SOLVENCY II

BACKGROUND DOCUMENT ON THE OPINION ON THE 2020 REVIEW OF SOLVENCY II

IMPACT ASSESSMENT

EIOPA-BoS-20/751-REV-10 June 2021

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European Insurance and Occupational Pensions Authority

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NOTE: This document was amended on 10 June 2021.

Introduction

On February 2019, EIOPA received from the European Commission a formal request for technical advice on the review of the Solvency II Directive; the Commission asks EIOPA to provide advice on a number of items of the Solvency II framework, accompanied by a holistic and robust impact assessment.

In order to comply with such request, EIOPA has developed the current draft impact assessment, which is structured as follows:

- Section 1: Holistic impact assessment
- Sections 2-14: Impact assessment of individual policy options per topic

Section 1 provides a comprehensive overview of the combined impact of the proposed legislative changes in all areas concerned; including the impact on the objectives of the 2020 review of Solvency II and the expected costs for the industry and the supervisory authorities. The qualitative analysis has been supplemented with the analysis of the data gathered though the information requests to national supervisory authorities and insurance and reinsurance undertakings and groups in parallel to the public consultation of this Opinion as well as the information request to insurance and reinsurance undertakings on the combined impact of the proposed changes collected in June 2020 and the complementary information request in view of the Covid-19 pandemic and its impact on financial markets and the insurance business, which EIOPA launched on July 2020.

The following sections summarise the main policy options considered to address the issues identified in the equivalent section of the opinion and provides an analysis of the costs and benefits of those options. Such analysis includes a qualitative assessment of the costs and benefits for stakeholders, including policyholders, industry and supervisors. It also considers the impact on the most relevant objectives of the 2020 review of Solvency II, including the comparison of options in terms of effectiveness and efficiency[1] towards those objectives. The draft qualitative impact assessment of main policy options considered is presented below following the same structure of the consultation paper on the opinion. For technical options on certain topics, the qualitative assessment is supplemented with a quantitative assessment.

[1] Effectiveness measures the degree to which the different policy options meet the relevant objectives. Efficiency measures the way in which resources are used to achieve the objectives. The extent to which objectives can be achieved for a given level of resources/at least cost (cost-effectiveness).

1. Holistic impact assessment

1.1 Procedural issues and consultation of interested parties

1.1 One of the principles that the Commission invites EIOPA to take into account in providing its technical advice is the following: "The provided technical advice should contain a detailed holistic impact assessment of all relevant effects, qualitative and quantitative, on European level and on each Member State; the detailed impact assessment should be presented in easily understandable language respecting current legal terminology at European level."

1.2 The presentation of the advice should enable all stakeholders to understand the overall impact of the options presented by EIOPA.

1.3 For that purpose, EIOPA has developed the current holistic impact assessment which provides an overview of the changes to the Solvency II framework included in the draft technical advice subject to public consultation and the expected overall impact of those changes.

Evidence

1.4 The Commission requests EIOPA explicitly to "provide sufficient factual data backing the analyses gathered during its assessment" and acknowledges that several data requests to NSAs and industry stakeholders may be needed. The following main evidence has been used in the development of this draft advice:

- Quantitative reporting templates (QRT) submitted by insurance and reinsurance undertakings as part of regular supervisory reporting;
- Information requests to undertakings and NSAs for the annual Long Term Guarantees (LTG) Reports (2016-2019);
- Information request to insurance undertakings in the preparation of EIOPA's Opinion on the LTG measures and the review of Solvency II due in 2020, including:
  - Information on the LTG measures;
  - Information on the dynamic volatility adjustment in internal models;
  - Information on long-term illiquid liabilities;
- Surveys to NSAs in the context of the Solvency II review (May-June 2019):
  - Survey on group governance issues;
  - Survey on group solvency, scope of the group, intra-group transactions and risk concentrations;
  - Survey on Article 4 of the Directive and proportionality on Pillar II;
  - Survey on composite insurance undertakings;
  - Survey on pre-emptive planning and entry into recovery triggers;

- Stakeholders' queries as part of EIOPA's Question and Answer process on regulation (Q&A process)[2].

1.5 NSAs experience with respect to the Solvency II provisions, which has been gathered through the regular discussions in EIOPA's project groups and through peer reviews exercises; in particular;

- Peer review on propriety of administrative, management or supervisory body members and qualifying shareholders[3]; and
- Peer review on key functions[4];
- Evidence gathered in the preparation of EIOPA Report to the European Commission on Group Supervision and Capital Management with a Group of Insurance or Reinsurance Undertakings, and FoS and FoE under Solvency II (December 2018)[5].

1.6 In addition EIOPA launched an information request in parallel to the public consultation of the Opinion, between mid-October and mid-December 2019. The information request covered both the impact of specific advice on the solvency position of undertakings and groups and the administrative costs and benefits of the proposals. The request consisted of the following parts:

- Information request to undertakings on the solvency impact of advice on RFR, TP, equity risk and SCR;
- Information request to undertakings (and voluntarily groups) on the solvency impact of advice on the VA;
- Information request to undertakings on the cost and benefit of the proposals;
- Information request to groups (covering both the impact on solvency and the cost/benefit of proposals); and
- Information request to NSAs on the cost/benefit of proposals.

1.7 On March 2020 EIOPA launched an information request to insurance and reinsurance undertakings for the holistic impact assessment of the draft advice for the 2020 review of Solvency II; the information request was about the combined impact of proposed changes with a material impact on the solvency position of undertakings, in particular those changes relating to the derivation of the following parts of the solvency calculations: risk-free interest rate term structures, technical provisions, own funds, solvency capital requirement and minimum capital requirement.

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2 See Q&A published on EIOPA's website: https://eiopa.europa.eu/regulation-supervision/q-a-on-regulation

3 See report in the following link: https://www.eiopa.europa.eu/sites/default/files/publications/reports/eiopa-peer-review-propriety-exec-summary-jan2019.pdf

4 See report in the following link: https://www.eiopa.europa.eu/sites/default/files/publications/other_documents/eiopa-peer-review-key-functions-nov2018.pdf

5 See report in the following link: https://www.eiopa.europa.eu/sites/default/files/publications/pdfs/report_on_article_242_com_request_final_14_dec_2018_0.pdf

1.8 Finally, in view of the Covid-19 pandemic and its impact on financial markets and the insurance business, EIOPA launched on July 2020 a complementary information request in order to collect:

a. updated data on the impact of proposals, similar to the information request for the holistic impact assessment, but with a reference date of end-June 2020; and
b. specific data on the impact of the Covid-19 pandemic on the insurance business, for example the impact on lapse rates or medical expense claims.

Consultation with stakeholders

1.9 During the drafting process stakeholders views were invited through dedicated events on the main topics of the review:

- Workshop on the 2020 Review of Solvency II [LTG measures and measures on equity risk, systemic risk and macroprudential policy in insurance, recovery & resolution and insurance guarantee schemes] on 5-6 June 2019;
- Public event on reporting and disclosure in the Solvency II 2020 review on 15 July 2019;
- Public event on the discussion of various topics of the Solvency II 2020 review [group supervision, technical provisions, SCR standard formula, proportionality in Pillar II, cross-border insurance] on 16 July 2019;
- Public event on reporting and disclosure in the Solvency II 2020 review on 30 September 2019.

1.10 The draft advice on the following areas was subject to public consultation between 12 July and 18 October 2019:

- Consultation on supervisory reporting and public disclosure[6]; and
- Consultation on advice on the harmonisation of national insurance guarantee schemes[7].

1.11 Previously, EIOPA had published several discussion papers for feedback by stakeholders on certain topics covered in the advice:

- Discussion paper on harmonisation of recovery and resolution frameworks for insurers between July-October 2016[8];
- Discussion paper on resolution funding and national insurance guarantee schemes between July-October 2018[9];
- Discussion Paper on systemic risk and macroprudential policy in insurance between March-April 2019[10].

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6 See https://www.eiopa.europa.eu/content/consultation-supervisory-reporting-and-public-disclosure_en
7 See https://www.eiopa.europa.eu/content/eiopa-consults-harmonisation-national-insurance-guarantee-schemes_en
8 See https://www.eiopa.europa.eu/sites/default/files/publications/pdfs/eiopa-cp-16-009_discussion_paper_recovery_and_resolution_for_insurers.pdf
9 See https://www.eiopa.europa.eu/sites/default/files/publications/pdfs/eiopa-cp-18-003_discussion_paper_on_resolution_funding_and.pdf
10 See https://www.eiopa.europa.eu/content/eiopa-publishes-discussion-paper-systemic-risk-and-macroprudential-policy-insurance_en

1.12 In the area of reporting a disclosure, stakeholders views considered include the following:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry; and
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting.

1.13 The draft advice, including the draft holistic impact assessment was subject to public consultation during three months. Stakeholders' responses to the public consultation has been duly analysed and served as a valuable input for the revision of the draft technical advice and its impact assessment.

1.14 An event with stakeholders took place on 6 December 2019 to present and discuss the draft advice set out in the consultation paper. Another event with stakeholders took place on 23 October 2020 to present and discuss the Covid-19 implications for the Solvency II review.

1.15 Additionally, the opinion from the Insurance and Reinsurance Stakeholder Group (IRSG), provided in Article 37 of EIOPA Regulation, has been considered.

1.16 In particular, the preliminary analysis included in the draft holistic impact assessment has been revised in view of the stakeholders' comments and to reflect EIOPA's final advice to the COM on the different topics of the Solvency II review.

1.2 Problem definition

1.17 The Solvency II Directive requires a mandatory assessment of certain areas, in which the European Commission shall submit an assessment to the European Parliament and the Council, accompanied, if necessary, by legislative proposals in 2020. The review was foreseen to address any potential issue on the actual implementation of the Solvency II provisions based on the experience of the first years of application of the new regime. The areas subject to review in the Directive are:

- the long term guarantees measures and measures on equity risk;
- the methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement standard formula;
- the Member States' rules and supervisory authorities' practices regarding the calculation of the Minimum Capital Requirement; and
- the group supervision and capital management within a group of insurance or reinsurance undertakings.

1.18 In addition to these, the Commission has identified in its call for advice other areas of Solvency II to be assessed such as technical provisions (beyond the LTG measures), own funds, reporting and disclosure, proportionality and freedom to provide services and freedom of establishment. Furthermore, the call for advice asks EIOPA to assess whether Solvency II provisions should be further developed as regards macro-prudential issues and recovery and resolution, as well as whether

there is a need for minimum harmonising rules regarding resolution of insurance or reinsurance undertakings and for national insurance guarantee schemes.

1.19 The call for advice provides a short description of the main potential issues in the different areas, as identified by the Commission services and stakeholders. EIOPA has made its own detailed assessment of all issues11 (i.e. those issues in the call for advice and other identified by EIOPA based on the sources of evidence listed in the previous section of this holistic impact assessment).

Baseline scenario

1.20 When analysing the impact from proposed policies, the impact assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional regulatory intervention.

1.21 For the analysis of the potential related costs and benefits of the proposed technical advice, EIOPA has applied as a baseline scenario the effect from the application of the Solvency II Directive requirements, the Delegated Regulation and the relevant implementing measures as they currently stand.

1.3 Objective pursued

1.22 In responding to the Commission request for technical advice on the review of the Solvency II Directive, EIOPA sticks to the general objectives of the Directive, as agreed by the EU legislators in 2009. These general objectives are:

- adequate protection of policyholders and beneficiaries, being the main objective of supervision;
- financial stability; and
- proper functioning of the internal market[12].

1.23 The review is also guided by EIOPA's statutory objectives, as reflected in the Regulation of the Authority, notably[13]:

- improving the functioning of the internal market, including in particular a sound, effective and consistent level of regulation and supervision,
- ensuring the integrity, transparency, efficiency and orderly functioning of financial markets,
- preventing regulatory arbitrage and promoting equal conditions of competition,
- ensuring the taking of risks related to insurance, reinsurance and occupational pensions activities is appropriately regulated and supervised, and

[11] See subsection "Identification of the issue" under each section of the Opinion

[12] See recitals 2, 3, 11, 14, 16, 17 and Article 27 of the Solvency II Directive

[13] See Article 1(6) of EIOPA Regulation

- enhancing customer protection.

1.24 Based on the more concrete objectives of the Solvency II Directive, the aim of the reviews foreseen in the text of the Directive (as amended by the Omnibus II Directive)[14] and the content of COM's request for technical advice, a set of more specific objectives for the review have been identified. The table below summarises the most relevant of those objectives.

Table 1 – Objectives of the Solvency II 2020 review

Policyholder protection objectives	1) Ensuring adequate market-consistent technical provisions 2) Ensuring adequate risk sensitive capital requirements 3) Promoting good risk management 4) Effective and efficient supervision of (re)insurance undertakings and groups 5) Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks 6) Effective and efficient policyholder protection in resolution and/or liquidation[15]
Financial stability objectives	1) Ensuring sufficient loss-absorbency capacity and reserving 2) Discouraging excessive involvement in products and activities with greater potential to pose systemic risk, 3) Discouraging risky behaviour 4) Discouraging excessive levels of direct and indirect exposure concentrations 5) Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds 6) Ensuring an orderly resolution of (re)insurance undertakings and groups
Proper functioning of the internal market objectives	1) Ensuring a level playing field through sufficiently harmonised rules 2) Effective and efficient supervision of cross-border business 3) Improving transparency and better comparability 4) Enhanced cooperation and coordination between competent authorities

[14] See Articles 77f, 111(3), 129(5) and 242(2) of the Solvency II Directive

[15] This objective will be relevant for the advice on recovery and resolution and on insurance guarantee schemes.

1.25 Other objectives considered for the review include:

- Avoiding unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees,
- Avoiding unjustified constraints to insurance and reinsurance undertakings holding long-term investments,
- Promoting cross sectoral consistency,
- Reducing reliance on external ratings,
- Avoiding reliance on public funds.

1.4 Policy proposals

1.26 In the request from the Commission, EIOPA is asked to justify its advice by identifying, where relevant, a range of technical options and by undertaking evidence-based assessment of the costs and benefits of each. Where administrative burdens and compliance costs on the side of the industry could be significant, EIOPA should where possible quantify these costs.

1.27 With the intention to meet the objectives set out in the previous section, EIOPA has identified different policy options throughout the policy development process with respect to the relevant policy issues in the topics covered in the technical advice. EIOPA has duly analysed the costs and benefits of the main options considered in the respective section of the opinion. Such analysis includes a qualitative assessment of the costs and benefits for stakeholders, including policyholders, industry and supervisors. For technical options on certain topics, it also includes a quantitative assessment of costs; this is supplemented with the analysis of the data gathered though the several information requests to undertakings carried out for the preparation of the final opinion.

1.28 The tables below provides a summary of the main legislative changes stemming from the preferred policy options on all topics under the Solvency II 2020 review. For the detailed impact assessment of all the options considered, please refer to the corresponding section of the opinion.

1.29 For the purpose of this impact assessment, the proposed legislative changes have been grouped according to the nature of the requirements as follows:

- Pillar I: quantitative requirements (technical provisions, capital requirements and own funds)
- Pillar II: qualitative requirements (governance and supervision)
- Pillar III: reporting and disclosure requirements
- Other: resolution, supervisory cooperation in the context of cross-border business, insurance guarantee schemes and groups.

Table 2 – Proposed legislative changes in Pillar I

Legislative changes Pillar I	Section of the opinion
TP: Change to extrapolation method	2 (LTG measures and measures on equity risk)

TP: Changes to design of VA	2 (LTG measures and measures on equity risk)
TP: Allow realistic assumptions on new business	3 (technical provisions)
TP: Add a definition of Future Management Actions in Article 1	3 (technical provisions)
TP: Amend the definition of EPIFP so it includes all future losses.	3 (technical provisions)
TP: Amend to include future profits in fees for servicing and managing funds for unit-linked products	3 (technical provisions)
TP: Amend the third paragraph of article 18(3). Allow the exception only when the undertaking does not have the right to perform the individual risk assessment	3 (technical provisions)
TP: **Change to the calculation of the risk margin to account for the time dependency of risks (lambda approach)**	3 (technical provisions)
TP: MA asset eligibility criteria: Look through approach for restructured assets	2 (LTG measures and measures on equity risk)
TP: Prudent deterministic valuation under the proportionality principle	8 (proportionality)
SCR: For internal models including a Dynamic Volatility Adjustment (DVA) introduce enhanced "DVA prudency Principle" into the Solvency II Directive.	2 (LTG measures and measures on equity risk)
SCR: Amend criteria for the long-term equity	2 (LTG measures and measures on equity risk)
SCR: Amend criteria for strategic equity: propose beta method for the volatility assessment, and include a safeguard for participation that are significantly correlated with the undertaking.	2 (LTG measures and measures on equity risk)
SCR: Phase out the duration based equity risk sub-module; new approval should not be granted anymore.	2 (LTG measures and measures on equity risk)
SCR: Allow in standard formula for diversification effects with respect to MA portfolios	2 (LTG measures and measures on equity risk)
SCR**: Widening the corridor of the symmetric adjustment to the equity risk charge**	2 (LTG measures and measures on equity risk)
SCR: Update calibration of the interest rate risk sub-module	5 (Solvency capital requirement standard formula)
SCR: Simplified calculation for the risk-mitigating effect of derivatives/reinsurance/securitisation	5 (Solvency capital requirement standard formula)
SCR: Hypothetical SCR in the counterparty default risk assumes a net of reinsurance basis for the fire, marine and aviation risk submodules	5 (Solvency capital requirement standard formula)
SCR: Default and forborne loans to be included as type 2 exposures	5 (Solvency capital requirement standard formula)
SCR: Adjust requirements for the recognition of partial guarantees on mortgage loans	5 (Solvency capital requirement standard formula)
SCR: Recognition of adverse development covers as risk mitigation techniques	5 (Solvency capital requirement standard formula)
SCR: Amend Article 210 of the Delegated regulation by adding that undertaking are able to show the extent to which there is an effective transfer of risk for reflection of risk mitigation techniques in the standard formula	5 (Solvency capital requirement standard formula)
SCR: Simplified calculation for immaterial risks	8 (proportionality)
MCR: Change the risk factors for the calculation of the MCR set out in Annex XIX of the Delegated Regulation	6 (Minimum capital requirement)
Group solvency: changes to the rules on calculation of group solvency, when method 1, method 2 or a combination of methods is used	9 (group supervision)

Group solvency: changes to the rules on own-funds requirements	9 (group supervision)
Group solvency: changes to the calculation of the minimum consolidated group SCR	9 (group supervision)
Groups and Inclusion of Other Financial Sectors	9 (group supervision)

Table 3 – Proposed legislative changes in Pillar II

Legislative changes Pillar II	Section of the opinion
Key functions: Explicit allowance of combinations with other responsibilities/tasks based on proportionality	8 (proportionality)
ORSA: Biennial ORSA for low risk profile undertakings	8 (proportionality)
ORSA: Explicit reference to proportionality with respect to the complexity of the stress test and scenario analysis	8 (proportionality)
ORSA – Specific business models (captive): amendment of Article 45 in the Directive; amendment of Article 50 of the Directive; introduction of a new article on the criteria for application of the proportionality measures in the Delegated Regulation	8 (proportionality)
ORSA: Expansion in the use of the ORSA to include the macroprudential perspective	11 (macro-prudential policy)
Written policies: Less frequent review allowed, up to three years, based on proportionality	8 (proportionality)
AMSB: Regular assessment on the adequacy of the composition, effectiveness and internal governance of the AMSB considering proportionality	8 (proportionality)
Remuneration: Exemption to the principle of deferral of a substantial portion of the variable remuneration component considering proportionality	8 (proportionality)
Risk management: Changes to risk management provisions on LTG measures (MA, VA and Transitionals)	2 (LTG measures and measures on equity risk)
Risk management: Require systemic risk management plans from a subset of companies	11 (macro-prudential policy)
Risk management: Require liquidity risk management plans with the possibility to waive undertakings	11 (macro-prudential policy)
Risk management: Require pre-emptive recovery plans from undertakings covering a very significant share of the national market	12 (recovery and resolution)
Prudent person principle: Expansion of the prudent person principle to take into account macroprudential concerns	11 (macro-prudential policy)
Fit and proper: Clarifying ongoing assessment of AMSB and qualifying shareholders and ensuring the supervisory tools are in place when persons do not fulfil the requirements any more	14 (other)
Fit and proper: Changes to ensure in complex cross-border cases more relevant information exchange and allow in exceptional cases for EIOPA to conclude	14 (other)
Supervisory powers: Allow NSAs to limit voluntary capital distributions in case where the solvency position is not sustainable	2 (LTG measures and measures on equity risk)
Supervisory powers: Explicit power of the host supervisor to request information in a timely manner	10 (Freedom of services and freedom of establishment)
Supervisory powers: Grant NSAs with additional measures to reinforce the insurer's financial position	11 (macro-prudential policy)
Supervisory powers: Grant NSAs with the power to require a capital surcharge for systemic risk	11 (macro-prudential policy)

Supervisory powers: Grant NSAs with the power to define "soft" concentration thresholds	11 (macro-prudential policy)
Supervisory powers: Granting NSAs with additional mitigating measures in case vulnerabilities to the liquidity have been identified	11 (macro-prudential policy)
Supervisory powers: Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances	11 (macro-prudential policy)
Supervisory powers: Introduce preventive measures	12 (recovery and resolution)
Supervisory powers: Set judgment-based triggers for the use of preventive measures	12 (recovery and resolution)
Groups governance: Amendment of Article 246 of the Directive to clarify requirements of the system of governance at group level	9 (group supervision)

Table 4 – Proposed legislative changes in Pillar III

Legislative changes Pillar III	Section of the opinion
QRT: Simplifying some of the templates, introducing new templates and modifying some templates	7 (reporting and disclosure) Annex 7.3 QRT document
QRT: Changes in the Financial stability reporting package	QRT document
QRT: Specific Business models (captives): amendment of Article 35 (introduction of Para 6a, 7a and 9) of the Directive	8 (Section on specific business models)
SFCR: Distinguishing the SFCR part addressed to policyholders from the part addressed to other users (e.g. professional public) – applicable to solo SFCR. For group SFCR no changes in the addressees – kept as it is currently – one SFCR including executive summary	7 (reporting and disclosure)
SFCR: Changes to the format, structure and content of the SFCR, including additional information on the sensitivities on the SCR and own funds movements	7 (reporting and disclosure)
SFCR: Specific Business models (captives): introduce new article 51a in the Solvency II Directive and new Article 290a in the Delegated regulation	8 (Section on specific business models)
Group SFCR: Proposal for deleting Article 360 (3) of Level 2 Delegated Regulation.	7 (reporting and disclosure)
SFCR: Changes in the language requirements	7 (reporting and disclosure)
SFCR: Changes in the availability and means of disclosure of SFCR - additional requirements are introduced in the article 301 of Level 2 Delegated Regulation and in the article 313 of Level 2 Delegated Regulation	7 (reporting and disclosure)
SFCR: Auditing requirement for Solvency II balance sheet both at group and solo level	7 (reporting and disclosure)
Deadlines: Extension of the annual reporting and disclosure deadlines by 2 weeks.	7 (reporting and disclosure)
QRT and SFCR: Changes to reporting and disclosure provisions on LTG measures	2 (LTG measures and measures on equity risk)
RSR: Changes to improve structure and content	7 (reporting and disclosure)
RSR: **Allow submission of a single RSR under certain conditions**	7 (reporting and disclosure)
RSR: **Changes in the frequency of the RSR**	7 (reporting and disclosure)
RSR: **Changes in the languages requirements of the RSR – article 374**	7 (reporting and disclosure)

Proportionality pillar 3: **Amendments to Article 35 to enhance proportionality**	8 (proportionality)
Proportionality pillar 3: **Article 254 of the Solvency II Directive - allow for exemption of groups reporting without the condition of exemption of all solo insurance undertakings belonging to that group**	8 (proportionality)

Table 5 – Other proposed legislative changes

Legislative changes Other	Section of the opinion
Scope of Solvency II: Amendment thresholds for exclusion in Article 4	8 (proportionality)
Resolution: Establish an administrative resolution authority	12 (recovery and resolution)
Resolution: Set resolution objectives	12 (recovery and resolution)
Resolution: Require resolution plans, incl. resolvability assessment, from undertakings covering a significant share of the national market	12 (recovery and resolution)
Resolution: Grant resolution authorities with a set of harmonised resolution powers	12 (recovery and resolution)
Resolution: Set judgment-based triggers for entry into resolution	12 (recovery and resolution)
Supervisory cooperation: Establish cross-border cooperation and coordination arrangements for crises	12 (recovery and resolution)
Supervisory cooperation: Efficient information gathering during the authorisation process	10 (Freedom of services and freedom of establishment)
Supervisory cooperation: Information exchange between home and host Supervisors in case of material changes in the FoS activities	10 (Freedom of services and freedom of establishment)
Supervisory cooperation: Enhanced role for EIOPA in complex cross-border cases where NSAs fail to reach a common view in the collaboration platform	10 (Freedom of services and freedom of establishment)
Supervisory cooperation: Cooperation between Home and Host NSAs during the ongoing supervision	10 (Freedom of services and freedom of establishment)
IGS: European network of national IGSs (minimum harmonisation)	13 (Insurance guarantee schemes)
IGS: Function - Continuation of policies and/or compensation of claims	13 (Insurance guarantee schemes)
IGS: Geographical scope - Home-country principle	13 (Insurance guarantee schemes)
IGS: Eligible policies - Selected life and non-life policies	13 (Insurance guarantee schemes)
IGS: Eligible claimants - Natural persons and selected legal persons	13 (Insurance guarantee schemes)
IGS: Funding - Ex-ante funding complemented with ex-post funding	13 (Insurance guarantee schemes)
IGS: **Establish cross-border cooperation and coordination arrangements between national IGSs**	13 (Insurance guarantee schemes)
Groups: Changes regarding the definition of groups and the scope of application of group supervision	9 (group supervision)
Groups: Changes regarding supervision of intragroup transactions and risk concentration	9 (group supervision)
Groups: Changes regarding third countries	9 (group supervision)

Groups: Changes regarding supervisory powers over insurance holding companies and mixed financial holding companies	9 (group supervision)

1.5 Analysis of impacts

1.30 Under this section, EIOPA presents the analysis of impacts of the proposals against the objectives of the review identified in section 1.3. An analysis of the costs for the implementation of the proposals by insurance and reinsurance industry, the supervisory authorities and EIOPA are presented separately in sections 1.6 to 1.9.

Impact on policyholder protection

1.31 The following tables provide an overview on the specific objectives of the review that are more directly linked to policyholder protection and indicate whether the proposed legislative changes in the different areas are expected to have a material positive impact with respect to those objectives and consequently improve the protection of policyholders and beneficiaries.

1.32 With respect to Pillar I, the proposed legislative changes are expected to enhance policyholder protection by contributing to adequate market-consistent technical provisions and providing proper risk management incentives for undertakings applying the measures. In particular, the proposed legislative change for extrapolation would partially mitigate the risk of underestimation of technical provisions using more realistic interest rate assumptions for the valuation of long-term liabilities.

1.33 The proposals regarding SCR are expected to improve policyholder protection in particular by ensuring adequate risk sensitive capital requirements; in this respect, updating the calibration of the interest rate risk sub-module will enhance the protection of policyholders, currently undermined by the severe underestimation of risks in the current calibration of the undertakings' capital requirements.

Table 6 – Impact of Pillar I proposals on policyholder protection

Pillar I	Policyholder protection (positive impact)					
Legislative changes	Adequate market-consistent technical provisions	Adequate risk sensitive capital requirements	Good risk management	Effective and efficient supervision	Improving proportionality	Policyholder protection in resolution/liquidation
TP	X	x	x	x	x	
SCR		x	x	x	x	
MCR		x	x	x		
Group solvency		x	x	x		

1.34 With respect to Pillar II, the proposed legislative changes are expected to enhance policyholder protection by contributing to good risk management, effective and efficient supervision and proportionality.

1.35 In particular, risk management of the undertakings' is expected to be reinforced by the proposed new requirements to take into account macro-prudential, recovery and resolution considerations (e.g. liquidity risk management plan, systemic risk management plan, expansion of the ORSA or pre-emptive recovery planning).[16]

1.36 The proposed changes to the risk management requirements with regard to the LTG measures would also improve the protection of policyholders of undertakings applying the volatility adjustment, the matching adjustment or the transitional on technical provisions. Where non-application of the measures and a more market-consistent extrapolation of risk-free interest rates results in non-compliance with the SCR, undertakings would need to demonstrate that dividend payments or other voluntary capital distributions do not put at risk the protection of policyholders and beneficiaries.

1.37 Effective and efficient supervision would be promoted by granting additional (or more explicit) supervisory tools to prevent situations that could jeopardise policyholder protection such as excessive risk concentrations or non-suitability of the persons running the undertaking. Furthermore, policyholders would be better protected if preventive measures are granted to supervisors for those situations where undertakings are still compliant with the capital requirements, but observe a progressive and serious deterioration in their condition; the use of such powers would avoid the escalation of problems.

1.38 Finally the proposed changes improving proportionality in pillar II (e.g. in key functions, ORSA, written policies, AMSB) would indirectly result in a better policyholder protection considering a more effective and efficient allocation of resources in the undertakings.

Table 7 – Impact of Pillar II proposals on policyholder protection

Pillar II	Policyholder protection (positive impact)					
Legislative changes	Adequate market-consistent technical provisions	Adequate risk sensitive capital requirements	Good risk management	Effective and efficient supervision	Improving proportionality	Policyholder protection in resolution/liquidation
Key functions			x	x	x	
ORSA			x	x	x	
Written policies					x	
AMSB			x		x	
Risk management			x	x		x
Prudent person principle			x			
Fit & proper			x	x		

[16] Resolution-related items are more deeply discussed under "other" legislative changes.

Supervisory powers			x	x	x	x
Group governance			x	x		

1.39 With respect to Pillar III, the proposed legislative changes are expected to enhance policyholder protection by contributing to effective and efficient supervision and proportionality. The review of the content of the QRTs template by template is aimed to better reflect proportionality and to reflect supervisory needs by improving the information required on existing templates and by creating new templates when needed.

Table 8 – Impact of Pillar III proposals on policyholder protection

Pillar III	Policyholder protection (positive impact)					
Legislative changes	Adequate market-consistent technical provisions	Adequate risk sensitive capital requirements	Good risk management	Effective and efficient supervision	Improving proportionality	Policyholder protection in resolution/liquidation
QRT				x	x	
RSR				x	x	
SFCR				x	x	
Deadlines					x	

1.40 Other legislative changes proposed are expected to contribute to policyholder protection by promoting effective and efficient supervision through enhanced supervisory cooperation (e.g. proposed legislative changes to improve information exchange between Home and Host supervisors or to establish cross-border cooperation and coordination arrangements for crises). The proposals aimed to ensure orderly resolution of (re)insurance undertakings and groups (e.g. requirement of resolution plans and the establishment of resolution authorities with a set of harmonised powers) are expected to contribute to an effective and efficient policyholder protection in a resolution and/or liquidation context; also the proposed harmonisation of national IGS is expected to provide a minimum level of protection for policyholders in case of failure of an insurance undertaking.

Table 9 – Impact of other proposals on policyholder protection

Other	Policyholder protection (positive impact)					
Legislative changes	Adequate market-consistent technical provisions	Adequate risk sensitive capital requirements	Good risk management	Effective and efficient supervision	Improving proportionality	Policyholder protection in resolution/liquidation
Solvency II scope				x	x	
Resolution				x		x
Supervisory cooperation				x		x

Insurance Guarantee Schemes						x
Groups		x	x	x		x

Impact on financial stability

1.41 The following tables provide an overview on the specific objectives of the review that are more directly linked to financial stability and indicate whether the proposed legislative changes in the different areas are expected to have a material positive impact with respect to those objectives and consequently improve the stability of the financial system.

1.42 With respect to Pillar I, the proposed legislative changes are expected to contribute to financial stability mainly by ensuring sufficient loss-absorbency capacity and reserving and by limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds. In particular, sufficient loss-absorbency capacity and reserving would be improved by the proposed legislative changes regarding extrapolation, VA and SCR. The changes in the design of the VA are expected to reinforce the VA objective of avoiding procyclical investment behaviour.

Table 10 – Impact of Pillar I proposals on financial stability

Pillar I	Financial stability (positive impact)					
Legislative changes	Sufficient loss-absorbency capacity and reserving	Discouraging excessive involvement in products/ activities with greater potential to pose systemic risk	Discouraging risky behaviour	Discouraging excessive levels of direct and indirect exposure concentrations	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Orderly resolution of (re)insurance undertakings and groups
TP	x				x	
SCR	x					
MCR	x					
Group solvency	x				x	x

1.43 With respect to Pillar II, the proposed legislative changes are expected to contribute to financial stability mainly by:

- discouraging excessive involvement in products/activities with greater potential to pose systemic risk (e.g. through the requirement of a systemic risk management plan to a subset of undertakings),
- discouraging risky behaviour (e.g. granting NSAs with the power to require a capital surcharge for systemic risk) and
- discouraging excessive levels of direct and indirect exposure concentrations (e.g. grating NSAs with the power to define "soft" concentration thresholds or benchmarks; through the requirement of a liquidity risk management plan for a subset of undertakings).

1.44 In addition granting NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances could contribute to limiting procyclicality in certain circumstances, thereby addressing one of the sources of systemic risk identified, i.e. the collective behaviour by undertakings that may exacerbate market price movements (e.g. fire-sales or herding behaviour); it should only be applied in exceptional circumstances to prevent risks representing a strong threat for the financial health of the whole insurance market or for the financial system and for a limited period of time.

1.45 Furthermore, sufficient loss-absorbency capacity and reserving would be fostered and the likelihood of failures and contagion effects would be reduced by requiring insurance and reinsurance undertakings the establishment of pre-emptive recovery plans and allowing supervisors to use preventive measures in case of deterioration of the financial situation of undertakings.

Table 11 – Impact of Pillar II proposals on financial stability

Pillar II	Financial stability (positive impact)					
Legislative changes	Sufficient loss-absorbency capacity and reserving	Discouraging excessive involvement in products/ activities with greater potential to pose systemic risk	Discouraging risky behaviour	Discouraging excessive levels of direct and indirect exposure concentrations	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Orderly resolution of (re)insurance undertakings and groups
Key functions						
ORSA	x			x		
Written policies						
AMSB						
Risk management	x	x		x		x
Prudent person principle		x		x		
Fit & proper						
Supervisory powers	x	x	x	x	x	
Group governance			x			x

1.46 With respect to Pillar III, the proposed legislative changes are expected to contribute to financial stability by providing additional data points and information which have been identified as key to the ongoing monitoring and analysis of financial stability risks across Europe. As well as this, the additional data will feed into relevant EIOPA publications such as the Financial Stability Report, and EIOPA's Risk Dashboard, both of which are key tools in communicating Europe wide financial stability trends and risks directly to the public. The additional information requested is a result of gaps identified in the current supervisory reporting by relevant experts in the financial stability division.

Table 12 – Impact of Pillar III proposals on financial stability

Pillar III	Financial stability (positive impact)					
Legislative changes	Sufficient loss-absorbency capacity and reserving	Discouraging excessive involvement in products/ activities with greater potential to pose systemic risk	Discouraging risky behaviour	Discouraging excessive levels of direct and indirect exposure concentrations	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Orderly resolution of (re)insurance undertakings and groups
QRT			x	x		
RSR			x	x		
SFCR			x	x		
Deadlines						

1.47 Other legislative changes proposed are expected to contribute to financial stability by facilitating an orderly resolution of (re)insurance undertakings and groups. Furthermore, the creation of a European network of national IGSs, which are harmonised to a minimum degree, would enhance the confidence in the industry and contribute to strengthening the overall financial stability in the EU.

Table 13 – Impact of other proposals on financial stability

Other	Financial stability (positive impact)					
Legislative changes	Sufficient loss-absorbency capacity and reserving	Discouraging excessive involvement in products/ activities with greater potential to pose systemic risk	Discouraging risky behaviour	Discouraging excessive levels of direct and indirect exposure concentrations	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Orderly resolution of (re)insurance undertakings and groups
Solvency II scope						
Resolution						x
Supervisory cooperation						x
Insurance guarantee schemes	x					x
Groups			x			x

Impact on proper functioning of the internal market objectives

1.48 The following tables provide an overview on the specific objectives of the review that are more directly linked to proper functioning of the internal market and indicate whether the proposed legislative changes in the different areas are expected to have a material positive impact with respect to those objectives.

1.49 With respect to Pillar I, the proposed legislative changes are expected to contribute to the proper functioning of the internal market through sufficiently harmonised rules

promoting a level playing field as well as improving transparency and allowing better comparability.

Table 14 – Impact of Pillar I proposals on proper functioning of the internal market

Pillar I	Proper functioning of the internal market objectives (positive impact)		
Legislative changes	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of cross-border business	Improving transparency and better comparability
TP	x		
SCR	x		x
MCR			
Group solvency	x	x	x

1.50 With respect to Pillar II, the proposed legislative changes are expected to contribute to the proper functioning of the internal market through sufficiently harmonised rules promoting a level playing field. In particular, the proposals for the clarification of the application of the proportionality principle are aimed to improve supervisory converge (e.g. with respect to the combinations of key functions allowed by NSAs).

1.51 The requirement to develop pre-emptive recovery plans (currently requested only in seven Members States and with divergent scope) as well as the different legislative changes for the harmonisation of supervisory powers should also contribute to a level playing field among jurisdictions.

1.52 Specific legislative changes are proposed to improve effective and efficient supervision of cross-border business such as: proposed legislative changes to ensure in complex cross-border cases more relevant information exchange for the fit and proper assessment of individuals (and allow in exceptional cases for EIOPA to conclude) and the explicit power of the host supervisor to request information in a timely manner.

Table 15 – Impact of Pillar II proposals on proper functioning of the internal market

Pillar II	Proper functioning of the internal market objectives (positive impact)		
Legislative changes	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of cross-border business	Improving transparency and better comparability
Key functions	x		
ORSA	x		
Written policies			

AMSB	x		
Risk management	x		
Prudent person principle			
Fit & proper	x	x	
Supervisory powers	x	x	
Group governance	x	x	x

1.53 With respect to Pillar III, the proposed legislative changes are expected to contribute to the proper functioning of the internal market, in particular by improving transparency and allowing better comparability.

Table 16 – Impact of Pillar III proposals on proper functioning of the internal market

Pillar III	Proper functioning of the internal market objectives (positive impact)		
Legislative changes	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of cross-border business	Improving transparency and better comparability
QRT	x		x
RSR	x		x
SFCR	x		x
Deadlines	x		x

1.54 Other legislative changes proposed are also expected to contribute to the proper functioning of the internal market through sufficiently harmonised rules promoting a level playing field (e.g. harmonisation of supervisory tools in the area of resolution). Level playing field, but also the avoidance of inefficient overlaps, would be particularly improved through the harmonisation of national IGS with respect to their role and functions, geographical scope, eligible policies, eligible claimants or timing for funding. Proper functioning of the internal market will be also improved through improved cooperation between Home and Host supervisors.

Table 17 – Impact of other proposals on proper functioning of the internal market

Other	Proper functioning of the internal market objectives (positive impact)		
Legislative changes	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of cross-border business	Improving transparency and better comparability
Solvency II scope			
Resolution	x	x	
Supervisory cooperation	x	x	

Insurance guarantee schemes	x	x	x
Groups	x	x	x

Contribution to other objectives

1.55 The objective of avoiding unjustified constraints to the availability of insurance and reinsurance (in particular insurance products with long-term guarantees) as well as the objective of avoiding unjustified constraints to insurance and reinsurance undertakings holding long-term investments haven been carefully considered in the development of the policy proposals regarding technical provisions (extrapolation and VA design) as well SCR (long-term equity and strategic equity).Promoting cross-sectoral consistency by further alignment (where possible) between the insurance framework and the banking framework has been particularly considered in the proposals related to own funds, SCR and group solvency. While current differences between both frameworks are in most cases deemed justified, legislative changes are proposed to address those differences not sufficiently justified (e.g. adjust the requirements for the recognition of partial guarantees on mortgage loans).

1.56 With respect to the objective of reducing reliance on external ratings, EIOPA has analysed the possibility to extend the scope of assets subject to the alternative credit assessment currently provided for in the Delegated Regulation and the possible recognition of additional methods allowing for a wider use of alternative credit assessment; however, no concrete legislative changes have been proposed at this stage[17].

1.57 Finally, the legislative changes proposed to facilitate an orderly resolution of (re)insurance undertakings and groups (e.g. the establishment of resolution authorities equipped with adequate powers) would reduce the reliance on public financial support. Also the proposal to set a European network of sufficiently harmonised national IGSs could help to minimise reliance on public funds by providing protection to policyholders in the event of an insurer's insolvency. The costs of the IGS would be distributed among the industry (and ultimately to all policyholders, to the extent these are incorporated into the premiums); therefore, the risk that taxpayers are exposed to cover the losses of insurance failures would be reduced.

1.6 Costs for industry

1.58 Between October and December 2019, EIOPA performed a survey to insurance and reinsurance undertakings and a survey to groups about the expected costs and benefits of the proposals in the Consultation Paper of the Opinion on the 2020 review of Solvency II.

[17] See section 5.9 of the Opinion

1.59 The survey for insurance and reinsurance undertakings was responded by 357 individual undertakings from 29 EEA Member States[18] with an EEA market of 32% in terms of total assets and 42% in terms of technical provisions[19].

1.60 The survey was focused on the potential one-off and on-going costs for (re)insurance undertakings from the proposed legislative changes regarding:

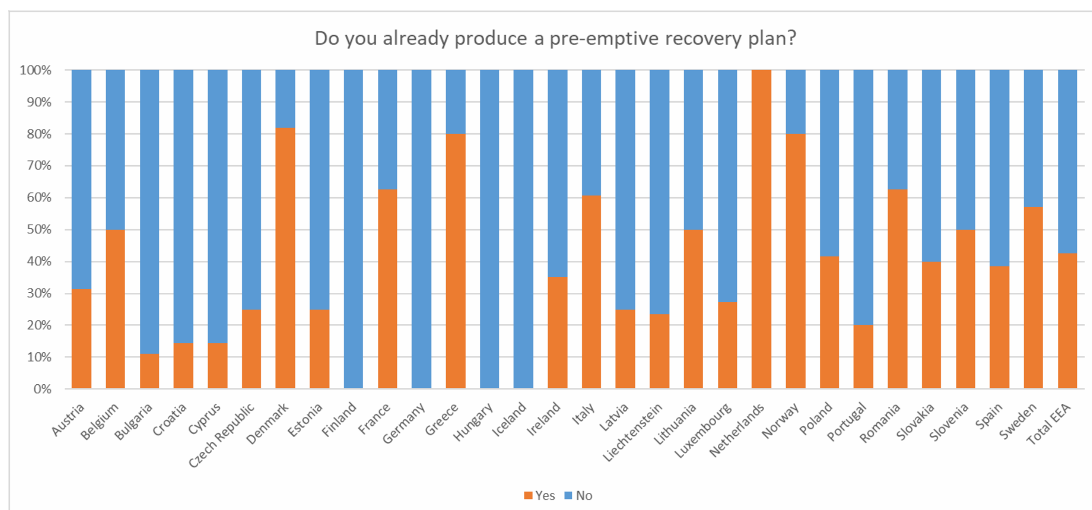
- Recovery and risk management planning
- Calculation of technical provisions
- Calculation of SCR/MCR
- ORSA
- Reporting and disclosure, in particular the audit of the Solvency II Balance-sheet.

1.61 It should be highlighted that the results of the survey presented below refer to estimations based on the proposals as presented for public consultation in October 2019. Some of the proposals were significantly amended taking into account stakeholders' comments, resulting in most of the cases in a decrease of the expected costs; most relevant changes have been indicated in footnotes to the tables where the affected proposals are shown.

Recovery and risk management planning

1.62 The results of the survey show that 43% of undertakings in the sample already produce a pre-emptive recovery plan (RP), 52% already produce a liquidity risk management plan (LRMP) and only 7% produce a systemic risk management plan (SRMP). The graphs below display the figures per country.

Figure 1 – Percentage of undertakings with a pre-emptive recovery plan in place at national and EEA level



[18] AT, BE, BG,CY, CZ, DK, EE, ES, FI, FR, GR, DE, HR, HU, IS, IE, IT, LI, LT, LU, LV, NL, NO, PL, PT, RO, SE, SI, SK

[19] 87% of undertakings in the sample reported technical provisions higher than 50 million Euro at 31 Dec 2018.

Figure 2 – Percentage of undertakings with a liquidity risk management plan in place at national and EEA level

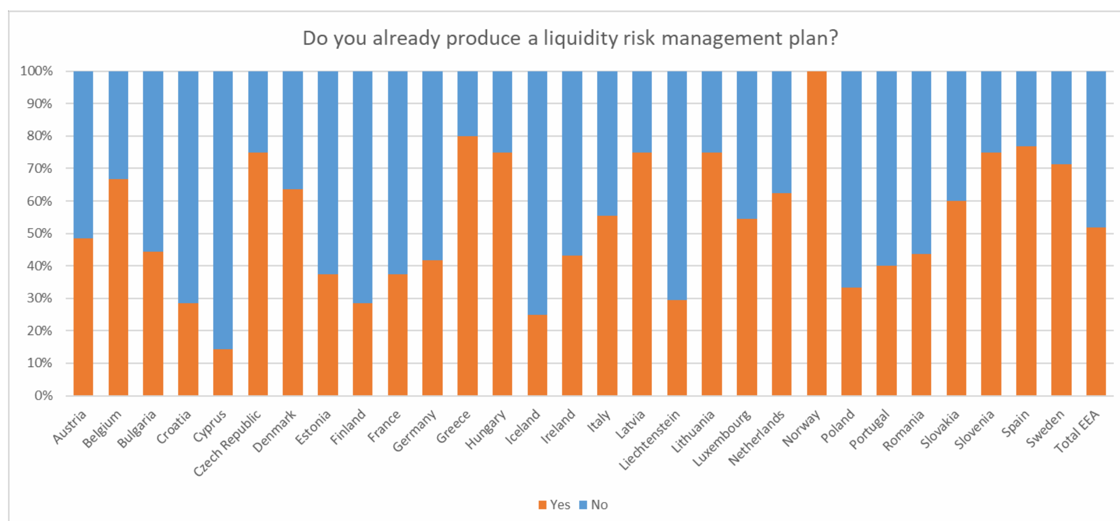
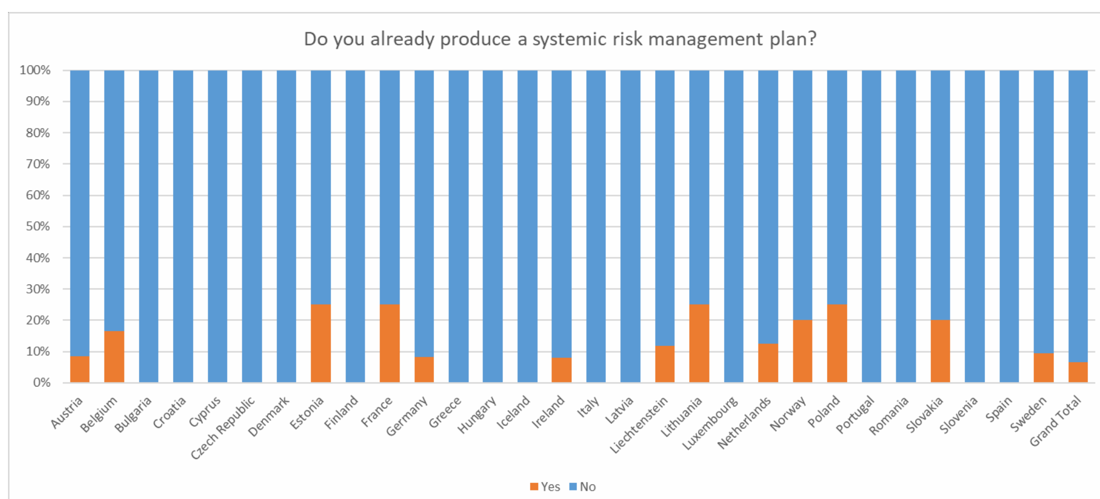


Figure 3 – Percentage of undertakings with a systemic risk management plan in place at national and EEA level



1.63 Tables 18 and 19 provide an overview of the average estimated one-off and on-going costs derived from the proposed new requirements.[20] Table 18 shows the weighted average staff costs in FTEs and the average of other costs in euros calculated as the sum of figures reported by undertakings divided by the number of reporting undertakings.

Table 18

	Staff costs (in FTE)		**Other costs (including IT and fees to externals)**	
	one-off	on-going annual	one-off	on-going annual
RP	0.62	0.54	€ 57,303.13	€ 31,805.84
LRMP	0.46	0.41	€ 30,546.07	€ 14,233.92
SRMP	0.50	0.40	€ 40,333.42	€ 35,690.84

[20] One-off costs refer to the costs incurred when the plans are drafted for the first time. On-going costs, in turn, refer to the costs incurred for maintaining and updating the plans. For the sake of comparability, it was assumed that the plans are updated on an annual basis.

1.64 Table 19 shows staff costs calculated as the sum of FTEs reported by undertakings divided by the sum of the current number of employees for those undertakings; other costs are calculated as the sum of estimated costs reported by undertakings divided by the sum of technical provisions for those undertakings.

Table 19

	Staff costs		**Other costs (including IT and fees to externals)**	
	one-off	on-going annual	one-off	on-going annual
RP	0.09%	0.07%	0.0011%	0.0009%
LRMP	0.06%	0.05%	0.0008%	0.0004%
SRMP	0.07%	0.06%	0.0011%	0.0014%

Calculation of technical provisions

1.65 The following tables provide an overview of the undertakings' responses on whether the implementation of the proposed changes related to technical provisions are deemed to generate one-off costs (i.e. costs incurred for the adaptation of the internal processes and procedures) and whether the changes are deemed to increase, decrease or not significantly change the current on-going costs related to the calculation of technical provisions.

Table 20 – Percentage of undertakings which identified significant one-off costs for the calculation of technical provisions[21]

Significant one-off costs	**Yes**	**No**
1.a Extrapolation: Change to LLP for the euro to 30 years	11%	89%
1.b Extrapolation: Change to LLP for the euro to 50 years	11%	89%
1.c Extrapolation: Change Of the extrapolation method	22%	78%
2.a Volatility adjustment: approach 1	37%	63%
2.b Volatility adjustment: approach 2	39%	61%
2.c Volatility adjustment: amendment of the national mechanism trigger	26%	74%
3. Allow realistic assumptions on new business	36%	64%
4. Add a definition of Future Management Actions in Article 1	29%	71%
5. Amend the definition of EPIFP so it includes all future losses and the impact of reinsurance.[22]	44%	56%
6. Amend to include future profits in fees for servicing and managing funds for unit-linked products	30%	70%
7. Amend article 18(3) to clarify that it is not applicable to obligations related to paid in premiums[23]	22%	78%
8. Amend the third paragraph of article 18(3). Allow the exception only when the undertaking does not have the right to perform the individual risk assessment	18%	82%

[21] Colour coding applied in the tables in sections 1.6 (from green to red) relates to the percentage of respondents (undertakings or groups) that identified expected significant one-off costs or increase of on-going costs from the different legislative changes. Red corresponds to the highest percentage, green corresponds to the lowest percentage.

[22] This impact relates to the original proposal on EPIFP definition. That proposal has been partially amended following the comments received from stakeholders. Since the impact of reinsurance has been excluded, lower one-off costs could be expected compared to the original proposal.

[23] This proposal has been excluded from the advice.

9. MA asset eligibility criteria: Look through approach for restructured assets	12%	88%

Table 21– Percentage of undertakings which identified significant change on on-going costs for the calculation of technical provisions

On-going costs	**Increase**	**No significant change**	**Decrease**
1.a Extrapolation: Change to LLP for the euro to 30 years	8%	92%	0%
1.b Extrapolation: Change to LLP for the euro to 50 years	7%	93%	0%
1.c Extrapolation: Change Of the extrapolation method	11%	89%	0%
2.a Volatility adjustment: approach 1	33%	67%	0%
2.b Volatility adjustment: approach 2	36%	64%	0%
2.c Volatility adjustment: amendment of the national mechanism trigger	20%	80%	0%
3. Allow realistic assumptions on new business	26%	73%	1%
4. Add a definition of Future Management Actions in Article 1	20%	80%	0%
5. Amend the definition of EPIFP so it includes all future losses and the impact of reinsurance[24].	26%	74%	0%
6. Amend to include future profits in fees for servicing and managing funds for unit-linked products	20%	80%	0%
7. Amend article 18(3) to clarify that it is not applicable to obligations related to paid in premiums[25]	12%	88%	0%
8. Amend the third paragraph of article 18(3). Allow the exception only when the undertaking does not have the right to perform the individual risk assessment	12%	88%	0%
9. MA asset eligibility criteria: Look through approach for restructured assets	9%	91%	0%

1.66 The following table provide an overview of the undertakings' responses on the expected burden of each option with respect to extrapolation and volatility adjustment (considering both one off costs and on-going costs)[26].

Table 22 – Percentage of undertakings which expect low/medium/high burden for the calculation of technical provisions

Legislative changes considered	**No significant change**	**Low burden**	**Medium burden**	**High burden**
1.a Extrapolation: Change to LLP for the euro to 30 years	71%	19%	5%	4%
1.b Extrapolation: Change to LLP for the euro to 50 years	72%	19%	5%	5%

[24] This impact relates to the original proposal on EPIFP definition. That proposal has been partially amended following the comments received from stakeholders. Since the impact of reinsurance has been excluded, a lower increase of on-going costs could be expected compared to the original proposal.

[25] This proposal has been excluded from the advice.

[26] Colour coding applied in each column of table 22 (from green to red) relates to the percentage of respondents that expected no significant/low/medium/high burden. Red corresponds to the highest percentage for medium/high burden and the lowest percentage for no significant/low burden; green corresponds to the lowest percentages percentage for medium/high burden and the highest percentage for no significant/low burden

1.c Extrapolation: Change Of the extrapolation method	62%	22%	12%	4%
2.a Volatility adjustment: approach 1	54%	13%	18%	15%
2.b Volatility adjustment: approach 2	52%	9%	20%	19%
2.c Volatility adjustment: amendment of the national mechanism trigger	63%	17%	15%	6%

Calculation of SCR/MCR

1.67 The following tables provide an overview of the undertakings' responses on whether the implementation of the proposed changes related to the SCR and MCR are deemed to generate one-off costs (i.e. costs incurred for the adaptation of the internal processes and procedures) and whether the changes are deemed to increase, decrease or not significantly change the current on-going costs related to the calculation of the SCR and MCR.

Table 23 – Percentage of undertakings which identified significant one-off costs for the calculation of SCR/MCR

Significant one-off costs	**Yes**	**No**
1. SCR: Amend Article 171a on the Long Term equity so that only well diversified portfolio are eligible, controlled intra-group participations are excluded and to clarify how long term equity risk is correlated with other risks[27].	20%	80%
2.SCR: Amend criteria for Strategic equity: propose beta method for the volatility assessment, and include a safeguard for participation that are significantly correlated with the undertaking.	29%	71%
3. SCR: Phase out the duration based equity risk sub-module; new approval should not be granted anymore.	8%	92%
4. SCR: Allow in standard formula for diversification effects with respect to MA portfolios	10%	90%
5. SCR: Update calibration of the interest rate risk sub-module	32%	68%
6. SCR: Simplified calculation for the risk-mitigating effect of derivatives/reinsurance/securitisation	21%	79%
7. SCR: Hypothetical SCR in the counterparty default risk assumes a gross of reinsurance basis for the fire, marine and aviation risk submodules[28]	22%	78%
8. SCR: Default and forborne loans to be included as type 2 exposures	19%	81%
9. SCR: Adjust requirements for the recognition of partial guarantees on mortgage loans	17%	83%
10. SCR: Definition of a financial risk-mitigation technique	27%	73%
11. SCR: Amend Article 210 of the Delegated regulation by adding that undertaking are able to show the extent to which there is an effective transfer of risk for reflection of risk mitigation techniques in the standard formula	35%	65%
12. SCR: Simplified calculation for immaterial risks	13%	87%
13. MCR: Change the risk factors for the calculation of the MCR set out in Annex XIX of the Delegated Regulation	17%	83%

[27] This impact refers to the original proposal. That proposal has been amended following the comments received from stakeholders.
[28] This impact relates to the original proposal. That proposal has been partially amended following the comments received from stakeholders. Since a net impact of reinsurance basis is assumed, lower one off costs could be expected compared to the original proposal.

Table 24 – Percentage of undertakings which identified significant change on-going costs for the calculation of SCR/MCR

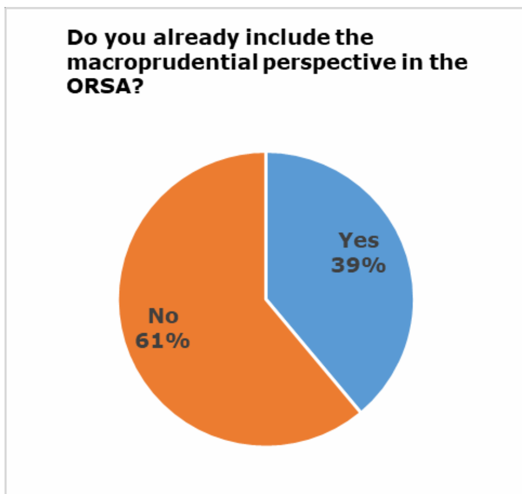
On-going costs	**Increase**	**No significant change**	**Decrease**
1. SCR: Amend Article 171a on the Long Term equity so that only well diversified portfolio are eligible, controlled intra-group participations are excluded and to clarify how long term equity risk is correlated with other risks.	13%	87%	0%
2.SCR: Amend criteria for Strategic equity: propose beta method for the volatility assessment, and include a safeguard for participation that are significantly correlated with the undertaking.	24%	76%	0%
3. SCR: Phase out the duration based equity risk sub-module; new approval should not be granted anymore.	5%	93%	1%
4. SCR: Allow in standard formula for diversification effects with respect to MA portfolios	6%	94%	1%
5. SCR: Update calibration of the interest rate risk sub-module	17%	82%	1%
6. SCR: Simplified calculation for the risk-mitigating effect of derivatives/reinsurance/securitisation	11%	86%	3%
7. SCR: Hypothetical SCR in the counterparty default risk assumes a gross of reinsurance basis for the fire, marine and aviation risk submodules[29]	11%	88%	1%
8. SCR: Default and forborne loans to be included as type 2 exposures	9%	90%	1%
9. SCR: Adjust requirements for the recognition of partial guarantees on mortgage loans	10%	90%	1%
10. SCR: Definition of a financial risk-mitigation technique	16%	83%	1%
11. SCR: Amend Article 210 of the Delegated regulation by adding that undertaking are able to show the extent to which there is an effective transfer of risk for reflection of risk mitigation techniques in the standard formula	27%	73%	1%
12. SCR: Simplified calculation for immaterial risks	7%	90%	3%
13. MCR: Change the risk factors for the calculation of the MCR set out in Annex XIX of the Delegated Regulation	8%	92%	1%

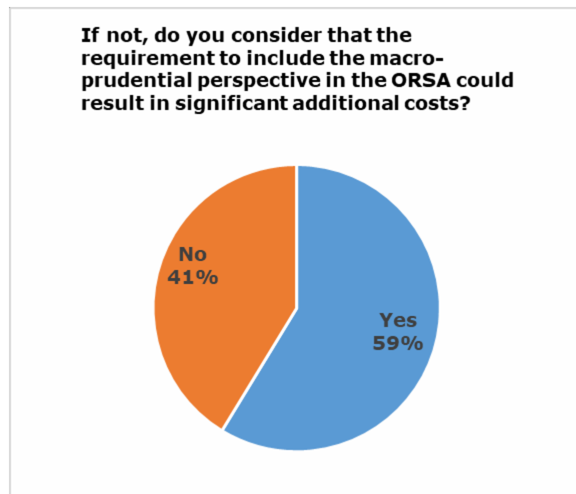
ORSA

1.68 The following charts provide an overview of the undertakings responses with respect to the proposed legislative changes related to the ORSA.

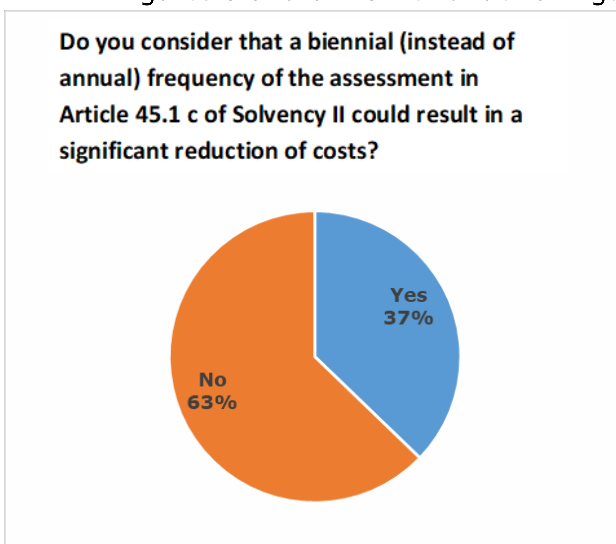
Figures 3 and 4 – Undertakings' responses regarding macroprudential perspective in the ORSA

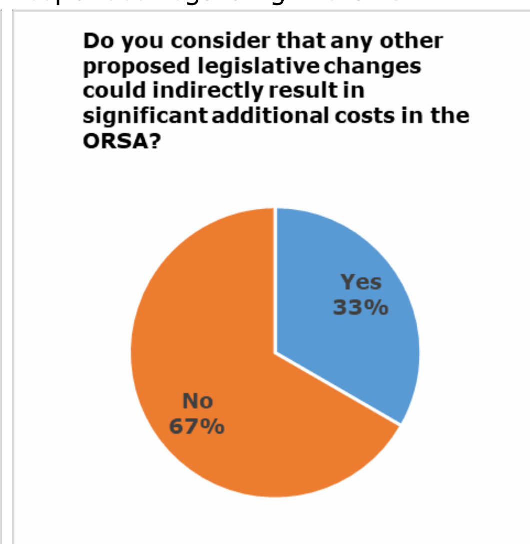
[29] This impact relates to the original proposal. That proposal has been partially amended following the comments received from stakeholders. Since a net impact of reinsurance basis is assumed, the proposal is not expected to increase but to reduce the on-going costs.





Figures 5 and 6 – Other undertakings' responses regarding the ORSA

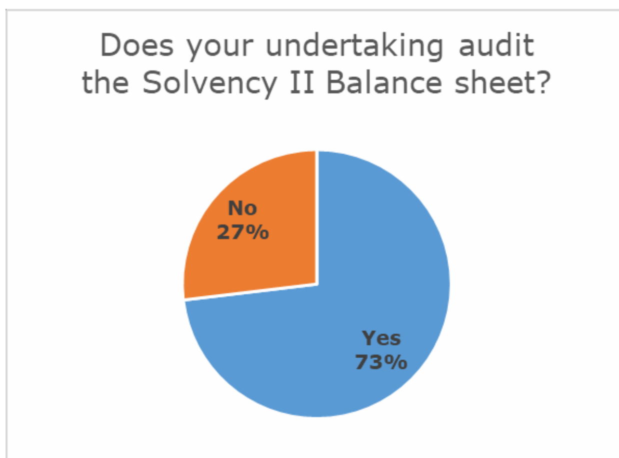


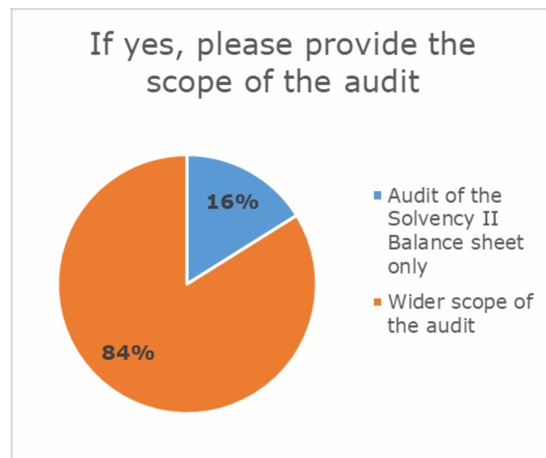


Reporting and disclosure

1.69 The following charts provide an overview of the undertakings responses with respect to the audit of the Solvency II Balance sheet.

Figures 7 and 8 – Undertakings' responses regarding the audit of balance sheet





1.70 The following tables provides an overview of the amount of the audit fee reported by undertakings already auditing Solvency II figures as a percentage of their total assets as well as in Euro amounts.

Table 25- Audit fee reported by undertakings as a percentage of their total assets

	All undertakings	Undertakings auditing balance sheet only
Non- weighted average	0.012%	0.009%
Weighted average	0.002%	0.001%
Median	0.004%	0.004%
Max	0.182%	0.058%
Min	0.000%	0.000%

Table 26- Audit fee reported by undertakings already in Euro amounts

	All undertakings	Undertakings auditing balance sheet only
Average	€ 171,985.96	€ 117,958.82
Median	€ 60,000.00	€ 50,500.00
Max	€ 3,600,000.00	€ 600,000.00
Min	€ 5,000.00	€ 5,000.00

1.71 Around 21% of undertakings reported an estimation of the cost reduction related to the templates proposed to be deleted from the ITS on Reporting. The average cost reduction as a percentage of their total assets would amount 0.0001%. 12% of undertakings reported an estimation of the cost reduction related to the thresholds introduced in the templates regarding the ITS on Reporting (in case the company would face a reduction in reporting due to those thresholds). The average cost reduction as a percentage of their total assets would amount 0.0003%.

1.72 Approximately 61% of undertakings reported an estimation of the one-off costs on new reporting requirements split per topic. The average total cost as a percentage of their total assets would amount 0.0017%. 56% of undertakings reported an estimation of the on-going costs on new reporting requirements split per topic. The average total cost as a percentage of their total assets would amount 0.0010%.

1.73 The following table provides an overview on how the costs on new reporting requirements are split per topic.

Table 27- Split of estimated additional reporting costs per topic

	1. Cross-border business	2. Full look-through information:	3. Product by product information for Life	4. Product by product information for Non-Life	5. Cyber risk	6. Variation analysis	7. Internal models SF	8. Internal modes specific info
One-off	11%	16%	11%	11%	16%	18%	10%	7%

Estimated on-going	7%	19%	12%	10%	10%	18%	19%	5%

1.74 The survey for groups was responded by a sample of 83 insurance and reinsurance groups from 20 EEA Member States.[30] The survey focused on the potential one-off and on-going costs for (re)insurance undertakings from the proposed legislative changes regarding groups.

1.75 The following tables provide an overview of the responses of insurance and reinsurance groups on whether the whether the implementation of the proposed changes related to groups are deemed to generate one-off costs (i.e. costs incurred for the adaptation of the internal processes and procedures) and whether the changes are deemed to increase, decrease or not significantly change the current on-going costs for the operation of the group.

Table 28 – Percentage of groups which identified significant one-off costs from the groups proposals

Significant one-off cost	**Yes**	**No**
1. To revise the definition of group under Solvency II framework to capture undertakings, which, together, form a de facto group, upon supervisory powers, as well as to clarify other elements of Article 212 of the SII Directive [Reference: Chapter 9 Section 9.3.1]	14%	86%
2. To provide the NSAs with powers to require to restructure for the purpose of exercising group supervision. [Reference: Chapter 9 Section 9.3.1]	17%	83%
3. Clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups. [Reference: Chapter 9 Section 9.3.2]	10%	90%
4. Clarify on the term "exclusively" or "mainly" used in the definition of IHC contained in Art. 212(2)(f) of the Solvency II Directive. [Reference: Chapter 9 Section 9.3.2]	5%	95%
5. Amend Article 214(1) of the SII Directive to allow the group supervisor to have certain powers to ensure an effective group supervision; and enforceability over such undertakings. [Reference: Chapter 9 Section 9.3.2]	19%	81%
6. To introduce an overall principle in the SII Directive on the exclusion from group to ensure that exceptional cases as well as cases of potential capital relief are adequately justified, documented and monitored and all relevant parties in the decision are also involved in the process. (Article 242(2) of the SII Directive). [Reference: Chapter 9 Section 9.3.3]	11%	89%
7. To provide criteria to be considered for the purpose of assessing "negligible interest" (Article 242(2) of the SII Directive) [Reference: Chapter 9 Section 9.3.3]	7%	93%
8. Overall: Scope of application of group supervision	18%	82%
9. Proposals on IGTs and RCs [Reference: Chapter 9 Section 9.3.4]	22%	78%
10. Proposals on issues with third countries [Reference: Chapter 9 Section 9.3.5]	5%	95%
11. Include clearly the provision of a notional SCR for both the parent and intermediate IHC and MFHC, including those in third country. [Reference: Chapter 9 Section 9.3.6]	14%	86%
12. Introduce a clear methodology to the calculation of own funds and the group SCR calculation for undertakings for which the SII calculation is not possible and for immaterial undertakings. The use of the simplifications should be subject to approval by the group supervisor. Such simplified methodology could favour the equity method with a cap on own funds. (Article 229 of the SII Directive) [Reference: Chapter 9 Section 9.3.7]	8%	92%

[30] AT, BE, BG,HR, DK, FI, FR, DE, EL, IS, IE, IT, LU, NL, NO, PL, PT, SL, ES, SE

13. Provide clarity on the scope of undertakings to be included under method 2 and their treatment. (Article 233 of the SII Directive) [Reference: Chapter 9 Section 9.3.8]	5%	95%
14. Introduce requirement to demonstrate appropriateness by clarifying that in general there is no mutatis mutandis approach to translate integration techniques for risks in Article 239 of the DR to groups, but a demonstration of the appropriateness is required similar to Article 229 (4) of the DR. Also an explicit link between the requirements of Articles 328 and 343 of the DR should be established. [Reference: Chapter 9 Section 9.3.9]	8%	92%
15. Introduce principles of no double counting and no omission of material risks (approaches based on amendments of article 328 or 335 and 336 of the DR to be used alternatively or appropriately combined) [Reference: Chapter 9 Section 9.3.10]	7%	93%
16. Indicate that method 2 (where used exclusively or in combination with method 1) applies to single undertakings. It is also advised to amend Articles 220, 227, 234 and 235 of the SII Directive to refer to the advised changes on this section. [Reference: Chapter 9 Section 9.3.11]	2%	98%
17. Overall combined impact of the proposals regarding calculation of group solvency	22%	78%
18. A deletion of the paragraph (1)(d) of article 330 of the DR would avoid that an own-fund item (under method 2) not compliant with articles 331-333 or the DR (including reference to art. 71/73/77) could still be considered available at group level. [Reference: Chapter 9 Section 9.3.12]	4%	96%
19. Include a principle indicating the purpose of Recital 127 to clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the own-fund item when there is a winding-up situation of any EEA related (re)insurance undertaking of the group. [Reference: Chapter 9 Section 9.3.12]	7%	93%
20. Clarify the inclusion of all undertakings taken into account in the SCR diversified [Reference: Chapter 9 Section 9.3.13]	10%	90%
21. Clarify that the benefit of transitional measures on technical provisions and interest rate is assumed to be unavailable by default within the meaning of Article 330(3) of the DR [Reference: Chapter 9 Section 9.3.13] [31].	7%	93%
22. Clarify that EPIFPs is assumed to be unavailable by default within the meaning of Article 330(3) of the DR. [Reference: Chapter 9 Section 9.3.13][32]	31%	69%
23. Further clarify the definition of the item minority interest in Solvency II and the approach to be followed for its calculation. [Reference: Chapter 9 Section 9.3.14]	16%	84%
24. Overall combined impact of the proposals regarding own fund requirements	28%	72%
25.Upgrading the current Guideline 21b) of EIOPA Guidelines on Groups Solvency to an explicit law provision and enhancement the scope by the IHC and MFHC – the notional MCRs would be equal to 35% of the notional SCR (middle of the corridor 25% - 45%) [Reference: Chapter 9 Section 9.3.15] [33]	16%	84%

[31] There has been a change on the preferred policy option 9.3.13(3) since the consultation paper. New option and preferred policy option: "Include in the regulations that the group solvency position without availability of the benefit from these transitional should be disclosed, and supervisory action can be taken". The new option should reduce any downside impacts on Industry.

[32] There has been a change on the preferred policy option 9.3.13(4) since the consultation paper. New option and preferred policy option: "Groups should include EPIFPs in the availability assessment of own funds under Article 330 of the Delegated Regulation". The new option should reduce any downside impacts on Industry.

[33] The option on the table for policy issue 9.3.15(1) remains. However, there is a New Option and new preferred policy option for policy issue 9.3.15(2) which reads: No Change on the method to calculate the Min.Cons.SCR, clarify the purpose of the Min.Cons.SCR and introduce a new trigger metric for the application at group level of the requirements related to solo MCR. The new option should reduce any downside impacts on Industry.

26. Clarify that Article 329 of the DR is applicable for the inclusion of OFS entities in the group solvency calculation, regardless of methods used [Reference: Chapter 9 Section 9.3.16]	2%	98%
27. Allocation of clearly identified own fund items from OFS into relevant Solvency II tiers where practicable and material [Reference: Chapter 9 Section 9.3.16] [34]	12%	88%
28. Clarify that an availability assessment of OFS own funds is required to ensure that OFS own funds in excess of sectoral capital requirement is available at group level [Reference: Chapter 9 Section 9.3.16][35]	14%	86%
29. Clarify that group own funds and group capital requirements calculated according to sectoral rules should be used in the group solvency calculation when OFS entities form a group. [Reference: Chapter 9 Section 9.3.16]	7%	93%
30. Include the answer to Q&A 1344 in the regulations i.e. that the same capital requirements, including buffers and add-ons, should be used in the Solvency II calculation as in the supplementary capital adequacy calculation according to FICOD. [Reference: Chapter 9 Section 9.3.16] [36]	5%	95%
31. Delete Article 228 of Solvency II Directive [Reference: Chapter 9 Section 9.3.17][37]	7%	93%
32 Overall combined impact of the proposals regarding Solvency II and the interactions with Directive 2002/87/EC (FICOD;, and any other issues identified with Other Financial Sectors	23%	77%
33. Overall combined impact of ALL proposals on group supervision	**41%**	**59%**

Table 29 – Percentage of groups which identified significant change on-going costs from the groups proposals[38]

On-going costs	Increase	No significant change	Decrease
1. To revise the definition of group under Solvency II framework to capture undertakings, which, together, form a de facto group, upon supervisory powers, as well as to clarify other elements of Article 212 of the SII Directive [Reference: Chapter 9 Section 9.3.1]	14%	86%	0%
2. To provide the NSAs with powers to require to restructure for the purpose of exercising group supervision. [Reference: Chapter 9 Section 9.3.1]	18%	82%	0%
3. Clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups. [Reference: Chapter 9 Section 9.3.2]	11%	89%	0%
4. Clarify on the term "exclusively" or "mainly" used in the definition of IHC contained in Art. 212(2)(f) of the Solvency II Directive. [Reference: Chapter 9 Section 9.3.2]	6%	94%	0%

[34] The preferred policy option for issue 9.3.16(2) has been change to a "no change" Therefore, impact should now be neutral.

[35] The policy issue 9.3.16(3) has been revised to read: Clarify the ability of excess of own funds from OFS to absorb losses in the insurance part of the group, and it also has a revised preferred option, which reads: To require an analysis of the loss-absorbing capacity of own-fund items both from a group (self-assessment) and a supervisory perspective. This should reduce some of the impacts already expected by industry.

[36] The revised option for policy issue 9.3.16(5) is to Clarify what should be taken into account as the "capital requirements" of the credit institution, investment firms and financial institution in the group solvency calculation.

[37] The revised option for policy issue 9.3.17 has now limited to remove references to FICOD Methods, in Article 228 of the Solvency II Directive, and Article 68(3) of the Delegated Regulation should also be amended accordingly.

[38] Please refer to footnotes regarding updates to the policy options on group issues in Table 28

5. Amend Article 214(1) of the SII Directive to allow the group supervisor to have certain powers to ensure an effective group supervision; and enforceability over such undertakings. [Reference: Chapter 9 Section 9.3.2]	18%	82%	0%
6. To introduce an overall principle in the SII Directive on the exclusion from group to ensure that exceptional cases as well as cases of potential capital relief are adequately justified, documented and monitored and all relevant parties in the decision are also involved in the process. (Article 242(2) of the SII Directive). [Reference: Chapter 9 Section 9.3.3]	10%	90%	0%
7. To provide criteria to be considered for the purpose of assessing "negligible interest" (Article 242(2) of the SII Directive) [Reference: Chapter 9 Section 9.3.3]	6%	94%	0%
8. Overall: Scope of application of group supervision	19%	81%	0%
9. Proposals on IGTs and RCs [Reference: Chapter 9 Section 9.3.4]	20%	78%	1%
10. Proposals on issues with third countries [Reference: Chapter 9 Section 9.3.5]	6%	94%	0%
11. Include clearly the provision of a notional SCR for both the parent and intermediate IHC and MFHC, including those in third country. [Reference: Chapter 9 Section 9.3.6]	11%	89%	0%
12. Introduce a clear methodology to the calculation of own funds and the group SCR calculation for undertakings for which the SII calculation is not possible and for immaterial undertakings. The use of the simplifications should be subject to approval by the group supervisor. Such simplified methodology could favour the equity method with a cap on own funds. (Article 229 of the SII Directive) [Reference: Chapter 9 Section 9.3.7]	10%	90%	0%
13. Provide clarity on the scope of undertakings to be included under method 2 and their treatment. (Article 233 of the SII Directive) [Reference: Chapter 9 Section 9.3.8]	5%	95%	0%
14. Introduce requirement to demonstrate appropriateness by clarifying that in general there is no mutatis mutandis approach to translate integration techniques for risks in Article 239 of the DR to groups, but a demonstration of the appropriateness is required similar to Article 229 (4) of the DR. Also an explicit link between the requirements of Articles 328 and 343 of the DR should be established. [Reference: Chapter 9 Section 9.3.9]	8%	92%	0%
15. Introduce principles of no double counting and no omission of material risks (approaches based on amendments of article 328 or 335 and 336 of the DR to be used alternatively or appropriately combined) [Reference: Chapter 9 Section 9.3.10]	7%	93%	0%
16. Indicate that method 2 (where used exclusively or in combination with method 1) applies to single undertakings. It is also advised to amend Articles 220, 227, 234 and 235 of the SII Directive to refer to the advised changes on this section. [Reference: Chapter 9 Section 9.3.11]	2%	98%	0%
17. Overall combined impact of the proposals regarding calculation of group solvency	17%	83%	0%
18. A deletion of the paragraph (1)(d) of article 330 of the DR would avoid that an own-fund item (under method 2) not compliant with articles 331-333 or the DR (including reference to art. 71/73/77) could still be considered available at group level. [Reference: Chapter 9 Section 9.3.12]	2%	96%	1%

19. Include a principle indicating the purpose of Recital 127 to clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the own-fund item when there is a winding-up situation of any EEA related (re)insurance undertaking of the group. [Reference: Chapter 9 Section 9.3.12]	7%	92%	1%
20. Clarify the inclusion of all undertakings taken into account in the SCR diversified [Reference: Chapter 9 Section 9.3.13]	10%	88%	2%
21. Clarify that the benefit of transitional measures on technical provisions and interest rate is assumed to be unavailable by default within the meaning of Article 330(3) of the DR. [Reference: Chapter 9 Section 9.3.13]	7%	93%	0%
22. Clarify that EPIFPs is assumed to be unavailable by default within the meaning of Article 330(3) of the DR. [Reference: Chapter 9 Section 9.3.13]	27%	73%	0%
23. Further clarify the definition of the item minority interest in Solvency II and the approach to be followed for its calculation. [Reference: Chapter 9 Section 9.3.14]	12%	87%	1%
24. Overall combined impact of the proposals regarding own fund requirements	19%	80%	1%
25.Upgrading the current Guideline 21b) of EIOPA Guidelines on Groups Solvency to an explicit law provision and enhancement the scope by the IHC and MFHC – the notional MCRs would be equal to 35% of the notional SCR (middle of the corridor 25% - 45%) [Reference: Chapter 9 Section 9.3.15]	11%	89%	0%
26. Clarify that Article 329 of the DR is applicable for the inclusion of OFS entities in the group solvency calculation, regardless of methods used [Reference: Chapter 9 Section 9.3.16]	2%	98%	0%
27. Allocation of clearly identified own fund items from OFS into relevant Solvency II tiers where practicable and material [Reference: Chapter 9 Section 9.3.16]	11%	89%	0%
28. Clarify that an availability assessment of OFS own funds is required to ensure that OFS own funds in excess of sectoral capital requirement is available at group level [Reference: Chapter 9 Section 9.3.16]	12%	88%	0%
29. Clarify that group own funds and group capital requirements calculated according to sectoral rules should be used in the group solvency calculation when OFS entities form a group. [Reference: Chapter 9 Section 9.3.16]	6%	94%	0%
30. Include the answer to Q&A 1344 in the regulations i.e. that the same capital requirements, including buffers and add-ons, should be used in the Solvency II calculation as in the supplementary capital adequacy calculation according to FICOD. [Reference: Chapter 9 Section 9.3.16]	2%	98%	0%
31. Delete Article 228 of Solvency II Directive [Reference: Chapter 9 Section 9.3.17]	7%	93%	0%
32 Overall combined impact of the proposals regarding Solvency II and the interactions with Directive 2002/87/EC (FICOD;, and any other issues identified with Other Financial Sectors	22%	78%	0%
33. Overall combined impact of ALL proposals on group supervision[39]	**36%**	**63%**	**1%**

1.76 With respect to Pillar I, the following table provides an overview on whether the proposed legislative changes are expected to result in a decrease (-), an increase

[39] Please refer to footnotes regarding updates to the policy options on group issues in Table 28f

(+) or non-material impact (=) on the solvency balance sheet of the undertakings (i.e. on technical provisions, SCR, MCR and/or own funds). A more detailed analysis of the impact of the proposals on the solvency position of insurance and reinsurance undertakings is presented in section 1.7.

Table 30 – Expected impact of Pilar I proposals[40]

Legislative change (Pillar I)	TP	SCR	MCR	OF
TP: Change to extrapolation method	+	+	=/+	-
TP: Changes to design of VA	+/=/-	+/=/-	+/=/-	-/=/+
TP: Allow realistic assumptions on new business	=/+	=	=	=/-
TP: Add a definition of Future Management Actions in article 1	=	=	=	=
TP: Amend the definition of EPIFP so it includes all future losses and the impact of reinsurance.	=	=	=	=
TP: Amend to include future profits in fees for servicing and managing funds for unit-linked products	=	=	=	=
TP: Amend article 18(3) to clarify that it is not applicable to obligations related to paid in premiums	=	=	=	=
TP: Amend the third paragraph of article 18(3). Allow the exception only when the undertaking does not have the right to perform the individual risk assessment	=/+	=	=	=
TP: MA asset eligibility criteria: Look through approach for restructured assets	=	=	=	=
SCR: Amend Article 171a on Long Term equity so that only well diversified portfolio are eligible, participations are excluded and to clarify how long term equity risk is correlated with other risks.	=	=/+	=	=
SCR: Amend criteria for Strategic equity: propose beta method for the volatility assessment, and include a safeguard for participation that are significantly correlated with the undertaking.	=	=/+	=	=
SCR: Phase out DBER. New approval should not be granted anymore.	=	=	=	=
SCR: Allow in SF for diversification effects with respect to MA portfolios	=	-	=	=
SCR: Update calibration of the interest rate risk sub-module	=	+	+/=	=
SCR: Simplified calculation for the risk-mitigating effect of derivatives/reinsurance/securitisation	=	=	=	=
SCR: Hypothetical SCR in the counterparty default risk assumes a net of reinsurance basis for the fire, marine and aviation risk submodules	=	+	+/=	=
SCR: Default and forborne loans to be included as type 2 exposures	=	+	-/=	=
SCR: Adjust requirements for the recognition of partial guarantees on mortgage loans	=	-	-/=	=
SCR: Amend Article 210 of the Delegated regulation by adding that undertaking are able to show the extent to which there is an effective transfer of risk for reflection of risk mitigation techniques in the standard formula	=	=	=	=
SCR: Simplified calculation for immaterial risks	=	=	=	=
MCR: Change the risk factors for the calculation of the MCR set out in Annex XIX of the Delegated Regulation	=	=	-/+	=

[40] Tables 30-33 present the most common expected impact of the proposed legislative changes showing the corresponding sign (+/=/-);where different impacts can be generally expected depending on the undertaking/group, more than one sign is shown.

