs. However, on the basis of the results of the impact assessment, the supervisory authority should be able to modulate the frequency and depth of the risk assessment for proportionality purposes.

Guideline 18 – Determination of undertaking risk classification for insurance groups

50. The group supervisor should identify and assess the current and future group level risks that could affect the insurance group, including the ability of the insurance group to withstand possible events or future changes in economic conditions and their potential adverse effect on the solvency and financial position, the viability of the insurance group and the group's individual insurance and reinsurance undertakings' abilities to meet their obligations to policyholders and beneficiaries if the risks materialise.
51. The group supervisor should, when assessing the risks of the insurance group, consider the group-specific issues outlined in Guideline 10.
52. The group supervisor should carry out this risk identification and assessment for all insurance groups taking into account quantitative and qualitative criteria and measures relevant to the insurance group.
53. The group supervisor may carry out risk classification on an ad-hoc basis in cases where an extraordinary event occurs.
54. The group supervisor should assign a risk classification to each insurance group on a scale with 4 categories: from 'Risk class 1' that corresponds to being best able to withstand the risks materialising, to 'Risk class 4' that corresponds to being least able to withstand the risks materialising.
55. Group risks should in principle be assessed at least on an annual basis. However, on the basis of the results of the impact assessment, the group supervisory authority should be able to modulate the frequency and depth of the risk assessment for proportionality purposes.

Guideline 19 – Determination of outcome of the risk assessment framework

56. The supervisory authority should ensure that the risk assessment framework outcome for all insurance and reinsurance undertakings and groups includes an impact classification and a risk classification, whether combined or not, and that they are used together with other relevant supervisory information for the purpose of setting the supervisory plan.
57. If there is a college, when exchanging the outcomes of the risk assessment framework (group and individual) the group supervisor and the other supervisory authorities should be able to explain the rationale of the outcome so to enable the college to form a shared view of the risks of the insurance group.

Guideline 19a – Business model analysis

58. As part of the supervisory review process, the supervisory authority should perform a structured business model analysis for insurance and reinsurance undertakings, in line with the nature, scale and complexity of the risks inherent in their business.
59. The business model analysis should result in a view on how the insurance and reinsurance undertaking generates value from its business. It should provide insights into the insurance and reinsurance undertaking's strategy, its main risks as well as on the business viability, sustainability and vulnerabilities of the business model. The supervisory authority should use the outcome of the business model analysis to support the assessment of other elements of the supervisory review process.

60. The process adopted by the supervisory authority to carry out the business model analysis can differ in terms of being an integrated or separate approach (i.e. integrated into risk assessment framework in itself) but the objectives and outcomes remain the same.

Guideline 19b – Scope of business model analysis

61. The business model analysis can be performed at the group and/or individual level depending on the supervisory authority's expert judgement. The analysis should be forward-looking.
62. The business model analysis should be performed at least every three years and after major changes in the business or risk profile of the insurance and reinsurance undertaking and group e.g. large mergers and acquisitions to adequately reflect relevant emerging trends.
63. The level of detail of the analysis should be commensurate with the nature, scale and complexity of the risks the insurance and reinsurance undertaking and group faces or could face assessed in combination with the impact it could have on policyholders.

Guideline 19c – Structured approach

64. When performing a business model analysis following an integrated or separate approach, the supervisory authority should make use of a structured approach. The aim of the structured approach is to minimize the risk of overlooking important information and excluding this from the business model analysis, and to optimize consistency which in turn enables the comparison over time and between peers.
65. This structured approach should at least comprise:
- a) a structured identification of risks;
 - b) an analysis of the business environment;
 - c) a qualitative and quantitative analysis of the current business model;
 - d) an analysis of the business plans and;
 - e) an analysis of the business viability, sustainability and vulnerability.

Guideline 20 – Creation of supervisory plan and determination of intensity of supervision

66. The supervisory authority should define minimum engagement levels and conduct at least every three years the supervisory review process for all insurance and reinsurance undertakings under its scope of supervision, having regard to their size, complexity, and intrinsic riskiness.
67. The supervisory authority should utilise the outcome of the risk assessment framework together with the details of the risks identified, the various priorities and constraints of the supervisory authority and other relevant supervisory information to develop the supervisory plan.
68. The supervisory plan should set out the frequency and intensity of supervisory activities for each insurance and reinsurance undertaking. The supervisory plan should be commensurate to the nature, scale and complexity of the insurance and reinsurance undertaking.

Guideline 21 – Interaction between the group supervisory plan and the college work plan

69. If there is a college, the group supervisor should include the relevant aspects of the group supervisory plan in the college work plan (as set out in Guideline 12 of the Guidelines on operational functioning of colleges) for discussion and action within the college.
70. Relating to the group supervisory review process, the college work plan should include:
- a) a description of the main risks being focused on as a result of the outcome of the group risk assessment framework;

- b) descriptions and rationale of the activities to be carried out within the college on the basis of the group supervisory plan;
- c) the identification of the relevant entities within the insurance group and their supervisory authorities that the group supervisor is likely to seek input from.

Guideline 22 – Governance of the supervisory plan

71. The supervisory authority should ensure that the appropriateness of the supervisory plan is subject to suitable oversight and internal governance within the supervisory authority.

Guideline 23 – Notification of the frequency of regular supervisory report

72. The supervisory authority should notify insurance and reinsurance undertakings of the frequency of the regular supervisory report required, be it annually, every two or three years as well as any subsequent change to that, as soon as possible and no later than three months in advance of the insurance and reinsurance undertakings' financial year end.
73. The decision on frequency should, at least, take the outcome of the risk assessment framework, other supervisory information and the exercise of supervisory judgement into consideration.
74. If there is a college, the supervisory authorities should communicate changes to the regular supervisory report frequency to the group supervisor before notifying the insurance and reinsurance undertakings if appropriate.

Guideline 24 – Update of the risk assessment framework

75. The supervisory authority should, throughout the supervisory review process, consider if it is necessary to update the outcome of the risk assessment framework.

SECTION IV - DETAILED REVIEW

Guideline 25 – Detailed review activities

76. The supervisory authority should carry out detailed review activities, whether off-site analysis or on-site inspections, based on the supervisory plan, taking into account all relevant information and focusing on the areas of risk as identified in the risk assessment framework.
77. If there is a college the supervisory authorities should also refer to the college work plan when carrying out the detailed review activities with regard to any participation of other supervisory authorities in line with the Guidelines on operational functioning of colleges.

Guideline 26 – Request for additional information during the detailed review

78. The supervisory authority should, where appropriate, evaluate the need for additional information from the insurance and reinsurance undertaking, including various types of data, analyses or tasks to be performed by the insurance and reinsurance undertaking. The timeframe allowed by the supervisory authority for the provision of additional information should be appropriate in order for the insurance and reinsurance undertaking to be able to answer the request.

Guideline 27 – Detailed review conclusions

79. The supervisory authority should ensure that the main findings and conclusions of the detailed review are recorded and internally accessible for supervisory purposes.

Guideline 28 – Detailed off-site analyses

80. The supervisory authority should, as defined in the supervisory plan and taking into account the college work plan, if there is a college, use off-site analyses to carry out further activities beyond the high level assessment of information performed in the risk assessment framework, focusing on the specified risk areas.

Guideline 29 – On-site inspections

81. The supervisory authority should carry out regular on-site inspections if defined in the supervisory plan and take into account the college work plan, if there is a college, or other ad-hoc on-site inspections as appropriate.

Guideline 30 – Governance of on-site inspections

82. The supervisory authority should have adequate governance mechanisms in place which allow them to properly monitor the on-site inspections.

Guideline 31 – Process to follow for on-site inspections

83. The supervisory authority should consider, for the on-site inspections, the following phases: preparation, field work and written conclusions.

Guideline 32 – Written conclusions of on-site inspections

84. The supervisory authority should communicate the conclusions of the on-site inspections in writing to the insurance and reinsurance undertaking and should allow the insurance and reinsurance undertaking to respond to the conclusions within a reasonable timeframe as set by the supervisory authority. The supervisory authority should communicate these conclusions to those persons who effectively run the insurance and reinsurance undertaking and are considered appropriate in that context.
85. If there are other supervisory authorities involved in the on-site inspections, the supervisors should discuss the conclusions that will be communicated to the relevant insurance and reinsurance undertakings that are part of the insurance group before communicating them.

Guideline 32a – Joint on-site inspections

86. Joint on-site inspections are inspections carried out by a joint on-site inspections team composed by two or more supervisory authorities and EIOPA, where relevant, in the context of supervision of cross-border activities and group supervision.
87. Joint on-site inspections may be initiated based on the request of the supervisory authority of the home or the host Member State, or EIOPA. In case of supervision of cross-border activities, the joint on-site inspections can be initiated upon decision of the supervisory authority of the home Member State, or of the host Member State, where applicable. In case of group supervision, the joint on-site inspections can be initiated upon decision of the group supervisor. The request to or the decision not to initiate a joint on-site inspection need to be duly justified.
88. Guidelines 29, 30, 31 and 32 apply to joint on-site inspections.
89. Guidelines 32a, 32b and 32c apply *mutatis mutandis* to joint on-site inspections in the context of group supervision.

Guideline 32b – Principles governing joint on-site inspections

90. The joint on-site inspections team should be able to:

- a) access the premises of the supervised insurance and reinsurance undertakings, and/or the premises of any service providers to whom the supervised entity has outsourced functions, covered by the scope of the inspection,
 - b) conduct all necessary investigations by accessing to the relevant information, documents and data (including those stored in the IT systems),
 - c) obtain oral or written explanations from the supervised entity.
91. The joint on-site inspections team is subject to the requirements of professional secrecy pursuant to all relevant provisions in Union legislation with regard to the facts, actions and non-public information that they become aware of during the inspection. These requirements apply even after their duties have ceased.
92. The joint on-site inspections team should act with independence and objectivity. The joint on-site inspections team should observe and comply with the relevant laws and regulations.

