

ACP ADVICE TO EIOPA ON PROPORTIONALITY AREAS IN 2026

INTRODUCTION

In accordance with Article 1(7) of Regulation (EU) No 1094/2010, EIOPA established the Advisory Committee on Proportionality (the ACP). The ACP shall advise EIOPA as to how, in full compliance with applicable rules, EIOPA's actions and measures should take account of specific differences prevailing in the sector, pertaining to the nature, scale and complexity of risks, to business models and practice as well as to the size of financial institutions and of markets to the extent that such factors are relevant under the rules considered.

The Committee shall assess the proportionality aspects set out in Article 1(7) of Regulation (EU) No 1094/2010 concerning the applicable regulatory framework and shall advise EIOPA in which specific areas proportionality can be improved or prioritised and give advice on possible elements to be explored by EIOPA. Consideration of proportionality will support the reduction of unnecessary operational complexity and burden in EU law.

The Committee may also provide ad hoc advice to EIOPA on its own initiative and shall review how EIOPA has taken into account the Committee's advice.

Since 2020 the ACP has delivered advice covering a number of different areas of the Solvency II Directive, IORP II Directive, Insurance Distribution Directive (IDD) and Insurance Recovery and Resolution Directive. The content of these advice focuses on Level 2 and Level 3 Guidelines and RTS, not on Level 1.

After consideration of EIOPA planned activities for 2026 the ACP decided to address in its 2026 advice proportionality considerations related to duplicated content in the Own Risk and Solvency Assessment (ORSA) (including climate risk stress test), Solvency and Financial Condition Report (SFCR) and Regular Supervisory Report (RSR).

EIOPA should collect examples of good practices and help to determine areas where the proportionality principle could be more widely used, e.g. by carrying out a survey for each topic (or another adequate tool that EIOPA has at its disposal) in order to understand how the principle of proportionality has been implemented in different Member States.

1. ORSA including climate risk – stress test

The purpose of this advice is not to standardise ORSA reports and not to violate the objective of the ORSA report, which is for the Insurance Undertaking (IU) to make its own assessment of its risk and solvency. The ACP positively values and encourages the inclusion of any individual methods/observations/ideas in ORSA reports. Although an ORSA can be proportionate and may only be completed every second year (under Solvency II, the importance of the report should be focused on the “own” of the company). This in turn might mean an annual review is prepared for internal purposes of the company. Instead, the ACP would like to draw attention to the necessary elements from the proportionality principle's point of view, as well as the good practices that have been observed in this field to date.

The main purpose of the ORSA is to improve the risk management of an IU, to better understand, what risks the IU is exposed to. It is important that the ORSA report should give evidence that the IU has conducted an extensive analysis of its risks, does not rely solely on the capital requirement, looks critically at the methods, assumptions underlying the calculation of the capital requirement, has learned from these analyses and will apply them to future operations/strategies. Taking this into account the same information should not be repeated in ORSA/RSR/SFCR (i.e., IUs should not just copy and paste). Comparing year to year, the ORSA report should thus include some part of unchanged text and highlight material changes.

On April 19, 2021, EIOPA issued an opinion on the use of climate change scenarios in the own risk and solvency assessment.¹ According to this opinion, in the ORSA report, an IU should identify significant climate change risk exposures (distinguishing between physical risk and transition risk) and subject them to risk assessment. Climate change risks should be assessed not only in the short term, but also in the long term, using scenario analysis for strategic and business planning. Insurance companies, for the purposes of an ORSA, should conduct at least two long-term scenario analyses for climate change risk (Article 45a Solvency II Directive):

- a climate change risk scenario in which the global temperature increase stays below 2°C, preferably no more than 1.5°C; and
- a climate change risk scenario in which the global temperature increase exceeds 2°C.

In order for reporting to be less burdensome for IUs, EIOPA should aim to reduce the amount of complex requirements. In the Solvency II Directive (Solvency II review process) there is no technical precision as to which data or time horizon should be considered depending on the size and complexity for non-SNCUs (Non-Small and Non-Complex Undertakings). But such an approach may not be fully relevant insofar as IUs exposure to climate risks does not depend on their size or complexity but rather on their risk profile and on their exposure to physical risks in particular. At this

¹ (https://www.eiopa.europa.eu/media/news/eiopa-issues-opinion-supervision-of-use-of-climate-change-risk-scenarios-orsa_en)

stage EIOPA should have enough awareness of the best practices of IUs regarding climate scenarios in order to introduce proportionality in climate scenarios adequately. For example, the climate stress testing scenarios developed by NCAs within the market specific working group or third parties might be used for the analyses in question. Once officially published, it will be a valuable resource for all insurance companies to use.

Possible areas for enhancement/review:

- EIOPA might provide guidance on what information (and how detailed) should be included in the ad hoc ORSA report: whether the full information is included as in regular ORSA or only material changes with a description. EIOPA should provide guidance on how to assess material and immaterial changes in the risk profile. Further, there should be a clear statement that in cases where the outcome is no material change, the IU does not need to fully recalculate the Solvency Capital Requirement and can use the last calculation of the SCR.
- EIOPA might provide guidance on expectations regarding qualitative descriptions in order to prevent large amount of text being included unchanged each year and which may have limited (new) relevance to the regulation. However, EIOPA should avoid suggesting changes that would represent a heavier burden on IUs and think of which requirements should be removed.
- EIOPA could provide e.g. an opinion/statement about which climate stress tests might be used in ORSA. For example, are IUs allowed to use local stress tests scenario (if a methodology is designed by the National Competent Authority); or may IUs use scenarios defined by third parties.