1.77 As regards pillar I for groups, the following table provides an overview on whether the proposed legislative changes related are expected to result in a decrease (-), an increase (+) or non-material impact (=) on the group solvency.

Table 31 – Expected impact of Pillar I proposals for groups

Legislative change (Pillar I)	**Group SCR**	**Eligible Own Funds**
To revise the definition of group under Solvency II framework to capture undertakings, which, together, form a de facto group, upon supervisory powers, as well as to clarify other elements of Article 212 of the SII Directive *[Reference: Chapter 9 Section 9.3.1]*	**=/+**	**=/+**
To provide the NSAs with powers to require to restructure for the purpose of exercising group supervision. *[Reference: Chapter 9 Section 9.3.1]*	**=**	**=**
Clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups. *[Reference: Chapter 9 Section 9.3.2]*	**=/+**	**=/+**
Clarify on the term "exclusively" or "mainly" used in the definition of IHC contained in Art. 212(2)(f) of the Solvency II Directive. [Reference: Chapter 9 Section 9.3.2]	**=/+**	**=/+**
Amend Article 214(1) of the SII Directive to allow the group supervisor to have certain powers to ensure an effective group supervision; and enforceability over such undertakings. *[Reference: Chapter 9 Section 9.3.2]*	**=**	**=**
To introduce an overall principle in the SII Directive on the exclusion from group to ensure that exceptional cases as well as cases of potential capital relief are adequately justified, documented and monitored and all relevant parties in the decision are also involved in the process. (Article 242(2) of the SII Directive). *[Reference: Chapter 9 Section 9.3.3]*	**=**	**=**
To provide criteria to be considered for the purpose of assessing "negligible interest" (Article 242(2) of the SII Directive) *[Reference: Chapter 9 Section 9.3.3]*	**=**	**=**
Overall: Scope of application of group supervision	**=/+**	**=/+**
Proposals on IGTs and RCs *[Reference: Chapter 9 Section 9.3.4]*	**=**	**=**
Proposals on issues with third countries *[Reference: Chapter 9 Section 9.3.5]*	**=**	**=**
Include clearly the provision of a notional SCR for both the parent and intermediate IHC and MFHC, including those in third country. *[Reference: Chapter 9 Section 9.3.6]*	**=/+**	**=/+**
Introduce a clear methodology to the calculation of own funds and the group SCR calculation for undertakings for which the SII calculation is not possible and for immaterial undertakings. The use of the simplifications should be subject to approval by the group supervisor. Such simplified methodology could favour the equity method with a cap on own funds. (Article 229 of the SII Directive) *[Reference: Chapter 9 Section 9.3.7]*	**=/-**	**=/-**
Provide clarity on the scope of undertakings to be included under method 2 and their treatment. (Article 233 of the SII Directive) *[Reference: Chapter 9 Section 9.3.8]*	**=**	**=**
Introduce requirement to demonstrate appropriateness by clarifying that in general there is no mutatis mutandis approach to translate integration techniques for risks in Article 239 of the DR to groups, but a demonstration of the appropriateness is required similar to Article 229 (4) of the DR. Also an explicit link between the requirements of Articles 328 and 343 of the DR should be established. *[Reference: Chapter 9 Section 9.3.9]*	**=**	**=**
Introduce principles of no double counting and no omission of material risks (approaches based on amendments of article 328 or 335 and 336 of the DR to be used alternatively or appropriately combined) *[Reference: Chapter 9 Section 9.3.10]*	**=/+**	**=/+**
Indicate that method 2 (where used exclusively or in combination with method 1) applies to single undertakings. It is also advised to amend Articles 220, 227, 234 and 235 of the SII Directive to refer to the advised changes on this section. *[Reference: Chapter 9 Section 9.3.11]*	**=**	**=**
Overall combined impact of the proposals regarding calculation of group solvency	**=**	**=**
A deletion of the paragraph (1)(d) of Article 330 of the DR would avoid that an own-fund item (under method 2) not compliant with articles 331-333 or the DR (including reference to art. 71/73/77) could still be considered available at group level. *[Reference: Chapter 9 Section 9.3.12]*	**=/+**	**=/+**
Include a principle indicating the purpose of Recital 127 to clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the	**=**	**=**

Legislative change (Pillar I)	Group SCR	Eligible Own Funds
own-fund item when there is a winding-up situation of any EEA related (re)insurance undertaking of the group. *[Reference: Chapter 9 Section 9.3.12]*		
Clarify the inclusion of all undertakings taken into account in the SCR diversified *[Reference: Chapter 9 Section 9.3.13]*	=/+	=/+
Clarify that the benefit of transitional measures on technical provisions and interest rate is assumed to be unavailable by default within the meaning of Article 330(3) of the DR. *[Reference: Chapter 9 Section 9.3.13]*	=/+	=/+
Clarify that EPIFPs is assumed to be unavailable by default within the meaning of Article 330(3) of the DR. *[Reference: Chapter 9 Section 9.3.13]*	=/+	=/+
Further clarify the definition of the item minority interest in Solvency II and the approach to be followed for its calculation. *[Reference: Chapter 9 Section 9.3.14]*	=/+	=/+
Overall combined impact of the proposals regarding own fund requirements	=/+	=/+
Upgrading the current Guideline 21b) of EIOPA Guidelines on Groups Solvency to an explicit law provision and enhancement the scope by the IHC and MFHC – the notional MCRs would be equal to 35% of the notional SCR (middle of the corridor 25% - 45%) *[Reference: Chapter 9 Section 9.3.15]*	+	=/+
Clarify that Article 329 of the DR is applicable for the inclusion of OFS entities in the group solvency calculation, regardless of methods used *[Reference: Chapter 9 Section 9.3.16]*	=/+	=/+
Allocation of clearly identified own fund items from OFS into relevant Solvency II tiers where practicable and material *[Reference: Chapter 9 Section 9.3.16]*	=	=
Clarify that an availability assessment of OFS own funds is required to ensure that OFS own funds in excess of sectoral capital requirement is available at group level *[Reference: Chapter 9 Section 9.3.16]*	=	=/+
Clarify that group own funds and group capital requirements calculated according to sectoral rules should be used in the group solvency calculation when OFS entities form a group. *[Reference: Chapter 9 Section 9.3.16]*	=	=/+
Include the answer to Q&A 1344 in the regulations i.e. that the same capital requirements, including buffers and add-ons, should be used in the Solvency II calculation as in the supplementary capital adequacy calculation according to FICOD. *[Reference: Chapter 9 Section 9.3.16]*	=	=
Delete Article 228 of Solvency II Directive *[Reference: Chapter 9 Section 9.3.17]*	=	=
Overall combined impact of the proposals regarding Solvency II and the interactions with Directive 2002/87/EC (FICOD;, and any other issues identified with Other Financial Sectors	=/+	=/+
Overall combined impact of ALL proposals on group supervision[41]	=/+	=+

1.78 With respect to Pillar II, the following table provides an overview on whether the proposed legislative changes are expected to result in a reduction of costs (-), increase of costs (+) or non material additional costs or cost savings are expected (=).

Table 32 – Expected impact on costs of Pilar II proposals

Legislative changes (Pillar II)	Costs -/=/+	Explanation
Key functions: Explicit allowance of combinations with other responsibilities/tasks based on proportionality	-/=/+	Eventual costs only for undertakings where combinations are currently allowed not based on proportionality.
ORSA: Biennial ORSA for low risk profile undertakings	-	Reducing the frequency of the ORSA would result in a reduction of burden for low risk undertakings
ORSA: Explicit reference to proportionality with respect to the complexity of the stress test and scenario analysis	-/=	Clarifying the need for proportionality would result in decrease of resources needed if small/medium sized undertakings are not requested to perform complex stress test/scenario analysis
ORSA: Expansion in the use of the ORSA to include the macroprudential perspective	=/+	Staff cost (one-off and on-going), additional analysis needed within the undertaking ORSA process

[41] Please refer to footnotes regarding updates to the policy options on group issues in Table 28

Written policies: Regular review, at least every three years	-	Less staff costs if the process of review does not need to be performed every year
AMSB: Regular assessment on the composition, effectiveness and internal governance of the AMSB considering proportionality	=	No material cost. The assessment should already be part of the regular evaluation of the system of governance
Remuneration: Exemption to the principle of deferral of a substantial portion of the variable remuneration component considering proportionality	-	Reduced burden by limiting the scope of undertakings and staff subject to the requirement
Risk management: Changes to risk management provisions on LTG measures (MA, VA and Transitionals)	=	Additional costs compensated by simplification and partial deletion of previous requirements. Only for undertakings applying the measures.
Risk management: Require systemic risk management plans from a subset of companies	+	Staff cost (one-off and on-going), additional work needed to set and maintain the plan. Only for systemically important undertakings, as well as to those that are involved in certain activities or products with greater potential to pose systemic risk
Risk management: Require liquidity risk management plans	+	Staff cost (one-off and on-going), additional work needed to set and maintain the plan
Risk management: Require pre-emptive recovery plans	+	Staff cost (one-off and on-going), additional work needed to set and maintain the plan For undertakings representing a very significant share of the national market.
Prudent person principle: Expansion of the prudent person principle to take into account macroprudential concerns	=/+	Staff cost (one-off and on-going), additional work needed
Fit and proper: Clarifying ongoing assessment of AMSB and qualifying shareholders and ensuring the supervisory tools are in place when persons do not fulfil the requirements any more	=	No material costs for undertakings.
Fit and proper: Changes to ensure in complex cross-border cases more relevant information exchange and allow in exceptional cases for EIOPA to conclude	=	No material costs for undertakings.
Supervisory powers: Allow NSAs to limit capital distributions in exceptional circumstances where undertakings do not meet their SCR without the application of the LTG and transitional measures and applying a more economic term structure at the same time if the undertaking cannot demonstrate to satisfaction of the supervisory authority that the intended capital distributions are sustainable	=	Instead of analysis of measures when not complying with the SCR if the measures are not applied, the undertaking should provide evidence upon supervisory request of the sustainability of its capital distributions.
Supervisory powers: Explicit power of the host supervisor to request information in a timely manner	=	No material costs for undertakings.
Supervisory powers: Grant NSAs with the power to require a capital surcharge for systemic risk	=/+	Undertakings subject to the capital surcharge would see a deterioration in their solvency ratio, unless action is taken; the impact would however depend on the calibration of the instrument.
Supervisory powers: Grant NSAs with additional measures to reinforce the insurer's financial position	=/+	Undertakings subject to the additional measures to reinforce the insurer's financial position should see restricted their management actions. The costs would depend on the calibration and duration of the measures.
Supervisory powers: Grant NSAs with the power to define "soft" concentration thresholds or benchmarks	=	No material costs for undertakings.
Supervisory powers: Granting NSAs with additional mitigating measures in case vulnerabilities to the liquidity have been identified.	=/+	Undertakings subject to these additional mitigating measures could incur more costs to have in place more detailed liquidity risk management processes as part of their risk management system.
Supervisory powers: Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances	=	No material costs for undertakings.
Supervisory powers: Introduce a set of preventive measures	=	No material costs for undertakings.

Supervisory powers: Set judgment-based triggers for the use of preventive measures	=	No material costs for undertakings.
Groups governance: Amendment of Article 246 of the Directive to clarify requirements of the system of governance at group level *[Reference: Chapter 9 Section 9.3.18]*[42]	=/+	Eventual costs as potentials changes on the group's system of governance will be necessary for the groups concerned to be compliant with the new requirements, depending on the transposition of Article 246 of the Solvency II Directive and application of Article 40 of the Solvency II Directive.

1.79 With respect to Pillar 3, the main cost foreseen from the proposed legislative changes is the audit fee for auditing the Solvency II balance sheet; nevertheless, it should be noted that similar or stricter requirements already exist in 16 Member States[43] based on national legislation; for undertakings in those Member States no extra audit costs are expected

1.80 With respect to the QRTs, the increased burden for undertakings derived from the need to report extra information (i.e. new templates or new data in existing templates) is compensated by the reduction of burden due to the streamlined content of existing templates (i.e. deletion or simplification) and in particular by reinforcing the risk-based thresholds to increase proportionality. Finally, no material costs are expected from the proposed changes to the RSR. The changes proposed are either information previously included in the SFCR and now moved to the RSR, streamlining the report to avoid duplications and increase clarity on supervisors' expectations and identify areas where only material changes are expected by default.

1.81 Other proposed legislative changes are not expected to create significant additional burden for the industry since the implementation costs would mainly fall upon by supervisory/resolution authorities. Nevertheless, the proposal of harmonisation of national IGSs would imply costs for insurance undertakings that should contribute to fund the IGS; the possible costs would vary significantly depending on the design of the funding arrangements. In any case, it can be expected that the burden is transmitted (or, at least, partially transmitted) to policyholders via higher premiums. The funding needs would also vary significantly depending on the characteristics of the existing national IGS (if any) in each Member State.

1.82 Finally, it should be noted that the proposed amendment to the thresholds for the exclusion from the scope of Solvency II could result in a significant reduction of costs for undertakings below the increased thresholds, depending on prudential regime applied at national level.

1.7 Impact on the solvency position

1.83 From March to June 2020 EIOPA carried out an information request to the industry for the holistic impact assessment (HIA). The purpose of the information request was to collect data on the combined impact of the changes that EIOPA considers to advise for the 2020 review.

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[42] The policy issue seeks to clarify the provisions regarding responsibility for governance requirements at group level, and setting principles to reduce SoG mutatis mutandis issues, and the wording has been revised to be more concrete on the analysis and advice.

[43] AT, BE, DE, DK, ES, HR, IE, IT, LI, MT, NL, PL, PT, RO, SI, and SE

1.84 The information request collected data on the following scenarios:

Table 33 – Scenarios considered in the HIA information request

Base scenario	Current Solvency II at end of 2019
Scenario 1	Combined impact of EIOPA's advice
Scenario 2	Combined impact of EIOPA's advice other than interest rate risk calibration

1.85 Scenario 2 is relevant for judging the balance of the combined impact. EIOPA aims for an overall balanced outcome of the review at European level. The interest rate risk recalibration is excluded from that balance because it corrects a mistake in the current SCR standard formula.

1.86 Scenario 1 includes changes to 18 elements of the solvency calculation. The overall impact of scenario 1 is however driven by a smaller number of changes. The following table lists those changes together with the typical main impact on the solvency position.

Table 34 – Typical impact of the proposed legislative changes

Change	**Typical impact**
Extrapolation	Increase of technical provisions Increase of SCR
Risk margin	Decrease of technical provisions
Volatility adjustment (VA)	Decrease of technical provisions Increase of SCR for IM with dynamic VA
Equity	Decrease of SCR (only standard formula)
Correlations	Decrease of SCR (only standard formula)
Non-prop. reinsurance	Decrease or increase of SCR (only standard formula)
Interest rate risk	Increase of SCR (only standard formula, only in scenario 1)

1.87 Separately from scenarios 1 and 2, some alternative calculations were requested from the participants:

- The maximum size of an own funds buffer for compressed spreads;
- The impact of the application of the dynamic VA on the standard formula SCR for spread risk;

- Two alternative calibrations for the interest rate risk sub-module of the SCR standard formula:
    - The introduction of a floor to interest rates; and
    - A specific calibration for currencies with an earlier starting point of the extrapolation of risk-free interest rates.

1.88 The information request was addressed to a representative sample of insurance and reinsurance undertakings subject to Solvency II. For each EEA country the undertakings belonging to the sample were selected by the national supervisory authorities and they should cover at least 50% of the business of undertakings in the local market subject to Solvency II (measured in technical provisions for life insurance obligations and measured in premiums for non-life insurance obligations). National supervisory authorities were requested to ensure the representativeness of the sample considering:

- the different types of undertakings (life, non-life, composite insurance undertakings and reinsurance undertakings),
- the use of the standard formula and/or internal models to calculate the SCR,
- the use of matching adjustment and the volatility adjustment,
- risk profile and risk management of undertakings in particular the extent of asset liability matching and use of interest rate risk derivatives and,
- the different sizes of undertakings (small, medium, large).

1.89 The sample covers 392 undertakings representing an EEA market share of 73% of life technical provisions and 52% of non-life gross written premiums.

1.90 Per type of business, undertakings in the sample are classified as follows: 34% life insurance undertakings, 34% non-life insurance undertakings, 26% insurance undertakings pursuing both life and non-life business and 6% reinsurance undertakings.

1.91 As regards the method of calculation of the SCR, 77% of undertakings in the sample use the standard formula, 13% use a partial internal model and 10% use a full internal model.

1.92 The sample includes 189 undertakings using the volatility adjustment and 5 undertakings using the matching adjustment.

1.93 In terms of size[44], 42% are large undertakings, 38% are medium size undertakings and 20% are small.

[44] For the size classification, the folllowing criteria have been applied:

Size	Non-life	Life	Composite and reinsurers
Large	>1bn Non-Life GWP	>10bn Life TP	>1bn Non-Life GWP or >10bn Life TP
Medium	0.1bn - 1bn Non-life GWP	1bn-10bn Life TP	Non-large and non-small
Small	<0.1bn Non-Life GWP	<1bn Life TP	<0.1bn Non-Life GWP and <1bn Life TP

1.94 The following table describes the impact of scenario 1 and scenario 2 at EEA level. The average SCR ratio at the end of 2019 was 247%. After taking into account the proposed changes to Solvency II the average SCR ratio would be 13 percentage points lower at 234%. However, taking into account the changes other than the interest rate risk recalibration, the average SCR ratio would only slightly increase by one percentage point to 248%.

1.95 In terms of impact on the capital surplus, being the own funds eligible to cover the SCR in excess of the SCR, the proposed changes would result in a reduction of the surplus of the sample of participants by EUR 15 bn. Without the interest rate risk recalibration there would be an increase of the capital surplus by EUR 7 bn.

Table 35 – Summary impact of scenario 1 and 2 at EEA level

All undertakings			
	Base case	**Scenario 1**	**Scenario 2**
SCR ratio	247%	234%	248%
Change of surplus in excess of SCR	/	-15 bn	+7 bn
Change of SCR	/	+25 bn	+2 bn
Change of own funds	/	+10 bn	+9 bn

1.96 If for the dynamic volatility adjustment in internal models (DVA) additionally the enhanced prudency principle was to be considered, the surplus would be impacted by -1 bn. € and reduced to +5 bn. € under scenario 2. If furthermore the margins included in some DVA approaches would not have been switched off, the surplus would have been impacted by an additional -3 bn. € and reduced to +2 bn. € under scenario 2.

1.97 Considering the market coverage of the sample of participants in terms of life technical provisions and non-life gross written premiums, EIOPA estimates that for the whole EEA market, the proposed changes would result in a reduction of the surplus by about EUR -18 bn. Without the recalibration of interest rate risk, these estimations indicate an increase of the surplus by EUR +11 bn.

1.98 Undertakings with long-term liabilities are expected to be more affected by the proposed changes, in particular on extrapolation, risk margin, VA and interest rate risk, than other undertakings. Consequently, the average impact of scenarios and is bigger on the SCR ratios for life insurance and composite undertakings. Non-life insurance undertakings are hardly affected on average. Reinsurance undertakings reported on average an improvement of their SCR ratio under scenario 1 and 2. However, non-life and reinsurance undertakings significantly contribute to the increase of surplus in scenario 2 and mitigate the loss of surplus for all undertakings in scenario 1.

Figure 9 – SCR ratios by type of undertaking

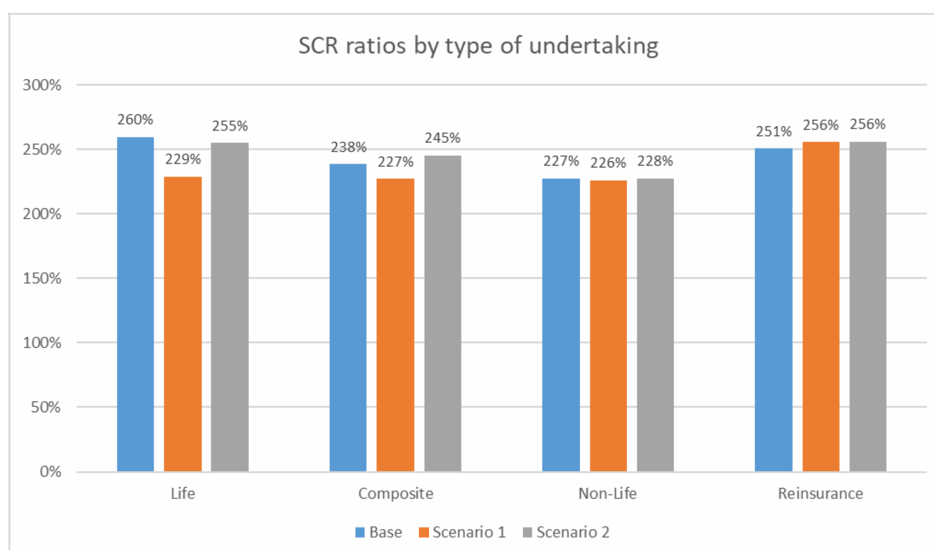


Table 36 – Summary impact of scenario 1 and 2 at EEA level for life insurance and composite insurance undertakings

Life insurance and composite insurance undertakings			
	Base case	**Scenario 1**	**Scenario 2**
SCR ratio	252%	228%	252%
Change of surplus in excess of SCR	/	-20 bn	+2 bn
Change of SCR	/	+24 bn	+2 bn
Change of own funds	/	+4 bn	+3 bn

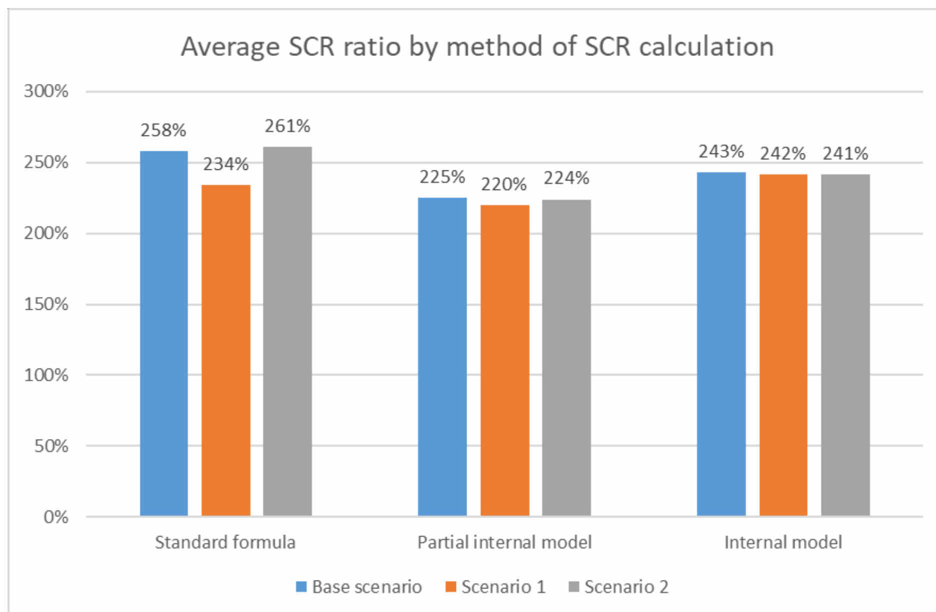
Table 37 – Summary impact of scenario 1 and 2 at EEA level for non- life insurance and reinsurance undertakings

Non-life insurance and reinsurance undertakings			
	Base case	**Scenario 1**	**Scenario 2**
SCR ratio	240%	242%	243%
Change of surplus in excess of SCR	/	+5 bn	+5 bn
Change of SCR	/	+1 bn	+ 1 bn
Change of own funds	/	+6 bn	+6 bn

1.99 The following diagram shows the impact of scenario 1 and differentiated by the method of SCR calculation. With regard to scenario 1 standard model users show a stronger decrease of the ratio. For internal model users the average impact is very

small. Independent of the method of SCR calculation, the SCR ratio hardly changes in scenario 2.

Figure 10 – SCR ratios by method of calculation of the SCR



1.100 The following scatter plots illustrate the impact of scenario 1 (blue dots) and scenario 2 (red dots) on the SCR ratio on the undertakings that participated in the information request. Each dot represents one undertaking. The first diagram covers the life and composite insurance undertakings. The vast majority of dots are close to the diagonal, implying that the SCR ratio of these undertakings is only slightly changing in the scenarios. There are some undertakings whose SCR ratio significantly increases in scenario 1 (red dots above the diagonal). For several undertakings the recalibration of the interest rate risk sub-module lowers the SCR ratio (blue dos below the diagonal). Where a blue dot is visible, it corresponds to an undertaking that calculates the SCR for interest rate risk with the standard formula. For other undertakings, the blue dot is hidden by the red dot.

1.101 The second diagram covers the non-life insurance and reinsurance undertakings. Even more than for these undertakings the two scenarios had little impact on the SCR ratio. In particular the interest rate risk calibration has little effect on the SCR ratio (only few blue dots differ from the red dots and are therefore visible).

1.102 For no undertaking, irrespective of type, a breach of the SCR or the MCR in scenario 1 or scenario 2 was reported (no dots below the horizontal 100% line).

Figure 11 – SCR ratios per undertaking: life insurance and composite insurance undertakings

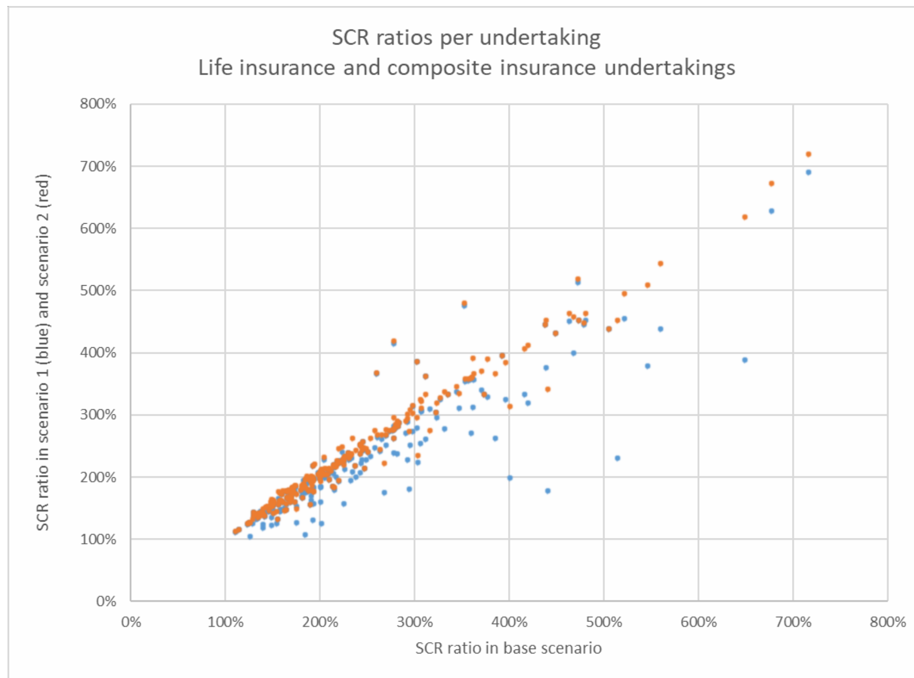
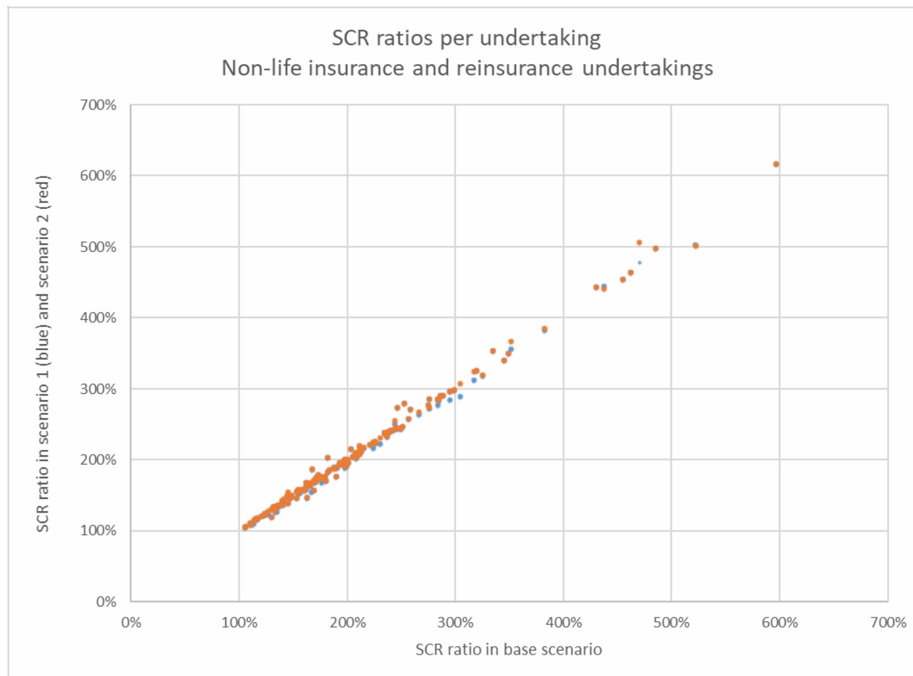
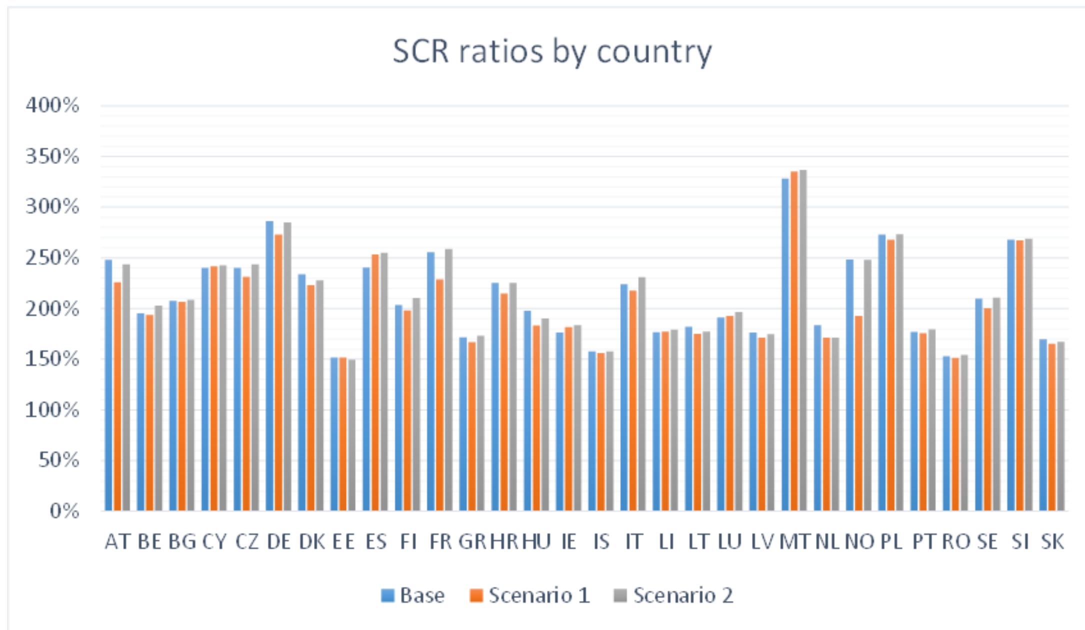


Figure 12 – SCR ratios per undertaking: non-life insurance and reinsurance undertakings



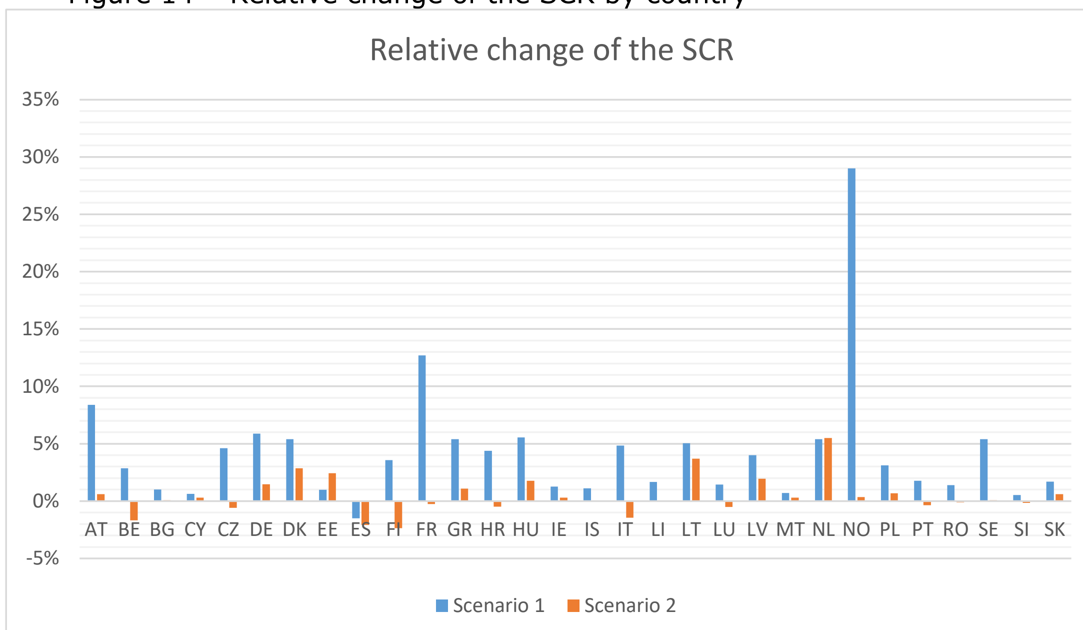
1.103 The following diagram shows the impact of scenario 1 and 2 on the average SCR ratio per country. The impact is broadly similar in all markets. For some markets, in particular Norway and France, a more pronounced impact of scenario 1 can be observed. In other markets, the impact of that scenario is on average immaterial.

Figure 13 – SCR ratios by country



1.104 Differences between countries become more visible when analysing the average relative impact on the on the SCR and the own funds to cover the SCR separately. On average the SCR increases by 6.9% in scenario 1 and by 0.6% in scenario 2. The following diagram show that the SCR increases under scenario 1 in all countries, but to different extent. Strongest increases can be observed in Norway, France and Austria. The comparison with scenario 2 shows that these increases are for the most countries primarily due to the interest rate risk recalibration. In scenario 2 only small average changes to the SCR are observed, in some countries increases, in others decreases.

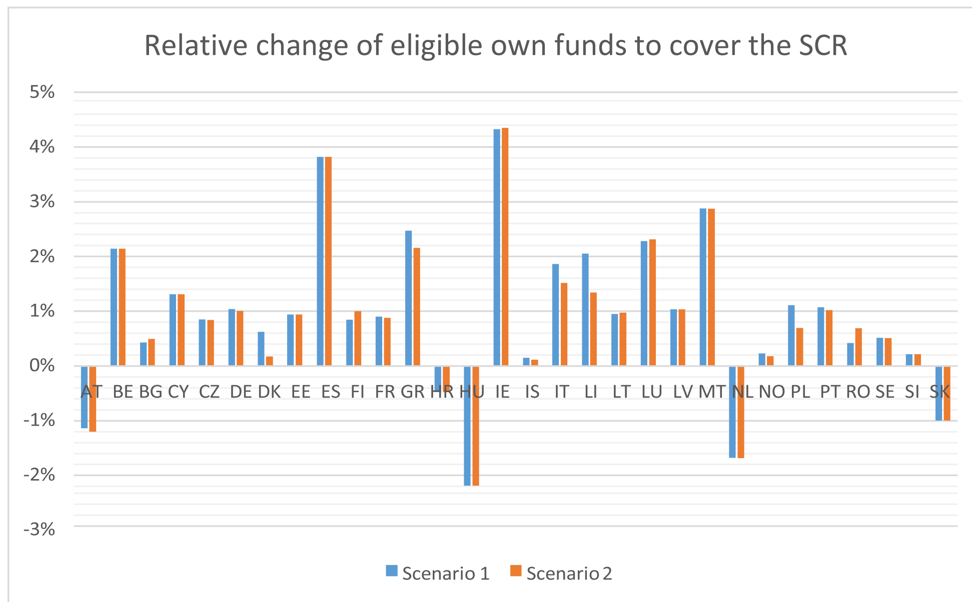
Figure 14 – Relative change of the SCR by country



1.105 The average impact of scenario 1 on eligible own funds to cover the SCR is an increase by 1.1%. In scenario 2 a similar increase of 1.0% was measured. The following diagram shows the average relative impact by country. Most of the

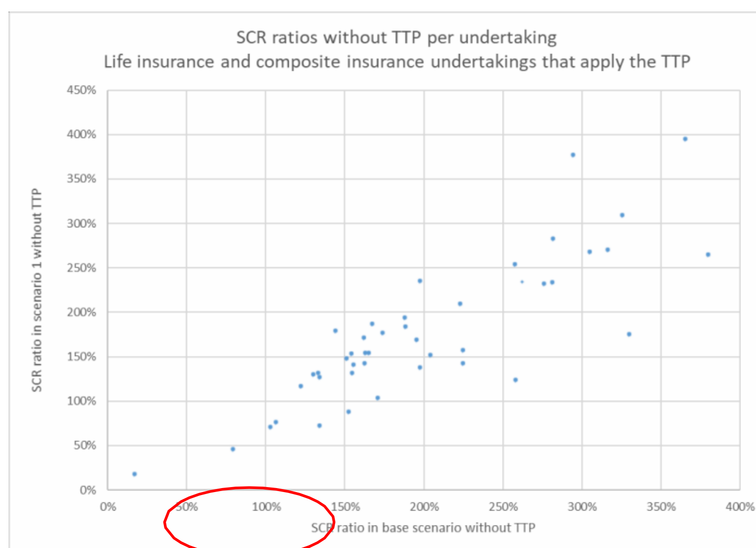
countries reported an increase of own funds. The strongest increases exist in Ireland, Spain, Malta and Luxembourg. Hungary, the Netherlands, Slovakia, Austria and Croatia observed on average decreasing own funds. Overall, differences between scenario 1 and 2 are very small. The loss of own funds in scenario 2 is caused by the impact of the SCR on the limits to Tier 2 and Tier 3 own funds. A higher SCR implies stricter limits.

Figure 15 – Relative change of eligible own funds to cover the SCR by country



1.106 While all undertakings participating in the information request still cover the SCR in scenario 1 and 2, the situation is different for some undertakings if the impact of the transitionals is disregarded. The following scatter plot illustrates that for the transitional on technical provisions (TTP). It shows the SCR ratios in the base case without the TTP (horizontal axis) and the SCR ratio in scenario 1 without the TTP. There are four undertakings which currently comply with the SCR without the TTP, but would not do so anymore in scenario 1 without the TTP (see red circle).

Figure 16 – SCR ratios without transitional measure on technical provisions per undertaking



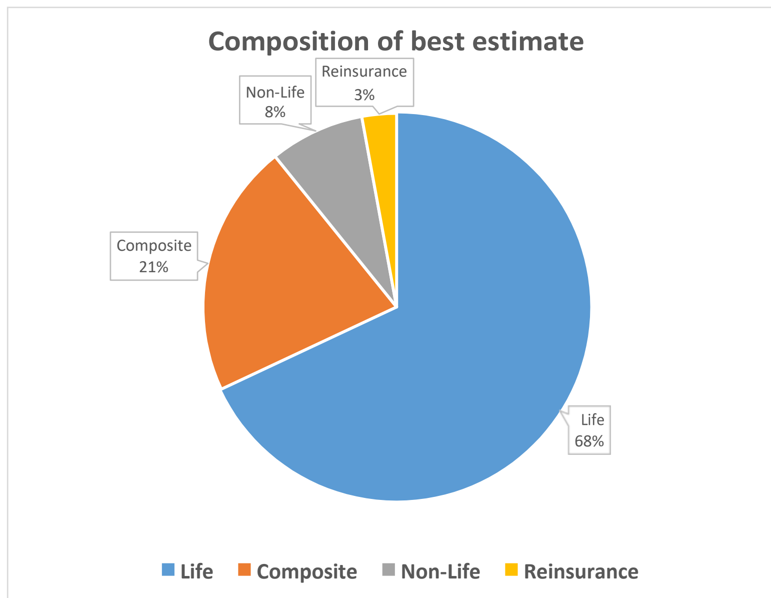
1.107 With respect to the best estimate, there are three potential drivers for changes in the valuation when comparing scenario 1 with the current status quo:

- The application of the alternative extrapolation method
- Change in the VA
- Change in the contract boundaries

1.108 Among those, the change in the contract boundaries was found to be non-material.

1.109 As expected, life and composite undertakings form the biggest contributors to the best estimate in the HIA sample, with a share of roughly 90%.

Figure 17 – Composition of the best estimate of the HIA sample



1.110 The total volume of best estimate reflected in the HIA amounts to around EUR 5.200 bn.

1.111 The highest impact of scenario 1 can be observed for life undertakings. The following table outlines the impact of scenario 1 compared to the base scenario, in absolute terms, on the best estimate for the different types of undertakings. Note that the absolute impact is expressed in million Euros.

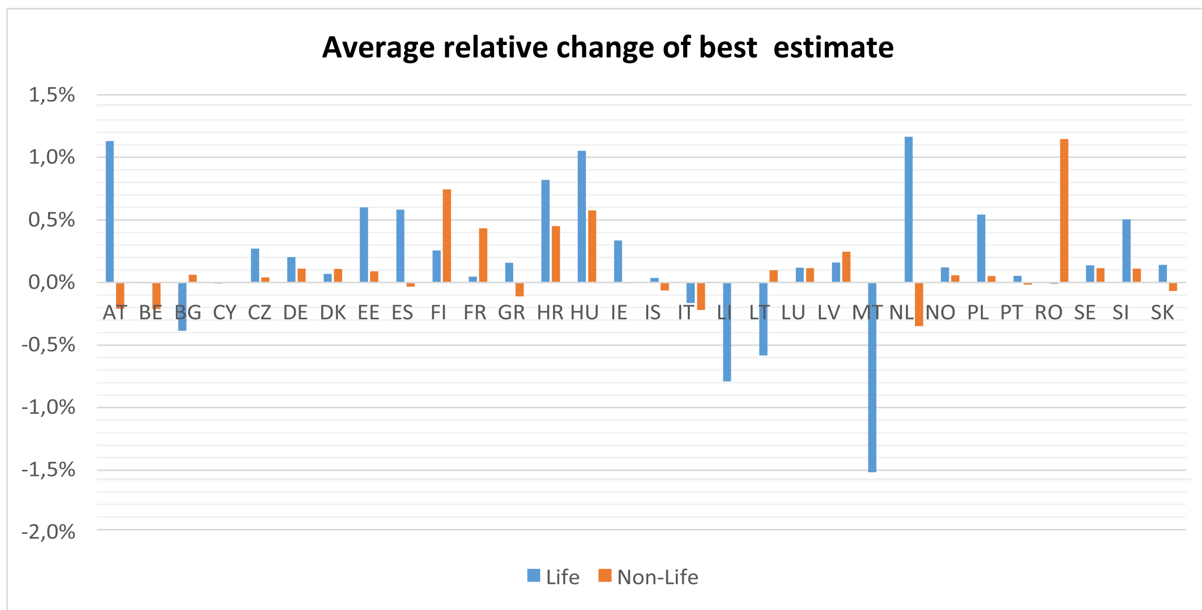
Table 38 – Impact of scenario 1 on the best estimate

Type of undertaking	Best Estimate: Absolute impact of scenario 1 compared to base	Best Estimate: Relative impact of scenario 1 compared to base
Life	7.471	0.21%
Composite	856	0.08%
Non-Life	730	0.18%
Reinsurance	-5	0.00%
Total	**9.502**	**0.18%**

1.112 The impact for life insurance undertakings is considerably high reflecting the high share of life best estimate in the sample but also the fact that life insurance undertakings are considerably sensitive to the most relevant components of scenario 1 influencing the best estimate (such as extrapolation and volatility adjustment).

1.113 Across individual countries, the impact of scenario 1 on the best estimate varies considerably. This is illustrates in the following graph, which also outlines the differences for life and non-life obligations.

Figure 18 – Average relative change of best estimate



1.114 Main drivers of the impact are the alternative extrapolation method and the change in the VA. VA users with shorter durations will hardly be affected by the alternative extrapolation method, but mainly by the change in the VA. A significant increase in the VA would lower their best estimate.

1.115 The numbers reflect the impact, in particular of the alternative extrapolation and the change in design of the VA, on the best estimate. However, the results do not allow to draw final conclusions on the impact of scenario 1 on the solvency position.

Impact of the Covid-19 pandemic

1.116 From July to mid-September 2020 EIOPA carried out an information request to the industry in order update the results of the earlier information request for the holistic impact assessment with regard to the impact of the Covid-19 pandemic.

1.117 The information request collected data on the following scenarios:

Table 39 – Scenarios considered in the complementary information request

Base scenario	Current Solvency II at end of Q2 2020
Scenario 1	Combined impact of EIOPA’s advice
Scenario 2	Combined impact of EIOPA’s advice other than interest rate risk calibration

1.118 Scenario 2 is relevant for judging the balance of the combined impact. EIOPA aims for an overall balanced outcome of the review at European level. The interest rate risk recalibration is excluded from that balance because it corrects a mistake in the current SCR standard formula. Main changes included in the information request and their typical impact on the solvency position are similar to the earlier information request for the holistic impact assessment (see table 35).

1.119 The sample chosen for the complementary information request by the national supervisory authorities is a sub-sample of the sample chosen for the information request for the holistic impact assessment. As exception to this rule, for national markets where a material share of pandemic risks is covered by insurance undertakings, the sample should also include at least 25% of the insurance undertakings that cover pandemic risk and apply the SCR standard formula to calculate the pandemic risk sub-module.

1.120 As the market share between national samples differ the results at EEA level may not be fully representative for the whole market.

1.121 The sample covers 278 undertakings representing an EEA market share of 68% of life technical provisions and 45% of non-life gross written premiums. The sample includes 10 undertakings than did not participate in the information request for the holistic impact assessment.

1.122 Per type of business, undertakings in the sample are classified as follows: 36% life insurance undertakings, 33% non-life insurance undertakings, 25% insurance undertakings pursuing both life and non-life business and 6% reinsurance undertakings.

1.123 As regards the method of calculation of the SCR, 75% of undertakings in the sample use the standard formula, 13% use a partial internal model and 12% use a full internal model.

1.124 The sample includes 155 undertakings using the volatility adjustment and 5 undertakings using the matching adjustment.

1.125 In terms of size, 50% are large undertakings, 34% are medium size undertakings and 16% are small.

1.126 The following table describes the impact of scenario 1 and scenario 2 at EEA level. The average SCR ratio at the end of 2019 was 226%. After taking into account the proposed changes to Solvency II the average SCR ratio would be 22 percentage points lower at 204%. Taking into account the changes other than the interest rate risk recalibration, the average SCR ratio would decrease by ten percentage point to 216%.

1.127 In terms of impact on the capital surplus, being the own funds eligible to cover the SCR in excess of the SCR, the proposed changes would result in a reduction of the surplus of the sample of participants by EUR 40 bn. Without the interest rate risk recalibration there would still be a reduction of the capital surplus by EUR 21 bn.

Table 40 – Summary impact of scenario 1 and 2 at EEA level at end of Q2 2020

All undertakings

	Base case	Scenario 1	Scenario 2
SCR ratio	226%	204%	216%
Change of surplus in excess of SCR	/	-40 bn	-21 bn
Change of SCR	/	+31 bn	+11 bn
Change of own funds	/	-9 bn	-9 bn

Table 41– Summary impact of scenario 1 and 2 at EEA level at end of Q2 2020 for life insurance and composite insurance undertakings

Life insurance and composite insurance undertakings			
	Base case	**Scenario 1**	**Scenario 2**
SCR ratio	223%	188%	206%
Change of surplus in excess of SCR	/	-43 bn	-23 bn
Change of SCR	/	+30 bn	+11 bn
Change of own funds	/	-13 bn	-12 bn

Table 42– Summary impact of scenario 1 and 2 at EEA level at end of Q2 2020 for non-life insurance and reinsurance undertakings

Non-life insurance and reinsurance undertakings			
	Base case	**Scenario 1**	**Scenario 2**
SCR ratio	229%	231%	231%
Change of surplus in excess of SCR	/	+ 2.7 bn	+3.3 bn
Change of SCR	/	+0.9 bn	+0.4 bn
Change of own funds	/	+3.6 bn	+3.8 bn

1.128 If for the dynamic volatility adjustment in internal models (DVA) additionally the enhanced prudency principle was to be considered, the surplus would be impacted by -1 bn. € and the reduction would amount to -22 bn. € under scenario 2. If furthermore the margins included in some DVA approaches would not have been switched off, the surplus would have been impacted by an additional -4 bn. € and the reduction would amount to -26 bn. € under scenario 2.

1.129 The complementary information request (CIR) yields different results than the information request for the holistic impact assessment (HIA). Both in scenario 1 and scenario 2 the impact in the CIR is stronger than in the HIA resulting in an additional reduction of the capital surplus of EUR 25 bn and 26 bn respectively. The following table compares the contribution of the different changes to the overall impact on the capital surplus in scenario 1.

1.130 The amounts are approximate, in particular because of interrelations between the different changes. Note also that the amounts relate to the sample of participants only, so the results may not be fully representative for the whole market.

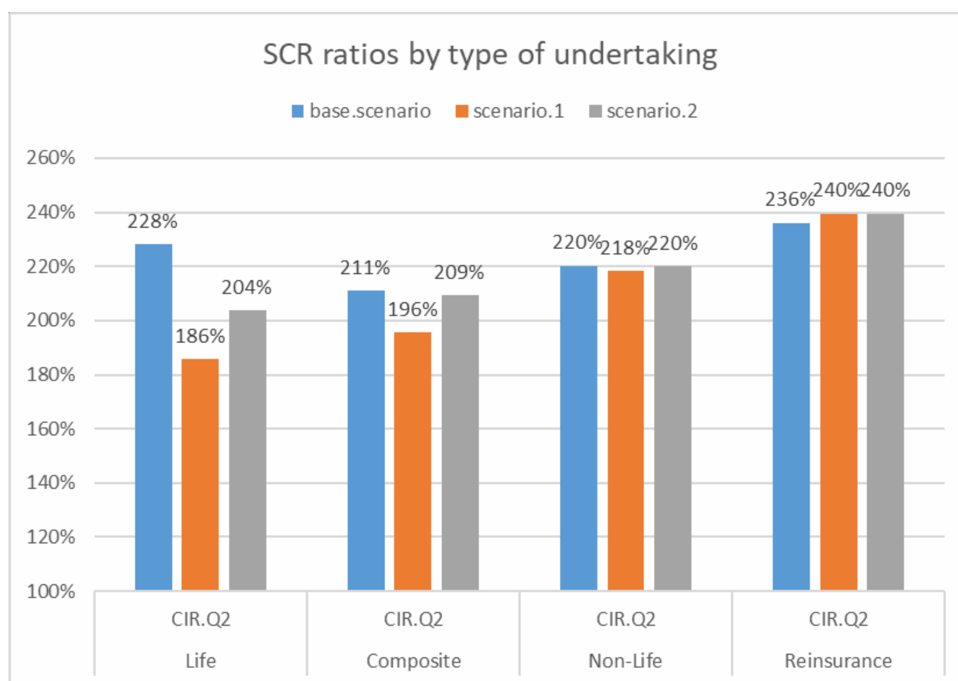
Table 43 – Summary impact of changes on capital surplus under scenario 1

	Approximate impact on capital surplus	
Changes to:	**HIA**	**CIR**
Volatility adjustment	+16 bn	+13 bn
Risk margin	+16 bn	+18 bn
Extrapolation	-34 bn	-61 bn
Correlations	+5 bn	+5 bn
Interest rate risk	-21 bn	-20 bn

1.131 For most of the changes the impact estimated for HIA and CIR are similar. But the impact of the change to the extrapolation is significantly higher in the CIR than in the HIA. Other than in the HIA, the alternative extrapolation method resulted in the CIR in a stronger increase of technical provisions and a stronger increase of the SCR in some national markets. The reason for the stronger impact is apparently that due to the lower interest rate level in the CIR the future discretionary benefits recognised in the insurance liabilities do not mitigate the impact of the change to the same degree as in the HIA.

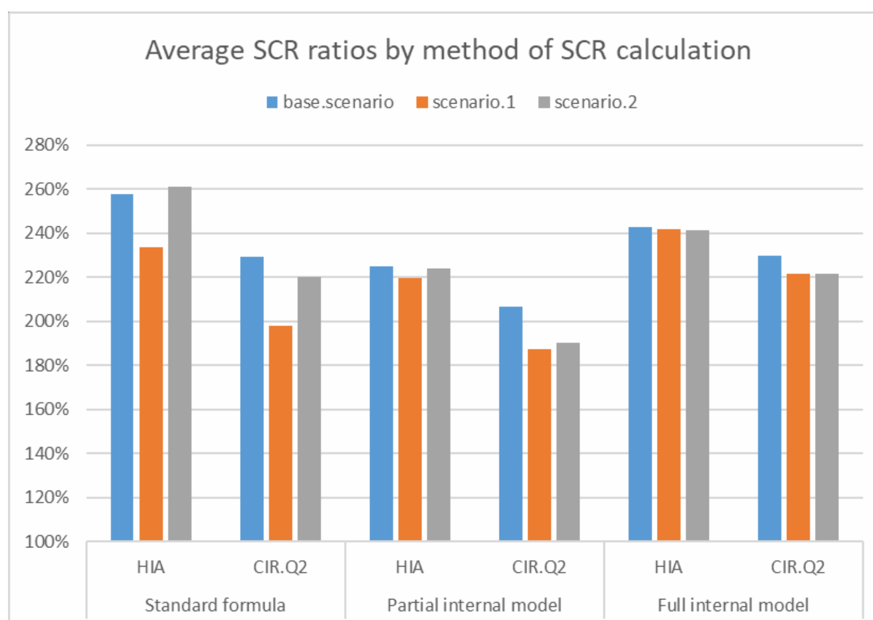
1.132 Undertakings with long-term liabilities are expected to be more affected by the proposed changes, in particular on extrapolation, risk margin, VA and interest rate risk, than other undertakings. Consequently, the average impact of scenarios and is bigger on the SCR ratios for life insurance and composite undertakings. Non-life insurance undertakings are hardly affected on average. Reinsurance undertakings reported on average an improvement of their SCR ratio under scenario 1 and 2. However, non-life and reinsurance undertakings significantly contribute to the increase of surplus in scenario 2 and mitigate the loss of surplus for all undertakings in scenario 1.

Figure 19 – SCR ratios by type of undertaking at end of Q2 2020



1.133 The following diagram shows the impact of scenario 1 and differentiated by the method of SCR calculation. In scenario 1, standard model users show a stronger decrease of the ratio than users of a partial and full internal model. In scenario 2 all three classis show a similar decease of the SCR ratio.

Figure 20 – SCR ratios by method of calculation of the SCR at the end of 2019 (HIA) and at end of Q2 2020 (CIR)

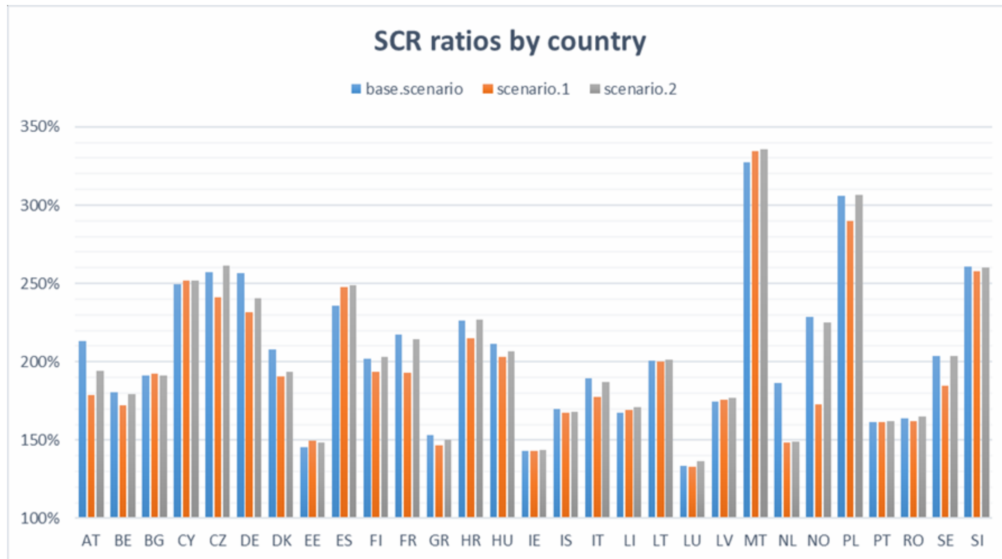


1.134 Five life insurance undertakings do not comply with the SCR in scenario 1 and two of them also breach the SCR in scenario 2. None of these undertakings breach the MCR. All composite, non-life insurance and reinsurance undertakings comply with the SCR and MCR in scenarios 1 and 2.

1.135 The following diagram shows the impact of scenario 1 and 2 on the average SCR ratio per country. While in some countries the average SCR ratios hardly change

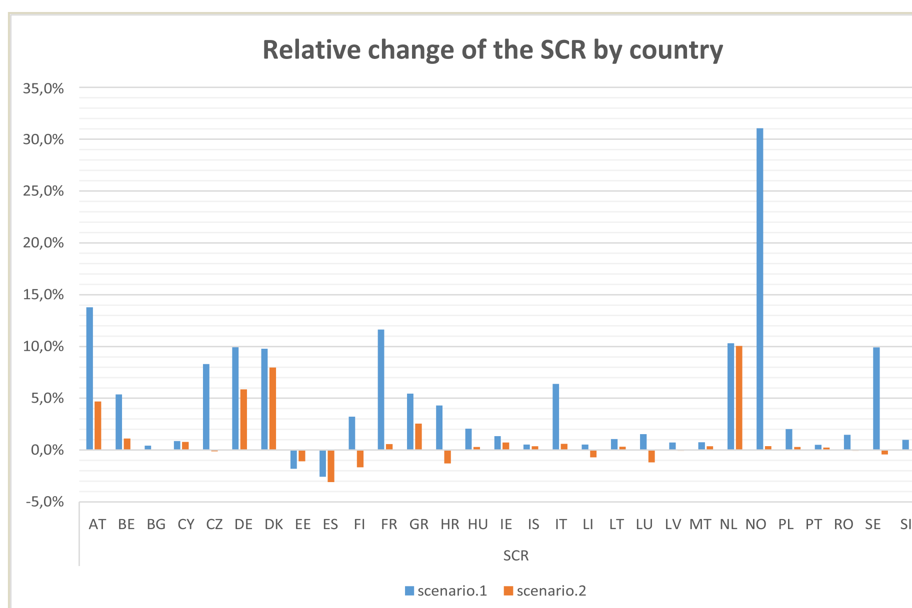
(BG, CY, EE, IE, IS, LI, LT, LU, LV, PT, RO, SI), in other countries the ratio decreases in scenario 1 or even both scenarios. Reductions of more than 20 percentage points in scenario 1 are reported for AT, DE, FR, NL and NO. For NL a reduction of that size is also reported for scenario 2. In ES and MT the average SCR ratio increases in both scenarios.

Figure 21 – SCR ratios by country at end of Q2 2020



1.136 Differences between countries become more visible when analysing the average relative impact on the on the SCR and the own funds to cover the SCR separately. On average the SCR increases by 9.2% in scenario 1 and by 3.4% in scenario 2. The following diagram show that the SCR increases under scenario 1 in most countries, but to different extent. Strongest increases can be observed in Norway, France and Austria. The comparison with scenario 2 shows that these increases are for these countries primarily due to the interest rate risk recalibration. For Germany, Denmark and the Netherland also significant increases of the SCR can be observed. They stem however only to a smaller extent from the interest rate risk recalibration.

Figure 22 – Relative change of the SCR by country at end of Q2 2020



1.137 The average impact of scenario 1 on eligible own funds to cover the SCR is a decrease by 1.2%. About half of the countries report an average decrease of own funds. Strongest reductions are observed for Austria, the Netherlands and Slovakia. A similar number of countries reports an increases of own funds. The strongest increases exist in Ireland, Spain, Malta and Luxembourg. For Belgium, Italy, Sweden and Slovenia, the own funds hardly change in the scenarios. With regard to the impact on own funds, differences between scenario 1 and 2 are overall small.

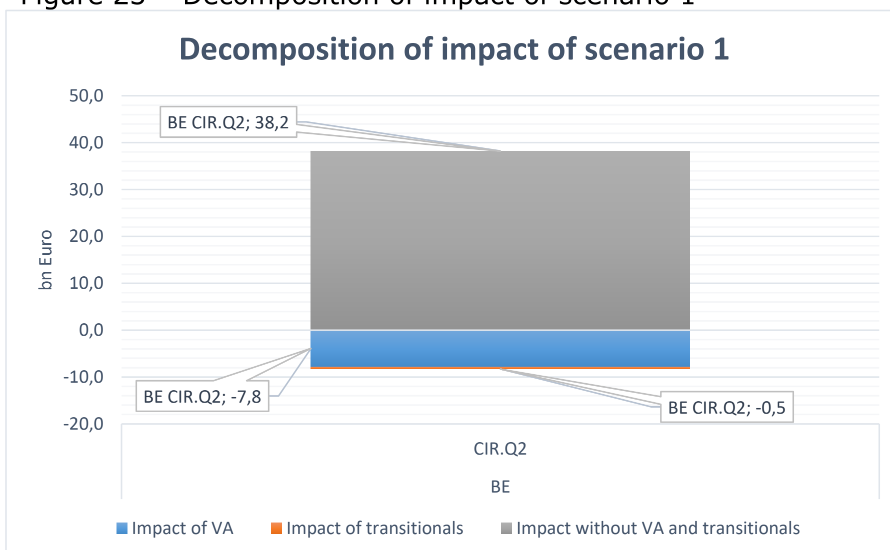
1.138 The total volume of best estimate reflected in the CIR amounts to around EUR 4.772 bn. The following table outlines the impact of scenario 1 at the end of Q2 2020 compared to the base scenario, in absolute terms, on the best estimate for the different types of undertakings. Note that the absolute impact is expressed in million Euros.

Table 44– Impact of scenario 1 on the best estimate at the end of Q2 2020

Type of undertaking	Best Estimate: Absolute impact of scenario 1 compared to base	Best Estimate: Relative impact of scenario 1 compared to base
Life	23.918	0,73%
Composite	4.019	0,42%
Non-Life	1.684	0,20%
Reinsurance	290	0,42%
Total	**29.911**	**0,63%**

1.139 The portion of the impact of scenario 1 on the best estimate that is attributable to the VA can be estimated by the change in the impact of the VA on the best estimate between the base scenario and scenario 1. In this way, the impact of scenario 1 can be decomposed into its main drivers. The following diagram shows the corresponding decomposition for the different types of business:[45]

Figure 23 – Decomposition of impact of scenario 1

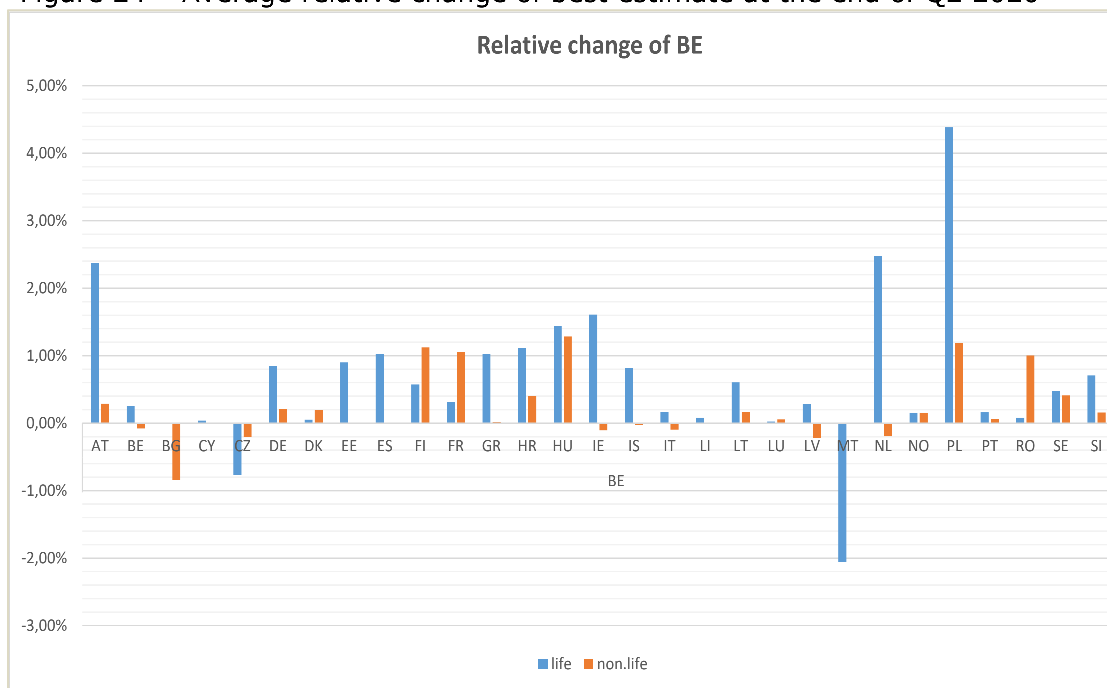


[45] This diagram also shows a small change in the impact of the transitionals which is not clearly attributable to either the VA or the alternative extrapolation

1.140 This shows that the alternative extrapolation (estimated as the residual impact) has a very large effect on the best estimate, leading to an increase of 38,2 bn Euro.

1.141 The following graph illustrates the impact of scenario 1 on the best estimate split by countries and for life and non-life obligations at the end of Q2 2020.

Figure 24 – Average relative change of best estimate at the end of Q2 2020



Impact of the mechanism on extrapolation

(a) Impact of the mechanism on the term structures

1.142 The impact of the mechanism on term structures was calculated for the EEA currencies as if it had been applied for the period from January 2019 to October 2020. For some currencies (HRK, HUF, ISK, NOK, PLN, RON) the mechanism would not have had an impact because interest rates were above the level of 0.5%.

1.143 For the euro and the currencies pegged to the euro (BGN, DKK), for CZK and CHF the mechanism would have had an impact during that period. The following table shows the adjusted convergence parameter. No impact of phasing-out of the mechanism is assumed.

Table 45 – Adjusted convergence parameter

	EUR	BGN	CZK	DKK	CHF
Jan-19	10.0%	10.0%	10.0%	10.0%	11.6%
Feb-19	10.0%	10.0%	10.0%	10.0%	11.5%
Mar-19	10.0%	10.0%	10.0%	10.0%	12.4%
Apr-19	10.0%	10.0%	10.0%	10.0%	12.1%
May-19	10.0%	10.0%	10.0%	10.0%	12.9%
Jun-19	10.0%	10.0%	10.0%	10.0%	13.3%
Jul-19	11.4%	11.9%	10.0%	11.5%	13.8%
Aug-19	15.6%	16.1%	10.0%	15.7%	14.0%

Sep-19	14.1%	14.6%	10.0%	14.2%	14.0%
Oct-19	12.0%	12.5%	10.0%	12.1%	13.3%
Nov-19	11.7%	12.2%	10.0%	11.8%	13.4%
Dec-19	10.0%	10.4%	10.0%	10.0%	12.8%
Jan-20	12.9%	13.4%	10.0%	13.0%	14.0%
Feb-20	14.8%	15.3%	10.0%	14.9%	14.0%
Mar-20	13.8%	14.3%	10.0%	13.9%	13.0%
Apr-20	15.7%	16.2%	10.0%	15.8%	13.8%
May-20	15.2%	15.7%	10.1%	15.3%	13.8%
Jun-20	15.3%	15.8%	10.0%	15.4%	13.6%
Jul-20	16.0%	16.5%	10.0%	16.1%	13.9%
Aug-20	14.6%	15.1%	10.0%	14.7%	13.3%
Sep-20	15.8%	16.3%	10.0%	15.9%	13.8%
Oct-20	16.2%	16.7%	10.0%	16.3%	13.8%

1.144 The following diagrams compare the term structures derived with the current extrapolation method (SW), the alternative extrapolation method and the alternative extrapolation method with the mechanism. The structures are provided for mid-2020 for those currencies where the method would have been triggered at that point in time. The full impact of the mechanism is shown, without reduction for phasing-out.

Figure 25 – Comparison of EUR term structures June 2020

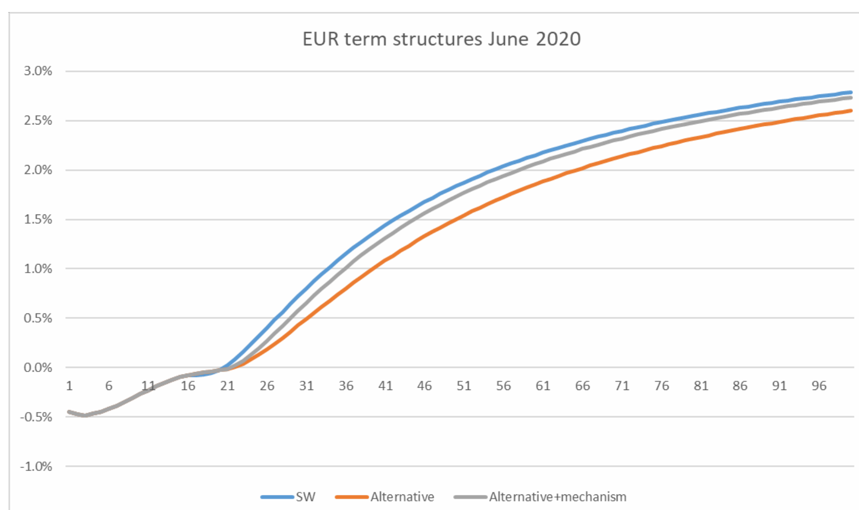


Figure 26 – Comparison of BGN term structures June 2020

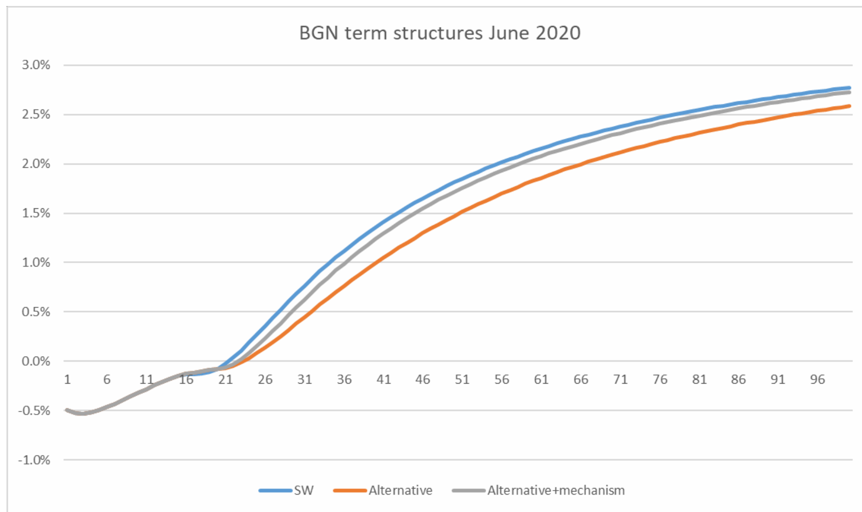


Figure 27 – Comparison of DKK term structures June 2020

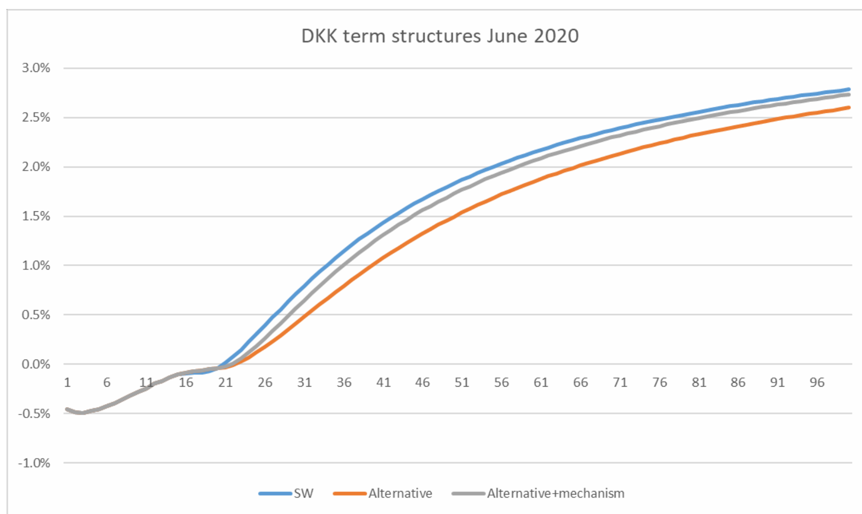
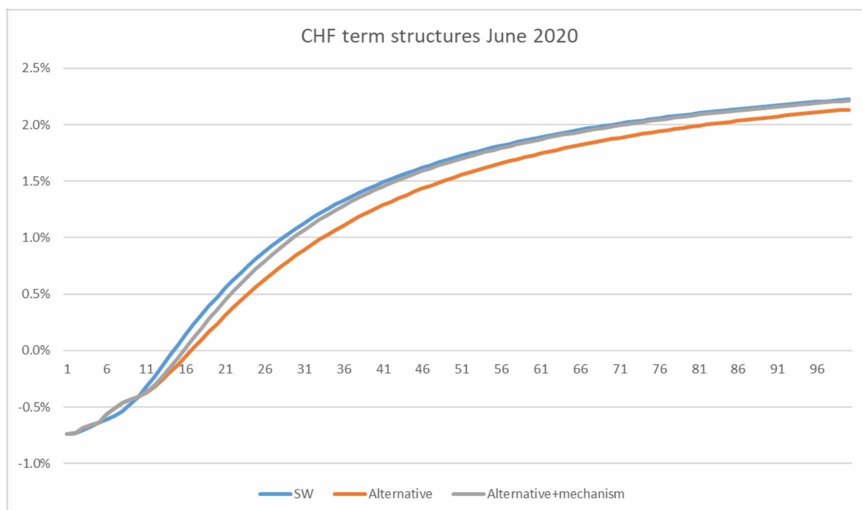


Figure 28 – Comparison of CHF term structures June 2020



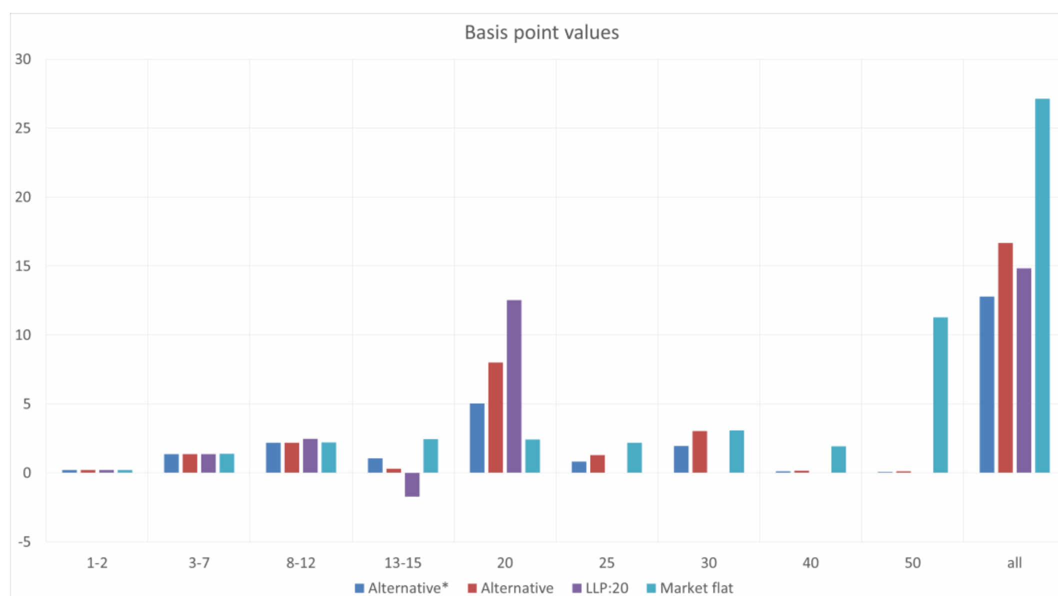
The CHF term structure for the current method (SW) anticipates a change of the last-liquid point from 25 years to 10 years.

(b) Impact of the mechanism on sensitivities of the risk-free interest rates to changes in market data

1.145 If the mechanism is introduced the sensitivity of the alternative extrapolation to changes in the underlying interest rate market data decreases and becomes lower than that of the Smith-Wilson method with LLP 20 at times when the rates for the FSP are within in the corridor of the mechanism. This is a disadvantage of the mechanism, which could give insurance undertakings less incentives to hedge their interest rate risk than in the current framework. Undertakings that are interest rate down exposed and currently hedge their interest rate risk to a relatively large extent will typically experience an increase in own funds when rates decrease within the corridor and vice versa. This implies that for these undertakings the mechanism results in increased volatility in own funds when rates are within the corridor. For undertakings with a relatively low extent of interest rate hedging the mechanism will result in more stability of their own funds, within the corridor. Effects from profit sharing mechanisms though might also influence the behaviour. The interest rate sensitivities of maturity points close to the FSP are however still more in line with market sensitivities, than the current method.

1.146 Apart from that, it is not advisable that undertakings hedge the regulatory term structure with the mechanism, given that it moves the term structure further away from market rates and is of a temporary nature. Where undertakings see the need to hedge a regulatory term structure then they should disregard the mechanism.

Figure 29 - Sensitivities of the risk-free interest rates to changes in market data



(c) Impact of the mechanism on the overall outcome of the review[46]

Scenario A: Interest rate level similar to end of 2019

1.147 In this scenario, the interest rates are assumed to be at a level similar to end of 2019 from the beginning of the application of the alternative extrapolation method until 2032. In this case, the mechanism would not be triggered for the euro. The

[46] It should be noted that the figures presented in this section relate to undertakings participating in the HIA and CIR.

expected impact would correspond to that measured in the information request for the holistic impact assessment (HIA), as set out in the following table (corresponding to the impact of scenario 2). The impact of the recalibration of interest rate risk (IRR) for the standard formula is not taken into account. The following figures relate to the sample of undertakings that participated in the HIA and the CIR.

Table 46 – Impact of the advice (excluding IRR) with the mechanism

Country	Absolute impact of advice (excl. IRR) on Surplus per YE 2019 in million euro	Relative impact of advice (excl. IRR) on Surplus per YE 2019 in %-points
EEA	5.111	1%
AT	-506	-4%
BE	457	8%
BG	3	2%
CY	4	3%
CZ	32	2%
DE	1.696	1%
DK	-234	-3%
EE	-1	-1%
ES	1.455	8%
FI	210	4%
FR	1.714	2%
GR	29	6%
HR	-3	0%
HU	-22	-5%
IE	368	6%
IS	0	0%
IT	1.434	4%
LI	25	3%
LT	-4	-3%
LU	72	11%
LV	-0	0%
MT	114	4%
NL	-1.843	-10%
NO	-10	0%
PL	27	0%
PT	48	3%
RO	5	2%
SE	47	1%
SI	5	0%
SK	-9	-3%

1.148 For the EEA sample this leads to a positive impact in terms of surplus of EUR 5.1 bn.[47] Note that the mechanism would apply for BGN and CHF but the numbers provided are not expected to change significantly due to the comparably low impact of the extrapolation in BG and LI where these currencies are expected to be material. If the interest rates stay on the same level after implementation of the advice, the impact provided above would persist unless it is reduced by changes in business mix.

[47] Note that the value provided is based on the sample of those undertakings participating in both, HIA and CIR. The figure therefore does not coincide with the impact of scenario 2 reported for the HIA (-6.9 bn Euro) in the Impact Assessment dcoument.

Scenario B: Interest rate level similar to mid-2020

1.149 In this scenario, the interest rates are assumed to be at a level similar to mid-2020 from the beginning of the application of the alternative extrapolation method until 2032. In this scenario, the mechanism would spread a significant share of the impact over the period until 2032. For the assessment of the impact, the assumptions about the run-off of the existing liabilities are important.

1.150 In the following, first an assessment ignoring the run-off is provided. This assessment is based on the assumption that the impact linearly spreads across the years.

1.151 Secondly an assessment taking into account run-off is provided. For that assessment an approximation was performed based on the cash flow patterns provided by undertakings in the regular supervisory reporting. To assess the decrease in impact of the extrapolation over time, the cash flows were assumed to be fixed for each future year. Based on those cash flows the difference between a discounting of cash flows with the current extrapolation and the alternative extrapolation with an alpha of 10% was determined.

1.152 To assess the future impact, the interest rates needed to be projected into the future. Two approaches were tested, one where interest rates stayed constant as at mid-2020 and another where interest rates developed according to the implicit forward rates. Results for these two approaches were quite similar thus, in the following, the results are provided for the "constant approach" (i.e. where interest rates are assumed to stay constant as at mid-2020).

1.153 The analysis was performed for the whole of EEA and the individual member states separately. The analysis was validated by comparing it with further information from the Dutch market where undertakings provided data on the projected impact of different settings of the extrapolation. The results of EIOPAs assessment and the more detailed Dutch information turned out to be comparable.

1.154 Though, the approximation is based on a number of assumptions, in particular it disregards the variability of cash flows which is very relevant for some markets. Still, the analysis is considered to provide a more realistic assessment of the impact.

1.155 The approach described above was also used to assess the evolution of the impact of the VA. In order to assess the future decrease in impact of the changes to the risk margin, the run-off patterns on the risk margin, reported by undertakings in the HIA, are used. These patterns are discounted each future year with the current extrapolation and the alternative extrapolation with an alpha of 10%, similar to the approach described above for the extrapolation impact. The estimation leads to a run-off profile for the impact of the changes to the risk margin.

1.156 Estimating the run-off of the impact of the risk margin, VA and extrapolation enabled to provide an estimate for the run-off of the impact of the package for the individual member states, as outlined in the following.

Projection without run-off of existing liabilities

1.157 The change to the extrapolation method is assumed to be applicable from 2023 onwards. If at that point in time the interest rate level was similar to that at mid-2020, then the mechanism would apply, in particular also for the euro. At EEA level the capital surplus of the sample would increase by EUR 11 bn. If that low interest

rate level would then persist until 2032 the impact of the extrapolation would be step-wise recognized in the consecutive 9 years with an average annual reduction of surplus by EUR 3.5 bn.

Projection with run-off of existing liabilities

1.158 As outlined above, the impact of the extrapolation is driven in particular by the old book of business. As this runs off, the impact diminishes over time. The impact provided above is thus a very pessimistic reflection of the future as this run-off is not reflected.

1.159 As outlined above, an approximation was made to assess the evolution of the impact of the VA, risk margin and extrapolation. This information allows estimating the effect of the run-off of the existing liabilities on the impact of the advice.

1.160 The following table outlines the decrease in impact of the extrapolation, VA and risk margin ("run-off patterns") until 2032 for the different countries. Where cells are left blank this indicates that the impact of the VA is immaterial for those countries. The figures relate to the sample of undertakings that participated in the HIA and the CIR.