Guideline 32c – Procedural aspects for joint on-site inspections

93. The supervisory authorities concerned should reach joint conclusions in writing. The joint conclusions may include findings, as well as the most appropriate supervisory actions recommended by the supervisory authorities concerned.
94. The supervisory authority of the home Member State should draft a report taking into account those joint conclusions and adopt the appropriate supervisory measures. In case the supervisory authority of the home Member State does not take into account all or part of the joint conclusions, it should inform all other participating members of the joint on-site inspections team and state the reasons.
95. The supervisory authority of the home Member State should inform the other participating supervisory authorities and EIOPA, about the outcome of the consultation with the supervised entity in relation to the report (right-to-be-heard) and about any additional collected evidence, if any.
96. The joint conclusions by the supervisory authorities concerned may be used by the other participating supervisory authorities to take supervisory measures within their mandate.
97. In case the joint conclusions are relevant to multiple jurisdictions, the supervisory measures should be taken in a coordinated manner if feasible.

SECTION V - SUPERVISORY MEASURES

Guideline 33 – Identification of matters leading to the supervisory measures

98. The supervisory authority should, based on the conclusions of the detailed review, identify any weaknesses and actual or potential deficiencies or non-compliances with requirements that could lead them to imposing supervisory measures.

Guideline 33a – Early intervention measures in case of a risk of non-compliance with the Solvency Capital Requirement

99. The supervisory authority should assess whether a situation of a risk of non-compliance (so called "near non-compliance" or "near-breach") with the Solvency Capital Requirement (SCR) occurs and, as a consequence, assess the need for early intervention measures aiming at avoiding the breach from occurring. In certain circumstances it might be necessary for the supervisory

authority to extend the scope of early intervention measures to consider also the Minimum Capital Requirement (MCR) or specific key supervisory indicators, like local GAAP equity.

100. The supervisory authority should apply early intervention measures at an initial stage in order to avoid the deterioration of the financial position of the insurance and reinsurance undertakings or groups.
101. The supervisory authority should assess, identify and apply early intervention measures based on a combination of qualitative and quantitative key risk indicators.
102. Early intervention measures applied by the supervisory authority should be proportionate to the nature of the issues identified and be based on a forward-looking and risk-based approach.

Guideline 34 – Assessment of the significance of weaknesses, deficiencies or non-compliances

103. The supervisory authority should, in order to decide upon measures, assess the significance of the weaknesses and the actual or potential deficiencies or non-compliances identified in the detailed review.

Guideline 35 – Identification and assessment of the significance of weaknesses, deficiencies or non-compliances at group level

104. The group supervisor identifies and assesses any weaknesses and actual or potential deficiencies or non-compliance from a group-wide perspective, taking into account the specificities of the insurance group structure and business and the interconnectedness of the insurance and reinsurance group.
105. The group supervisor should consider whether the findings on weaknesses and actual or potential deficiencies or non-compliance from a group-wide perspective relate to the insurance group as a whole or to some specific insurance and reinsurance undertakings.

Guideline 36 – Different measures for varying situations

106. The supervisory authority should take measures appropriate to the level of significance of the weaknesses and the actual or potential deficiencies or non-compliances, faced by the insurance and reinsurance undertakings.

Guideline 36a – Ladder of intervention

107. The notion of proportionality and appropriateness of the supervisory measures provided in the Solvency II Directive should be implemented through a gradual supervisory response. In that frame, such measures should be applied according to an appropriate ladder or escalation of interventions (ladder of intervention).

Guideline 37 – Decision upon measures at group or individual level

108. The supervisory authorities responsible for the supervision of the relevant insurance and reinsurance undertakings or the group supervisor, in case of measures related to the insurance group as a whole, should take the necessary measures against the relevant insurance and reinsurance undertaking based on their analysis of the findings on the weaknesses, deficiencies or non-compliances.

109. Where measures are taken both at group and individual levels, the group supervisor and the supervisory authorities should coordinate measures, where appropriate, to enhance their effectiveness.

Guideline 38 – Governance over exercise of measures

110. The supervisory authority should have a suitable governance process on the exercise of supervisory measures to ensure that they are used in a consistent, proportionate and objective manner and that they are properly documented.

Guideline 39 – Notification of measures

111. The supervisory authority should notify the undertaking in writing and on a timely manner about the specific measures that the insurance and reinsurance undertaking should implement. This notification should, where appropriate, include a specification of the appropriate timeframe in which the insurance and reinsurance undertaking is to implement the actions necessary to comply with the measures.
112. If there is a college and where more than one supervisory authority takes measures, the supervisory authorities should consider coordinating their communication strategy.

Guideline 40 – Communication in the college

113. If there is a college, the supervisory authority should, where appropriate, communicate to the group supervisor the supervisory measures taken.

Guideline 41 – Monitoring implementation by insurance and reinsurance undertakings

114. The supervisory authority should monitor whether the measures are properly implemented by the insurance and reinsurance undertakings.

Guideline 42 – Review of supervisory measures

115. The supervisory authority should review the measures and update the supervisory plan in response to the degree of effectiveness of the supervisory measures as implemented by the insurance and reinsurance undertaking.

SECTION VI – RECOVERY AND RESOLUTION

Guideline 43 – Pre-emptive recovery planning

116. In the supervisory review process, the supervisory authority should use the information contained in pre-emptive recovery plans prepared pursuant to Directive (EU) 2025/1.
117. In addition, the supervisory authority should assess the consistency of pre-emptive recovery plans with the insurance and reinsurance undertaking or group's system of governance, including decision-making process and the risk management process.

SECTION VII – CONDUCT OF BUSINESS

Guideline 44 – Supervision of conduct of business

118. The supervisory authority should take into consideration how conduct risks are managed within insurance and reinsurance undertakings or groups regardless of its consumer protection mandate, without prejudice to the application of the proportionality principle.

119. In case the supervisory authority does not have a consumer protection mandate, it should cooperate with the supervisory authority in this matter in order to achieve the goal of consumer protection.

SECTION VIII – EMERGING RISKS

Guideline 45 – Governance in addressing emerging risks in the supervisory review process

120. The supervisory authority should have a regular process in place, where at least once a year major legal and regulatory developments, as well as changes to the risk landscape are analysed and assessed for their impact on the implemented supervisory review process. In addition to the regular process, the supervisory authority may also establish an *ad hoc* process to respond to specific developments or changes to the regulatory landscape as they occur.
121. The results of such a process should be translated into necessary adjustments to the established supervisory review process.
122. Such changes should be implemented as quickly as possible. If an immediate implementation is not possible, an adjustment plan should be drawn up to ensure proper compliance.

Guideline 46 – Supervision of ICT risks

123. The supervisory authority should integrate the assessment of ICT-related risks (as part of the overall operational risk of the insurance and reinsurance undertaking) within its supervisory review processes. The assessment should be in line with the requirements stemming from the Digital Operational Resilience Act.
124. The assessment of these operational risks (e.g. business interruption) should involve verifying whether the insurance and reinsurance undertakings are integrating such risks in their system of governance, in particular risk management.
125. The assessment should be risk-based and proportionate to the nature, scale and complexity of the insurance and reinsurance undertaking.

Guideline 47 – Climate change and other sustainability risks

126. The supervisory authority should integrate the assessment of climate change risks, including the climate change scenario analysis' in accordance with Article 45a of the Solvency II Directive, and other sustainability risks within their supervisory review processes.
127. That should involve an assessment of an actual and potential impact of sustainability risks and verifying whether and how insurance and reinsurance undertakings are integrating such risks within their business models and strategies, and the system of governance, particularly focusing on risk management and actuarial functions, the assessment of the overall solvency needs within the ORSA, the remuneration policies, and the investment strategies, also in their implementation of the prudent person principle.
128. In case of climate change risks, supervisory authorities should assess both the potential impact of the physical risks and transition risks. With respect to risk management, the supervisory authority should also verify whether insurance and reinsurance undertakings make reasonable efforts to assess their sustainability risks over different time horizons, i.e. whether the insurance and reinsurance undertaking is able to forecast its climate and sustainability risks over the short, medium and long-term.

Guideline 48 – Use of supervisory technology in the supervisory review process

129. The supervisory authority should establish an ongoing quality control process regarding the supervisory review process implemented, and consider where technological developments could promote data-driven supervisory processes. The supervisory authority should implement, where possible and considered necessary, experimental technological approaches, testing those emerging technologies that could improve the efficiency and responsiveness of the supervisory review processes.

COMPLIANCE AND REPORTING RULES

130. This document contains Guidelines issued under Article 16 of the Regulation (EU) No 1094/2010. In accordance with Article 16(3) of that Regulation, competent authorities and financial institutions are required to make every effort to comply with guidelines and recommendations.

131. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.

132. Competent authorities are to confirm to EIOPA whether they comply or intend to comply with these Guidelines, with reasons for non-compliance, within two months after the issuance of the translated versions.

133. In the absence of a response by this deadline, competent authorities will be considered as non-compliant to the reporting and reported as such.

FINAL PROVISION ON REVIEWS

134. These Guidelines will be subject to a review by EIOPA.

4. EXPLANATORY TEXT

In the case of amended guidelines, any newly added text is presented in bold while any text that has been removed from the original version appears with a strikethrough. For entirely new guidelines, the text is displayed in a regular font.

AMENDED: Guideline 15 – Determination of undertaking impact classification

The supervisory authority should include in the risk assessment framework an assessment of the potential impact of all insurance and reinsurance undertakings. This assessment should reflect the potential impact that the failure of a particular undertaking would have on its policyholders and beneficiaries, ~~and on the market~~ **or the objective of the supervisory authority.**

The supervisory authority should assign an impact classification to each undertaking **and elaborate on the outcome. It should be conducted** on a scale with 4 categories, from 'Impact class 1' the lowest impact on policyholders and beneficiaries and on the market to 'Impact class 4' the highest impact on policyholders and beneficiaries and on the market.

The impact should in principle be assessed at least on an annual basis through quantitative indicators and, where applicable, qualitative factors. The supervisory authority may carry out an impact classification on an *ad hoc* basis in cases where an extraordinary event occurs.

The impact class assigned by a supervisory authority is to be derived predominantly from supervisory analyses conducted in accordance with the supervisory authority's internal methodology for measuring potential impact in order to take into account market specificities of the Member State.