2. SFCR

Article 51(b) of the Solvency II Directive prescribes that the SFCR contains, amongst others, a description of the IU's system of governance and an assessment of its adequacy for the risk profile of the IU. Annex XX of the Delegated Regulation gives an overview of the elements. Apart from the prescribed contents, in practice, the size and complexity of the SFCR varies significantly between individual undertakings.

The review of Solvency II introduces a new framework for applying the principle of proportionality measures. A new category of SNCUs has been created which is based on a set of qualitative and quantitative criteria. SNCUs have access to a number of proportionality measures, which include a lower frequency in the reporting of formal reports.

One of the proportionality measures provides that the RSR has to be prepared only every three years and for SNCUs - upon supervisory approval - even every five years. There tends to be an overlap between the SFCR and the RSR regarding the qualitative descriptions, where the RSR for supervisory purposes can even be considered to be an addition to the publicly disclosed SFCR. In

practice, the qualitative descriptions such as System of Governance (Part B) remain relatively stable from year to year while quantitative figures are updated annually.

Furthermore, in the SII Review the SFCR shall consist of two separate parts that are clearly defined and disclosed jointly. The first part shall consist of information specifically targeted at policyholders and beneficiaries, and the second part shall consist of information targeted at market professionals. It should be noted that reinsurance undertakings may choose not to disclose the part targeted at policyholders and beneficiaries, whilst captive insurance undertakings shall not be required to disclose the part targeted to policyholders and beneficiaries and they shall only be required to include in the part targeted to market professionals.

Another proportionality measure related to the SFCR is that SNCUs are required to disclose only the quantitative data required by the implementing technical standards (referred to in Article 56 of the Solvency II Directive) in the part consisting of information targeted at other market professionals. This is provided that SNCUs disclose a full report containing all the information required in this Article every three years.

Finally, an IU has to include a description of the capital management and the risk profile of the IU, including in relation to sustainability risks as well as a statement of whether the IU discloses transition plans under Corporate Sustainability Reporting Directive (CSRD). The SFCR provides an indication of whether the IU has any material exposure to climate change risks following the materiality assessment, and, where relevant, whether any actions have been put into place. The quantifiable targets included in the sustainability risk plan have to be included on an annual basis. The Solvency II Directive already stipulates that while all IUs shall perform assessments of the materiality of exposure to climate change risks on the business of the undertaking, SNCUs are not required to specify long-term climate change scenarios nor to assess their impact on the business of the undertaking (Article 45a Solvency II Directive).

Possible areas for enhancement/review:

- EIOPA might provide guidance on how in an SFCR report a distinction could be made between the two parts, being: i) the specific information relevant for policy holders and other beneficiaries and ii) the information relevant for other market professionals.
- EIOPA could provide guidance on what level of detail can be expected from SNCUs concerning the description of the System of Governance in both parts of the SFCR, amongst others related to the description of key functions.
- For SNCUs, EIOPA could provide guidance on the frequency of updating all SFCR content that overlaps with the RSR. The frequency of updating this qualitative content could be brought into line with the reporting frequency of the RSR, which might be even every five years. As the SFCR should only refer to public information and must be available for at least five years, reference can be made to a previous SFCR. Examples of potential qualitative areas might relate to System of Governance and Sustainability.

3. RSR

The RSR is one of the narrative reports required by Solvency II and therefore options to strengthen proportionality features should be considered. Indeed, as per the Solvency II Directive, RSRs are intended for supervisors only. They cover essentially the same topics as SFCRs but give a more detailed picture of these topics.

Initially, in the Solvency II Directive, RSRs must be submitted to the National Competent Authority at least once every three years (see Article 312§1(a) of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014). The NCA may demand that a RSR be submitted every year if it sees fit (article 312§3 of the 2015 Delegated regulation). This approach has led some countries to adopt a proportionate approach to RSR submission. In some cases, only the most significant insurers are required to submit an RSR annually, whereas SNCUs are only expected to submit a RSR every three years. The thresholds for an annual submission were established in 2017 at an identical level to those set for the submission of quarterly reports. Nevertheless, it should be noted that even within such framework, the NCA retains the competence to request an annual RSR report from an IU below the threshold.

However, the Solvency II review has amended the framework for RSRs. SNCUs may submit their RSRs up to every three years, provided that the last three (annual) RSRs they submitted did not raise any concerns and include high quality and complete information. If permitted by their supervisory authority, SNCUs will even be able to submit a RSR only every five years.

Possible areas for proportionality enhancement/review:

- In line with revised expectations, EIOPA could further lighten the RSR process for IUs, by letting IUs reduce the overlapping contents between ORSAs, RSRs and SFCRs. This would mean that IUs would not be required to copy and paste the same texts when they prepare their narrative reports.
- A large share of RSR content is common to the SFCRs. Therefore, instead of (potentially) duplicating the same text in the SFCR and the RSR, IUs could refer to the SFCR where relevant, to avoid any overlaps. Indeed, RSRs and SFCRs have different audiences: while the former are intended for national competent authorities only, the latter are public. What would therefore make more sense is that RSRs refer to SFCRs, since SFCRs cannot be expected to refer to RSRs and ORSAs. IUs would thus focus only on the information that is required in RSRs. Nonetheless, narrative reports have to remain easy to read for supervisors. Hence, EIOPA should seek to reconcile this approach with keeping narratives intelligible to supervisors.
- One area for proportionality enhancement would be to alleviate the burden on SNCUs of describing their system of governance, and especially the works of their key functions in the RSR. EIOPA should however make it clear that this lighter requirement relates only to the description of the system of governance in RSRs. In itself, the system of governance of SNCUs already benefits from proportionality.