Table 47 – Decrease in initial impact of Extrapolation, VA and Risk Margin *

Country	Decrease in initial impact of Extrapolation as per 2032	Decrease in initial impact of VA as per 2032	Decrease in initial impact of Risk Margin as per 2032
EEA	-49%	-29%	-29%
AT	-35%	-34%	-24%
BE	-75%	-65%	-29%
BG	-91%	-42%	-35%
CY	-81%		-28%
CZ	-54%	-42%	-29%
DE	-37%	-18%	-27%
DK	-68%	-42%	-27%
EE	-38%	-42%	-36%
ES	-43%	-59%	-24%
FI	-68%	-65%	-32%
FR	-72%	-55%	-33%
GR	-63%	-71%	-31%
HR	-79%		-34%
HU	-66%	-42%	-30%
IE	-43%	-74%	-30%
IS	-100%		-100%
IT	-75%	-69%	-35%
LI	-76%	-38%	-31%
LT	-81%		-35%
LU	-66%	-59%	-32%
LV	-66%		-30%
MT	-51%	-16%	-26%
NL	-53%	-46%	-30%
NO	-50%	-42%	-31%
PL	-43%		-28%
PT	-75%	-79%	-32%

RO	-86%	-42%	-29%
SE	-70%	-42%	-31%
SI	-68%		-32%
SK	-80%	-61%	-33%

* This table was amended on 10 June 2021

1.161 The run-off of the impact varies a lot for the different countries reflecting also the term of the liabilities. The following two tables outline the impact of the advice until 2032 without applying the mechanism and with applying the mechanism. Both tables reflect the estimated run-off of the impact due to the run-off of the old book of business in a situation that remains similar to that at mid-2020. The figures relate to the sample of undertakings that participated in the HIA and the CIR.

Table 48 - Impact without mechanism *

Country	Impact of package (excl. IRR) per mid-2020 in million euro	Impact of package (excl. IRR) per begin-2023 in million euro	Impact of package (excl. IRR) per begin-2032 in million euro
EEA	-20.044	-13.915	438
AT	-1.172	-1.040	-691
BE	-33	58	169
BG	0	1	1
CY	4	5	6
CZ	48	45	36
DE	-10.243	-8.291	-1.890
DK	-453	-278	-12
EE	5	5	4
ES	1.091	1.140	1.216
FI	-19	32	95
FR	-1.708	-141	2.923
GR	-14	-1	16
HR	-5	2	14
HU	-17	-10	3
IE	144	144	129
IS	-3	-0	-0
IT	-436	-41	519
LI	32	32	26
LT	2	3	4
LU	55	54	55
LV	3	3	2
MT	123	117	96
NL	-7.246	-5.738	-2.624
NO	-169	-56	191
PL	26	29	38
PT	20	21	22
RO	6	6	6
SE	-33	7	70
SI	-2	2	7
SK	-52	-28	5

* This table was amended on 10 June 2021

1.162 Taking into account the above mentioned run-off patterns for the extrapolation, risk margin and VA implies that the impact on the surplus of EUR -20.0 bn per June 2020 decreases until 2023 to an impact of around EUR -13.9 bn in 2023 and EUR +0.4 bn in 2032 for the whole European market.

Table 49 - Impact with mechanism *

Country	Impact of package (excl. IRR) per mid-2020 in million euro	Impact of package (excl. IRR) per begin-2023 in million euro	Impact of package (excl. IRR) per begin- 2032 in million euro
EEA	11.413	13.140	438
AT	-244	-197	-691
BE	434	395	169
BG	1	1	1
CY	7	7	6
CZ	48	45	36
DE	6.895	7.344	-1.890
DK	-42	30	-12
EE	13	12	4
ES	1.693	1.652	1.216
FI	78	105	95
FR	3.484	3.859	2.923
GR	17	23	16
HR	-5	2	14
HU	-17	-10	3
IE	438	399	129
IS	-3	-0	-0
IT	1.139	1.097	519
LI	37	35	26
LT	5	6	4
LU	96	87	55
LV	4	3	2
MT	132	125	96
NL	-2.677	-1.919	-2.624
NO	-169	-56	191
PL	26	29	38
PT	46	39	22
RO	6	6	6
SE	-33	7	70
SI	9	10	7
SK	-6	4	5

* This table was amended on 10 June 2021

1.163 Applying the mechanism and taking into account the run-off patterns for the extrapolation, risk margin and VA implies that the impact on the surplus of EUR -20.0 bn per June 2020 would be positive where the package is applied in 2023, amounting to EUR +13.1 bn for the whole market. Phasing-out the mechanism would then lead to an impact of EUR 0.4 bn in 2032, comparable to the situation in the previous table as the mechanism is no longer applied. Note that the positive impact increases

comparing 2023 to 2020 because of the differences in the run-off of the different elements: The negative impact of the extrapolation runs off faster in the first years compared to the positive impact from risk margin and VA.

1.8 Costs for supervisory authorities

1.164 Between October and December 2019, EIOPA performed a survey to National Supervisory Authorities about the expected costs and benefits of the proposals in the Consultation Paper of the Opinion on the 2020 review of Solvency II.

1.165 Several NSAs highlighted the difficulty to make estimation of costs. Several NSAs reported that an increase of resources in the authority as a result of the Solvency II review is not expected; those authorities will reallocate the existing resources and adapt their priorities.

1.166 The following tables[48] provides an overview of the percentage of NSAs that expect significant one-off costs and on-going costs from the different legislative changes.

Table 50- Significant one-off costs for NSAs

Legislative changes	**NSAs which expect significant one-off costs**
1. TP (including LTG)	43%
2. SCR	50%
3. Own funds[49]	18%
4. Group solvency[50]	21%
5. Key functions	11%
6. ORSA	18%
7. Written policies	21%
8. AMSB	7%
9. Risk management	25%
10. Prudent person	11%
11. Fit and proper	11%
12. Supervisory powers	14%
13. Group governance	11%
14. QRT- solo	68%
15. QRT- groups	50%
16. RSR - solo	39%
17. RSR – groups	29%
18. SFCR - solo	36%
19. SFCR – groups	25%
20. Scope of Solvency II	25%
21. Resolution	39%
22. Supervisory cooperation	21%
23. Insurance Guarantee Schemes	43%
24. Groups -Other Items[51]	7%
25. Other	21%

[48] Colour coding applied in section 1.8 (from green to red) relates to the percentage of respondents (NSAs) that identified expected significant one-off costs or increase of on-going costs from the different legislative changes. Red corresponds to the highest percentage, green corresponds to the lowest percentage.

[49] This refers to one-off costs derived from the original proposal regarding own funds in the consultation paper. This proposal has not been included in the final advice.

[50] Please refer to footnotes regarding updates to the policy options on group issues in Table 28

[51] Please refer to footnotes regarding updates to the policy options on group issues in Table 28

Table 51 – Increase of on-going costs for NSAs

Legislative changes	NSAs which expect an increase of on-going costs
1. TP (including LTG)	43%
2. SCR	29%
3. Own funds[52]	7%
4. Group solvency[53]	11%
5. Key functions	11%
6. ORSA	11%
7. Written policies	14%
8. AMSB	4%
9. Risk management	25%
10. Prudent person	4%
11. Fit and proper	14%
12. Supervisory powers	18%
13. Group governance	14%
14. QRT- solo	25%
15. QRT- groups	14%
16. RSR - solo	14%
17. RSR – groups	7%
18. SFCR - solo	14%
19. SFCR – groups	7%
20. Scope of Solvency II	7%
21. Resolution	43%
22. Supervisory cooperation	32%
23. Insurance Guarantee Schemes	39%
24. Groups -Other Items[54]	7%
25. Other	14%

1.167 Under "other" NSAs have reported a wide range of items such as: authorizations, mergers & acquisitions, public reports, IT costs, fit & proper, key functions, business model analysis, macro-prudential framework or international cooperation.

1.168 In addition, EIOPA performed an ad-hoc information request to NSAs regarding the expected one-off and on-going costs derived from the proposals on macroprudencial policy and recovery and resolution.

1.169 The following tables provide an overview of the range of costs estimated by the NSAs for drafting and maintaining resolution plans and resolvability assessments. It should be stressed that the aim was gathering an initial and high-level overview of where the cost range could be. There was no detailed description of which items should be included per category in order to allow for the application of proportionality, which may help explaining the amplitude of the range. Furthermore, in most cases such plans are not in place yet. When this was the case, NSAs were asked to provide an estimation based on their experience with other plans/reports.

[52] This refers to on-going costs derived from the original proposal regarding own funds in the consultation paper. This proposal has not been included in the final advice.

[53] Please refer to footnotes regarding updates to the policy options on group issues in Table 28

[54] Please refer to footnotes regarding updates to the policy options on group issues in Table 28

Table 52-Costs estimated by NSAs for drafting and maintaining of resolution plans

Drafting and maintaining of resolution plans	One-off costs	On-going costs
Staff (total FTE per year)	0.2-5 FTE	0.08 - 4 FTE
IT costs – internal (in Eur)	EUR 2500 - 100.000	EUR 250 - 29.000
IT costs – external (in Eur)	EUR 2.000 - 100.000	EUR 3.000 - 20.000
Fees to externals (e.g. consultants) (in Eur)	EUR 6.000 - 100.000	EUR 4.000 - 100.000
Others (in Eur)[55]	-	EUR 2.400

Table 53-Costs estimated by NSAs for drafting and maintaining of resolvability assessments

Drafting and maintaining of resolvability assessments	One-off costs	On-going costs
Staff (total FTE per year)	0.08 -3 FTE	0.03 - 2 FTE
IT costs – internal (in Eur)	EUR 2.500 - 100.000	EUR 250 - 29.000
IT costs – external (in Eur)	EUR 10.000 - 100.000	EUR 3.000 - 20.000
Fees to externals (e.g. consultants) (in Eur)	EUR 2.000 - 100.000	EUR 4.000 - 100.000

1.170 The following table provides an overview of the range of costs estimated by NSAs for the supervision of pre-emptive recovery plans, liquidity risk management plans and systemic risk management plans.

Table 54 - Costs estimated by NSAs for the supervision of pre-emptive recovery plans, liquidity risk management plans and systemic risk management plans

	One-off costs	On-going costs
Review of pre-emptive recovery plans	0.04 - 5 FTE	0.06 - 3 FTE
Review of LRMPs	0.05 - 3 FTE	0.03 - 2 FTE
Review of SRMPs	0.05 - 3 FTE	0.05 - 2 FTE

1.9 Costs for EIOPA

1.171 Within EIOPA proposed legislative changes for the review of Solvency II, there are few proposals directly related to the Authority itself, which are:

i. enhanced role for EIOPA in complex cross-border cases where NSAs fail to reach a common view in the collaboration platform;

ii. allow in exceptional cases for EIOPA to conclude on propriety assessments in complex cross-border cases;

iii. Cross-border cooperation and coordination arrangements between national resolution authorities for crisis situations on the one hand and between national IGSs on the other. EIOPA should have a leading role in ensuring the

[55] The following cost items were indicated: cost of materials and catering/meeting costs for all recovery and resolution activities.

consistent and coherent functioning of these cross-border arrangements across the EU;

iv. additional role for EIOPA linked to the transitional phase proposed in the Advice with regard to the UE minimum harmonised framework of national IGSs;

v. additional role for EIOPA regarding powers over holdings, EIOPA should be consulted as part of the decision process, in the case of cross-border groups, in order to ensure a consistent use of such powers at EU level; and

vi. enhanced information role regarding choice of Methods (Article 262 of the Solvency II Directive), where the supervisory authorities shall clearly document the rationale for the choice of one or several methods and will be asked to include EIOPA in the notification process.

1.172 The first two proposals are intended to highlight the possibility to EIOPA to intervene issuing a recommendation to address these particular cases, which is a power already recognised in Article 16 of EIOPA Regulation. In addition, it should be noted that EIOPA intervention is only expected in the exceptional cases where an agreement between concerned NSAs is not achieved. Consequently, none of these two proposed legislative changes would translate into material costs for EIOPA.

1.173 The first part of third proposal is based on the principles set out in Article 21(1) and (2) of the EIOPA Regulation related to the role of the Authority in the colleges of supervisors and should not imply new material costs for EIOPA. The second part, instead, could translate into an additional involvement of EIOPA in terms of new tasks and should imply new costs.

1.174 The fourth proposal could imply additional material costs for EIOPA, also in particular in terms of additional staff required, given that the Authority - during the transitional period proposed in the advice - would be invested with new assessment tasks. In particular, EIOPA should collect information from the NSAs and evaluate the degree of compliance of the existing IGSs or other alternative mechanisms with the harmonised features proposed in the Advice. EIOPA should assess the compliance of all the harmonised features at the end of the transitional phase and should report the result of this assessment to the Commission.

1.175 In relation to the fifth item above, the proposal should not imply material costs for EIOPA. This could be exercised as part of the Oversight activities. Depending on the number and frequency of the cases identified by the supervisory authorities it may imply additional work during the implementation phase.

1.176 As regards to item sixth, the proposal should not imply material costs for EIOPA. The exercise will require a centralised process to manage the notifications submitted by the supervisory authorities.

1.177 Other proposed legislative changes, while not directly addressed to EIOPA, could give rise to one-off and/or on-going costs to the Authority. These are summarised in the table below:

Table 55 – Proposed legislative changes with potential costs implications for EIOPA

Proposed legislative changes	Eventual costs for EIOPA
TP: Change of the extrapolation method and changes to the design of the VA	One-off costs for the adaptation of the processes for the production of risk-free interest rate term structures
TP: Prudent deterministic valuation under the proportionality principle	One-off costs for the development of the methodology to define the PHRSS (prudent harmonised reduced set of scenarios) On-going costs to publish regularly the PHRSS
QRT: Changes to the templates	One-off costs for the update of the Data Point Model, and XBRL Taxonomy

1.178 More generally, the review of the Solvency II Directive and Delegated Regulation would require an intensive follow-up regulatory work by EIOPA, including:

- amendment of existing Solvency II technical standards and guidelines to ensure consistency with the amended provisions in level 1 and level 2; and
- development of additional draft technical standards and guidelines in new regulated areas (e.g. recovery and resolution, macro-prudential policy, IGS).

1.179 With respect to the existing Solvency II technical standards and guidelines, EIOPA has performed a preliminary diagnosis on the immediate need to amend the text in force to ensure consistency with the proposed changes to the Directive and Regulation or to address issues in certain areas identified during the review (e.g. divergent supervisory practices). Solvency II Technical standards and guidelines to be amended would include the following:

- ITS with regard to the templates for the submission of information to the supervisory authorities;
- ITS with regard to the templates and structure of the disclosure of specific information by supervisory authorities;
- ITS with regard to the procedures, formats and templates of the solvency and financial condition report;
- Guidelines on contract boundaries;
- Guidelines on the valuation of technical provisions;
- Guidelines on basis risk;
- Guidelines on the treatment of market and counterparty risk exposures in the standard formula;
- Guidelines on system of governance;
- Guidelines on own risk and solvency assessment;
- Guidelines on methods for determining the market shares for reporting;
- Guidelines on reporting for financial stability purposes; and
- Guidelines on reporting and public disclosure.

1.180 In addition, the table below presents a non-exhaustive list of new draft technical standards and guidelines that would need to be developed by EIOPA to ensure common, uniform and consistent application of the requirements.

Table 56- Potential new ITS or guidelines

New ITS of Guidelines to develop with the SII review	**Reference in the Opinion**
1. Guidelines to clarify the conditions for approval/withdrawal of the VA.	Section 2.4.8
2. ITS or guidelines on the procedures for decisions to trigger, set, calculate and remove capital surcharge for systemic risk.	Section 11.4.1
3. Guidelines to specify the "exceptional circumstances" where the additional measures to reinforce the insurer's financial position proposed in the section 11.4.2 of the Opinion can be exercised.	Section 11.4.2
4. Guidelines to specify the procedures for decisions to set the soft thresholds at EU level, while taking into account the conditions in the different markets.	Section 11.4.3
5. Guidelines to specify the scope of undertakings subject to SRMP.	Section 11.4.7
6. Guidelines to specify the operational details of a potential liquidity risk framework as described in the section 11.4.8 of the Opinion	Section 11.4.8
7. Guidelines to specify when undertakings would be exempted from drafting a LRMP	Section 11.4.9
8. Guidelines to specify the "exceptional circumstances" where the power to temporary freeze on redemption rights can be exercised	Section 11.4.10
9. Guidelines to specify the criteria for the determination of the relevant functions to be preserved in resolution to ensure consistency in the determination of the scope of resolution planning	Section 12.3.5.3
10. Guidelines to clarify expectations on what to expect in cases when RSR articles refer to "full description".	Section 7.6.3 (RSR)

2 LTG measures and measures on equity risk

2.1 Extrapolation of risk-free interest rates

Policy issues	Options
1.Setting of the LLP for the euro	1.1. No change 1.2. The LLP stays at 20 years and additional safeguards are introduced in pillar 2 (risk management) and 3 (reporting and disclosure) 1.3. The LLP is increased to 30 years 1.4. The LLP is increased to 50 years 1.5. An alternative extrapolation method is applied (for the euro and other currencies)

Policy issue 1: Setting of the LLP for the euro		
Option 1.1: No change		
Costs	Policyholders	Current underestimation of technical provisions undermining policyholder protection would remain
	Industry	Current inappropriate incentives for risk management would remain
	Supervisors	Current supervisory concerns on long-term viability of undertakings providing insurance guarantees beyond 20 years would remain
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 1.2: The LLP stays at 20 years and additional safeguards are introduced in pillar 2 and 3		
Costs	Policyholders	Current underestimation of technical provisions undermining policyholder protection would remain
	Industry	Additional costs to comply with new risk management requirements (prescribed sensitivity analysis) as well as new reporting and disclosure requirements (results of the sensitivity analysis to be included in the Regular Supervisory Report and disclosed in the Solvency and Financial Condition Report). . Eventual limitations to voluntary capital distributions in case of deteriorating financial conditions.
	Supervisors	Additional resources needed to verify undertakings' compliance with new pillar 2 and pillar 3 requirements
	Other	None
Benefits	Policyholders	Increased transparency on extrapolation.

		Improved policyholder protection compared to option 1 since voluntary capital distributions by the undertakings could be limitedin case of deteriorating financial conditions.
	Industry	No material impact
	Supervisors	Increased transparency on extrapolation and more efficient supervision
	Other	Investors, analysts, rating agencies, journalists: Increased transparency on extrapolation.
Option 1.3: The LLP is increased to 30 years		
Costs	Policyholders	No material impact
	Industry	Increase of technical provisions for euro long-term liabilities and reduction of regulatory own funds (lower than option 4 but higher than option 5). Similar compliance costs to option 2 with respect to new pillar 2 and pillar 3 requirements
	Supervisors	Additional resources needed to verify undertakings' compliance with new pillar 2 and pillar 3 requirements
	Other	N/A
Benefits	Policyholders	Improved policyholder protection as technical provisions closer to being market-consistent.
	Industry	Improved incentives for risk management
	Supervisors	Solvency position reflects better the economic situation of undertakings
	Other	Investors, analysts, rating agencies, journalists: Solvency position reflects better the economic situation of undertakings.
Option 1.4: The LLP is increased to 50 years		
Costs	Policyholders	No material impact
	Industry	Increase of technical provisions for euro long-term liabilities and reduction of regulatory own funds (higher than options 3 and 5).
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection as technical provisions are market-consistent.
	Industry	Improved incentives for risk management
	Supervisors	Solvency position reflects better the economic situation of undertakings
	Other	Investors, analysts, rating agencies, journalists: Solvency position reflects better the economic situation of undertakings.
Option 1.5: An alternative extrapolation method is applied		
Costs	Policyholders	None
	Industry	Increase of technical provisions for euro long-term liabilities and reduction of regulatory own funds (lower than options 3 and 4). Similar compliance costs to options 2 and 3 with respect to new pillar 2 and pillar 3 requirements
	Supervisors	Additional resources needed to verify undertakings' compliance with new pillar 2 and pillar 3 requirements

	Other	None
Benefits	Policyholders	Improved policyholder protection as technical provisions closer to being market-consistent.
	Industry	Improved incentives for risk management
	Supervisors	Solvency position reflects better the economic situation of undertakings
	Other	Investors, analysts, rating agencies, journalists: Solvency position reflects better the economic situation of undertakings.

Policy issue: Setting of the LLP for the euro						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: The LLP stays at 20 years and additional safeguards are introduced in pillar 2 and 3	0	+	0	0	+	0
Option 1.3: The LLP is increased to 30 years	+	+	0	+	+	0
Option 1.4: The LLP is increased to 50 years	++	++	0	+	+	0
Option 1.5: An alternative extrapolation method is applied	+	+	0	+	+	0

2.1 With regard to the objective to avoiding unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees, it is noted that extending the starting point of the extrapolation may put current business practices of long-term life insurance at risk which aim to mitigate interest rate risk over time. There are however different views whether Solvency II should facilitate such business practices because they may not be sustainable when interest rates are persistently low.

2.2 With regard to the objective of avoiding unjustified constraints to insurance and reinsurance undertakings holding long-term investments, it is noted that extending the starting point of the extrapolation would incentivise undertakings to hold long-term bonds.

2.3 In respect of the extrapolation, EIOPA has taken into account another objective, namely the stability of the interest-rate term structure. Extending the LLP to 30 or 50 would most negatively impact this objective. That is why EIOPA finally prefers option 5.

2.2 Matching adjustment

Policy issue	Options
1.Diversification benefits	1.1.No change 1.2 Remove the limitation to diversification benefits for MA portfolios in the SCR standard formula (preferred)
2. Asset eligibility criteria	2.1 No change 2.2 Introduce a look through approach (preferred)

Diversification benefits

Option 1.1: Do Nothing: Maintain the limitation to diversification benefits for MA portfolios in the SCR standard formula		
Costs	Policyholders	No material impact
	Industry	More complexity in the calculation of SCR for undertakings applying the MA compared to option 2 Higher SCR for undertakings applying the MA and using the standard formula compared to option 2
	Supervisors	More complexity in the supervision, less comparability among SCR of MA users and SCR of non MA users
	Other	Investors, analysts, rating agencies, journalists: Less comparability among SCR of MA users and SCR of non MA users
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 1.2: Remove the limitation to diversification benefits for MA portfolios in the SCR standard formula		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Higher availability of insurance products with long-term guarantees

	Industry	Calculation of SCR according to the real risks and simpler
	Supervisors	Better risk reflection in SCR standard formula calculations, thereby supporting risk-based supervision
	Other	Investors, analysts, rating agencies, journalists: More comparability and more risk sensitive SCR

Policy issue: Diversification benefits								
	Effectiveness (0/+/++)				Efficiency (0/+/++)			
Options	Ensuring adequate market-consistent technical provisions	Promoting good risk manage-ment	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Avoiding unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees	Ensuring adequate market-consistent technical provisions	Promoting good risk manage-ment	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Avoiding unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees
Option 1.1: No change	0	0	0	0	0	0	0	0
Option 1.2: Remove the limitation to diversification benefits for MA portfolios in the SCR standard formula	0	++	0	+	0	++	0	+

Asset eligibility criteria

Option 2.1: No change		
Costs	Policyholders	Lower protection if asset structures without suitable features are used
	Industry	No impact
	Supervisors	More complexity in asset structures is possible
	Other	More complexity in asset structures is possible
Benefits	Policyholders	Potential cheaper products, but riskier
	Industry	Potential cheaper products (more sales), but riskier
	Supervisors	None
	Other	None
Option 2.2: Introduce a look-through approach		
Costs	Policyholders	No impact

	Industry	Look through requires to know well the asset structures and reduces the scope of valid asset structures
	Supervisors	No impact
	Other	No impact
Benefits	Policyholders	Higher protection
	Industry	Better level playing field
	Supervisors	Reduces complexity in supervision and improves the comparability
	Other	More transparency

Policy issue: asset eligibility criteria						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Look through approach	+ +	+	+ +	+ +	+ +	+

2.3 Volatility adjustment

Policy issue	Options
Technical improvements of the VA calculation	
1. Disallowance of negative spreads for corporate and government bond portfolios	1.1 No change 1.2 Allow for negative spreads for corporate and government bond portfolios (preferred)
Design of the VA	
2. Over- or undershooting effect of the VA	2.1 No change 2.2 Undertaking-specific VA 2.3 Overshooting factor 2.4 Proportionate overshooting factor (preferred)
3. Application of VA does not take into account illiquidity characteristics of liabilities	3.1 No change 3.2 Application of a an illiquidity factor 3.3 Application of an illiquidity factor on the basis of a "bucketing approach" (preferred)

4. Misestimation of risk correction of VA	4.1 No change 4.2 Amend the risk-correction to the spread so that it is decoupled from the fundamental spread, and instead calculated as a fixed percentage of the spread. 4.3 Amend risk-correction as in option 2, but allow for a higher impact of the VA when spreads are high (preferred)
5. VA almost always positiv	5.1 No change (preferred) 5.2 Own funds buffer
6. Underlying assumptions of VA unclear	6.1 No change 6.2 Split into permanent and macro VA (preferred)
7. Deficiencies in the methodology for the country specific increase	7.1 No change 7.2 Improved country-specifc methodology (preferred) 7.3 Replace country-specific increase
General application ratio (GAR)	
8. Calibration of the GAR	8.1 No change (i.e. keep the GAR at 65%) (preferred) 8.2 Increase the GAR to 100% 8.3: Change the GAR to a value between 65% and 100%
Dynamic VA for the standard formula	
9. Dynamic VA for the standard formula	9.1 No change (preferred) 9.2 Allow for the dynamic VA in the SCR standard formula
Use of the VA	
10. Approval to use the VA	10.1 No change 10.2 Require supervisory approval to use the VA in all Member States 10.3 Do not require supervisory approval to use the VA in all Member States 10.4 Require supervisory approval for new VA users and recognise explicitly the supervisory power to request stop using the VA (preferred)

2.3.1 Technical improvements of VA calculation

Disallowance of negative spreads for corporate and government bond portfolios

Policy issue 1: Negative spreads for corporate and government bond portfolios		
Option 1.1: No change (i.e. disallow negative spreads)		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact

	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 1.2: Allow for negative spreads for corporate and government bond portfolios		
Costs	Policyholders	No material impact
	Industry	Not material (change of VA only in rare circumstances, and even then considered to be small)
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection since VA better reflects economic reality (in cases where aggregated spreads are negative)
	Industry	No material impact
	Supervisors	Supports supervisory use of VA information since VA better reflects economic reality (in cases where aggregated spreads are negative)
	Other	N/A

Policy issue 1: Negative spreads for corporate and government bond portfolios						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: allowance of negative aggregated spreads for corporate and government bond portfolios	+	0	+	+	0	+

2.3.2 Design of the VA

Policy issue 2: Over- or undershooting effect of the VA
Option 2.1: No change

Costs	Policyholders	It can harm policyholder protection as an undertaking may present a high SCR ratio simply through an overshooting effect (technical provisions valued below its market-consistent value) due to the application of the VA
	Industry	Persistence of over- and undershooting effects in the design of the VA that can become quite material in several cases
	Supervisors	Lack of transparency in undertakings' solvency position that may hide material over- and undershooting effects after the application of the VA
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2.2: Undertaking specific VA		
Costs	Policyholders	It can harm policyholder protection as an undertaking can increase its SCR ratio through investment in riskier assets
	Industry	It can provide potential wrong risk-management and investment incentives (fixed income assets with higher spreads allows undertakings benefit from a higher VA) Where rating information is used, approach leads undertakings to higher dependence on external ratings in the determination of the VA
	Supervisors	Increase the complexity and costs of the application and supervision of the VA.
	Other	N/A
Benefits	Policyholders	May increase policyholder protection by reducing overshooting cases (undue reduction of technical provisions)
	Industry	Mitigation of over- and undershooting effects in the design of the VA when this is due to deviations of undertakings' investments to the reference portfolio, both in credit quality and total allocation to fixed income
	Supervisors	Potencial resolution of over- and undershooting cases when motivated by deviations of undertakings' investments to the reference portfolio, both in credit quality and total allocation to fixed income (instead of incurring in last resourse measures like a capital add-on)
	Other	N/A
Option 2.3: Overshooting factor		
Costs	Policyholders	No material impact
	Industry	Additional costs to comply with new requirements (determination of application ratio)
	Supervisors	Increase the complexity and costs of the application and supervision of the VA
	Other	N/A
Benefits	Policyholders	May increase policyholder protection by reducing overshooting cases (undue reduction of technical provisions)
	Industry	Mitigation of over- and undershooting effects in the design of the VA when this is due to deviations of undertakings' investments to the reference portfolio, both in duration and total allocation to fixed income

	Supervisors	Potencial resolution of over- and undershooting cases when motivated by deviations of undertakings' investments to the reference portfolio, both in duration and total allocation to fixed income (instead of incurring in last resourse measures like a capital add-on)
	Other	N/A
Option 2.4: Proportionate overshooting factor		
Costs	Policyholders	No material impact
	Industry	Additional costs to comply with new requirements (determination of application ratio)
	Supervisors	Slight increase of the complexity and costs of the application and supervision of the VA
	Other	N/A
Benefits	Policyholders	May increase policyholder protection by reducing overshooting cases (undue reduction of technical provisions) especially considering that only spread exaggerations that undertakings are exposed to are targeted
	Industry	Mitigation of over- and undershooting effects in the design of the VA when this is due to deviations of undertakings' investments to the reference portfolio, both in duration and total allocation to fixed income
	Supervisors	Potencial resolution of over- and undershooting cases when motivated by deviations of undertakings' investments to the reference portfolio, both in duration and total allocation to fixed income (instead of incurring in last resourse measures like a capital add-on)
	Other	N/A

Policy issue 2: Over- or undershooting effect of the VA						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds
Option 2.1: No change	0	0	0	0	0	0
Option 2.2 : Undertaking specific VA	+	0	+	+	0	+
Option 2.3: Overshooting factor	+	+	+	+	+	+
Option 2.4: Proportionate overshooting factor	+	+	+	++	++	++

Policy issue 3: Application of VA does not take into account illiquidity characteristics of liabilities
Option 3.1: No change

Costs	Policyholders	May reduce policyholder protection in case where an undertaking is exposed to forced selling and may not earn the VA
	Industry	No material impact
	Supervisors	Current supervisory concerns would remain
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 3.2: Application of an illiquidity factor		
Costs	Policyholders	No material impact
	Industry	Additional costs to comply with new requirements (determination of application ratio)
	Supervisors	Additional resources needed to verify correct application of requirement
	Other	N/A
Benefits	Policyholders	Strengthens policyholder protection
	Industry	More targeted design of VA may have positive effect on risk management
	Supervisors	Increased transparency and more efficient supervision
	Other	N/A
Option 3.3: Application of an illiquidity factor on the basis of a "bucketing approach" (preferred)		
Costs	Policyholders	No material impact
	Industry	Additional costs to comply with new requirements (determination of application ratio)
	Supervisors	Additional resources needed to verify correct application of requirement
	Other	N/A
Benefits	Policyholders	Strengthens policyholder protection
	Industry	More targeted design of VA may have positive effect on risk management
	Supervisors	Increased transparency and more efficient supervision
	Other	N/A

Policy issue 3: Application of VA does not take into account illiquidity characteristics of liabilities						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions

			provisions and eligible own funds			and eligible own funds
Option 3.1: No change	0	0	0	0	0	0
Option 3.2 : Application of an illiquidity factor	+	+	+	+	+	+
Option 3.3: Application of an illiquidity factor on the basis of a "bucketing approach" (preferred)	+	+	+	+	+	+

2.1 With regard to the objective to improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks, EIOPA prefers option 3.3.

Policy issue 5: VA almost always positive		
Option 5.1: No change		
Costs	Policyholders	Risk of compressed spreads might not be sufficiently addressed with negative impact on policyholder protection.
	Industry	Potential lack of resilience of insurance industry with regard to compressed spreads
	Supervisors	Potential lack of resilience of insurance industry with regard to compressed spreads
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No additional capital for compressed spread needs to be held.
	Supervisors	No material impact
	Other	N/A
Option 5.2: Own funds buffer		
Costs	Policyholders	No material impact
	Industry	In case a buffer is imposed the industry cannot use the own funds created by spread compression to cover other risks or for distribution.
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection through increased resilience of insurance industry
	Industry	Increased resilience of insurance industry with regard to compressed spreads

	Supervisors	Increased resilience of insurance industry with regard to compressed spreads
	Other	N/A

Policy issue 5:VA almost always positiv						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicali ty and/or avoiding artificial volatility of technical provisions and eligible own funds	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds
Option 5.1: No change	0	0	0	0	0	0
Option 5.2 : Own funds buffer	0	+	+	0	0	0

2.2 EIOPA's preferred option is not to make a change because of the possible interplay issues between the own funds buffer and the VA and because of the risk of inconsistent application of the buffer across countries.

Policy issue 6: Underlying assumptions of the VA unclear		
Option 6.1: No change		
Costs	Policyholders	May harm policyholder protection as undertakings may apply the VA although they do not comply with underlying assumptions and therefore TP are inadequately reduced
	Industry	Unclarity of underlying assumptions reduces effectiveness of risk management processes
	Supervisors	Less efficient supervision
	Other	N/A
Benefits	Policyholders	No impact
	Industry	No impact
	Supervisors	No impact
	Other	N/A
Option 6.2: Split into permanent and macro VA (preferred)		
Costs	Policyholders	No impact

	Industry	No impact
	Supervisors	No impact
	Other	N/A
Benefits	Policyholders	Strengthened policyholder protection as VA more targeted
	Industry	More targeted application may have positive impact on risk management
	Supervisors	More transparent use of VA leads to more efficient supervision
	Other	N/A

Policy issue 6:Underlying assumptions of the VA unclear						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds
Option 6.1: No change	0	0	0	0	0	0
Option 6.2 : Split into permanent and macro VA (preferred)	+	+	+	+	+	+

Policy issue 7: Deficiencies in the methodology for calculation of the country specific increase		
Option 7.1: No change		
Costs	Policyholders	May indirectly harm policyholder protection when VA may fail as an effective countercyclical measure
	Industry	Artificial balance sheet volatility (cliff-effects) compromise the efficiency of the risk management process
	Supervisors	Less efficient supervision, as supervisors may fail to clearly identify all the sources of volatility of undertakings' balance sheet due to the presence of artificial volatility caused by spread exaggerations and the lack of activation of the macro component of the VA.
	Other	N/A
Benefits	Policyholders	No impact
	Industry	No impact

	Supervisors	No impact
	Other	N/A
Option 7.2: Improved country specific increase		
Costs	Policyholders	No impact
	Industry	No impact
	Supervisors	No impact
	Other	N/A
Benefits	Policyholders	May indirectly increase policyholder protection by mitigating procyclical effects
	Industry	Mitigating cliff effects improves efficiency in the risk management process, eliminating non linearity and uncertainty in the liabilities evaluation
	Supervisors	More efficient supervision
	Other	N/A
Option 7.3: Replaced country specific increase		
Costs	Policyholders	No impact
	Industry	No impact
	Supervisors	No impact
	Other	N/A
Benefits	Policyholders	May indirectly increase policyholder protection by mitigating procyclical effects (although the approach under this option may fail to activate the macro VA in a crisis situation if the spread increase is not sharp enough comparing to the average spread levels in the last months)
	Industry	Mitigating cliff effects improves efficiency in the risk management process, eliminating non linearity and uncertainty in the liabilities evaluation
	Supervisors	More efficient supervision
	Other	N/A

Policy issue 7:	Deficiencies in the methodology for calculation of the country specific increase					
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds
Option 7.1: No change	0	0	0	0	0	0
Option 7.2 : Improved	+	+	++	+	+	++

country specific increase						
Option 7.3: Replaced country specific increased	+	+	+	+	+	+

2.3.3 Quantitative assessment of approaches 1 and 2

Approach 1

Description

2.3 Under this approach, the VA is split into the following components:

- A permanent VA reflecting the long-term illiquid nature of insurance cash flows and its implications on undertaking's investments decisions; and
- A macro-economic VA that would only exist when spreads are wide in particular during a financial crisis that affects the bond market. The macro-economic VA would mitigate the effect of temporary exaggerations of bond spreads, thereby contributing to avoid pro-cyclical behaviour of undertakings.

2.4 The permanent VA is calculated as a combination of the following options:

- Option 4 (adjustment accounting for amount of fixed- income assets and asset-liability duration mismatch undertaking specific VA);
- Option 5 (adjustment accounting for the illiquidity of liabilities); and
- Option 6 (calculation of the risk correction as a percentage of the spread).

2.5 The macro-economic VA is based on Option 8.

2.6 Under this design, the permanent VA is intended to mirror the illiquidity of liabilities in the valuation of technical provisions as outlined in option 5 and particularly address objective 3 but also objective 2 (see beginning of section 2.4.5.1). The macro-economic VA would serve to primarily address objective 1. The combined VA under Approach 1 is intended to overcome the deficiencies identified in the current design of the VA.

Calculation

2.7 Under Approach 1, the VA specific to undertaking i and currency c is calculated as follows:

$$VA_{i,c}^{Approach\,1} = \begin{cases} \max(VA_{i,c}^{perm}; VA_{i,c}^{macro}) & in\,case\,VA_{i,c}^{macro}\,is\,triggered \\ VA_{i,c}^{perm} & else \end{cases}$$

where

- $VA_{i,c}^{perm}$ is the permanent VA applicable to undertaking *i* and currency *c* under Approach 1

- $VA_{i,c}^{macro}$ is the macro-economic VA applicable to undertaking *i* and currency *c* under Approach 1

2.8 The permanent VA applicable under Approach 1 is calculated as

$$VA_{i,c}^{per} = GAR \cdot AR_{i,c}^{Approach\,1} \cdot RC_S_c$$

where

- GAR is the general application ratio
- $AR_{i,c}^{Approach\,1}$ is the combined application ratio for the permanent VA of undertaking *i* for liabilities in currency *c* under Approach 1
- RC_S_c denotes the average risk corrected spread of the fixed income investments of undertakings, calculated on basis of a reference portfolio for fixed income investments in currency *c*

2.9 The combined application ratio $AR_{i,c}^{Approach\,1}$ is calculated as

$$AR_{i,c}^{Approach\,1} = \min(AR_{i,c}^{Option\,4}; AR_{i,c}^{Option\,5})$$

where

- $AR_{i,c}^{Option\,4}$ is the application ratio applicable to undertaking *i* and currency *c* under option 4
- $AR_{i,c}^{Option\,5}$ is the application ratio applicable to undertaking *i* and currency *c* under option 5[56]

2.10 The average risk corrected spread RC_S_c is calculated as

$$RC_S_c = \frac{W_{c,gov} \cdot RC_S_{c,gov} + W_{c,corp} \cdot RC_S_{c,corp}}{W_{c,gov} + W_{c,corp}}$$

where

- $W_{c,gov}$ and $W_{c,corp}$ are the weights of government bonds and corporate bonds in the representative portfolio for currency *c*
- $RC_S_{c,gov}$ is the average risk corrected spread for government bonds in the representative portfolio for currency *c* and
- $RC_S_{c,corp}$ is the average risk corrected spread for corporate bonds in the representative portfolio for currency *c*

2.11 The risk corrected spreads $RC_S_{c,ov}$ and $RC_S_{c,corp}$ are calculated using the risk correction foreseen under option 6. This means that:

- For EEA government bonds, a risk correction of 30% of the spread is used; and
- For corporate bonds as well as for other governments, a risk correction of 50% of the spread is applied.

i,c

[56] Note that $AR^{Option\,5}$ should be calculated using the first of the two approaches described in section 0.

2.12 The macro-economic VA applicable to undertaking i and currency c under Approach 1 is calculated as follows:

$$VA_{i,c}^{macr} = GAR \cdot AR_{i,c}^{macro} \cdot \max\{S_{JUR_i} - \overline{S}_{JUR_i}^{60} - corridor; 0\}$$

where

- $AR_{i,c}^{macro}$ is an application ratio for the liabilities of undertaking *i* in currency *c* which is set to 1
- S_{JUR_i} is the country spread for the jurisdiction of undertaking *i*
- $\overline{S}_{JUR_i}^{60}$ is the average spread over the past 60 months for the jurisdiction of undertaking *i*
- $corridor$ is the corridor by which the risk-corrected country should exceed its average before the macro-economic VA is activated, set as 20 BPS

Implications for the SCR standard formula calculation

2.13 For the macro-economic VA, it is important to not reflect this element in non-crisis situations to ensure it provides effective relief in times of crisis. In normal times, the macro-economic VA would be zero and would not have any implications on the valuation or on the risk measurement (the SCR would not reflect any increase or dynamic VA).

2.14 Hence for the macro-economic VA no change in the standard formula calculation of the SCR would be required. The introduction of a macro-economic VA would however have consequences for the application of the dynamic VA in internal models. The dynamic VA should only be based on the permanent VA, but not anticipate the macro-economic VA in order to not anticipate the relief ensuring effectivity in times of crisis.

Approach 2

Description

2.15 Under Approach 2, the permanent VA is calculated as a combination of:

- Option 1 (undertaking specific VA);
- Option 4 (adjustment accounting for amount of fixed- income assets and asset-liability duration mismatch undertaking specific VA); and
- Option 5 (adjustment accounting for the illiquidity of liabilities).

2.16 The combination of options 1, 4 and 5 intends to mitigate the impact of exaggerated bond spreads. The combinations of options 1 and 4 intend to address all identified under- and overshooting issues; this combination implies the same compensation of changes in bond spreads for all undertakings, irrespective of the actual allocation and duration of their investments as well as the duration and illiquidity of their liabilities. Adding option 5 to this combination implies that this same compensation for all undertakings can only be attained if the liabilities are sufficiently illiquid to withstand forced sales and the realization of losses due to the bond spread exaggerations.

2.17 Under this option, as for option 1, a macro-economic or country VA would become obsolete as the undertaking investments specific illiquidity VA would already reflect any potential crisis in the bond markets which the undertaking is exposed to.

Calculation

2.18 Under Approach 2, the VA specific to undertaking i and currency c is calculated as follows:

$$VA_{i,c}^{Approach\ 2} = GAR \cdot AR_{i,c}^{Approach\ 2} \cdot RC_S_{i,c}$$

where

- GAR is the general application ratio
- $AR_{i,c}^{Approach\ 2}$ is the combined application ratio of undertaking *i* for liabilities in currency *c* under Approach 2
- $RC_S_{i,c}$ is the undertaking-specific risk corrected spread for currency *c* as calculated under option 1

2.19 The combined application ratio $AR_{i,c}^{Approach\ 2}$ is calculated as[57]

$$AR_{i,c}^{Approach\ 2} = \min(AR_{i,c}^{Option\ 4}; AR_{i,c}^{Option\ 5})$$

where

- $AR_{i,c}^{Option\ 4}$ is the application ratio applicable to undertaking *i* and currency *c* under option 4
- $AR_{i,c}^{Option\ 5}$ is the application ratio applicable to undertaking *i* and currency *c* under option 5[58]

Implications for the SCR standard formula calculation

2.20 There is no necessity to change the SCR standard formula calculation under this approach.

2.21 A dynamic VA under this approach would require undertakings to recalculate their investments' specific VA based on stressed credit spreads per rating, duration and currency bucket. EIOPA considers such a dynamic VA under this approach too complex for the standard formula.

2.3.4 General application ratio

Policy issue 8: Calibration of the GAR		
Option 8.1: No change (i.e. keep the GAR at 65%)		
Costs	Policyholders	No impact

[57] Note that the combined application ratio applicable under Approach 2 coincides with the combined application ratio applicable to the permanent VA under Approach 1

[58] Note that $AR_{i,c}^{Option\ 5}$ should be calculated using the first of the two approaches described in section 0.

	Industry	Current GAR is considered as overly prudent. Keeping it at 65% would result in undershooting.
	Supervisors	Layer of prudency to address mismatches between firms own portfolio and the representative portfolio
	Other	N/A
Benefits	Policyholders	No impact
	Industry	None
	Supervisors	VA very prudent
	Other	N/A
Option 8.2: Increase the GAR to 100%		
Costs	Policyholders	No impact
	Industry	The introduction of application ratios 4 and 5 is seen as extra layers of prudency which would justify to raise GAR.
	Supervisors	100% is not justified since GAR has to deal with several risks. There is still a possibility of mistakes that could lead to an overestimation of the VA.
	Other	N/A
Benefits	Policyholders	No impact
	Industry	Increased efficiency of the VA
	Supervisors	VA not enough prudent
	Other	N/A
Option 8.3: Change the GAR to 85%		
Costs	Policyholders	No impact
	Industry	85% remains less efficient than 100%.
	Supervisors	Introduction of illiquidity and overcompensation application ratios enable to increase GAR while keeping the level of prudency unchanged: 85% is a balanced solution between the prudency of the application ratios and the efficiency of VA.
	Other	N/A
Benefits	Policyholders	No impact
	Industry	Compensation of the applications ratios, but according to the percentage used that compensation could be not enough.
	Supervisors	Increasing GAR to 85% would be a good compromise.
	Other	N/A

Policy issue 8: Calibration of the GAR						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent	Promoting good risk management	Limiting procyclicality and/or avoiding artificial	Ensuring adequate market-consistent	Promoting good risk management	Limiting procyclicality and/or avoiding artificial

	technical provisions		volatility of technical provisions and eligible own funds	technical provisions		volatility of technical provisions and eligible own funds
Option 8.1: No change	0	0	0	0	0	0
Option 8.2 : Increase the GAR to 100%	+	+	+	+	+	+
Option 8.3: Change the GAR to 85%	++	++	++	++	++	++

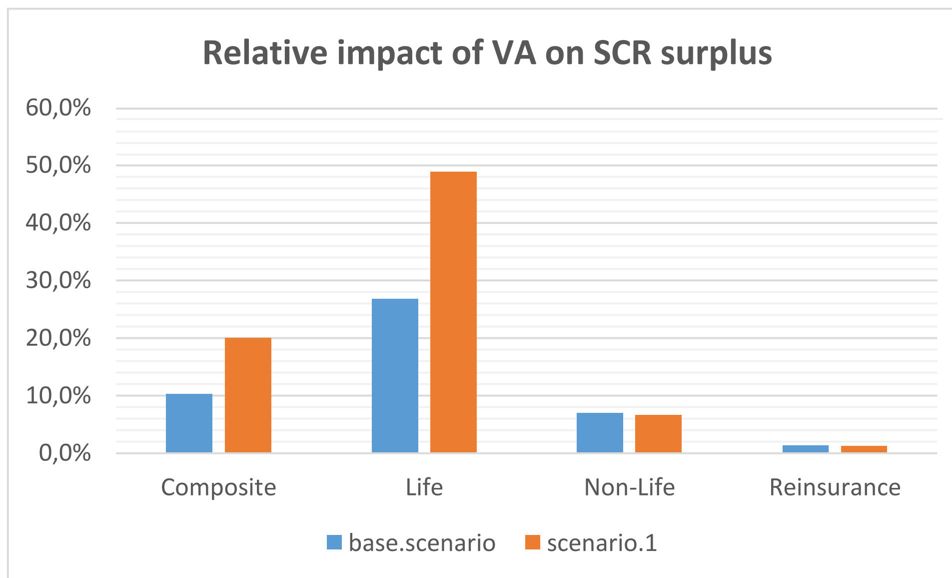
Results of the HIA

2.22 For the VA, the HIA tested, as part of scenario 1 and scenario 2, a new design of the VA as follows:

- VA based on "approach 1", with a split in a "permanent VA" and a "macroeconomic VA" where the permanent VA is based on currency reference portfolios including application ratios to correct for mismatches in the fixed income assets and insurance liabilities in respect of duration and volume (application ratio 4) and for illiquidity (application ratio 5);
- Macroeconomic component of the VA based on Option 7
- Simplifications for the calculation of the application ratios – in particular, introduction of a "bucketing approach" for the "illiquidity" application ratio
- Increase of the General Application Ratio (GAR) from 65% to 85%
- Introduction of a revised new spread risk correction

2.23 The VA has a material impact on the solvency position of the market. The HIA allows to calculate that impact of the VA both for the base scenario as well as for scenario 1 as the results were provided with and without applying the VA. For the base scenario, the impact of the VA on the surplus amounts to EUR 42 bn., whereas in scenario 1 the impact increases to EUR 59 bn.

2.24 As expected and shown in the LTG reports, the VA in absolute terms has the highest impact for life undertakings. The following graph outlines the relative impact of the VA on the surplus, differentiating by type of undertaking.

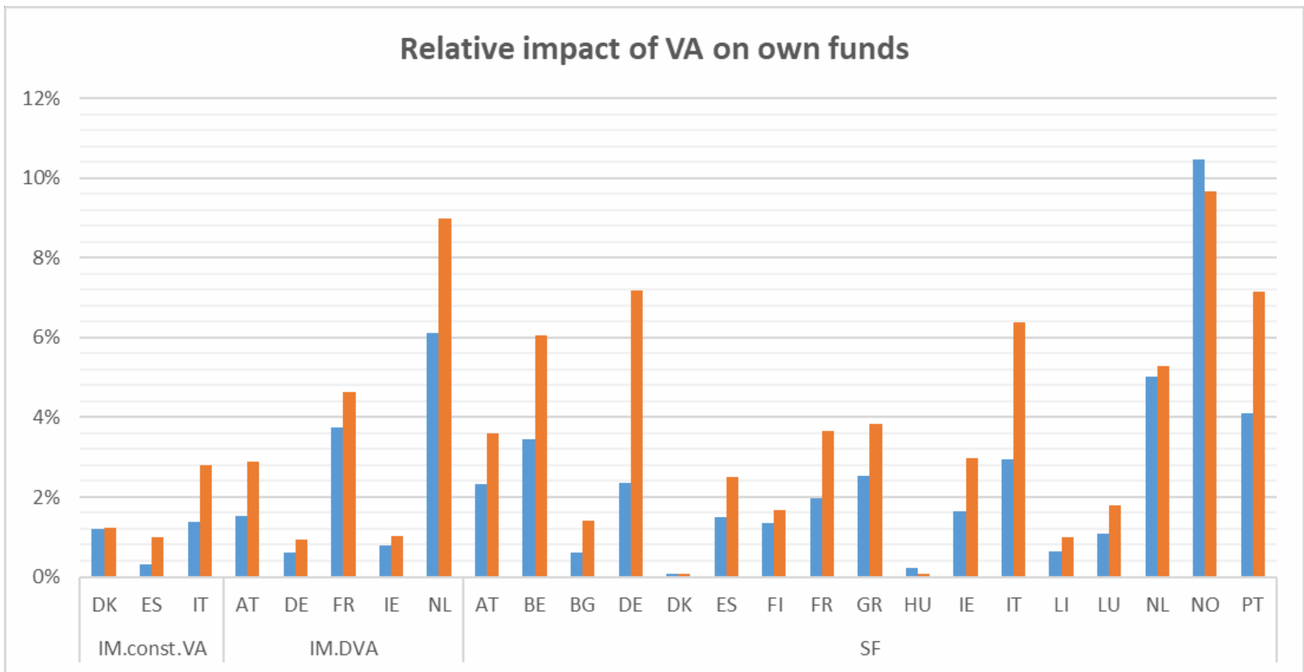


2.25 Note that the change in impact of the VA comparing the base scenario with scenario 1 cannot only be related to the change in design of the VA (as outlined above) but also stems from cross effects with other changes, e.g. scenario 1 includes the alternative extrapolation and the changed interest rate risk for the standard formula. Such kind of "convexity effects" are of different relevance for the single markets.

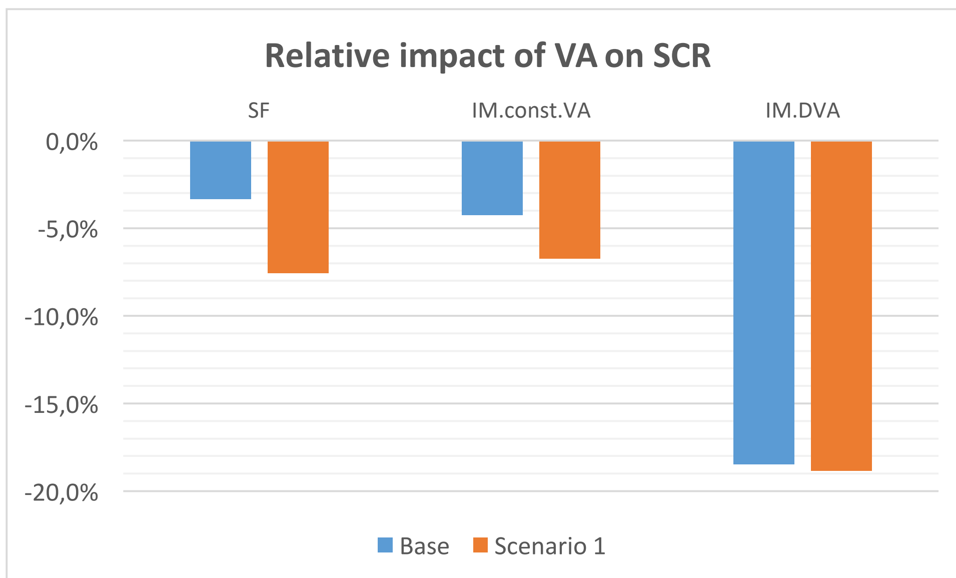
2.26 Therefore, care needs to be taken in the interpretation in all of the impact figures shown in this section, in particular when comparing base scenario with scenario 1.

2.27 It needs to be noted that the sample is composed of standard formula undertakings, internal models with dynamic VA (DVA) and internal models with constant VA (CVA), being thus differently exposed to the changes in design of the VA with respect to the SCR. For DVA users the impact of the VA on the SCR is stronger than for standard formula or CVA users. Although the number of undertakings having internal models with DVA is quite small, these make up a considerable share of the VA sample (43% in terms of SCR). To avoid distortion of the impact figures by a dominance of big markets/big undertakings applying internal model with DVA, the following figures present relative results and distinguish between standard formula and internal model users. Also, the impact on own funds and SCR can vary, therefore the impact is shown separately for both, rather than jointly in terms of surplus.

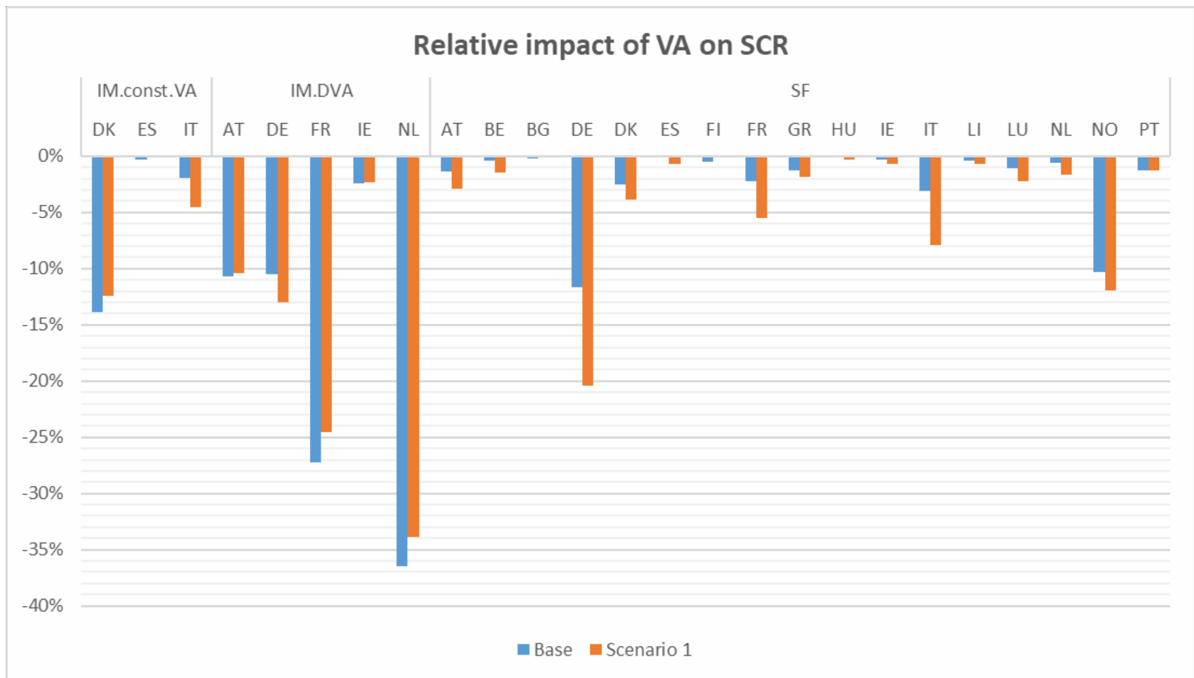
2.28 The impact of the VA both on own funds and SCR varies across markets. The following graph outlines the impact of the VA on the own funds. For the whole VA sample, switching on the VA leads to an increase in eligible own funds to cover the SCR by 2.0% in the base scenario and 3.3% in scenario 1. As can be seen, the impact on own funds does not systematically vary between standard formula users and internal model users, changes may rather be due to undertaking-specific reasons like risk and business profiles.



2.29 The graph below presents the relative impact of switching on the VA on the SCR. For the whole VA sample switching on the VA leads to a reduction in SCR of -10.6% in the base scenario and -12.4% in scenario 1. As can be seen, as expected, the impact of the VA on the SCR for internal model users with DVA is higher than that for standard formula users. More details on the implications of the VA on the SCR for internal model users with DVA and the drivers of the impact are outlined in section 6.

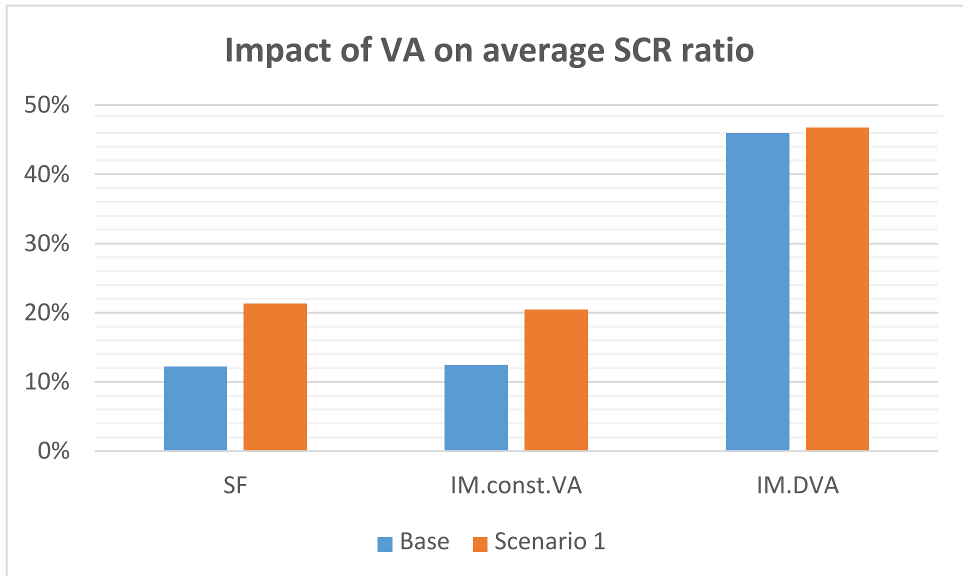


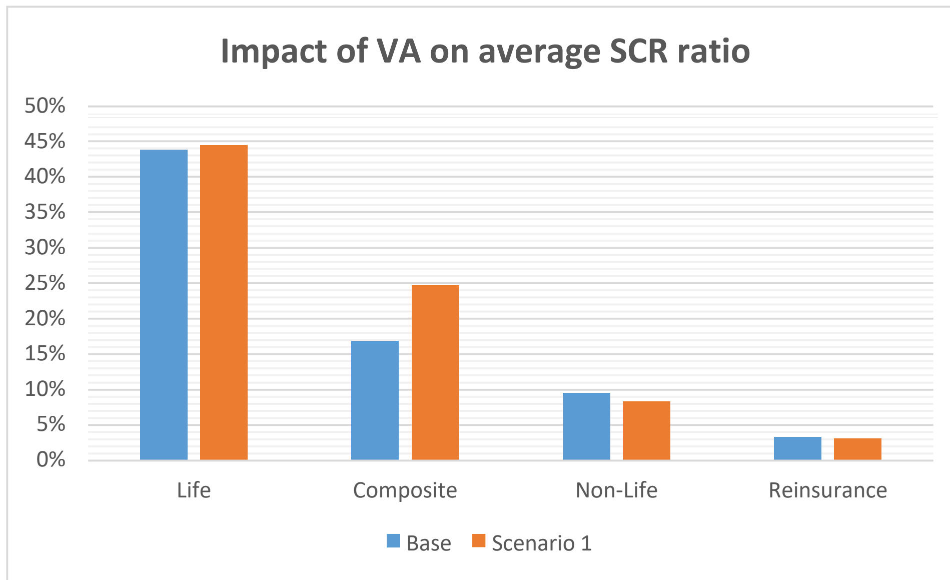
2.30 The following graphic illustrates that again there is considerable variation across markets, and, as the analysis confirms, by risk and business profile:



2.31 To complete the picture, the impact on SCR ratios is shown in the following graphs. For the base scenario as well as scenario 1, the difference between the solvency ratio with the VA mechanism and the solvency ratio without the VA mechanism gives a variation, expressed in points of percentages, which helps understanding the impact of the VA.

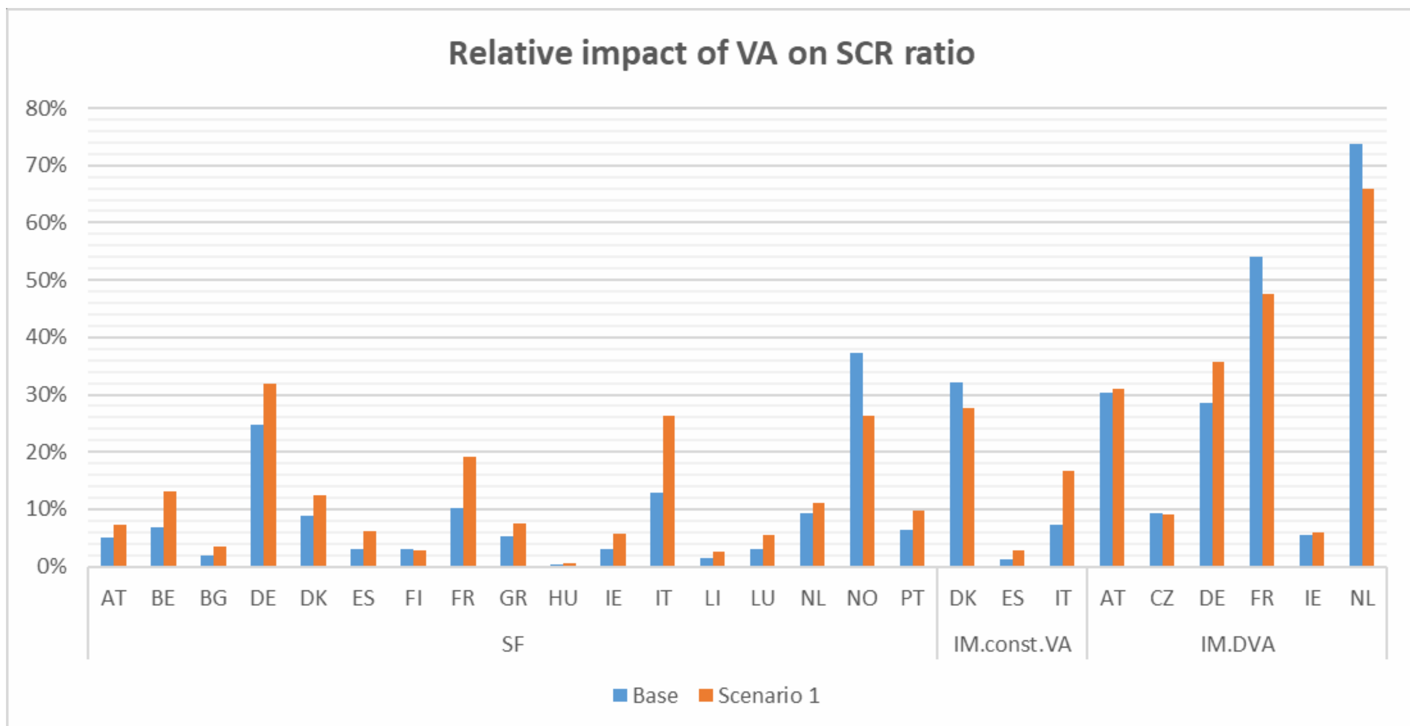
2.32 For the whole VA sample, switching on the VA leads in weighted average to an increase of the SCR ratio by 27%-points in the base scenario and 31%-points in scenario 1. Again, as for the absolute surplus, the impact is higher for the group of life undertakings.





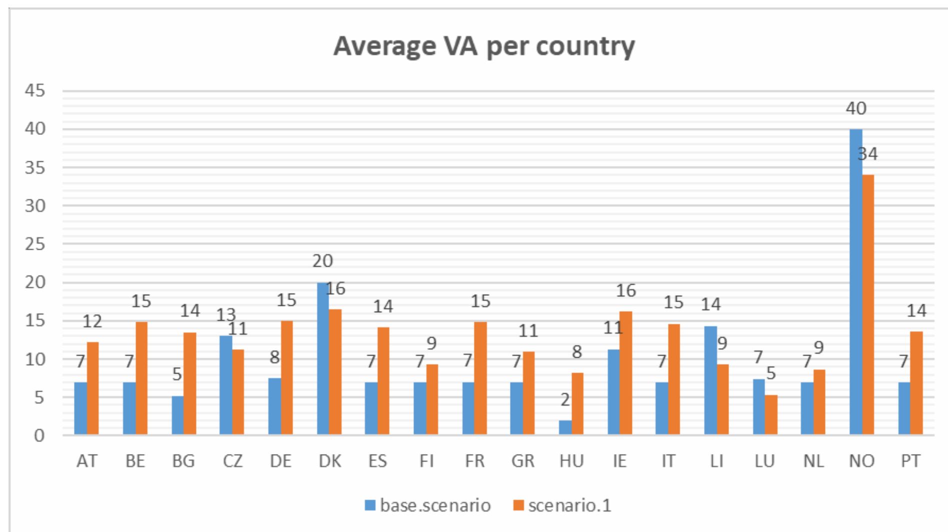
2.33 The following graph differentiates these results further by distinguishing by country and standard formula users and internal model users with dynamic VA or constant VA. The solvency ratios are obtained as a weighted average by country and by type of method of calculus for the SCR. For more details on the use of the DVA, please refer to section 6.

2.34 For example, for the undertakings applying the standard formula in a country A, the weighted average solvency ratio is obtained dividing the sum of the eligible own funds of all the undertakings concerned by the sum of the SCR of all the undertakings concerned.



2.35 As can be seen, the impact is not evenly distributed across the market.

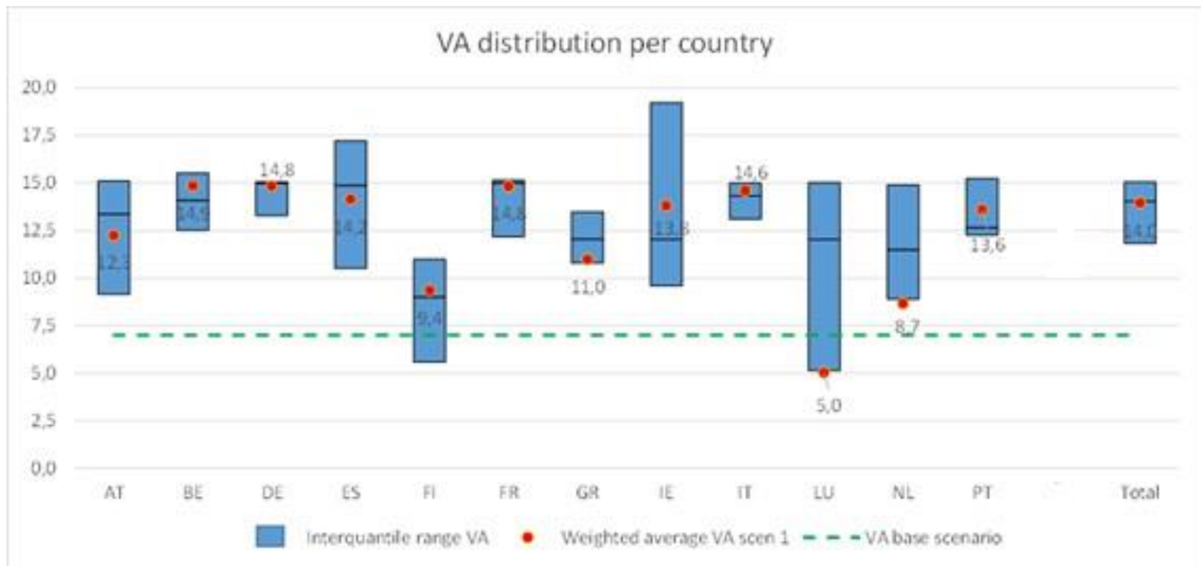
2.36 To better understand the effects that come from the new design of the VA (in contrast to other cross effects) it is interesting to understand the corresponding change in size of the VA. The following graph below shows the average VA per country compared to the status quo for the different markets: orange bars represent the average size of the VA in the different countries for scenario 1, where the average is a weighted average based on best estimate. The differences across countries reflect the different size in application ratios 4 and 5 for the individual countries and the different sizes of the risk-corrected spreads across different currencies. The VA is based on the representative currency portfolio of the domestic currency.



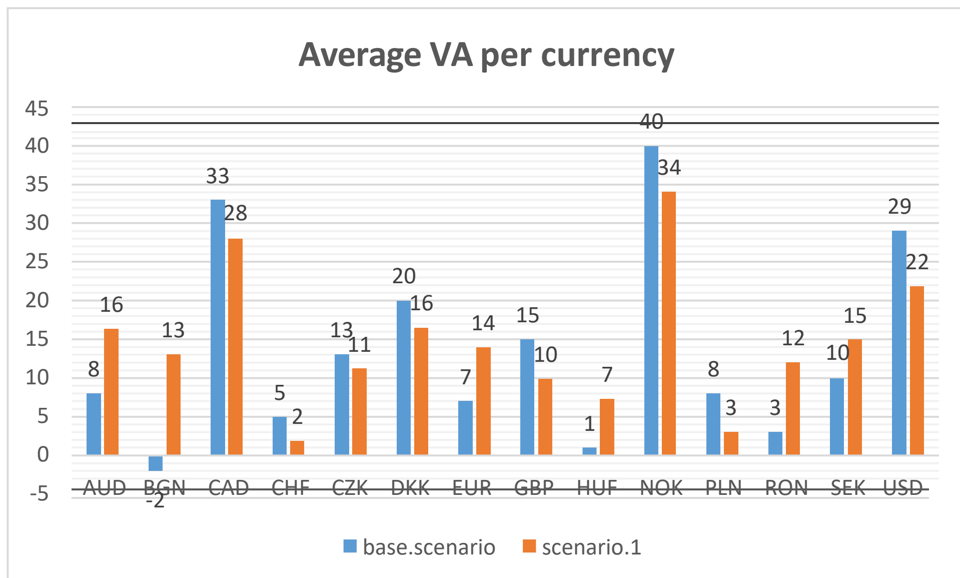
2.37 Note differences occur also within a country, as the size of application ratios for the undertakings in a market differ. The following graph therefore displays the dispersion of results within the individual countries. For this purpose, the 25% and the 75% quantiles[59] are also presented in the graph.

2.38 At EEA level, the introduction of the new VA design would lead to an increase of the average VA value from 7 basis points to 14 basis points as at year end 2019. Even if we consider the 25% quantile, in the majority of member states the new VA tends to be larger than the current one.

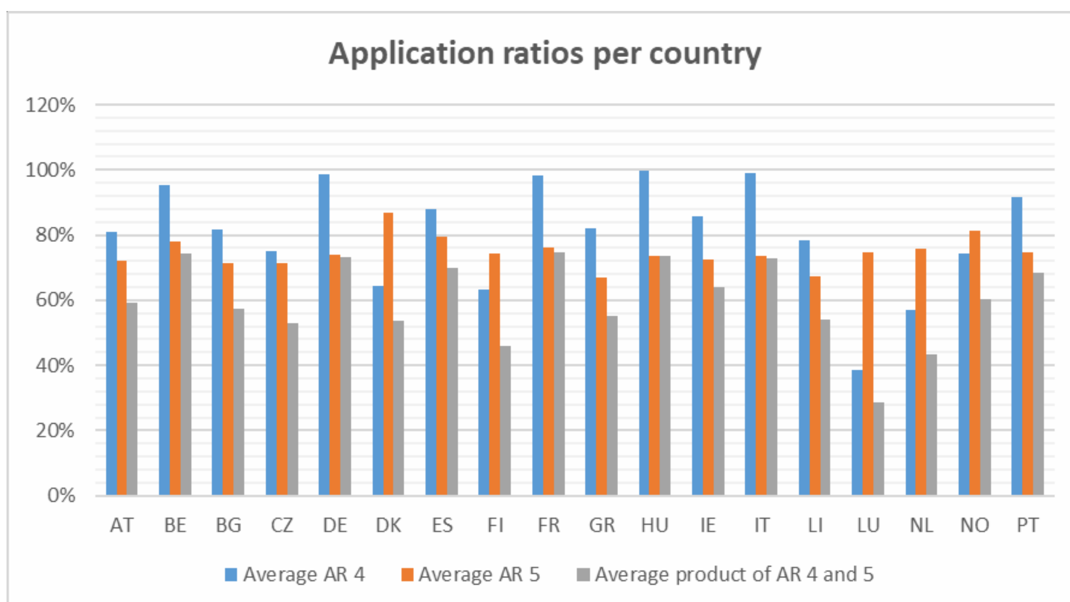
[59] 25% (75%) quantile means that 25% (75%) of the VA values are lower than this value.



2.39 The following graph outlines the difference in size of the VA for the different currencies, again the numbers reflect a weighted average:



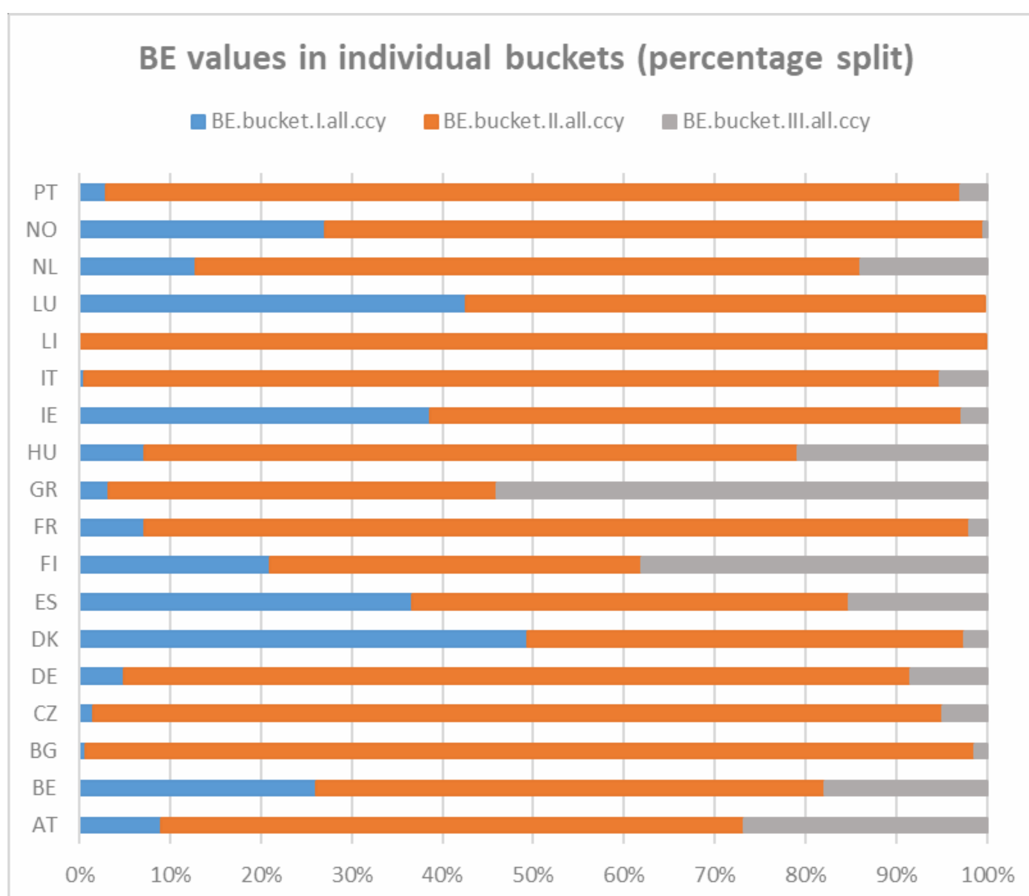
2.40 To better understand the differences in the final size of the VA to be applied, the following graph and corresponding table outline the size of the application ratios per country. As part of the calculation of the VA as newly designed, the application ratios are applied in a multiplicative manner.



2.41 As expected, the value of the application ratios differ significantly across countries. E.g. very high values for application ratio 4 can be observed for BE, DE, IT, HU and SK, low values are observed for LU and NL, the average being 91%. The dispersion for application ratio 5 is – by design – smaller, varying from 60% to 87%, the average being 76%. The impact of the application ratios shows in their multiplicative application with FR having the highest amount of 75% and LU the lowest with 29%.

2.42 We note that the calculation of application ratio 4 requires the determination of the sensitivities of the value of fixed income investments and the best estimate against changes in credit spreads. Using data from the HIA, EIOPA assessed whether the determination of these sensitivities could be simplified by using information on the volume and the modified duration of fixed income investments and the BE. However, analysis of the data revealed that such a simplification would only lead to a poor "fit" with the reported values for application ratio 4. Therefore, the HIA data indicate that allowing for such simplifications would in general not be proportionate to the underlying nature of the relevant assets and liabilities.

2.43 The application ratio 5 reflects the illiquidity of liabilities and is determined by a so-called bucketing approach, where the liabilities are allocated to three buckets, according to their characteristics. The following graph outlines the allocation, per country, to these three buckets.



2.44 As can be seen, the share of liabilities in bucket I (being the most illiquid and benefiting from a higher application ratio) is high in DK, IE and LU. A high share of liabilities in bucket III (being the least illiquid and only getting the lowest application ratio of 60%) is present in SK, GR and FI.

Results of the CIR

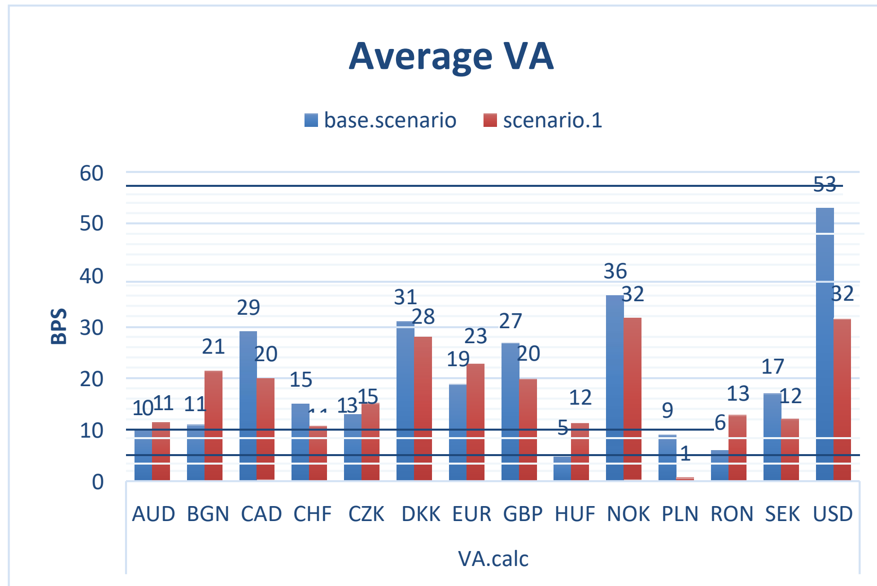
2.45 For the VA, the CIR tested, as in the HIA, a new design of the VA as follows:

- VA based on "approach 1", with a split in a "permanent VA" and a "macroeconomic VA" where the permanent VA is based on currency reference portfolios including application ratios to correct for mismatches in the fixed income assets and insurance liabilities in respect of duration and volume (application ratio 4) and for illiquidity (application ratio 5);
- Macroeconomic component of the VA based on Option 7
- Simplifications for the calculation of the application ratios – in particular, introduction of a "bucketing approach" for the "illiquidity" application ratio
- Increase of the General Application Ratio (GAR) from 65% to 85%
- Introduction of a revised new spread risk correction

Impact of the new design of the VA on the size of the VA

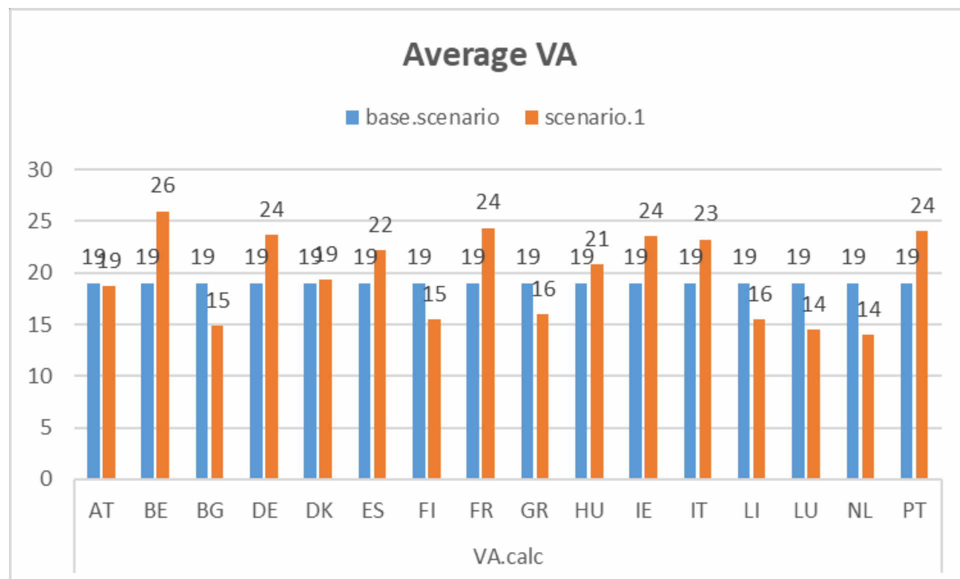
2.46 The graph below compares the average value of the VA for the current and for the new envisaged design. Orange bars represent the average size of the VA for the different currencies under scenario 1, where the average is a weighted average based on best estimate. Blue bars represent the average values for the current

VA. The differences across currencies are mainly driven by the different sizes of the risk-corrected spreads in the respective currencies.



2.47 Note that the VA that is applicable to an individual undertaking under scenario 1 is based on the representative currency portfolio of the respective currency, and also reflects the company-specific values of the application ratios 4 and 5. It may therefore differ from the average VA values as shown above.

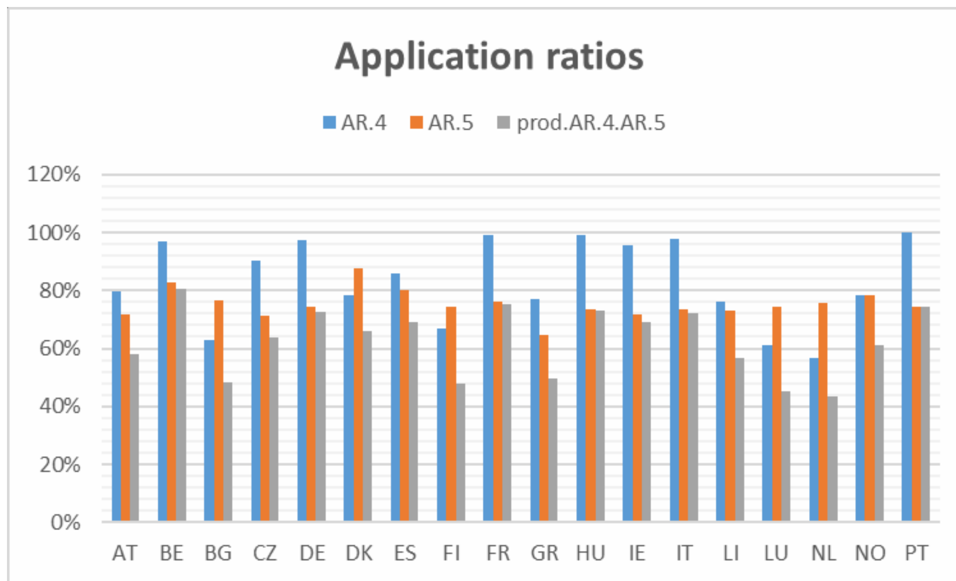
2.48 The following graph displays the average values of the VA for Euro currency in the individual countries in the Euro zone.