The approach of the supervisory authority to measuring impact is to be applied to all insurance and reinsurance undertakings **in the scope of supervision regardless of their type and size. When justified, the impact classification may be performed at different insurance business levels i.e. Life, Non-Life, Reinsurance and Composites or different type of undertakings (e.g. pure reinsurers, captives, mutual undertakings). The frequency of the impact classification should follow a proportionate and risk-based approach.** ~~in the Member State regardless of their type and size. However, within the methodology there is scope for the use of supervisory judgement and to override the impact measurement where appropriate. Any such override, if applied, would preferably be subject to appropriate internal governance within the supervisory authority.~~

The update of the impact classification shall reflect all significant developments of the below-mentioned indicators throughout the time period since the last update. The supervisory authorities shall base their methodology on:

- **quantitative indicators (cf. 2.59-2.65) and**
- **qualitative factors (cf. 2.66) in assessing the potential impact of an undertaking in addition to and in support of the quantitative process.**

The supervisory authority's methodology for measuring potential impact could seek to use a range of measures that reflect and assess the impact of different activities of the undertaking and the

undertaking's importance ~~for~~ to the market. Any criteria or metrics used by supervisory authority within its methodology may address both the impact on policyholders and beneficiaries and the impact on the market.

The following paragraphs provide some examples of the criteria supervisory authorities might apply when assessing the impact of an undertaking. However, the following paragraphs are not an exhaustive list.

A criterion, which is expected to be an important one in considering the impact, is the size of an undertaking. The size could be measured in terms of total assets, technical provisions (e.g. life) or gross premiums (e.g. non-life), or by a combination of those. ~~Another~~ **Other potential** measure of size might be the number of **insurance** contracts or policyholders.

Another criterion of impact could be the type of activity, for example **pure reinsurers**, the importance of a specific line of business, niche market activity **or monoline undertakings**, or the type of products and risks that the undertaking underwrites. Such that some insurance and reinsurance undertakings that are engaged in certain ~~risk sectors~~ **lines of business**, might be considered to have a high impact due to their type of activity, irrespective of their size.

~~A further~~ **Finally, a** criterion could be whether the undertaking is part of an insurance group and in particular what its position and role is within that insurance group.

The various criteria ~~and any measures~~ used by the supervisory authority could be used separately or in combination. The methods of selecting and aggregating the criteria and measures will be determined by the supervisory authority and reflect the supervisory experience and market specificities of the Member State.

Although the impact classification is expected to be a more 'objective' measurement compared to the risk classification, there is scope for the use of supervisory judgement to override the quantitative impact assessment beyond the process of quantitative impact assessment, where appropriate. For example, there may be factors that affect the potential impact of the undertaking that would not have been captured by the supervisory authority's established methodology. **Any such override should be subject to appropriate internal governance within the supervisory authority, supported by objective evidence, and clearly justified and documented.**

Supervisory authorities ensure that all relevant persons within the authority understand how the potential impact classification is determined and how that classification changes depending on the criterion and measures used.

The supervisory authority may carry out an impact classification on an ad-hoc basis in cases where an extraordinary event occurs. This might especially be relevant in cases where the current impact classification may be misleading as a result of a significant market-wide or undertaking-specific event such as e.g. material mergers and acquisitions or significant portfolio transfers. The change should be based on impact classification methodology, clearly justified and documented.

AMENDED: Guideline 16 – Determination of impact classification for insurance groups

The group supervisor should include in the group risk assessment framework an impact classification for all insurance groups.

The impact classification at insurance group level should reflect the potential impact of the failure of the insurance group, through its entities, on the group's policyholders and beneficiaries, ~~and on the markets where the insurance group is active~~ **or the objective of the supervisory authority.**

The group supervisor should, when assigning an impact classification, take into account the complexity and inter-connectedness of the insurance group.

The group supervisor should assign an impact classification to each insurance group on a scale with 4 categories, ~~being from~~ 'Impact class 1' the lowest impact of the insurance group on policyholders and beneficiaries and on the market ~~and to~~ 'Impact class 4' the highest impact of the insurance group on policyholders and beneficiaries and on the market.

The impact should in principle be assessed at least on an annual basis through quantitative indicators and where applicable qualitative factors. The supervisory authority may carry out an impact classification on an *ad hoc* basis in cases where an extraordinary event occurs.

The failure of the insurance group as a whole may be caused by the failure or insolvency of one or more of the material entities within the insurance group, not necessarily by the failure of all the entities within the insurance group.

The approach of the group supervisor to measuring impact is to be applied to all groups in the Member State regardless of their type and size, **but the regularity of the impact classification should follow a proportionate and risk-based approach.**

Taking proportionality into account, the update of the impact classification shall reflect all significant developments of the below-mentioned indicators throughout the time period since the last update.

The supervisory authorities shall base their methodology on:

- **quantitative indicators and**
- **qualitative factors in assessing the potential impact of an undertaking / an insurance group in addition to and in support of the quantitative process.**

~~However, within the methodology there is scope for the use of supervisory judgement and to override the impact measurement where appropriate. Any such override, if applied, would be subject to appropriate internal governance within the supervisory authority.~~

The supervisory authority's methodology for measuring potential impact is expected to be similar to the methodology to be used for individual insurance and reinsurance undertakings and could seek to use a range of measures that reflect and assess the impact of different activities of the insurance group and the group's importance to its market. Any criteria or metrics used by the supervisory authority within its methodology may address both the impact on policyholders and beneficiaries and the impact on all the markets where the insurance group is active.

The insurance group impact assessment has to be more than a simple summation of the individual impact assessments. The following paragraphs provide some examples of the criteria the group

supervisor might apply when assessing the impact of an insurance group. However, the following paragraphs are not an exhaustive list.

Size is expected to be an important criterion in considering the impact. The size of the insurance group could be measured in terms of total assets, technical provisions, gross premiums or by a combination of those. Another measure of size might be the total number of insurance contracts or policyholders. **Also, capital-based indicators such as the amount of regulatory solvency capital requirement may be taken into consideration.**

However, the size of the insurance business within the insurance group is not the only relevant criterion for impact assessment of an insurance group, as the insurance group may have a more complex business profile or structure that needs to be taken into account.

In assessing the complexity and inter-connectedness of the insurance group, the group supervisor may consider the organisational and geographical structure of the insurance group, the presence of intra-group transactions, risk concentrations at the group level, cross-border jurisdictional issues, as well as cross-sectoral issues as well as the allocation and availability of the group's capital.

The various criteria used by the supervisory authority could be used separately or in combination. The methods of selecting and aggregating the criteria and measures will be determined by the supervisory authority.

Although the impact classification is expected to be a more 'objective' measurement compared to the risk classification, there is scope for the use of supervisory judgement to override the quantitative impact assessment beyond the process of quantitative impact assessment where appropriate. For example, there may be factors that affect the potential impact of the insurance group that would not have been captured by the supervisory authority's established methodology. **Any such override should be subject to appropriate internal governance within the supervisory authority, supported by objective evidence, and clearly justified and documented.**

Supervisory authorities ensure that all relevant persons within the authority understand how the potential impact classification for insurance groups is determined and how that classification changes depending on the criterion and measures used.

The supervisory authority may carry out an impact classification on an ad-hoc basis in cases where an extraordinary event occurs. This might especially be relevant in cases where the current impact classification may be misleading as a result of a significant market-wide or undertaking/group-specific event such as extraordinary events such as e.g. material mergers and acquisitions or significant portfolio transfers. The change should be based on impact classification methodology, clearly justified and documented.

AMENDED: Guideline 17 – Determination of undertaking risk classification

The supervisory authority should identify and assess the current and future risks that insurance and reinsurance undertakings face or may face, including the ability of the undertaking to **manage and control those risks and to** withstand possible events or future changes in economic conditions, and their potential adverse effect on the solvency and financial position, the viability

of the undertaking and its ability to meet its obligations to policyholders and beneficiaries if the risks materialise.

The supervisory authority should carry out this risk identification and assessment for all insurance and reinsurance undertakings taking into account quantitative and qualitative criteria and measures relevant to each undertaking.

The supervisory authority should assign insurance and reinsurance undertakings a risk classification on a scale with 4 categories: from 'Risk class 1' that corresponds to being best able to withstand the risks materialising, to 'Risk class 4' that corresponds to being least able to withstand the risks materialising.

Undertakings' risks should in principle be assessed at least on an annual basis. The supervisory authority may carry out risk classification on an *ad hoc* basis in cases where and extraordinary event occurs. However, on the basis of the results of the impact assessment, the supervisory authority should be able to modulate the frequency and depth of the risk assessment for proportionality purposes.

The risk classification seeks to reflect the supervisor's assessment of the undertaking's current and prospective solvency and financial position, compare its risk profile with its risk bearing capacity and detect potential problems that may impact the undertaking's viability and capacity to meet its obligations towards policyholders and beneficiaries.

The principal objective of the risk classification together with the impact classification is to ensure that supervisory resources are directed to undertakings or to the risky areas within undertakings, that present the greatest risk to policy holder and beneficiaries and/or to the market.

The risk classification within the risk assessment framework is the process of identifying and assessing the risks that an insurance and reinsurance undertaking faces or may face, including emerging risks (e.g. sustainability risks)

The risk classification comprises at least high-level assessment of the environmental or macro risks, the business model risk and the system of governance, where

- (i) the environment in which an undertaking is operating may be considered as risk factor (driver) for risks occurring because of external influences on the undertaking;
- (ii) the business model of the undertaking may be considered as a risk factor (driver) for risks occurring because of the business model of that undertaking; and
- (iii) the system of governance of the undertaking may be considered as risk factor (driver) for risks occurring because of malfunctioning (weaknesses, inconsistencies) of governance structures within that undertaking.

It is expected that supervisory authorities first assess undertakings' risk on 'gross' basis and afterwards evaluate the effectiveness of risk mitigation measures in place.

The approach of the supervisory authority to measuring risk is to be applied to all insurance and reinsurance undertakings in the **scope of supervision** ~~Member State~~ regardless of their type and size. However, within the methodology there is scope for the use of supervisory judgement **to assess qualitative factors (e.g. change of the product mix, internal processes, emerging risks, legal/compliance risks, reputational risks, etc.), difficult to quantify. Supervisory judgement may also be used** ~~and to override the certain risk measurement scoring results of any risk or risk factor,~~ where appropriate, **and should be clearly justified and documented.**

Supervisory authorities develop their own methodology for the risk classification. However, at a minimum, the assigned risk classification is expected to reflect a high-level assessment and evaluation of the strategies, processes and reporting procedures established by the undertaking to comply with Solvency II. It ~~could also~~ comprises the assessment of risks that the undertaking face or may face, **including emerging risks (such as sustainability risks),** and the assessment of the ability **and controls** of that insurance and reinsurance undertaking to assess **and mitigate** those risks taking into account the environment in which the undertaking is operating; **the business model** and, ~~where appropriate,~~ the assessment of the qualitative requirements relating to the system of governance.

The high level assessment considers the following five areas and takes into account the proportionality principle:

- a) business and performance;
- b) system of governance, including ORSA;
- c) risk profile;
- d) valuation for solvency purposes;
- e) capital management.

When assessing the risk classification it will be based on various criteria and measures, depending on the type of undertaking concerned and the characteristics of the relevant market. These criteria and measures are not only quantitative, but also qualitative, and their use does not lead to a mechanistic risk assessment by the supervisory authority based only on thresholds and scoring. The extent of the use of the quantitative and qualitative criteria and measures is to be defined by each supervisory authority, **considering each risk and every risk to be assessed may have its own assessment approach.**

Several examples of criteria and measures for the five areas mentioned ~~above~~ **in paragraph [two paragraphs above]** are further developed below. The examples provided aim to indicate the criteria and measures that might be applied, but are neither exhaustive, nor -necessarily the most relevant for every supervisory authority. When carrying out the risk classification the supervisory authority considers the qualitative and quantitative information that is available including early warning indicators arising from the current data.

The identification and assessment of the risks performed for each area are used together to determine the risk classification of each undertaking.

The examples of criteria and measures referred to in the paragraphs below may be used as a reference at one point in time, as an evolution analysis and by comparison with peer groups and market benchmarks.

Business and performance

With regard to the business and performance of the undertaking, there are general criteria and measures to be used regardless of the type of business and specific criteria and measures that may vary according to the type of business, for example distinguishing between life, health, non-life and reinsurance.

Specific examples of general criteria and measures include: analysis of the importance of specific lines of business in which the undertaking is operating, amount and growth of premiums written, gross and net, per line of business and an analysis of underwriting and investment performance.

System of governance

With regard to the system of governance, it is important to assess its quality in order to determine the ability of the undertaking to identify measure, monitor, manage and report the risks. For example, it could include an assessment of the **role of the administrative, management or supervisory body, the structure and operation of the risk management and internal control systems within the undertaking and the competence of the persons responsible for the key functions, the consistent implementation of the risk management and internal control systems, the reporting procedures, the conflicts of interests' management**, etc.

Examples of general criteria and measures include: the frequency of material changes in the system of governance that have taken place over the last reporting periods; the **scope and** number of outsourced critical or important operational functions or activities and the jurisdiction in which the service providers of such functions or activities are located; an assessment of how the own risk and solvency assessment is performed and how it is integrated into the management process and into the decision-making process of the undertaking.

Risk profile

With regard to the risk profile, the classification of the risks may start from **the identification of relevant risks and risk drivers to the insurance sector and metrics for measuring the risks, or from the impact on the main risk factors, for example the weight risk module, for insurance and reinsurance undertakings using the standard formula, or component, for insurance and reinsurance undertakings using an internal model, in the SCR. The main risk categories determining insurance and reinsurance risk profile are:**

- Underwriting risk (including reserve risk)

- Market risk
- Credit risk
- Operational risk (including operational resilience)
- Other risks (including emerging risk and sustainability risk)

The assessment of the main risk factors may be conducted on the basis of the identification of the main risks affecting the financial or the insurance market as a whole and on the main risks affecting each specific undertaking. **Supervisory authorities should pay attention to the financial and/or insurance risk-mitigation techniques used by undertakings to transfer part of their risks to another party, including the governance around it (i.e., the reinsurance policy, the investment policy in case of use of derivatives for hedging), effectiveness of the risk transfer, the complexity of the hedging instruments, the basis risk and whether additional risks are introduced.**

Examples of general criteria and measures include: stress tests results, exposure to derivatives and structured products, measures to assess the adequacy of the asset liability management (ALM) or the exposure to credit risk of reinsurers and exposures to catastrophe risks **or exposures to other climate change related risks.**

Valuation for solvency purposes

The risk classification with regard to the valuation for solvency purposes includes the valuation of assets, technical provisions and other liabilities.

Examples of general criteria and measures include: analysis of the accuracy of the information reported on investments, proportion of investments valued with alternative valuation methods, variation of technical provisions and sources of such variations or analysis of information on the back testing.

Capital management

With regard to the capital management, the risk classification includes an assessment of the compliance with the regulatory capital requirements and of the quality and quantity of own funds. Examples of general criteria and measures include: the solvency ratio, volatility of the SCR over the last reporting periods or the expected development of the SCR and own funds.

AMENDED: Guideline 18 – Determination of undertaking risk classification for insurance groups

The group supervisor should identify and assess the current and future group level risks that could affect the insurance group, including the ability of the insurance group to withstand possible events or future changes in economic conditions and their potential adverse effect on the solvency and financial position, the viability of the insurance group and the group's individual

insurance and reinsurance undertakings' abilities to meet their obligations to policyholders and beneficiaries if the risks materialise.

The group supervisor should, when assessing the risks of the insurance group, consider the group-specific issues outlined in Guideline 10.

The group supervisor should carry out this risk identification and assessment for all insurance groups taking into account quantitative and qualitative criteria and measures relevant to the insurance group.

The group supervisor may carry out risk classification on an *ad hoc* basis in cases where an extraordinary event occurs.

The group supervisor should assign a risk classification to each insurance group on a scale with 4 categories: from 'Risk class 1' that corresponds to being best able to withstand the risks materialising, to 'Risk class 4' that corresponds to being least able to withstand the risks materialising.

Group risks should in principle be assessed at least on an annual basis. However, on the basis of the results of the impact assessment, the group supervisory authority should be able to modulate the frequency and depth of the risk assessment for proportionality purposes

The risk classification within the risk assessment framework is the process of identifying and assessing the risks that an insurance group faces or may face, including emerging and sustainability risks.

The risk classification comprises at least high-level assessment of the environmental or macro risks, the business model risk and the system of governance, where:

- (i) the environment in which an insurance group is operating may be considered as risk factor (driver) for risks occurring because of external influences on the group;**
- (ii) the business model of the insurance group may be considered as a risk factor (driver) for risks occurring because of the business model of that group; and**
- (iii) the system of governance of the insurance group may be considered as risk factor (driver) for risks occurring because of malfunctioning (weaknesses, inconsistencies) of governance structures within that insurance group.**

The risk classification comprises at least high-level assessment of relevant group level risk controls within the insurance group.

The risk classification seeks to reflect the supervisor's assessment of the insurance group's current and prospective solvency and financial position, compare its risk profile with its risk bearing capacity and detect potential problems that may impact the group's viability and the group's undertakings' capacity to meet their obligations towards policyholders and beneficiaries.

However, at a minimum, the assigned risk classification is expected to reflect a high-level assessment and evaluation of the strategies, processes and reporting procedures established by the insurance group to comply with Solvency II. It comprises the assessment of risks that the group faces or may face, **including emerging risks (such as sustainability risks)**, and the assessment of the ability and controls

of that group to assess and mitigate those risks, taking into account the environment in which the insurance group is operating, **the business model** and the assessment of the qualitative requirements relating to the system of governance. The group supervisor also considers any existing centralised group functions or outsourcing of the functions within the insurance group.

The approach of the group supervisor to measuring risk is to be applied to all groups in the Member State regardless of their type and size. However, within the methodology there is scope for the use of supervisory judgement, **which should be clearly justified and documented**, and to override the risk measurement where appropriate.

Supervisory authorities develop their own methodology for the risk classification. The supervisory authority's methodology for determining risk classifications is expected to be similar to the methodology used for the risk classification of individual insurance and reinsurance undertakings by considering the following five areas as outlined in the explanatory **text** of Guideline 17, paying particular attention to the group-specific issues as outlined in Guideline 10:

- a) group business and performance;
- b) group system of governance;
- c) group risk profile;
- d) group valuation for solvency purposes;
- e) group capital management.

When assessing the risk classification, it will be based on various criteria and measures, depending on the characteristics of the group and the relevant markets. These criteria and measures are not only quantitative, but also qualitative, and their use does not lead to a mechanistic risk assessment by the supervisory authority based only on thresholds and scoring. The extent of the use of the quantitative and qualitative criteria and measures is to be defined by each supervisory authority, **considering each risk and every risk to be assessed may have its own assessment approach**.

When assessing the risks at the level of a group, the supervisory authority should consider the following group-specific issues:

- **the group structure, complexity and interconnectedness;**
- **material intra-group transactions;**
- **interconnectedness with other financial sectors;**
- **the group risk profile including any diversification effects, risk concentrations, and risk transfer across the group;**
- **aspects of the group governance and group strategy including any conflict or any potential conflict of interests;**
- **aspects of the group-wide risk management, including any centralized risk management functions and risk-reducing actions at the level of the group;**
- **the group's management of its group capital, including transferability and allocation within the group.**

The group risk assessment needs to be more than a simple summation of the individual risk assessments. Consideration ought to be given by the group supervisor to where the risks originate, and whether the risks are exacerbated or diversified at the group level.

The identification and assessment of the risks performed for each area are used together to determine the risk classification of each group.

NEW: Guideline 19a – Business model analysis

As part of the supervisory review process, the supervisory authority should perform a structured business model analysis for insurance and reinsurance undertakings, in line with the nature, scale and complexity of the risks inherent in their business.

The business model analysis should result in a view on how the insurance and reinsurance undertaking generates value from its business. It should provide insights into the insurance and reinsurance undertaking's strategy, its main risks as well as on the business viability, sustainability and vulnerabilities of the business model. The supervisory authority should use the outcome of the business model analysis to support the assessment of other elements of the supervisory review process.

The process adopted by the supervisory authority to carry out the business model analysis can differ in terms of being an integrated or separate approach (i.e. integrated into risk assessment framework in itself) but the objectives and outcomes remain the same.

Business model and strategy refers to the strategic choices that the administrative, management and supervisory body (AMSB) makes in order to achieve its medium and long-term business goals. The business strategy defines the business model, how an undertaking generates value, the critical success factors of the business model and how it will adapt to individual circumstances.

As a result of the business strategy, the undertaking will have related strategic risks. Examples are financial risks as a result of asset management decisions, operational risks as a result of digital infrastructure, underwriting strategies, sustainability strategy and so on. These risks should be taken into account for the business model analysis, for instance through the review of the relevant strategies.