2.49 Note that the average VA across different countries varies, depending on the average value of the application ratios 4 and 5 in the respective country.

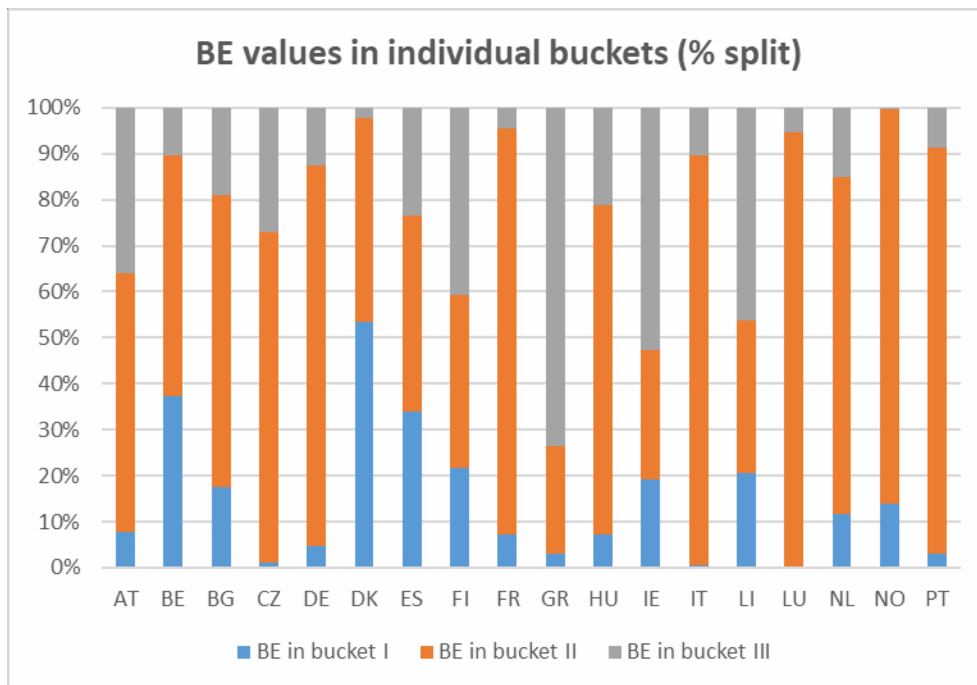
2.50 To better understand the differences in the final size of the VA to be applied, the following graph and corresponding table outline the size of the application ratios

per country. As part of the calculation of the VA under the new design, the application ratios are applied in a multiplicative manner.



2.51 As expected, the value of the application ratios differ significantly across countries. For application ratio 4, high values can be observed for BE, DE, FR, IT, HU, PT and SK, low values are observed for BG, LU, NL and SE, the average being 92%. The dispersion for application ratio 5 is – by design – smaller, varying from 65% for GR to 88% for DK, the average being 76%. The impact of the application ratios shows in their multiplicative application with BE having the highest amount of 80% and NL the lowest with 43%.

2.52 The application ratio 5 reflects the illiquidity of liabilities and is determined by a so-called bucketing approach, where the liabilities are allocated to three buckets, according to their characteristics. The following graph outlines the allocation, per country, to these three buckets.

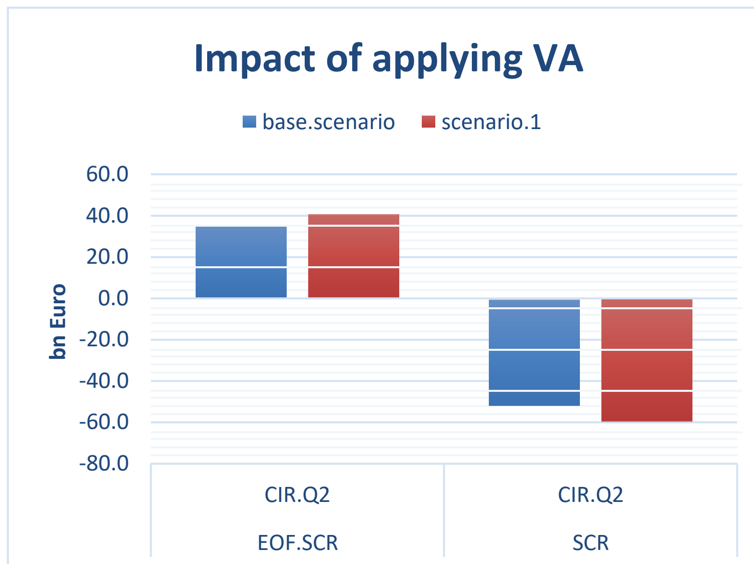


2.53 As can be seen, the share of liabilities in bucket I (being the most illiquid and benefiting from a higher application ratio) is high in SK, DK, BE and ES. A high share of liabilities in bucket III (being the least illiquid and only getting the lowest application ratio of 60%) is present in IE, SK and GR.

Impact of the new design of the VA on the solvency position

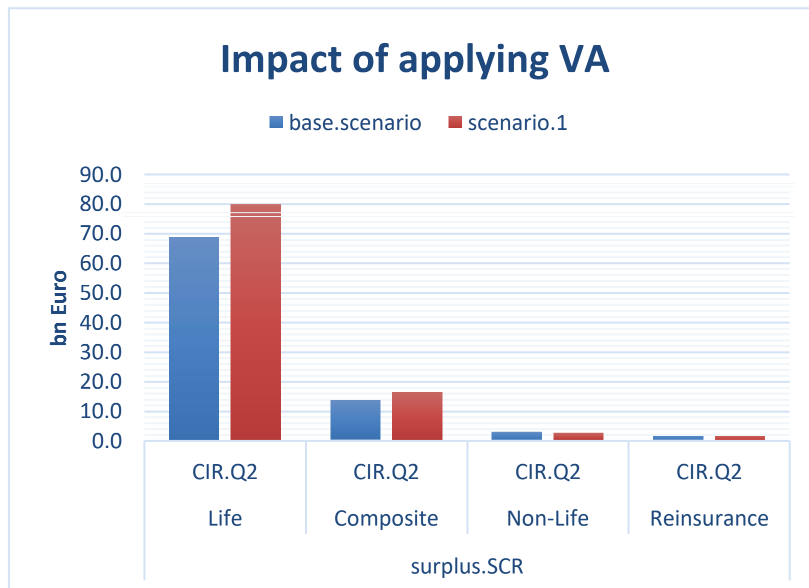
2.54 The VA has a material impact on the solvency position of the market. The CIR allows calculating that impact of the VA both for the base scenario as well as for scenario 1 as the results were provided with and without applying the VA. For the base scenario, the impact of the VA on the surplus (the excess of own funds over the SCR) amounts to EUR 87.4bn., whereas in scenario 1 the impact increases to EUR 100.6 bn.

2.55 As illustrated in the following diagram, the absolute impact of the VA has increased significantly compared to the HIA.



2.56 This increase is due to a higher level of spreads in fixed income titles per Q2 2020, the reference date for the CIR, compared to year-end 2019, the reference date for the HIA. For the Euro currency, which is the currency of denomination for more than 90% of the technical provisions to which a VA is applied, the VA increased from 7 to 19 basis points (bps) in the base scenario, and from 14 to 23 bps in scenario 1.

2.57 The following graph outlines the impact of the VA on the surplus, differentiating by type of undertaking.

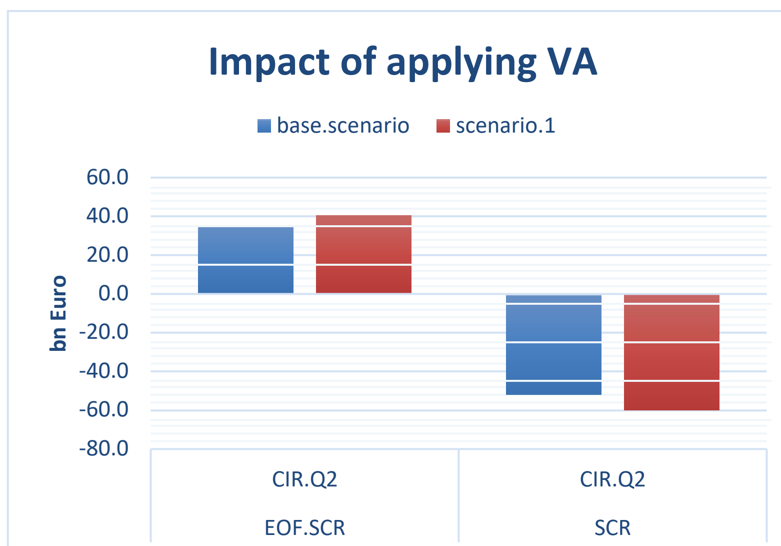


2.58 As expected and shown in the LTG reports, the VA in absolute terms has the highest impact for life undertakings.

2.59 Note that the change in the impact of the VA when comparing the base scenario with scenario 1 is not only related to the change in the design of the VA, but also stems from cross effects with other changes, such as the alternative extrapolation and the changed interest rate risk for the standard formula. Such kind of cross effects are of different relevance for the individual markets.

2.60 Therefore, care needs to be taken when interpreting the impact figures shown in this section, in particular when comparing base scenario with scenario 1.

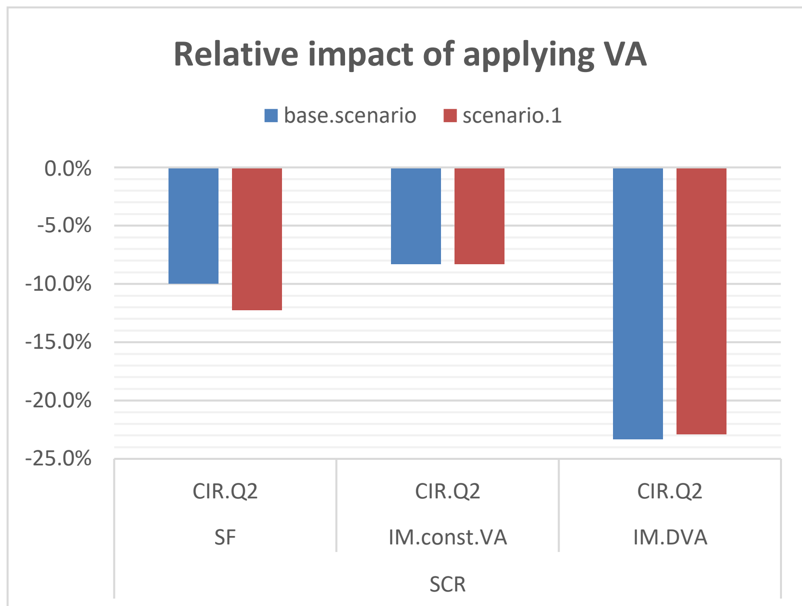
2.61 The impact of the VA on the surplus stems from the impact of the VA on both the own funds and on the SCR. The following diagram shows the impact of the VA separately for these two items:



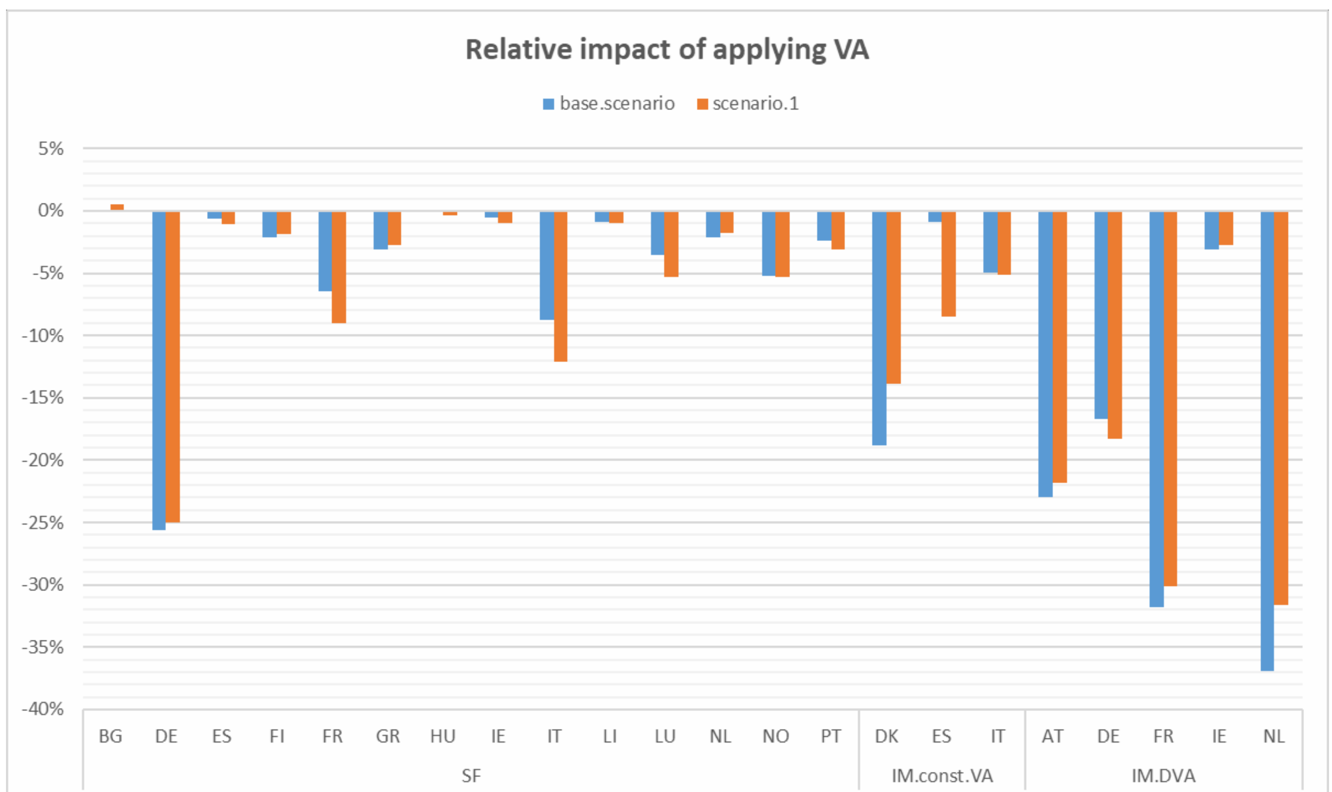
2.62 For the own funds, the application of the VA leads to an increase of 35.4 bn. Euro in the base scenario and of 40.6 bn. Euro in scenario 1. This is an increase of 7.3% (respectively, 8.7%) of the own funds without the application of the VA and the transitionals. For the SCR, the application of the VA leads to a decrease of 51.9 bn Euro in the base scenario and of 60 bn Euro in scenario 1. This is a decrease of 16.3% (respectively, 16.7%) of the SCR without the application of the VA and the transitionals.

2.63 Note that the sample is composed of standard formula undertakings, internal models with dynamic VA (DVA) and internal models with constant VA (CVA), with different exposures to the changes in the design of the VA with respect to the SCR. For DVA users the impact of the VA on the SCR is stronger than for standard formula or CVA users. Although the number of undertakings having internal models with DVA is quite small, these make up a considerable share of the VA sample (43% in terms of SCR). To avoid distortion of the impact figures by a dominance of big markets/big undertakings applying internal model with DVA, the following figures present relative results and distinguish between standard formula and internal model users.

2.64 The graph below presents the relative impact of switching on the VA on the SCR. For the whole VA sample switching on the VA leads to a reduction in SCR of 16.3% in the base scenario and -16.7% in scenario 1. As can be seen, as expected, the impact of the VA on the SCR for internal model users with DVA is higher than that for standard formula users. More details on the implications of the VA on the SCR for internal model users with DVA and the drivers of the impact are outlined in section 6.

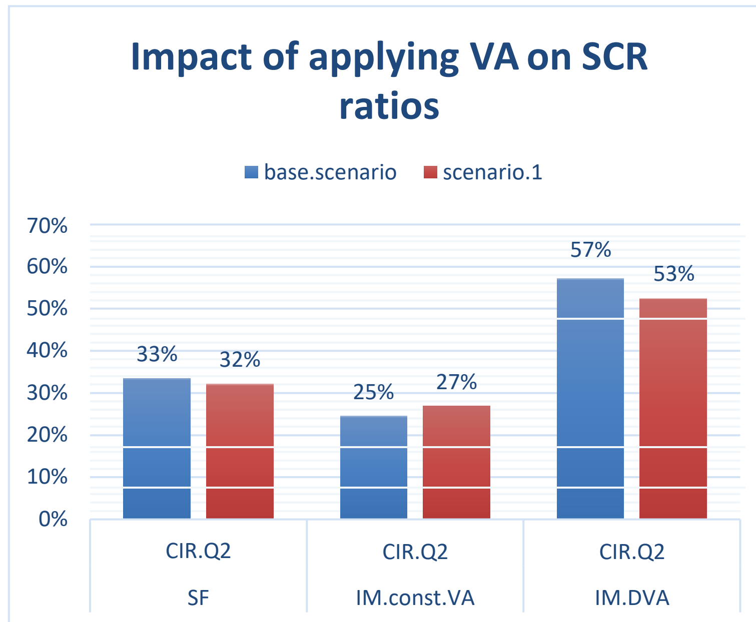


2.65 The following graphic illustrates the relative impact of applying the SCR per individual countries. This shows that there is considerable variation across markets, and, as the analysis confirms, by risk and business profile:

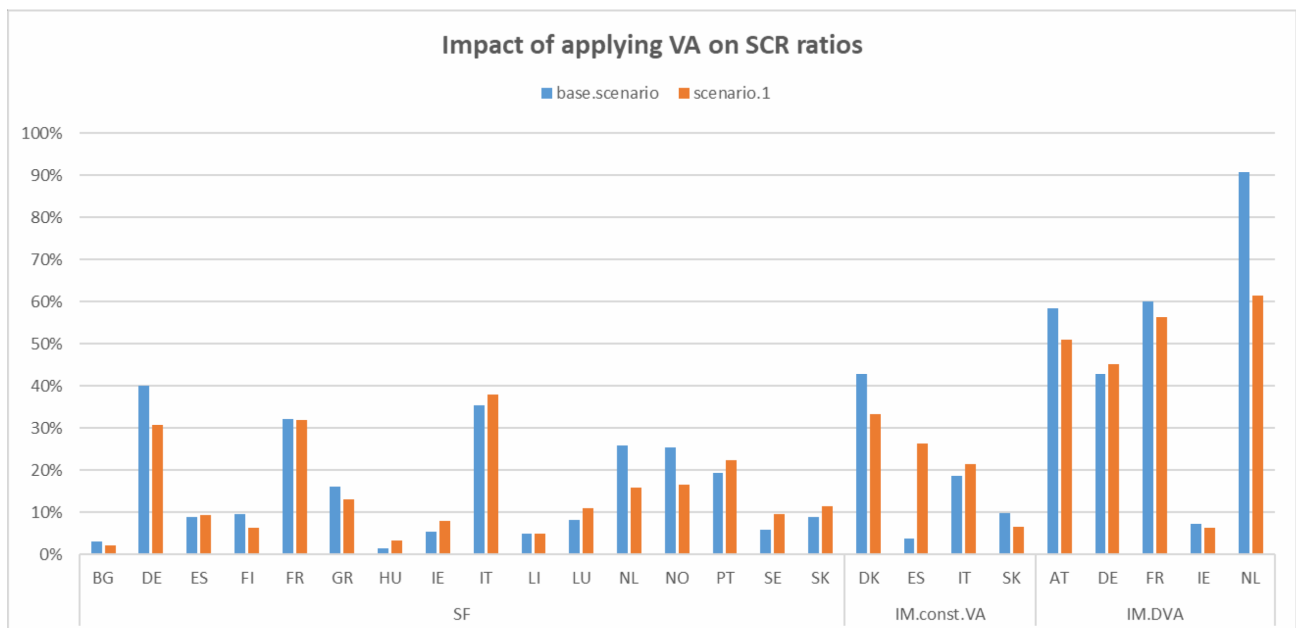


2.66 To complete the picture, the impact on SCR ratios is shown in the following graphs. For the base scenario as well as scenario 1, the difference between the solvency ratio with the VA mechanism and the solvency ratio without the VA mechanism gives a variation, expressed in points of percentages, which helps understanding the impact of the VA.

2.67 For the whole VA sample, switching on the VA leads in weighted average to an increase of the SCR ratio by 43%-points in the base scenario and 40%-points in scenario 1. For DVA undertakings, the SCR ratio increases by 57%-points in the base scenario and by 53%-points in scenario 1.



2.68 The following graph differentiates these results further by distinguishing by country.



2.69 As can be seen, the impact is not evenly distributed across the market.

2.3.5 Dynamic VA for the standard formula

Policy issue 9: Dynamic VA for the standard formula		
Option 9.1: No change		
Costs	Policyholders	No impact
	Industry	Potential un-level playing field between standard formula users and internal model users
	Supervisors	Inconsistency of valuation and risk measurement weakens the framework and may have implications on efficient supervision
	Other	N/A
Benefits	Policyholders	No impact
	Industry	Less complex determination of the SCR thus lower burden of the calculation of the SCR
	Supervisors	No additional resources required to verify undertaking's compliance.
	Other	N/A
Option 9.2: Allow for the dynamic VA in the SCR standard formula		
Costs	Policyholders	Where not adequately designed, may lead to inadequate lowering of capital requirements and thus reduce PH protection
	Industry	Additional resources required to comply with Pillar I requirements due to additional complexity
	Supervisors	Additional resources required to verify undertaking's compliance
	Other	N/A
Benefits	Policyholders	No impact
	Industry	Ensures consistency between risk measurement and valuation, may have positive impacts on risk management
	Supervisors	May lead to additional ressources required for supervision
	Other	N/A

2.3.6 Approval to use the VA

Policy issue: Approval to use the VA		
Option 10.1: No change		
Costs	Policyholders	No material impact
	Industry	Unlevel playing field between undertakings in different Member States.
	Supervisors	Difficulty for supervisors to avoid inappropriate use of the VA in those countries where currently supervisory approval is not requested
	Other	N/A
Benefits	Policyholders	No material impact

	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 10.2: Require supervisory approval to use the VA in all Member States		
Costs	Policyholders	No material impact
	Industry	One-off costs for the approval process (only in countries where currently no approval is required)
	Supervisors	One-off costs for the approval process (only in countries where currently no approval is required)
	Other	N/A
Benefits	Policyholders	Improved policyholder protection when undertakings have to set up adequate technical provisions (only in countries where currently no approval is required)
	Industry	Improved level playing field among undertakings that want to apply the VA
	Supervisors	More insight into the use of the VA by their undertakings (only in countries where currently no approval is required)
	Other	N/A
Option 10.3: Do not require supervisory approval to use the VA in all Member States		
Costs	Policyholders	Where VA is introduced to liabilities that were previously it would not be approved, it might reduce policyholder protection.
	Industry	No material impact
	Supervisors	Less insight into the use of the VA by their undertakings (only in countries where currently approval is required) Not possible to decline approval where unexpected and undesirable outcomes are observed
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Improved level playing field among undertakings that want to apply the VA No costs for approval process (for undertakings that newly want to use the VA in countries where currently approval is required)
	Supervisors	No material impact
	Other	N/A
Option 10.4: Require supervisory approval for new VA users		
Costs	Policyholders	No material impact
	Industry	One-off costs for the approval process (only in countries where currently no approval is required) for new VA users
	Supervisors	One-off costs for the approval process (only in countries where currently no approval is required) for new VA users
	Other	N/A
Benefits	Policyholders	Improved policyholder protection, avoiding inappropriate application of the VA resulting in underestimation of technical provisions
	Industry	Improved level playing field among undertakings that want to apply the VA
	Supervisors	More insight into the use of the VA by their undertakings (only in countries where currently no approval is required).

		Enhanced supervisory power to prevent inappropriate application of the VA by undertakings.
	Other	N/A

Proportionality

2.70 All options take into account the principle of proportionality. Requiring approval for the use of the VA is proportionate in view of the impact of the VA on the solvency position of undertakings. Only undertakings that want to apply the VA incur costs. The VA is a voluntary measure. If the supervisory approval is only requested with respect to new VA users, the costs for supervisory authorities and undertakings would be limited.

Evidence

2.71 During the analysis evidence on the use and impact on the VA as provided by undertakings in their regular supervisory reporting and information collected from NSAs has been used.

Policy issue: Approval to use the VA						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 10.1: No change	0	0	0	0	0	0
Option 10.2: Require supervisory approval to use the VA in all Member States	+	+	+	+	0	+
Option 10.3: Do not require supervisory approval to use the VA in all Member States	0	+	0	0	++	0
Option 10.3: Require supervisory approval for new VA users	+	+	+	++	+	++

2.4 Dynamic volatility adjustment in internal models

2.4.1 Overview

2.72 This section presents the analysis and impact assessment that was performed on COM's CfA no. 3.6 on the 'dynamic volatility adjustment' in internal models (DVA) as well as the conclusions and the advice responding to COM's questions.

2.73 The section consists of two following parts:

1. Policy issues and options: Summary and qualitative impact assessment
2. Policy options: Quantitative impact assessment

2.4.2 Policy issues and options: Summary and qualitative impact assessment

2.74 This sections provides a condensed summary of the policy issues, the considered policy options and of the assessment regarding costs and benefits as well as effectiveness and efficiency.

Policy issue	Options
1. DVA – Pillar 1: Measures to support risk sensitivity of the DVA in internal models	1.1 No change No change in regulation and address potential weaknesses of DVA approaches with supervisory measures only. 1.2 Introduce enhanced 'DVA prudency principle' into regulation (preferred) Introduction of the 'DVA prudency principle' as established in EIOPA's DVA opinion into regulation, enhanced by a second floor for the SCR based on a 'direct DVA' on the undertaking's own asset portfolio. i.e. if replicating the VA methodology implemented by EIOPA according to Article 77e(1)(c) of the Solvency II Directive, but calculating the risk corrected spread on basis of the undertaking's own asset portfolio (direct DVA(own PF)') in appropriate granularity reflecting the characteristics of the undertaking's own portfolio. Main aim is to directly address 'overshooting' of the VA due to structural mismatches of the own asset portfolio to the VA reference portfolio and provide support to avoid disincentives for risk and investment management.
2. DVA – Pillar 1: Harmonisation of modelling approaches	2.1 No change 2.2 No change in regulation and address potential level playing field issues by supervisory measures only. To note: 2.1 implies that also the enhanced 'DVA principle is not introduced, i.e. this option is not compatible with option 1.2.Introduce enhanced 'DVA prudency principle' into regulation, but no further change in regulation (preferred) The measure proposed under policy option 1.2 is expected to lead to a certain convergence of approaches, but holistic approaches might be accepted if a substantial need is evidenced to avoid undesirable risk and investment management incentives. To note: 2.2 implies that the enhanced 'DVA prudency principle' is introduced, i.e. 2.2 only works together with option 1.2 and is not compatible with option 1.1. 2.3 Restrict to direct DVA approaches additionally to introducing the enhanced 'DVA prudency principle' Impose direct DVA approaches based on the VA reference portfolio and the undertaking's own asset portfolio as only admissible approach. This could in specific cases potentially lead to undesirable risk and investment management incentives. Although it is expected that the enhanced 'DVA prudency principle' will materially contribute to avoid disincentives for risk and investment,

	it might miss to address all sources of potential disincentives and the issue remains valid in general. To note: 2.3 implies that the enhanced 'DVA prudency principle' is introduced, i.e. 2.3 only works together with option 1.2 and is not compatible with option 1.1. The option to not introduce the enhanced 'DVA prudency principle' but impose only direct approaches based on the VA reference portfolio, does formally exist as a variation but is not considered as acceptable from a supervisory point of view. This variation would achieve formal harmonisation, but at the cost of undesirable risk and investment management incentives, including overshooting in evidenced cases. It thus would also impair the level playing field.

Policy issue 1: DVA – Pillar 1: Measures to support risk sensitivity of the DVA in internal models		
Option 1.1: No change		
Costs	Policyholders	Impaired policyholder protection due to undue reduction of solvency capital requirements in cases of overshooting.
	Industry	Increasing effort to evidence absence of overshooting.
	Supervisors	Higher effort to address overshooting especially if caused by mismatches of credit quality and sector allocation between undertaking's portfolio and VA reference portfolio.
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Option 1.2: Introduce enhanced 'DVA prudency principle' into regulation (preferred)		
Costs	Policyholders	No material impact
	Industry	One-off costs to implement model features to enable the necessary calculation to prove compliance with the DVA prudency principle and permanent costs for infrastructure and processes for the on-going evidencing of compliance with that principle.
	Supervisors	One-off costs and permanent costs for initial and on-going assessment of compliance with the DVA prudency principle.
	Other	N/A
Benefits	Policyholders	Improved policyholder protection due to improved adequacy of solvency capital requirements and additional safeguards against undesirable risk and investment practices.
	Industry	Improved level playing field.
	Supervisors	Solid regulatory basis for enforcing risk sensitive modelling approaches and prevention of undesirable risk and investment management incentives.
	Other	N/A
Policy issue 2: DVA – Pillar 1: Harmonisation of modelling approaches		
Option 2.1: No change		

Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Option 2.2: Introduction of the enhanced 'DVA prudency principle' into regulation (policy option 1.2)		
Costs	Policyholders	See policy option 1.2
	Industry	See policy option 1.2
	Supervisors	See policy option 1.2
	Other	See policy option 1.2
Benefits	Policyholders	Improved policyholder protection due to improved adequacy of solvency capital requirements and additional safeguards against undesirable risk and investment practices.
	Industry	Option to solve undesirable risk and investment management incentives, if these are evidenced and can be avoided with a 'holistic' DVA approach.
	Supervisors	Option to solve undesirable risk and investment management incentives, if these are evidenced and can be avoided with a 'holistic' DVA approach.
	Other	N/A
Option 2.3: Restrict to direct DVA approaches additionally to introducing the enhanced 'DVA prudency principle'		
Costs	Policyholders	In specific cases risk of potentially impaired policyholder protection, if undesirable risk and investment management incentives appear under a direct approach. Less likely than if in the variation of imposing direct approaches without the enhanced 'DVA prudency principle, but still possible. In the latter variation of the option evidenced cases of such undesirable incentives exist.
	Industry	For users of holistic DVA approaches one-off costs to implement a direct DVA approach and potentially additional measure in risk and investment management to avoid undesirable risk and investment management incentives.
	Supervisors	For supervisors of users of holistic DVA approaches one-off costs and permanent costs for initial and on-going assessment of a direct DVA approach and potentially additional effort for supervision of risk and investment management.
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	Achieves formal harmonisation but at the cost of undesirable risk and investment management incentives in potential specific cases.

Policy issue: DVA – Pillar 1: Measures to support risk sensitivity of the DVA in internal models						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate solvency capital requirements	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate solvency capital requirements	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 1: No change	0	0	0	0	0	0
Option 2: Introduce DVA prudency principle into regulation	++	+	++	++	+	++

Policy issue: DVA – Pillar 2: Harmonisation of modelling approaches						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate solvency capital requirements	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate solvency capital requirements	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Introduce DVA prudency principle into regulation	++	+	++	++	+	++
Option 2.3: Restrict to direct approaches and introduce enhanced DVA prudency principle	+	+	+	+	+	+

2.4.2 Policy options: Quantitative impact assessment

2.75 This section presents results from the analysis of submissions to the 'Holistic Impact Assessment' (HIA), based on YE 2019, and the 'Complementary Information Request) CIR, based on Q2 2020, for participants applying a dynamic volatility adjustment (DVA) in internal models. As the DVA only impacts the SCR, the section focusses on the SCR.

Please note: To respect data confidentiality the presentation is restricted to views with more than 2 participants per slice.

Aspects specifically relevant for DVA users

2.76 Different from the data collections in 2019, the HIA and the CIR for DVA users do not only cover changes to the regulatory concept of the VA or the DVA. Proxies are used to separate effects.

2.77 The most relevant changes for DVA users are:

1. VA step 1: Translation of VA changes to SCR under DVA

Changes to the VA for the valuation of technical provisions translate in canonical manner to 'direct DVA approaches' and are, via the prudency principle from EIOPA'S DVA opinion, also relevant for holistic DVA approaches.

Note: The macro-economic VA under the HIA is not allowed for in DVA.

VA step 1 consequently is relevant for policy option 1.1.

2. VA step 2: Enhanced 'DVA prudency principle'

Policy option 1.2 proposes the introduction of an enhanced version of the DVA prudency principle. To especially address *quality overshooting*, i.e. structural differences in undertaking's own asset portfolio ('UT PF') and VA reference portfolio ('Ref PF') the SCR would be required to be at least as high as the following:

- SCR(direct DVA(Ref PF))
- SCR(direct DVA(UT PF))

3. Alternative extrapolation of the RFR

The alternative extrapolation leads to in general lower interest rate assumptions. Depending on business model and risk profile this could lead to a deterioration of the economic position and thus less resilience to shock[60]. This potentially impacts the SCR and also the DVA effect on the SCR.

Results on sample level: SCR

2.78 Internal models for DVA users cover market and credit risk with the consequence that figures are identical under "scenario 1" and "scenario 2"[61].

2.79 Scenario 1 required DVA users to submit the SCR according to a 'direct DVA approach' under the new VA regime based on the relevant VA reference portfolios – irrespective of the current DVA approach applied by the undertaking.

[60] But also the shock or the magnitude of shock could be lower.

[61] To remind: Scenario 2 compared to scenario 1 does not include the proposed change to interest rate risk in the standard formula and is thus not different for DVA users, as these are using the internal model for interest rate risk.

Furthermore, undertakings applying 'margins of prudency' related to the model setup were requested to switch off such margins.

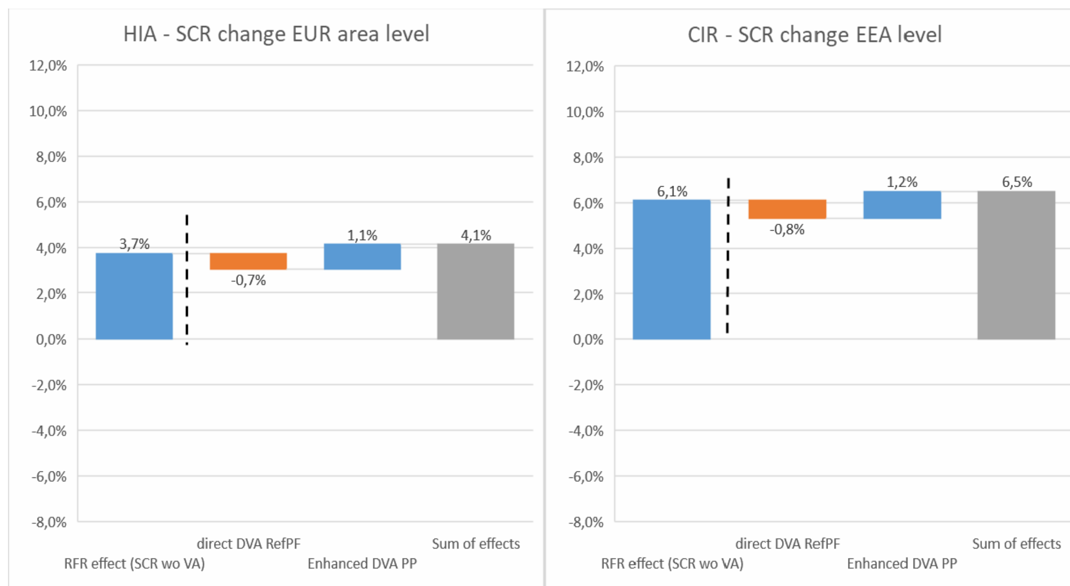
2.80 Scenario 1 (including the alternative extrapolation) for the sample of DVA users results in an increase of the SCR by +3.3 bn. € (+3.0% weighted average) in the HIA per year-end 2019 and in an increase of +6.3 bn. € (+5.3%) in the CIR per Q2 2020 compared to the base case, i.e. the SCR determined with the current DVA approach applied by the undertaking.

2.81 As according to the current prudency principle 'direct DVA(Ref PF)' is a floor for the SCR under the new VA regime and margins were switched off, the figures are considered as lower bound for the impact.

2.82 Policy option 1.2, the enhanced 'DVA prudency principle', is shown as an additional component and would result in an additional increase of the SCR by +1.2 bn. € (+1.1% weighted average) in the HIA, i.e. a cumulated impact of +4.5 bn. € (+4.1%) on the SCR. Under the CIR the impact would be +1.4 bn. € (+1.2%) and cumulated +7.7 bn. €.

2.83 As an approximated indication for a separation of the impact from the alternative RFR extrapolation, the relative change of the "SCR without VA" was determined[62]. It amounts to +3.7% on weighted average for the HIA and +6.1% in the CIR.

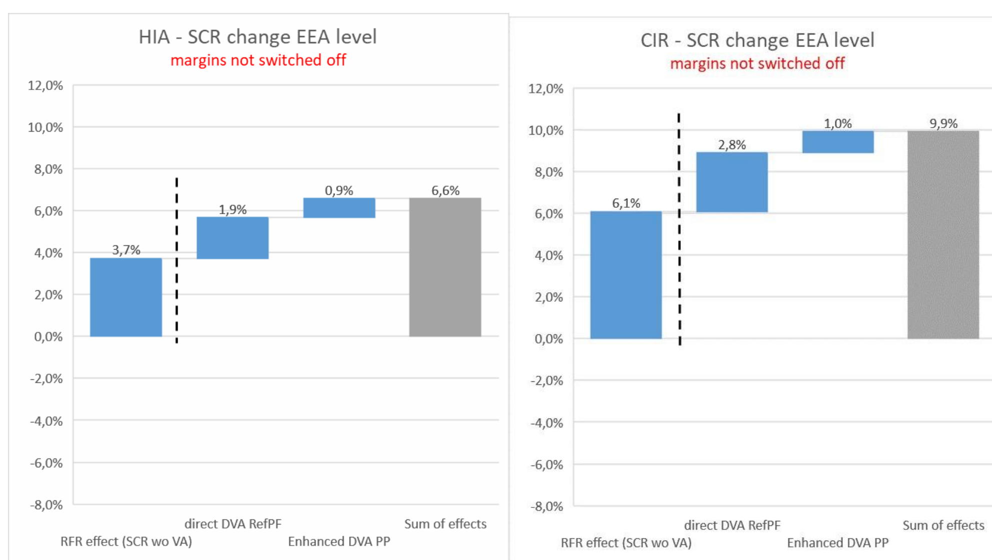
If this relative change could be subtracted from the relative increase of the SCR with VA, the following waterfall diagrams below would result:



It indicates that on EUR area level the cumulative effect caused by the changes in VA and DVA including the enhanced prudency principle would be small with +0.4% on weighted average of the SCR.

[62] Please note that for this figure, of relative change, displayed in the left bar, the reference is the 'SCR without VA', while for the DVA variations as displayed in bars two, three and four the reference is the 'SCR including VA'. I.e. the references in this diagram are not uniform. The dashed line indicates this change in the reference.

2.84 However, if the margins included in the current DVA models would not have been switched off, a rough estimate[63] indicates that the SCR under scenario 1 in the HIA would increase by an additional 2.7 bn. €, i.e. a total of +6.3 bn. € (+5.7%) and a total of +7.5 bn. € (+6.6%) under the enhanced DVA prudency principle. Especially, the second step in the waterfall diagram would indicate an increase of +1.9% instead of -0.7% as shown in the next figure below. Under the CIR the SCR under scenario 1 would increase by an additional 4.0 bn. €, i.e. 10.5 bn. € (+8.9%), and a total of 11.7 bn. € (+9.9%) under the enhanced DVA prudency principle.



2.85 While there was no breach of SCR with VA under the HIA, the CIR under the enhanced prudency shows for one undertaking a SCR coverage ratio slightly below 100%. The rough estimate of "margins not switched off" for the CIR would show a second such slight breach. Note: Neither HIA (per 2019 Q4) nor CIR (per Q2 2020) show a breach of SCR with VA for the DVA sample in the base case.

2.86 The following analysis will focus on the results under scenario 1, i.e. margin switched off.

Results split by country and business type: SCR

2.87 The analysis confirms that the effects vary materially in amount and direction on country level for business types and within those categories.

The following two tables give an overview of the absolute and weighted average relative impacts on country and business-type level:

[63] Please note that no data including margins was requested to limit the effort for undertakings. The estimate leverages on data collected in the preceding data requests under the Solvency II review but depends on expert judgment.

EEA / Countries	HIA - impact on SCR with VA					
	Scenario 1: RFR, VA and		Addtional effect		Cumulative impact	
	abs. (mio. €)	rel. (in %)	abs. (mio. €)	rel. (in %)	abs. (mio. €)	rel. (in %)
EEA	3.341	3,0%	1.233	1,1%	4.574	4,1%
AT	221	3,9%	7	0,1%	228	4,1%
DE	752	1,1%	672	1,0%	1.424	2,1%
FR	787	4,0%	495	2,5%	1.283	6,4%
IE	11	0,9%	2	0,2%	13	1,0%
NL	1.314	10,3%	51	0,4%	1.364	10,7%

EEA / Countries	CIR - impact on SCR with VA					
	Scenario 1: RFR, VA and		Addtional effect		Cumulative impact	
	abs. (mio. €)	rel. (in %)	abs. (mio. €)	rel. (in %)	abs. (mio. €)	rel. (in %)
EEA	6.260	5,3%	1.393	1,2%	7.653	6,5%
AT	335	9,7%	0	0,0%	335	9,7%
DE	3.244	4,3%	567	0,8%	3.811	5,1%
FR	882	4,2%	504	2,4%	1.386	6,5%
IE	9	0,6%	4	0,3%	13	0,9%
NL	1.515	11,5%	310	2,4%	1.825	13,9%

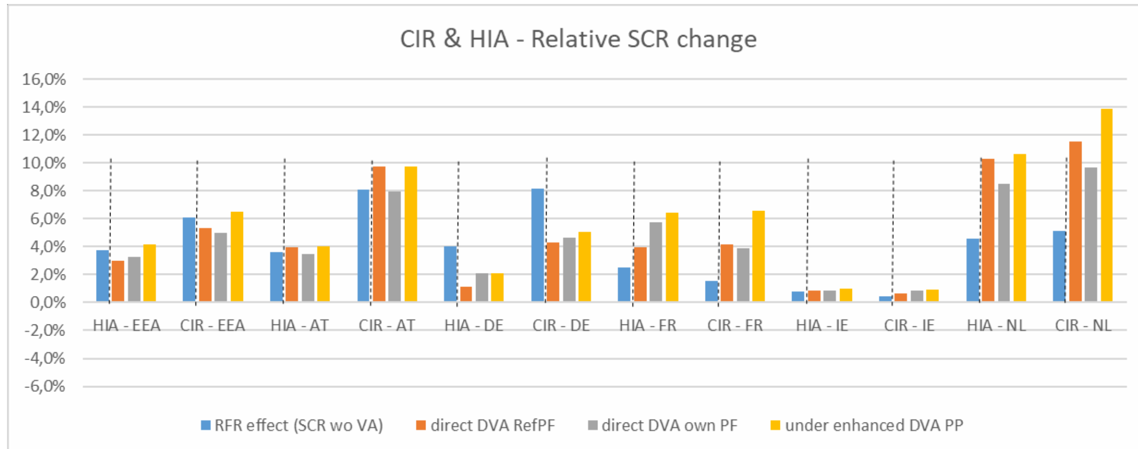
EEA / Business type	HIA - impact on SCR with VA					
	Scenario 1: RFR, VA and		Addtional effect		Cumulative impact	
	abs. (mio. €)	rel. (in %)	abs. (mio. €)	rel. (in %)	abs. (mio. €)	rel. (in %)
EEA	3.341	3,0%	1.233	1,1%	4.574	4,1%
Life	2.719	6,7%	1.104	2,7%	3.823	9,4%
Composite	337	5,9%	11	0,2%	348	6,1%
Non-Life	261	1,6%	29	0,2%	290	1,8%
Reinsurance	24	0,1%	89	0,2%	113	0,2%

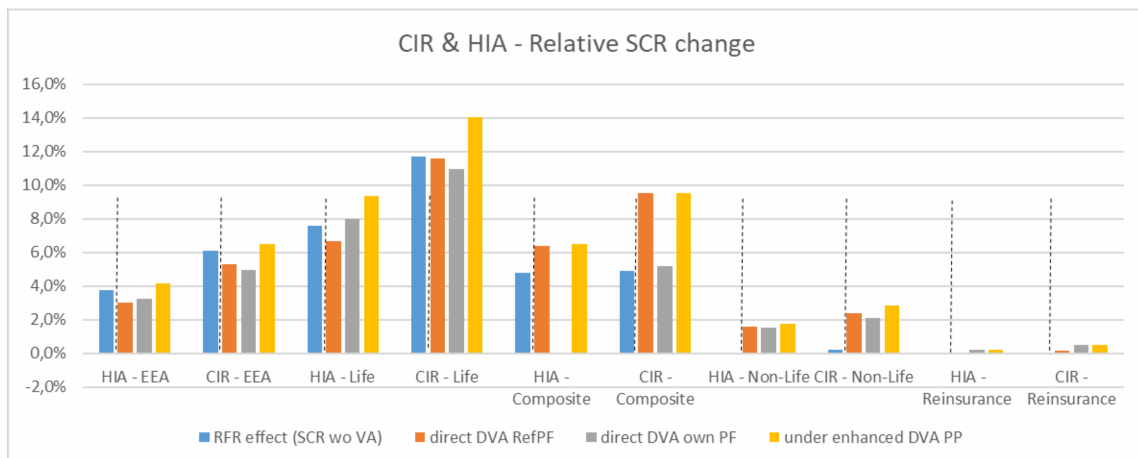
EEA / Business type	CIR - impact on SCR with VA					
	Scenario 1: RFR, VA and		Addtional effect		Cumulative impact	
	abs. (mio. €)	rel. (in %)	abs. (mio. €)	rel. (in %)	abs. (mio. €)	rel. (in %)
EEA	6.260	5,3%	1.393	1,2%	7.653	6,5%
Life	5.304	11,6%	1.144	2,5%	6.448	14,1%
Composite	484	9,0%	8	0,2%	492	9,1%
Non-Life	389	2,4%	69	0,4%	458	2,8%
Reinsurance	84	0,2%	172	0,3%	256	0,5%

2.88 The following figures illustrate the relative impact on the SCR in four different constellations:

(1) "without VA"[64]	as approximation for the RFR effect
(2) "direct DVA(Ref PF)"	scenario 1
(3) "direct DVA(own PF)"	scenario 1, direct DVA on UT's own PF
(4) maximum[65] of (2) & (3)	scenario 1, enhanced 'DVA prudency principle'

The figures as the tables above provide a country and undertaking type split combining HIA and CIR results:





2.89 Corresponding to the notion that in general the effect from the VA and DVA is more relevant for life insurers, also the HIA and CIR figures show the highest impact in absolute and relative terms for life insurers.

2.90 Furthermore a 'concentration' can be observed: The ten participants with the highest relative increase of the SCR under the enhanced prudency principle show under the HIA a cumulated increase in SCR of +3.7 bn. € and of +6.1 bn. € under the CIR, where the sample shows a total impact of +4.5 bn. € (+7.7 bn. €) with

[64] Please note that for this bar of relative change the reference is the SCR without VA, while for the bars two, three and four the reference is the SCR including VA. I.e. the references in this bar plot are not uniform.

[65] The maximum is determined per entity and the bar show the sum of all entities. This implies that in general the fourth bar is not the maximum of the second and third bar, but potentially higher.

43 (40) submissions. From these ten undertakings, eight are life insurance and two are composite undertakings and ten life insurance undertakings under the CIR.

Further analysis of impacts on the SCR

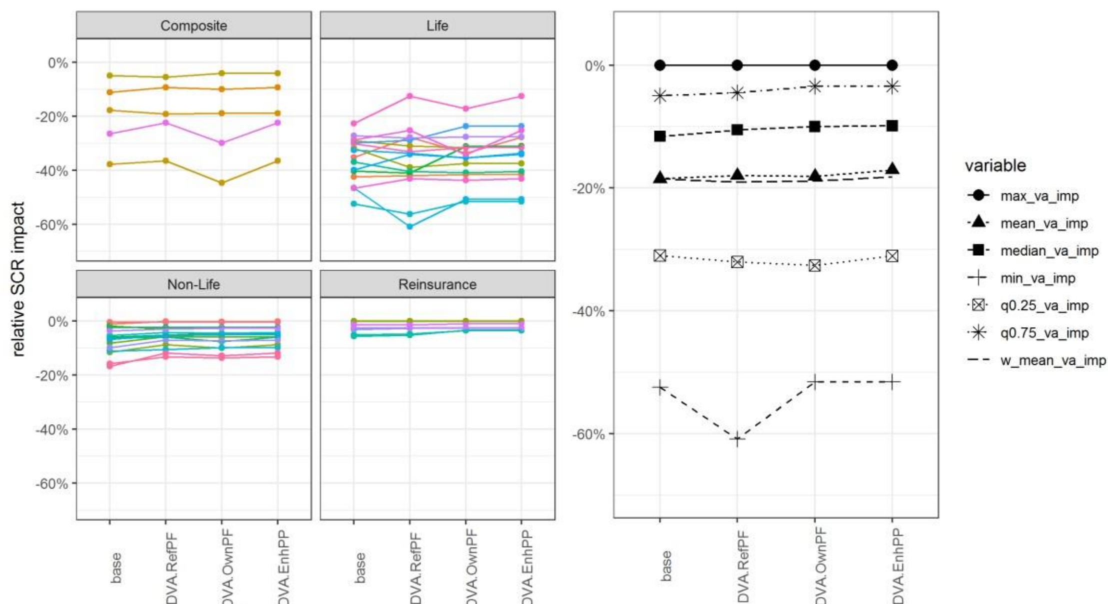
2.91 As in the analysis in phase one, also for the HIA and the CIR the variation of results on the solo entity level was analysed regarding the dimensions of groups, DVA approaches, countries as well as business type. Also, impacts were plotted against further aspects, especially the level of risk corrected spread reported for the undertakings' own portfolio compared to the risk corrected spread on the VA reference portfolio or against effective and modified duration. No obvious pattern was observed.

2.92 I.e. although all these aspects either are driving part of the observations or are good for description, none of these aspects drive the SCR on its own but would also have to be considered in connection with more than one additional dimension. Combined statistics and graphics did not reveal significant directions.

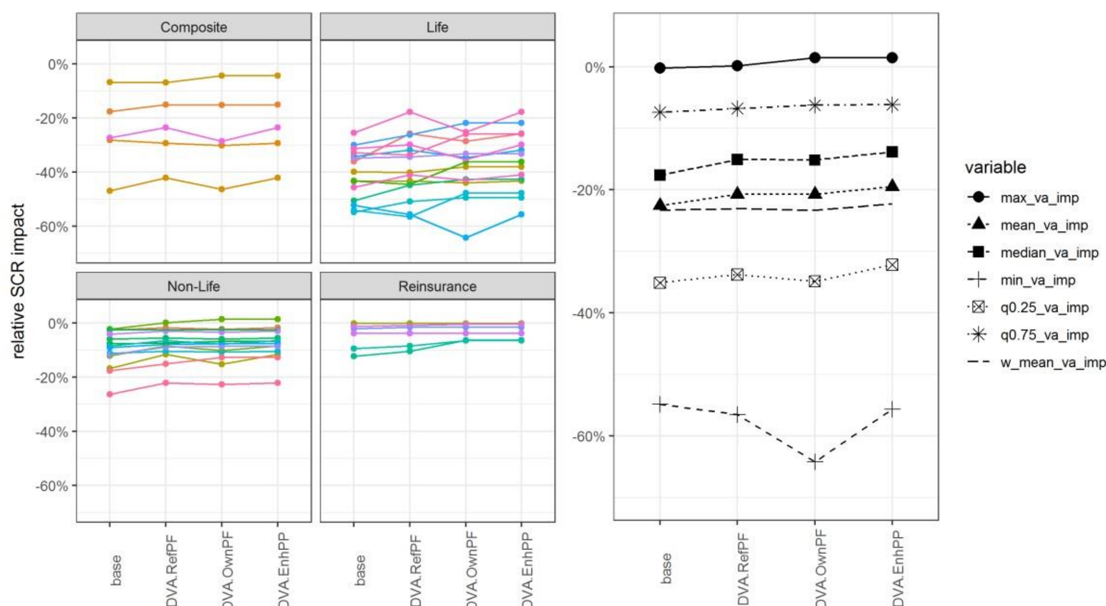
2.93 For example: Although being able to confirm that effects are in general higher for life insurance undertakings and for undertakings with long duration of best estimate liabilities, these characteristics are not significant stand-alone as there are several exceptions from that general observations.

Reduction of the SCR by switching on the VA

2.94 The following plots show the reduction of the SCR by switching on the VA, under each DVA variation in the form of 'parallel line plots' in a split by business type and basic statistics[66] for the sample for the HIA and the CIR:



[66] Please note the reduction is shown as percentage compared to the SCR without VA and with negative sign. I.e. the strongest reductions are shown in the lower parts of the plots and the "max_va_imp" shows the lowest reduction, while "min_va_imp" shows the strongest reduction.



In the right part of the plot the triangles show the mean reduction of the SCR by the VA (not only DVA but also constant VA effects), which is essentially not impacted and is roughly -20% in 'base', 'scenario' (direct DVA Ref PF) and under the enhanced prudency principle – in the HIA and the CIR as well. The left parts, using one colour for each undertaking, shows that there is variation in the sample, but also on solo level with few exceptions the effects are mild (when switching off the margins).

Results on surplus of own funds over SCR with VA

2.95 Overall the effect observed for the SCR is confirmed for the surplus of own funds over the SCR with VA. Furthermore, the risk margin amplifies the observed effects. In particular, the reinsurance undertakings in the sample benefit from a lower risk margin under the HIA and the CIR but are to a lesser extent impacted by the change in the RFR extrapolation.

2.96 The following tables shows how the impacts on the surplus are split between SCR (DVA related) and Own Funds in country and business type perspective:

	HIA - impact on surplus over SCR with VA (abs. in mio. €)											
EEA / Countries	Scenario 1: RFR, VA and current "DVA prudency				Addtional effect "enhanced DVA prudency principle"				Cumulative impact			
	SCR	OF	Surplus	rel.	SCR	OF	Surplus	rel.	SCR	OF	Surplus	rel.
EEA	-3.341	477	-2.864	-1,9%	-1.233	29	-1.204	-0,8%	-4.574	507	-4.068	-2,7%
AT	-221	-185	-406	-4,7%	-7	2	-5	-0,1%	-228	-183	-411	-4,8%
DE	-752	797	45	0,0%	-672	19	-653	-0,6%	-1.424	815	-608	-0,6%
FR	-787	-5	-793	-4,9%	-495	0	-495	-3,0%	-1.283	-5	-1.288	-7,9%
IE	-11	17	6	0,6%	-2	0	-2	-0,2%	-13	18	4	0,4%
NL	-1.314	-227	-1.541	-14,4%	-51	8	-43	-0,4%	-1.364	-219	-1.584	-14,8%

	CIR - impact on surplus over SCR with VA (abs. in mio. €)											
EEA / Countries	Scenario 1: RFR, VA and current "DVA prudency				Addtional effect "enhanced DVA prudency principle"				Cumulative impact			
	SCR	OF	Surplus	rel.	SCR	OF	Surplus	rel.	SCR	OF	Surplus	rel.
EEA	-6.260	-6.530	-12.791	-8,6%	-1.393	130	-1.263	-0,9%	-7.653	-6.400	-14.053	-9,5%
AT	-335	-420	-754	-19,6%	0	20	20	0,5%	-335	-399	-734	-19,0%
DE	-3.244	-1.599	-4.843	-4,1%	-567	24	-543	-0,5%	-3.811	-1.575	-5.386	-4,6%
FR	-882	-1.190	-2.072	-18,5%	-504	43	-461	-4,1%	-1.386	-1.147	-2.533	-22,6%
IE	-9	15	6	0,7%	-4	0	-4	-0,5%	-13	15	2	0,2%
NL	-1.515	-3.192	-4.707	-39,5%	-310	43	-267	-2,2%	-1.825	-3.149	-4.973	-41,8%

EEA / Business type	HIA - impact on surplus over SCR with VA (abs. in mio. €)											
	Scenario 1: RFR, VA and current "DVA prudency principle"				Addtional effect "enhanced DVA prudency principle"				Cumulative impact			
	SCR	OF	Surplus	rel.	SCR	OF	Surplus	rel.	SCR	OF	Surplus	rel.
EEA	-3.341	477	-2.864	-1,9%	-1.233	29	-1.204	-0,8%	-4.574	507	-4.068	-2,7%
Life	-2.719	-497	-3.217	-5,8%	-1.104	9	-1.095	-2,0%	-3.823	-488	-4.311	-7,7%
Composite	-337	-116	-453	-6,6%	-11	0	-11	-0,2%	-348	-116	-464	-6,8%
Non-Life	-261	353	92	0,5%	-29	20	-9	-0,1%	-290	373	83	0,5%
Reinsurance	-24	738	714	1,0%	-89	0	-89	-0,1%	-113	738	625	0,9%

EEA / Business type	CIR - impact on surplus over SCR with VA (abs. in mio. €)											
	Scenario 1: RFR, VA and current "DVA prudency principle"				Addtional effect "enhanced DVA prudency principle"				Cumulative impact			
	SCR	OF	Surplus	rel.	SCR	OF	Surplus	rel.	SCR	OF	Surplus	rel.
EEA	-6.260	-6.530	-12.791	-8,6%	-1.393	130	-1.263	-0,9%	-7.653	-6.400	-14.053	-9,5%
Life	-5.304	-6.660	-11.964	-20,9%	-1.144	86	-1.058	-1,8%	-6.448	-6.574	-13.022	-22,7%
Composite	-484	-515	-999	-19,3%	-8	20	12	0,2%	-492	-495	-987	-19,0%
Non-Life	-389	-34	-423	-2,7%	-69	24	-45	-0,3%	-458	-10	-468	-3,0%
Reinsurance	-84	679	595	0,9%	-172	0	-171	-0,2%	-256	679	424	0,6%

2.97 While on the overall sample scenario 2 shows an increase of the surplus, this is not the case for the DVA sample, for which scenarios 1 and 2 are identical, if potential effects from the revaluation of participations are not considered.

I.e. under the HIA a +6 bn. € effect on the full sample results from a -3 bn. € effect on the DVA sample and a +9 bn. € effect on the remaining sample.

Under the CIR a -40 bn. € effect on the full sample results from a -13 bn. € effect on the DVA sample and a -27 bn. € effect on the remaining sample.

2.98 If additionally the enhanced prudency principle was to be considered, the surplus would be impacted by -1 bn. € and reduced to +5 bn. € on the level of the full HIA sample and reduced to -4 bn. € on the level of the DVA sample. Under the CIR the additional effect on the DVA sample would have the same amount, resulting in a -14 bn. € cumulated for the DVA sample.

2.99 If the margins would not have been switched off, the surplus would have been impacted by an additional -3 bn. € and reduced to +2 bn. € on the level of the full HIA sample and reduced to -7 bn. € on the level of the DVA sample. Under the CIR the estimated impact of not switching off the margins would be -4 bn. €, resulting in -18 bn. € for the DVA sample.

2.5 Transitional measures on the risk-free interest rates and on technical provisions

Policy issues	Options
1. Predominant application of the transitionals by undertakings without capital gap	1.1 No change 1.2 Restrict the use of transitionals 1.3 Limit impact of transitionals for undertakings without capital gap

	1.4 Strengthen disclosure on transitionals (preferred) 1.5 Extend use of phasing-in plans to all undertakings depending on the transitionals
2. Approval of transitionals after 1 January 2016	2.1 No change 2.2 Allow new approvals for the transitionals 2.3 Disallow new approvals for the transitionals 2.4 Allow new approvals for the transitionals only in specified cases (preferred)
3. Application of a capital add on	3.1 No change 3.2 Clarification to Article 37 of the Directive (preferred)

Policy issue 1: Predominant application of the transitionals by undertakings without capital gap		
Option 1.1: No change		
Costs	Policyholders	No material impact
	Industry	Un-level playing field among undertakings not in need of the transitionals.
	Supervisors	Costs for approving the transitionals for undertakings not in need of the transitionals.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 1.2: Restrict the use of transitionals		
Costs	Policyholders	No material impact
	Industry	For undertakings applying the transitionals and complying with the SCR without the transitionals additional costs for justifying the use of the transitionals arise. The ongoing costs are expected to be immaterial.
	Supervisors	For supervisors approving the transitionals additional costs for assessing the justification of undertakings for the use of the transitionals.
	Other	N/A
Benefits	Policyholders	Improved policyholder protection when undertakings have to set up appropriate technical provisions
	Industry	Improved level playing field among all undertakings not in need of the transitionals.
	Supervisors	Insight into the undertaking's reason for applying the transitionals
	Other	N/A
Option 1.3: Limit impact of transitionals for undertakings without capital gap		

Costs	Policyholders	No material impact
	Industry	For undertakings applying the transitional but not complying with the SCR without the transitional additional ongoing cost for calculating the cap to the transitional deduction. The costs are expected to be small.
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection when undertakings complying with the SCR without the transitional have to set up market-consistent technical provisions. Easier for policyholders to compare solvency position of undertakings.
	Industry	Improved level playing field. Undertakings that comply with the SCR without the transitional do not need to calculate technical provisions and the solvency balance sheet twice, i.e. with and without the transitional. No supervisory reporting and public disclosure of impact of the transitional needed anymore.
	Supervisors	More efficient supervision over undertakings that use the transitional while complying with the SCR without the transitional.
	Other	N/A
Option 1.4: Strengthen disclosure on transitionals		
Costs	Policyholders	No material impact
	Industry	Undertakings that apply the transitionals while complying with the SCR without the transitional have ongoing costs
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	Additional, more accessible information on the solvency position of undertakings.
	Industry	No material impact
	Supervisors	More transparency on the reasons for applying the transitionals and dependency on them.
	Other	Investors, analysts, rating agencies, journalists: More transparency on the reasons for applying the transitionals and dependency on them.
Option 1.5: Extend use of phasing-in plans to all undertakings depending on the transitionals		
Costs	Policyholders	No material impact
	Industry	Undertakings that depend on the transitionals while complying with the SCR without the transitionals have additional costs for setting up and maintaining the phasing-in plan.
	Supervisors	With regard to undertakings that depend on the transitionals while complying with the SCR without the transitionals supervisors have additional costs for supervising the phasing-in plan.
	Other	N/A
Benefits	Policyholders	Improved policyholder protection with regard to undertakings that depend on the transitionals while complying with the SCR without the transitionals.
	Industry	No material impact
	Supervisors	More efficient supervision over undertakings that depend on the transitionals while complying with the SCR without the transitionals.
	Other	N/A

<table>
<tr><th colspan="3">Policy issue 2: Approval of transitionals after 1 January 2016</th></tr>
<tr><td colspan="3">Option 2.1: No change</td></tr>
<tr><td rowspan="4">Costs</td><td>Policyholders</td><td>Risk of inappropriate use of the transitional resulting in lower policyholder protection</td></tr>
<tr><td>Industry</td><td>Unlevel playing since late approval is not granted by supervisory authorities in all jurisdictions</td></tr>
<tr><td>Supervisors</td><td>Use of the transitional for a different purpose than the original objectives of smooth transition to Solvency II</td></tr>
<tr><td>Other</td><td>N/A</td></tr>
<tr><td rowspan="4">Benefits</td><td>Policyholders</td><td>No material impact</td></tr>
<tr><td>Industry</td><td>Flexibility for undertakings to obtain some capital relief through the use of the transitional, if allowed by their supervisory authority</td></tr>
<tr><td>Supervisors</td><td>No material impact</td></tr>
<tr><td>Other</td><td>N/A</td></tr>
<tr><td colspan="3">Option 2.2: Allow new approvals for the transitionals</td></tr>
<tr><td rowspan="4">Costs</td><td>Policyholders</td><td>Some undertakings may move away from market-consistent technical provisions, thereby weakening policyholder protection.</td></tr>
<tr><td>Industry</td><td>No material impact</td></tr>
<tr><td>Supervisors</td><td>Additional costs for new approvals and supervision of transitionals.</td></tr>
<tr><td>Other</td><td>N/A</td></tr>
<tr><td rowspan="4">Benefits</td><td>Policyholders</td><td>No material impact</td></tr>
<tr><td>Industry</td><td>Flexibility for undertakings to obtain some capital relief through the use of the transitional
Consistent application of transitional provisions across countries.</td></tr>
<tr><td>Supervisors</td><td>No material impact</td></tr>
<tr><td>Other</td><td>N/A</td></tr>
<tr><td colspan="3">Option 2.3 Disallow new approvals for the transitionals</td></tr>
<tr><td rowspan="4">Costs</td><td>Policyholders</td><td>No material impact</td></tr>
<tr><td>Industry</td><td>Undertakings not using the transitional currently would not be able to benefit from a lower capital requirement through the use of the transitional in the future</td></tr>
<tr><td>Supervisors</td><td>No material impact</td></tr>
<tr><td>Other</td><td>N/A</td></tr>
</table>

Benefits	Policyholders	Improved policyholder protection when undertakings that would have applied for the transitional without the ban have to set up market-consistent technical provisions.
	Industry	Consistent application of transitional provisions across countries.
	Supervisors	No costs for approving new transitionals.
	Other	N/A
Option 2.4 Allow new approvals for the transitionals only in specified cases		
Costs	Policyholders	No material impact
	Industry	Undertakings not using the transitional currently would not be able to benefit from a lower capital requirement through the use of the transitional in the future (except for the specified cases)
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection when undertakings that would have applied for the transitional without the ban have to set up market-consistent technical provisions.
	Industry	Consistent application of transitional provisions across countries. Smooth transition to Solvency II for undertakings in case of exceeding the thresholds of Article 4 of the Directive Facilitating the transfer of liabilities of undertakings applying the transitional
	Supervisors	No costs for approving new transitionals.
	Other	N/A

Policy issue 3: Application of a capital add on		
Option 3.1: No change		
Costs	Policyholders	Risk to policyholder protection if supervisors are not able to impose a capital add-on in cases where a proper phasing-in is not realistic
	Industry	Uncertainty on the concrete circumstances that could lead to the imposition of a capital add-on by the supervisory authority with respect to undertakings applying the transitionals. Risk of divergence supervisory practices among jurisdictions resulting in unlevel playing field.
	Supervisors	Difficulty to apply a capital add-on due to lack of clarity of Article 37(1) (d) of the Directive
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A

Option 3.2: Clarification to Article 37 of the Directive		
Costs	Policyholders	No material impact
	Industry	Undertakings that depend on the transitionals to comply with the SCR may have additional costs for setting up and maintaining an *effective* phasing-in plan.
	Supervisors	Supervisors have additional costs to ensure phasing-in plans adequately demonstrate compliance with the SCR in future years. Supervisors will also need to assess whether a capital add-on is appropriate
	Other	N/A
Benefits	Policyholders	Improved policyholder protection with regard to undertakings that depend on the transitionals while complying with the SCR without the transitionals.
	Industry	Advance planning for compliance with SCR in future years once transitionals end to avoid a cliff impact.
	Supervisors	More efficient supervision over undertakings that may not demonstrate compliance with SCR in future years
	Other	N/A

Proportionality

2.100 All options take into account the principle of proportionality.

2.101 In particular, with regard to policy issue 1 it would be considered proportionate:

- under Option 1.2 that undertakings need to provide justification for using the transitional, given the high impact it can have on the solvency position,
- to allow approximations under Option 1.3 for the calculation of the transitional deduction so that it results in an SCR ratio of 100%,
- under Option 1.4 that undertakings disclose the reason for using the transitionals and any dependencies on it, given the high impact it can have on the solvency position,
- under Option 1.5 that not only undertakings that do not comply with the SCR without the transitionals, but all undertakings that depend on the transitionals provide phasing-in plans.

Evidence

2.102 During the analysis evidence on the use and impact on the transitionals as provided by undertakings in their regular supervisory reporting and information collected from NSAs has been used.

Policy issue 1: Predominant application of the transitionals by undertakings without capital gap						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Improving transparency and better comparability	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Improving transparency and better comparability	Effective and efficient supervision of (re)insurance undertakings and groups

Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Restrict the use of transitionals	++	0	+	0	0	0
Option 1.3: Limit impact of transitionals for undertakings without capital gap	++	+	0	++	+	+
Option 1.4: Strengthen disclosure on transitionals	0	++	+	+	++	0
Option 1.5: Extend use of phasing-in plans to all undertakings depending on the transitionals	0	0	++	0	0	+

Policy issue 2: Approval of transitionals after 1 January 2016						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 2.1: No change	0	0	0	0	0	0
Option 2.2 Allow new approvals for the transitionals	0	+	+	0	0	+
Option 2.3 Disallow new approvals for the transitionals	+	+	+	+	+	+
Option 2.4 Allow new approvals for the transitionals only in specified cases	+	++	+	+	++	+

Policy issue 3: Application of a capital add on

	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Clarification of Art. 37 of the Directive	++	++	++	+	+	++

2.6 Risk-management provisions on LTG measures

Policy issue	Options
1. Role of the liquidity plan for VA	1.3 No change 1.4 Delete the requirement 1.5 Clarify and strengthen the requirement (preferred)
2. Sensitivity analysis for VA	2.1 No change 2.2 To include the requirement in the own risk and solvency assessment 2.3 To change the requirement to refer to sensitivities with respect to different economic (spread) situations instead of referring to the assumptions underlying the measures including clarification how these sensitivities should be reported (preferred)
3. Forced sale of assets for the VA and MA	3.1 No change 3.2 Delete the requirement (preferred)
4. Policy on risk management for the VA	4.1 No change 4.2 Delete the requirement 4.3 Clarify that the policy on risk management should include the use of the VA (preferred)
5. Analysis of measures restoring compliance for the MA and VA	5.1 No change 5.2 Keep the requirement as it is and add clarification in the regulation that an ad-hoc notification is required 5.3 Allow NSAs to limit voluntary capital distributions in case where the solvency position is not sustainable (preferred)

Policy issue 1: Role of liquidity plan for the VA		
Option 1.1: No change		
Costs	Policyholders	No material impact
	Industry	Complexity of the supervisory system reduces effective risk management process
	Supervisors	Lower effectiveness in supervisory review
	Other	N/A
Benefits	Policyholders	No material impact

Policy issue 1: Role of liquidity plan for the VA		
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 1.2: To delete the requirement		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Less burdensome application of the VA
	Supervisors	Reducing complexity of supervisory review
	Other	N/A
Option 1.3: Clarify and strengthen the requirement		
Costs	Policyholders	No material impact
	Industry	Additional effort to take into account the use of the VA in the liquidity risk management plan, but may be less effort than a separate liquidity plan because of the VA
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	May increased policyholder protection as risk management is strengthened
	Industry	More effective risk management process
	Supervisors	Increase of effectiveness in supervisory review
	Other	N/A

Policy issue 2: Sensitivity analysis for the VA		
Option 2.1: No change		
Costs	Policyholders	No material impact
	Industry	Low understanding reduces effectiveness of risk management system
	Supervisors	Low efficiency of supervisory review
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact

Policy issue 2: Sensitivity analysis for the VA		
	Other	N/A
Option 2.2: To include the requirement in the own risk and solvency assessment		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Improved understanding and role of the sensitivity analysis
	Supervisors	More efficient supervisory review
	Other	N/A
Option 2.3: To change the requirement to refer to sensitivities with respect to different economic (spread) situations instead of referring to the assumptions underlying the measures including clarification how these sensitivities should be reported		
Costs	Policyholders	No material impact
	Industry	Compared to status quo this option would imply higher effort for undertakings
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Improved understanding and role of the sensitivity analysis
	Supervisors	More efficient supervisory review
	Other	With prescribed sensitivity analyses better comparability of financial situations of undertakings

Policy issue 3: Forced sale of assets for the VA and MA		
Option 3.1: No change		
Costs	Policyholders	No material impact
	Industry	Unclarity limits effectiveness of risk management processes
	Supervisors	Low efficiency of supervisory review
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 3.2: Delete the requirement for the VA		

Policy issue 3: Forced sale of assets for the VA and MA		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Less burden for applying the VA
	Supervisors	No material impact
	Other	N/A

Policy issue 4: Policy on risk management for the VA		
Option 4.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 4.2: Delete the requirement for the VA		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Less burden for applying the VA
	Supervisors	No material impact
	Other	N/A
Option 4.3: Clarify that the policy on risk management should include the use of the VA		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact

Policy issue 4: Policy on risk management for the VA		
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Inclusion of the use of the VA in the regular risk management process
	Supervisors	Ensures broader reflection of use of VA in risk management policy
	Other	N/A

Policy issue 5: Analysis of measures restoring compliance for the MA and VA		
Option 5.1: No change		
Costs	Policyholders	No material impact
	Industry	Complexity of supervisory framework reduces efficiency of the risk management framework
	Supervisors	Low efficiency of supervisory review process
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 5.2: Keep the requirement as it is and add clarification in the regulation that an ad-hoc notification is required		
Costs	Policyholders	No material impact
	Industry	May cause some effort to change processes
	Supervisors	None
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	➢ Timely notification allowing effective supervision
	Other	N/A
Option 5.3: Allow NSAs to limit voluntary capital distributions in case where the solvency position is not sustainable		
Costs	Policyholders	No material impact
	Industry	Additional calculation for combined impact to be carried out and to be reported May result in additional costs for providing evidence on sustainability of solvency provision May result in restrictions to voluntary capital distributions
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Increased policyholder protection as supervisors can limit capital distributions in case of unsustainable solvency positions

	Industry	No costs for specifying measures regarding non-compliance with the SCR without MA or VA
	Supervisors	More efficiency and effectiveness in supervisory review as only focus on undertakings where deteriorating financial situation endangers policyholder protection
	Other	N/A

Policy issue 1: Role of liquidity plan for the VA						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: To delete the requirement	0	+	+	0	+	+
Option 1.3: Clarify and strengthen the requirement	0	+	+	0	+	+

Policy issue 2: Sensitivity analysis for the VA						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: To include the requirement in the own risk and solvency assessment	0	0	+	0	0	+
Option 2.3.: To change the requirement to refer to	0	+	++	0	+	++

sensitivities with respect to different economic (spread) situations						

Policy issue 3: Forced sale of assets for the VA and MA						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Delete the requirement for the VA	0	+	+	0	+	+

Policy issue 4: Policy on risk management for the VA						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 4.1: No change	0	0	0	0	0	0
Option 4.2: Delete the requirement for the VA	0	+	+	0	+	+
Option 4.3: Clarify that the policy on risk management should include the use of the VA	+	+	+	+	+	+

Policy issue 5: Analysis of measures restoring compliance with the VA						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 5.1: No change	0	0	0	0	0	0
Option 5.2: Keep requirement as it is and add clarification in the regulation that an ad-hoc notification is required	0	+	+	0	+	+
Option 5.3: Allow NSAs to limit voluntary capital distributions in case where the solvency position is not sustainable	0	+	++	0	+	++

2.7 Disclosure on LTG measures

Policy issue	Options
1. Lack of qualitative information	1. No change 2. Prescribe minimum criteria (preferred)
2. Lack of quantitative information	1. No change 2. Extend SFCR template with impact of LTG measures on SCR and MCR ratios (preferred)
3. Lack of information on the sensitivity of undertakings to changes to the application of the extrapolation	1. No change 2. Prescribe disclosure regarding sensitivity analysis for undertakings with long-term guarantees (preferred) 3. Prescribe reporting regarding sensitivity analysis for undertakings with long-term guarantees

Policy issue 1: Lack of qualitative information		
Option 1.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 1.2: Prescribe minimum criteria for disclosure of qualitative information		
Costs	Policyholders	No material impact.
	Industry	More effort spent on disclosure by undertakings on average
	Supervisors	No material impact.
	Other	N/A
Benefits	Policyholders	Improved comparability between undertakings Improved transparency of the use of LTG-measures
	Industry	Improved comparability between undertakings Improved transparency of the use of LTG-measures
	Supervisors	Level playing field supported by standardisation
	Other	N/A

Policy issue 2: Lack of quantitative information		
Option 2.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2.2: Extend SFCR template with impact of LTG measures on SCR and MCR ratios		

Costs	Policyholders	No material impact
	Industry	➢ As impact on SCR and MCR already reported in RSR, no significant impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Quantitative impact of LTG-measures on SCR now directly visible
	Industry	Quantitative impact of LTG-measures on SCR now directly visible
	Supervisors	Quantitative impact of LTG-measures on SCR now directly visible
	Other	Quantitative impact of LTG-measures on SCR now directly visible

Policy issue 3: Lack of information on sensitivity analysis regarding extrapolation		
Option 3.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 3.2: Prescribe disclosure of sensitivity analysis for undertakings with long-term guarantees		
Costs	Policyholders	No material impact.
	Industry	More effort for regular scenario calculation.
	Supervisors	No material impact.
	Other	N/A
Benefits	Policyholders	Better insight into undertaking's individual sensitivities
	Industry	More market transparency of impact of changes to the convergence parameter
	Supervisors	Better and easier overview of undertakings sensitive to changes to the convergence parameter
	Other	N/A
Option 3.3: Prescribe reporting (without disclosure) of UFR sensitivity analysis		
Costs	Policyholders	No material impact.
	Industry	More effort for regular scenario calculation.
	Supervisors	No material impact.
	Other	N/A

Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	Better and easier overview of undertakings sensitive to changes to the convergence parameter
	Other	N/A

Policy issue 1: Lack of qualitative information						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Prescribe minimum criteria for disclosure of qualitative information	++	+	+	++	+	+

Policy issue 2: Lack of quantitative information						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Extend SFCR template with impact of LTG measures on SCR and MCR	++	0	+	++	0	+

Policy issue 3: Lack of information on sensitivity analysis regarding Extrapolation

	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Prescribe disclosure of UFR sensitivity analysis	+	0	++	+	0	++
Option 3.2: Prescribe reporting of UFR sensitivity analysis	0	0	++	0	0	++

2.8 Long-term and strategic equity investments

Policy issue	Options
Design of the Duration-based equity risk sub-module	
1. Two separate treatment targeting the risk of long term equity	1. No change 2. Phase out (preferred)
Design of the strategic equity risk treatment	
2. Criteria of lower volatility	2.1No change 2.2Deletion of the requirement 2.3 Clarify the requirement and add the beta method as an optional method (preferred) 2.4 Clarify the requirement and add the beta method as a mandatory method
3. Control threshold of 20 percent	3.1 No change 3.2 No change but add a clarification (preferred) 3.3 Deletion 3.4 Reduction to 5 or 10 percent
Design of the long-term equity risk treatment	
4. Separate identification and management	4.1 No change 4.2 Modification of the criteria (clarification of the requirements)
5. Holding period	5.1 No change 5.2 Changes to the criteria (clearer link to long term illiquid liabilities)
6. Diversification between LTE and other risks	6.1 No change 6.2 No diversification between LTE and other equity risks

	6.3 No diversification between LTE and other risks
7. Diversified LTE portfolios	7.1 No change 7.2 Only diversified portfolios are eligible (preferred)
8. Controlled intragroup investments	8.1 No change 8.2 Exclude participations from LTE (preferred)

Policy issue 1: two separate treatment targeting the risk of long term equity		
Option 1.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 1.2: Phase out		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Reducing complexity of the Solvency II framework for equity risk
	Supervisors	Reducing complexity of the supervision
	Other	N/A

Policy issue 1: two separate treatment targeting the risk of long term equity						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0

Option 1.2: Phase out	+	0	+	+	0	+

Design of the strategic equity risk treatment

Policy issue 2: criteria of lower volatility		
Option 2.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2.2: Deletion of criterion		
Costs	Policyholders	Less risk sensitive Solvency regime may impede policyholder protection
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Less burdensome application of provisions
	Supervisors	Reducing complexity of supervisory review
	Other	N/A
Option 2.3: Clarify the requirement and add the beta method as an optional method		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	May increased policyholder protection where requirements are more effective ensuring risk sensitive provisions
	Industry	Provides further clarity on how requirement can be fulfilled
	Supervisors	Increase of effectiveness in supervisory review

	Other	N/A
Option 2.4: Clarify the requirement and add the beta method as the mandatory method		
Costs	Policyholders	No material impact
	Industry	One off effort introduce the method for all strategic equity investments
	Supervisors	Adjusting supervisory processes implies one off effort
	Other	N/A
Benefits	Policyholders	May increased policyholder protection where requirements are more effective ensuring risk sensitive provisions
	Industry	Provides further clarity on how requirement can be fulfilled
	Supervisors	Increase of effectiveness in supervisory review
	Other	N/A

Policy issue 3: control threshold of 20 percent		
Option 3.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 3.2: No change, but add clarification		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Improved consistency allows easier application
	Supervisors	Improved consistency may reduce efforts in supervisory review process
	Other	N/A
Option 3.3: Delete the requirement		
Costs	Policyholders	Less risk sensitive Solvency regime may impede policyholder protection
	Industry	No material impact

	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Less burden for applying the provisions
	Supervisors	May reduce effort on supervisory review
	Other	N/A
Option 3.4: Reduction to 5 or 10 percent		
Costs	Policyholders	Less risk sensitive Solvency regime may impede policyholder protection
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Extension of application of provisions may make it more effective
	Supervisors	No material impact
	Other	N/A

Policy issue 2: criteria of lower volatility						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Deletion of criteria	0	+	+	0	+	+
Option 2.3: Clarify the requirement and add the beta method as an optional method	0	+	+	0	+	+

Option 2.4: Clarify the requirement and add the beta method as a mandatory method	0	++	+	0	++	+

Policy issue 3: control threshold of 20 percent						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: No change but add clarification	0	+	+	0	+	+
Option 3.3: Deletion of criteria	0	0	0	0	0	0
Option 3.4: Reduction to 5 or 10 percent	0	0	0	0	0	0

Design of the long-term equity risk treatment

Policy issue 4: Separate identification and management		
Option 4.1: No change		
Costs	Policyholders	No material impact
	Industry	Too restrictive criteria may unduly prevent undertakings to benefit from the specific risk charge for long-term equity

	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 4.2: Modification of the criteria (clarification of the requirements)		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Clarification of the intended meaning of the criteria should result in an easier and wider application of specific risk charge for long-term equity
	Supervisors	No material impact
	Other	N/A

Policy issue 5: Holding period		
Option 5.1: No change		
Costs	Policyholders	No material impact
	Industry	Too restrictive criteria may unduly prevent undertakings to benefit from the specific risk charge for long-term equity
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 5.2: Changes to the criteria (clearer link to long term illiquid liabilities)		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A

Benefits	Policyholders	Better alignment between investment strategies and the nature of liabilities supporting insurance policies, which would improve policyholder protection.
	Industry	Changes of the criteria could result in a wider application of specific risk charge for long-term equity
	Supervisors	No material impact
	Other	N/A

Policy issue 6: Diversification between LTE and other risks		
Option 6.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 6.2: No diversification between LTE and other equity risks		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Allowance for potential diversification limitations strengthens policyholder protection.
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 6.3: No diversification between LTE and other risks		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Allowance for potential diversification limitations strengthens policyholder protection.
	Industry	No material impact

	Supervisors	No material impact
	Other	N/A

Policy issue 7: Diversified LTE portfolios		
Option 7.1: No change		
Costs	Policyholders	Not sufficiently prudent
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 7.2: Only diversified portfolios are eligible		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Appropriate protection of policyholders, as diversified portfolio are deemed to be less risky and the calibration is based on the analysis of diversified portfolio and/or indices.
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A

Policy issue 8: Controlled intragroup investments		
Option 8.1: No change		
Costs	Policyholders	Not sufficiently prudent
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact

	Other	N/A
Option 8.2: exclude participations from LTE		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Better protection as controlled intragroup equity is not used to help meeting the requirement of LTE.
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A

Policy issue 4: Separate identification and management						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Avoiding unjustified constraints to insurance and reinsurance undertakings holding long-term	Objective 2: Ensuring adequate risk sensitive capital requirements	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Avoiding unjustified constraints to insurance and reinsurance undertakings holding long-term	Objective 2: Ensuring adequate risk sensitive capital requirements	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 4.1: No change	0	0	0	0	0	0
Option 4.2: Clarification of the criteria	+	+	+	+	+	+

Policy issue 5: Holding period						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Avoiding unjustified constraints to insurance and reinsurance undertakings holding long-term investments	Objective 2: Ensuring adequate risk sensitive capital requirements	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Avoiding unjustified constraints to insurance and reinsurance undertakings holding long-term investments	Objective 2: Ensuring adequate risk sensitive capital requirements	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 5.1: No change	0	0	0	0	0	0

Option 5.2: Clear link to long-term illiquid liabilities	+	+	+	+	+	+

Policy issue 6: Diversification between LTE and other risks						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 6.1: No change	0	+	0	0	+	0
Option 6.2: No diversification with other equity risks	0	+	0	0	+	0
Option 6.3: No diversification with other risks	0	+	0	0	+	0

2.4 During the consultation, EIOPA asked for feedback from stakeholders on this issue in particular on evidence that allows to assess the adequacy of the options identified. While ideas on how to assess that matter were provided no clear evidence was shared that allows for a final conclusion on that matter. Therefore, at this stage, EIOPA does not indent to put specific advice on this issue.