Viability refers to an undertaking's ability to generate adequate returns with an acceptable funding and risk appetite over the short term, whereas sustainability refers to the longer term. In order to assess the viability and sustainability of the undertaking, Supervisory authorities should consider the current business model and the manner it may develop, as a result of the business strategy, over the medium term and long term.

For most undertakings, generating value can be defined as generating an acceptable return on capital given its cost capital.

The objective of the business model analysis is the assessment of the viability and sustainability of the business model on the basis of its ability to generate an acceptable return on capital given its cost of capital, taking into account the risk appetite/tolerance defined by the AMSB at least once a year. However, the business model analysis performed by the supervisory authority can never undermine the responsibility of the AMSB to run the business.

Assessing business models gives supervisory authorities the opportunity to better understand the factors that create the opportunities and vulnerabilities in an undertaking's business. The outcome of the business model analysis should support the assessment of other elements of the supervisory review process. For instance, if certain vulnerabilities are found in specific lines of business, it might be worth assessing the pricing policies, the reserving policies and performance in those specific lines. Another example might be to assess the credibility of foreseen cost saving exercises.

The business model analysis should be based to the extent possible on data and information. However, to be effective the business model analysis also relies on forward looking expert judgement from the supervisory authorities, which should be adequately documented. The conclusions reached through the business model analysis will be a useful input for the risk assessment. Finally, this will enable the supervisory authorities to develop a more risk-based supervisory plan tailored to the analysed undertaking.

There are two main approaches to performing a business model analysis:

- Integrated business model analysis – considers the business model analysis as a part of the Risk Assessment Framework (RAF) and is performed as part of a well-structured risk assessment process. The outcome of the analysis is used to assess risks defined in the RAF to which the undertaking is or could be exposed to and give input to the risk assessment.
- Separated business model analysis – considers the business model analysis as a separate supervisory activity from the RAF. In this case the business model analysis is performed as a single process that supports other aspects of the Supervisory review process, especially through the identification of key risks and vulnerabilities associated with the business model.

For some supervisory authorities, the approach taken is based on a combination of both approaches. Regardless of the approach taken the techniques used in the business model analysis will be the same.

NEW: Guideline 19b – Scope of business model analysis

The business model analysis can be performed at the group and/or individual level depending on the supervisory authority's expert judgement. The analysis should be forward-looking.

The business model analysis should be performed at least every three years and after major changes in the business or risk profile of the insurance and reinsurance undertaking and group e.g. large mergers and acquisitions to adequately reflect relevant emerging trends.

The level of detail of the analysis should be commensurate with the nature, scale and complexity of the risks the insurance and reinsurance undertaking and group faces or could face assessed in combination with the impact it could have on policyholders.

Supervisory authorities should consider whether to assess the business model on a solo level or group level or maybe both. Arguments to consider might be (not limited)

- the structure and scope of the group, e.g. is it a national group or an international group and are some of the locations in equivalent or non-equivalent third countries?

- consideration regarding home and host supervision (maybe stemming from the college of supervisors)
- the relevance of certain solo undertaking within the group (there might be one dominant solo undertaking or maybe a specific undertaking that carries more risks than sister undertakings)
- the dependence of the solo undertaking towards the group (the existence of risky or significant intra group transactions)

When performing the business model analysis on the group level, various aspects should be taken into account. Examples are (1) transferability of capital (also with regard to the dividend policy); (2) strategic accountability at different levels of the governance structure (including degree of independence for subsidiaries); (3) and issues related to non-equivalent regulatory jurisdictions (such as Groups with third country branches and subsidiaries). In some instances, the group perspective might be broader with e.g. insurance groups that are part of financial conglomerates and/or Mixed Activity Groups (groups active in both financial and digital services e.g. Amazon which also serves as an insurance broker). Most importantly information accumulated during colleges or provided by the local SA's to the group supervisor should contain also the local assessment on this topic, which should be considered on group level.

The business model analysis is part of forward-looking supervision – it helps supervisors to explore how undertakings plan to earn profit, and what risks (both current and future) they take in doing so, what are the threats and opportunities. It helps to identify and tackle the root causes of problems in advance. Sustainable business models that demonstrate adequate profitability over long horizons are key to a sound insurance market. Historical patterns should be adequately reflected and taken into account in the forward-looking approach.

If well scoped, the process doesn't need to be resource intensive. Initial investment in understanding the Group/undertaking does not need to be repeated in full at each iteration of the business model analysis. Supervisory authorities are likely to identify the business model analysis activity per undertaking given resource and proportionality considerations based on the nature, scale and complexity of the risk.

NEW: Guideline 19c – Structured approach

When performing a business model analysis following an integrated or separate approach, the supervisory authority should make use of a structured approach. The aim of the structured approach is to minimize the risk of overlooking important information and excluding this from the business model analysis, and to optimize consistency which in turn enables the comparison over time and between peers.

This structured approach should at least comprise:

- a structured identification of risks;
- an analysis of the business environment;
- a qualitative and quantitative analysis of the current business model;

- d) an analysis of the business plans and;
- e) an analysis of the business viability, sustainability and vulnerability.

The structured approach comprises various steps, all with the aim to optimize the process and the preferred outcome of the analysis.

The structured identification of risks is to be performed throughout the business model analysis as during every step of the structured approach, new information can arise indicating not earlier identified risks. In the basis, risks are identified in the preliminary assessment and the identification of relevant areas.

(1) Preliminary assessment and identification of relevant areas

In this stage the supervisory authorities decide which Groups/undertakings will be covered in the business model analysis. This can be done based on quantitative data, such as QRT data; or qualitative data, such as thematic reviews.

The extent of detail of this step may deviate in different situations. The preliminary assessment is ought to be more detailed when the business model analysis is performed for the first time as opposed to it being performed as a result of regular review or licensing procedures. The undertaking's riskiness is also a factor determining the extent of detail of the preliminary assessment. More considerations may be applicable.

The output of the preliminary risk assessment should form the basis of the identification of relevant areas of analysis.

In order to ensure the correct performance of the business model analysis, the activities, products and business that are in scope of the analysis should be clearly linked to the results of the preliminary risk assessment. In the case risks are identified during the preliminary risk assessment step that do not fall under the scope of the current business model analysis, the rationale of out scoping of these risks should be documented clearly.

2. Analysis of the business environment

This step focuses on analysis of the (re)insurance undertaking's business environment and how this may develop in the future. The business model analysis should address the internal and external dependencies from, especially, the perspective of the (re)insurance undertaking's operating and economic environment.

SA should assess the macro-economic situation the undertaking is facing and assess its strategic plans and financial forecasts in relation to that. Examples of key variables are GDP, unemployment rates, inflation, interest rates, property indices, expected market growth, ESG-related developments, potential new entrants to the market, plans of competitors/peers, impact of digital platforms and online distribution. The overall trends in the market are to be considered as well e.g., changes to the regulation, changes in technology, disintermediation, fragmentation of the value chain, changes in customer behaviours and composition.

3. Quantitative and qualitative analysis of the current business model

Supervisory authorities need to perform a quantitative and qualitative analysis of the current business model. This refers to analysing (re)insurance undertaking's historical financial figures through Solvency II QRT data, the financial statements and other available financial overviews. Furthermore, the quantitative analysis should take into account management reports such as financial forecasts of the (re)insurance undertaking in relation to their peers.

In order to identify undertakings elements like risk appetite, key success factors and main dependencies, also a qualitative analysis should be performed. This analysis can be based on information included in the ORSA, the annual report, and internal documents such as strategic reports (e.g. business plan).

The results of the quantitative and qualitative analyses should corroborate each other. Special attention should be given to the situations in which this is not the case, as the strategy and execution may not align which could indicate risks for the (re)insurance undertakings business model.

4. Analysis of strategy and business plans

Supervisory authorities need to perform a quantitative and qualitative analysis of the undertaking's strategy and business plans aiming to understand the business plan assumptions and evaluate how the strategy as well as the associated risks might evolve in the context of the business environment.

As a result of the assessment of the strategy, supervisory authorities should be able to form a view on target customers, market share targets, preferred product lines, ESG-related targets, process for developing the strategy and implementing innovative technologies, and the methodology of back-testing/validating the strategy or assumptions.

5. Business model viability evaluation

In order to assess the viability and sustainability of an undertaking's business model, supervisory authorities need to use the output of the quantitative and qualitative forward-looking analysis of the financial projections.

A judgement on viability can be made once an understanding of the business model's vulnerabilities and risks has been reached and it is clear what mitigants the undertaking has in place to manage the exposure towards them.

6. Strategy sustainability evaluation

Supervisory authorities should assess the undertaking's ability to generate sufficient returns over a longer period. Or, if the undertaking just recently entered the market, supervisory authorities should assess if profitability can be reached within a reasonable amount of time.

A judgement on sustainability, similar to viability, can be made once the vulnerabilities and risks for the business model are known and it is clear what mitigants the undertaking has in place to manage the exposure towards them.

Supervisory authorities need to form a view on the strategy, strategic risks and whether they are addressed in the business strategy. In evaluating the medium-term business model or financial projections. Supervisory authorities should bear in mind that this is the undertaking's view of its own business model development.

7. Identification of vulnerabilities

Based on the performed BMA, supervisory authorities should be able to identify the undertaking's key vulnerabilities, exposures most likely to materially impact the undertaking or lead to its failure on a forward-looking basis.

The identification of vulnerabilities is a matter of judgement, based on extensive quantitative and qualitative assessment of the business model as performed in the previous steps.

Supervisory authorities should consider risk mitigating actions and the possibility that residual business model risk might still exist if these actions are not complete or sufficient to address all elements.

8. Summary of the results and reporting

The summary of the results and findings should be based on the key findings from the performed BMA. For the purpose of comparability, the supervisory authorities are recommended to develop a standardized model, with modules specific to different insurance sectors (i.e. non-life, life, health). The model should be as much as possible be based on objective information but leave room for adjustments based on expert judgement and the information gained from the qualitative analyses performed in the BMA.

The result of the BMA should attribute, based on proportionality, to the overall evaluation of the (re)insurance undertaking.

AMENDED: Guideline 20 – Creation of supervisory plan and determination of intensity of supervision

The supervisory authority should define minimum engagement levels and conduct at least every three years the supervisory review process for all insurance and reinsurance undertakings under its scope of supervision, having regard to their size, complexity, and intrinsic riskiness.

The supervisory authority should utilise the outcome of the risk assessment framework, together with the details of the risks identified, the various priorities and constraints of the supervisory authority and other relevant supervisory information, to develop the supervisory plan.

The supervisory plan should set out the frequency and intensity of supervisory activities for each undertaking. The supervisory plan should be commensurate to the nature, scale and complexity of the undertaking.

To achieve the objectives of supervision all insurance undertakings should be subject to a minimum level of supervision supported by a proper risk assessment and taking into account policyholder protection and any cross-border business. The level of supervisory engagement depends on the risk category assigned to each undertaking and the nature of its business, affecting for instance the intensity of the supervisory assessment, the type of information to be submitted to the supervisors and the supervisory expectations.

In some circumstances no further supervisory activities, beyond the regular assessment of inbound information will be carried out, if considered appropriate in the opinion of the supervisory authority.

Where there are insurance and reinsurance undertakings with similar characteristics and risk profiles or if they are part of the same group, the supervisory authority can consider ways to supervise the

insurance and reinsurance undertakings through a common supervisory plan, for example, through common surveys or theme-focused analysis.

When the supervisory authority considers it necessary to go beyond the assessment of inbound information, the supervisory plan may identify what the supervisory authorities considers are the key risk areas of the undertaking to be further reviewed with the methods that would be best used for such a review. It could include:

- a) the scope of the activities to be carried out, for example off-site analysis or on-site inspections;
- b) the amount of time planned to perform further supervisory work;
- c) the off-site analysis to be performed;
- d) the type and timing of meetings to be planned;
- e) on-site inspections to be carried out;
- f) follow-up actions initially foreseen.

Whilst the supervisor has regard to the outcome of the risk assessment framework, including details of the risks identified, the supervisory authority also considers its various priorities and constraints and other relevant information when establishing the scope and frequency of on-site inspections, off-site activities and the overall supervisory plan for the undertaking.

The supervisory plan needs to be reviewed and updated whilst supervisory activities are carried out, for example, in response to further information provided by the undertaking upon request together with follow-up supervisory actions that may be taken. In addition, the supervisory plan may be appropriately adjusted due to the results of any off-site analysis or on-site inspections.

The undertaking's willingness to address identified issues and the actions subsequently taken have to be considered in the ongoing evaluation of the risk profile of the undertaking and need to be accounted for in the ongoing supervisory plan.

Through ensuring the supervisory plan reflects the risk assessment framework outcome and supervisory judgement, as indicated by the examples above; a risk-based approach is applied throughout the supervisory review process.

For insurance groups, when the key risk area relates to a non-insurance entity, the supervisor may want to consider involving relevant supervisory authorities other than insurance supervisors. When it relates to an unregulated entity, supervisors of an undertaking that has significant interactions with the unregulated entity could be involved.

The group supervisory plan may incorporate the supervisory plans of the individual insurance and reinsurance undertakings that are part of the insurance group, if under the same supervisory authority, as long as both the insurance group and individual aspects of the plan are clearly identifiable.

NEW: Guideline 32a – Joint on-site inspections

Joint on-site inspections are inspections carried out by a joint on-site inspection team composed by two or more supervisory authorities and EIOPA, where relevant, in the context of supervision of cross-border activities and group supervision.

Joint on-site inspections may be initiated based on the request of the supervisory authority of the home or the host Member State, or EIOPA. In case of supervision of cross-border activities, the joint on-site inspections can be initiated upon decision of the supervisory authority of the home Member State, or of the host Member State, where applicable. In case of group supervision, the joint on-site inspections can be initiated upon decision of the group supervisor. The request to or the decision not to initiate a joint on-site inspection need to be duly justified.

Guidelines 29, 30, 31 and 32 apply to joint on-site inspections.

Guidelines 32a, 32b and 32c apply *mutatis mutandis* to joint on-site inspections in the context of group supervision.

Joint on-site inspections are an important tool to build a better awareness of risks, especially those arising in cross-border contexts.

EIOPA's participation fosters convergence of supervisory practices while supporting the on-site activities from a technical perspective and at the same time strengthening cooperation among supervisory authorities.

In accordance with Article 21(1) of Regulation (EU) No 1094/2010 (EIOPA Regulation) with the objective of converging supervisory best practices, EIOPA shall be able to participate in joint on-site inspections.

In case of significant cross-border activities defined by Article 152aa of Solvency II Directive, Article 152ab(4) of Solvency II Directive empowers the supervisory authority of the host Member State to request that a joint on-site inspection is carried out when the undertaking carrying out those activities does not comply with or is likely not to comply with the Solvency Capital Requirement or the Minimum Capital Requirement.

Within a collaboration platform set up in accordance with Article 152b of the Solvency II Directive, where there are serious concerns about negative effects on policyholders or indications of serious deficiencies in an undertaking and no or insufficient remedial action has been taken by the supervisory authority of the home Member State, EIOPA is empowered by Article 152b(6) of the Solvency II Directive to call on the supervisory authority of the home Member State to carry out a joint on-site inspection.

In case of branches, joint on-site inspections take place in line with Article 33 of the Solvency II Directive. In the context of cross-border supervision joint on-site inspections may be conducted to enhance cooperation and ensure effective oversight of insurance undertakings operating in multiple jurisdictions. Such inspections should be carried out in line with the EIOPA Decision on Collaboration of the Insurance Supervisory Authorities, which establishes the framework for coordinated supervisory activities.

Joint on-site inspections can also take place in the area of outsourcing where inspections can be carried out in line with Article 38 of the Solvency II Directive.

In the context of group supervision, joint on-site inspections may be carried out in line with Article 255 of the Solvency II Directive.

NEW: Guideline 32b – Principles governing joint on-site inspections

The joint on-site inspections team should be able to:

- a) access the premises of the supervised insurance and reinsurance undertakings, and/or the premises of any service providers to whom the supervised entity has outsourced functions, covered by the scope of the inspection;
- b) conduct all necessary investigations by accessing to the relevant information, documents and data (including those stored in the IT systems);
- c) obtain oral or written explanations from the supervised entity.

The joint on-site inspections team is subject to the requirements of professional secrecy pursuant to all relevant provisions in Union legislation with regard to the facts, actions and non-public information that they become aware of during the inspection. These requirements apply even after their duties have ceased.

The joint on-site inspections team should act with independence and objectivity. The joint on-site inspections team should observe and comply with the relevant laws and regulations.

The joint on-site inspections are carried out on the basis of the mandate of the home and host supervisory authorities, following the national administrative laws of the supervisory authority of the home or host Member State.

Cooperation between participating national supervisory authorities and EIOPA should include open communication, information sharing and coordinated activities. All parties should regularly update each other on their findings and progress, ensuring enhanced mechanisms for information sharing regarding any element of relevance for the purpose of the joint on-site inspection. Coordinated activities involve jointly planning the inspection schedule, allocating responsibilities and tasks, and conducting joint sessions to discuss findings.

NEW: Guideline 32c – Procedural aspects for joint on-site inspections

The supervisory authorities concerned should reach joint conclusions in writing. The joint conclusions may include findings, as well as the most appropriate supervisory actions recommended by the supervisory authorities concerned.

The supervisory authority of the home Member State should draft a report taking into account those joint conclusions and adopt the appropriate supervisory measures. In case the supervisory authority of the home Member State does not take into account all or part of the joint

conclusions, it should inform all other participating members of the joint on-site inspections team and state the reasons.

The supervisory authority of the home Member State should inform the other participating supervisory authorities and EIOPA about the outcome of the consultation with the supervised entity in relation to the report (right-to-be-heard) and about any additional collected evidence, if any.

The joint conclusions by the supervisory authorities concerned may be used by the other participating supervisory authorities to take supervisory measures within their mandate.

In case the joint conclusions are relevant to multiple jurisdictions, the supervisory measures should be taken in a coordinated manner if feasible.

The joint on-site inspection team should be informed of the supervisory measures considered and taken, and of any relevant follow-up action.

NEW: Guideline 33a – Early intervention measures in case of a risk of non-compliance with the solvency capital requirement

The supervisory authority should assess whether a situation of a risk of non-compliance (so called "near non-compliance" or "near-breach") with the Solvency Capital Requirement (SCR) occurs and, as a consequence, assess the need for early intervention measures aiming at avoiding the breach from occurring. In certain circumstances it might be necessary for the supervisory authority to extend the scope of early intervention measures to consider also the Minimum Capital Requirement (MCR) or specific key supervisory indicators, like local GAAP equity.

The supervisory authority should apply early intervention measures at an initial stage in order to avoid the deterioration of the financial position of the insurance and reinsurance undertakings or groups.

The supervisory authority should assess, identify and apply early intervention measures based on a combination of qualitative and quantitative key risk indicators.

Early intervention measures applied by the supervisory authority should be proportionate to the nature of the circumstances and be based on a forward-looking and risk-based approach.

The risk of non-compliance with the SCR refers to the situation where the solvency position of an insurance or reinsurance undertaking starts to deteriorate and where it is likely that it will continue to deteriorate and fall below the SCR if no remedial action is taken.

The objective of early intervention measures is to allow supervisory authority to take supervisory actions at a sufficiently early stage in order to avoid the escalation of problems and, hence, the need for more intrusive actions at a later stage. These actions should be seen as a closer and more intensive supervision and not be seen as imposing a capital add-on.

The supervisory authority should assess each situation separately and decide upon the need for early intervention measures, taking into account the nature of the insurance and reinsurance undertaking

or group and the circumstances which led to the deterioration in the solvency position of the insurance and reinsurance undertaking or group.

According to the Article 138(1) of the Solvency II Directive insurance and reinsurance undertakings should immediately inform the supervisory authority as soon as they observe there is a risk of non-compliance in the following three months. Notwithstanding undertakings notification obligation under Article 138, supervisory authorities are expected to develop a methodology (framework) based on qualitative and/or quantitative key risk indicators, to be considered when assessing whether a situation of risk of non-compliance with the SCR occurs and, as a consequence, assess whether there is the need to apply early intervention measures. With regards to the quantitative part of the methodology, the key risk indicators can take the form of a threshold. Regarding the qualitative part of the methodology, supervisory authority could take into account the occurrence of significant events that may jeopardize the viability of the undertaking or group.