Policy issue 7: Diversified LTE portfolios						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 7.1: No change	0	0	0	0	0	0

Option 7.2: only diversified portfolio are eligible	0	0	+	0	+	+

Policy issue 8: Controlled intragroup investments						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving transparency and better comparabilit y	Objective 2: Ensuring a level playing field through sufficiently harmonise d rules	Objective 3: Effective and efficient supervision of (re)insuranc e undertakings and groups	Objective 1: Improving transparency and better comparabilit y	Objective 2: Ensuring a level playing field through sufficiently harmonise d rules	Objective 3: Effective and efficient supervision of (re)insuranc e undertakings and groups
Option 8.1: No change	0	0	0	0	0	0
Option 8.2: Exclude participation s from LTE	+	0	+	+	0	+

Results of the HIA

Background

2.103 The HIA also tested – as part of scenario 1 and 2 - a change in the application criteria for long-term equity (LTE) in the SCR standard formula. In particular, the restriction to only a part of technical provisions being backed by LTE was deleted. Also, the requirements on the holding period of equity were relaxed. The general criteria on the ability to avoid forced sales of equity investments was replaced by particular requirements on the illiquidity of life obligations or the existence of a sufficient liquidity buffer for non-life insurance.

Results

2.104 HIA results on LTE need to be interpreted with caution, due to the very limited number of undertakings effectively submitting results in this area. From a total of 391 participants in the exercise, about 41% have not submitted any figure in the Equity tab of the Template.

2.105 In the baseline scenario 17 undertakings from 8 member states (AT, BG, CY, ES, FR, GR, IS, LU) apply LTE, 8 of which are located in France. This figure increased to 27 undertakings under Scenario 1, including undertakings from 14 member states (AT, BE, BG, DE, DK, EE, ES, FI, FR, GR, IS, LU, NL, NO).

2.106 Comparing the baseline scenario with scenario 1, there is an increase of 10 undertakings reporting LTE. This is the combined result of 15 new undertakings from 8 jurisdictions reporting LTE only in scenario 1, together with 5 undertakings from 3 member states which stopped reporting LTE under scenario 1, although

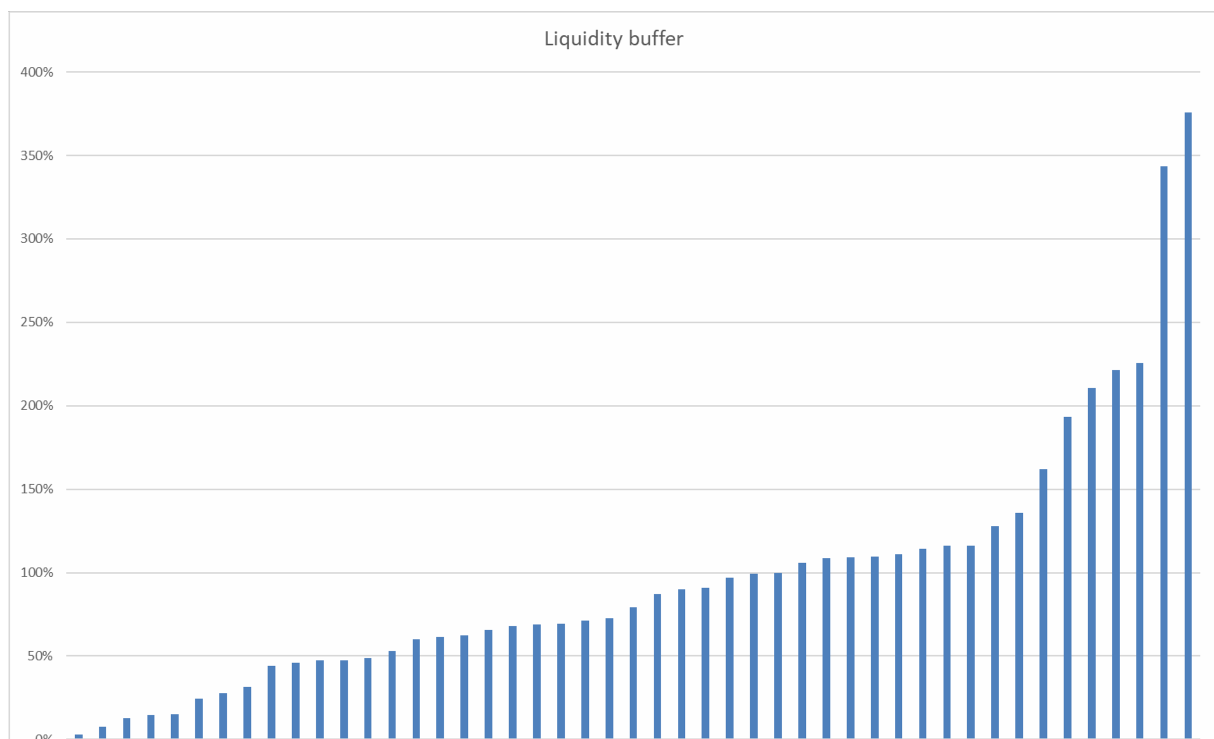
reporting LTE in the baseline. These latter cases are located in Cyprus (1 non-life), Spain (1 composite) and France (3 life).

2.107 Among the 12 undertakings able to report LTE in both scenarios, 5 reported an increase in the proportion of equity classified as LTE, in 5 cases that proportion remained stable and in two cases the share of equity assigned to the LTE category was reduced.

2.108 Concerning life business, the criteria which have been indicated as mostly limiting the allocation of equity to LTE is the availability of illiquid (bucket 1) liabilities, as defined for the application ratio 5 of the Volatility Adjustment, together with the 12 years duration requirement. Concerning the first element, HIA results indicate that the proportion of bucket I liabilities is generally below 20% for most Member States and in some cases it is much lower (e.g. close to zero for IT and about 5% in FR), see diagram at the end of section 5.

2.109 Regarding the non-life business, the criteria for the liquidity buffer, with its pass/fail nature, is the main driver of the results (a ratio above 1 being one of the criteria to be able to apply LTE). Only 49 non-life, composite and reinsurance undertakings reported on their liquidity buffer.

2.110 The following graph outlines the dispersion of the results for that liquidity buffer for those undertakings.

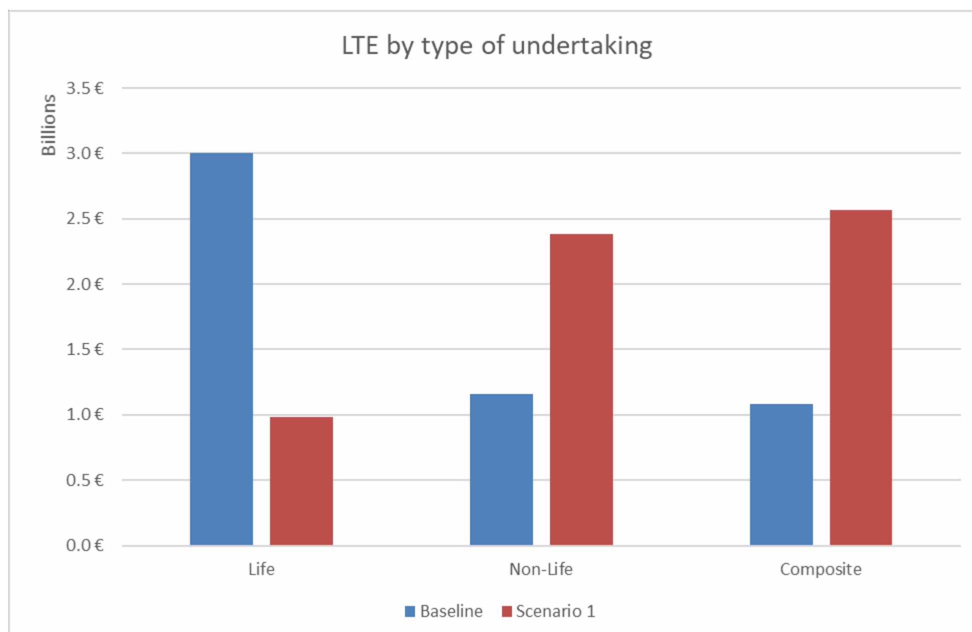


2.111 For the assessment of the revised LTE criteria, it is important not only to evaluate the amount of equity reported as LTE by the undertakings participating in the HIA, but also their potential ability to meet such criteria (and therefore allocate equity to the LTE category). Indeed, it was observed that a number of undertakings demonstrated the ability to fulfil some of the most relevant criteria, but have not reported any equity in the LTE category.

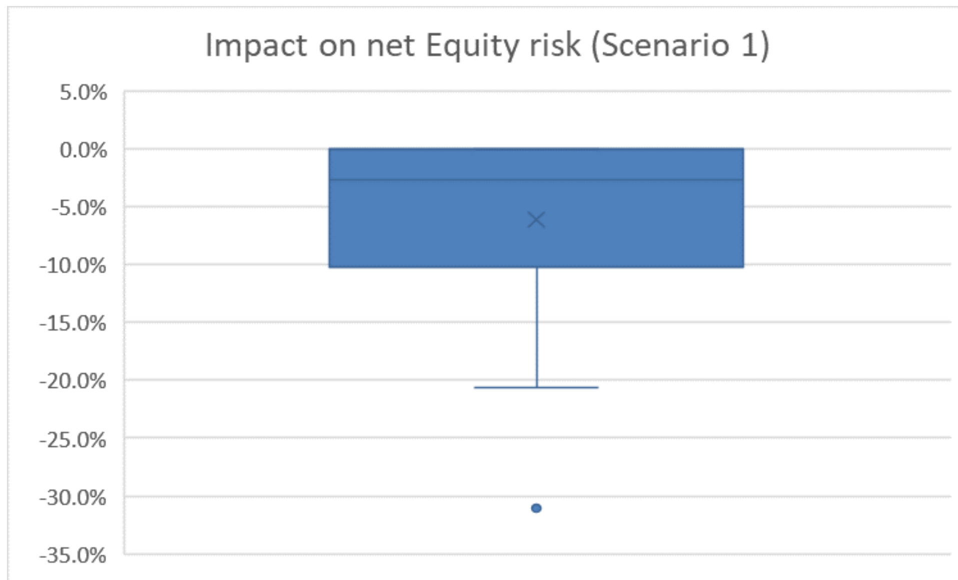
2.112 More specifically, there were 5 non-life undertakings reporting a liquidity buffer above 100% that have not assigned any equity to LTE. Regarding life and composite undertakings, a total of 24 insurers reported Category I insurance liabilities (as defined for the purpose of the Volatility Adjustment) with modified duration equal or greater to 12 years, without reporting any LTE.

2.113 Regarding the amount of equity classified as LTE, in the baseline scenario undertakings applying LTE allocated on average 2.78% of their equity to the long-term equity categories. This figure increased marginally to 2.83% under scenario 1. However, the share of LTE varies significantly, with some of the undertakings reporting high proportions of their equity classified as LTE. When taking into account the total equity reported by all participants, the proportion allocated to LTE represents only 0.68% under the baseline scenario, with a small increase to 0.76% under scenario 1.

2.114 When differentiating by type of undertaking, it is visible that the amount of LTE increased in the case of non-life and composite undertakings, but materially reduced in the case of the life undertakings in the LTE sample.

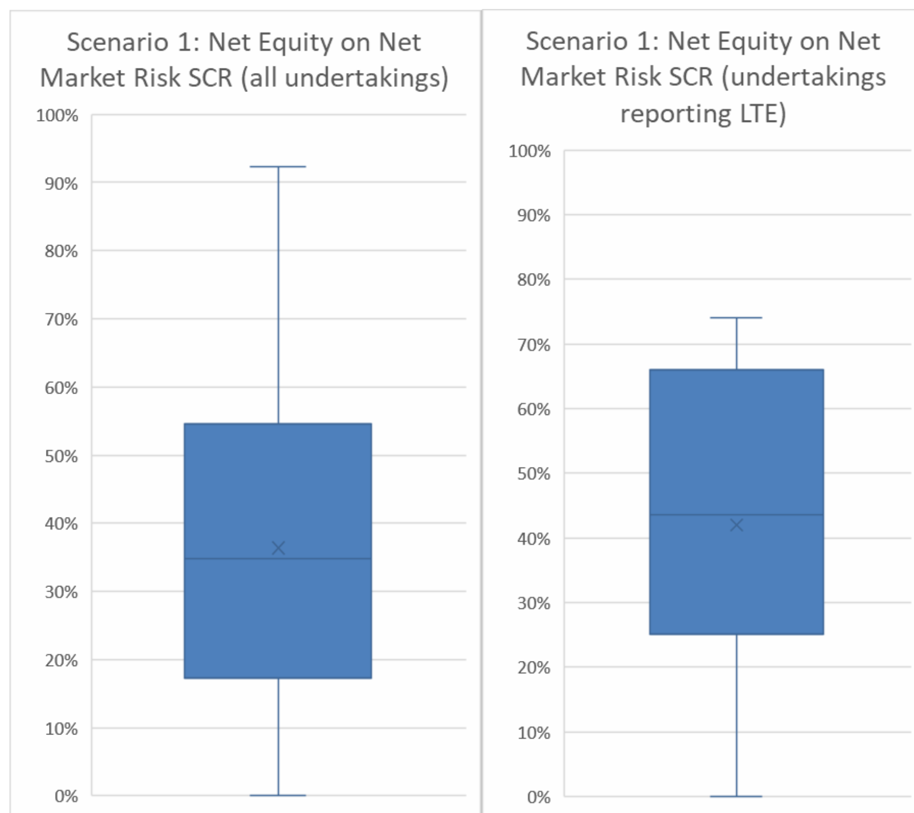


2.115 The impact on equity risk also varies significantly. For the undertakings applying LTE under scenario 1, the net equity risk is reduced by 4.5% on average. However, when assessing the results for individual undertakings a reduction of the net equity risk SCR by up to 30% occurs.



2.116 Although this figure cannot be estimated precisely, it can be reasonably expected that the average impact in the total SCR, for the undertakings applying LTE under scenario 1, was low (a figure always below 4.5%).

2.117 Another interesting observation is the fact that undertakings reporting LTE seem to present a higher weight of Equity risk in the Market risk SCR on average, when compared with the total sample of participants. This is not an unexpected result, which may indicate that undertakings reporting LTE hold on average higher portions of equity in their investment portfolios. The statistical analysis may however be influenced by the very small number of undertakings reporting LTE.



2.118 The HIA exercise included a question about the relevance of criteria 1 b) for the ability of undertakings to allocate equity to LTE[67]. The majority of undertakings reports that the introduction of this criterion would have an impact on their allocation of equity to LTE. Although the impact on the LTE amounts has been reported in an inconsistent manner across undertakings, which makes the analysis difficult, the aggregate impact is estimated at about half of the amount allocated to LTE under Scenario 1.

Results of the CIR

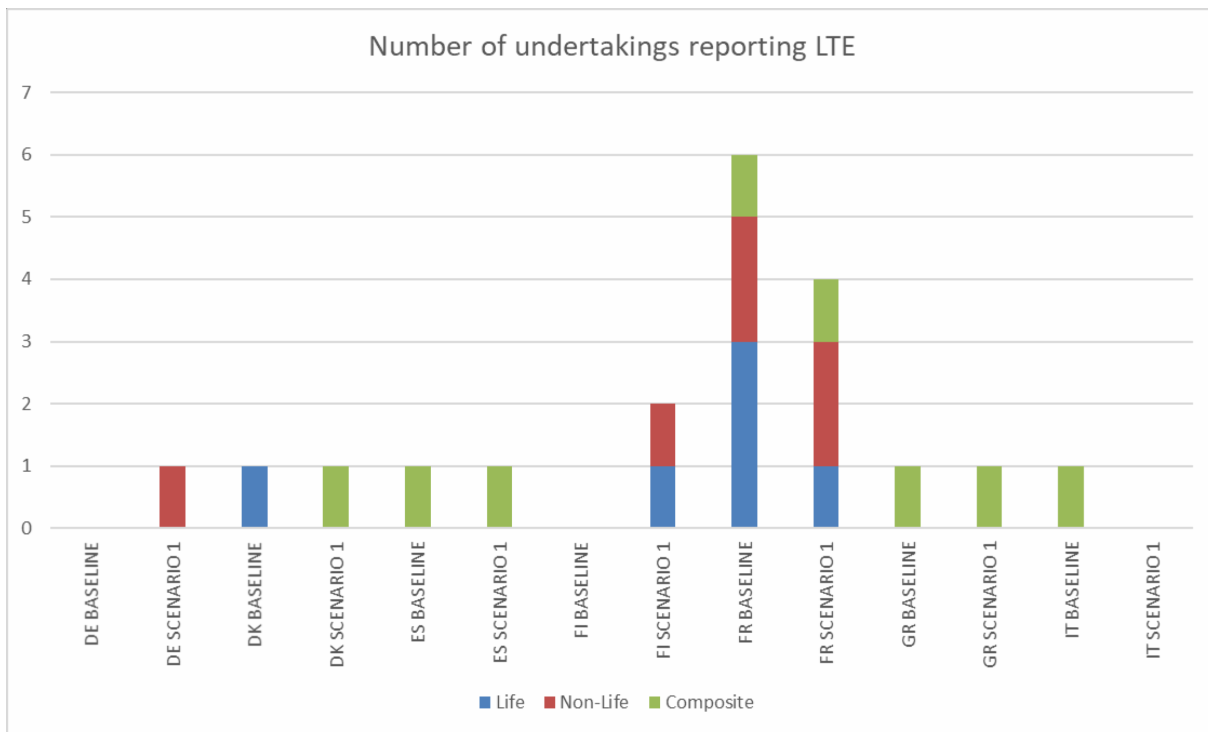
2.119 Following the analysis of the HIA exercise regarding the topic of LTE, the CIR tested – as part of scenario 1 and 2 - some changes in the criteria for long-term equity (LTE) in the SCR standard formula through the introduction of 3 sensitivity assessment calculations aimed at potentially addressing the problems previously identified.

2.120 In the baseline scenario 10 undertakings from 5 member states (DK, ES, FR, GR and IT) apply LTE, 6 of which are located in France. This figure remained unchanged under Scenario 1, including undertakings from 6 member states (DE, DK, ES, FI, FR and GR). These figures are lower than those observed in the HIA.

2.121 The reasons for fewer undertakings applying LTE might be diverse. On the one hand, the sample is not comparable to the HIA given that there is a smaller market coverage in the CIR. Another reason was identified in one country where the re-activation of one criterion (Article 71a para 1b) influenced the scope of application.68 In another country, the non-application of LTE was driven by investment decisions.

[67] Criterion 1 b) was excluded in the HIA exercise. The criterion states that "the sub-set of equity investment is included within a portfolio of assets which is assigned to cover the best estimate of a portfolio of insurance or reinsurance obligations corresponding to one or several clearly identified businesses, and the undertaking maintains that assignment over the lifetime of the obligations".

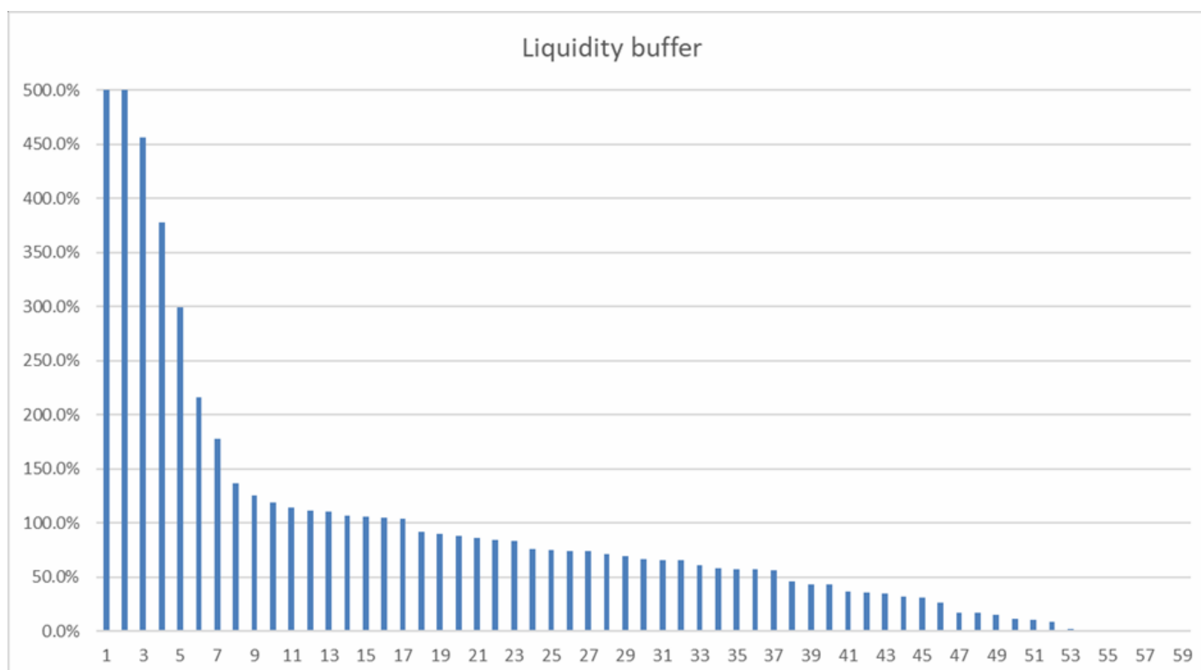
[68] In the HIA this criterion was deactivated to ensure broader application. In the CIR it was kept unchanged to the current legal framework. The limitations of these provisions are known and changes will be proposed as part of the advice.



2.122 Comparing the baseline scenario with scenario 1, the same number of 10 undertakings reporting LTE. This is the combined result of 5 new undertakings from 4 jurisdictions reporting LTE only in scenario 1, together with 5 undertakings from 4 member states which stopped reporting LTE under scenario 1, although reporting LTE in the baseline. These latter cases are located in Denmark (1 life), Spain (1 composite), France (2 life) and Italy (1 composite).

2.123 Regarding the non-life business, the criteria for the liquidity buffer, with its pass/fail nature, is the main driver of the results (a ratio above 1 being one of the criteria to be able to apply LTE). Only 59 non-life, composite and reinsurance undertakings reported on their liquidity buffer, of which 17 reported a figure above 100%.

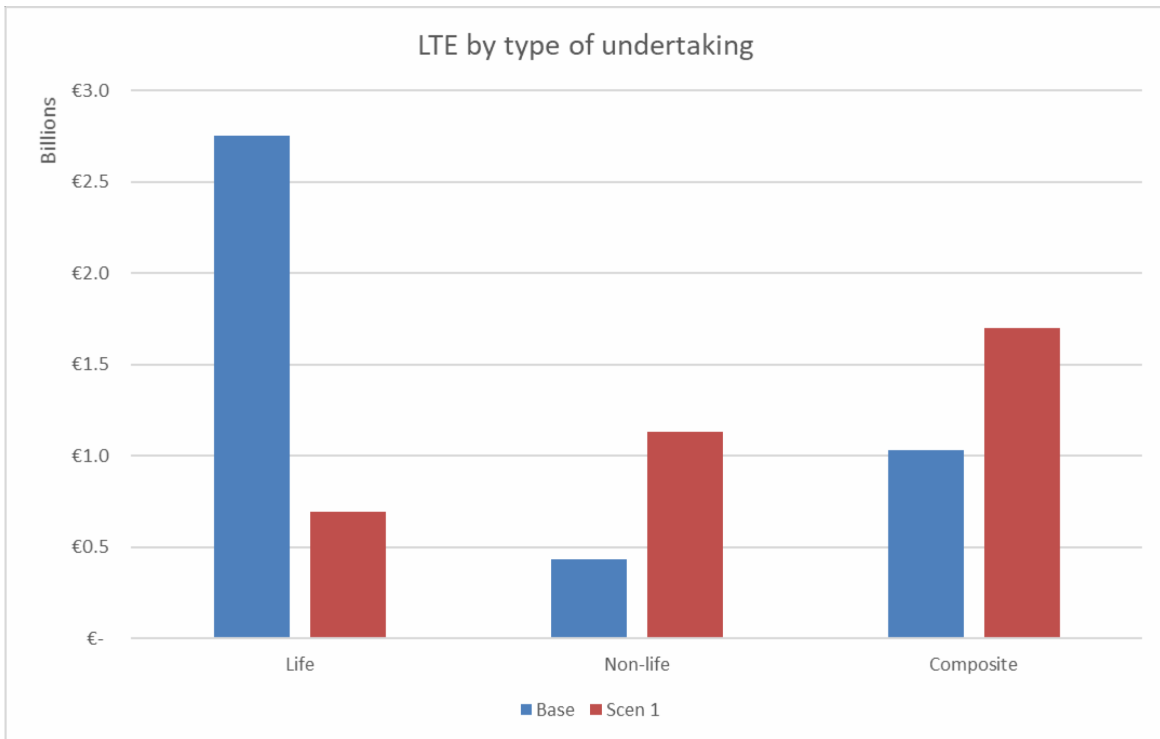
2.124 The following graph outlines the dispersion of the results for that liquidity buffer for those undertakings. In two instances, Non-life undertakings reported LTE without meeting the requirement for 100% liquidity buffer. In the opposite direction, 4 non-life undertakings met the requirement but did not report any LTE.



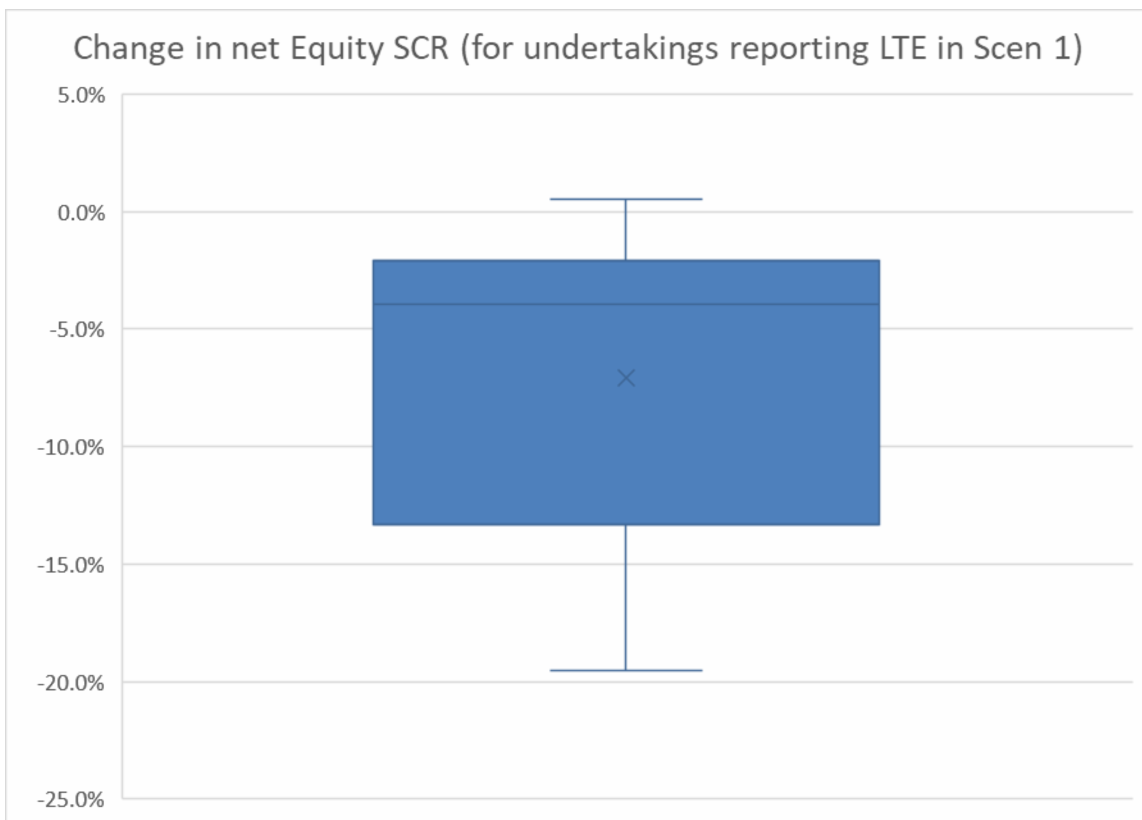
Note: Values above 500% are capped in the chart (one undertaking reported a ratio of 2,002.3% and another of 20,098.9%).

2.125 Regarding the amount of equity classified as LTE, in the baseline scenario undertakings applying LTE allocated on average 2.62% of their equity portfolio to the long-term equity categories. The figure decreased to 2.25% under scenario 1. However, the share of LTE varies significantly, with some of the undertakings reporting high proportions of their equity classified as LTE. When taking into account the total equity reported by all participants, the proportion allocated to LTE represents only 0.65% under the baseline scenario, with a decrease to 0.55% under scenario 1.

2.126 In absolute amounts, reported LTE decreased from 4.2 bln in the Baseline to 3.5 bln under Scenario 1. When differentiating by type of undertaking, it is visible that the amount of LTE increased in the case of non-life and composite undertakings, but materially reduced in the case of the life undertakings in the LTE sample.



2.127 The impact on equity risk also varies significantly. For the undertakings applying LTE under scenario 1, the net equity risk is reduced by 2.5% on weighted average. However, when assessing the results for individual undertakings a reduction of the net equity risk SCR by up to 20% occurs.



2.128 The main innovation of the CIR was the introduction of 3 sensitivities aimed at testing possible changes to the proposed criteria, with the aim to overcome some of the key limitations identified following the HIA exercise:

- Sensitivity A: Extension of the eligibility criteria to life insurance liabilities belonging to Categories I and II (as defined for the VA)
- Sensitivity B: Elimination of the limits for asset quality limitations in the determination of the liquidity buffer
Sensitivity C: Step-based approach for the determination of equity eligibility based on the results of the liquidity buffer

2.129 Sensitivites B and C did not produce very interesting results, as in both cases the number of undertakings reporting LTE remained equal to 10 and the amount of LTE reported was in both cases similar or even lower than that reported for Scenario 1. Despite these results, the potential to apply LTE would have increased in light of the changes introduced in these sensitivities. As previously described, in the cases where undertakings could have but did not apply LTE, the decision may have been driven by a number of different factors.

2.130 However, under Sensitivity A there was a significant increase in the number of undertakings (up to 19) and in particular in the amount of LTE reported (above 26 bln, which compares to 3.5 bln under Scenario 1).

2.131 The increase in mainly arising from Life undertakings, which seems to indicate some potential for this particular sensitivity to achieve the intended objectives. This is in particular relevant for the FR market, with a total of 8 Life undertakings reporting an amount of about 20 bln EUR of eligible LTE under Sensitivity A.

2.132 Although the CIR results do not reflect the increase that is reflected under sensitivity A, it should be highlighted that the proposed way forward or the revised criteria includes the changes tested under this sensitivity. Therefore it can be expected that the outcome of the application of the revised proposal would be a broader use of LTE than that reflected in the CIR results. In the VA analysis section of this report, it is visible that an enlargement of liability eligibility from bucket I to also bucket II implies a significant widening of the potential use of LTE for life undertakings.

2.9 Symmetric adjustment to the equity risk charge

Policy issues	Options
Symmetric adjustment	1. No change 2. Widening the corridor to the SA from currently +/- 10% to +/- 17% for type 1 equity, type 2 equity, qualifying infrastructure corporate equity and qualifying infrastructure equity and introducing a floor of 22% to the capital charge (preferred)

Policy issue: Symmetric adjustment		
Option 1: No change		
Costs	Policyholders	No material impact
	Industry	Limited effect of the symmetric adjustment in times of equity downturns
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2: Widening the corridor		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	A wider corridor would enhace the impact of the symmetric adjustment increasing the resilience of undertakings during times of high equity prices, improving policyholder protection
	Industry	A wider corridor would enhace the impact of the symmetric adjustment estabilising the solvency position of undertakings in times of equity market turbulences
	Supervisors	No material impact
	Other	Widening the corridor would amplify the effectiveness of the symmetric adjustment in terms of counterciclycality, therefore contributing to financial stability.

Policy issue: Symmetric adjustment						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Promoting good risk management	Objective 3: Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Promoting good risk management	Objective 3: Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds
Option 1: No change	0	0	0	0	0	0
Option 2: Widening the corridor	+	+	+	+	+	+

2.10 Transitional measure on equity risk

With respect to the transitional measure on equity risk, EIOPA has not considered particular policy proposals requiring a detailed cost and benefit analysis.

2.11 Extension of the recovery period

Policy issue 1: Need to clarify the role of the ESRB with respect to the extension of the recovery period		
Option 1.1: No change		
Costs	Policyholders	No material impact.
	Industry	Potential delay of the decision to extend the recovery period if ESRB is consulted by the NSA.
	Supervisors	Uncertainty for supervisors on whether they are expected to consult the ESRB. High burden to provide ESRB with all necessary information for the assessment at undertaking level.
	Other	ESRB could be consulted by one or several NSAs on the specific decision to extend the recovery period for each undertaking affected. High burden for ESRB to assess the criteria in Article 289 of the Solvency II Regulation for each of the undertakings affected. Liability risk for ESRB; the ESRB assessment could be challenged by the concerned undertaking, its policyholders/beneficiaries or shareholders. Reputational risk in case the ESRB assessment is against the extension of the recovery period while the concerned NSA is favourable to such extension based on its deeper knowledge of the undertaking under its supervision and considering EIOPA's declaration of an exceptional adverse situation following the assessment of criteria in Article 288 of the Solvency II Regulation.
Benefits	Policyholders	No material impact.
	Industry	No material impact.

	Supervisors	No material impact.
	Other	N/A
Option 1.2: Clarify the role of the ESRB		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	Most efficient process, limiting potential delay of the decision to extend the recovery period if ESRB is consulted by the NSA.
	Supervisors	Less uncertainty; NSAs not expected to assess the need to the consult ESRB. Full responsibility of the competent NSA to decide on the extension of the recovery period for undertakings under its supervision.
	Other	Where appropriate, ESRB would be consulted by EIOPA in an earlier stage of the process (i.e. before declaring an exceptional adverse situation). EIOPA could benefit from high valuable input for the assessment of the criteria in Article 288 of the Solvency II Regulation; in particular ESRB analysis regarding the EU financial market. Lower burden and liability risks for ESRB. Lower reputational risk.

Policy issue 1: Need to clarify the role of the ESRB with respect to the extension of the recovery period				
	Effectiveness (0/+/++)		Efficiency (0/+/++)	
Options	Effective and efficient supervision of (re)insurance undertakings and groups	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Effective and efficient supervision of (re)insurance undertakings and groups	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds
Option 1.1: No change	0	0	0	0
Option 1.2: Clarify the role of the ESRB	+	+	++	++

3 Technical provisions

3.1 Best estimate

Policy issue	Options
Contract boundaries	
1. Exception of the third paragraph of Article 18(3): Possible extension of contract boundaries where an individual risk assessment cannot be repeated	1.1 No change 1.2 Clarify the conditions for the application of the exception (preferred) 1.3 Deletion of the exception
2. Calculation of Expected Profits In Future Premiums (EPIFP)	2.1 No change 2.2 Include all future losses in EPIFP (preferred)2.3 Include all future losses and the impact of reinsurance in EPIFP 2.4 Include all future losses, impact of reinsurance and impact of taxation in EPIFP
3. Other future profits	3.1 No change 3.2 Add the notion of expected profits in future fund management fees to the Delegated Regulation (preferred)
Future Management Actions	
4. Definition	4.1 No change 4.2 Add future management actions definition (preferred)
Expenses	
5. New business	5.1 Hard-going concern principle - no change 5.2 Soft-going concern principle (preferred)
Valuation of Options and Guarantees	
6. Dynamic policyholder modelling	6.1 No change (preferred) 6.2 Amend the Delegated Regulation to include a simplified dynamic lapse modelling. 6.3 Amend the Delegated Regulation to accept static policyholder behaviour modelling when there is lack of data for extreme scenarios.

Contract boundaries

Policy issue 1: Individual risk assessment

Policy issue 1: Exception of the third paragraph of Article 18(3)
Option 1.1: No change, i.e. maintain the current wording.

Costs	Policyholders	No material impact.
	Industry	Uncertainty on the right interpretation of the exception. Risk of divergent practices among jurisdictions.
	Supervisors	Increased burden for the supervision of contract boundaries. Difficulties to challenge alternative interpretations
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	More flexibility. Wider application of the exception.
	Supervisors	No material impact.
	Other	No material impact.
Option 1. 2: Clarify the conditions for the application of the exception		
Costs	Policyholders	No material impact.
	Industry	Potential impact on technical provisions for undertakings using the exception where there are only technical restrictions but no legal/contractual limits to repeat the individual risk assessment done at the inception of the contract. It could lead to a decrease or, more likely, to an increase of technical provisions.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	Straightforward interpretation of Article 18(3). ➢ Reduction of divergent criteria among jurisdictions.
	Supervisors	➢ Enhanced supervisory convergence and level playing field. ➢ Reduced complexity of contract boundaries.
	Other	No material impact.
Option 1. 3: Deletion of the exception		
Costs	Policyholders	Potential impact on product design as some products may no longer be viable.
	Industry	Impact on technical provisions for undertakings using the exception. It could lead to a decrease or, more likely, to an increase of technical provisions. Potential impact on product design. No reflection in valuation of different economic situations.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	Reduced complexity of contract boundaries. Reduction of divergent criteria among jurisdictions.
	Supervisors	Reduced complexity of contract boundaries.
	Other	Consistency among products where premiums and/or benefits can be amended only at portfolio level.

Policy issue 1: Individual risk assessment- Exception of the third paragraph of Article 18(3)						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Efficient supervision of (re)insurance undertakings and groups
Option 1.1: No changes, i.e. maintain current wording.	0	0	0	0	0	0
Option 1.2: Clarify the conditions for the application of the exception	++	++	++	++	++	++
Option 1.3: Deletion of the exception	0	+	+	0	+	+

Policy issue 2: Calculation of Expected Profits In Future Premiums (EPIFP)

Policy issue 2: Calculation of Expected Profits In Future Premiums (EPIFP)		
Option 2.1: No change, i.e. maintain the current wording.		
Costs	Policyholders	No material impact.
	Industry	Incomplete impact of EPIFP in own funds.
	Supervisors	Incomplete impact of EPIFP in own funds.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 2.2: Include all future losses in EPIFP		
Costs	Policyholders	No material impact.
	Industry	New calculation required only for information purposes.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.

	Industry	Realistic impact of own funds. More detailed information of loss-making and profit-making homogeneous risk-groups.
	Supervisors	Realistic impact of own funds. More detailed information of loss-making and profit-making homogeneous risk-groups.
	Other	No material impact.
Option 2.3: Include all future losses and the impact of reinsurance in EPIFP		
Costs	Policyholders	No material impact.
	Industry	New calculation required only for information purposes. Calculation can be significantly burdensome, in particular for non-proportional reinsurance. The impact can be approximated with information currently available.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	Realistic impact of own funds. More detailed information of loss-making and profit-making homogeneous risk-groups. Detailed information on the impact of reinsurance in future profits.
	Supervisors	Realistic impact of own funds. More detailed information of loss-making and profit-making homogeneous risk-groups. Detailed information on the impact of reinsurance in future profits.
	Other	No material impact
Option 2.4: Include all future losses, impact of reinsurance and impact of taxation in EPIFP		
Costs	Policyholders	No material impact.
	Industry	New calculation required only for information purposes. Calculation can be significantly burdensome, in particular for non-proportional reinsurance. The impact can be approximated with information currently available.
	Supervisors	Lower comparability due to assumptions on taxation.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	Realistic impact of own funds. More detailed information of loss-making and profit-making homogeneous risk-groups. Detailed information on the impact of reinsurance in future profits.
	Supervisors	Realistic impact of own funds. More detailed information of loss-making and profit-making policies. Detailed information on the impact of reinsurance in future homogeneous risk-groups. Detailed information on the impact of reinsurance in future profits.
	Other	No material impact

Policy issue: Calculation of Expected Profits In Future Premiums (EPIFP)						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Promoting good risk management	Ensuring a level playing field through sufficiently harmonised rules	Effective supervision of (re)insurance undertakings and groups	Promoting good risk management	Ensuring a level playing field through sufficiently harmonised rules	Efficient supervision of (re)insurance undertakings and groups
Option 1: No changes, i.e. maintain current wording.	0	0	0	0	0	0
Option 2: Include all future losses in EPIFP.	++	++	++	++	++	++
Option 3: Include all future losses and the impact of reinsurance in EPIFP	++	++	++	+	+	+
Option 4: Include all future losses, impact of reinsurance and impact of taxation in EPIFP	++	+	++	+	+	+

Policy issue 3: Other future profits

Policy issue: Other future profits		
Option 3.1: No change		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	Incomplete understanding of future profits included in future cash inflows.
	Other	No material impact.
Benefits	Policyholders	No material impact.

	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 3.2: Add the notion of expected profits in future fund management fees to the Delegated Regulation.		
Costs	Policyholders	No material impact.
	Industry	New calculation required only for information purposes.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	Deeper understanding of the sources of future profits in case the analysis is not yet performed.
	Supervisors	More complete understanding of profits included in future cash inflows. More detailed understanding of the components of the reconciliation reserve
	Other	No material impact.

Policy issue: Other future profits						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Promoting good risk managemen t	Ensuring a level playing field through sufficiently harmonise d rules	Effective supervision of (re)insuranc e undertakings and groups	Promoting good risk managemen t	Ensuring a level playing field through sufficiently harmonise d rules	Efficient supervision of (re)insuranc e undertakings and groups
Option 1: No changes	0	0	0	0	0	0
Option 2: Add the notion of expected profits in future fund managemen t fees to the Delegated Regulation.	++	++	++	++	++	++

Future Management Actions (FMA)

Policy issue 4: Future management actions definition		
Option 4. 1: No change		
Costs	Policyholders	No material impact.

	Industry	Uncertainty on the right interpretation of future management actions. Divergent practices among undertakings and jurisdictions. In any case, the quantitative impact on technical provisions is not expected to be material.
	Supervisors	Divergent practices among supervisors. Difficulties to challenge alternative interpretations
	Other	In case of too restrictive interpretations, some future management actions may be considered not to be under the scope of Article 23, which includes a set of conditions to ensure that the future management actions are realistic.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 4. 2: Add future management actions definition		
Costs	Policyholders	No material impact.
	Industry	Some undertakings may need to widen the framework for future management actions in light with the proposed definition. In any case, the quantitative impact on technical provisions is not expected to be material.
	Supervisors	Change the current approach if not aligned with the proposed definition
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	Straightforward interpretation of Future management actions. Consistent interpretation of Future management across Member States.
	Supervisors	Enhanced supervisory convergence.
	Other	No material impact.

Policy issue: Future management actions definition						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 1: No change	0	0	0	0	0	0
Option 2: Add future management actions definition in Article 1	0	++	++	0	++	++

Expenses

Policy issue 5: New business		
Option 5.1: Hard-going concern principle (no change).		
Costs	Policyholders	Where an undertaking has portfolios in run-off, not allowing realistic assumptions usually reduces the amount of expenses projected, thus underestimating technical provisions.
	Industry	Unrealistic valuation of best estimate. Assumptions on best estimate not aligned with the real business plan of the undertaking.
	Supervisors	Unrealistic and less prudent assumptions on new business. Once the assumptions depart from the business plan, difficulties to assess which should be the relevant precise assumptions.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	Narrower range of assumptions on future business, i.e. simpler assessment.
	Other	In theory, closer to transfer value, a Solvency II principle
Option 5.2: Soft going concern principle.		
Costs	Policyholders	No material impact.
	Industry	Only undertakings with run-off portfolios not following Q&A 1037 will be affected. For these undertakings, a small increase in technical provisions is expected.
	Supervisors	No material impact.
	Other	In theory, it may be considered to depart from transfer value. In practical terms, this would not be always the case.
Benefits	Policyholders	No underestimation of technical provisions.
	Industry	Straightforward interpretation of Articles 31 and 7. Realistic assumptions.
	Supervisors	Enhanced supervisory convergence. Realistic assumptions. More prudent assumptions.
	Other	No material impact.

Policy issue 5: New business						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Efficient supervision of (re)insurance undertakings and groups

Option 5.1: Hard going-concern principle (no change)	0	0	0	0	0	0
Option 5.2: Soft going-concern principle	+	++	++	+	++	++

Valuation of Options and Guarantees

Policy issue 6: Dynamic policyholder modelling		
Option 6.1: No change in the Delegated Regulation.		
Costs	Policyholders	No material impact.
	Industry	Undertakings not following a dynamic approach will still need to calibrate policyholder behaviour themselves unless they can demonstrate that a purely static approach is more accurate.
	Supervisors	Currently there is lack of convergence using dynamic modelling mainly due to technical reasons. Therefore, if nothing changes, supervisors may face difficulties to change the current situation. However, this could be solved with additional guidance from EIOPA on the calibration of dynamic models.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 6.2: Amend the Delegated Regulation to include a simplified dynamic lapse modelling.		
Costs	Policyholders	No material impact.
	Industry	Undertakings not following a dynamic approach will have to switch to the simplified dynamic modelling or model policyholder behaviour themselves unless they can demonstrate that a purely static approach is more accurate. It is unclear whether a common simplified approach for such a wide range of products would indeed produce more accurate results. Lack of awareness of the real dynamic behaviour of undertaking's portfolios.
	Supervisors	It is unclear whether it is possible to have a meaningful approach common for all jurisdictions. It would probably require to model policyholder behaviour at national level. It is unclear whether a common simplified approach for such a wide range of products would indeed produce more accurate results.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	Level playing field across jurisdictions.
	Supervisors	Increased convergence among Member States.
	Other	No material impact.

Option 6.3: Amend the Delegated Regulation to accept static policyholder behaviour modelling when there is lack of data for extreme scenarios.		
Costs	Policyholders	No material impact.
	Industry	Lower understanding of the real dynamic behaviour of their portfolios. Divergent practices not addressed.
	Supervisors	Lower understanding of the real dynamic behaviour. Divergent practices not addressed
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	Avoiding the burden of more complex calculation which may not immediately lead to more accurate technical provisions due to the lack of enough data.
	Supervisors	Avoiding complex assumptions on dynamic modelling usually strongly based on expert judgement which may be hard to supervise and verify.
	Other	No material impact.

Policy issue 6: Dynamic policyholder modelling						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Efficient supervision of (re)insurance undertakings and groups
Option 6.1: No change in the Delegated Regulation.	0	0	0	0	0	0
Option 6.2: Amend the Delegated Regulation to include a simplified dynamic lapse modelling.	0	+	0	0	+	0
Option 6.3: Amend the Delegated Regulation to accept static policyholder behaviour modelling when there is lack of data for extreme scenarios.	0	+	0	0	+	0

3.1 EIOPA considers that harmonization could be achieved under the current provisions of the Delegated Regulation with additional guidance on the calibration of dynamic models provided by EIOPA, instead of having a common simplification or waiving the requirement to model dynamic policyholder behaviour. Through this guidance it should also be clarified that the lack of data for extreme scenarios is not a reason itself to not model dynamic policyholder behaviour. Therefore, EIOPA's preferred option is Option 1.

3.2 Risk margin

Policy issues	Options
1. Design of the risk margin and transfer value concept	No change proposed
2. Assumptions underlying the reference undertaking	No change proposed
3. Use of a fixed CoC rate and sensitivity of the risk margin to interest rate changes	1 No change 2 Use the lambda approach (option favoured)
4. Assumptions used to derive the CoC rate	No change proposed

Policy issue 3: Use of a fixed CoC rate and sensitivity of the risk margin to interest rate changes		
Option 1: No change		
Costs	Policyholders	Would not avoid unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees
	Industry	The possible unintended consequences for the insurance market of the current methodology would not be addressed (e.g. forcing undertakings to exit business with long term guarantees, increase in longevity reinsurance to non-Solvency II jurisdictions)
	Supervisors	Supervisors' concerns about the sensitivity of the risk margin to interest rate changes would remain, adding to the systemic impact of the risk-free rate and to balance sheet volatility.
	Other	N/A
Benefits	Policyholders	None
	Industry	No increase in complexity for the risk margin calculation
	Supervisors	No increase in complexity for the risk margin supervision
	Other	N/A

Option 2 : Use the lambda approach		
Costs	Policyholders	None
	Industry	Small increase in complexity for the risk margin calculation (introduction of one additional parameter)
	Supervisors	Small increase in complexity for the risk margin supervision (introduction of one additional parameter)
	Other	N/A
Benefits	Policyholders	Avoid unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees
	Industry	Tackles some unintended consequences for the insurance market of the current methodology (e.g. forcing undertakings to exit business with long term guarantees, increase in longevity reinsurance to non-Solvency II jurisdictions)
	Supervisors	Supervisors' concerns about the sensitivity of the risk margin to interest rate changes are tackled.
	Other	N/A

Policy issue 3: Use of a fixed CoC rate and sensitivity of the risk margin to interest rate changes						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Ensuring adequate market-consistent technical provisions	Limiting procyclicality and/or avoiding artificial volatility of technical provisions	Avoiding unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees	Ensuring adequate market-consistent technical provisions	Limiting procyclicality and/or avoiding artificial volatility of technical provisions	Avoiding unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees
Option 1: No change.	0	0	0	0	0	0
Option 2 : Use the lambda approach	++	++	++	++	++	++

Results of the HIA

3.2 Scenario 1 of the information request incorporated a change to the calculation of the risk margin, the so-called Lambda approach where the risk margin is calculated in accordance with the following modified calculation (compare Article 37 Delegated Regulation):

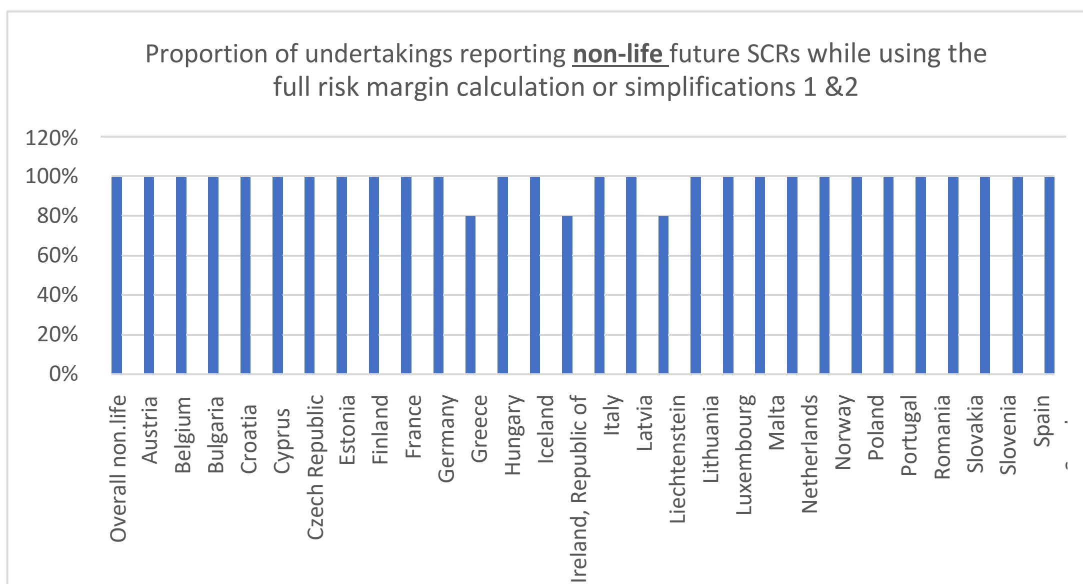
$$RM_{scenario} = CoC \cdot \sum_{t \geq 0} \frac{SC(t) \times \max(\lambda^{t}, 0.5)}{(1+(t+1))^{t+1}} \text{, where } \lambda = 0.975$$

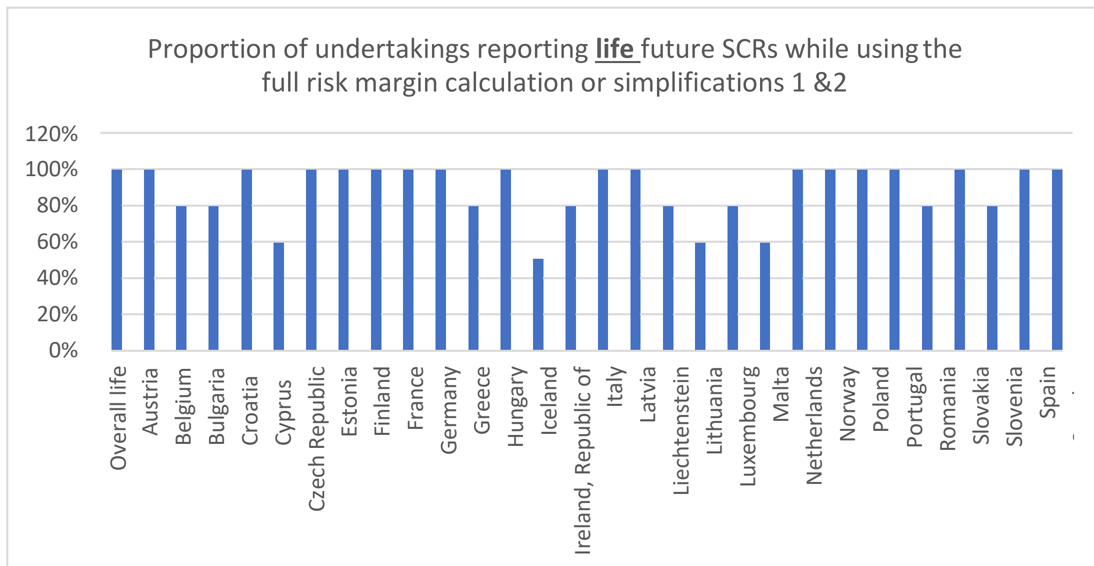
3.3 This Lambda approach has also been implemented into the simplifications that are outlined in the EIOPA Guidelines on the Valuation of Technical Provisions:

- Level (1) of the hierarchy of simplifications: approximate the individual risks or sub-risks within some or all modules and sub-modules to be used for the calculation of future SCRs - Application of the λ^t parameter for each future SCR, as defined for the full calculation.
- Level (2) of the hierarchy of simplifications: approximate the whole SCR for each future year, e.g. by using a proportional approach - Application of the λ^t parameter for each future SCR, as defined for the full calculation.
- Level (3) of the hierarchy of simplifications: estimate all future SCRs "at once", e.g. by using an approximation based on the duration approach – Multiplication of the amount obtained with the simplification by a parameter $\lambda^{\frac{Duration}{2}}$.
- Level (4) of the hierarchy of simplifications: approximate the risk margin by calculating it as a percentage of the best estimate – Multiplication of the amount obtained with the simplification by a parameter λ^1.

3.4 As part of their response to the HIA, undertakings had to provide information on the method they apply to determine the risk margin. The following graph illustrates the feedback received. All methods have been used by undertakings for the HIA. However, the full calculation and simplifications 1 & 2 are the ones that have been the most heavily implemented, representing overall 90% of the methodologies used.

3.5 In order to build accurate analysis of the impact of the parameter λ, future SCR patterns, which are the input for the risk margin calculation where a full calculation is applied or simplifications 1 or 2 are used, have been collected. The following two graphs show the proportion of undertakings reporting non-life and life future SCRs while using the full risk margin calculation or simplifications 1 & 2 for those type of businesses.

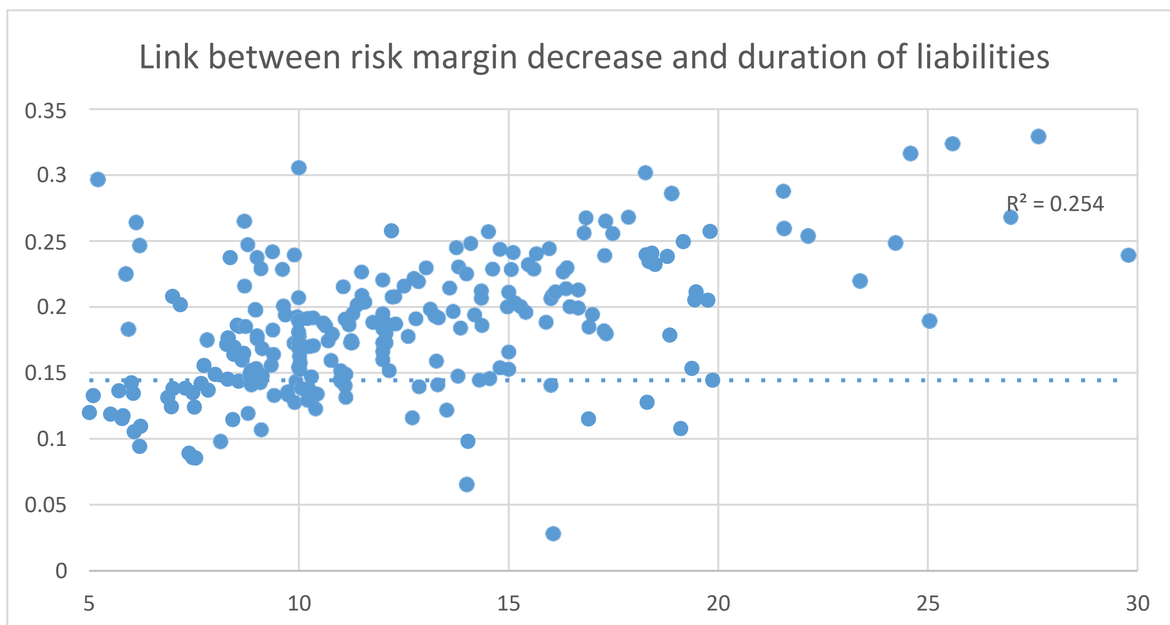




Impact of the proposed changes

3.6 The parameter λ leads to an exponential, time dependent reduction of the summands in the risk margin formula. This is a simple mechanism by which the projected SCRs can be varied over time via only a single additional element to the formula. The general effect is for the numerator to decrease smoothly over time, reducing the risk margin for longer durations. This reduction effect depends of course on the value of lambda.

3.7 The following graphs is a scatter plot showing on the X-axis the duration and on the Y-axis, the reduction of risk margin, after removing the extreme duration values. The computed R^2 exhibit a link between those two elements: the bigger the duration, the bigger the reduction.

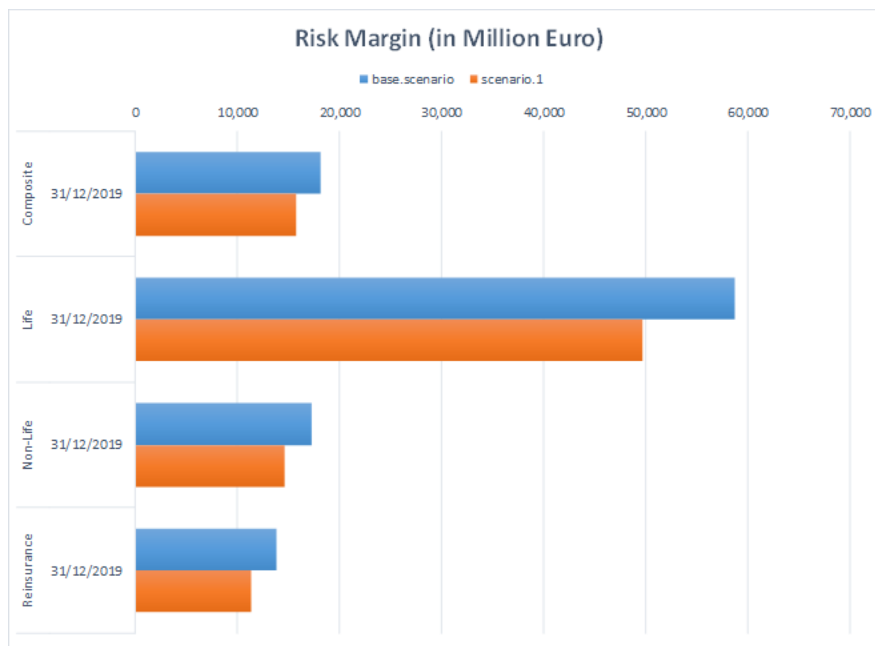


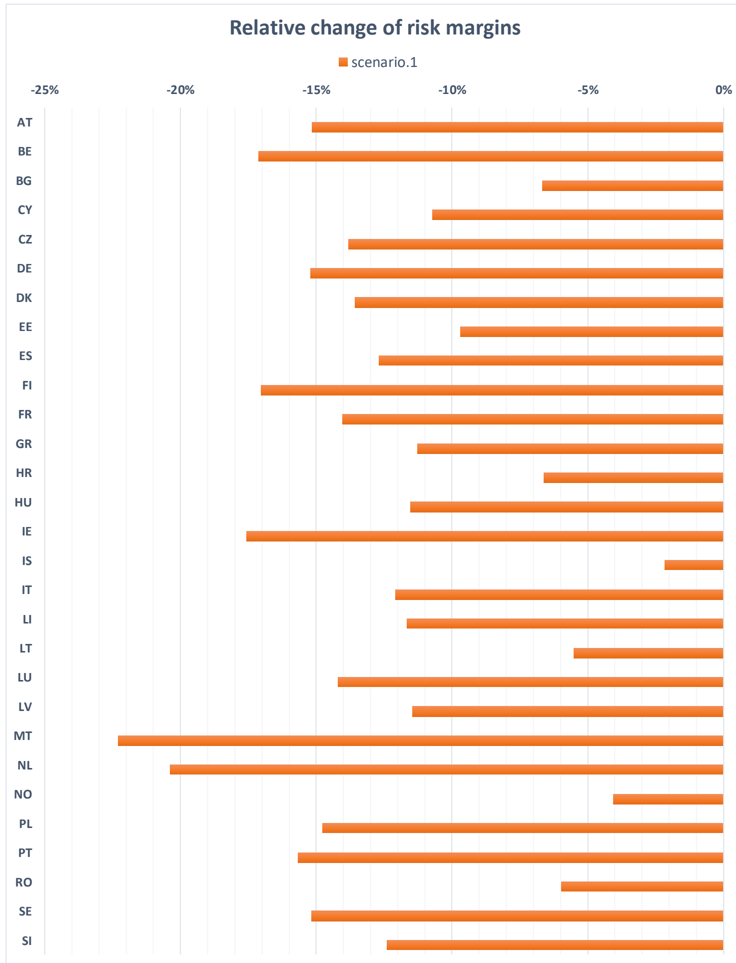
3.8 The modification of the risk margin calculation method, with an introduction of a parameter λ of 0.975, led to a reduction in the risk margin in total of around 17 billion Euro at the EEA level – which represent a relative reduction of around 15% of the RM. For life undertakings, a 9 billion Euro reduction can

be noticed. The decrease is more modest, but still significant, for non-life undertakings, reinsurance and composite undertakings due to their shorter liability duration profiles.

3.9 Moreover, and as expected, the impact of the new methodology on the risk margin is not the same for each country. This results, here also, mainly from the different duration profiles of liabilities of the undertakings participating to the HIA exercise. The relative change in the risk margin figures goes from -3% to -22%. The countries that benefit most from the new method are NL and MT, with a reduction bigger than 20%. IS and NO have the smallest reduction in risk margin, with a reduction smaller than 5%. Note that these numbers are based on the impact observed in the risk margin comparing baseline and scenario 1 information.

3.10 The following two graphs show in detail the effect of the introduction of the parameter:

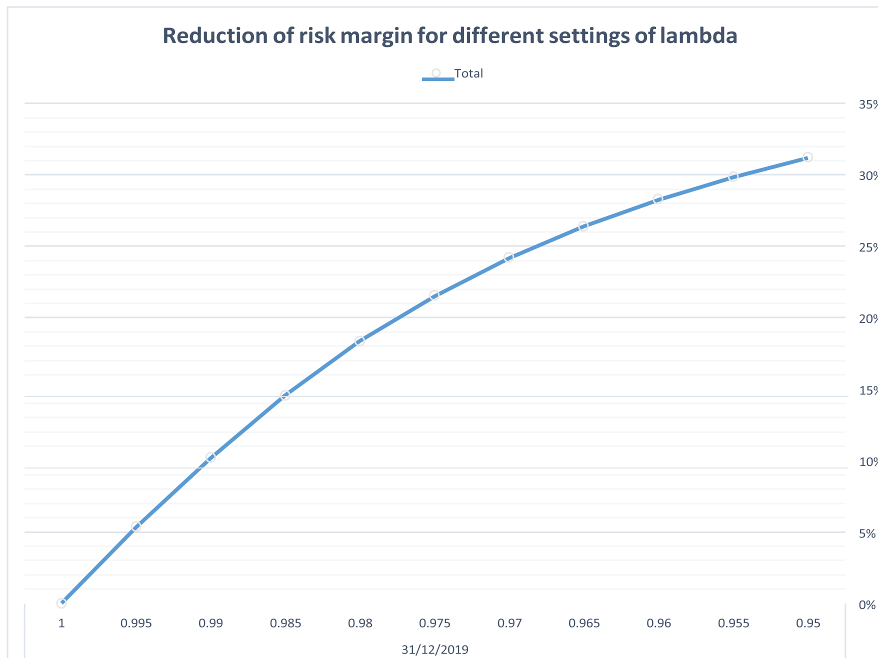


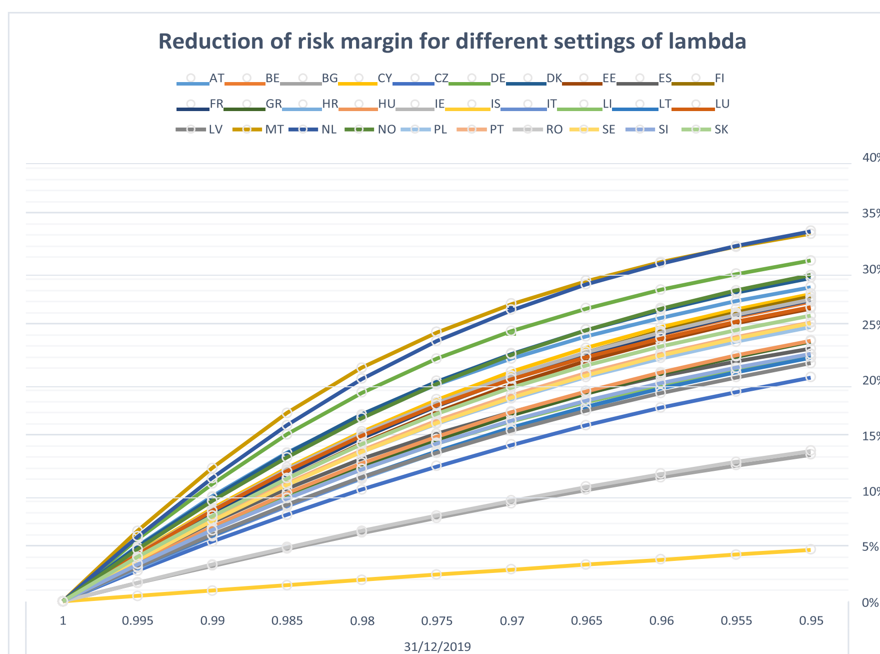

Relative change of risk margins
scenario.1
-25%
-20%
-15%
-10%
-5%
0%
AT
BE
BG
CY
CZ
DE
DK
EE
ES
FI
FR
GR
HR
HU
IE
IS
IT
LI
LT
LU
LV
MT
NL
NO
PL
PT
RO
SE
SI

Sensitivity analysis

3.11 The parameter λ does not have a linear impact on the risk margin. Moreover, because of its exponential and time dependent nature, a small modification of its calibration can potentially have huge consequences on the risk margin figures.

3.12 The following two graphs show with details the reduction of risk margin for different settings of λ – for the whole population of undertakings and country by country. Those graphs have been computed using different methodologies than the previous ones (future projected SCRs have been used here), that could lead to some differences in the presented results.





Results of the CIR

3.13 Scenario 1 of the Complementary Information request (CIR) also incorporated a change to the calculation of the risk margin, to introduce the so-called Lambda approach:

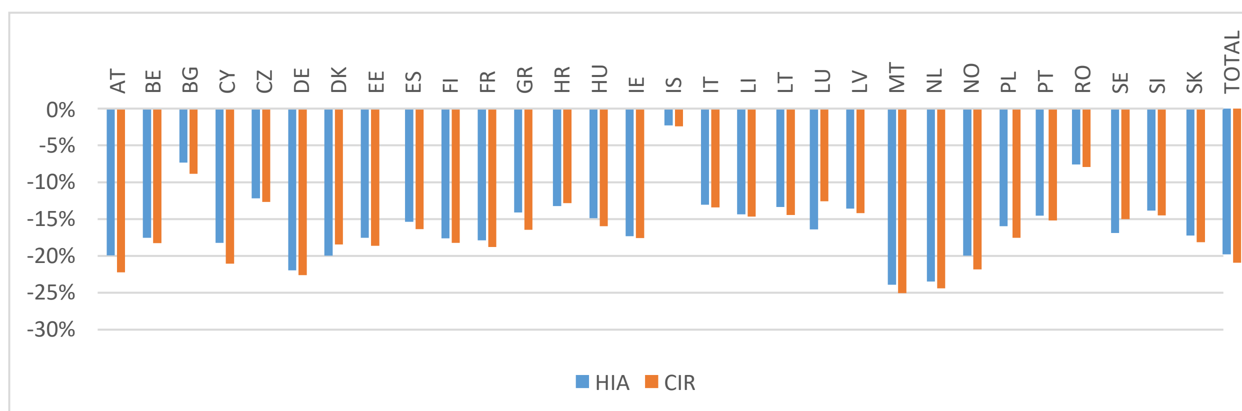
3.14 The following table shows the evolution of the RM, estimated through the SCR patterns indicated by stakeholders, and the impact of the lambda approach for the sample of participants under scenario 1.[69]

Whole EU Market	End 2019 (HIA)	End Q2_2020 (CIR)
RM – current approach	101 bn	111 bn
RM – lambda approach	81 bn	88 bn
Lambda eff.	-20 bn	-23 bn

Notes: Figures in EUR based on future SCR projections of the HIA exercise and HIA/CIR data. Under Scenario 1, with lambda = 0,975, with VA and transitionals

3.15 In total, the lambda approach reduces risk margin figures of around 21% at end Q2_2020 and of around 20 % at end-2019. Therefore, the impact of the introduction of the Lambda approach can be considered as being stable for those reference dates.

3.16 In order to have a more granular picture, the following graph shows the country per country impact of applying Lambda to the risk margin methodology:



3.17 The impact of the new methodology on the risk margin amounts can be translated on an impact on own funds. Nevertheless, because of deferred tax

[69] Note that the HIA numbers shown here relate to the set of undertakings that participated in both the HIA and the CIR.

mechanisms, not all the relief on the risk margin can be directly added to available own funds: calculations show that around 22% of the impact before tax is cushioned. The following table show, for different settings of lambda an estimation on the effect of the new methodology on the own funds[70].

	Increase in own funds for different lambdas		
LAMBDA	0.95	0.975	0.98
CIR (bn €)	26.0	18.0	15.3
HIA (bn €)	22.9	15.7	13.3

3.18 It can also be interesting to assess the effect of the lambda methodology without transitional measures. Although it is not possible for HIA results, because of the structure of the data collection itself, it is doable for the CIR: Removing transitionals increase the relaxation effect of about 2 B€ (i.e. around 10% of the 23 bn € freed by the introduction of lambda). Therefore, one can note that the previously shown figures are most probably slightly underestimating the impact of the new methodology.

[70] Same assumptions as described in the previous footnote.

4 Own funds

Policy issue	Options
Tiering and ancillary own funds	
1. Differences between the Solvency II own funds categorisation system and the banking framework	1.1 No change (preferred) 1.2 Remove the Solvency II Tier 3, DTAs would however remain an own fund item limited to 15% of the SCR
Undue volatility	
2. Volatility of own funds: Limit for restricted Tier 1	2.1 No change (preferred) 2.2 Express the limit to unrestricted Tier 1 own funds (hybrid instruments) as a percentage of the SCR (for example to 20% of the SCR) and increase the minimum limit to Tier 1 own funds items instrument (for example, to 60% of the SCR).
3. Volatility of own funds: Limit for Tier 2 +Tier 3	3.1 No change (preferred) 3.2 Delete the limit for Tier 2 + Tier 3
Correct attribution of items	
4. Attribution of EPIFPs to Tier 1	4.1 No changes in OF regulation, amendment of art. 37 on capital add-on (preferred) 4.2 Limiting the recognition of EPIFP as uT1 own funds 4.3 Downgrade the Tiering of EPIFP

Tiering and ancillary own funds

Policy issue 1: Differences between the Solvency II own funds categorisation system and the banking framework		
Option 1.1: No change		
Costs	Policyholders	No material impact.
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	N/A
Option 1.2: Remove the Solvency II Tier 3. DTAs would however remain an own fund item limited to 15% of the SCR.		
Costs	Policyholders	No material impact.

	Industry	Potential costs on currently issued subordinated debt and AOFs that would not be considered anymore as own fund items in case of absence of grandfathering. Costs of system changes
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	The quality of own funds would be improved, and hence policyholder protection.
	Industry	No material impact.
	Supervisors	Simplification of the framework as it would not be needed anymore to assess whether the features of Tier 3 items are met.
	Other	Overall long term benefits of streamlining and simplification. Higher quality level of the capital

Policy issue 1: Differences between the Solvency II own funds categorisation system and the banking framework						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring a level playing field through sufficiently harmonised rules	Improving transparency and better comparability	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring a level playing field through sufficiently harmonised rules	Improving transparency and better comparability
Option 1.1	0	0	0	0	0	0
Option 1.2	0	+	+	+	+	+

Undue volatility

Policy issue 2: Limit for restricted Tier 1		
Option 2.1: No change		
Costs	Policyholders	No material impact.
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2.2: Express the limit to unrestricted Tier 1 own funds (Hybrid instruments) as a percentage of the Solvency capital requirement (for example to 20 % of the SCR) and to increase the minimum limit to Tier 1 own funds items instrument (for example, to 60 % of the SCR).		

Costs	Policyholders	No material impact
	Industry	Could decrease the eligible amount of restricted Tier (but to increase it as well depending of the solvency situation). Decrease of quality of OFs
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Allows to avoid a decrease of the eligible amount of restricted Tier 1 due to a decrease of unrestricted Tier 1
	Supervisors	No material impact
	Other	N/A

Policy issue 3: Limit for Tier 2 +Tier 3		
Option 3.1: No change		
Costs	Policyholders	No material impact.
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 3.2: Delete the 50% limit for lower Tiers, but maintain a minimum amount of Tier 1 in total eligible own funds (currently one third of total eligible own fund). AOFs would be eligible up to 50% of the SCR (a lower limit would apply for AOFs other than calls for supplementary contributions by members of mutual or mutual-type associations).		
Costs	Policyholders	Lower level of policyholder protection due to lower quality of capital and increased interest coupon payments. .However, the safeguard of a minimum amount of Tier 1 in total eligible own funds would limit the risks although this creates procyclicality.
	Industry	Apart from the restriction on ancillary own funds – which in any case currently represent a minor share of the SCR – no material impact. There will be a minimum amount of Tier 1 in total eligible capital (art 93), which creates procyclicality.
	Supervisors	Need to have a stronger monitoring of the quality of capital, as two companies with the same solvency ratio could display very different capital structures (Tier 1 could make up less than 50% of Total own funds). Also the future capital generation should be monitored and the pressure of interest payments, given that there will be more coupon payments.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Could increase the available amount of Tier 2. Could help to create a buffer of own funds above SCR. Industry could have easier financing of capital to improve their solvency position
	Supervisors	No material impact

	Other	N/A

Correct attribution of items

Policy issue 4: Attribution of EPIFPs to Tier 1		
Option 4.1: No changes in OF regulation, amendment of art. 37 on capital add-on (preferred)		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	N/A
Benefits	Policyholders	Increased consumer protection.
	Industry	No material impact.
	Supervisors	Possible immediate action of NSAs to impose Capital Add-on.
	Other	N/A
Option 4.2: Limiting the recognition of EPIFP as uT1 own funds		
Costs	Policyholders	Increased consumer protection.
	Industry	To be calculated on individual data by EIOPA. It could have impact for some undertakings in case they have of high share of EPIFP.
	Supervisors	No material impact.
	Other	N/A
Benefits	Policyholders	Increased consumer protection.
	Industry	Higher quality of Tier 1 own funds immediately available to absorb losses. It creates intensives to improve capital management.
	Supervisors	Higher quality of Tier 1 own funds immediately available to absorb losses.
	Other	Improvement of market stability from macroprudential perspective.
Option 4.3: Downgrade the Tiering of EPIFP		
Costs	Policyholders	Increased consumer protection.
	Industry	To be calculated on individual data by EIOPA. It could have impact in case of high share of current EPIFP.
	Supervisors	No material impact.
	Other	N/A
Benefits	Policyholders	Increased consumer protection.
	Industry	Higher quality of Tier 1 own funds immediately available to absorb losses. It creates intensives to improve capital management.
	Supervisors	Higher quality of Tier 1 own funds immediately available to absorb losses. It creates intensives to improve capital management.
	Other	Improvement of market stability from macroprudential perspective.

Policy issue 4: Attribution of EPIFPs to Tier 1						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring a level playing field through sufficiently harmonised rules	Improving transparency and better comparability	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring a level playing field through sufficiently harmonised rules	Improving transparency and better comparability
Option 4.1	+	+	+	+	+	+
Option 4.2	++	++	+	++	++	+
Option 4.3	++	++	+	++	++	+

5 Solvency Capital Requirement standard formula

5.1 Interest rate risk

Policy issues	Options
Calibration of the interest rate risk sub-module	1. No change 2. Update the calibration in line with empirical data (preferred)

Policy issue: Calibration of the interest rate risk sub-module		
Option 1: No change		
Costs	Policyholders	Risk to policyholder protection due to underestimation of the SCR
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2: Update the calibration in line with empirical data		
Costs	Policyholders	No material impact
	Industry	Increased capital requirements for interest rate risk
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection as risk-based capital requirements will increase resilience of the undertaking and improve its supervision.
	Industry	Promoting good risk management as the capital requirement is more risk sensitive and better captures the undertaking's risk profile.
	Supervisors	More effective and efficient supervision as capital requirements better captures the undertaking's risk profile.
	Other	N/A

Proportionality

5.1 Proportionality was taken into account in option 2 by keeping the calculation of the capital requirement simple.

Evidence

5.2 During the analysis the following evidence has been used:

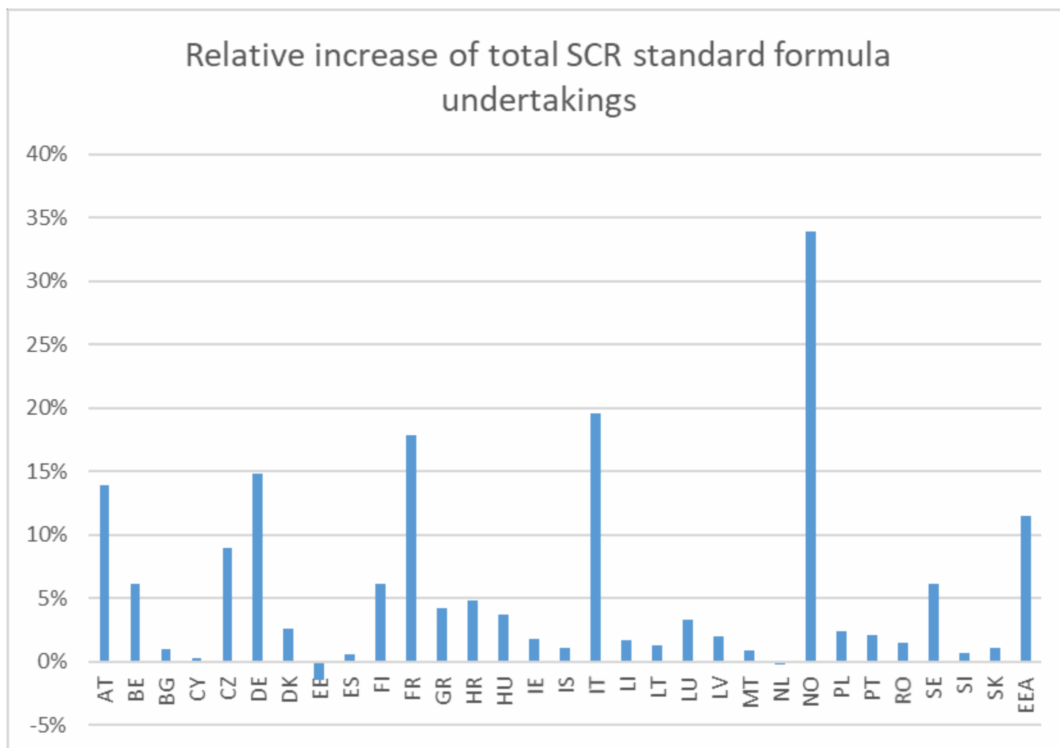
- Interest rate time series for the EEA currencies were used to calibrate the shock components of the interest rate risk sub-module.
- The new calibration was tested in the HIA and CIR.

Results of the HIA

5.3 The impact of the new interest rate risk calibration is assessed as the absolute difference between the corresponding metric under scenario 1 and scenario 2 of the HIA.

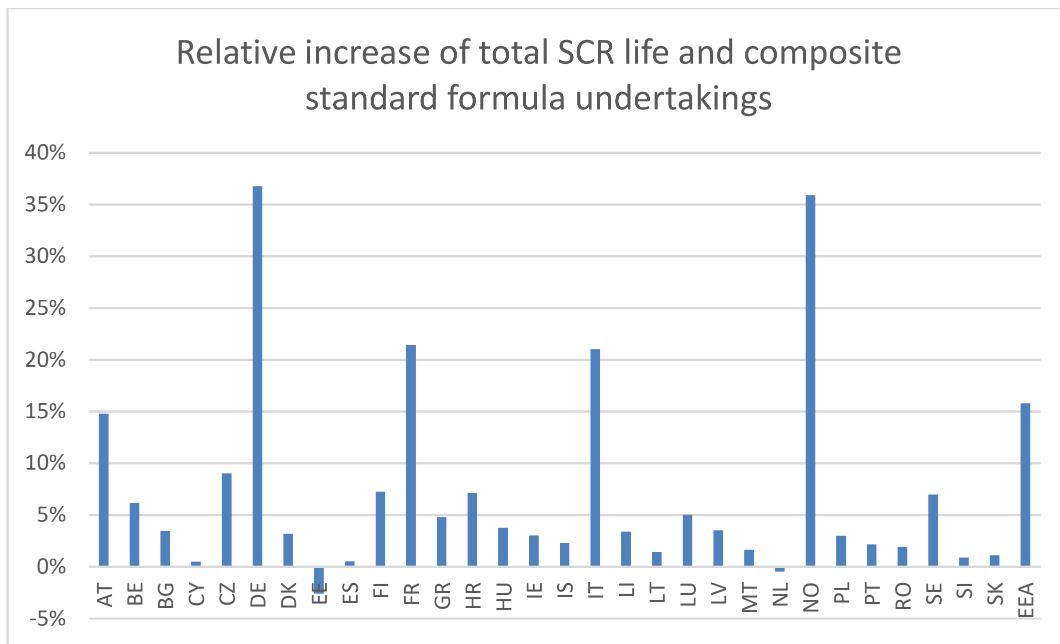
5.4 The recalibration triples the capital charge for interest rate risk. For the standard formula users the gross interest rate risk charge increases by EUR 60 bn, while the net interest rate risk charge increases by EUR 40 bn on the European level.