Quantitative key risk indicators that could prompt supervisory authorities to consider the implementation of early intervention measures vary according to the complexity of the business, the principle of proportionality and the evolution of the market, and might include:

- The SCR ratio (equal or below a predefined threshold),
- a significant drop in the SCR ratio,
- a significant increase in volatility,
- a SCR ratio below the risk appetite threshold established by the undertaking.

In combination with the previous key risk indicators, the following qualitative criteria can also be considered when deciding whether to apply early intervention measures:

- concerns regarding the AMSB,
- remarks from the external auditors auditing the Solvency II balance sheet,
- the remaining duration of certain own funds items,
- adverse evolution of the financial statements, in particular of the net profit of the undertaking,
- major operational risk events,
- the financial situation of the main shareholders.

The occurrence of one or more triggers is the starting point of a process, which requires further supervisory assessment before deciding whether to apply early intervention measures.

Additionally, in the context of ORSA's requirement to assess the ongoing compliance with the SCR provided for in Article 45(1)(b) of the Solvency II Directive, the supervisory authority should expect undertakings to determine their own capital buffer (risk appetite) to cope with the natural volatility of the SCR and avoiding the breach of the SCR ratio. The definition of the near-breach area should be based on the undertaking's own knowledge of its activities and its risk taking, and could be challenged by the supervisory authority.

The supervisory authorities may adopt a set of standard early intervention measures to be implemented when there is a risk of non-compliance with the SCR. Those measures should be proportionate to the risk and should be applied considering the significance of the specific situations of concern. The early intervention measures that supervisory authorities can put in place could be divided into:

- a first set of actions that could be considered regarding the common early intervention powers, for example engaging in a more intensive dialogue with the (re)insurance undertakings, requiring additional or more frequent reporting or requesting undertakings to perform an ad-hoc ORSA to assess possible changes in the risk profile; and
- a second set of other actions, more incisive and used as a last resort, alias in extreme situations, such as the restriction or suspension of dividend distributions to shareholders and other subordinated creditors and the temporarily suspension of redemption rights of life insurance policyholders, in the situations foreseen in Article 144b of the Solvency II Directive, or the replacement of board members.

In cases where the MCR is higher than the SCR, the supervisory approach should be the same as in the situation of a near non-compliance with the SCR.

NEW: Guideline 36a – Ladder of intervention

The notion of proportionality and appropriateness of the supervisory measures provided in the Solvency II Directive should be implemented through a gradual supervisory response. In that frame, such measures should be applied according to an appropriate ladder or escalation of interventions (ladder of intervention).

The supervisory authority exercises measures according to an appropriate ladder of interventions, as referred into Recital 60 and 70 of the Solvency II Directive, between the Solvency Capital Requirement and the Minimum Capital Requirement.

The possibility of imposing a capital add-on must be considered in cases where other measures have not appropriately addressed the deficiencies identified. It may be imposed either after other measures have been considered/applied without having proper effect or at an earlier stage. In any case, the withdrawal of authorisation should be considered as the ultimate measure, due to its non-reversal character and its impact on the policy holders.

The process for setting the capital -add -on has two separate steps: First, assessment of the significant deviation. Second, assessing the level of the capital add-on.

The supervisory authority should set progressive levels or bandwidths of capital add-on depending on the severity of the deviation.

In cases where the capital requirement (MCR or SCR) is breached or is about to be breached, the supervisory measures vary according to the actual solvency level/position of the undertaking or group. For instance, in case of breach of SCR the intensity of supervisory measures can vary depending on whether the amount of own funds is just below the SCR or whether the level of own fund is just above the MCR.

Another example of a ladder or an escalation of interventions could be when the risk profile deviates from the assumptions underlying the standard formula; the supervisory authority could request the undertaking to replace a set of parameters of the standard formula with parameters specific to the undertaking. If the undertaking's specific parameters are either inappropriate or not approved, the supervisory authority may require the undertaking to develop an internal model. If the internal model

is inappropriate or has been ineffective, the supervisory authority may evaluate the possibility of setting a capital add-on.

In cases where the system of governance deviates significantly from the standards set in the Solvency II directive and those deviations prevent it from being able to properly identify, measure, monitor, manage and report the risks that it is or could be exposed to and the application of other measures is unlikely to improve within an appropriate timeframe, a capital-add-on may be imposed.

The identification of a ladder or an escalation of intervention is not always straightforward since several factors need to be taken into account when evaluating the impact and severity of the measures.

NEW: Guideline 43 – Pre-emptive recovery planning

In the supervisory review process, the supervisory authority should use the information contained in pre-emptive recovery plans prepared pursuant to Directive (EU) 2025/1.

In addition, the supervisory authority should assess the consistency of pre-emptive recovery plans with the insurance and reinsurance undertaking's or group's system of governance, including decision-making process and the risk management process.

In accordance with Directive (EU) 2025/1 certain insurance or reinsurance undertakings and groups are required by the supervisory authorities to prepare and to update pre-emptive recovery plans as a part of their system of governance. Updates should take place at least every two years or subject to prerequisites defined in Article 5(4) of Directive 2025/1. Updates may also be required pursuant to Article 136a of the Directive 2009/138/EC in the event of a deterioration of the solvency position, if the circumstances are different from the assumptions considered in the plan approved.

Further to Articles 5(6) and 5(8) of Directive (EU) 2025/1 pre-emptive recovery plans should contain a framework of quantitative and qualitative indicators that identify the points at which remedial actions should be considered or taken. Those indicators may include criteria relating to, inter alia, capital, liquidity, asset quality, profitability, market conditions, macro-economic conditions and operational events. Indicators relating to the capital position shall as a minimum contain any breach of the Solvency Capital Requirement.

The analysis of information from pre-emptive recovery plan, including its indicators, could be used to support the supervisory assessment of the business model of the undertaking or group and their long-term viability.

When assessing the system of governance, consideration should be given to whether elements of the undertaking's or group's regular risk management and decision-making processes support the monitoring of the indicators contained in the pre-emptive recovery plan.

Pre-emptive recovery plans support the prudential supervision also in the event of a deterioration of the solvency position, when pursuant to Article 136a of Directive 2009/138/EC, supervisory authorities may require undertakings to take the measures set out in the pre-emptive recovery plan.

When the Solvency Capital Requirement is no longer complied with and Article 138(2) of Directive 2009/138/EC is activated pre-emptive recovery plan should be taken into account when drafting the

recovery plan, although the content might not be the same, as the recovery plan will need to reflect the exact circumstances giving rise to the non-compliance with the Solvency Capital Requirement. The selection of the remedial actions to be implemented under the recovery plan will be facilitated by the analysis of the different remedial actions under a number of scenarios in the pre-emptive recovery plan, enhancing time-efficiency in a stressed situation.

NEW: Guideline 44 – Supervision of conduct of business

The supervisory authority should take into consideration how conduct risks are managed within insurance and reinsurance undertakings or groups regardless of its consumer protection mandate, without prejudice to the application of the proportionality principle.

In case the supervisory authority does not have a consumer protection mandate, it should cooperate with the supervisory authority in this matter in order to achieve the goal of consumer protection.

Conduct risks are broadly defined as risks, which may cause detrimental outcome for consumers and result from the misconduct of the manufacturer, including deficiencies or irregularities affecting consumers that arise from the system of governance (incl. compliance/internal audit/actuarial/risk management key functions, outsourced functions/activities), product oversight and governance processes, as well as distribution arrangements, including selection and monitoring of distribution channels and intermediaries.

Prudential supervision and conduct of business supervision pursue a common goal in, ultimately, protecting the interests of consumers in the overall context of insurance undertakings supervision. Both approaches provide early warnings and also play a significant role in ensuring financial stability. Supervisory authorities should ideally focus, to the extent possible, as allowed by the organisational structure of the supervisory authority (i.e. integrated vs. non-integrated supervisory authority) and bearing in mind resources constraints, both on prudential and conduct of business supervision assessment, to be able to feed effectively in the supervisory authority's supervisory plan.

Supervisory authorities with consumer protection mandates are expected to implement adequate procedures to identify, monitor, assess and prioritise amongst conduct risks with the depth that each supervisory authority deems appropriate in a proportionate and risk-based manner. The conduct risk assessment process should allow for the adequate identification and prioritisation of conduct risks and carrying out of dedicated conduct activities.

If a supervisory authority has a consumer protection mandate and implements a Conduct Risk Assessment Framework (C-RAF)⁴, it should ensure there are sufficient coordination with its Risk

⁴ The design of a C-RAF within an Authority depends on several factors like the supervisory philosophy of the supervisory authority, its mandate, competences and powers, and the internal organisation of the supervisory authority.

Assessment Framework (RAF) so as to also take into account conduct risks as part of the broader risk assessment process.

If a supervisory authority does not implement a C-RAF, it should in its RAF identify risks and recognize possible sources of conduct risks, looking at the system of governance, compliance/internal audit/actuarial/risk management key functions operations, performance of outsourced functions/activities, product oversight and governance process, consumers complaints, distribution arrangements, including selection and monitoring of distribution channels and intermediaries. It should look at the whole product lifecycle, especially product design, distribution, claims handling and court proceedings, in particular, data on the number and causes of complaints, their validity and the number and causes of legal proceedings and their outcomes.

However, if a supervisory authority does not have a consumer protection mandate, it should nonetheless, in its RAF identify risks and recognize possible sources of conduct risks.

Regardless of having consumer protection mandate or C-RAF, emerging risks related to digitalization and sustainability are also key.

Where a supervisory authority has a consumer protection mandate, prioritize amongst risks in order to act in a proportionate manner with adequate supervisory actions and ensure adequate coordination and collaboration between conduct and prudential function to leverage on synergies.

Supervisory authorities may use e.g. the outcome from business model analysis, financial statements, media monitoring, disclosure analysis and other available information, including data that is collected and/or analysed by an institution that has a consumer protection mandate as well as relevant Solvency II data which has also conduct elements in considering or assessing conduct risk.

Sound Product Oversight and Governance (POG) arrangements can substantially reduce conduct risks throughout the product life cycle. Incorporating POG elements in the risk assessment if separate C-RAF is not available, such as definition of the target market, product testing which also ensures value for money, selection and monitoring of distribution channels and intermediaries, can support and enhance the identification of risks.

As a general principle, the application of proportionality should ensure a satisfactory balance considering both supervisory authorities' resources, constraints and the nature, scale and complexity of supervised undertakings' operations in achieving an adequate and consistent protection of consumers across the market supervised by each supervisory authority. It should also be considered that primary legal responsibility for consumer protection may reside in other institutions. In this case, cooperation with the national competent authority for consumer protection is recommended in order to achieve the goal of consumer protection.

NEW: Guideline 45 – Governance in addressing emerging risks in the supervisory review process

The supervisory authority should have a regular process in place, where at least once a year major legal and regulatory developments, as well as changes to the risk landscape are analysed and assessed for their impact on the implemented supervisory review process. In addition to the

regular process, the supervisory authority may also establish an *ad hoc* process to respond to specific developments or changes to the regulatory landscape as they occur.

The results of such a process should be translated into necessary adjustments to the established supervisory review process.

Such changes should be implemented as quickly as possible. If an immediate implementation is not possible, an adjustment plan should be drawn up to ensure proper compliance.

This guideline is generally introduced to ensure the supervisory authorities establish a regular process within their supervisory review process to assess the impacts of major legal and regulatory developments, or changes to the risk landscape.

NEW: Guideline 46 – Supervision of ICT risks

The supervisory authority should integrate the assessment of ICT-related risks (as part of the overall operational risk of the insurance and reinsurance undertaking) within its supervisory review processes. The assessment should be in line with the requirements stemming from the Digital Operational Resilience Act.

The assessment of these operational risks (e.g. business interruption) should involve verifying whether the insurance and reinsurance undertakings are integrating such risks in their system of governance, in particular risk management.

The assessment should be risk-based and proportionate to the nature, scale and complexity of the insurance and reinsurance undertaking.

The Digital Operational Resilience Act (DORA) established a comprehensive regulatory framework to ensure that financial entities in the EU can withstand, respond to, and recover from ICT-related disruptions and threats. The regulation sets out requirements to enhance the digital operational resilience of the financial sector, encompassing risk management, incident reporting, resilience testing, and third-party risk oversight.

As part of their supervisory review process, supervisory authorities should ensure that financial entities comply with DORA's provisions by ensuring that insurance undertakings:

- Implement an ICT risk management framework that ensures the continuous identification, assessment, monitoring, and mitigation of ICT risks.
- Report major ICT-related incidents to competent authorities in a timely manner.
- Conduct digital operational resilience testing to assess their ability to withstand ICT disruptions.
- Effectively manage risks associated with ICT third-party service providers.

NEW: Guideline 47 – Climate change and other sustainability risks

The supervisory authority should integrate the assessment of climate change risks, including the climate change scenario analysis' in accordance with Article 45a of the Solvency II Directive, and other sustainability risks within their supervisory review processes.

That should involve an assessment of an actual and potential impact of sustainability risks and verifying whether and how insurance and reinsurance undertakings are integrating such risks within their business models and strategies, and the system of governance, particularly focusing on risk management and actuarial functions, the assessment of the overall solvency needs within the ORSA, the remuneration policies, and the investment strategies, also in their implementation of the prudent person principle.

In case of climate change risks supervisory authorities should assess both the potential impact of the physical risks and transition risks. With respect to risk management, the supervisory authority should also verify whether insurance and reinsurance undertakings make reasonable efforts to assess their sustainability risks over different time horizons, i.e. whether the insurance and reinsurance undertaking is able to forecast its climate and sustainability risks over the short, medium and long-term.

Climate change and other sustainability risks can have a significant financial impact on (re)insurers' assets and liabilities across all risk categories, such as underwriting, market, counterparty default or operational risk as well as reputational risk and/or strategic risk. Hence, those risks are not a separate risk class in themselves, rather, they heighten or amplify existing risks, and thus need to be integrated in undertakings' existing risk management frameworks and systems of governance.

Since August 2022 the provisions of Commission Delegated Regulation (EU) 2015/35 require undertakings to integrate climate change and sustainability risk-management measures into their overall governance systems, specifically they must integrate these measures into their risk management and actuarial functions, their assessments of overall solvency needs, their remuneration policies and their implementations of the prudent person principle. Those requirements are provided for in Articles 260, 269, 272, 275 and 275a of that Regulation.

The Directive (EU) 2025/2 amending the Solvency II Directive sets out the definition of sustainability risks and integrates the definition of sustainability factors from the Sustainable Finance Disclosure Regulation to the Solvency II legal framework. Furthermore, it integrates sustainability risks in the risk management systems of insurers and reinsurers by requiring them to assess their sustainability risks in the short, medium- and long-term, where those risks are material. In addition to this new requirement of undertakings to assess their climate and sustainability risks, the Directive (EU) 2025/2 requires supervisory authorities to ensure that undertakings, as part of their risk management systems, have strategies, policies, processes and systems for identifying, measuring, managing and monitoring sustainability risks over the short, medium and long term. In addition, insurance and reinsurance undertakings shall also take account of sustainability risks in their underwriting activities as well as on investments and the potential impact of their investment decisions on sustainability factors over different time horizons when they decide on their investment strategy.

According to the provisions of Directive (EU) 2025/2, insurance and reinsurance undertakings must develop and monitor the implementation of specific plans, quantifiable targets, and processes to monitor and address the financial risks arising in the short, medium, and long term from sustainability factors. Moreover, in their solvency and financial condition report targeted at policyholders and

beneficiaries, the insurance and reinsurance undertakings are required to include a statement of whether the undertaking discloses the information referred to in Article 19a or Article 29a of Directive 2013/34/EU and, if so, the plans required by the Directive (EU) 2025/2 shall be consistent with them.

Supervisory authorities shall ensure that the requirements 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. For this reason, when the materiality assessment on current exposures does not show a material exposure, undertakings are not required to run a forward-looking climate change scenario.

EIOPA's Opinion on the supervision of the use of climate change risk scenarios in ORSA sets out EIOPA's expectations of insurers to identify material climate change risk exposures and subject the material exposures to at least two long-term climate change scenarios.

EIOPA Supervisory Handbook's chapter on the supervision of climate change risks in the context of Solvency II Pillar II requirements may also be helpful to the supervisory authorities when applying the above mentioned legal requirements.

In the context of colleges of supervisors, EIOPA focuses on Environmental, Social, and Governance (ESG) and climate change analysis. The EIOPA activities involve assessments, scenario analyses, and discussions with supervisory authorities on specific groups to evaluate their approaches to climate change risk management.

NEW: Guideline 48 – Use of supervisory technology in the supervisory review process

The supervisory authority should establish an ongoing quality control process regarding the supervisory review process implemented, and consider where technological developments could promote data-driven supervisory processes. The supervisory authority should implement, where possible and considered necessary, experimental technological approaches, testing those emerging technologies that could improve the efficiency and responsiveness of the supervisory review processes.

Supervisory Technology (SupTech) plays a crucial role in modernizing and enhancing supervisory review processes. By leveraging advanced technologies such as artificial intelligence, machine learning, and big data analytics, SupTech enables regulatory bodies to efficiently monitor and assess the performance, compliance, and risks of financial institutions. It is clear that this can be just achieved if the core processes systems and technologies used within the supervisory authority are kept continuously updated. Furthermore, it is considered necessary that each supervisory authority monitors the latest developments and on an ongoing basis assesses whether the usage of such new technology could help improve the efficiency and effectiveness of their operative processes and, if so, takes the relevant decisions and actions to implement those technologies (e.g. as shown in many authorities by the establishment of innovation labs etc.)

Supervisory authorities in cooperation with EIOPA should foster the exchange between supervisory authorities regarding new implemented technologies by establishing methods for sharing knowledge

and programming codes, while supporting the identification of areas of common interest in terms of SupTech developments.

In general SupTech can enhance efficiency as for example by automating data collection, validation, and analysis and in consequence reduce manual workloads, allowing supervisors to focus on critical risk assessments and strategic decision-making. SupTech can improve the identification of risks by providing real-time insights and predictive analytics, enabling proactive detection of emerging risks and irregularities. SupTech can foster data-driven approaches to decision-making by providing access to comprehensive, high-quality data and therefore improve the accuracy and objectivity of supervisory review processes. SupTech supports also supervisors in adhering to complex regulatory frameworks.

ANNEX: FEEDBACK STATEMENT

This feedback statement set out a high-level summary of the consultation comments received and EIOPA's assessment of them. The full list of all the non-confidential comments provided can be found on the EIOPA's website. EIOPA received comments from its Insurance and Reinsurance Stakeholder Group (IRSG) and from 6 other stakeholders, including insurance and reinsurance undertakings and industry associations.

Overall, stakeholders welcomed the opportunity to contribute and broadly supported the objectives of the review, namely, to enhance supervisory convergence, ensure consistency with the revised Solvency II Directive and Delegated Regulation, and promote a risk-based, forward-looking supervisory framework.

OPERATIONAL BURDEN

Stakeholder comments

Several stakeholders, including the IRSG, expressed concerns about the potential duplication and prescriptiveness of certain sections in the draft Guidelines. They cautioned that this could lead to an unnecessary operational burden for undertakings.

Assessment

The Guidelines are primarily directed at supervisory authorities, and undertakings will benefit from improved predictability in their interactions with the supervisor. Moreover, the amendments were limited to what it is strictly necessary to support the implementation of Solvency II or to promote a common approach and convergence of practices across Europe.

PROPORTIONALITY

Stakeholder comments

Stakeholders also called for enhanced proportionality, particularly with respect to small and non-complex undertakings (SNCUs).

Assessment

EIOPA acknowledges the importance of proportionality, in particular for SNCUs. The Guidelines preserve sufficient flexibility for supervisory authorities to tailor their approaches to specific markets and undertakings, taking into account the nature, scale and complexity of the risks inherent to their business.

SUPERVISORY JUDGEMENT

Stakeholder comments

Some comments acknowledged the importance of supervisory judgement in ensuring effective, risk-based oversight but raised concerns about its potential to override of quantitative assessments in the context of the risk assessment framework. They suggested that any deviations from scoring-based outcomes should be clearly documented and justified, subject to appropriate internal governance.

Assessment

The use of expert and supervisory judgement is an essential component of the supervisory review process. Supervisors are expected to apply their professional judgement in assessing risks, taking into account their materiality and specific context, thereby ensuring that supervisory conclusions are both balanced and proportionate.