5.5 The impact of the new proposal on the overall SCR is an increase of 12% and EUR 23 bn. The following figure below shows the relative change of the SCR in different markets for standard formula users. In this figure one can observe that the most affected markets are AT, DE, IT, FR and NO with increases from 14% to 34%.

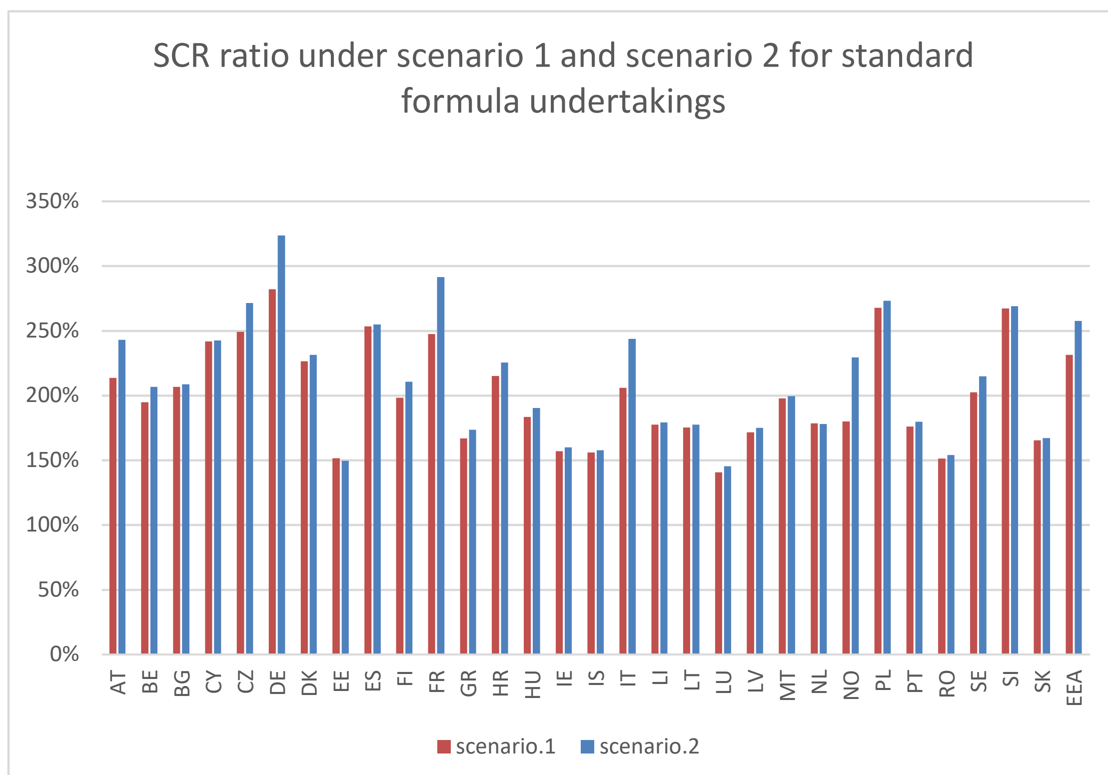


5.6 The increase of the SCR for life and composite undertakings is 17% and EUR 22 bn. Almost the entire impact of the SCR increase is carried by life and composite business. The new proposal has a negligible impact on non-life and reinsurance undertakings.

5.7 The increase of the overall SCR for life and composite undertakings in different markets is shown in the following figure. Here one can particularly observe that DE life undertakings have the highest relative SCR increase of about 37 % and more than EUR 5 bn followed by NO with an increase of 36% and 2 billion. The highest absolute increase of the SCR affects life and composite undertakings in FR with an SCR increase of about EUR 10 bn.

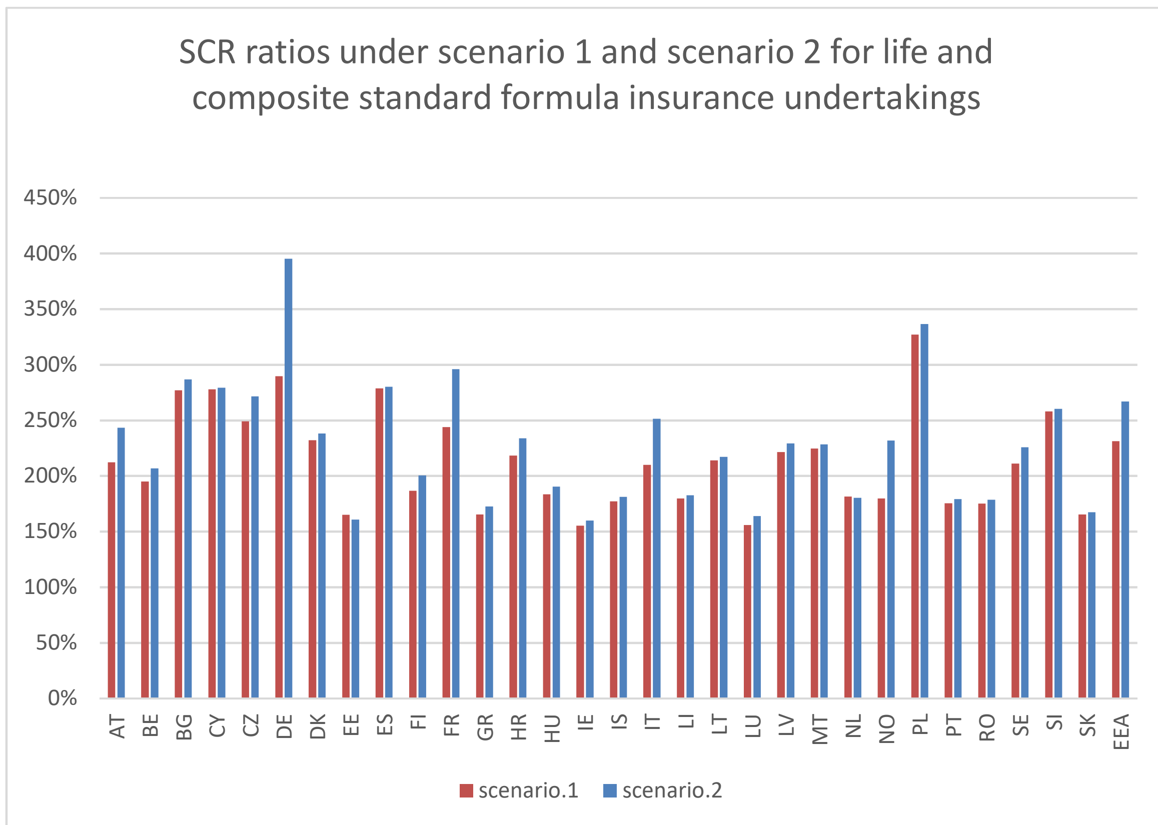


5.8 The decrease of the SCR ratio for standard formula undertakings is about 26% on the European level from 257% to 231%. The impact on the SCR ratio in different markets is presented in the following figure. One can observe the highest impact in NO with a decrease of about 49%, followed by FR with 44%, DE with 42% and IT with a 38% decrease.



5.9 For life and composite undertakings, the impact is much more pronounced. The decrease of the SCR ratio for standard formula life and composite undertakings is about 36% on the European level from 267% to 231%. The by far largest impact

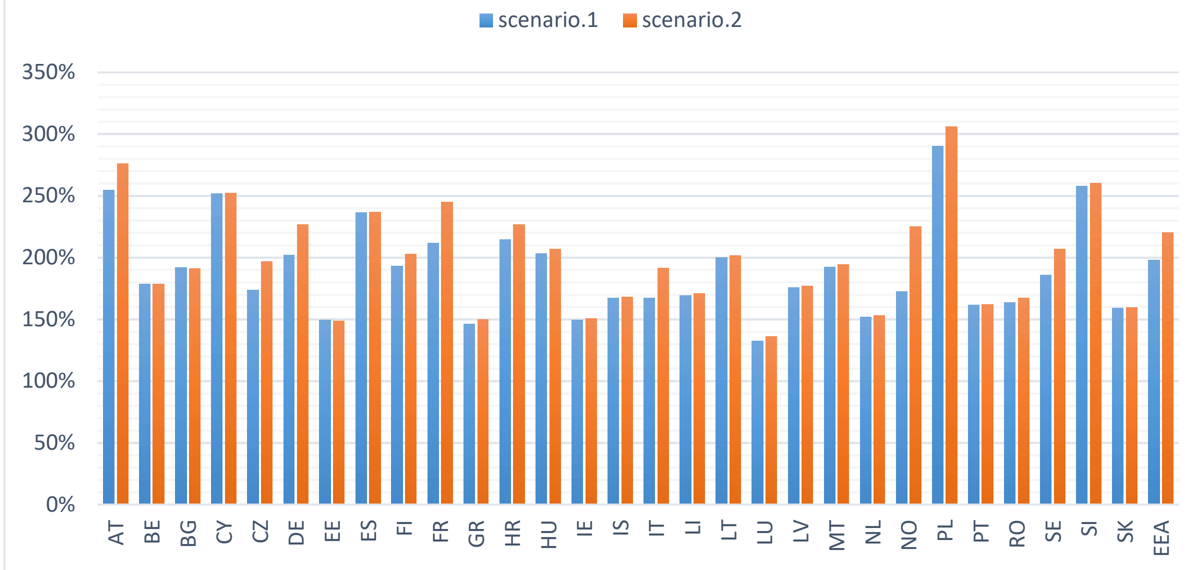
is observed in DE with a decrease of the SCR ratio by more than 100%, followed by FR and NO with decreases of slightly more than 50%.



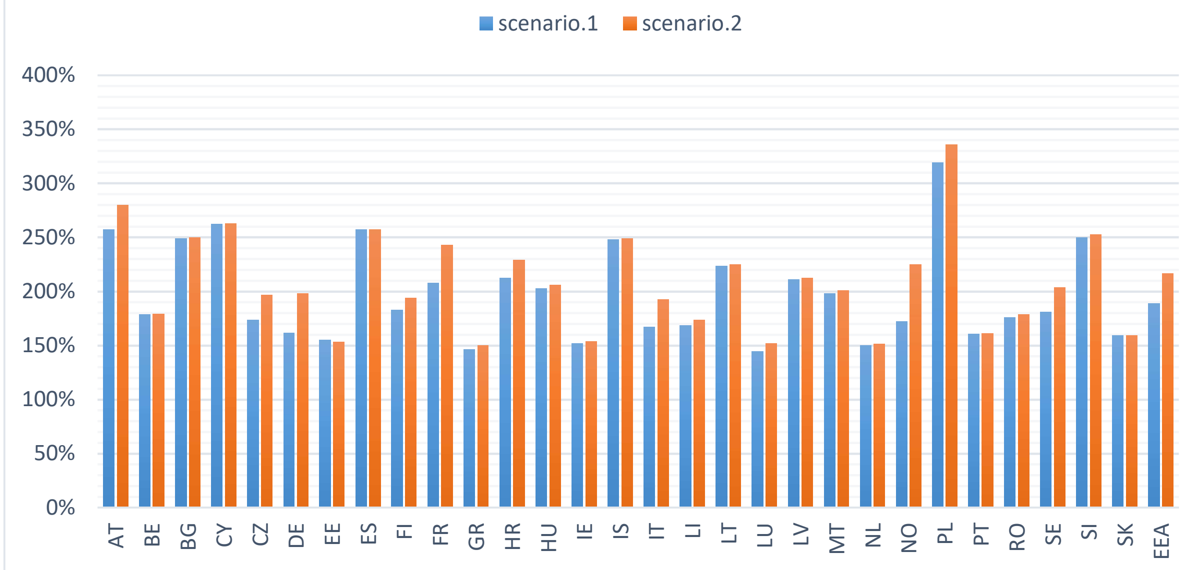
5.10 The impact is quite heterogeneous in the different markets due to the different risk profiles of the specific undertakings. Most affected undertakings are typically exposed to the interest rate down scenario. There is a very high impact for some life and composite undertakings in AT, DE, IT, FR, NO. In DE the SCR ratio can decrease by up to 230% for life undertakings and several life undertakings have a SCR decrease of more than 100%. However, currently these undertakings have comfortable initial SCR ratios between 300% and 700%. In IT, it is important to observe that though the relative decrease is lower than in DE and NO, the SCR ratio of one undertaking decreases to a fairly low level of 107%.

Results of the CIR

5.11 The impact of the interest rate risk calibration measured in the CIR is similar to the impact described above for the HIA. The main difference is that resulting SCR ratios are are lower because the base SCR ratios were lower at the end of Q2 2020 than at the end of 2019. The decrease of the SCR ratio for standard formula undertakings is about 22% on the European level from 220% to 198%. The impact on the SCR ratio in different markets is presented in the following figure. One can observe the highest impact in NO with a decrease of about 53%, followed by FR with 33%, DE with 25% and IT with a 24% decrease.



5.12 For life and composite undertakings, the impact is much more pronounced. The decrease of the SCR ratio for standard formula life and composite undertakings is about 28% on the European level from 217% to 189%. The by far largest impact is observed in NO with a decrease of the SCR ratio by 53%, followed by DE and FR with decreases of 37% and 36%, respectively.



5.13 The substantial impact confirms the need to introduce a gradual phasing-in of the new proposal.

Impact of the floor to interest rates

In the HIA no material impact of introducing a floor to shocked interest rates of -1.25% was observed. Only for few currencies and for low maturities the shocked rates were affected by the floor.

•

Policy issue: Calibration of the interest rate risk sub-module			
	Effectiveness (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 1: No change	0	0	0
Option 2: Update the calibration in line with empirical data	++	++	+

Policy issue: Calibration of the interest rate risk sub-module			
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 1: No change	0	0	0
Option 2: Update the calibration in line with empirical data	++	++	+

5.2 Spread risk

5.14 With respect to spread risk, EIOPA has not considered particular policy proposals requiring a detailed cost and benefit analysis.

5.3 Property risk

5.15 With respect to property risk, EIOPA has not considered particular policy proposals requiring a detailed cost and benefit analysis

5.4 Correlation matrices

Policy issues	Options
Calibration of the correlation matrices	1. No change

	2. Update the calibration in line with empirical data (preferred)

Policy issue: Calibration of the correlation matrices		
Option 1: No change		
Costs	Policyholders	No material impact
	Industry	Less risk sensitive capital requirements, which do not sufficiently capture the undertaking's risk profile
	Supervisors	Less effective and efficient supervision as capital requirements do not sufficiently capture the undertaking's risk profile
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2: Update the calibration in line with empirical data		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Policyholder protection is maintained as risk-sensitive capital requirements maintain resilience of the undertaking and improve its supervision.
	Industry	Promoting good risk management as the capital requirement is more risk sensitive and better captures the undertaking's risk profile.
	Supervisors	More effective and efficient supervision as capital requirements better captures the undertaking's risk profile.
	Other	N/A

Evidence

EIOPA has used market risk data and QRT data to assess the appropriateness of the correlation matrices. The analysis shows in particular that the two-sided correlation structure within the market risk module is appropriate, however the correlation parameter between spread and interest rate down risk should be adjusted to a value of 0.25.

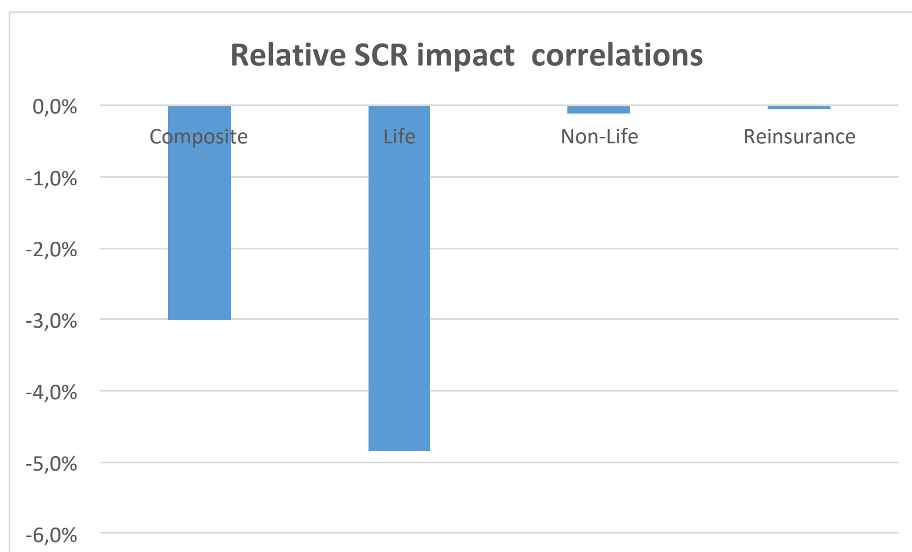
The impact of the correlation change on the solvency position of insurance and reinsurance undertakings was tested in the HIA and the CIR.

Results of the HIA

For the SCR, the holistic impact assessment tested as part of scenario 1 a new correlation matrix for the SCR market risk where the correlation parameter for downward interest rate risk and spread risk was set to 0.25 instead of the current 0.5. The parameter between upward interest rate risk and spread risk remained at 0. All other correlation parameters remained unchanged.

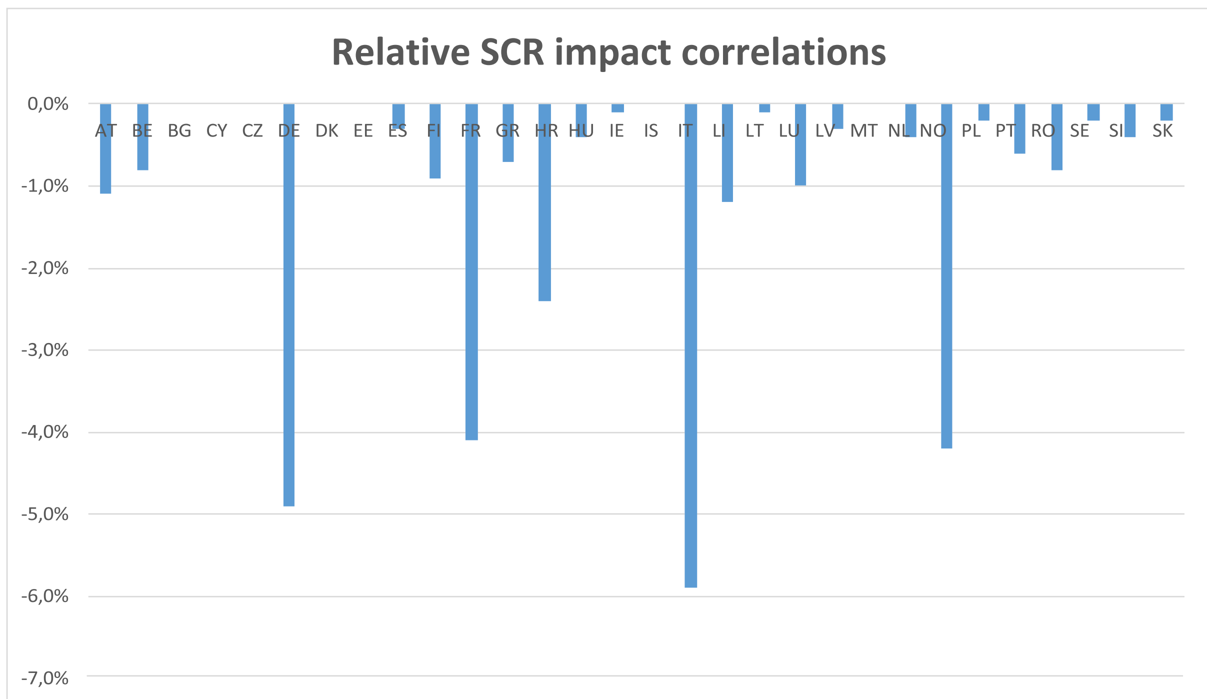
Based on the data provided, an alternative calculation was made based on all the assumptions underlying scenario 1 but with the current correlation matrix for the SCR market risk. This allowed to gauge the impact of the change in the correlation matrix separately from all other aspects tested in the holistic impact assessment.

The impact of the alternative calculation shows that the change in the correlation matrix leads to a decrease in the SCR by -3%. The impact is predominantly caused by the life insurance undertakings where the SCR decreases by -5% because their interest rate risk is determined by the idownward shock.

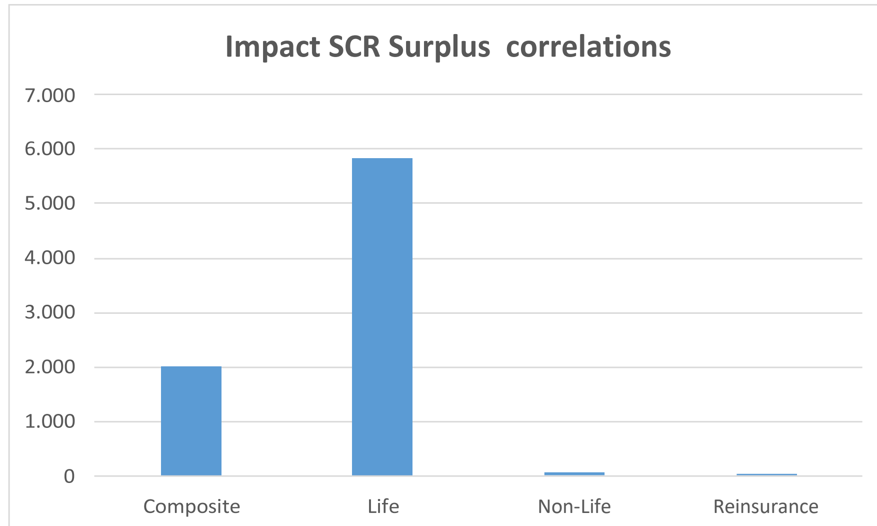


For non-life undertakings, often no impact is measured because for them the upward interest rate shock is relevant. On average, non-life undertakings see an decrease in their SCR by -0.1%. The same rationale explains the impact for reinsurance undertakings which is even smaller at 0%. Composite undertakings have differing duration gaps and the impact is therefore between those of non-life and life undertakings on average -3%.

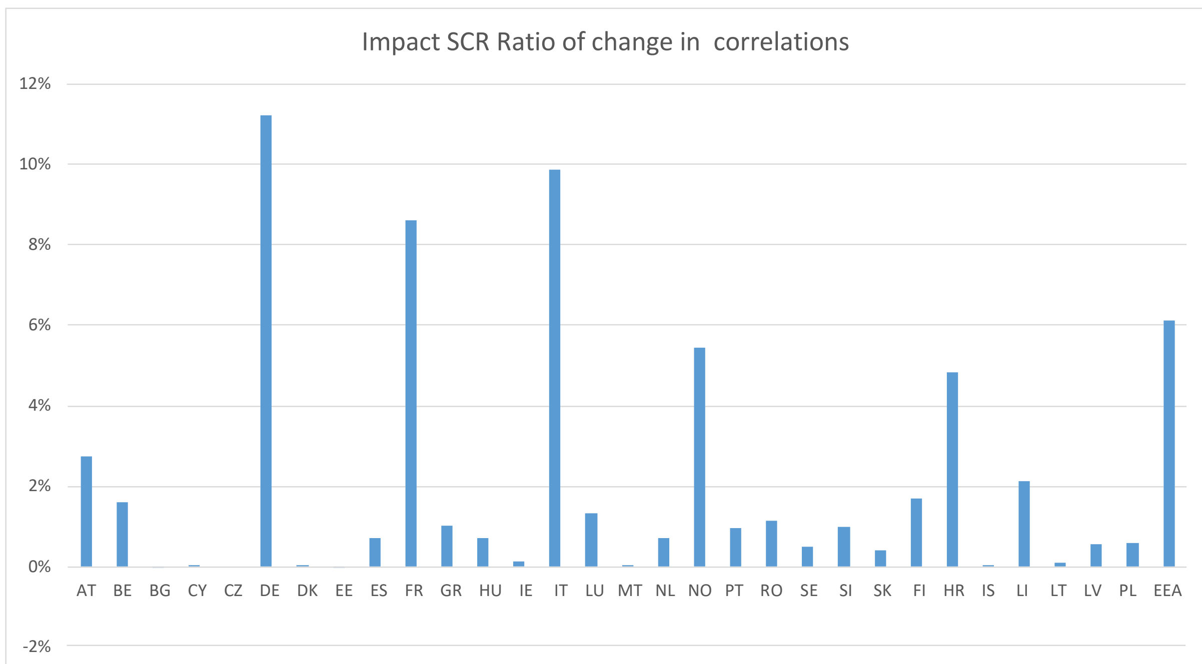
In the table below the differentiation between countries can be found. The impact is quite different between countries. Large impacts are observed for DE, FR, HR, IT and NO between -4% and -6% on the SCR. For other countries such as BG, CY, DK, EE, IS and MT the change in correlation between interest rate down shocks and spread risk has almost zero impact. For most other countries, the SCR is changed by less than -1%.



In terms of impact on the surplus of the own funds over the SCR, the decrease in SCR leads to an increase in surplus. For the life undertakings, the surplus increases with EUR 5.8 bn and for composite undertakings with EUR 2 bn. In total, across all undertakings at EEA level the surplus increases by EUR 7.9 bn. Non-life and reinsurance undertakings are not materially impacted.



This increase of the surplus is larger than expected because of the combination of the proposals included in the Holistic Impact Assessment. Indeed, the proposed revision for the interest rate risk SCR leads to more important shocks. The increase in the interest rate SCR leads to a more material impact for the change in correlation with the spread risk SCR.



In the table above an overview is shown of the change in SCR Ratio of the proposed correlation change. Here we notice that for DE, FR, IT and NO the impact is higher than a 5% increase of the SCR Ratio. On EEA level the change leads to an increase of 6% on average.

The new correlation parameter will lead to a slight reduction of the SCR of 3% points on the EEA level. For the more affected life and composite undertakings the reduction of the SCR is about 5%. The impact of the new proposal is negligible for non-life undertakings. The SCR ratio increases by about 5-6 percentage points at EEA level. The most affected markets are DE, IT, FR and NO.

Results of the CIR

The impact measures in the CIR is similar to the impact measured in the HIA.

Comparison of options

5.16 The preferred policy option for this policy issue is to update the correlation in line with the empirical evidence. In particular, it is proposed to adjust the correlation parameter between spread and interest rate down risk while keeping the correlation matrix structure and all other correlation parameters unchanged. The detailed empirical analysis provides sufficient evidence to lower the correlation between spread and interest rate down risk to 0.25. This adjustment will increase risk-sensitivity of the standard formula and promote good risk management in the insurance industry while maintaining the protection of policyholders.

Policy issue: Calibration of the correlation matrices			
	Effectiveness (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance	Objective 3: Promoting good risk management

		undertakings and groups	
Option 1: No change	0	0	0
Option 2: Update the calibration in line with empirical data	++	+	+

Policy issue: Calibration of the correlation matrices			
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 1: No change	0	0	0
Option 2: Update the calibration in line with empirical data	++	+	+

5.5 Counterparty default risk

Policy issues	Options
1. Overburdened calculation for the risk-mitigating effect of derivatives, reinsurance arrangement, securitisation	1. 1 No change 1.2 Include an additional simplified calculation for the risk-mitigating effect of derivatives or reinsurance arrangements, special purpose vehicles and insurance securitisations (preferred)
2. Implication of the identification of largest man-made exposures on the calculation of the risk-mitigating effect of reinsurance arrangements: hypothetical SCR for the fire, marine and aviation risk	2.1 No change 2.2 Hypothetical SCR for the purpose of determining the risk mitigation effect in the counterparty default risk module calculated based on the largest gross risk concentration for the fire, marine and aviation risk 2.3 SCR for the fire, marine and aviation risk is calculated on a net of reinsurance basis **and** for the purpose of the hypothetical SCR in the CDR calculations the non-existence of the reinsurance arrangement does not alter the identification of the largest risk concentration for the fire, marine and aviation risk submodules. (preferred)
3. Capital requirements for forborne and default loans	3.1 No change 3.2 Move the forborne and default loans under the type 2 of the counterparty default module (preferred)
4. Effective recognition of partial guarantees of mortgage loans	4.1 No change 4.2 Further adjust the requirements for the recognition of partial guarantees for mortgage loans (preferred)

Policy issue 1: Overburdened calculation for the risk-mitigating effect of derivatives, reinsurance arrangement, securitisation		
Option 1.1: No change		
Costs	Policyholders	The risk that more complex strategies do not work as anticipated is not avoided
	Industry	Risks and costs associated with more complexity are not avoided
	Supervisors	Harder to supervise as supervisors have to assess potentially complex strategies
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 1.2: Include and additional simplified calculation		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	The risk that more complex strategies do not work as anticipated is avoided
	Industry	Risks and costs associated with more complexity are avoided
	Supervisors	Easier to supervise as supervisors do not have to assess potentially complex strategies
	Other	N/A

Proportionality

5.17 Proportionality was taken into account in option 1.2 by keeping the calculation of the capital requirement simple.

Policy issue 1: Overburdened calculation for the risk-mitigating effect of derivatives, reinsurance arrangement, securitisation			
	Effectiveness (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 1.1: No change	0	0	0
Option 1.2: Include and additional simplified calculation (preferred)	+	+	+
	Efficiency (0/+/++)		
Options	Objective 1:	Objective 2:	Objective 3:

	Ensuring adequate risk sensitive capital requirements	Effective and efficient supervision of (re)insurance undertakings and groups	Promoting good risk management
Option 1.1: No change	0	0	0
Option 1.2: Include and additional simplified calculation (preferred)	+	+	+

Policy issue 2: Implication of the identification of largest man-made exposures on the calculation of the risk-mitigating effect of reinsurance arrangements: hypothetical SCR Overburdened calculation for the risk-mitigating effect of derivatives, reinsurance arrangement, securitisation		
Option 2.1: No change		
Costs	Policyholders	No material impact
	Industry	Calculation burden for undertakings remains unchanged
	Supervisors	Harder to supervise
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2.2: SCR for the fire, marine and aviation risk is calculated on a net of reinsurance basis but the hypothetical SCR in the CDR calculations assumes a gross of reinsurance basis for the fire, marine and aviation risk submodules		
Costs	Policyholders	No material impact
	Industry	Depending on the profile of the insurer this may create substantial inconsistencies between the CDR submodule and the catastrophe risk submodules and may not accurately represent the additional losses arising in the stressed situation.
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Minimises the calculation burden for undertakings
	Supervisors	Easier to supervise
	Other	N/A
Option 2.3: SCR for the fire, marine and aviation risk is calculated on a net of reinsurance basis and for the purpose of the hypothetical SCR in the CDR calculations the non-existence of the reinsurance arrangement does not alter the identification of the largest risk concentration for the fire, marine and aviation risk submodules.		
Costs	Policyholders	No material impact
	Industry	No material impact

	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Best option to minimise the calculation burden for undertakings
	Supervisors	Easier to supervise
	Other	NA

Policy issue 2: Implication of the identification of largest man-made exposures on the calculation of the risk-mitigating effect of reinsurance arrangements: hypothetical SCR Overburdened calculation for the risk-mitigating effect of derivatives, reinsurance arrangement, securitisation			
	Effectiveness (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 2.1	0	0	0
Option 2.2	+	++	+
Option 2.3	+	++	+
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 2.1	0	0	0
Option 2.2	+	+	+
Option 2.3	++	++	++

Policy issue 3: Capital requirements for forborne and default loans		
Option 3.1: No change		
Costs	Policyholders	No material impact
	Industry	Do not enable more coherence with the underlying credit risk, do not increase the risk sensitivity of the loan capital requirements and keep unchanged the moral hazard investment in high risk credit portfolios.
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact

	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 3.2 move the forborne and default loans under the type 2 of the counterparty default module		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Guarantee more coherence with the underlying credit risk, increase the risk sensitivity of the loan capital requirements, help to overcome the valuation hurdles of the loans, and disincentive moral hazard investment in high risk credit portfolios.
	Supervisors	No material impact
	Other	N/A

Policy issue 3: Capital requirements for forborne and default loans			
	Effectiveness (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 3.1: No change	0	0	0
Option 3.2 move the forborne and default loans under the type 2 of the counterparty default module	++	++	++
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 3.1: No change	0	0	0
Option 3.2 move the forborne and default loans under the type 2 of the counterparty default module	++	++	++

Results of the HIA

Under Scenario 1, forborne and defaulted loans (FDL) for which a credit assessment by a nominated ECAI is not available should not be included in the spread risk sub-module of the standard formula (as currently have to). Instead their credit risk should be captured in the counterparty default risk module as type 2 exposures. Participants were asked to provide the gross SCR for FDL (amount with LTG and transitionals) under the baseline (i.e. information based on QRT S.22.01) and under Scenario 1 as described above.

Only 17 undertakings indicated to have such loans in their portfolio: 5 DE, 2 FI, 1 FR, 1 GR, 2 HR, 2 IT, 4 NL. Per type of business: 9 Life, 5 Non-life, 3 composite.

Data in million euro

Scenario	SCR for FDL
Baseline	1.856
Scenario 1	1.902
Absolute difference	0.045
Relative difference	**2.47%**

Policy issue 4: effective recognition of partial guarantees for mortgage loans in SF SCR		
Option 4.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	Keep unchanged the poor current incentives from capital requirements as less riskier mortgage loans with partial guarantees get a lower capital requirement
	Other	N/A
Benefits	Policyholders	Higher capital requirements that can be seen as generally increasing the policyholder protection
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 4.2: Adjust the requirement for the recognition of partial guarantees for mortgage loans		
Costs	Policyholders	Lower capital requirements generally reduce the policyholder protection, but the reduction is expected to be small and it is justified from a risk-based perspective
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Lower capital requirements for less riskier mortgage loans with partial guarantees
	Supervisors	Improved incentives from capital requirements as less riskier mortgage loans with partial guarantees get a lower capital requirement

	Other	N/A

Policy issue 4: Effective recognition of partial guarantees of mortgage loans in the SF SCR						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Adjust the requirement for the recognition of partial guarantees for mortgage loans	+	+	+	+	+	+

5.6 Underwriting risk

5.18 With respect to underwriting risk, EIOPA has not considered particular policy proposals requiring a detailed cost and benefit analysis.

5.7 Risk mitigation techniques

Policy issues	Options
1. Methods for the recognition of the most common non-proportional reinsurance covers for non-life underwriting risks in the SCR standard formula	Not applicable –call to stakeholders did not result in any concrete proposal
2. Recognition of adverse development covers.	2.1 No change 2.2 Recognition of those covers as RMT (preferred)
3. Recognition of capital contingent to reduce the SCR in IMs	3.1 Recognition of these instruments only in internal models 3.2 Non-recognition of these instruments in both internal models and standard formula (preferred)
4. Recognition of contingent convertible bonds to reduce the SCR	4.1 Recognition of these instruments in both standard formula and internal models

	4.2 Recognition of these instruments only in internal models 4.3 Non-recognition of these instruments in both standard formula and internal models (preferred)
5. Clarity of current provisions on the assessment of basis risk in the Delegated regulation	5.1 No change 5.2 Specify in the regulations that the reduction in the SCR capital requirements, or increase in the available capital is commensurate with the extent of risk transfer (preferred)

Policy issue 2: Recognition of adverse development covers		
Option 2.1: No change		
Costs	Policyholders	No material impact
	Industry	less recognition for adverse development covers and therefore less capital relief
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	less supervisory work on the assessment of these covers
	Other	N/A
Option 2.2: Recognize those covers as a RMT		
Costs	Policyholders	No material impact
	Industry	Develop evidence of the right use of the covers to be submitted to supervisors in case of request.
	Supervisors	more supervisory work (at least as initial set up) on the assessment of the right application of the recognition of adverse development covers in the SF.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Recognition of 'bought' development covers and therefore capital relief on the costs of buying specific reinsurance.
	Supervisors	No material impact
	Other	N/A

Policy issue 2: Recognition of adverse development covers and finite reinsurance covers Clarity of current provisions on the assessment of basis risk in the Delegated regulation

	Effectiveness (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 2.1: No change	0	0	0
Option 2.2:Recognition of those covers as RMT	+	0	+
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 2.1: No change	0	0	0
Option 2.2:Recognition of those covers as RMT	+	0	+

Policy issue 3: Recognition of capital contingent to reduce the SCR in IMs		
Option 3.1: Recognition of these instruments only in internal models		
Costs	Policyholders	Potential substitution of own funds by capital contingent instruments, weakening the policyholder protection
	Industry	Proper modelling is needed (including counterparty risk and execution risk) Would favour non-EU counterparties (because of the banking treatment)
	Supervisors	Lack ok legal hook to reject requests from UTs to use such instruments to reduce SCR while nor reducing/transferring any risk More complexity, problems to distinguish this tool from ancillary own funds
	Other	Create inconsistency between standard formula and internal models on the one hand, and between own funds and RMT on the other hand (unlevel playing field)Will result in a watering down of portion of shares of existing shareholders and might result in dilution of the capital depending on relation of actual and market price Might have pro-cyclical effects.
Benefits	Policyholders	Possibly cheaper products, as RMT scope would be widened
	Industry	Clarification on how to treat these instruments in internal models

		It would widen the scope of RMTs, allowing new tools, cheaper but more dangerous
	Supervisors	No material impact
	Other	N/A
Option 3.2: Non-recognition of these instruments in both internal models and standard formula		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Preserve the level of protection
	Industry	Clarification on how to treat these instruments in internal models Strength the insurer solvency
	Supervisors	Clarification on how to treat these instruments in internal models Prudent approach (execution risk apprehended) Provide a legal hook to reject requests from UTs to use such instruments to reduce SCR while nor reducing/transferring any risk Consistency in the regulation, among SF and IM, and among own funds and RMT
	Other	No inconsistency between standard formula and internal models

Policy issue 3: Recognition of capital contingent to reduce the SCR in IMs			
	Effectiveness (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 3.1: Recognition in internal models	0	0	0
Option 3.2: No recognition in both internal models and SF	+	+	+
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 3.1: Recognition in internal model	0	0	0
Option 3.2: No recognition in internal models and SF	+	+	+

Policy issue 4: Recognition of contingent convertible bonds to reduce the SCR		
Option 4.1: Recognition these instruments in both standard formula and internal models		
Costs	Policyholders	Potential substitution of own fund by contingent convertible bonds, weakening the policyholder protection
	Industry	Proper modelling is needed
	Supervisors	More complexity, inconsistency with the treatment of own funds
	Other	Create inconsistency between standard formula and internal models Will result in a watering down of portion of shares of existing shareholders and might result in dilution of the capital depending on relation of actual and market price Might have pro-cyclical effects.
Benefits	Policyholders	Possibly cheaper products
	Industry	It would widen the set of RMTs, allowing new tools, cheaper but more dangerous
	Supervisors	No material impact
	Other	No inconsistency between standard formula and internal models
Option 4.2: Recognition of these instruments only in internal models		
Costs	Policyholders	Potential substitution of own fund by contingent convertible bonds, weakening the policyholder protection
	Industry	Proper modelling is needed (including execution risk)
	Supervisors	More complexity, inconsistency with the treatment of own funds in IMs, inconsistency among SF and IM (no comparability, unlevel playing field)
	Other	Create inconsistency between standard formula and internal models
Benefits	Policyholders	Possibly cheaper products
	Industry	It would widen the set of RMTs for IM, allowing new tools, cheaper but more dangerous
	Supervisors	No material impact
	Other	N/A
Option 4.3: Non-recognition of these instruments in both standard formula and internal models		
Costs	Policyholders	No material impact
	Industry	Limitation of RMT tools
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Better protection, as a potential substitution of own fund by capital contingent is avoided, strengthening the insurer solvency
	Industry	Strength the insurer solvency
	Supervisors	Clarification on how to treat these instruments Prudent approach (execution risk apprehended)

		Consistency in the regulation, among SF and IM, and among own funds and RMT
	Other	No inconsistency between standard formula and internal models

Policy issue 4: Recognition of contingent convertible bonds to reduce the SCR			
	Effectiveness (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 4.1: Recognition in both the SF and IM	0	0	0
Option 4.2: Recognition only in IM	0	0	0
Option 4.3: Non recognition in both IMs and SF	+	+	+
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 4.1: Recognition in both the SF and IM	0	0	0
Option 4.2: Recognition only in IM	0	0	0
Option 4.3: Non recognition in both IMs and SF	+	+	+

Policy issue 5: Clarity of current provisions on the assessment of basis risk in the Delegated regulation		
Option 5.1: No change		
Costs	Policyholders	Persistence of a potentially not adequate protection due to an underestimation of the effective risk an undertaking is exposed to.
	Industry	No material impact
	Supervisors	Powerlessness to object to situations where an inappropriate use of some RMTs is made
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact

	Other	N/A
Option 5.2: Specify in the regulations that the reduction in the SCR capital requirements, or increase in the available capital is commensurate with the extent of risk transfer		
Costs	Policyholders	No material impact
	Industry	Potentially higher SCR in case they have so far benefited from using reductions in requirements not commensurate with the extent of risk transfer
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	More adequate and risk sensitive protection level
	Industry	More clarity and level playing field
	Supervisors	They would be given a legal hook to avoid situations where a RMT is used to significantly reduce the SCR while there is only limited risk transfer.
	Other	N/A

Policy issue 5: Clarity of current provisions on the assessment of basis risk in the Delegated regulation			
	Effectiveness (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 5.1: No change	0	0	0
Option 5.2: Clarification to consider the extent of the risk transfer	+	+	+
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 5.1: No change	0	0	0
Option 5.2: Clarification to consider the extent of the risk transfer	+	+	+

5.8 Reducing reliance on external ratings

Policy issues	Options

1.Scope of assets subject to the alternative credit assessment currently provided for in the DR	1.1 No change (preferred) 1.2 Broaden the scope of the current undertaking's own internal credit assessment to include certain corporate exposures that already have an ECAI rating.
2.Recognition of additional methods allowing for a wider use of alternative credit assessment	2.1 Use of a composite index 2.2 Recognize, at this stage, new alternative credit assessment approach to mirror rated bonds features. 2.3 No recognition of additional methods for the time being, but open an analysis table to investigate how alternative credit assessment could be tailored to some specific rated exposures under a standard methodology (preferred)

Policy issue 1: Scope of assets subject to the alternative credit assessment currently provided for in the DR		
Option 1.1: No change		
Costs	Policyholders	No further reduction of reliance on ECAI ratings
	Industry	Fees for obtaining rating and need to ensure transparency
	Supervisors	No control of the external ratings
	Other	Cyclicality of clustered rating trends may jeopardize financial stability
Benefits	Policyholders	Prudent to not expand the scope of the new approach until we have some supervisory experience of its effectiveness
	Industry	No other investments in processes change
	Supervisors	Lower supervisory work to control compliance and robustness of internal processes
	Other	N/A
Option 1.2: Broaden the scope of assets subject to the alternative credit assessment currently provided for in the DR, including certain corporate exposures that have an ECAI rating		
Costs	Policyholders	The approach is untested, so broadening the scope, at this stage, may have unintended consequences
	Industry	The internal assessment approach was developed for unrated debt, which has different characteristics to rated debt (e.g. in relation to size, types of company, features of debt) It is less sophisticated and risk sensitive than an ECAI rating Forcing all players to use the internal assessment approach may increase the burden on small undertakings compared to using ECAI ratings Banks' internal model may stoke adverse selection (bank retains some exposure to the debt)

		Costs for attaining transparency of information (the insurer needs to have sufficient information about the model and data used by the bank in coming to the rating)
	Supervisors	Higher supervisory work to control compliance and consistency of application across the industry Banks' internal models may encourage insurers to place reliance on banks instead of ECAIs, without any improvement to risk management Moral hazard of co-investments with banks, without adequate regard to the credit quality It has not been tested and may have unintended consequences
	Other	Prudent to not expand the scope of the new approach until we have some supervisory experience of its effectiveness For internal models there are also some concerns in the banking industry about the lack of consistency between the models, with different models potentially producing different ratings for the same exposure. There is a trend within the banking industry to reduce reliance on internal models There are concerns in relation to the banks willingness to share information on its model, as they may classify this information as sensitive Prudent to not expand the scope of the new approach, until we have some supervisory experience of its effectiveness
Benefits	Policyholders	Reduction of reliance on ECAI ratings
	Industry	Achievement of improved risk management in relation to corporate debt exposures Savings to not pay the ECAI fees
	Supervisors	No additional resources to develop a new methodology
	Other	Lower procyclicality
Policy issue 2: Recognition of additional methods allowing for a wider use of alternative credit assessment		
Option 2.1: Use of composite index		
Costs	Policyholders	Minor reduction of reliance from credit agencies
	Industry	Revision of the processes and internal procedure to take into account the updated regulation
	Supervisors	No control of the rating methodologies
	Other	Increase of the procyclicality
Benefits	Policyholders	No need to further develop methodologies
	Industry	Lower fees to be paid to the agencies
	Supervisors	Less intensive resources for monitoring
	Other	N/A

Option 2.2: Recognize, at this stage, the new alternative credit assessment approach to mirror rated companies features		
Costs	Costs	The approach is untested, so broadening the scope at this stage may have unintended consequences
	Industry	Higher development burden and costs to develop more complex models
	Supervisors	Heavier supervisory tasks and need for additional resources to supervise different models
	Other	Methodology still to be developed More burdensome for small companies Possible longer implementation period due to the drafting of the methodology
Benefits	Benefits	Reduction of reliance from external rating
	Industry	Increase of internal risk management expertise and higher possible use of models for credit quality management More robust and fit for purpose models Savings to not pay the ECAI fees
	Supervisors	Higher control of the risk management internal process and effectiveness to change eventual malfunctioning
	Other	N/A
Option 2.3: No recognition of additional methods for the time being, but open an analysis table to investigate how the new alternative credit assessment methods could be tailored on specific rated exposures and under a standard methodology		
Costs	Policyholders	Longer development period
	Industry	Uncertainty about the regulatory developments
	Supervisors	Delay in improvement of internal risk management processes
	Other	N/A
Benefits	Policyholders	Consistent and appropriate reduction of reliance on external rating
	Industry	Potential use of regulatory standard criteria for strengthening internal risk management processes
	Supervisors	Fostering of improvement of risk management
	Other	N/A

Comparison of options

5.19 Regarding the policy issues the proposal is to not recognize additional methods for the time being, but to open an analysis investigating if and how alternative credit assessment could be tailored on specific rated exposures and under a standard methodology. The purpose is to overcome the potential shortcomings to be faced where a methodology drafted for unrated debt is used and to allow the undertakings to invest in regulatory models to be used in internal risk

management. Moreover, it would allow to perform an impact assessment before the final methodology is set up. The other options considered have been disregarded because not fit for purpose, could entail moral hazard and adverse selection, may pose risk to consistency and does not ensure enough control of the processes and compliance.

5.20 The selection of the preferred option has required a trade-off between adequacy of the approach and prudence of the methodology chosen. More weight has been given to pursuing of a robust method other than timing, because it would help the industry to conform to the risk management best practices and to limit eventual undesirable consequences.

Policy issue 1: Scope of assets subject to the alternative credit assessment currently provided for in the DR			
	Effectiveness (0/+/++)		
Options	Objective 1: adequacy market-consistent technical provisions	Objective 2: appropriateness of risk sensitive capital requirements	Objective 3: promotion of good risk management
Option 1.1: No change	0	0	0
Option 1.2: Broaden the scope of assets subject to the alternative credit assessment	+	+	++
Policy issue 2: Recognition of additional methods allowing for a wider use of alternative credit assessment			
Option 1.1: Use of composite index	0	+	0
Option 1.2: Recognize, at this stage, the new alternative credit assessment approach to mirror rated companies features	0	0	+
Option 1.3: No recognition of additional methods for the time being, but open an analysis table to investigate how the new alternative credit assessment methods could be tailored on specific rated exposures and under a standard methodology	++	++	++

5.9 Transitional on government bonds

Policy issues	**Options**
Expiration of the transitional	1. No change 2. Grandfathering (preferred)

5.21 The following table summarises the costs and benefits for the main options considered, which are only relevant for some jurisdictions outside of Euro area. It should be reminded that the transitional applies with respect to government bonds not denominated in local currency and these kind of exposures are not material at EEA level. The impacts of the preferred option would be of a temporary nature, as it is limited to exposure incurred by the cut-off date.

Policy issue: Expiration of the transitional		
Option 1: No change		
Costs	Policyholders	No material impact.
	Industry	Competitive disadvantage towards the banking sector due to unlevel playing field. Additional costs associated with possible changes to asset portfolios/sale of affected assets.
	Supervisors	Hard to justify different regulatory treatment for similar assets purchased to back similar financial products, solely based on the sectoral classification of the originator.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Reflects continuity of the rules in place.
	Supervisors	Less administrative burden associated with the change in the regulatory framework.
	Other	N/A
Option 2: Grandfathering		
Costs	Policyholders	No material impact
	Industry	Need to adapt the internal systems and policies to the new framework.
	Supervisors	Administrative burden associated with the change in the regulatory framework.
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	Level playing field with the banking sector. No pressure to dispose of affected assets. Small temporary reduction of the SCR.
	Supervisors	Consistent approach in face of similar products and risks, irrespectively of the sectoral classification of the originator (substance over form).

	Other	N/A

Policy issue : Expiration of the transitional						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Ensuring a level playing field through sufficiently harmonised rules	Objective 2: Promoting cross-sectoral consistency	Objective 3: Improving transparency and better comparability	Objective 1: Ensuring a level playing field through sufficiently harmonised rules	Objective 2: Promoting cross-sectoral consistency	Objective 3: Improving transparency and better comparability
Option 1: No change	0	0	0	0	0	0
Option 2: Grandfathering	+	+	+	+	+	+

6 Minimum Capital Requirement

6.1 Calculation of the MCR

Policy issues	Options
1. Use of cap and floor	1.1 No change to the 25%-45% corridor (preferred) 1.2 Enlarge the corridor to 20%-50% of the SCR 1.3 Delete the calculation of the linear MCR and state that MCR is the maximum between the absolute floor and 35% of the SCR
2. Consistency with a VaR 85%	2.1 No change in the methodology (update of the parameters)
3. Identification of eligible basic own funds items for composite undertakings	3.1 No change (preferred) 3.2 Suppress the calculation of these notional MCRs for life and non-life 3.3 Define precisely which own funds should be allocated to the life side and which own funds should be allocated to the non-life side

Policy issue 1: Use of cap and floor		
Option 1.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No.
	Industry	Simplicity (wide use of the current corridor and no need for further adaptations).
	Supervisors	Simplicity (wide use of the current corridor).
	Other	N/A
Option 1.2: Enlarge the corridor to 20%-50% of the SCR		
Costs	Policyholders	No material impact.
	Industry	Create more discrepancies between undertakings
	Supervisors	No material impact.
	Other	N/A
Benefits	Policyholders	No material impact.

	Industry	More risk-based (as the cap and the floor will be less impacted).
	Supervisors	More risk-based (as the cap and the floor will be less impacted).
	Other	N/A
Option 1. 3: Delete the calculation of the linear MCR and state that MCR is the maximum between the absolute floor and 35% of the SCR		
Costs	Policyholders	No material impact.
	Industry	Introduce a change in the current methodology for MCR calculation. Moreover it would become more challenging to audit the new calculation and to provide supervisors with evidence it is adapted.
	Supervisors	Introduce a change in the current methodology for MCR calculation. The calculation would be more complex as it would be mainly based on the SCR, which is more complex and thus less auditable than the current calculation based on technical provisions and premiums (cf. linear MCR).
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	Calculation of the MCR would be less burdensome. Equal treatment for all undertakings (with no cap and no floor).
	Supervisors	Calculation of the MCR would be less burdensome.
	Other	N/A.

Policy issue 3: Identification of eligible basic own funds items for composite undertakings		
Option 3.1: No change		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	Keep the double vision (life and non-life) for composite undertakings.
	Supervisors	No material impact.
	Other	N/A
Option 3.2: Suppress the calculation of these notional MCRs for life and non-life		
Costs	Policyholders	No material impact.
	Industry	Loss of the double vision (life and non-life).
	Supervisors	No material impact.
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	No need to compute and report life and non-life notional MCRs.

	Supervisors	No material impact.
	Other	N/A.
Option 3.3: Define precisely which own funds should be allocated to the life side and which own funds should be allocated to the non-life side		
Costs	Policyholders	No material impact.
	Industry	Methodology of allocation (calculation) and reporting would become more complex, creating additional burden for composite undertakings.
	Supervisors	Methodology of allocation (calculation) and reporting would become more complex.
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	More clarity on how to allocate the own funds between life and non-life.
	Supervisors	More clarity on how to allocate the own funds between life and non-life.
	Other	N/A

Policy issue 1: Use of cap and floor			
	Effectiveness (0/+/++)		
Options	Objective 1: Ensuring risk sensitive capital requirements	Objective 2: Ensuring a level playing field through sufficiently harmonized rules	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0
Option 1.2: Enlarge the corridor to 20%-50% of the SCR	+	0	+
Option 1.3: Delete the calculation of the linear MCR and state that MCR is the maximum between the absolute floor and 35% of the SCR	+	0	+
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring risk sensitive capital requirements	Objective 2: Ensuring a level playing field through sufficiently harmonized rules	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0
Option 1.2: Enlarge the corridor to 20%-50% of the SCR	+	0	+
Option 1.3: Delete the calculation of the linear MCR and state that MCR is the	+	0	+

maximum between the absolute floor and 35% of the SCR			

Policy issue 3: Identification of eligible basic own funds items for composite undertakings			
	Effectiveness a(0/+/++)		
Options	Objective 1: Ensuring risk sensitive capital requirements	Objective 2: Ensuring a level playing field through sufficiently harmonized rules	Objective 3: Improving transparency and better comparability
Option 3.1: No change	0	0	0
Option 3.2: Suppress the calculation of these notional MCRs for life and non-life	0	0	0
Option 3.3: Define precisely which own funds should be allocated to the life side and which own funds should be allocated to the non-life side	+	0	+
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring risk sensitive capital requirements	Objective 2: Ensuring a level playing field through sufficiently harmonized rules	Objective 3: Improving transparency and better comparability
Option 3.1: No change	0	0	0
Option 3.2: Suppress the calculation of these notional MCRs for life and non-life	0	0	0
Option 3.3: Define precisely which own funds should be allocated to the life side and which own funds should be allocated to the non-life side	+	0	+

6.1 On policy issue 1 option 1.1 (no change) is preferred because it best avoids conflicting signals by SCR and MCR and ensures an appropriate distance between SCR and MCR required for the ladder of intervention.

6.2 On policy issue 3 option 3.1 (no change) is preferred in terms of level playing field and because it is consistent with the separate management of life and non-life insurance while avoiding the additional complexity of option 3.3.

6.2 Non-compliance with the Minimum Capital Requirement

Policy issues	Options
1. Qualification of the non-compliance with MCR	1.1 No change 1.2 Clarification on the need to immediately inform the NSA (preferred)
2. Supervisory actions taken in case of a likely non-compliance of MCR	2.1 No change 2.2 Clarification on the requirement to submit a finance scheme within one month after the observation of the risk of non-compliance (preferred)
3. Practices for restriction or prohibitions of the free disposal of assets	3.1 No change 3.2 NSA decision within two months of a breach of the MCR (preferred)
4. Withdrawal of the licence	4.1 No change 4.2 An undertaking who does not comply with the MCR will have its licence withdrawn by the resolution authority (preferred)
5. Role of the Resolution Authority and NSA post withdrawal	5.1 No change 5.2 An undertaking whose licence is withdrawn comes under the power of a resolution authority (preferred)

Policy issue 1: Qualification of non-compliance with MCR		
Option 1.1: No change		
Costs	Policyholders	Policyholders are at risk if a breach of the MCR is not addressed in a clearly defined short timeframe.
	Industry	Different interpretation of the observance of a breach of the MCR across Europe as well as the time frame in which to report the MCR breach lead to un-level playing field.
	Supervisors	Different practices for reporting MCR non-compliance lead to un-clarity on the use of supervisory tools and powers, at the same time it is hard for the NSA to assess if there is an 'observance of a breach of MCR' without proper data.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	The undertaking might be enabled to take more time to assess the situation around the MCR breach, depending on the Member State in which it is established.
	Supervisors	No material benefit, except for those jurisdictions were reported figures are required to be checked by the undertakings internal auditors.
	Other	N/A

Option 1.2: Clarification on the need to immediately inform the NSA		
Costs	Policyholders	No material impact
	Industry	Ongoing close monitoring of the MCR level required as well as the risk for an MCR breach.
	Supervisors	No material costs
	Other	N/A
Benefits	Policyholders	Assurance that in case of a breach of the MCR, or the risk of such a breach, the NSA will be timely informed and a finance plan prepared by the undertaking assessing the recovery of the (risk of) the breach as well as the measure to be taken to recover the breach.
	Industry	Clear obligations for on-going monitoring of a breach of the MCR.
	Supervisors	Clear power to request further information and a finance plan if there is a breach of the MCR.
	Other	N/A

Policy issue 1: Qualification of non-compliance with MCR						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring an orderly resolution of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Clarification on the need to immediately inform the NSA	+	+	+	+	+	+

Policy issue 2: Supervisory actions taken in case of a likely non-compliance of MCR		
Option 2.1: No change		
Costs	Policyholders	The later a possible breach of the MCR is addressed by the undertaking the higher the risk that the undertaking cannot meet its obligations towards the policyholder.
	Industry	Uncertainty and an unlevel playing field.

	Supervisors	Uncertainty for supervisory authorities on what is required in case of a risk of a breach of the MCR.
	Other	N/A
Benefits	Policyholders	No material benefits.
	Industry	The undertaking will not need to submit a finance scheme in an early stage of risk of MCR non-compliance.
	Supervisors	No material benefits.
	Other	N/A
Option 2.2: Clarification on the requirement to submit a finance scheme within one month after the observation of the risk of non-compliance		
Costs	Policyholders	No material impact
	Industry	The undertaking already monitors the MCR on an on-going basis as part of their risk management framework, extra costs are those for submitting the finance scheme to the NSA.
	Supervisors	Supervisors have to assess the finance scheme in an early stage and the broader context of possible MCR breaches.
	Other	N/A
Benefits	Policyholders	The earlier a possible breach of the MCR is addressed by the undertaking the higher the chance that the undertaking will meet its obligations towards its policyholders.
	Industry	The undertaking will be stimulated to closely monitor a possible breach of the MCR as part of its risk management- and internal risk reporting framework and capital planning.
	Supervisors	NSAs will be informed at an early stage of a possible breach of the MCR and engage with the undertaking on mitigating measures. The finance scheme will give the NSA useful insight in the undertakings risk management framework, internal risk reporting and capital planning.
	Other	N/A

Policy issue 2: Supervisory actions taken in case of a likely non-compliance of MCR						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring an orderly resolution of (re)insurance undertakings and groups
Option 2.1: No change	0	0	0	0	0	0

Option 2.2: Clarification on requirement to submit a finance scheme within one month after the observation of the risk of non-compliance	+	+	+	+	+	+

Policy issue 3: Practices for restriction or prohibitions of the free disposal of assets		
Option 3.1: No change		
Costs	Policyholders	Policyholders' position might be at risk if a timely assessment on the effect of a restriction on the disposal of the assets might restore the MCR position does not take place.
	Industry	No material impact
	Supervisors	Supervisors will not have the opportunity to engage with the undertaking in an early stage of a breach of the MCR to assess if a restriction or prohibition of the disposal of assets supports the MCR recovery.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Industry will have more autonomy in their capital planning and risk management.
	Supervisors	No material impact
	Other	N/A
Option 3.2: NSA decision within two months of a breach of the MCR		
Costs	Policyholders	No material impact
	Industry	Undertakings need to be prepared for the engagement with the NSA on their asset management and capital planning as part of their risk management framework.
	Supervisors	The NSA needs to engage with the undertaking and assess the added value of a prohibition on the disposal of assets in an early stage of an MCR breach or the risk of a breach.
	Other	N/A
Benefits	Policyholders	Policyholders' position is strengthened when an assessment needs to be made in an early stage on the pros and cons for a prohibition of disposal of the assets.
	Industry	The undertaking will have the opportunity to receive feedback from the NSA on the management of the assets.
	Supervisors	NSAs will have the right to request full insight in the undertaking's management of the assets to assess the effect of a prohibition of its disposal
	Other	N/A

Policy issue 3:Practices for restriction or prohibitions of the free disposal of assets						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring an orderly resolution of (re)insurance undertakings and groups
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: NSA decision within two months of a breach of the MCR	+	+	+	+	+	+

Policy issue 4: Withdrawal of the licence		
Option 4.1: No change		
Costs	Policyholders	If the licence is not withdrawn after the three month period of an MCR non-compliance or in case an insufficient finance scheme has been submitted, the position of policy holders is at risk as the undertaking might be unable to meet its obligations to policy holders and can still continue to do business despite its inadequate solvency position. Given the lack of consistency with the current resolution framework in force under the current Opinion, there is a risk of duplication of roles between the resolution authority and the supervisory authority to the detriment of the policy holders. policy holders
	Industry	Unclarity on the consequences of MCR non-compliance and a non-effective finance scheme will not help industry in managing the risk of non-compliance. If the finance scheme is considered to be inadequate or does not have the expected effect within 3 month, structural challenges to meet the MCR hinder recovery. Given the lack of consistency with the resolution framework under the current Opinion, the risk of duplication of roles between the resolution authority and the supervisory authority might lead to insecurity for the undertaking and room for arbitrary policy with regards to the supervisory regime by NSAs
	Supervisors	Unclarity on the division of tasks between resolution authorities and NSAs in the context of the resolution framework hinder an effective resolution.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A

Option 4.2: An undertaking who does not comply with the MCR will have its licence withdrawn by a resolution authority		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Clear powers and tasks for a Resolution Authority who will act with the aim to protect the position of policy holders.
	Industry	Clear powers from a Resolution authority who will support the resolution of the undertaking with adequate measures.
	Supervisors	A clear division of tasks between resolution authorities and supervisory authorities.
	Other	The benefits for the resolution authority are that there is a clear division of tasks between the NSA and the resolution authority.

Policy issue 4:Withdrawal of the licence						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring an orderly resolution of (re)insurance undertakings and groups
Option 4.1: No change	0	0	0	0	0	0
Option 4.2: An undertaking who does not comply with the MCR will have its licence withdrawn by a resolution authority	+	+	+	+	+	+

Policy issue 5: Role of the Resolution Authority and NSA post withdrawal		
Option 5.1: No change		
Costs	Policyholders	Given the lack of consistency with the resolution framework as in force under the current Opinion, there is a risk of duplication of roles between the resolution authority and the supervisory authority to the detriment of policy holders

	Industry	Given the lack of consistency with the resolution framework under the current Opinion, the risk of duplication of roles between the resolution authority and the supervisory authority might lead to insecurity for the undertaking and room for arbitrary policy with regards to the supervisory regime by NSAs
	Supervisors	A lack of clarity on the division of tasks between resolution authorities and NSAs in the context of the resolution framework will hinder an effective resolution
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 5.2: An undertaking whose licence is withdrawn comes under the power of a resolution authority		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Clear powers and tasks for a Resolution Authority who will resolve the undertaking with the aim to protect the position of policy holders.
	Industry	Clear powers for the Resolution Authority who will support the resolution of the undertaking with adequate measures.
	Supervisors	A clear division of tasks between resolution authorities and supervisory authorities.
	Other	The benefits for the resolution authority are that there is a clear division of tasks between the NSA and the Resolution Authority.

Policy issue 5: Role of the Resolution Authority and NSA post withdrawal						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of	Objective 2: Ensuring a level playing field	Objective 3: Ensuring an orderly resolution of (re)insurance	Objective 1: Effective and efficient supervision of	Objective 2: Ensuring a level playing field	Objective 3: Ensuring an orderly resolution of (re)insurance

	(re)insurance undertakings and groups	through sufficiently harmonised rules	undertakings and groups	(re)insurance undertakings and groups	through sufficiently harmonised rules	undertakings and groups
Option 5.1: No change	0	0	0	0	0	0
Option 5.2: An undertaking whose licence is withdrawn comes under the power of a resolution authority	+	+	+	+	+	+

7 Reporting and disclosure

SFCR – structure, content, addressees and language

7.1 In the development of the advice regarding the SFCR, EIOPA has duly analysed the costs and benefits of the main options considered; these options are listed in the table below. The assessment considers both solo and group SFCR.

Policy issues	Options
1. Addressees of the SFCR	1.1. No change in the SFCR and follow Supervisory Statement indications 1.2 Further specify the different addresses and clearly set expectation to the part of the SFCR addressing policyholders (preferred)
2. Structure and content	2.1 No change in the SFCR and allow market discipline to further improve 2.2 Improve structure of the SFCR but on the content allow market discipline to further improve 2.3 Improve both the structure and the content of the SFCR (preferred)
3. Structure and content (for captives)	3.1 Maintain the requirements for captives insurance and reinsurance undertakings 3.2 Keep only the information on QRTs complemented by material info (preferred) 3.3. Eliminate the requirement of publishing a SFCR for captive undertaking compliant with Article 13 (2) and (5) definition
4. Language	4.1 Keep language requirements as laid out in current Delegated Regulation 4.2 Improve the language requirements (preferred)
5. Gaps identified	(a) Sensitivity of the SCR 5.a.1 No change 5.a.2 Disclosure of standardised information 5.a.3 Disclosure of standardised information by introducing a reference to proportionality (preferred) (b) Variation of own funds 5.b.1 No change (preferred) 5.b.2 Disclosure of information on triggers
6. Availability	6.1 Keep publication requirements as in current Solvency II Directive 6.2 Improve publication requirements (preferred)
7. Audit	7.1 Keep the legislation as it is – no audit requirement in the Solvency II Directive – Members discretion; 7.2 Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II Balance-Sheet (Members discretion to additional requirements) (preferred option) 7.3.Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II

	BS/MCR/SCR/EOF (Members discretion to additional requirements)
8. Actuarial Function Audit	8.1 Keep the Report internally and requested on an ad-hoc basis (preferred) 8.2 Include the report in article 304 as a regular report to be submitted to NCAs regularly using a machine learning compatible format
9. Templates used in the SFCR71	9.1 Keep templates as in current Commission Implementing Regulation 2015/2452 (preferred) 9.2 Improve the templates
10. Deadlines for disclosing SFCR	10.1. Keep the current deadlines 10.2 Extend the deadlines 10.3 Extend the deadlines also including additional time necessary for the audit of the SFCR (preferred).

Policy issues 1 to 10 (except SFCR Audit)

Analysis of impacts

7.2 The following table summarises the costs and benefits for the main options considered with focus on the addresses, structure, content and language of the SFCR including deadlines.

7.3 The costs and benefits of the different options considered regarding the requirement of auditing the SFCR (policy issue 7) have been analysed separately.

7.4 An impact assessment of the options considered for other policy issues is not presented separately since none of the proposed changes is expected to give raise to material costs individually.

7.5 One issue that in particular raised more concerns regarding costs during the public consultation was the option regarding gaps identified (policy issue 5), where the preferred option was to apply proportionality and require the disclosure of the sensitivity information following a standardised approach only from undertakings relevant from a financial stability perspective. The approach proposed follows the best practices observed in the market and in fact reflects what the biggest undertakings were already disclosing with some differences between them which are now standardised for the purpose of comparison. As such it is not envisaged that the option chosen leads to material additional costs, while it should contribute to improve transparency and comparability.

Policy issues 1 to 10 (except Audit – address separately)		
Option 1.1: No changes in the current requirements		
Costs	Policyholders	No additional financial cost. However, based on the experience gained in these years and the feedback received from the stakeholders during the call for input this option will not allow to improve the usefulness of the SFCR for the policyholders. The report will continue not to be used by policyholders due to too technical and complicated amount of information presented in a big amount of pages. Accessibility problems would remain as well as relevant information in the language of the Member State in case of cross-border business and groups. The report will continue to contain repetitive

[71] Will be part of November BoS

		information, not being streamlined and focused on the real needs of the different users.
	Industry	No additional costs are envisaged as this is the current option. However, based on the experience of the first 2 years the gaps identified will not be addressed and the structure of the SFCR will not be streamlined to avoid repetitive information. Thus the disclosure burden as mentioned by some undertakings will not be eased and the usefulness of the report improved. And a possible decrease of the cost for undertaking by decreasing the length of the report will not be achieved. In addition, the captives insurance and reinsurance undertaking would not be able to benefit from specific requirements which would have helped in easing their reporting burden and financial costs. Timing of the publication would continue to generate compliance costs.
	Supervisors	No additional cost is envisaged. In addition, supervisors are not the main addressees of the SFCR as they receive RSR. Still there will be overlapping of information reported both in SFCR and RSR which together with increased reporting might require some additional supervisory efforts in review of the SFCR. With the preferred option the structure is changed – part of information required previously in the SFCR is moved to the RSR and not required anymore in the SFCR. In addition, the structure of the SFCR will be better streamlined to avoid repetitive information. Regarding the Actuarial Function Report no costs are identified as the regular need was not fully evidenced.
	Other	No additional financial cost. However, based on the experience gained in these years and the feedback received from the stakeholders during the call for input this option will not allow to improve the usefulness of the SFCR.
Benefits	Policyholders	No additional benefits are envisaged as the option is kept as of today
	Industry	No special benefits except that the industry will follow the same approach already followed in the last 2 years.
	Supervisors	No special benefits are envisaged
	Other	No special benefits are envisaged
Option 1.2: Improvements in the SFCR in general – in the addresses, content, structure, language and gaps identified, including also the extension of the deadlines		
Costs	Policyholders	No material costs are expected as the proposals in general aim at reducing the costs for the industry in long run.
	Industry	Some initial costs are expected with the implementation of this option. This is mainly related with the introduction of a separate section in the SFCR which addresses the policyholders. These costs however are expected to be more than balanced by the streamlining and shortening the content and structure of the SFCR. To adapt the structure and content of the SFCR to the new proposals one-off costs are envisaged but they are expected to be minimal. On an on-going basis, the amended content of the SFCR will reduce the burden (by avoiding repetitive information and by moving part of the information to the RSR) while the differentiation between policyholders and professional users of financial information will be beneficial for the market and for the policyholders' protection. With regard to captive insurance and reinsurance undertakings, the burden will become lighter and the costs incurred for outsourcing of activities connected to SFCR would also be materially reduced. The new information requested in the section of the gap identified reflects the best practices from the market and is already being disclosed by a big part of the market, however proportionality has been considered therefore minor additional costs are to be expected. The language requirement for policyholders section in case of cross-border will also have some additional costs. However in case of groups with the deletion of the summary the requirement to translate it in the languages of the Member states in which the group operates is removed and this will lead to deduction of the costs.
	Supervisors	No material costs are expected
	Other	No material costs are expected

Benefits	Policyholders	Dedicated section of the SFCR to the policyholder in an easy to understand language, in '2 page' view, providing the most important information in a clear and understandable way. Information easily available and in their language in case of cross-border. The protection of the policyholders will benefit from the transparent and easy to understand information.
	Industry	Better streamlining of the information for different stakeholders allowing better understanding and focused information. Avoiding repetitive reporting of information already available, streamlining and improving the content of the report thus improving its usefulness also for internal use. This option also address the comments made from the industry to revise the structure and also the comments from the stakeholders to report risk sensitivity. Report which reflects at its most the comment from the stakeholders for shortening and streamlining of the report. Language translation costs reduction in case of cross-border groups. Improve transparency, comparability and use of the SFCR by a higher number of stakeholders. Introduction of a proportionality threshold for disclosure of the SCR sensitivities set. With regard to captive insurance and reinsurance undertakings, the burden will become lighter and the costs incurred for outsourcing of activities connected to SFCR would also be materially reduced.
	Supervisors	The information requested standardised will lead to more relevant and comparable information. The streamline of the information and the improved structure will also be beneficial to supervisors as users of the SFCR. Different information from the RSR. Dedicated section for policyholders, which improve the policyholder protection.
	Other	Clear distinction of the sections for policyholders and for other financial users will increase the usefulness of the report, in particular considering the new information being proposed to be included in a standardised format.

7.6 Option 2 will lead to additional costs which are mainly foreseen at the beginning with some adaptations needed in the disclosure requirements. These one-off costs will be outweighed by the benefits of the improved content of the SFCR and streamline of its structure, which will lead to the decrease in the reporting burden over time resulting in an overall reduction in the on-going reporting costs; the report will be better fit for its purpose and improved based on the experience gained in the first years of its disclosure. This option also better reflects the experience gained and the feedback received from the different stakeholders during the call for input and the public consultation of the proposal.

Proportionality

7.7 Proportionality is embedded as for small and less complex (re)insurance undertakings and groups the information disclosed should be less complex. Regarding the reporting of sensitivities a proportionality threshold in line with the financial stability reporting has been introduced. Proportionality is further increased regarding captive insurance and reinsurance undertakings e.g. not requiring policyholder section for captive undertakings which do not pursue business that involves natural persons and not requiring the narrative part of the SFCR for captives insurance and reinsurance undertakings.

Evidence

7.8 In the preparation of the analysis the input received from the following events has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry

- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting
- Insurance Europe proposals – April 2019
- Feedback received during the Public consultation of the proposal in 2019.

Comparison of options

7.9 The preferred policy option for this policy issue is Option 2: "Improvements in the SFCR in general" because it builds on the experience gained in the first years of disclosure, takes into account the feedback received from the stakeholders, avoids repetitive information and reduces the disclosure burden over time and further implements proportionality – e.g. captives undertakings, financial stability reporting threshold for disclosure of the prescribed set of SCR sensitivities. The other options considered have been disregarded because they do not tackle the structure and the content of the SFCR – the areas where improvements are needed.

7.10 Regarding the financial stability reporting threshold for disclosure of the prescribed set of SCR sensitivities, the concrete threshold should be defined in an EIOPA Guideline. In fact, an EIOPA Guideline on financial stability repotting already exists and the same approach should be applied also for this proposal. Bellow a graphic representation of the 87 groups and 17 solos for Q2 2020 distributed by country that would currently be covered by such requirement.

7.11 In addition, the feedback received from the stakeholders clearly shows that the addressees of the SFCR, its structure and content needs to be revised, that some information was missing and the use by policyholders needed to be enhanced.

7.12 The preferred policy option also considers the comments from the stakeholders and the experience gained to further streamline and shorten the structure of the SFCR focusing on the most important and not repetitive information.

7.13 The assessment of each option has taken into account the degree to which it meets the relevant objectives e.g. Adequate protection of policyholders and beneficiaries; Improving transparency and better comparability and Ensuring a level playing field through sufficiently harmonised rules. The selected Option 2: "Improvements in the SFCR in general" will improve the transparency and will address better the needs of the 2 major groups of SFCR addressees: policyholders and professional users.

7.14 In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives. As already mentioned, option 2 involve some additional costs with the implementation of the revised requirements. However, option 2 will also lead to decrease of some existing reporting costs based on the streamlining of the structure and will ease the reporting burden which in long term will outperform the initial costs.

7.15 The assessment of the effectiveness and efficiency are presented in the table below:

Policy issues 1 to 10 (except SFCR Audit)						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1 Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 1 Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules
Option 2.1: No changes	0	0	0	0	0	0
Option 2.2: Improvements in the SFCR in general	+	++	++	+	++	++

Policy issue 7: SFCR Audit

7.16 In the development of the advice regarding audit of the SFCR, EIOPA has duly analysed the costs and benefits of the main options considered; these options are listed in the table below.

Policy issue	**Options**
7.1 Audit of SFCR	7.1 Keep the legislation as it is – no audit requirement in the Solvency II Directive – Members discretion; 7.2 Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II Balance-Sheet (Members discretion to additional requirements) (preferred option) 7.3.Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II BS/MCR/SCR/EOF (Members discretion to additional requirements)

Analysis of impacts

7.17 The following table summarises the costs and benefits for the main options considered regarding this policy issue both for solo and group SFCR.

Policy issue: Audit of the SFCR information		
Option 7.1: No change - Keep the legislation as it is – no audit requirement in the Solvency II Directive – Members discretion		
Costs	Policyholders	The situation is kept as of today and is Member's discretion. For the Member States where there are no audit requirement there is a potential risk of undermining policyholders protection due to: - poor quality or incompleteness of the information disclosed by undertakings, - eventual mistakes in the calculation of technical provisions and/or capital requirements not spotted at the time of the public disclosure.
	Industry	No audit requirement is envisaged in Solvency II but as of today there is a Member's discretion whether or not to request an audit. Thus the costs for (re)insurers vary depending on whether there are audit requirements in the national legislation. The feedback received from the industry clearly shows that Members States' discretion should be avoided as it can affect the fairness of approaches across jurisdictions and might create entry barriers to cross-border activity or complicate matters for large multinational insurance groups with subsidiaries subject to different audit requirements. However, this feedback from the stakeholders cannot be implemented as regardless of the Regulation requirements, Member States have the right to request additional auditing requirements.
	Supervisors	The lack of audit might lead to higher supervisory costs (e.g. to check and follow up of incorrect information) as the National competent experience has shown that audit requirements improve the data quality and the level of assurance of the information reported, considering their publication and public disclosure for market. In case of incorrect information higher involvement and exchange of information with the (re)insurers is required.
	Other	Lack of reliability of the information disclosed for the financial users of the information disclosed (e.g. analysts). Higher risk of resubmission of SFCR due to incorrectness of information which effects also the work of the other financial users and the systems already built on top of it.
Benefits	Policyholders	No special benefits are envisaged as the situation is kept as of today
	Industry	No additional costs from the EU legislation. However there is always possibility of additional cost stemming from the Member's discretion.
	Supervisors	No special benefits are envisaged.
	Other	No special benefits are envisaged.
Option 7.2: Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II Balance-Sheet (Members discretion to additional requirements) (preferred)		
Costs	Policyholders	No material costs are expected for the policyholders also considering that in most of the Member states currently there are already audit requirements.
	Industry	Additional on-going costs are envisaged with the audit of the SII Balance-Sheet in the form of annual audit fees to be paid by (re)insurance undertakings which are not subject to those requirements yet. However, currently in at least 16 Member States, there is an audit requirement on the Solvency II Balance sheet and for (re)insurance undertakings operating in these Member States no additional costs are expected. To further assess the cost impact of its proposal EIOPA performed a cost/benefit survey. The survey included sample of 357 individual undertakings from 29 EEA Member States who indicated that 73% of the undertakings taking part in the survey audit their SII Balance Sheet and 84% of them have a wider scope of the audit. The cost estimation provided during the cost survey indicated that the costs for undertakings auditing balance sheet only as a percentage of the total assets are around 0.004%. In addition, as indicated by stakeholders human costs for members where there are currently no audit requirements will increase due to the involvement of the auditor.

		The increase of the costs for the audit of the Solvency II Balance sheet will be partially offset by the expected improve of the data quality and the level of assurance of the information reported, and the decrease of the supervisory interaction on questions regarding incomplete or wrong information. Members discretion to additional requirements will not allow for establishment of a full level playing field basis and might have a negative impact on the consistency especially in case of cross-border insurance groups operating in different Member States, even if minimised.
	Supervisors	The supervisory costs by the interaction with (re)insurers on following on incorrect of wrong information will decrease. The practice has shown that the audit requirements improve the data quality and the level of assurance of the information reported. As this option is limited to the audit of the SII balance sheet based on the experience gained in these years there might still be risk of incorrect information in the SCR, MCR, EOF thus leading to additional supervisory costs in checking and following up of the incorrect information which might occur in the non-audited parts. However, the information submitted to supervisors is subject to supervisory review in any case.
	Other	Compared to option 1.1. minimised lack of reliability of the information disclosed for the financial users of the information disclosed (e.g. analysts) in information other than the Balance Sheet.
Benefits	Policyholders	Proposal more aligned with the current practice in most of the Member States. Benefits for the protection of the policyholders stemming from the audited Balance sheet and the improved quality of the information disclosed. Results in an improvement as regards systems.
	Industry	For those Member States already having audit on the Balance sheet no additional benefits are expected. For the Member States with no audit requirements at the moment initial costs are justified. Being the Solvency II balance-sheet the basis for the remaining prudential calculations this would lead to improved quality and accurateness of the audited information. Less interactions with the supervisors are expected regarding inconsistency questions and questions regarding correctness of the information presented.
	Supervisors	Less mistakes and incorrect information requiring further follow up. Being the Solvency II balance-sheet the basis for the remaining prudential calculations this would lead to improved quality and accurateness of the audited information. Less interactions with the (re)insurers are expected on following incorrect information. However, the role of the audit is not to express an opinion to validate the internal model adopted by the (re)insurers for calculating data of SFCR (SCR, OF and BS values) or an approval of supervisory decision. The audit does not replace the responsibilities of supervisory authorities.
	Other	Improved quality of the information disclosed also for other users of the SFCR and less needs to correct the information already included in the information systems already built.
Option 7.3: Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II BS/MCR/SCR/EOF (Members discretion to additional requirements)		
Costs	Policyholders	Additional costs expected as undertakings might pass additional costs to policyholders, increasing the price of insurance products.
	Industry	Additional on-going costs in the form of annual audit fees (higher than option 1.2) are envisaged with the introduction of this option. However, it has to be noted that currently in 12 Member States there is already such an audit requirement based on the Members discretion. For (re)insurance undertakings operating in these Member States no additional costs are expected. To further assess the cost impact of its proposal EIOPA performed a cost/benefit survey. The survey included sample of 357 individual undertakings from 29 EEA Member States who indicated that 73% of the undertakings taking part in the survey audit their SII Balance Sheet and 84% of them have a wider scope of the audit. The Members discretion option will in addition not allow for establishment of a full level playing field basis, however in this option this impact should

		be minimum as the most important figures are included in the scope of minimum auditing.
	Supervisors	No additional costs from the supervisors are expected. The improved quality and the decrease in the mistakes will reduce the supervisory costs and burden related to the follow up actions required in case of incorrect or wrong information.
	Other	N/A
Benefits	Policyholders	Enhanced reliability and confidence in the information disclosed across Europe.
	Industry	For those Member States already having such audit no additional benefits are expected. For the Member States with no audit requirements at the moment initial costs would be material. Less interactions with the supervisors are expected regarding inconsistency questions and questions regarding correctness of the information presented. Valuable quality control; provides reassurance for management that the information disclosed is accurate. Results in an improvement as regards systems.
	Supervisors	Improved quality and decrease in the mistakes. Decrease in the supervisory follow up in case of inconsistency and mistakes. However, it is not expected a full assurance and in case of internal models users additional specific guidance would be needed on expectations from the audit.
	Other	Enhanced reliability and confidence in the information disclosed across Europe

7.18 Options 7.2 and 7.3 will lead among others to regulatory compliance costs for the industry. To further assess the cost impact of its proposal EIOPA performed a cost/benefit survey. The survey included sample of 357 individual undertakings from 29 EEA Member States who indicated that 73% of the undertakings taking part in the survey audit their SII Balance Sheet and 84% of them have a wider scope of the audit. The cost estimation provided during the cost survey indicated that the costs for undertakings auditing balance sheet only as a percentage of the total assets are around 0.004%.

7.19 In addition, it has to be noted that currently there are audit requirements in 16 Member States and for (re)insurance undertakings in these states no additional costs are envisaged.

7.20 Despite the expected costs, the expected benefits stemming from the improved quality of the reports, of the decrease of mistakes, of the increased transparency and market discipline are expected to outperform them, which is mainly the case for option 7.2.

7.21 Options 7.2 and 7.3 creates on-going costs associated with the audit of elements from the annual SFCR and lead to increase of the undertakings human costs associated with the engagement and interaction with the auditors.

7.22 According to the time horizon, policy options 7.3 produce material costs on on-going base.

7.23 The costs in option 7.2 are less than the cost in option 7.3 and especially in option 7.2 benefits are expected to outperform the costs.

7.24 Based on the above stated EIOPA preferred option is option 7.2.

Proportionality

7.25 Proportionality is embedded as for small and less complex (re)insurance undertakings and groups the audit of the Solvency II Balance sheet should be less complex as the Balance sheet is also less complex.

7.26 In addition, the audit requirement itself is not subject to proportionality principle as auditing is about transparency and accuracy of the information and is applicable to all (re)insurers.

7.27 However, considering the specific nature of the stakeholders of captive insurance and reinsurance undertakings, regarding those undertakings the status quo is kept, i.e. Member States discretion to include audit requirements but no minimum requirements defined in the Directive.

Evidence

7.28 In the preparation of the analysis the input received from the following events has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting
- Additional Insurance Europe proposals – April 2019
- Public consultation and the feedback received on the Opinion in 2019
- EIOPA cost/benefit survey in 2019

Comparison of options

7.29 The preferred policy option for this policy issue is Option 7.2: Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II Balance-Sheet (Members discretion to additional requirements) because it will establish consistent minimum audit requirements across Member States in a way that meets public expectations and enhances the quality of private and public reporting and will increase the quality, and the correctness of the information publicly disclosed. Option 1.3 has been disregarded because even if the quality of the audited information will improve even more than in option 1.2 the costs are expected to outperform the benefits.

7.30 Option 1.1. was not considered as adequate as the Member States experience has shown that the quality and correctness of information improves significantly in cases where there is an audit.

7.31 In addition, the industry ask to avoid Members discretion as it can affect the fairness of approaches across jurisdictions and create entry barriers to cross-border activity or complicate matters for large multinational insurance groups. This however can't be avoided as regardless of the Directive requirements Member States have the right to request additional auditing. However, option 7.2 minimises the discretion, even if does not eliminate it completely.

7.32 The additional costs for the different options are expected to be proportionate to the additional benefits that the increased accuracy and reliability of the SFCR would bring, in particular to supervisors and other financial users.

7.33 The assessment of each option has taken into account considering the degree to which it meets the relevant objectives e.g. adequate protection of policyholders and beneficiaries; improving transparency and better comparability and ensuring a level playing field through sufficiently harmonised rules. The selected Option 7.2. Requirement explicit in Solvency II Directive on audit to the Solvency II Balance-Sheer (Members discretion to additional requirements) will ensure a minimum level playing field through establishing common requirements in the Member States, will improve transparency and better comparability by improving the

quality of the disclosed information and will contribute to the policyholders and beneficiaries protection.

7.34 In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives. As already mentioned, all options except the baseline involve costs associated with the auditing requirements. However, the improvement of the quality of the information disclosed, of the comparability and the decrease of the mistakes are considered to be more beneficial especially in case of Option 7.2 requiring minimum audit of the SII Balance sheet.

7.35 The assessment of the effectiveness and efficiency are presented in the table below.

Policy issue: Audit of SFCR						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1 Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 1 Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Minimum audit of BS	+	+	+	++	++	++
Option 1.3: Minimum audit of BS/MCR/SCR/EOF	+	+	++	+	+	++

Availability of the SFCR

7.36 Currently undertakings are obliged to publish SFCR reports in an electronic format on their websites. In practice such a requirement leads to two main drawbacks: (i) searching the report on a particular website can be challenging and time-consuming (reachability challenge); (ii) sometimes the report is published as an image-based pdf which does not allow for search functions of text and numbers (structuring challenge).

7.37 The EIOPA objectives are, among others, to increase to the reachavility of SFCR reports and to promote their structuring, especially in the aspect of quantitative data. These objectives are crucial in order to significantly improve the efficiency of SFCR data analysis and consequently, to improve transparency and better comparability.

7.38 Based on the feedback received by EIOPA regarding reachability options it became clear that information about exact internet location of SFCR file can be provided to EIOPA as a part of Supervisory reporting and such a solution, highly beneficial, doesn't generate additional costs for filers. As a consequence, reachability options are not analysed in details in this impact assessment.

7.39 Regarding the structuring challenge options, although in the Consultation Paper[72] only five options were listed as potential solutions, during a work progress the sixth option was also identified as potentially relevant. In this regard EIOPA has comprehensively analysed the costs and benefits of all the options considered; these options are listed in the table below.

Policy issues	Options
1. Structuring of the SFCR reports	1.1 Keep the current situation; 1.2. Request to publish the structured quantitative templates in XBRL. This is on top of the current public disclosure in "free electronic format" (pdf or similar); 1.3. Request to publish the public disclosure structured quantitative templates in XBRL including in it also some small parts/key elements relevant narrative information on top of the structured disclosure templates[73]. To publish those reports in XBRL format on top of the current public disclosure in "free electronic format"; 1.4. Request to publish the structured quantitative templates in XBRL and the SFCR in a structured pdf format; 1.5. To require a single, electronic and machine readable report. Applying for example a similar approach to the one implemented by ESMA for ESEF (iXBRL); 1.6. Request that the SFCR is published in a structured pdf format with application of search function for relevant text and numbers (preferred)

Remarks:

- *"Free electronic format"* includes, but is not restricted to, image-based files that don't allow for any automated search function for text and numbers;
- *"Structured pdf format"* means that it allows (at least) for easy extraction and search function capabilities for text and numbers in the report;
- URL stands for Uniform Resource Locator (see: https://www.w3.org/Addressing/);
- XBRL stands for eXtensible Business Reporting Language (see: https://www.eiopa.europa.eu/tools-and-data/supervisory-reporting-dpm-and-xbrl_en);
- iXBRL stands for Inline eXtensible Business Reporting Language (see: https://www.xbrl.org/the-standard/what/ixbrl/) ;
- DPM stands for the Data Point Model (see: https://www.eiopa.europa.eu/tools-and-data/supervisory-reporting-dpm-and-xbrl_en).

Analysis of impacts

7.40 The following table summarises the costs and benefits for the options considered regarding policy issue 1.

[72] https://www.eiopa.europa.eu/sites/default/files/publications/consultations/consultation-paper-review-technical-implementation-means-for-the-package-onsolvency2.pdf
[73] For example adding a Basic Information template with key elements, like company name, LEI, information if the document is audited, the name of the auditor and maybe a brief resume of the narrative report.

Policy issue: Structuring of the SFCR reports		
Option 1.1: Keep the current situation		
Costs	Policyholders	No material impact. This option assumes no change thus all the current problems would still be applicable.
	Industry	No material impact
	Supervisors	No material impact. Sometimes the reports are published in an image-based pdf format which does not allow for searching function neither of text nor numbers. This makes across time or across entities analysis much more complicated and troublesome. The usage of data is highly affected and more expensive.
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Option 1.2: Request to publish the structured quantitative templates in XBRL. This is on top of the current public disclosure in "free electronic format" (pdf or similar)		
Costs	Policyholders	In case policyholder would like to analyse the structured information from the XBRL files it would be necessary to buy a tool allowing for it and learn how to use it. In case policyholder doesn't want to analyse the XBRL files, there would be no material impact. However, there is potentially a risk that investment costs incurred to develop the necessary processes and tools for insurers not using DPM/XBRL on the National level might be passed on policyholders.
	Industry	This option constitutes additional although moderate effort and costs as undertakings that use DPM/XBRL have to prepare separate reporting track. At the same time for the entities that do not use DPM/XBRL preparing quantitative public disclosure data would be substantially demanding and costly. Moreover, taking into account the fact that XBRL quantitative templates would be mandatory together with the pdf report, it would create additional reporting obligations which could be overlapping with the current ones. While preparing the XBRL package, not all information could be derived from the supervisory reporting thus an extension of the taxonomy could be needed.
	Supervisors	Additional costs and burden regarding checking the correctness and consistency of the disclosed data between the XBRL and PDF reports.
	Other	In case someone (e.g. consultant, analysit or FinTech company) would like to analyse the structured information from the XBRL files it would be necessary to invest in a tool allowing for it and gain experience how to use it. In other cases, there would be no material impact.
Benefits	Policyholders	The quantitative data would be structured facilitating the analysis between insurers and across time.
	Industry	Preparing separated reporting track for the public disclosure data could be based on the already established processes and tools of supervisory reporting, especially if XBRL/DPM is implemented on the National level. Some part of the needed public disclosure data could be automatically extracted from the supervisory reporting.
	Supervisors	The quantitative data would be available in a structured format that enables the automated analysis. The comparison between insurers and across time would be facilitated, contributing to greater transparency of the insurance market.

	Other	Greater transparency on the insurance market. Possibility to develop and offer to the market dedicated analytical tools with less manual effort necessary to pre-process the data.
Option 1.3: Request to publish the public disclosure structured quantitative templates in XBRL including in it also some small parts/key elements relevant narrative information on top of the structured disclosure templates. To publish those reports in XBRL format on top of the current public disclosure in "free electronic format"		
Costs	Policyholders	In case Policyholder would like to analyse the structured information from the XBRL files it would be necessary to buy a tool allowing for it and learn how to use it. In case Policyholder doesn't want to analyse the XBRL files, there would be no material impact. However, there is potentially a risk that investment costs incurred to develop the necessary processes and tools for insurers not using DPM/XBRL on the National level might be passed on policyholders.
	Industry	This option constitutes additional although moderate effort and costs as undertakings that use DPM/XBRL have to prepare separate reporting track. At the same time for the entities that do not use DPM/XBRL preparing quantitative public disclosure data would be substantially demanding and costly. Moreover, taking into account the fact that XBRL quantitative templates would be mandatory together with the pdf report, it would create additional reporting obligations which could be overlapping with the current ones. While preparing the XBRL package, not all information could be derived from the supervisory reporting thus an extension of the taxonomy could be needed. Structuring concerns only the most relevant parts of the narrative information, while complete IT processes and tools would have to be developed. The scale of the investment would be relatively high for such a small scope of the narrative data.
	Supervisors	Additional costs and burden regarding checking the correctness and consistency of the disclosed data between the XBRL and PDF reports. It would be also necessary to identify the parts/key elements from the narrative information where structuring would be relevant for Stakeholders and to extend the DPM/XBRL taxonomy accordingly.
	Other	In case someone (e.g. FinTech company) would like to analyse the structured information from the XBRL files it would be necessary to invest in a tool allowing for it and gain experience how to use it. In other cases, there would be no material impact.
Benefits	Policyholders	The quantitative data would be structured facilitating the analysis between insurers and across time. The structured data would be enriched with some relevant pieces of information from the narrative reporting
	Industry	Preparing separated reporting track for the public disclosure data could be based on the already established processes and tools of supervisory reporting, especially if XBRL/DPM is implemented on the National level. Some part of the needed public disclosure data could be automatically extracted from the supervisory reporting.
	Supervisors	The quantitative data would be available in a structured format that enables the automated analysis. The comparison between insurers and across time would be facilitated, contributing to greater transparency of the insurance market. The structured data would be enriched with some relevant pieces of information from the narrative reporting.
	Other	Greater transparency on the insurance market. Possibility to develop and offer to the market dedicated analytical tools with less manual effort necessary to pre-process the data. The structured data would be enriched with some relevant pieces of information from the narrative reporting.
Option 1.4: Request to publish the structured quantitative templates in XBRL and the SFCR in a structured pdf format		
Costs	Policyholders	In case Policyholder would like to analyse the structured information from the XBRL files it would be necessary to process XBRL file which may require of specialised IT software tools. In

		case Policyholder doesn't want to analyse the XBRL files, there would be no material impact. However, there is potentially a risk that investment costs incurred to develop the necessary processes and tools for insurers not using DPM/XBRL on the National level might be passed on policyholders.
	Industry	This option constitutes additional although moderate effort and costs as undertakings that use DPM/XBRL have to prepare separate reporting track. At the same time for the entities that do not use DPM/XBRL preparing quantitative public disclosure data would be substantially demanding and costly. Moreover, taking into account the fact that XBRL quantitative templates would be mandatory together with the pdf report, it would create additional reporting obligations which could be overlapping with the current ones. While preparing the XBRL package, not all information could be derived from the supervisory reporting thus an extension of the taxonomy could be needed.
	Supervisors	Additional costs and burden regarding checking the correctness and consistency of the disclosed data between the XBRL and PDF reports.
	Other	In case someone (e.g. FinTech company) would like to analyse the structured information from the XBRL files it would be necessary to invest in a tool allowing for it and gain experience how to use it. In other cases, there would be no material impact.
Benefits	Policyholders	Policyholders while analysing the public disclosure information would be able to use the search functions which are available in the structured pdf format. This would contribute to greater transparency of the public disclosure data. On top of that, the quantitative data would be structured in XBRL facilitating the analysis between insurers and across time.
	Industry	Preparing separated reporting track for the public disclosure data could be based on the already established processes and tools of supervisory reporting, especially if XBRL/DPM is implemented on the National level. Some part of the needed public disclosure data could be automatically extracted from the supervisory reporting.
	Supervisors	This option would oblige undertakings to publish the SFCR reports in a structured pdf format that allow for using the searching functions, thus the problem of disclosing an image-based pdf would be resolved. All the qualitative information together with quantitative data would be available in a structured format enabling an automated analysis.
	Other	Possibility to develop and offer to the market dedicated analytical tools with less manual effort necessary to pre-process the data.
Option 1.5: To require a single, electronic and machine readable report.		
Costs	Policyholders	In case the policyholder would like to extract the structured data automatically from the report (e.g. XBRL tags from iXBRL report) it would be necessary to buy a tool allowing for it and learn how to use it. In case Policyholder doesn't want to extract it, there would be no material impact.
	Industry	The costs and effort of preparing such a report would be substantial. At present no processes and tools are established to prepare an electronic and machine-readable report. Such a solution was never tested in practice on any EIOPA taxonomy and it is not yet known if iXBRL taxonomy for DPM models worked satisfyingly.
	Supervisors	Bearing in mind the fact that iXBRL taxonomy for DPM models is not yet tested in practice, the outcome of the analysis conducted on the basis of such a report may not be satisfactory. New processes and tools would have to be developed and substantial investments incurred.
	Other	In case someone (e.g. FinTech company) would like to analyse the structured information from the iXBRL files it would be necessary

		to invest in a tool allowing for it and gain experience how to use it. In other cases, there would be no material impact.
Benefits	Policyholders	Having all public disclosure information within a single report would facilitate the analysis and searching for specific information. This would contribute to greater transparency of the public disclosure data. Potentially all the data would be structured (e.g. in iXBRL) facilitating the analysis between insurers and across time.
	Industry	No material impact.
	Supervisors	Supervisors would have access to a single report, both human and machine readable, containing all public disclosure data in a structured format. All quantitative information would be available for automated analysis and simultaneously all qualitative information would be available for machine processing. As there would be only one report less effort is expected regarding inconsistency questions and questions regarding correctness of the information presented.
	Other	Greater use of the modern information technologies and establishing new standards on the insurance market, promoting greater transparency of the industry data.
Option 1.6: Request that the SFCR is published in a structured pdf format allowing application of search function for relevant text and numbers.		
Costs	Policyholders	No material impact
	Industry	No material impact. Saving the file in a structured format (comparing to image-based) shall not be perceived as generating extra cost.
	Supervisors	No material impact assuming that the data will not have to be extracted from the pdf files, e.g. in order to publish them separately. In case such activity would be conducted, there would be moderate costs to extract data, compare it with the supervisory reporting and potentially publishing it.
	Other	No material impact
Benefits	Policyholders	Policyholders while analysing the public disclosure information would be able to use the search functions which are available in the structured pdf format. Moreover, if supervisors had the means to analyse the public disclosure data better (or even extract it from the pdf and publish it), the interests of the policyholders would be safer.
	Industry	Improving disclosure without incurring in significant costs
	Supervisors	The requirement to prepare the reports in a structured pdf format would allow to use the search functions for text and numbers allowing for the development of efficient supervisory tools and would resolve the issue of publishing an image-based files. Both the quantitative and qualitative data would be structured thus an automated analysis could be performed.
	Other	Greater level of transparency of the public disclosure data.

7.41 Option 1.1 would not imply any additional direct costs and burden on the undertakings, however, it would also not resolve the issue of publishing the report in an image-based pdf format. Extracting data from an image-based file and structuring it would have to be to high extent manual and would introduce large indirect costs and effort on the supervisors side. Such costs would be disproportionately high compared to the situation when undertakings would be required to prepare SFCR reports in a structured format right from the beginning of the process. This policy option does not mean any one-off costs as the situation is kept as of today. On the other hand, this option keeps on-going costs because the analysis of the unstructured data is challenging and time-consuming. From a

social point of view, this option doesn't bring any beneficial impact as the situation is not improved although it is far from being optimal.

7.42 Options 1.2 assume preparing a separate reporting track for the quantitative public disclosure data. Data created in XBRL format would be structured and suitable for an automated analysis. Some undertakings could use the already established processes and tools (the same as for the supervisory reporting). A substantial part of the data could be derived from the regulatory reporting, which on the one hand would facilitate the preparation, but on the other could be perceived as an overlapping reporting obligation. For the parts of data that could not be extracted from the current reporting, there is a potential for extension of the regulatory reporting taxonomy. The major direct impacts are perceived in the IT area, as this option requires to prepare a separate XBRL track for quantitative data, which would be especially challenging for the entities that do not use DPM/XBRL at present and staff would have to be trained for the new processes. This policy option means a one-off cost of introducing XBRL for the entities not using it before and on-going costs of maintaining all the processes and tools. According to the time horizon, option 1.2 produces significant costs in the short term because certain processes would have to be established, but in the medium and long term the costs would be moderate related only to keeping the processes. Still, the challenge of image-based pdf remains significant as an alternative for policyholder is to invest money and time in the XBRL solutions.

7.43 On top of the structured quantitative templates in XBRL (which was described in option 1.2), option 1.3 requires undertakings to include in it also some parts of relevant narrative information, which would enable for an automated analysis of key qualitative information. However, the scope of the narrative information included in the XBRL would be small. At the same time the IT processes would have to be developed completely, regardless of the amount of data being included in XBRL. As a result the costs seems disproportionately high in comparison to the benefits. The direct impacts of the proposed policy option are especially seen in the IT area as the whole process of including qualitative data into the XBRL would have to be established which incorporates moderate one-off costs in the short term. Still, the challenge of image-based pdf remains significant as an alternative for policyholder is to invest money and time in the XBRL solutions.

7.44 Option 1.4 assumes preparing a separate reporting track for the quantitative public disclosure data in XBRL together with complete report in a structured pdf format. Additionally to the option 1.2, undertakings would be obliged to disclose the SFCR report in a structured PDF format which enables to use the search functions for text and numbers facilitating an automated analysis. Such a requirement resolves the issue of an image-based pdf files. Direct impact in the IT area is related to preparing XRBL for the quantitative data, which is especially significant for undertakings not using XBRL at present, and using a specific format of the pdf file. This policy means a one-off cost related to XBRL processes preparation for some entities and on-going costs required to maintain the processes and tools. According to time horizon, the one-off cost can be perceived as short term, while on-going costs as long term.

7.45 Option 1.5 is the most technology-based and innovative one. Although the benefits stemming from a single, electronic and machine-readable report are substantial, e.g. all public disclosure data availavble in a structured format available for automated analysis and machine processing, the costs and efforts are also high. The direct impact would especially be seen in IT area as the whole solution would have to be implemented and the analysis would also be highly technology-based. This option creates significant one-off costs as it would be necessary to implement

new processes and tools and the whole solution would have to be thoroughly tested as at present there is no example of iXBRL taxonomy for DPM models. On-going costs are related to maintenance of the processes.

7.46 The last option 1.6 constitutes of preparing the SFCR report in a structured pdf format that allows to use the search functions for text and numbers. As this option assumes only minor modifications to the present situation, it does not impose any significant additional costs or burden for the entities. In a longer term, this option allows for great improvement comparing to the current situation, making it possible for supervisors to automatically publish the data from the SFCR reports after cross-checking it with the supervisory reporting.

Proportionality

7.47 In options 1.1 is not affected as the situation is kept as of today.

7.48 Options 1.2, 1.3 and 1.4 can create challenges in terms of proportionality as small entities would also have to prepare the XBRL files even if they are not using XBRL for the supervisory reporting purposes. However, it should be noted that the majority of the undertakings already use XBRL.

7.49 Option 1.5 highly affects the proportionality because the proposed solution has a significant impact on the SFCR report preparation and it would apply to all undertakings, both small and big, equally. Moreover, iXBRL is not presently used for the EIOPA DPM models so especially the small undertakings would require additional investment that from their perspective could be perceived as very substantial.

7.50 Option 1.6, which involves minor modifications compared to the current situation, avoids disproportionate burden, in particular for small undertakings.

Evidence

7.51 EIOPA have conducted public consultation in regards of Review of technical implementation means for the package on Solvency 2 Supervisory Reporting and Public Disclosure. The Consultation Paper did not include option 1.6, this option was added later as it revealed to be a balanced approach. The results of the consultation can be summarised as follows. The most of the respondents indicates option 1.1 as the preferred option with the justification that the already established solutions are burdensome enough and imposing any new requirements would not be beneficial comparing to its costs. The industry was not in favour of the options assuming reporting parts of SFCR in XBRL (options 1.2-1.4) because this would not improve the transparency of public disclosure data. The XBRL format is a specific one and needs special software for reading and processing together with necessary knowledge of this language. XBRL files are not easily convertible to other formats and usually private policyholders do not have the software. Thus creating additional XBRL do not bring any significant benefits while creating additional costs. Some of the respondents suggested that SFCR-QRTs could be published in Excel without any additional expenses. Option 1.5 was unanimously discarded because implementing such a solution is very complex and imposes a very expensive investment. The incurred costs would be disproportionately high in comparison to the benefits.

7.52 In the Consultation Paper some of the respondents also suggested that in order to enhance the structuring of data, make it more user-friendly and avoid the image-based pdf files, it could be required that the reports need to be searchable for text and numbers and should not be copy-protected.

7.53 The option 1.6 has already been established and tested in the Irish scope by the Central Bank of Ireland. The comments regarding this option are very positive and highlight that the solution is simple from the filers perspective and the filers themselves have seen the benefits of such a solution. Also, it does not generate any problems for the supervisors, can be easily implemented.

Comparison of options

7.54 Having all the listed options comprehensively analysed, it is recommended to keep the current situation with the main justification of avoiding additional reporting costs, but with the following modifications (option 1.6):

a. Require that the reports shall follow a format allowing for application of search function for relevant text and numbers;

b. EIOPA intends to provide more details about the technical format of the file at the relevant ITS level. Options that are considered include, but are not limited to, Portable Document Format (PDF) format as defined in the ISO 32000-1:2008.

7.55 The preferred option resolves the issues of the image-based pdf format together with achieving the objective of not generating significant additional costs for the undertakings. Options from 1.2 to 1.5 have been disregarded as the costs outperformed the benefits.

7.56 The assessment of each option has taken into account the degree to which it meets the relevant objectives e.g. entities would still be obliged to publish the complete SFCR reports; the SFCR reports should be easily reachable by all interested stakeholders; preparation of the SFCR reports should not generate significant additional costs for the entities and it would be beneficial if the format of the SFCR reports, especially the quantitative part, was structured allowing for efficient analysis of its content. The selected option 1.6 of keeping the current situation with some modifications meets the objectives and will improve transparency of the public disclosure data and will contribute to the greater use of the data.

7.57 In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives. As already mentioned, options 1.2 to 1.5 introduce significant additional costs not providing sufficient benefits directly for policyholders. Options 1.1. and 1.6 do not introduce significant costs but, among these two, only in case of option 1.6 there is significant improvement of the structuring and potential use of the public disclosure data. As a result, option 1.6 is the most beneficial in proportion to the costs and in comparison to other options.

7.58 The assessment of the effectiveness and efficiency are presented in the table below.

Policy issue: Structuring of the SFCR reports						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1 Improving transparency and better comparability	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 1 Improving transparency and better comparability	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Ensuring a level playing field through sufficiently harmonised rules

Option 1.1: Keep the current situation	0	0	0	0	0	0
Option 1.2: Structured quantitative templates in XBRL	+	+	+	++	+	+
Option 1.3: Structured quantitative templates in XBRL including in it also key elements of narrative information	+	+	+	+	+	+
Option 1.4: Structured quantitative templates in XBRL and the SFCR in a structured pdf format	++	+	+	+	+	+
Option 1.5: A single, electronic and machine readable report	++	++	+	+	+	0
Option 1.6: Keep the current situation with modifications allowing also application of search function for relevant text and numbers in the SFCR	+	+	+	++	++	++

Regular Supervisory Report

Policy issues	**Options**
1. Frequency of the RSR both at solo and group level	1.1. No change 1.2 Introduce L3 tools for achieving supervisory convergence by keeping the minimum requirement for submission of full RSR once every 3 years but ask mandatory assessment by NCAs and communication of the frequency of the RSR. (preferred) 1.3. A change to be made with regards to the provisions in the Delegated regulation by defining a mandatory regular frequency for the full RSR once every 2 years,

	with possibility to exempt once (Art. 312 of the DR) but impose mandatory communication of material changes (as defined in Art 305 of the DR) on annual basis. In this case NSAs could use the possibility to exempt based on the SRP, in which case the undertakings would only be required to submit the full report every 4 years, but the default frequency is set at 2 years, as a maximum.
2. Structure and content of the RSR – both at solo and group level	2.1 No change 2.2 Improve both the structure and the content of the RSR (preferred)
3. Single RSR	3.1 No change 3.2. Allow submission of a single RSR under certain conditions (preferred)

Policy Issue 1: Frequency of the RSR

Policy issue 1: Frequency of the RSR		
Option 1.1: No change		
Costs	Policyholders	No material costs are expected as the situation is kept as per today.
	Industry	Procedures are already in place, no material costs are expected as situation is kept as per today.
	Supervisors	No material costs are expected as situation is kept as per today.
	Other	N/A
Benefits	Policyholders	Same level of assurance as today.
	Industry	No material benefits are expected as situation is kept as per today.
	Supervisors	No material benefits are expected as situation is kept as per today.
	Other	N/A
Option 1.2: Introduce L3 tools for achieving supervisory convergence by keeping the minimum requirement for submission of full RSR once every 3 years <u>but ask mandatory assessment by NCAs and communication of the frequency of the RSR.</u>		
Costs	Policyholders	No material costs are expected, the overarching principle of policyholder protection is ensured. The minimum requirement for submission of full RSR is kept as of today.
	Industry	No material costs are expected. The minimum requirement for submission of full RSR is kept as of today.
	Supervisors	In some cases the costs on internal process might be more material. Possible necessary internal process adjustments for some NCAs[74]. Further costs are expected with the introduction of L3 tools for achieving supervisory convergence and with the mandatory assessment and communication of the frequency of the RSR. However, with the development on the proportionality principle framework the application of this measure and process to be implemented will be the same as for any other proportionality measure, meaning that the cost will not be specific.
	Other	N/A

[74] Assessment based on the results from the RSR peer review.

Benefits	Policyholders	Supervisory convergence promotes a similar level of policyholder protection through the Member States.
	Industry	Might reduce the costs for implementation of Solvency II rules – preparation of full RSR - for low risk profile undertakings that will benefit from increased proportionality to be applied across EEA countries.
	Supervisors	More clarity on expectations on the process for assessment of frequency of the RSR. Increased supervisory convergence.
	Other	N/A
Option 1.3: A change to be made with regards to the provisions in the SII Directive and the DR by defining a mandatory regular frequency for the full RSR once every 2 years, with possibility to exempt once but impose mandatory communication of material changes (as defined in Art 305 of the DR) on annual basis.		
Costs	Policyholders	No material costs are expected, the overarching principle of policyholder protection is ensured.
	Industry	Costs will occur for some undertakings with current submission of every 3 years. However there is also a possibility to exempt once but impose mandatory communication of material changes. The application of the 2 years by default is not risk based and doesn't reflect the risk profile of the (re)insurers.
	Supervisors	Possible necessary internal process adjustments for some NCAs75. In some cases the costs on internal process might be more material. Further costs with the increase of the frequency to 2 years mandatory are also expected. The application of the 2 years by default is not risk based.
	Other	N/A
Benefits	Policyholders	No specific benefits are expected as supervisory convergence promotes a similar level of policyholder protection.
	Industry	Possibility to exempt full RSR once and mandatory communicate material changes. Preparation of full RSR for all undertakings with a default of 2 years.
	Supervisors	More regular supervisory reporting. Increased supervisory convergence. In case of exemption supervisors receive report of material changes.
	Other	N/A

Evidence

7.59 In the preparation of the analysis the input received from the following events has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting
- Insurance Europe proposals – April 2019
- Information collected during the performed Peer review on the RSR
- Stakeholders comments received on the EIOPA public consultation on draft Opinion on SII Reporting and disclosure review 2020

[75] Assessment based on the results from the RSR peer review.

Views from the Peer Review

7.60 EIOPA used peer review as a tool for identifying the issues of proportionality and fit for purpose with regards to the RSR. The results[76] of this peer review lists a number of legal and supervisory practices regarding the frequency of submission of RSR and the definition of material changes as well as the approach used in the supervisory assessments of the RSR to define the frequency of submission.

Comparison of options

7.61 The preferred policy option for this policy issue is Option 1.2. as it enhances the supervisory convergence application where the legal framework is considered adequate.

7.62 The assessment of each option has taken into account the need for a risk-based and proportionate approach and the degree to which it meets the relevant objectives e.g. Effective and efficient supervision of (re)insurance undertakings and groups; Effective and efficient supervision of (re)insurance undertakings and groups and Improving transparency and better comparability. The selected Option 1.2: "Introduce L3 tools for achieving supervisory convergence by keeping the minimum requirement for submission of full RSR once every 3 years but ask mandatory assessment by NCAs and communication of the frequency of the RSR" will improve the supervisory convergence while keeping the flexibility of supervisory judgment. The convergence of application will be achieved through a mix of general proportionality framework and Level 3 tools.

7.63 In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives.

Policy issue 1: Approach towards modification of Art. 312 of the Delegated regulation			
	Effectiveness (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0
Option 1.2: Introduce L3 tools for achieving supervisory convergence by keeping the minimum requirement for submission of full RSR once every 3 years <u>but ask mandatory assessment by NCAs and communication of</u>	+	+	++

[76] https://www.eiopa.europa.eu/content/findings-regular-supervisory-report-rsr-peer-review-published_en?source=search

the frequency of the RSR.			
Option 1.3: A change to be made with regards to the provisions in the SII Directive and the DR by defining a mandatory regular frequency for the full RSR once every 2 years, with possibility to exempt once but impose mandatory communication of material changes (as defined in Art 305 of the DR) on annual basis.	+	++	+
	Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0
Option 1.2: Introduce L3 tools for achieving supervisory convergence by keeping the minimum requirement for submission of full RSR once every 3 years but ask mandatory assessment by NCAs and communication of the frequency of the RSR.	+	++	+
Option 1.3: A change to be made with regards to the provisions in the SII Directive and the DR by defining a mandatory regular frequency for the full RSR once every 2 years, with possibility to exempt once but impose mandatory communication of material changes (as defined in Art 305 of the DR) on annual basis.	++	+	0

Policy Issue 2: Structure and content of the RSR

Policy issue 2: Structure and content of the RSR		
Option 2.1: No changes		
Costs	Policyholders	No additional financial cost. However, based on the experience gained in these years and the feedback received from the stakeholders during the call for input this option will not allow to improve the content and usefulness of the RSR for supervisors while it will still be burdensome as will contain repetitive information with SFCR, ORSA and QRTs. The quality of the RSR ultimately impact the protection of policyholders.
	Industry	No additional costs are envisaged as this is the current option. However, based on the experience of the first years the overlaps and lack of clarity of some requirements identified would not be addressed and the structure of the RSR would not be streamlined to avoid repetitive information within RSR and with other supervisory reports. Thus the reporting burden as mentioned by some undertakings would not be eased and the usefulness of the report improved.
	Supervisors	No additional cost is envisaged compared to the current situation. Still there will be overlapping of information reported both within RSR and with other reports and QRTs, and information reported might not be correctly targeted for the purpose. Efficiency of supervision would not be promoted.
	Other	No additional financial cost.
Benefits	Policyholders	No additional benefits are envisaged as the option is kept as of today
	Industry	No special benefits except that the industry would follow the same approach already followed in the last years.
	Supervisors	No special benefits are envisaged except that the same approach as in the last years will be kept.
	Other	No special benefits are envisaged
Option 2.2: Improve both the structure and the content of the RSR (preferred)		
Costs	Policyholders	No material costs are expected as any of the change proposed have a material impact for undertaking as well.
	Industry	No material costs are expected. The changes proposed are either information previously included in the SFCR and now moved to the RSR, streamlining and simplifying the report to avoid duplications with ORSA and delete information that is already covered by QRTs. Increase clarity on supervisors' expectations and identify areas where only material changes are expected by default.
	Supervisors	No material costs are expected. The proposals aimed to increase clarity on supervisors' expectations and reduce duplication of information which in general and identify areas where only material changes are expected by default. Efficiency of supervision would be promoted.
	Other	No material costs are expected as the proposals aimed at streamlining and simplification.
Benefits	Policyholders	Indirect benefits steaming from the benefits for both undertakings and supervisors, ultimately contributing to the protection of policyholders. The quality of the RSR will improve as any repetitive information will be avoided.
	Industry	Avoiding repetitive reporting of information already available, streamlining and improving the content of the report thus improving its usefulness also for internal use. This option also address the comments made from the industry to revise the structure and address the overlaps identified. Information expected to be static information is also identified reducing the burden when material changes do not occur. In addition the streamlining of the report and avoidance of repetitive information will decrease the reporting burden.
	Supervisors	Improved and more focused report and streamlining of supervisory reporting in general would improve the use of information by supervisors and the efficiency of supervision. The proposal reflects the

		experience gained from the last 3 years and includes information that is really useful for supervision.
	Other	No other users identified

7.64 Option 2.2 will not lead to material costs while leading to a number of benefits. The improved structure and content of the RSR will lead to an immediate decrease in the reporting burden and also over time resulting in an overall reduction in the on-going reporting costs; the report will be better fitted for its purpose and improved based on the experience gained in the first years of its submission to supervisors.

7.65 The repetitive information with SFCR, ORSA and QRTs is avoided while the focus is on material changes – distinction between static and dynamic information.

Proportionality

7.66 Proportionality in the content of RSR is embedded as it is directly linked to the nature and complexity of the business. In addition, with the streamlining of the report and identification of information expected to be static, the end result of the new RSR requirements will in fact contribute to a better application of proportionality principle.

Evidence

7.67 In the preparation of the analysis the input received from the following events has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting
- EIOPA Peer Review on the RSR
- Feedback received from the public consultation on the draft proposals on Reporting and disclosure review 2020

Views from the Peer Review on RSR[77]

7.68 The peer review assessed also the content of the full and summary RSR as well as its added value for supervisory purposes, more as a contextual information for the purposes of the peer review on frequency of submission of the report.

7.69 The majority of the jurisdictions which use the risk based approach for setting frequency of submission of RSR underline that the report is used to large extent for supervisory purposes. The experience of those EEA supervisors is that RSRs provides modest amounts of material new information, more than 90% of the RSR content is found to be aligned with supervisors' understanding of

[77] https://www.eiopa.europa.eu/content/results-peer-review-regular-supervisory-report_en

undertakings, i.e. had been provided by way of QRT, ORSA, or SFCRs. Notwithstanding the limited volume of additional information provided by RSRs, supervisors have noted that RSRs are a particularly useful supervisory tool because RSRs:

- Contain accessible board-approved information, which, supervisors have noted, tends to be particularly useful in the case of lower impact undertakings;
- Are an additional control-point to check the consistency of information previously provided under other requirements;
- Are confidential / not for publication and therefore can be open and objective on matters which have critical impact on the undertaking in the future.

7.70 Among the parts of the RSR (both full and summary) which were found useful from supervisory point of view (because undertakings used the opportunity to provide information not available in other reports) are: Proposals for changes in governance, ownership etc., Proposals for changes in business strategy, Proposals for changes in operational strategy, Proposals on outsourcing strategies, Details of internal audit, Financial projections.

7.71 In the jurisdictions applying risk based and proportionate approach towards setting the frequency of the RSR the quality of the content of the report is mostly perceived as a driving factor for requiring more frequent/less frequent submission. Usually inadequacies in a full RSR, or notifications of material change in a summary RSR, may in one of the jurisdictions trigger a request for:

- Rework and resubmission of a deficient RSR;
- Submission of an RSR for the following year's exercise;
- More frequent submission of full RSRs;
- Submission of missing information under other requirements, such as updated QRTs, addenda to an ORSA or Solvency and Financial Condition Report. It should be additionally noted those supervisors usually have a range of options to seek information for supervisory purposes and requesting a full or summary RSR may not be the most direct and immediate of these.

Comparison of options

7.72 The preferred policy option for this policy issue is Option 2.2: "Improve both the structure and the content of the RSR" as it builds on the experience gained in the first years of reporting and feedback provided by supervisors and takes into account the feedback received from the stakeholders, avoiding repetitive information and reducing the reporting burden. The other option considered have been disregarded as it did not tackle the areas where improvements in the structure and the content of the RSR are needed as identified both from the stakeholders and the supervisors.

7.73 In addition, the feedback received from the stakeholders clearly shows that the structure and content needs to be revised to avoid overlaps and repetitions between RSR, ORSA, SFCR and QRTs and across reporting years.

7.74 The assessment of each option has taken into account the degree to which it meets the relevant objectives e.g. Adequate protection of policyholders and beneficiaries; Improving transparency and better comparability and Ensuring a level playing field through sufficiently harmonised rules. The selected Option 2.2: "Improve both the structure and the content of the RSR" will improve the comparability of the RSR and deliver a more focused and useful RSR while at the same time reducing the reporting burden of the industry.

7.75 In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives. As already mentioned option 2 will lead to the decrease of reporting costs based on the streamlining of the structure and content and promote the efficiency of supervision.

Policy issue 2: Structure and content of the RSR						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 1: Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules
Option 2.1: No changes	0	0	0	0	0	0
Option 2.2: Improve structure and content of the RSR	0	+	+	+	+	+

Policy Issue 3: Single RSR

Policy issue 3: Single RSR		
Option 2.1: No changes		
Costs	Policyholders	No additional financial cost. The situation is kept as of today
	Industry	No additional costs are envisaged as this is the current option. However, the industry's request for a possibility to apply for a single group RSR in line with the possibility to apply for a single SFCR or a single ORSA report would not be addressed.
	Supervisors	No additional cost is envisaged compared to the current situation.
	Other	No additional financial cost.

Benefits	Policyholders	No additional benefits are envisaged as the option is kept as of today.
	Industry	No special benefits except that the industry would follow the same approach already followed in the last years.
	Supervisors	No special benefits are envisaged except that the same approach as in the last years will be kept.
	Other	No special benefits are envisaged.
Option 2.2: Allow submission of single RSR under certain conditions		
Costs	Policyholders	No material costs are expected.
	Industry	No material costs are expected. The proposal is for groups that already use the possibility to submit single SFCR have also the possibility to submit a single RSR. Translations costs may occur.
	Supervisors	Solo information is considered of extreme importance for the solo supervisors. Any loss of this information could affect the Supervisory Review Process. The costs that could occur are eliminated/mitigated by the conditions defined. Without the conditions supervisors might raise issues with the: - nature of the document: it is a detailed and long document, if merged in a single document it could be of limited use by supervisors due to its length. - frequency and deadlines: the frequency of the RSR of each solo undertaking and the group could be different, the different deadlines can have an impact on the performance and utility of a single RSR; - language: the translation in a foreign language can have an impact on the quality of the information provided in the RSR; - information on any single subsidiary is still included and not result in less information than the one provided via separate RSR; - unclarity of powers and responsibilities.
	Other	N/A
Benefits	Policyholders	No special benefits are envisaged
	Industry	This option address the comments made from the industry that has requested for such possibility. This possibility would reflect the fit-for-purpose principle and allow for proportionality and simplifications when this does not affect the use and the value of supervisory tools. This possibility could benefit the industry as it would avoid repetitive information and allow for a decrease of the reporting burden for the groups.
	Supervisors	National supervisors would have the opportunity to have access to the full information of the group RSR together with the RSR of the remaining subsidiaries. This could be relevant information within the colleges of supervisors.
	Other	No other users identified

7.76 Option 2.2 will not lead to material costs while leading to a number of benefits to the industry as long as adequate criteria and conditions are put in place. Although the submission of a single RSR may bring challenges to the supervisors, this can be eliminated/mitigated with a number of conditions that would still keep the added value for the industry.

Proportionality

7.77 This possibility would reflect the fit-for-purpose principle and allow for proportionality and simplifications when this does not affect the use and the value of supervisory tools.

Evidence

7.78 In the preparation of the analysis the input received from the following events has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting
- EIOPA Peer Review on the RSR
- Feedback received from the public consultation on the draft proposals on Reporting and disclosure review 2020
- On-going dialogue with the industry

Comparison of options

7.79 The preferred policy option for this policy issue is Option 2.2: "Allow submission of single RSR under certain conditions" as it is consistent with the approach taken regarding the SFCR and introduces additional proportionality into the Solvency II framework while enough safeguards are proposed to guarantee that the RSR continuous to be a relevant supervisory tool at solo level. The other option considered did not addressed industry concerns and would keep an inconsistent approach between the SFCR and the RSR at group level.

7.80 The feedback received from the stakeholders clearly shows that allowing a single RSR would be very beneficial and despite the conditions is an approach welcomed by the industry.

7.81 The assessment of each option has taken into account the degree to which it meets the relevant objectives e.g. Adequate protection of policyholders and beneficiaries; Improving transparency and better comparability and Ensuring a level playing field through sufficiently harmonised rules. The selected Option 2.2: "Allow submission of single RSR under certain conditions" represents a simplification already allowed for the SFCR, reduces the reporting burden of the industry while ensuring that the relevant information is available for NSA.

7.82 In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives. As already mentioned option 2 will lead to the decrease of reporting costs for the industry. Some increase of complexity in the analysis of the single RSR by NSA is mitigated by the condition regarding the format of the file to be submitted and current state of the use of technology in the SRP. Powers and responsabilities are also clarified.

Policy issue 3: Single RSR		
	Effectiveness (0/+/++)	Efficiency (0/+/++)

Options	Objective 1: Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 1: Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules
Option 2.1: No changes	0	0	0	0	0	0
Option 2.2: Allow a single RSR	0	+	0	0	+	0

Quantitative Reporting Templates (QRTs)

7.83 In the development of the advice regarding individual Quantitative Reporting Templates (QRTs) at solo and group level and Annexes, EIOPA has duly analysed the costs and benefits of the main options considered; these options are listed in the table below.

Policy issues	Options
1. Review the adequacy of the content of the supervisory reporting package both at solo and group level	1.1 No change 1.2 Review the requirements template by template to better reflect proportionality 1.3 Review the requirements template by template to better reflect proportionality and to reflect supervisory needs by improving existing templates and creating new templates when needed

7.84 This document addresses the QRTs for the submission of information to the supervisory authorities both at solo and group level.

Analysis of impacts of the review of adequacy of the supervisory reporting package

7.85 EIOPA focused on addressing several questions on the current regular or ad-hoc use of QRTs, to assess the use of the QRTs, and on the possible amendments that could be applied to the current reporting package to capture possible missing information and to cut possible redundant information.

Policy issue 1: Review the adequacy of the content of the supervisory reporting package		
Option 1.1: No change		
Costs	Policyholders	No additional costs are foreseen as the framework is kept as of today
	Industry	As the reporting systems are build and the reporting processes are already established no additional costs are envisaged. However, there are areas where the reporting cost and burden could be potentially reduced by streamlining requirements, while continuing to ensure financial stability, market integrity, and protection of policyholders. No

		change imply minimum costs associated to the reporting of information that is not regularly used by supervisors.
	Supervisors	Additional costs might arise in case ad-hoc information is needed in the supervisory areas where gaps of information were identified. Supervisory resources might not be optimally used in cases where proportionality can be further strengthened. Consideration on applying no change to the current reporting package would not take into account the gaps identified by supervisors during the last 3 years of use of the templates and would limit the improvement of the Supervisory Review Process
	Other	N/A
Benefits	Policyholders	No material benefit is expected
	Industry	No material benefit is expected.
	Supervisors	No material impact is foreseen.
	Other	N/A
Option 1.2: Review the requirements template by template to better reflect proportionality		
Costs	Policyholders	No material impact is foreseen
	Industry	The application of proportionality will allow requirements to be implemented in ways that are less complex and therefore less burdensome. On-going reporting burden on supervised entities would be partially relieved. However, some initial costs might be foreseen to adapt reporting systems to the new supervisory reporting package. Costs are expected to be *una tantum* and are expected to be offset by the reduced reporting burden.
	Supervisors	Some potential costs as might be necessary to adapt systems to receive the new supervisory reporting package. However, some costs might also be reduced thanks to the reduced redundancy of information. Not receiving information on the full market might be seen as a cost as well as it impacts the time series of the information within the supervisors database.
	Other	For EIOPA not receiving information identified as important and missing for financial stability, market integrity, and protection of policyholders might be seen as a cost.
Benefits	Policyholders	No material impact is foreseen
	Industry	Proportionality regarding the nature, scale and complexity of the risk undertakings face is further enhanced taking into account lessons learnt. The application of an increased degree of proportionality would be in line with the urgent need for improvement of the supervisory reporting package identified by the feedback provided by the industry via the COM Fitness Check on Supervisory Reporting and via EIOPA Call for input. The proportionality is further strengthen via embedded proportionalityand via risk-based thresholds in some templates that have been revised to fully reflect the nature, scale and complexity of the risk exposure of the risk area covered by each template.
	Supervisors	Supervisory information needed for the purposes of fulfilling national supervisory authorities' responsibilities under Directive 2009/138/EC is kept However the potential gaps identified are not addressed.
	Other	The review work is meant to contribute to COM work on fitness check of supervisory reporting in EU financial legislation.
Option 1. 3: Review the requirements template by template to better reflect proportionality and to reflect supervisory needs by improving existing templates and by creating new templates when needed		
Costs	Policyholders	No material impact is foreseen.

	Industry	Same observations as those highlighted in Option 1.2. In addition, costs might be impacted by the need to reflect/produce additional information. Additional costs are expected in modification of the reporting systems. However, in the long term decrease in costs is expected as the reporting is keep to the fit for the purpose – the inefficiencies of reporting are removed and thresholds are revised.
	Supervisors	Same observations as those highlighted in Option 1.2. In addition to this, the costs might be impacted by the need to process the newly required information.
	Other	For EIOPA, additional costs are expected by the need to process the newly required information.
Benefits	Policyholders	Policyholders protection is enhanced by a reporting package which is fit-for-purpose and eliminates the inefficiencies of reporting.
	Industry	The submission of information (i.e. templates) on a risk-based approach shall guarantee that information sharing is proportionate to the risks insisting on undertakings, but also to the nature, scale and complexity of those risks. The application of the revised thresholds will affect the costs which are expected to be substantially reduced immediately for less complex undertakings. EIOPA proposal applies proportionality and risk-based principles in a way that will translate in a material reduction of reporting for simple less complex undertakings, while for undertakings with more complex risk-profile, for example covering cyber risk, with material cross-border business and using internal models there are additional costs expected. The proposed deletion of some templates will in addition reduce the current costs. The reporting package will be more fit-for-purpose.
	Supervisors	Supervisory authorities will receive the needed level of detail to pursue their supervisory duties according to Directive 2009/138/EC. The elimination of redundant information, the improved structure in which information is provided and the additional information driven by supervisory needs, will enhance risk-based supervision and protection of policyholders.
	Other	The review work is meant to contribute to COM work on fitness check of supervisory reporting in EU financial legislation.

7.86 With regards to option 1.1 neither additional material costs nor cost reductions are foreseen as it keeps the status quo.

7.87 As far as impacts of possible changes are concerned, options 1.2 and 1.3 mainly imply IT rearrangements for reporting systems (both for undertakings delivering information and for supervisory authorities processing it) and staff costs (e.g. for training). In addition, the initial costs for implementation of the proposals are foreseen to be una tantum and foreseen to decrease in the long term.

7.88 According to the time horizon, the aforementioned costs are likely to impact mainly in the short-term in the implementation in the IT systems. Costs are expected to be substantially reduced immediately for less complex undertakings while for more complex undertakings a decrease in costs might instead occur in the long-run once the new infrastructure is fully set up and working.

7.89 In terms of foreseen benefits, option 1.1 is not foreseen to reduce the reporting burden or to increase proportionality because it keeps the status quo. Option 1.2 is expected to reduce the reporting burden for less complex and risky undertakings but does not lead to the necessary degree of information for supervisory authorities. Option 1.3 is expected to bring the same benefits of option 1.2, plus the value-added brought by the remove of the uneccessary

information and request additional information so that the reporting is fit-for-purpose.

7.90 Regarding concrete application of proportionality, it has to be noticed that Article 35 is proposed for revision to enhance the application of proportionality.

7.91 In addition to this, the reporting package has been revised comprising:

- Deletion of currently existing templates which are not regularly used;
- Changes to already existing templates, simplifying them whenever possible and adding missing information;
- Addition of new templates to reflect supervisory needs.

Evidence

7.92 During the analysis the following evidence has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting
- Stakeholders feedback during the Public consultation of the Reporting and Disclosure Review both at solo and group levelduring 2019.

7.93 Bellow some initial assessments of the impact of the application of different thresholds are presented. EIOPA will continue to assess the impact using the European database to assess its adequacy and applying it also to different financial years to assess the volatility of the thresholds. A more detailed impact assessment will be developed and publicly consulted under the draft amendment of the ITS on reporting:

- Template S.03.01 - Off-balance sheet items – General

Threshold definition 1	Number of solos	% number of solos	% by volume (nominator)
between 0% and 2%	384	59%	3%
above 2%	263	41%	97%
Total	**647**		

Value of guarantee/ collateral/ contingent liabilities — Guarantees provided by the undertaking, including letters of credit + Value of guarantee/ collateral/ contingent liabilities — Total collateral pledged + Maximum value — Total Contingent liabilities
/ Total Assets

Threshold definition 2	Number of solos	% number of solos	% by volume (nominator)
between 0% and 2%	254	38.90%	2.70%
above 2%	399	61.10%	97.30%
Total	**653**		

Value of guarantee/ collateral/ contingent liabilities — Guarantees received by the undertaking, including letters of credit + Value of guarantee/ collateral/ contingent liabilities — Total collateral held
/ Total assets

- Template S.07.01 - Structure products

S.07.01 Structured products										
	above 10%			Between 5% and 10%			smaller 5%			
Row Label	number	%number	%value	number	%number	%value	number	%number	%value	Total number
Solo	79	10%	12%	79	10%	28%	599	79%	60%	757
Group	9	7%	2%	13	10%	22%	103	82%	76%	125

Total number is based on all entities that reported structured products in the list of assets

- Template S.10.01 - Securities lending and repos

S.10.01 Securities lending and repos										
	above 10%			Between 5% and 10%			smaller 5%			
Row Label	number	%number	%value	number	%number	%value	number	%number	%value	Total number
Solo	15	13%	61%	20	17%	33%	82	70%	6%	117
Group	4	14%	85%	6	21%	13%	19	66%	2%	29

Total number is based on all entities rpeorting the template in annual reporting 2019

- Template S.11.01 - Assets held as collateral

S.11.01 Assets held as collateral										
	above 10%			Between 5% and 10%			smaller 5%			
Row Label	number	%number	%value	number	%number	%value	number	%number	%value	Total number
Solo	162	32%	99.97%	74	14%	0.02%	278	54%	0.01%	514
Group	31	24%	72.39%	18	14%	13%	82	63%	15%	131

Total number is based on all entities reporting the template in annual reporting 2019

No threshold in ITS. Values calculated as ratio of sum of C0120 "total amount" compared to total investments (C0070+C0220) from balance sheet.

- Template S.12.01 - Life and Health SLT Technical Provisions
    - TP and BE

A	B	C	D	E	F	G
	Current SII Market coverage		Scenario 1: 70% threshold			
NCA_CTR	TP and BE (R0010, R0030)	No of Lines of business	TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)
AT	80,955,525,922	93	11,682,816,528	14.40%	59	63.40%
BE	257,154,222,942	111	37,133,192,790	14.40%	65	58.60%
BG	630,478,548	29	33,239,231	5.27%	13	44.80%
CY	1,743,688,755	32	157,412,691	9.03%	19	59.40%
CZ	7,917,222,342	44	1,090,618,844	13.80%	23	52.30%
DE	1,543,087,144,441	558	94,615,939,967	6.13%	266	47.70%
DK	336,355,838,913	68	10,744,099,229	3.19%	28	41.20%
EE	1,054,230,022	13	113,688,383	10.80%	4	30.80%
EL	10,813,021,039	68	975,161,282	9.02%	38	55.90%
ES	213,022,828,364	230	31,302,489,339	14.70%	102	44.30%
FI	59,521,108,915	85	2,620,066,670	4.40%	35	41.20%
FR	2,178,471,164,556	738	306,631,528,188	14.10%	366	49.60%
HR	2,929,745,206	34	356,452,078	12.20%	21	61.80%
HU	5,698,215,123	59	658,165,365	11.60%	38	64.40%
IE	327,730,165,626	139	20,926,279,649	6.39%	60	43.20%
IS	84,470,555	12	15,593,001	18.50%	5	41.70%
IT	770,889,116,445	160	105,899,333,739	13.70%	110	68.80%
LI	22,923,871,166	32	421,325,807	1.84%	14	43.80%
LT	731,549,989	17	123,127,495	16.80%	8	47.10%
LU	205,086,252,551	120	5,730,297,231	2.79%	51	42.50%
LV	750,332,372	10	32,265,234	4.30%	2	20.00%
MT	4,881,917,175	25	419,904,573	8.60%	8	32.00%
NL	371,412,725,127	89	68,180,293,195	18.40%	27	30.30%
NO	154,992,969,733	43	3,586,008,292	2.31%	15	34.90%
PL	16,863,513,550	97	1,841,849,589	10.90%	43	44.30%
PT	45,948,623,529	67	7,511,575,860	16.30%	31	46.30%
RO	1,478,302,250	43	158,103,157	10.70%	22	51.20%
SE	220,466,198,052	125	9,994,901,874	4.53%	51	40.80%
SI	4,370,661,807	37	354,506,426	8.11%	20	54.10%
SK	4,747,766,547	54	659,019,411	13.90%	31	57.40%
EEA	**6,852,712,871,562**	**3,232**	**723,969,255,118**	**10.56%**	**1,575**	**48.73%**

	Scenario 2: 80% threshold				Scenario 3: 90% threshold		
TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)	TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)
9,732,021,773	12.00%	55	59.10%	1,560,873,525	1.93%	42	45.20%
30,605,959,639	11.90%	61	55.00%	10,787,439,644	4.19%	48	43.20%
25,511,704	4.05%	12	41.40%	17,026,772	2.70%	10	34.50%
153,644,726	8.81%	18	56.30%	63,715,595	3.65%	12	37.50%
325,505,839	4.11%	20	45.50%	293,702,365	3.71%	17	38.60%
87,309,065,185	5.66%	248	44.40%	58,350,339,691	3.78%	198	35.50%
10,306,038,917	3.06%	27	39.70%	10,306,038,917	3.06%	27	39.70%
113,688,383	10.80%	4	30.80%	26,714,595	2.53%	3	23.10%
818,153,171	7.57%	34	50.00%	658,102,664	6.09%	26	38.20%
17,816,756,815	8.36%	93	40.40%	8,612,781,034	4.04%	66	28.70%
2,575,570,309	4.33%	32	37.60%	396,371,986	0.67%	28	32.90%
185,965,454,727	8.54%	328	44.40%	81,801,792,657	3.76%	268	36.30%
196,243,974	6.70%	19	55.90%	138,812,890	4.74%	18	52.90%
395,209,863	6.94%	35	59.30%	189,695,133	3.33%	30	50.80%
16,060,568,292	4.90%	50	36.00%	9,983,466,384	3.05%	44	31.70%
15,593,001	18.50%	5	41.70%	2,217,574	2.63%	1	8.33%
54,484,785,179	7.07%	98	61.30%	19,068,092,449	2.47%	83	51.90%
300,160,195	1.31%	13	40.60%	122,044,841	0.53%	11	34.40%
61,887,997	8.46%	7	41.20%	19,012,580	2.60%	5	29.40%
4,705,601,930	2.29%	45	37.50%	2,333,567,317	1.14%	40	33.30%
32,265,234	4.30%	2	20.00%	32,265,234	4.30%	2	20.00%
419,904,573	8.60%	8	32.00%	175,975,740	3.60%	6	24.00%
25,607,291,074	6.89%	21	23.60%	410,499,516	0.11%	13	14.60%
2,651,878,172	1.71%	13	30.20%	1,837,590,096	1.19%	11	25.60%
1,613,586,105	9.57%	38	39.20%	319,576,332	1.90%	28	28.90%
3,219,150,385	7.01%	25	37.30%	1,177,896,335	2.56%	20	29.90%
126,520,681	8.56%	20	46.50%	57,672,081	3.90%	18	41.90%
6,507,464,374	2.95%	39	31.20%	6,496,177,108	2.95%	35	28.00%
284,143,514	6.50%	18	48.60%	197,571,581	4.52%	16	43.20%
482,958,741	10.20%	27	50.00%	288,922,863	6.09%	23	42.60%
462,912,584,472	**6.76%**	**1,415**	**43.78%**	**215,725,955,499**	**3.15%**	**1,149**	**35.55%**

- Total TP

	Current SII Market coverage		Scenario 1: 70% threshold			
NCA_CTR	Total TP (R0200)	No of Lines of business	TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)
AT	81,943,295,808	93	11,078,672,991	13.50%	58	62.40%
BE	260,024,613,567	112	37,987,349,903	14.60%	66	58.90%
BG	646,494,271	29	34,059,722	5.27%	13	44.80%
CY	1,822,005,014	32	172,909,669	9.49%	19	59.40%
CZ	8,066,963,093	44	1,013,511,508	12.60%	24	54.50%
DE	1,512,174,313,644	559	91,213,824,134	6.03%	268	47.90%
DK	339,467,794,163	68	11,263,895,258	3.32%	28	41.20%
EE	1,054,461,396	13	264,509,871	25.10%	5	38.50%
EL	11,001,162,523	68	1,442,832,787	13.10%	39	57.40%
ES	207,415,537,145	230	30,304,422,778	14.60%	103	44.80%
FI	59,719,895,331	86	2,588,164,865	4.33%	36	41.90%
FR	2,183,073,365,264	741	310,713,182,693	14.20%	370	49.90%
HR	2,956,704,842	34	344,418,583	11.60%	21	61.80%
HU	5,845,001,499	59	669,233,374	11.40%	38	64.40%
IE	324,707,085,040	139	21,602,033,264	6.65%	60	43.20%
IS	86,496,113	12	16,578,793	19.20%	5	41.70%
IT	774,441,047,504	160	97,692,024,005	12.60%	109	68.10%
LI	23,067,799,125	32	424,458,687	1.84%	14	43.80%
LT	564,859,637	17	92,763,348	16.40%	8	47.10%
LU	207,372,394,989	120	6,345,754,828	3.06%	52	43.30%
LV	753,851,301	10	24,792,460	3.29%	2	20.00%
MT	4,487,391,433	25	466,542,542	10.40%	8	32.00%
NL	388,384,035,283	89	69,948,460,915	18.00%	27	30.30%
NO	156,597,970,213	43	3,609,467,852	2.30%	15	34.90%
PL	17,438,202,305	97	1,709,230,413	9.80%	44	45.40%
PT	43,936,791,784	67	6,927,233,851	15.80%	31	46.30%
RO	1,458,027,461	43	115,184,485	7.90%	22	51.20%
SE	223,258,877,786	126	10,154,403,835	4.55%	52	41.30%
SI	4,328,017,788	37	309,347,873	7.15%	20	54.10%
SK	4,611,105,351	54	706,833,046	15.30%	32	59.30%
EEA	**6,850,705,560,673**	**3,239**	**719,236,098,333**	**10.50%**	**1,589**	**49.06%**

NCA_CTR	Scenario 2: 80% threshold				Scenario 3: 90% threshold			
	TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)	TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)
AT	9,357,717,678	11.40%	54	58.10%	1,852,380,988	2.26%	43	46.20%
BE	31,407,078,624	12.10%	62	55.40%	11,245,775,476	4.32%	49	43.80%
BG	26,327,968	4.07%	12	41.40%	17,759,869	2.75%	11	37.90%
CY	168,490,756	9.25%	18	56.30%	97,372,532	5.34%	13	40.60%
CZ	599,247,737	7.43%	22	50.00%	259,335,699	3.21%	18	40.90%
DE	87,172,492,056	5.76%	249	44.50%	56,223,664,813	3.72%	200	35.80%
DK	10,797,017,163	3.18%	27	39.70%	10,797,017,163	3.18%	27	39.70%
EE	134,617,640	12.80%	4	30.80%	24,872,058	2.36%	2	15.40%
EL	716,451,284	6.51%	34	50.00%	512,627,131	4.66%	27	39.70%
ES	24,681,999,190	11.90%	94	40.90%	8,560,824,380	4.13%	68	29.60%
FI	2,555,001,432	4.28%	34	39.50%	365,358,077	0.61%	30	34.90%
FR	183,469,538,268	8.40%	330	44.50%	82,829,668,480	3.79%	268	36.20%
HR	183,124,076	6.19%	19	55.90%	125,666,661	4.25%	18	52.90%
HU	401,420,076	6.87%	35	59.30%	209,565,332	3.59%	31	52.50%
IE	16,548,843,988	5.10%	50	36.00%	10,457,757,928	3.22%	44	31.70%
IS	16,578,793	19.20%	5	41.70%	2,381,018	2.75%	1	8.33%
IT	58,712,293,412	7.58%	99	61.90%	19,169,105,312	2.48%	83	51.90%
LI	298,508,895	1.29%	13	40.60%	141,841,283	0.62%	11	34.40%
LT	47,564,639	8.42%	7	41.20%	16,850,559	2.98%	6	35.30%
LU	4,930,388,719	2.38%	45	37.50%	2,504,625,256	1.21%	40	33.30%
LV	24,792,460	3.29%	2	20.00%	24,792,460	3.29%	2	20.00%
MT	159,539,658	3.56%	7	28.00%	144,175,522	3.21%	5	20.00%
NL	25,999,221,466	6.69%	21	23.60%	442,584,609	0.11%	13	14.60%
NO	2,665,737,080	1.70%	13	30.20%	1,974,343,589	1.26%	11	25.60%
PL	1,574,259,771	9.03%	41	42.30%	538,412,597	3.09%	30	30.90%
PT	3,398,709,715	7.74%	28	41.80%	2,229,810,381	5.08%	22	32.80%
RO	82,521,704	5.66%	20	46.50%	77,232,266	5.30%	18	41.90%
SE	6,654,592,958	2.98%	40	31.70%	6,642,782,576	2.98%	36	28.60%
SI	275,465,194	6.36%	19	51.40%	171,218,396	3.96%	16	43.20%
SK	593,597,077	12.90%	28	51.90%	268,426,181	5.82%	23	42.60%
EEA	**473,653,139,477**	**6.91%**	**1,432**	**44.21%**	**217,928,228,592**	**3.18%**	**1,166**	**36.00%**

- Template S.16.01 - Information on annuities stemming from Non-Life Insurance obligations

Share of the reported LoB to the undertaking total	Count of LoBs reported	By value of the Best Estimate for annuity claims provision – Total
Smaller 3%	159	0.57%
Between 3% and 5 %	30	0.35%
Between 5% and 10%	49	1.12%
Between 10 and 99%	336	52.75%
100% (only one LoB reported)	256	45.21%

- Template S.17.02 – Non-Life Technical Provisions - by country -TP+BE

NCA_CTR	Current SII Market coverage		Scenario 1: 70% threshold			
	TP and BE (R0010, R260)	No of Lines of business	TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)
AT	8,232,760,198	191	1,730,247,222	21.00%	134	70.20%
BE	23,842,905,061	320	5,246,575,226	22.00%	230	71.90%
BG	1,479,363,099	192	239,401,214	16.20%	150	78.10%
CY	504,611,299	170	86,755,042	17.20%	119	70.00%
CZ	2,983,946,193	163	786,053,400	26.30%	117	71.80%
DE	203,887,487,221	1252	44,642,733,885	21.90%	859	68.60%
DK	9,552,699,289	237	2,147,238,051	22.50%	138	58.20%
EE	359,154,521	46	91,117,024	25.40%	34	73.90%
EL	2,893,490,273	221	494,930,371	17.10%	175	79.20%
ES	25,689,180,052	546	5,184,925,208	20.20%	360	65.90%
FI	2,931,369,995	283	681,978,077	23.30%	198	70.00%
FR	150,276,048,002	1339	22,177,208,342	14.80%	782	58.40%
HR	875,385,256	119	247,260,486	28.20%	92	77.30%
HU	883,366,658	129	182,812,164	20.70%	98	76.00%
IE	59,321,862,154	591	13,152,249,058	22.20%	380	64.30%
IS	599,165,248	41	151,500,938	25.30%	29	70.70%
IT	50,022,848,567	557	11,619,785,982	23.20%	429	77.00%
LI	3,134,698,137	76	572,715,357	18.30%	50	65.80%
LT	274,797,753	31	69,648,917	25.30%	23	74.20%
LU	36,764,774,493	779	7,521,084,992	20.50%	470	60.30%
LV	352,222,926	41	68,289,433	19.40%	29	70.70%
MT	2,352,870,328	236	361,464,214	15.40%	143	60.60%
NL	26,053,610,630	311	2,370,925,872	9.10%	183	58.80%
NO	7,219,052,208	208	989,252,313	13.70%	112	53.80%
PL	8,923,239,963	308	2,101,346,942	23.50%	242	78.60%
PT	2,768,564,015	185	591,512,011	21.40%	127	68.60%
RO	1,445,205,376	151	244,488,298	16.90%	115	76.20%
SE	16,888,515,683	466	2,889,714,503	17.10%	284	60.90%
SI	1,101,462,346	96	270,849,936	24.60%	67	69.80%
SK	823,785,793	88	221,837,034	26.90%	66	75.00%
EEA	**652,438,442,737**	**9,373**	**127,135,901,512**	**19.49%**	**6,235**	**66.52%**

NCA_CTR	Scenario 2: 80% threshold TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)	Scenario 3: 90% threshold TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)
AT	1,244,352,764	15.10%	122	63.90%	739,736,737	8.99%	108	56.50%
BE	3,466,831,023	14.50%	210	65.60%	1,733,128,082	7.27%	172	53.80%
BG	153,530,852	10.40%	143	74.50%	95,361,553	6.45%	127	66.10%
CY	67,933,765	13.50%	109	64.10%	29,153,374	5.78%	90	52.90%
CZ	418,285,998	14.00%	106	65.00%	199,131,728	6.67%	90	55.20%
DE	27,429,556,996	13.50%	802	64.10%	15,674,925,913	7.69%	685	54.70%
DK	1,232,756,926	12.90%	118	49.80%	648,918,212	6.79%	97	40.90%
EE	49,846,857	13.90%	31	67.40%	21,908,159	6.10%	27	58.70%
EL	394,322,413	13.60%	171	77.40%	219,365,779	7.58%	149	67.40%
ES	3,447,425,306	13.40%	327	59.90%	1,647,073,414	6.41%	278	50.90%
FI	435,103,439	14.80%	176	62.20%	234,443,885	8.00%	139	49.10%
FR	15,933,739,853	10.60%	714	53.30%	8,767,111,323	5.83%	621	46.40%
HR	146,760,811	16.80%	83	69.70%	85,368,691	9.75%	72	60.50%
HU	116,245,441	13.20%	92	71.30%	68,475,467	7.75%	83	64.30%
IE	7,075,608,247	11.90%	347	58.70%	3,996,324,251	6.74%	291	49.20%
IS	98,962,296	16.50%	25	61.00%	44,123,018	7.36%	18	43.90%
IT	7,575,909,828	15.10%	396	71.10%	3,507,378,214	7.01%	335	60.10%
LI	408,642,511	13.00%	45	59.20%	183,252,016	5.85%	39	51.30%
LT	31,597,170	11.50%	20	64.50%	18,871,517	6.87%	18	58.10%
LU	4,592,253,499	12.50%	438	56.20%	2,715,368,260	7.39%	373	47.90%
LV	50,390,281	14.30%	26	63.40%	22,111,901	6.28%	22	53.70%
MT	245,030,404	10.40%	131	55.50%	99,182,141	4.22%	112	47.50%
NL	1,672,849,566	6.42%	167	53.70%	774,216,756	2.97%	140	45.00%
NO	728,998,094	10.10%	98	47.10%	325,993,684	4.52%	76	36.50%
PL	1,173,278,689	13.10%	226	73.40%	570,874,929	6.40%	203	65.90%
PT	370,902,196	13.40%	115	62.20%	174,881,136	6.32%	98	53.00%
RO	162,851,959	11.30%	106	70.20%	83,986,527	5.81%	91	60.30%
SE	1,776,726,105	10.50%	249	53.40%	965,617,806	5.72%	206	44.20%
SI	153,575,464	13.90%	61	63.50%	67,193,592	6.10%	50	52.10%
SK	123,550,537	15.00%	61	69.30%	56,996,835	6.92%	54	61.40%
EEA	**80,777,819,290**	**12.38%**	**5,715**	**60.97%**	**43,770,474[illegible]**	**6.71%**	**4,864**	**51.89%**

-TP

NCA_CTR	Current SII Market coverage Total TP (R0320)	No of Lines of business	Scenario 1: 70% threshold TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)
AT	8,877,620,588	191	1,873,886,172	21.10%	134	70.20%
BE	25,731,998,391	321	5,780,086,276	22.50%	231	72.00%
BG	1,568,865,658	192	262,617,531	16.70%	149	77.60%
CY	532,931,754	171	91,392,062	17.10%	120	70.20%
CZ	3,151,142,265	163	826,003,503	26.20%	117	71.80%
DE	213,826,407,465	1261	45,445,010,232	21.30%	868	68.80%
DK	10,042,676,027	237	2,254,668,776	22.50%	137	57.80%
EE	374,764,423	48	95,435,270	25.50%	36	75.00%
EL	3,091,208,231	222	539,280,433	17.40%	176	79.30%
ES	26,880,100,078	546	5,447,302,301	20.30%	356	65.20%
FI	3,335,221,106	284	733,534,995	22.00%	193	68.00%
FR	160,101,857,454	1340	23,495,037,409	14.70%	779	58.10%
HR	962,822,814	119	233,250,154	24.20%	91	76.50%
HU	956,290,161	129	207,727,316	21.70%	98	76.00%
IE	61,601,649,414	593	13,792,411,863	22.40%	380	64.10%
IS	619,946,967	41	143,070,760	23.10%	28	68.30%
IT	52,035,471,067	557	12,113,001,848	23.30%	429	77.00%
LI	3,257,641,462	78	614,797,036	18.90%	50	64.10%
LT	294,632,479	31	77,068,610	26.20%	23	74.20%
LU	38,224,335,844	788	7,843,440,566	20.50%	470	59.60%
LV	364,148,500	41	71,998,164	19.80%	29	70.70%
MT	2,452,377,498	242	331,261,552	13.50%	148	61.20%
NL	27,291,109,428	315	2,522,193,633	9.24%	188	59.70%
NO	7,647,994,983	208	1,047,033,421	13.70%	112	53.80%
PL	9,460,207,938	309	2,054,593,793	21.70%	242	78.30%
PT	2,927,983,769	185	624,468,185	21.30%	127	68.60%
RO	1,490,374,331	151	256,343,749	17.20%	115	76.20%
SE	18,414,001,126	468	3,029,472,667	16.50%	280	59.80%
SI	1,203,794,953	96	255,409,406	21.20%	65	67.70%
SK	882,631,957	88	151,404,927	17.20%	63	71.60%
EEA	**687,602,208,131**	**9,415**	**132,213,202,610**	**19.23%**	**6,234**	**66.21%**

Scenario 2: 80% threshold				Scenario 3: 90% threshold			
TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)	TP excl. (EUR)	TP excl. (%)	LoB excl. (no.)	LoB excl. (%)
1,361,609,816	15.30%	122	63.90%	902,480,803	10.20%	109	57.10%
3,815,668,600	14.80%	211	65.70%	2,008,172,863	7.80%	176	54.80%
169,685,998	10.80%	143	74.50%	88,220,143	5.62%	126	65.60%
71,598,111	13.40%	110	64.30%	29,495,921	5.53%	90	52.60%
437,686,558	13.90%	106	65.00%	209,704,892	6.65%	90	55.20%
29,102,225,559	13.60%	806	63.90%	16,364,328,887	7.65%	679	53.80%
1,293,149,498	12.90%	117	49.40%	687,860,241	6.85%	97	40.90%
51,973,297	13.90%	33	68.80%	22,641,373	6.04%	29	60.40%
421,805,099	13.60%	172	77.50%	236,536,421	7.65%	150	67.60%
3,617,602,931	13.50%	325	59.50%	1,648,712,470	6.13%	273	50.00%
483,271,186	14.50%	169	59.50%	267,309,191	8.01%	134	47.20%
17,392,712,397	10.90%	712	53.10%	8,874,475,028	5.54%	615	45.90%
160,717,013	16.70%	82	68.90%	93,206,733	9.68%	71	59.70%
125,107,713	13.10%	92	71.30%	71,681,717	7.50%	83	64.30%
7,401,961,938	12.00%	347	58.50%	4,152,437,774	6.74%	289	48.70%
90,033,137	14.50%	24	58.50%	46,013,702	7.42%	18	43.90%
7,917,371,025	15.20%	396	71.10%	3,728,958,336	7.17%	335	60.10%
314,111,457	9.64%	43	55.10%	191,398,328	5.88%	39	50.00%
34,703,378	11.80%	20	64.50%	20,984,097	7.12%	18	58.10%
4,826,055,705	12.60%	435	55.20%	2,807,258,862	7.34%	366	46.40%
52,757,314	14.50%	26	63.40%	23,035,865	6.33%	21	51.20%
254,021,293	10.40%	136	56.20%	105,100,167	4.29%	118	48.80%
1,707,166,475	6.26%	168	53.30%	804,197,732	2.95%	141	44.80%
772,952,782	10.10%	98	47.10%	346,460,328	4.53%	76	36.50%
1,252,510,784	13.20%	226	73.10%	608,267,313	6.43%	204	66.00%
394,419,999	13.50%	115	62.20%	184,085,074	6.29%	98	53.00%
171,423,769	11.50%	106	70.20%	88,631,787	5.95%	91	60.30%
1,838,407,908	9.98%	249	53.20%	1,056,344,168	5.74%	207	44.20%
169,780,234	14.10%	59	61.50%	63,075,392	5.24%	49	51.00%
131,481,217	14.90%	60	68.20%	57,985,940	6.57%	51	58.00%
85,833,972,191	**12.48%**	**5,708**	**60.63%**	**45,789,061,548**	**6.66%**	**4,843**	**51.44%**

Template S.19.01 - Non-life insurance claims

Number of LoB in thresholds.

Ratio BE LoB/ Total Claim BE	Number of LoB	Volume of BE
above 10%	**4253**	**86.82%**
between 5% and 10%	**926**	**6.01%**
between 3% and 5 %	**662**	**3.18%**
below 3 %	**4322**	**3.99%**

The 4253 LoBs, where the best estimate is more then 10% of the undertakings claim BE, represent 87% of the total best estimates.

- Template S.23.03 - Annual movements on own funds

	Current SII Market coverage		Scenario 1: ±5% variation coverage			
NCA_CTR	Available Own Funds* (R0500)	No of Undertakings**	Available OF (EUR)	Available OF share*** (%)	No of Undertakings (no.)	No of Undertakings share*** (%)
AT	35,911,974,200	35	19,531,269,970	54.40%	20	57.10%
BE	42,098,474,711	65	30,392,301,054	72.20%	44	67.70%
BG	1,573,933,637	31	1,528,273,159	97.10%	24	77.40%
CY	1,406,157,803	31	1,089,751,370	77.50%	18	58.10%
CZ	4,200,790,873	25	3,704,145,794	88.20%	18	72.00%
DE	513,590,601,015	329	371,499,386,437	72.30%	223	68.00%
DK	36,960,759,794	68	22,430,030,580	60.70%	46	67.60%
EE	655,238,673	9	634,336,091	96.80%	8	88.90%
EL	3,666,712,078	36	1,908,479,014	52.00%	23	63.90%
ES	54,172,516,522	146	38,031,283,778	70.20%	109	74.70%
FI	12,853,485,938	44	8,766,822,822	68.20%	29	65.90%
FR	416,034,211,961	446	374,531,730,909	90.00%	301	67.50%
HR	1,544,199,672	16	1,434,326,154	92.90%	13	81.30%
HU	1,731,376,080	22	978,076,489	56.50%	15	68.20%
IE	49,727,711,916	179	39,504,804,492	79.40%	126	70.40%
IS	457,519,203	8	434,386,293	94.90%	5	62.50%
IT	136,117,135,188	96	121,984,153,637	89.60%	77	80.20%
LI	3,691,087,286	30	2,537,833,195	68.80%	22	73.30%
LT	367,781,291	8	360,470,292	98.00%	7	87.50%
LU	27,231,470,223	259	22,004,005,235	80.80%	181	69.90%
LV	266,013,129	6	266,013,129	100.00%	6	100.00%
MT	5,555,255,288	64	4,864,944,450	87.60%	52	81.30%
NL	62,342,321,062	122	46,604,468,274	74.80%	83	68.00%
NO	26,994,251,849	68	15,780,636,230	58.50%	52	76.50%
PL	15,612,489,676	58	7,529,800,853	48.20%	40	69.00%
PT	6,301,922,152	39	2,629,197,030	41.70%	25	64.10%
RO	1,137,502,012	26	854,437,908	75.10%	18	69.20%
SE	79,209,812,953	126	70,937,909,350	89.60%	95	75.40%
SI	2,710,234,304	15	1,427,208,530	52.70%	9	60.00%
SK	1,472,819,767	13	1,042,079,032	70.80%	9	69.20%
EEA	**1,545,595,760,256**	**2,420**	**1,215,222,561,551**	**78.62%**	**1,698**	**70.17%**

H	I	J	K
Scenario 2: ±10% variation coverage			
Available OF (EUR)	Available OF share*** (%)	No of Undertakings (no.)	No of Undertakings share*** (%)
5,941,077,616	16.50%	9	25.70%
17,301,916,243	41.10%	26	40.00%
729,619,626	46.40%	20	64.50%
516,825,872	36.80%	11	35.50%
676,485,727	16.10%	8	32.00%
150,342,485,920	29.30%	124	37.80%
12,733,009,897	34.50%	25	36.80%
514,553,738	78.50%	5	55.60%
1,360,560,773	37.10%	13	36.10%
24,454,350,058	45.10%	66	45.20%
3,890,992,200	30.30%	10	22.70%
276,930,317,183	66.60%	148	33.20%
338,065,832	21.90%	6	37.50%
707,359,454	40.90%	10	45.50%
26,205,050,919	52.70%	83	46.40%
201,223,602	44.00%	3	37.50%
42,131,903,841	31.00%	58	60.40%
1,270,132,596	34.40%	15	50.00%
300,392,991	81.70%	6	75.00%
17,760,867,107	65.20%	128	49.40%
217,868,520	81.90%	4	66.70%
4,626,230,838	83.30%	41	64.10%
26,408,299,008	42.40%	52	42.60%
7,068,484,513	26.20%	33	48.50%
3,608,361,063	23.10%	25	43.10%
1,505,501,259	23.90%	16	41.00%
521,466,655	45.80%	9	34.60%
48,625,857,132	61.40%	73	57.90%
1,193,295,651	44.00%	8	53.30%
911,243,618	61.90%	6	46.20%
678,993,799,452	**43.93%**	**1,041**	**43.02%**

- S.30 templates

Recoverables ratio	Number of LoBs	Volume of recoverables
More then 10%	5746	87.83%
Between 1% and 10%	2126	11.32%
smaller then 1%	1510	0.85%
No recoverables	8149	0.00%
Grand Total	**17531**	**100.00%**

Comparison of options

Policy issue 1: Review the adequacy of the content of the supervisory reporting package

7.94 The preferred policy option for this policy issue is Option 1.3: Review the requirements template by template to better reflect proportionality and to reflect supervisory needs by improving the information required on existing templates and by creating new templates when needed. The overall balance of costs and benefits for the preferred option highlights the importance to reduce the burden on undertakings while guaranteeing that necessary information for supervisory purposes will be delivered to supervisory authorities. Furthermore, as need for new supervisory information (e.g. cyber) is increasingly growing, the proposed option takes on the opportunity to meet supervisory needs while

granting integration of the new information set in the already existing one to preserve efficiency and effectiveness of the process. In addition, the option further aligns reporting requirements with nature, scale and complexity of the risks insisting on undertakings. The risk-based thresholds proposed lead to a material reduction of the reporting burden. Option 1.2 has been disregarded because, even though it allows for greater application of proportionality across undertakings it does not sufficiently reflect the objective of the review to have fit-for-the purpose reporting.

7.95 Option 1.1 has been disregarded because keeping the status quo would not match the needs highlighted by the inputs received by stakeholders regarding the need to apply more proportionality. The guiding principle of the review is that only information needed for the purposes of fulfilling national supervisory authorities' responsibilities under Directive 2009/138/EC shall be required. Option 1.1 would clearly not follow the aim of the provisions of proportionality that are outlined in Directive 2009/138/EC. In conclusion, given EIOPA's willingness to guarantee a win-win outcome for both supervisors and undertakings and given the importance to guarantee the right level of information without requiring a too burdensome reporting to supervised entities, EIOPA believes that option 1.1 would not guarantee the fulfilment of such objectives.

7.96 The selection of the preferred option has required a trade-off between supervisors' needs and those of the industry. Taking policyholders' protection and willingness to decrease burden on undertakings while preserving supervisory needs as a baseline, options for Policy Issue 1 have been compared measuring efficiency and effectiveness granted by each of the three foreseen options.

7.97 In terms of Effectiveness, the three options are foreseen to have the following outcomes:

- option 1.1 means keeping the status quo and represents a solution that is not foreseen to increase effectiveness;
- option 1.2, combines a positive effect on effective supervision of undertaking and on the improvement in comparability of information and transparency with a highly positive effect on improvement in the application of proportionality;
- option 1.3 proves to be better fitting all the three objectives also granting more efficiency and effectiveness in the supervision of (re)insurance undertakings if compared to option 1.2.

7.98 In terms of Efficiency, the three options are foreseen to have the following outcomes:

- option 1.1 means keeping the status quo, does not generate any cost efficiency and represents a solution that is not foreseen to increase efficiency;
- option 1.2, combines a positive effect on effective supervision of undertaking and on the improvement in comparability of information and transparency with a highly positive effect on improvement in the application of proportionality. Eventual costs are off-set by the good benefits granted by the solution;
- option 1.3 proves to be better fitting all the three objectives also granting more efficiency and effectiveness in the supervision of (re)insurance undertakings if compared to option 1.2. The estimated costs related to the implementation of

the option are expected to be offset by the high benefits implied by the option and the benefits in removing some of the templates.

7.99 The above mentioned effects are also illustrated by the table below:

Policy issue: 1. Review the adequacy of the content of the supervisory reporting package			
	Effectiveness (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0
Option 1.2: proportionality review	+	++	+
Option 1.3: proportionality review and new supervisory needs	++	++	++
	Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0
Option 1.2: proportionality review	+	++	+
Option 1.3: proportionality review and new supervisory needs	++	++	++

7.100 With respect to option 1.3, the changes proposed by EIOPA to the reporting package and the expected impacts in terms of reporting burden for undertakings are summarised in the tables below (and should be seen with the table above on the impacts of the thresholds). The expected impact has been estimated through qualitative assessment based on the nature of the change proposed, the number of templates and entry points affected, the complexity of calculations and availability of data and the number of undertakings affected by the proposed change.

7.101 Bellow some initial assessments of the impact of the changes on financial stability reporting are presented. A more detailed impact assessment will be

developed and publicly consulted under the amendment of the EIOPA Guidelines on Financial Stability Reporting.

Financial Stability reporting

7.102 In the development of the advice regarding Financial Stability reporting, EIOPA has considered the policy issues driving the need for a new approach. These are presented in the table below.

Policy issues	Options
1. Reporting deadlines	1.1 No change (preferred) 1.2 Aligning deadlines of FS reporting with those of prudential reporting
2. Content of FS reporting package	2.1. No change 2.2. Simplification of FS reporting package 2.3. Simplification of reporting package and introduction of new information (preferred)

Analysis of impacts

7.103 The following table summarises the costs and benefits for the main options considered in order to remedy the policy issues above.

Policy issue 1: Reporting deadlines		
Option 1.1: No change		
Costs	Policyholders	No material costs are expected
	Industry	Procedures are already in place, no expected costs
	Supervisors	No material costs are expected
	Other	-
Benefits	Policyholders	Earlier identification of relevant risks compared to option 1.2 benefits policyholder protection
	Industry	No extra costs, no need to adapt internal processes.
	Supervisors	Existing EIOPA products developed with Financial stability information are kept within the deadlines required by the users.
	Other	-
Option 1.2: Aligning deadlines of FS reporting with those of prudential reporting		
Costs	Policyholders	Delayed receipt of Financial Stability information by supervisors might impair timely identification of relevant risks
	Industry	Processes already in place would become obsolete, even if more time could release some pressure for timely data
	Supervisors	Limitations in the information available in order to identify FS risks. Impact on EIOPA product publication timelines and delayed identification of risks
	Other	-
Benefits	Policyholders	No material benefits are expected
	Industry	Longer time to prepare Financial Stability returns and alignment with regular supervisory reporting
	Supervisors	No material benefits are expected
	Other	-

Policy issue 2: Content of FS reporting package		
Option 2.1: No change		
Costs	Policyholders	No material costs are expected
	Industry	Reporting requirements stay as-is, no additional costs but no simplification either
	Supervisors	Limitations in the information available in order to identify Financial Stability risks. Information identified as needed over the last 3 years would continue not to be available
	Other	N/A
Benefits	Policyholders	No material benefits are expected
	Industry	Reporting requirements stay as-is: additional burden is avoided
	Supervisors	No material benefits are expected
	Other	N/A
Option 2.2: Simplification of FS reporting package		
Costs	Policyholders	Less complete financial stability oversight (possible non-identification of relevant risks)
	Industry	Processes for financial stability reporting would need to be kept
	Supervisors	Limitations in the information available in order to identify Financial Stability risks. Information identified as needed over the last 3 years would continue not to be available. Minimal: Implementing amended FS taxonomy
	Other	-
Benefits	Policyholders	No material benefits are expected
	Industry	Reduce the scope of the reporting for financial stability would reduce the reporting burden for undertakings
	Supervisors	No material benefits are expected
	Other	-
Option 2.3: Simplification of reporting package and introduction of new information		
Costs	Policyholders	No material costs are expected
	Industry	Removal of entry points should results in a net benefit in terms of reporting requirements but increase in information to be reported would balance the simplification. Costs however offset by proposed reductions as information requested should be available to undertakings within the scope of financial stability reporting.
	Supervisors	Minimal: Implementing amended FS taxonomy
	Other	-
Benefits	Policyholders	Timely identification of relevant risks
	Industry	More accurate assessment of Financial Stability risks should also benefit industry Reduction in entry points, streamlining the financial stability package, decreasing the reporting burden
	Supervisors	Enhanced information gathered thereby increasing analysis areas and oversight by NCA as well as enhanced oversight for EIOPA as well as EIOPA products benefitting from additional information. Streamlining the financial stability package while keeping the relevant needed information.

	Other	-

Comparison of options

Policy issue 1

7.104 The preferred option for this policy issue is to keep the current deadlines. The option to align the financial stability reporting deadlines with prudential supervisory group reporting (option 1.2) has been disregarded as it is considered that the potential costs for supervisors (including EIOPA) and policyholders related to delayed identification of risks largely outweigh the benefit for the industry.

Policy issue 2

7.105 The preferred option for this policy issue is the simplification in reporting requirements through the removal of entry points combined with the introduction of new relevant information (option 2.3).

7.106 It is considered that the removal of entry points should result in a net benefit for the industry in terms of reporting requirements. Costs to supervisors and EIOPA are considered to be minimal and related to the need for a change in FS reporting taxonomy. Improvement the scope of the information collected through Financial Stability reporting will be beneficial to supervisors and regulators by increasing the key information gathered from Financial Stability reporting entities, ultimately benefitting the protection of policyholders through more complete assessment of risks stemming from the insurance industry. It is considered that the benefits outweigh the costs of an increased reporting burden and amendment of Financial Stability reporting taxonomy for the industry and supervisors (including EIOPA).

Proportionality

7.107 There are no changes to the proportionality in the requirement for Financial Stability reporting from undertakings. It is considered that the additional information requested does not translate into an increased reporting burden on the groups in combination with the reduction of entry points.

7.108 It should be noted that the scope of Financial Stability Reporting is reduced, aiming the groups and undertakings with the highest impact: information is currently received from ~95 groups and 22 solo undertakings, domiciled across 16 different European countries.

Effectiveness & efficiency

7.109 The comparison of the options against the baseline scenario has been based on their contribution to achieving the following objectives: i) Effective and efficient supervision of (re)insurance undertakings and groups; ii) Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks; iii) Financial Stability. The effectiveness

and efficiency of each option to achieving the former three objectives has been illustrated in the table below.

7.110 Effectiveness measures the degree to which the different policy options meet the relevant objectives.

7.111 Efficiency measures the way in which resources are used to achieve the objectives. The extent to which objectives can be achieved for a given level of resources/at least cost (cost-effectiveness).

7.112 In the table below "0" covers both cases where the option does not increase the effectiveness/efficiency in achieving the objectives and cases where the option decrease the effectiveness/efficiency compared to the baseline. Consequently, it should be noted that option 1.2 (aligning the deadlines) and option 2.2 (simplifications in the reporting requirements) are deemed to have a negative impact with respect to the objective of and effective and efficient supervision of (re)insurance undertakings and groups as well as the financial stability objective.

Policy issue 1: Reporting deadlines						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1 Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Financial Stability	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Financial Stability
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Aligning deadlines	0	0	0	0	+	0
Policy issue 2: Content of FS reporting package						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1 Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Financial Stability	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Financial Stability
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Simplifications in reporting requirements	0	++	0	0	+	0

Option 2.3: Simplifications and improvements in reporting requirements	+	+	++	+	+	++

8. Proportionality

8.1 Thresholds for exclusion from Solvency II

Policy issues	Options
1. Approach towards exclusion from Solvency II framework	1.1 No Change 1.2 Maintain the exclusion from Solvency II - for certain undertakings and reinforce proportionality across the three pillars of Solvency II (preferred) 1.3 Maintain the exclusion from Solvency II for certain undertakings and introduce a specific Solvency II regime for medium-sized undertakings
2. Revision of article 4 content	2.1 No Change (Size thresholds: 25 million euro TP, 5 million euro annual GWP) 2.2 Raise size thresholds (50 million euro TP, 10 million eur GWP, 1 million eur GWP Re, 5 million eur TP RE) 2.3 Raise size thresholds but with Member States discretion to decide on the premiums (50 million euro TP, between 5 and 25 million euro annual GWP) (preferred) 2.4 Changing thresholds methodology by incorporating pre-defined annual average growth rates of the insurance market (and/or ECB's inflation goal and/or EEA GDP growth rate) 2.5 Predefine the exclusion from the scope of Solvency II based on percentage share of the total insurance national market (both Solvency II and non-Solvency II) instead of on strict size criteria as laid out in article 4

Policy issue 1: Approach towards exclusion from Solvency II framework

Analysis of impacts

8.1 The following table summarises the costs and benefits for the main options considered in order to remedy the policy issues above.

Policy issue 1: Approach towards exclusion from Solvency II framework		
Option 1.1: No change		
Costs	Policyholders	No extra costs are expected

	Industry	Procedures are already in place, no material costs are expected as there is no change to the current situation
	Supervisors	No extra costs are expected
	Other	N/A
Benefits	Policyholders	Same level of assurance as today
	Industry	Situation remains as of today. No additional benefits
	Supervisors	Situation remains as of today. No additional benefits
	Other	N/A
Option 1.2: Maintain the exclusion from Solvency II to certain undertakings and reinforce proportionality across the three pillars of Solvency II		
Costs	Policyholders	No material costs are expected, the overarching principle of policyholder protection is ensured.
	Industry	No material costs are expected, only possible internal necessary process adjustments stemming from the reinforced proportionality via the three SII pillars. Please see also section 8.2 for the new proportionality framework proposed for low risk profile undertakings. As a result the costs for implementation of Solvency II rules for low risk profile undertakings that do not meet the size criteria laid out in Art. 4 might be reduced.
	Supervisors	No material costs are expected as the current exclusion thresholds from SII are kept, only possible internal necessary process adjustments. Please see also section 8.2 for the new proportionality framework proposed for low risk profile undertakings where some costs for supervisors are expected.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Low risk profile undertakings that do not meet the size criteria laid out in Art. 4 might benefit as they would be allowed to implement Solvency II in a proportionate way. Please see also section 8.2 for the new proportionality framework proposed for low risk profile undertakings.
	Supervisors	The complexity of the Solvency II rules might be lowered for eligible undertakings and therefore result in lower supervisory costs.
	Other	N/A
Option 1. 3: Maintain the exclusion from Solvency II for certain undertakings and introduce a specific Solvency II regime for medium-sized undertakings		
Costs	Policyholders	The overarching principle of Solvency II, the protection of policyholders, would solely depend on the size of the undertaking reflecting neither the nature nor the individual risk profile of the undertaking. Additionally, the principle of Solvency II same risk same regulatory treatment would be violated, because the supervisory treatment for the special regime undertakings would solely depend on the size of the undertaking.
	Industry	No material costs are expected, only possible internal necessary process adjustments
	Supervisors	Softening the regulatory requirements might lead to a deterioration of the quality of the supervisory review process. This could lead to a situation in which those risks the undertakings are exposed to are not properly identified and/or assessed. The principle underlying the special regime would be unclear and will not be risk- but only size-based. This would likely lead to arbitrariness. The complexity introduced by a special regime might increase the supervisory costs.
	Other	N/A
Benefits	Policyholders	No material impact

	Industry	Might create relief-like structures for all undertakings meeting the size criteria of the special regime irrespective of their individual risk profile. Against the background of the considerable barriers to market entry for new insurance undertakings, a less extensive regulatory regime might foster competition in the EEA-market.
	Supervisors	No material impact
	Other	N/A

Proportionality

8.2 An adequate implementation of the proportionality principle at the level of both the requirements applicable to undertakings and the Supervisory Review Process is considered sufficient to guarantee a proportionate approach. The preference for this option ("Maintain the exclusion from Solvency II to certain undertakings and reinforce proportionality across the three pillars of Solvency II") should be seen in conjunction with remaining EIOPA proposals on proportionality on Pillar I, Pillar II and Pillar III which aim to further improve the application of the proportionality principle while acknowledging that keeping flexibility on its application is crucial and work on supervisory convergence in this area should continue.

Comparison of options

8.3 The preferred policy option for this policy issue is "Maintain the exclusion from Solvency II to certain undertakings and reinforce proportionality across the three pillars of Solvency II" because it directly fosters more proportionate structures while ensuring that the guiding principles of Solvency II are met. The other options considered were rejected because introducing a special regime with lower rules would need the definition of new risk based guiding principles.

8.4 The selection of the preferred option has required a trade-off between lowering the burden of Solvency II application and still ensuring the policyholder protection throughout the EEA, in particular by ensuring effective and efficient supervision of insurance undertakings. More weight has been given to comparable policyholder protection because pure size-based relief structures – as suggested by introducing a size based special regime – do not reflect individual risk profiles.

8.5 The comparison of options against a baseline scenario is based on the effectiveness of policyholder protection and on their contribution to achieving the following objectives: i) Effective and efficient supervision; ii) Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks; iii) Financial Stability. In particular, in determining the effectiveness of each option EIOPA has taken into account that risks are undertaking- specific and are not impacted by the pure size of the undertaking. Effectiveness measures the degree to which the different policy options meet the relevant objectives. This effect is illustrated in the table below.

Policy issue 1: Approach towards exclusion from Solvency II framework			
	Effectiveness (0/+/++)		
Options	Objective 1: Adequate Protection of	Objective 2: Improving proportionality,	Objective 3: Financial Stability

	policyholders and beneficiaries	in particular by limiting the burden for (re)insurance undertakings with simple and low risks	
Option 1.1: No change	0	0	0
Option 1.2: Maintain the exclusion from Solvency II for certain undertakings and reinforce proportionality across the three pillars of Solvency II	+	++	+
Option 1.3: Maintain the exclusion from Solvency II for certain undertakings and introduce a specific Solvency II regime for medium-sized undertakings	0	++	+

8.6 In addition, the efficiency of each option was taken into account using the same objectives as for effectiveness objectives. Efficiency measures the way in which resources are used to achieve the objectives. The extent to which objectives can be achieved by an option is given in the table below. "0" covers both cases where the option does not increase the effectiveness/efficiency in achieving the objectives a decrease of the effectiveness/efficiency compared to the baseline. This effect is illustrated in the table below.

Policy issue 1: Approach towards exclusion from Solvency II framework			
	Efficiency (0/+/++)		
Options	Objective 1: Adequate protection of policyholders and beneficiaries	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Financial Stability
Option 1.1: No change	0	0	0
Maintain the exclusion from Solvency II for certain undertakings and reinforce proportionality across the three pillars of Solvency II	+	++	0

Option 1.3: Maintain the exclusion from Solvency II for certain undertakings and introduce a specific Solvency II regime for medium-sized undertakings	+	+	0

Policy issue 2: Revision of article 4 content

Analysis of impacts

8.7 Options 1, 2 and 3 address the thresholds, being the current ones or the newly proposed ones:

- Option 1: assumes no changes to the thresholds;
- Option 2: assumes an up-date of the thresholds by doubling all of them;
- Option 3: assumes an up-date of the thresholds by doubling the ones related to technical provisions and allow Member State option regarding the size of the threshold related to premium income. The rational behind is to consider the Technical Provisions as the first line of defence of policyholders protection and therefore not be flexible in this amount but to allow for flexibility on the premiums income threshold to allow undertakings with premiums higher that 5 to 25 mln to be excluded if Member State allows it considering the specificities of the market;

8.8 In the table below a summary, at an European level is presented (results by country are included in the Annex of the Impact Assessment)

	Number of undertakings excluded	Market share of premiums	Market share of TP
Option 2 10GWP/50TP/1GWP RE/5TP RE	153 (from the ones currently covered)	0,04% Max: 1,11%	0,05% Max: 4,17%
Option 3 5GWP/50TP	103(from the ones currently covered)	0,01% Max: 0,19%	0,02% Max: 0,28%
Option 3 15GWP/50TP	186 (from the ones currently covered)	0,07% 28 countries below 1,11% Max: 2,96%	0, 06% 29 countries below 4,17% Max:4,17%
Option 3 25GWP/50TP	228 (from the ones currently covered)	0,14% 28 countries below 1,11% Max: 8,45%	0,09% 28 countries below 4,17% Max:12,37%

8.9 The option considered as option 4 - changing article 4 thresholds methodology by incorporating pre-defined annual average growth rates of the insurance market (and/or ECB's inflation goal and/or EEA GDP growth rate) – was excluded due to the following challenges:

- How far back to go in the analysis;
- The growth rates of insurance market over the last years were volatile, reflecting both increases and decreases, which would mean only a slight up-date of the

amount, with residual impact, and with the potential of leading to decreases of the thresholds in the future and as a consequence the inclusion within the scope of undertakings previously excluded;

- The use of inflation and of GDP would lead to similar challenges;
- It would create legal uncertainty on the undertakings excluded or included but with figure close to the threshold.

8.10 The option considered as option 5 – predefine the exclusion from the scope of Solvency II based on percentage share of the total insurance national market (both Solvency II and non-Solvency II) instead of on strict size criteria as laid out in article 4 – was excluded due to the following challenges:

- The application of proportionality principle should take into account the risks inherent to the business. These risks are undertaking specific and should not be completely impacted by the size of the market;
- option was not considered as risk based (as undertakings with similar risk profiles could be subject to different regimes in different markets);
- the level of protection of policyholders would be different from Member State to Member State;
- option would endanger the level playing field;
- the option also creates uncertainty as exclusion would not only depend on the undertaking business development but also on the development of national market as a whole.

8.11 Since options 4 and 5 have been excluded considering the challenges mentioned above, the following analysis is focused on options 1-3.

Policy issue 2: Revision of article 4 content **(Option 2.4 and 2.5 are excluded from the assessment following the challenges faced (please see below)**		
Option 2.1: No change		
Costs	Policyholders	No additional costs are expected as the option remains as of today
	Industry	Procedures are already in place, no material costs are expected as the option remains as of today
	Supervisors	No additional costs are expected as the option remains as of today
	Other	N/A
Benefits	Policyholders	Same level of assurance as today
	Industry	No additional benefits. Current number of undertaking excluded as of today - 403
	Supervisors	No additional benefits are expected
	Other	N/A
Option 2.2: Raise all thresholds to align Solvency II with the European Commission's' definition of small-sized companies by doubling all quantitative thresholds (e.g. raising GWP from 5 to 10 Million €, TP from 25 to 50 Million €, GWP RE 1 Million €, TP RE 5 Million €)		
Costs	Policyholders	Benefits are dependent on the regime applicable to the undertakings excluded from SII scope. In case it has lower standards of policyholder protection than Solvency II, any increase of the size criteria thresholds of article 4 will lead to a higher number of policyholders being insured

		by undertakings with lower protection standards. This could be negligible, if national competent authorities could ensure the level of policyholder protection by obliging small undertakings with high risk profiles to meet the Solvency II rules.
	Industry	Procedures are already in place, no material costs are expected. However, the option proposed will lead to increase of the number of undertakings meeting the criteria of the doubled thresholds and thus creating decrease of cost for them.
	Supervisors	The increase of the undertakings meeting the doubled criteria will affect also supervisors depending on the rules applicable for supervision of those undertakings.
	Other	The increase of the undertakings meeting the criteria will affect also the information that EIOPA receives.
Benefits	Policyholders	No additional benefits expected
	Industry	The implication of the criteria will affect 153 small and medium-sized undertakings in the EEA if only general size criteria of the undertaking are taken into account. This will decrease SII costs for these undertakings.
	Supervisors	Under the assumption that supervision in the regime applicable to undertakings not subject to Solvency II is less burdensome for supervisors than in the Solvency II regime, the introduction of higher thresholds might lead to regulatory cost reductions.
	Other	N/A
Option 2.3: Raise size thresholds but with Member States discretion to decide on the premiums (50 million euro TP, between 5 and 25 million euro annual GWP)		
Costs	Policyholders	same impact as in Option 2.2 with the difference that up to 228 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Industry	Compared to the previous option there is a risk of unlevel playing field between different countries. Up to 228 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Supervisors	same impact as in Option 2.2 with the difference that up to 228 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Other	The increase of the undertakings meeting the criteria will affect also the information that EIOPA receives.
Benefits	Policyholders	same impact as in Option 2.2 with the difference that up to 228 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Industry	same impact as in Option 2.2 with the difference that up to 228 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Supervisors	More flexibility that option 2.2 to consider the specificities of the national market. Up to 228 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Other	N/A

8.12 All options except Option 2.1. will lead to increase of the number of undertakings exempted from Solvency II where the difference is in the number. As a result there will be decrease in the regulatory compliance costs and administrative burden for the additional number of exempted undertakings. The decrease in such costs is significant and includes IT, training, staff, compliance costs etc.

8.13 The analysis of the results allows the following conclusions:

- There is room to increase the current thresholds leading to impact only a residual share of the market, i.e. very small undertakings – see results for option 2.
- Option 3 allows for the exemptions of a fair number of undertakings representing a small share of the insurance market and if Member States opt for an increase on the side of the premiums at least 28 countries could have a threshold of 15 mln premium with the impact lower than the maximum impact of option 2 and 23 countries could have a threshold of 25 mln premiums with the impact lower than the maximum impact of option 2.

8.14 The options do not mean a one-off cost or on-going costs as they lead to decrease of the costs for the undertakings meeting the thresholds as per different options.

Proportionality

8.15 The Solvency II Directive has room for manoeuvre to increase the thresholds to foster proportionality for small undertakings with low risk profiles. EIOPA and national supervisory authorities agreed on there being room to increase the current thresholds and impact only a residual share of the market, i.e. very small undertakings. The proposed option 3 considers the Technical Provisions as the first line of defence of policyholders protection and therefore not be flexible in this amount but to allow for flexibility on the premiums income threshold to allow undertakings with premiums higher than EUR 5 million to be excluded if Member State allows it considering the specificities of the market.

Evidence

8.16 In the preparation of the analysis the input received from the following events has been used:
- Public Call for input from stakeholders (December 2018 – February 2019);
- Public workshops on Reporting and Disclosure over the last 2 years, including;
- ECB/EIOPA/NCB/NCA Workshops with industry;
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting;
- Insurance Europe proposals – April 2019;
- Insurance Ireland and the Dutch Insurance Association proposal;
    - Other Association proposal;
    - Stakeholders' feedback following public consultation.

Comparison of options

8.17 The preferred policy option for this policy issue is Option 2.3: "Raise size thresholds but with Member States discretion to decide on the premiums (50 million euro TP, between 5 and 25 million euro annual GWP)", because it builds on the experience gained in the first years of Solvency II, takes into account the feedback received from the stakeholders, fosters a higher form of proportionality and gives Member States the opportunity to increase the size-based thresholds to fit the situation on their individual market.

8.18 The rationale behind this is to consider the technical provisions as the first line of defence of policyholders protection and therefore not to be flexible with regard to this amount but to allow for flexibility on the premiums income threshold in order that undertakings with premiums higher that EUR 10 million can be excluded if a

Member State considers this to be appropriate in view of the specificities of that Member States' market.

8.19 The comparison of options against a baseline scenario is based on the effectiveness of policyholder protection. In particular, in determining the effectiveness of each option EIOPA has taken into account that risks are undertaking-specific and are not impacted by the pure size of the undertaking. This effect is illustrated in the table below.

8.20 Simply doubling all quantitative thresholds was considered inappropriate as this is not risk-based and an undertaking solely being small-size does not justify its exclusion from the higher policyholder protection standards of the Solvency II regime.

8.21 Applying a premiums based threshold to non-life undertakings and a technical provisions based threshold to life undertakings would be in line with what is usually considered a relevant size criterion, see e.g. the current approach for the market-share calculation in applying Art. 35(6) to (8) of the Solvency II Directive. However, with technical provisions being the first line of defence for policyholder protection disregarding technical provision levels for non-life undertakings was not considered suitable for exclusion from the Solvency II regime. Furthermore, in some markets the current premiums based threshold does not provide an adequate exclusion for non-life undertakings that should and non-life undertakings that should not be included in the Solvency II regime. In theory increasing the thresholds would reduce the scope of SII and the harmonisation of the EU insurance market. Allowing Members more flexibility on the thresholds would also undermine the supervisory convergence. In light of this it is the proportionality that is the major improvement of the proposal, in particular by limiting the burden for (re)insurance undertakings with simple and low risks.

Policy issue 2: Revision of article 4 content			
	Effectiveness (0/+/++)		
Options	Objective 1: Adequate protection of policyholders and beneficiaries	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Ensuring a level playing field through sufficiently harmonised rules
Option 2.1: No change	0	0	0
Option 2.2: Raise all thresholds to align Solvency II with the European Commission's definition of small-sized companies by doubling all quantitative thresholds	0	+	0
Option 2.3: Raise size thresholds but with Member States discretion to decide on	0	++	-

the premiums (50 million euro TP, between 5 and 25 million euro annual GWP).			

8.22 In addition, the efficiency of each option was taken into account using the same objectives. The effect is illustrated in the table below.

Policy issue 2: Revision of article 4 content			
	Efficiency (0/+/++)		
Options	Objective 1: Adequate protection of policyholders and beneficiaries	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Financial Stability
Option 2.1: No change	0	0	0
Option 2.2: Raise all thresholds to align Solvency II with the European Commission's definition of small-sized companies by doubling all quantitative thresholds	0	+	0
Option 2.3: Raise size thresholds but with Member States discretion to decide on the premiums (50 million euro TP, between 5 and 25 million euro annual GWP)	0	++	0

8.2 Proportionality framework

Policy issues	Options
Proportionality framework	1. No change i.e. enhancing proportionality in the supervisory practice without changes in the legal framework 2. Introduce a new framework, including a toolbox of simplifications and proportionality measures as well as the definition of low risk profile undertakings

Policy issue: Proportionality framework

Option 1: No change		
Costs	Policyholders	No material impact
	Industry	Uncertainty on how to apply proportionality. Unlevel playing field since application of proportionality may vary significantly depending on the approach of the national supervisory authority.
	Supervisors	Uncertainty on how to apply proportionality.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2: Introduce a new proportionality framework		
Costs	Policyholders	No material impact
	Industry	Eventual costs for undertakings not complying with the criteria to be considered low risk profile undertakings; those undertakings will have to discuss with their supervisory authority the application of proportionality measures considering their specific circumstances.
	Supervisors	Costs of adaptation of the supervisory processes to the new framework.
	Other	N/A
Benefits	Policyholders	More effective and efficient supervision would ultimately improve policyholder protection.
	Industry	Enhanced application of the proportionality principle would reduce burden of the Solvency II framework, in particular for low risk profile undertakings. More predictability on the allowance of simplifications and proportionality measures. More level playing field among Member States.
	Supervisors	More clarity on the conditions for application of proportionality measures would reduce the disputes with supervised entities and result in more effective and efficient supervision.
	Other	N/A

Policy issue: Proportionality framework						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1 Improving proportiona lity, in particular	Objective 2 Effective and efficient supervision	Objective 3 Ensuring a level playing field	Objective 1 Improving proportiona lity, in particular	Objective 2 Effective and efficient supervision	Objective 3 Ensuring a level playing field

	by limiting the burden for (re)insurance undertakings with simple and low risks	of (re)insurance undertakings and groups	through sufficiently harmonised rules	by limiting the burden for (re)insurance undertakings with simple and low risks	of (re)insurance undertakings and groups	through sufficiently harmonised rules
Option 1: No change	0	0	0	0	0	0
Option 2: Introduce a new proportionality framework	++	+	+	++	+	+

8.23 EIOPA has performed an impact assessment regarding criteria for identifying low risk profile undertakings (LRU) based on annual QRT information with reference year-end 2019. In particular, the impact assessment has considered 7 criteria and multiple combinations of those criteria for the identification of low risk undertakings.

1. Life undertakings, excluding the index/unit linked business, whose investment returns is higher than the average guaranteed interest rates in the last three financial years and non-life undertakings whose combined ratio is less than [90%/100%] in the last three financial years. Undertakings pursuing both life and non-life insurance activities are required to fulfil only one both the above mentioned criteria for life or non-life depending on which type of insurance activities is more material.
2. Undertakings whose ratio of the gross SCR for interest rate risk submodule over the gross technical provisions is not higher than 5%.
3. Immateriality of the cross-border business: undertakings not underwriting more than [0.5%/1%/5%] of annual gross written premiums outside of its home jurisdiction.
4. Size: life gross technical provision not higher than [500 mln/1bn] EUR, and non-life gross written premiums (GWP) not higher than EUR 100 million.
5. Immateriality of large risks: non-life undertakings not underwriting more than [20%/30%/50%] of the annual gross written premiums in Marine, Aviation and transport or Credit and Suretyship lines of business.
6. Traditional investments: underwriting not investing in not traditional investments more than [10%/20%] of their total assets. For the purpose of this point, traditional investments are considered bonds, equities, cash and cash equivalents and deposits.
7. No material reinsurance business accepted: accepted reinsurance, measured by gross written premiums, not higher than [50%]

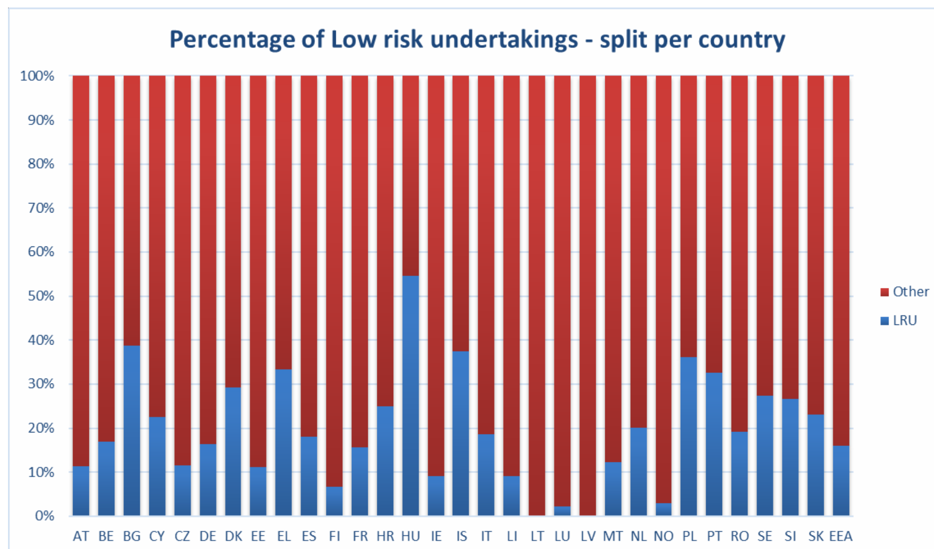
8.24 Here 5 concrete combinations are shown. It should be noted that in addition of the criteria in the table below, the following type of undertakings have been excluded as non-eligible for being LRU: pure reinsurers, undertakings using an internal model to calculate the SCR and undertakings being head of an insurance group.

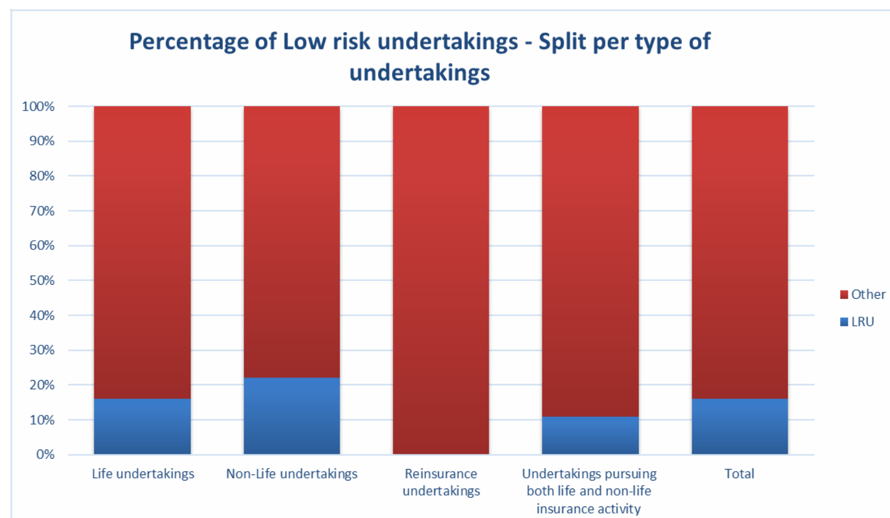
Criteria	Combinations				
	A	**B**	**C**	**D**	**E**
1. IRRG (average 3 years)	<ROI	<ROI	<ROI	-	-
1. Combined ratio (average 3 years)	<90%	<100%	<100%	<100%	-
2. IR_SCR/TP	-	-	<5%	<5%	-
3. Cross boder business	<0.5%	<1%	<5%	<1%	<1%
4. Life TP	<500mn €	<1 bn €	<1 bn €	<1 bn €	<1 bn €
4. Non-life GWP	<100 mn €	<100 mn €	<100 mn €	<100 mn €	<100 mn €
5. Share of large risks LoB	<20%	<50%	<30%	<50%	<50%
6. Non-traditional investments	<10%	<20%	<20%	<20%	<20%
7. Share of reinsurance activity	<50%	<50%	<50%	<50%	<50%

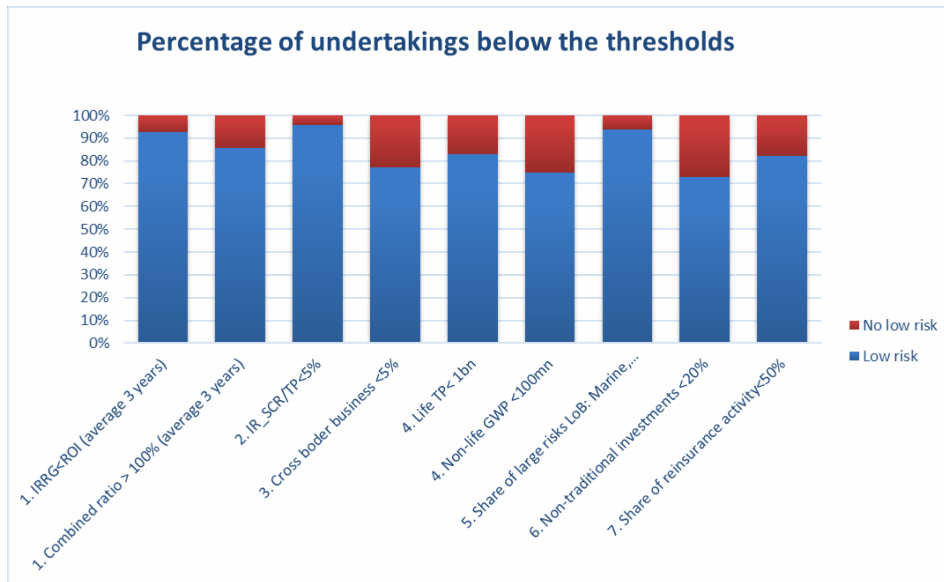
8.25 The summary table below compares the high-level results of the four combinations of criteria analysed.

	Combinations				
Low risk undertakings	**A**	**B**	**C**	**D**	**E**
Number of undertakings	263	433	407	435	581
Percentage of EEA undertakings	10%	17%	16%	17%	23%
EEA life market share	0.24%	0.58%	0.53%	0.65%	0.80%
EEA non-life market share	0.9%	1.8%	1.8%	1.7%	2.3%

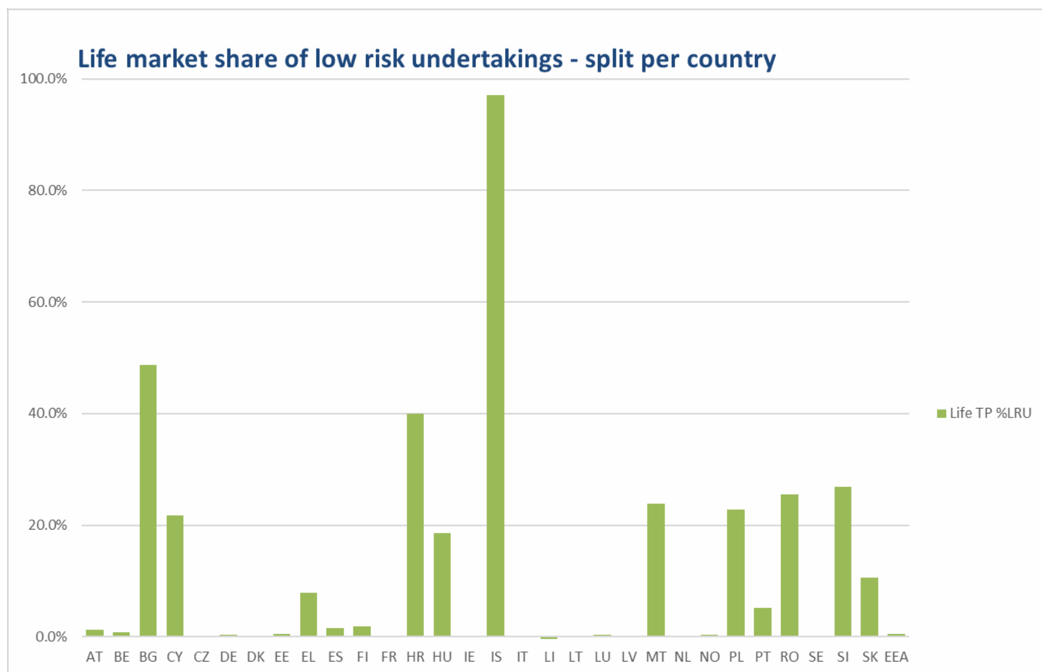
8.26 The following graphs show the percentage of undertakings that would be classified as LRU split per country and per type of undertaking under the combination C (preferred option) as well as the percentage of undertakings complying with each of the conditions considered. In each graph, the blue bars correspond to the percentage of undertakings that would be considered low risk and the red bars correspond to the rest of undertakings.

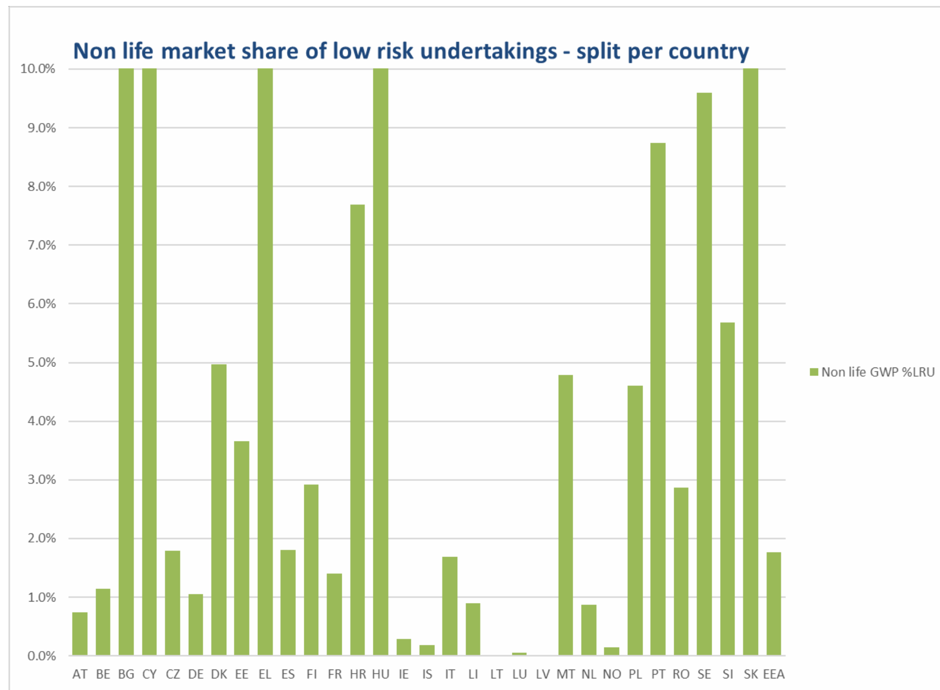






8.27 Finally, the following graphs show the life market share (in term of technical provisions) and non-life market share (in terms of gross written premiums) of those undertakings classified as LRU, both at country and at EEA level.





8.3 Proportionality in pillar 1

8.3.1 Best Estimate

Policy issues	Options
Enhance proportionality of the framework by introducing a simplified valuation method for contracts with options and guarantees that still captures the time value of options and guarantees.	1. No change i.e. no further simplifications 2. Introduce a new valuation method prudent the proportionality principle: prudent deterministic valuation.

Policy issue: Enhance proportionality of the framework by introducing a simplified valuation method for contracts with options and guarantees that still captures the time value of options and guarantees.		
Option 1: No change		
Costs	Policyholders	No material impact
	Industry	Burden and cost of implementing and maintaining stochastic valuation
	Supervisors	Complexity to identify the relevant criteria to determine when stochastic valuation is needed considering its materiality and also the resources of the undertakings
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact

	Supervisors	No material impact
	Other	N/A
Option 2: Introduce a new valuation method prudent the proportionality principle: prudent deterministic valuation.		
Costs	Policyholders	No material impact
	Industry	Assessment of the TVOG (time value of options and guarantees) criterion may be burdensome compared to other criteria in the regulation The measure is addressed to undertaking currently using deterministic valuation. Therefore best estimate is expected to increase, even if the increase is limited by the threshold of the simplification itself.
	Supervisors	Collaboration in the development of the methodology to define the PHRSS
	EIOPA	Developing the methodology to define the PHRSS (prudent harmonised reduced set of scenarios), Regularly publishing the PHRSS
Benefits	Policyholders	More accurate best estimate. Enhanced level playing field across Europe.
	Industry	Simple and straightforward approach that still considers the stochastic nature of obligations and guarantees. Smoothing the path between deterministic and stochastic valuation. First step towards stochastic valuation and better risk management. Certainty on the criteria to be met to apply the simplification. Enhanced level playing field across Europe.
	Supervisors	Smoothing the path between deterministic and stochastic valuation. Enhanced level playing field across Europe. PHRSS could be used as rough reference for benchmarking.
	Other	No changes to QRT needed

Proportionality

8.68 Solvency II requires stochastic valuation for contracts whose outcome depends on the different likely scenarios. This is usually the case for options and guarantees, even if penetration of stochastic valuation significantly differs across jurisdictions. This is due, among other reasons, to the sharp edge between deterministic and stochastic valuation regarding the burden and costs that each approach requires.

8.69 NCAs and EIOPA are convinced that in some cases a movement towards stochastic valuation is needed to have accurate best estimates and ensure supervisory convergence. To facilitate and smooth such path, it is proposed to define under the proportionality principle an intermediate approach that considers the stochastic nature of Options and Guarantees but does not require the same burden and cost.

8.70 Therefore, the approach developed to significantly reduce the burden and cost for the valuation of non-material options and guarantees promotes the principle of proportionality.

Policy issue: Enhance proportionality of the framework by introducing further simplifications to the calculation capital requirements for immaterial risks of the SCR standard formula						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Improving transparency and better comparability	Objective 1: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Improving transparency and better comparability
Option 1: No change	0	0	0	0	0	0
Option 2: Introduce a new valuation method prudent the proportionality principle: prudent deterministic valuation.	++	++	++	++	++	++

8.3.2 Solvency Capital Requirement standard formula

Policy issues	Options
Enhance proportionality of the framework by introducing further simplifications to the calculation of capital requirements for immaterial risks of the SCR standard formula	1. No change, i.e. no further simplifications 2. Introduce a new set of simplified calculations of capital requirements for immaterial risks 3. Introduce an integrated simplified calculation of capital requirements for immaterial risks (preferred)

Policy issue: Enhance proportionality of the framework by introducing further simplifications to the calculation capital requirements for immaterial risks of the SCR standard formula		
Option 1: No change		
Costs	Policyholders	No material impact
	Industry	Computational burden, particularly for more complex but immaterial risks remains

	Supervisors	Need to supervise/monitor the calculations of immaterial risks
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2: Introduce a new set of simplified calculation of capital requirements for immaterial risks		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Computational burden particularly for more complex but immaterial risks is substantially reduced, promotes the principle of proportionality
	Supervisors	Easy to supervise, can focus supervision on material risks
	Other	No changes to QRT needed
Option 3: Introduce an integrated simplified calculation of capital requirements for immaterial risks		
Costs	Policyholders	No material impact
	Industry	Undertakings need to perform identification and reassessment processes to find and maintain immaterial risks
	Supervisors	Need to define the threshold for immaterial risks
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Computational burden particularly for more complex but immaterial risks is substantially reduced, promotes the principle of proportionality
	Supervisors	Easy to supervise, can focus supervision on material risks
	Other	N/A

Proportionality

8.71 The approach developed to significantly reduce the computational burden for immaterial SCR risks promotes the principle of proportionality.

Comparison of options

8.72 Both approaches presented in option 2 and option 3 would significantly reduce the computational burden for immaterial risks for SCR and thus promote the principle of proportionality.

8.73 However, EIOPA decided to further develop Option 3 because it would substantially reduce the calculation burden for undertakings. Moreover, this approach is consistent with the EIOPA Supervisory Statement - Application Proportionality Solvency Capital Requirement , but (i) making the approach more risk sensitive (SCR is not frozen in the application step, but updated over time in a simple way); (ii) providing a legal hook for a pragmatic approach that is missing in the Supervisory Statement.

Policy issue: Enhance proportionality of the framework by introducing further simplifications to the calculation capital requirements for immaterial risks of the SCR standard formula						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Improving transparency and better comparability	Objective 1: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Improving transparency and better comparability
Option 1: No change	0	0	0	0	0	0
Option 2: Introduce a new set of simplified calculation of capital requirements for immaterial risks	++	++	++	++	++	++
Option 3: Introduce an integrated simplified calculation of capital requirements for immaterial risks	++	++	++	++	++	++

8.74 For the chosen individual risk sub-module SCR materiality threshold of 5% of the BSCR, EIOPA counted the number of undertakings having exactly 1, up to 3 (incl.), up to 5 (incl.) and up to 10 (incl.) risk sub-modules as well as the number of undertakings having at least 1 risk sub-module whose SCR is below this individual threshold. The table below displays the resulting absolute figures as well as their relative (to the total number of SF undertakings) counterparts per EEA country[78]:

[78] Data as of YE2019.

	Total number of SF undertakings	**Relative number of undertakings with risk sub-modules SCR below the individual threshold of 5% of the BSCR**				
		Exactly 1 sub-module	*Up to 3 sub-modules*	*Up to 5 sub-modules*	*Up to 10 sub-modules*	*At least 1 sub-module*
AT	26	0%	23%	35%	77%	100%
BE	58	7%	22%	52%	72%	97%
BG	31	3%	13%	42%	94%	100%
CY	31	0%	16%	48%	90%	97%
CZ	21	10%	24%	52%	71%	90%
DE	301	5%	19%	32%	77%	98%
DK	67	13%	43%	63%	90%	97%
EE	9	11%	11%	11%	78%	100%
EL	35	6%	29%	43%	60%	100%
ES	143	2%	20%	48%	77%	92%
FI	46	2%	7%	15%	37%	93%
FR	440	3%	24%	47%	75%	96%
HR	16	6%	31%	38%	81%	100%
HU	21	5%	19%	19%	52%	95%
IE	173	8%	43%	69%	88%	93%
IS	8	13%	13%	50%	88%	88%
IT	83	1%	12%	47%	88%	95%
LI	33	9%	42%	82%	94%	97%
LT	8	0%	0%	13%	75%	100%
LU	264	17%	56%	79%	91%	91%
LV	6	0%	0%	0%	100%	100%
MT	64	13%	47%	61%	81%	83%
NL	114	12%	44%	74%	94%	98%
NO	65	14%	51%	65%	91%	95%
PL	58	3%	3%	9%	74%	100%
PT	40	0%	15%	38%	88%	93%
RO	23	0%	13%	43%	83%	100%
SE	123	8%	41%	51%	67%	94%
SI	15	0%	13%	20%	60%	80%
SK	10	0%	0%	10%	30%	100%
Total	**2 332**	**7%**	**30%**	**51%**	**80%**	**95%**

8.75 An alternative view consists in looking at the number of undertakings per risk (sub-) module where this (sub-)module has an SCR below the 5% BSCR threshold.

Risk sub-module	**Absolute number of undertakings having a risk sub-module SCR below the individual threshold**	**Absolute SCR from the undertakings having a risk sub-module SCR below the individual threshold (in EUR)**	**Relative number of undertakings having a risk sub-module SCR below the individual threshold (w.r.t. total number of undertakings having a non-zero SCR for this risk sub-module)**	**Relative SCR from the undertakings having a risk sub-module SCR below the individual threshold (w.r.t. total SCR of undertakings having a non-zero SCR for this risk sub-module)**	**Relative SCR from the undertakings having a risk sub-module SCR below the individual threshold (w.r.t. total BSCR at EEA level)**
Accident concentration	618	1,435,033,828	85%	61%	0.21%
Currency	999	5,178,511,614	53%	13%	0.77%
Disability-morbidity	264	1,654,236,408	81%	32%	0.25%
Equity	346	783,135,179	18%	0%	0.12%

Health disability-morbidity	184	1,533,874,085	47%	6%	0.23%
Health expense	485	1,771,533,093	87%	47%	0.26%
Health longevity	392	1,847,785,337	90%	60%	0.28%
Health mortality	171	189,736,372	83%	5%	0.03%
Health revision	197	885,250,574	87%	66%	0.13%
Interest rate	1,179	4,727,192,917	53%	11%	0.71%
Lapse	162	1,681,739,901	23%	3%	0.25%
Life catastrophe	571	2,670,064,394	74%	27%	0.40%
Life expense	535	4,307,497,431	53%	17%	0.64%
Longevity	603	3,073,271,009	76%	10%	0.46%
Market concentrations	810	3,533,316,624	44%	16%	0.53%
Mass accident	1,123	1,004,148,626	95%	75%	0.15%
Mortality	532	4,759,284,527	68%	31%	0.71%
Non-life catastrophe	220	996,842,746	16%	3%	0.15%
Non-life lapse	532	1,816,788,214	65%	34%	0.27%
Non-life premium and reserve	132	592,353,164	8%	1%	0.09%
NSLT health lapse	516	1,035,887,008	84%	52%	0.15%
Pandemic	766	1,594,825,653	91%	79%	0.24%
Property	516	2,422,561,894	37%	5%	0.36%
Revision	274	365,838,484	99%	99%	0.05%
SLT health lapse	164	973,663,115	50%	4%	0.15%
Spread	606	2,212,617,458	28%	2%	0.33%
Total counterparty default	808	8,066,282,793	33%	30%	1.20%
Total NSLT health premium and reserve	535	2,684,305,589	42%	9%	0.40%
Total		**63,797,578,037**			

8.76 The use of the simplification is subject to two thresholds. First, a 5% threshold for the size of the individual sub-module and secondly a 10% threshold for the sum of sub-modules to which the simplification is applied. The tables above only assess the maximum impact of the first threshold. It therefore overstates the number of sub-modules that the simplification could be applied to in practice.

8.77 EIOPA also assessed the number of individually immaterial risk sub-modules as well as the number of individually and collectively immaterial risk sub-modules relative to the total number of risk sub-modules with a non-zero SCR, being at EEA level 34% and 32% respectively. The same statistics are computed in volume (of SCR) resulting in 5% and 4% respectively at EEA level. At undertaking level, in case the sum of individually immaterial risk sub-modules SCR goes beyond the second (collective) threshold of 10%, there is no unique way to restrict this set of individually immaterial risk sub-modules so that the resulting sum becomes lower than the collective threshold. The rule chosen for the estimate is to select the risk sub-modules with the lowest SCR first. The 6 market risk sub-modules were excluded from the numerators of the relative figures. The relative figures are relative to the total number or volume of risk sub-modules, market risk included.

8.4 Proportionality in pillar 2

Policy issue	Options
1 Key functions	(a) Combination with operational functions 1a.1 No change 1a.2 Combination explicitly allowed for low risk profile undertakings(except the internal audit function) (preferred) (b) Members of the AMSB and key function holder 1b.1 No change 1b.2 Combination of roles explicitly allowed for low risk profile undertakings (preferred) (c) Combination of key functions 1c.1 No change 1c.2 Combination explicitly allowed for low risk profile undertakings (preferred)
2 ORSA	(a) ORSA supervisory report 2a.1 No change (preferred) 2a.2 Standardised reporting for small/less complex undertakings (b) Frequency 2b.1 No change 2b.2 Biennial ORSA allowed for low risk profile undertakings(preferred)
3 Written policies (review)	3.1 No change 3.2 Less frequent review allowed, up to three years, for low risk profile undertakings (preferred)
4 AMSB	4.1 No change 4.2 Specific requirements on the composition of the AMSB 4.3 Regular assessment on the composition, effectiveness and internal governance of the AMSB considering proportionality (preferred)
5 Remuneration (deferral of the variable component)	5.1 No change 5.2 Exemption to the principle of deferral of a substantial portion of the variable remuneration component for low risk profile undertakings (preferred)

8.4.1 Key functions

Policy issue 1a: Combination with operational functions		
Option 1a.1: No change		
Costs	Policyholders	No material impact
	Industry	Ambiguity on the conditions under which combination would be allowed by the supervisory authority. Unlevel playing field where different supervisory approaches are followed in each jurisdiction.

		Potential of increased operational risk in case conflicts of interests between control functions and operational functions are not properly managed.
	Supervisors	May lead to inconsistent approaches among jurisdictions which could affect supervisory convergence in this area.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Ambiguity in the regulation could result in higher flexibility for undertakings, depending on the approach currently followed by their NSA
	Supervisors	No material impact
	Other	N/A
Option 1a.2: Combination explicitly allowed for low risk profile undertakings(except the internal audit function)		
Costs	Policyholders	No material impact
	Industry	Possible lower flexibility for undertakings compared to the current situation, depending on the approach currently followed by their NSA
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection since conditions under which combination would be allowed are specified. Reduction in operational costs of the undertaking could be passed on to the policyholder e.g. through reduced premiums
	Industry	More certainty on the conditions under which combination would be allowed by the supervisory authority, in particular for small undertakings. Combination could lead to reduction in operational costs as less individuals required to fulfil separate posts.
	Supervisors	Additional guidance in the regulation for the assessment of combinations should result in more supervisory convergence while still allowing for supervisory judgement on a case by case basis.
	Other	N/A

Policy issue 1b: Members of the AMSB and key function holder		
Option 1b.1: No change		
Costs	Policyholders	No material impact
	Industry	Ambiguity on the conditions under which combination would be allowed by the supervisory authority. Unlevel playing field where different supervisory approaches are followed in each jurisdiction. Potential of increased operational risk in case conflicts of interests between both roles are not properly managed.
	Supervisors	May lead to inconsistent approaches among jurisdictions which could affect supervisory convergence in this area.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Ambiguity in the regulation could result in higher flexibility for undertakings, depending on the approach currently followed by their NSA

	Supervisors	No material impact
	Other	N/A
Option 1b.2: Combination of roles explicitly allowed for low risk undertakings		
Costs	Policyholders	No material impact
	Industry	Possible lower flexibility for undertakings compared to the current situation, depending on the approach currently followed by their NSA
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection since conditions under which combination would be allowed are specified. Reduction in operational costs of the undertaking could be passed on to the policyholder e.g. through reduced premiums
	Industry	More certainty on the conditions under which combination would be allowed by the supervisory authority, in particular for small undertakings. Combination could lead to reduction in operational costs as less individuals required to fulfil separate posts.
	Supervisors	Additional guidance in the regulation for the assessment of combinations should result in more supervisory convergence while still allowing for supervisory judgement on a case by case basis.
	Other	N/A

Policy issue 1c: Combination of key functions		
Option 1c.1: No change		
Costs	Policyholders	No material impact
	Industry	Ambiguity on the conditions under which combination would be allowed by the supervisory authority. Unlevel playing field where different supervisory approaches are followed in each jurisdiction. Potential of increased operational risk in case conflicts of interests between key functions are not properly managed.
	Supervisors	May lead to inconsistent approaches among jurisdictions which could affect supervisory convergence in this area.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Ambiguity in the regulation could result in higher flexibility for undertakings, depending on the approach currently followed by their NSA
	Supervisors	No material impact
	Other	N/A
Option 1c.2: Combination explicitly allowed for low risk profile undertakings		
Costs	Policyholders	No material impact
	Industry	Possible lower flexibility for undertakings compared to the current situation, depending on the approach currently followed by their NSA
	Supervisors	No material impact
	Other	N/A

Benefits	Policyholders	Improved policyholder protection since conditions under which combination would be allowed are specified. Reduction in operational costs of the undertaking could be passed on to the policyholder e.g. through reduced premiums
	Industry	More certainty on the conditions under which combination would be allowed by the supervisory authority, in particular for small undertakings. Combination could lead to reduction in operational costs as less individuals required to fulfil separate posts.
	Supervisors	Additional guidance in the regulation for the assessment of combinations should result in more supervisory convergence while still allowing for supervisory judgement on a case by case basis.
	Other	N/A

Policy issue 1a: Combination with operational functions						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 1a.1: No change	0	0	0	0	0	0
Option 1a.2: Combination explicitly allowed for low risk profile undertakings(except internal audit)	+	+	+	+	+	+

Policy issue 1b: Members of the AMSB and key function holder						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 1b.1: No change	0	0	0	0	0	0

Option 1b.2: Combination explicitly allowed for low risk profile undertakings	+	+	+	+	+	+

Policy issue 1c: Combination of key functions						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 1d.1: No change	0	0	0	0	0	0
Option 1d.2: Combination explicitly allowed for low risk profile undertakings	+	+	+	+	+	+

8.4.2 ORSA

Policy issue 2a: ORSA supervisory report		
Option 2a.1: No change		
Costs	Policyholders	No material impact.
	Industry	Undertakings will continue to incur high costs involving the development of the ORSA
	Supervisors	High resources devoted to review and challenge the quality of the ORSA supervisory reports on a case by case basis
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Flexibility
	Supervisors	Still have the tools based on the generic proportionality principle to provide guidance to the undertakings under their supervision on how to construct their ORSA, in particular stating the extensiveness and quality required for them to be confident with the ORSA supervisory report delivered
	Other	N/A
Option 2a.2: Standardised ORSA supervisory report for small/less complex undertakings		
Costs	Policyholders	No material impact

	Industry	Standardisation would restrict flexibility for undertakings on how to present the outcomes of the ORSA. Every undertaking would still have to ensure new developments which might have an impact on their ORSA are properly considered. One-off cost to adapt the structure/format of their current ORSA supervisory report to the new template.
	Supervisors	Risk that the ORSA is taken as a supervisory exercise; undertakings may limit the ORSA process to the minimum aspects to fill-in the template.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	More certainty for small/less complex undertakings on the content of the ORSA. Potentially less capacity to be put into delivering the ORSA supervisory report may result in less costs.
	Supervisors	Higher standardisation would facilitate the analysis. More detailed general requirements on the content may improve the quality of the ORSA supervisory reports for small/less complex undertakings.
	Other	N/A

Policy issue 2b: Frequency		
Option 2b.1: No change		
Costs	Policyholders	No material impact
	Industry	High burdensome obligation to perform a full ORSA annually
	Supervisors	High burdensome assessment of the undertaking's ORSA
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 2b.2: Biennial ORSA for low risk profile undertakings		
Costs	Policyholders	No material impact if low risk profile undertakings still have a robust risk management system
	Industry	No material impact
	Supervisors	Less frequent ORSA supervisory reports
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	For low risk profile undertakings, significant relief of the compliance burden every two years
	Supervisors	Partial relief of the supervisory burden every two years with respect to low risk profile undertakings
	Other	N/A

8.116 The effectiveness and efficiency of each option against the relevant objectives of the review has been illustrated in the table below.

8.117 In the tables "0" covers both cases where the option does not increase the effectiveness/efficiency in achieving the objectives and cases where the option decrease the effectiveness/efficiency compared to the baseline. Consequently, it should be noted that option 2a.2 (standardised ORSA supervisory report for small/less complex undertakings) is deemed to have a negative impact with respect to the objective of promoting good risk management and improving proportionality.

Policy issue 2a: ORSA supervisory report						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 2a.1: No change	0	0	0	0	0	0
Option 2a.2: Standardised ORSA supervisory report for small/less complex undertakings	0	0	+	0	0	+

Policy issue 2b: Frequency of the ORSA						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Effective and efficient supervision	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 2b.1: No change	0	0	0	0	0	0
Option 2b.2: Biennial ORSA for low risk profile undertakings	0	++	+	0	++	+

8.4.3 Written policies

Policy issue 3: Frequency of policy review		
Option 3.1: No change		
Costs	Policyholders	No material impact.
	Industry	High burden to carry out a annual review of all the written policies, irrespective of the undertaking's risk profile
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	Certainty on the mandatory frequency of the review Level playing field since undertakings under Solvency II are subject exactly to the same requirement
	Supervisors	No need to apply supervisory judgement to decide the appropriate frequency of the review for each undertaking. No room for supervisory divergence
	Other	N/A
Option 3.2: Less frequent review allowed, up to three years, for low risk profile undertakings		
Costs	Policyholders	No material impact.
	Industry	Uncertainty on the supervisory expectations with respect to the appropriate frequency of the review of the policies of each undertaking
	Supervisors	Risk of supervisory divergence
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	Adjustment of the requirement to the risk-profile; more flexibility. Partial relief of burden for small/less complex undertakings, less resources needed if annual review is not requested for all written policies.
	Supervisors	Case-by-case approach; more room for manoeuvre/more flexibility.
	Other	N/A

Policy issue 3b: Frequency of review		
	Effectiveness (0/+/++)	Efficiency (0/+/++)

Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Flexibility on the frequency of the review of policies for low risk profile undertakings	0	++	0	0	+	0

8.4.4 AMSB

Policy issue 4: Composition of the AMSB		
Option 4.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Flexibility for undertakings to decide on the composition of the AMSB
	Supervisors	No material impact
	Other	N/A
Option 4.2: Specific requirements on the composition of the AMSB		
Costs	Policyholders	No material impact
	Industry	Additional costs for undertakings to comply with the new requirements, depending on the current composition of their AMSB and the specific requirements (e.g. costs derived from the recruitment process and remuneration of additional members of the AMSB) Potential lack of flexibility; general requirements may not be fully appropriate for concrete undertakings
	Supervisors	Potential lack of flexibility for the supervisory assessment of the AMSB composition
	Other	N/A
Benefits	Policyholders	Improved policyholder protection by reinforced governance of the undertakings
	Industry	More certainty of the supervisory expectations with respect to the AMSB (e.g. on the expected number of AMSB Members)
	Supervisors	More guidance in the regulation for the supervision of the AMSB
	Other	N/A

Option 4.3: Regular assessment on the adequacy of the composition, effectiveness and internal governance of the AMSB considering proportionality		
Costs	Policyholders	No material impact
	Industry	Additional resources needed for the extended mandatory scope of the regular evaluation of the undertaking's system of governance (if AMSB composition, effectiveness and internal governance are not explicitly covered currently)
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection by reinforced governance of the undertakings
	Industry	Flexibility for undertakings to decide on the composition of the AMSB
	Supervisors	Flexibility for the supervisory assessment of the AMSB composition
	Other	N/A

Policy issue 4: Composition of the AMSB						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 4.1 No change	0	0	0	0	0	0
Option 4.2 Specific requirements on the composition of the AMSB	+	+	++	+	+	+
Option 4.3 Regular assessment on composition, effectiveness and internal governance of AMSB considering proportionality	+	++	+	++	++	+

8.4.5 Remuneration

Policy issue 5: Remuneration (Deferral variable component)
Option 5.1: No change

Costs	Policyholders	No material impact
	Industry	Mandatory deferral may be disproportionate for small undertakings as well as for staff with low levels of variable remuneration
	Supervisors	No material impact
	Other	Lack of cross-sectoral consistency, in view of the exemptions allowed in the banking framework
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 5.2: Exemption to the principle of deferral of a substantial portion of the variable remuneration component for low risk profile undertakings		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Less costs for undertakings exempted
	Supervisors	No material impact
	Other	Improved cross-sectoral consistency

Policy issue 5: Remuneration (Deferral variable component)						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Cross sectoral consistency	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Cross sectoral consistency
Option 5.1 No change	0	0	0	0	0	0
Option 5.2 Exemption for low risk undertakings	0	+	+	0	+	+

8.5 Proportionality in pillar 3

8.118 The principle of proportionality in pillar 3 is considered with the current solution proposed:

- Maintenance of article 35 of Solvency II as currently drafted complemented by a more risk-based supervisory reporting package with introduction of two templates categories;

- The revision of the existing risk-based thresholds and creation of new ones in some templates which are to reflect the nature, scale and complexity of the risk exposure of the risk area covered by each template;
- Simplification of the quarterly submission;
- Deletion of some QRTs and simplification of a number of other QRTs both quarterly and annually;
- Specific treatment for reinsurance business regarding the reporting of S.16.01 by reinsurance undertakings;
- Simplifications for captives undertakings in QRTs and SFCR;
- Introduce a dedicated SFCR section for the policyholders ("Two-Pager") in the SFCR while the rest focused on a more quantitative and professional public information.

8.119 Regarding article 35 two options have been analysed: Option 1 - keep the "may" and Option 2 - amend the "may" into a "shall" to reflect the new proportionality framework.

8.120 Option 2 proposed to amend the "may" into "shall" but with a new limit of 5% instead of 20%. The proposal would be that the undertakings classified as low risk profile undertakings would be automatically exempted from quarterly reporting but with a limit of 5% of the market share. With this approach in some Members it would not be possible to exempt all low risk profile undertakings:

- In 11 Members there are life undertakings classified as low risk profile undertakings representing more than 5%;
- In 19 the life undertakings classified as low risk profile undertakings represent less than 5%;
- In 10 Members there are non-life undertakings classified as low risk profile undertakings representing more than 5%;
- In 20 Members the non-life undertakings classified as low risk profile undertakings represent less than 5%.

8.121 In those markets where the low risk profile undertakings are above the 5% share, priority for the reporting exemptions would be given to the smallest undertakings. The supervisory authorities wouldl also have the power to grant additional exemptions up-to the limit of 20% market share.

- In life, considering the 20% market share, still 8 Members would need to require quarterly reporting from some low risk profile undertakings.
- In non-life, considering the 20% market share, only 2 Members would need to require quarterly reporting from low risk profile undertakings.

8.122 To make the process transparent and provide legal certainty to the undertakings EIOPA Guidelines on the methods for determining the market shares for reporting would need to be revised under Option 2.

8.123 For more information regarding individual solutions, please view the relevant subsection in the Opinion Background document.

8.124 This document focuses mainly on the general impact of the proportionality combining all proposals in the area of proportionality under pillar 3 and it should be read together with the impact asessment on the other areas of reporting and disclosure.

8.125 Considering proportionality in general in level 3 the Policy options can be summarised as:

Policy issues	Options
1. Principle of proportionality	1.1 No change to the current framework 1.2 Amend current framework in particular to consider proportionality 1.3 Amend current framework to consider proportionality as well as gaps identified and need to consider different business models (preferred)

8.126 The principle of proportionality has always been taken into account by the European Community. This means that regulations should not go beyond what is necessary to achieve satisfactorily the objectives which have been set. With regard to Small and Medium sized Enterprises (SMEs), due to their size and limited resources, they can be affected by the costs of regulations more than their bigger competitors. At the same time, the benefits of regulations tend to be more unevenly distributed over companies of different sizes. SMEs may have limited scope for benefiting from economies of scale. In general, SMEs find it more difficult to access capital and as a result the cost of capital for them is often higher than for larger businesses. Therefore the principle of proportionality is always taken into account while considering different policy options.

8.127 Considering the proportionality principle and the purpose of the templates, i.e. only information needed for the purposes of fulfilling national supervisory authorities' responsibilities under Directive 2009/138/EC shall be required, it is proposed that some templates are only required to be submitted on a risk-based approach, by reinforcing the risk-based thresholds. This guarantees that information submitted is proportional to the risks assumed by the insurance and reinsurance undertakings or groups. In addition, implicit proportionality applies, meaning that reporting requirements are proportionate to the nature, scale and complexity of the risks faced by the undertakings.

8.128 Regarding the fit-for-purpose principle the information received should be fit for the purpose of the Supervisory Review Process not only at the level of the content of the regular reporting package but also at the level of granularity, the market coverage, the frequency of reporting and the timeliness of the submission.

Analysis of impacts

8.129 The table focuses on the general application of proportionality under pillar 3

Policy issue 1: Proportinality under pillar 3		
Option 1.1: No change to the current framework		
Costs	Policyholders	No additional costs are foreseen as the framework is kept as of today

	Industry	As the reporting systems are build and the reporting is already established no additional costs are envisaged. However, the areas where the reporting cost and burden could be potentially reduced by streamlining requirements, while continuing to ensure financial stability, market integrity, and consumer protection will not be introduced and implemented. In addition, if no change is implemented in the areas identified based on the experience already gained the areas of proportionality, reporting and disclosure will continue to be in some cases burdensome and difficult to comply with, requiring more resources especially in case of proportionality (e.g. non reduced quarter reporting) The feedback provided via the COM Fitness Check on Supervisory Reporting and via EIOPA Call for input identified that the majority of insurance undertakings are currently unsatisfied with proportionality implementation by legislation and their respective national supervisory authorities and see an urgent need for improvement. Considering in particular the amendments proposed for a new proportionality framework, no changes in the reporting framework to adapt to that new framework could represent disproportionate reporting costs for the low risk profile undertakings.
	Supervisors	Additional costs might arise in case ad-hoc information is needed in the newly identified areas for which information is needed. Supervisory resources might not be used optimal in cases where proportionality can be further strengthen.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact as the status quo will be kept
	Supervisors	No material impact as the status quo will be kept
	Other	N/A
Option 1.2: Amend current framework in particular to consider proportionality		
Costs	Policyholders	No material impact
	Industry	The application of proportionality will allow requirements to be implemented in ways that are less complex and therefore less burdensome. Some initial costs are envisaged related to the simplification of the templates part of the quarter reporting, the implementation of the proportionality in the reporting systems or the new section addressing policyholders. However after this initial increase of the costs it is expected that the reporting cost and burden will be potentially reduced.
	Supervisors	Some potential costs are envisaged following the simplification of some templates in the quarter package and implementation of the proportionality. Reducing the quarterly reporting even if only for the low risk profile undertakings could represent an impact in the ability of supervisors to monitor the risk profile of those undertakings.
	Other	N/A
Benefits	Policyholders	Having a special "two pager" section of the SFCR dedicated to policyholders would be an improvement on the access to information.
	Industry	Proportionality regarding the nature, scale and complexity of the risk undertakings face is further enhanced taking into account lessons learnt. Furthermore, the reduce in the quarterly reporting package will pose additional relief – especially during the labour-intensive quarter four. An automatic exemption from the quarterly reporting applied to low risk undertakings, even if with a limit of 5% of the market share, would

		allow for a more consistent application of the proportionality principle in Pillar III and would provide a cost relief associated to the regular reporting processes for those undertakings considered as low risk. Those undertakings should still be required to report annually. The annual reporting would allow NCAs to monitor the risk profile of the undertakings. This would represent a huge improvement in the automatic application of the proportionality principle.fcle The proportionality is further strengthen via embedded proportionality and via the revision of the existing risk-based thresholds and creation of new ones in some templates which are to reflect the nature, scale and complexity of the risk exposure of the risk area covered by each template. The extension of two weeks for the annual supervisory reporting and public disclosure will help on the internal processes of the undertakings.
	Supervisors	Better proportionate and fit-for-purpose supervisory reporting and public disclosure reflecting the experience gained and considering the needs of the users and the costs involved. Keeping the quarterly deadlines allows for timely supervision and maintenance of current processes and supervisory products.
	Other	COM work on the fitness check of supervisory reporting in EU financial legislation and whether they are meeting their objective is taken into account
Option 1. 3: Amend current framework to consider proportionality as well as gaps identified and need to consider different business models (preferred)		
Costs	Policyholders	No material impact as overall assessment is positive regarding proportionality
	Industry	As in Option 1.2. In addition, some initial costs are estimated for reinsurers to reflect the specific treatment for reinsurance business regarding the reporting of S.16.01 and reference to reinsurance business. In long term the reporting cost and burden will be potentially reduced. Having only minor amendments to article 35 would not allow the low risk undertakings to benefit from proportionality regarding quantitative reporting.
	Supervisors	Some potential costs are envisaged following the simplification of some templates in the quarter package and implementation of the proportionality as in option 1.2, however, under this option the amendments to article 35 are minimum, so no impact on the ability of supervisors to monitor the risk profile of the entre market are identified.
	Other	N/A
Benefits	Policyholders	Having a special "two pager" section of the SFCR dedicated to policyholders would be an improvement on the access to information.
	Industry	Considering the proportionality principle and that only information needed for the purposes of fulfilling national supervisory authorities' responsibilities under Directive 2009/138/EC shall be required, some templates are only required to be submitted on a risk-based approach. This guarantees that information submitted is proportional to the risks assumed by the insurance and reinsurance undertakings or groups. In addition, implicit proportionality applies, meaning that reporting requirements are proportionate to the nature, scale and complexity of the risks faced by the undertakings. Benefits are estimated especially for reinsurance business and for undertakings meeting the proportionality criteria (e.g. application of thresholds, application of exemptions under Art.35, reduce of the quarterly reporting package). The extension of two weeks for the annual supervisory reporting and public disclosure will help on the internal processes of the undertakings.
	Supervisors	Supervisors receive a proper level of detail of the reporting related to the nature, scale and complexity of risks of undertakings, allowing them to properly identify and assess risks undertaken by undertakings and to ensure the protection of policyholders.
	Other	N/A

8.130 Identifying direct impacts in areas such as, among others, regulatory compliance costs and administrative burden, the direct impacts of the proposed policy options 1.2 and 1.3. are mainly IT (related to the reporting systems) and staff costs. As option 1.1 propose no change to the current framework no additional costs are expected, but also no reduction of costs.

8.131 Both 1.2. and 1.3 options include mainly one-off cost related to the adjustment of the reporting systems to the new requirements e.g. for simplification of templates, for reduce of the quarterly reporting package etc. However, regardless of the initial cost in on-going base it is envisaged that the proposals in the area of proportionality will reduce the reporting burden and will contribute to a better proportionate and fit-for-purpose supervisory reporting and public disclosure.

8.132 According to the time horizon, policy options 1.2 and 1.3:

- produce costs in the short term because of the related IT costs;
- does not produce material costs in the medium and long term because once the reporting systems are established no further additional cost compared to the current situation are expected. On the contrary, cost reductions are expected due reduced reporting for the majority of the undertakings.

Evidence

8.133 During the analysis the following evidence has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting
- Insurance Europe proposals – April 2019
- Feedback received during the public consultation of the proposal during Summer 2019.

Comparison of options

8.134 The preferred policy option for this policy issue is Option 1. 3: Amend current framework to consider proportionality as well as gaps identified and need to consider different business models because it guarantees that information submitted is proportional to the risks assumed by the insurance and reinsurance undertakings or groups, is built on the experience gained during the first years of SII implementation and considers the specificities of the different business models. In this option the reporting requirements are further aligned with the nature, scale and complexity of the risks faced by the undertakings. Option 1.1. has been disregarded because it choose to keep the status quo of today and is not reflecting on the input received from the stakeholders and their urgent need for improvement of the proportionality implementation. Option 1.2. has been disregarded as it only considers proportionality but leaves apart the gaps identified and the different business models.

8.135 The comparison of options against a baseline scenario has been based on the costs and benefits for the stakeholders and for the supervisors. In measuring the effectiveness, attention was put to assess the degree to which the different policy

options meet the relevant objectives and more specifically whether the changes proposed will still assure adequate protection of policyholders and whether the risks related to the specific business models are reflected in the reporting requirements via embedded proportionality and development of two types of templates (core and risk-based).

8.136 In addition, the efficiency of each option has taken into account the efficient use of resources and costs to achieve the objectives in the area of reporting, considering the proportionality, the adequate protection of policyholders and that the risks are appropriately reported and supervised.

8.137 The proposals have been prepared balancing the necessity of supervisory authorities to get an appropriate level of information with possible proportionality measures taking into account the feedback received from the industry that proportionality can be further enhanced. As a results both options proposing changes propose further enhancement of proportionality reflecting on the lessons learnt.

8.138 The effect on effectiveness and efficiency can be illustrated according to the table below:

Policy issue 1: General areas issues on supervisory reporting and public disclosure of the reporting framework						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Proportionality	+	+	+	+	+	+
Option 1.3: Proportionality, gaps and business models	++	++	++	++	++	++

8.6 Specific Business Models: captive insurance and reinsurance undertakings

8.139 In the development of the EIOPA Opinion regarding the Solvency II 2020 Review with reference to proportionality measures applicable to captive undertakings, EIOPA has duly analysed the costs and benefits of the main options considered; these options are listed below:

- Policy Issue 1 relates to proportionality applied to ORSA.
- Policy Issue 2 relates to Reporting and Disclosure for captive insurance and reinsurance undertakings
- Policy Issue 3 relates to Reporting and Disclosure for captive reinsurance undertakings only

8.140 With regard to the analysis of the impacts, the following tables summarise the costs and benefits for the main options for each Policy Issue.

Policy issue 1: proportionality measures for ORSA and ORSA report to the supervisor		
Option 1.1: No change to the current framework		
Costs	Policyholders	No material impact
	Industry	Burden on processes generating a need to outsource activities and therefore incur in costs
	Supervisors	Need to use direct dialogue with the undertaking to get additional/deeper information not present in the delivered report
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	Keep existing processes for analysing reports
	Other	N/A
Option 1.2: bring the frequency of the ORSA to 2 years keeping the current requirements in terms of content		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Reduced costs as report producing activity (most of the times outsourced) becomes less frequent
	Supervisors	No material impact
	Other	N/A
Option 1. 3: bring the frequency of the ORSA to 2 years and identify a minimum expected content		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A

Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	Possibility to get target information with the value added of getting a granularity of information which is coherent with the business model of the reporting undertaking
	Other	N/A

8.141 The preferred policy option for this Policy issue is Option 1.3. "Bring the frequency of the ORSA to 2 years and identify a minimum expected content".

8.142 The effect on effectiveness and efficiency can be illustrated according to the table below:

Policy issue 1: Proportionality applied to ORSA						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of captive (re)insurance undertakings	Objective 2: Improving proportionality, in particular by limiting the burden for captive (re)insurance undertakings	Objective 3: Improving transparency and better comparability	Objective 1: Effective and efficient supervision of captive (re)insurance undertakings	Objective 2: Improving proportionality, in particular by limiting the burden for captive (re)insurance undertakings	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0	0	0	0
Option 1.2:ORSA every two years, keeping content	+	+	0	+	+	0
Option 1.3: ORSA every two years, minimum expected content	++	++	+	++	++	+

Policy issue 2: Reporting and Disclosure for captive insurance and reinsurance undertakings		
Option 2.1: No change to the current framework		
Costs	Policyholders	No material impact
	Industry	Possible future costs if no specific QRTs are identified for specific business model's reporting
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact

	Supervisors	No material impact
	Other	N/A
Option 2.2: revise the set of quarterly and annual QRTs to be reported		
Costs	Policyholders	No material impact
	Industry	Possible limited initial costs for revision of reporting processes
	Supervisors	Possible initial costs for checking cross validations
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Reduction in costs in the medium-long term
	Supervisors	Possibility to make supervision more efficient
	Other	N/A
Option 2. 3: exempt captives from quarterly reporting while keeping the annual reporting as in the current framework		
Costs	Policyholders	No material impact
	Industry	Possible limited initial costs for revision of reporting processes
	Supervisors	Increase in costs because of interruption of quarterly reporting that might generate the need to engage in one-to one dialogue with undertakings to get infra-annual information on the business
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Reduction in costs for reporting activities
	Supervisors	No material impact
	Other	N/A

Policy issue 2: Reporting and Disclosure for captive insurance and reinsurance undertakings						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of captive (re)insurance undertakings	Objective 2: Improving proportionality, in particular by limiting the burden for captive (re)insurance undertakings	Objective 3: Improving transparency and better comparability	Objective 1: Effective and efficient supervision of captive (re)insurance undertakings	Objective 2: Improving proportionality, in particular by limiting the burden for captive (re)insurance undertakings	Objective 3: Improving transparency and better comparability
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: revise quarterly	++	+	+	+	+	+

and annual QRTs						
Option 2.3: exemption of quarterly reporting	+	++	0	+	+	0

8.143 The preferred policy option for this Policy issue is Option 2.2. "revise the set of quarterly and annual QRTs to be reported"

8.144 The effect on effectiveness and efficiency can be illustrated according to the table below:

Policy issue 3: Reporting and Disclosure for captive reinsurance undertakings only		
Option 3.1: No change to the current framework		
Costs	Policyholders	No material impact
	Industry	Undertakings will continue to bear the costs of activities that do not exactly match their business model
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Option 3.2: exclude captive reinsurance undertakings from the SFCR for policyholders requirement		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Partially reduced costs for the activities related to the overall SFCR production
	Supervisors	No material impact
	Other	N/A
Option 3. 3: exclude captive reinsurance undertakings from the SFCR for policyholders requirement and restrict annual QRTs package to those disclosed in the SFCR		
Costs	Policyholders	No material impact
	Industry	Possible initial costs incurred to amend the reporting process
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact

	Industry	Overall reduced costs for SFCR production and for QRTs production in the medium/long term
	Supervisors	Efficient analysis of information, eliminating redundant information from the reporting package
	Other	N/A

8.145 The preferred policy option for this Policy issue is Option 3.3 "exclude captive reinsurance undertakings from the SFCR for policyholders requirement and restrict annual QRTs package to those disclosed in the SFCR"

8.146 The effect on effectiveness and efficiency can be illustrated according to the table below:

Policy issue 3: Reporting and Disclosure for captive reinsurance undertakings only						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of captive (re)insurance undertakings	Objective 2: Improving proportionality, in particular by limiting the burden for captive (re)insurance undertakings	Objective 3: Improving transparency and better comparability	Objective 1: Effective and efficient supervision of captive (re)insurance undertakings	Objective 2: Improving proportionality, in particular by limiting the burden for captive (re)insurance undertakings	Objective 3: Improving transparency and better comparability
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: exclude captives from SFCR for policyholders	+	+	0	+	+	0
Option 3.3: exclude captives from SFCR for policyholders and restrict annual QRTs	++	++	0	++	++	0

9. Group supervision

Background to the Impact Assessment on group issues

9.1 The impact assessment on groups is presented in this chapter according to the policy issues identified in the advice. The document provides an overall background on how proportionality was considered in the development of the advice for groups as well as how the data was considered for the purpose of the impact assessment. This is then followed by the detailed impact assessment by section, which provides a brief summary of the policy issue and the options; as well as a table with a summary of the costs and benefits for each policy option, followed by the comparison of options and description of key impacts; and concludes with a table summarising the effectiveness and efficiency of the policy advice.

9.2 Separately, there is an overall analysis of the costs and benefits which is presented at the beginning of this Impact Assessment document.

9.3 The impact assessment for group issues looks at the impact of the individual policy issues identified on groups; it does not cover the impact from the application of solo policy advice on groups. Where policy issues are connected to other sections of this Chapter or to the overall advice, relevant referencing is added.

9.4 The Impact Assessment must be read in conjunction with the Call for Advice document where the identification of the policy issues, analysis and policy options are presented in a comprehensive and detailed manner.

Proportionality – How is proportionality considered in Chapter 9 of the Advice

9.5 Proportionality is a key principle of the Solvency II framework and supports that the application of SII should not be too burdensome for small and medium-sized undertakings[79][80] without any significant impact on the overall measurement of solvency or on policyholder protection.

9.6 The principle applies both to the requirements imposed on the insurance and reinsurance undertakings and to the exercise of supervisory powers. Proportionality is achieved by taking into account the nature, scale and complexity of the business and risks inherent to the insurance or reinsurance group.

9.7 Group supervisors when developing their supervisory review processes on group supervision and taking supervisory measures are expected under the Solvency II framework to apply the principle of proportionality. However, proportionality should not translate into the no application of Solvency II requirements for insurance and reinsurance groups.

9.8 Ensuring proportionality in terms of the policy advice on group issues is therefore a fundamental element of the advice to the Commission. In particular, consideration is given to what must be necessary to close the regulatory gaps identified in order to achieve the objectives of group supervision, and facilitate the

[79] Recital 19 of the SII Directive.

[80] Article 29(4) of the Solvency II Directive. "..The delegated acts and the regulatory and implementing technical standards adopted by the Commission shall take into account the principle of proportionality, thus ensuring the proportionate application of this Directive, in particular in relation to small insurance undertakings".

exercise of group supervision in a harmonised manner and ensuring level playing field across the EU.

9.9 In all cases a proportionate application is considered when developing the policy options and preferred policy choice(s) of this advice, as examples please note that:

9.10 (i) In some cases the document makes specific references to the proposal targeting issues about proportionate applications. For instance, Section 9.3.4 enhancement of the definition of IGTs and RCs does not extend to include transactions with ancillary services undertakings (ASUs); section 9.3.7 Article 229 of the Solvency II Directive provides for a simplified approach, in addition to the current option provided in Article 229 of the Solvency II Directive; Section 9.3.16 Inclusion of Other Financial Sectors also notes in the policy issues that the analysis required for policy issue three should particularly be performed in case the excess of own funds stemming from Other Financial Sectors is deemed material; and in Section 9.3.18 System of Governance (SoG)the advice focuses on key principles that will support the SoG at group level rather than requiring a replication of the solo requirements that apply mutatis mutandis, in order to address conflict of interest issues between group and solo undertakings.

9.11 (ii) In other cases, it is expected that proportionality principle would apply as part of the on-going application of group supervision and therefore it is embedded in the policy options, for example, section 9.3.4 setting up of thresholds for IGTs and RCs; Section 9.3.1 and 9.3.2 make reference to additional supervisory powers to be applied where necessary; Section 9.3.5 on Article 262 of the Solvency II Directive and third countries; section 9.3.12 Assessing "free from encumbrances" (recital 127 of the Delegated Regulation) in particular in relation to own-fund items issued by an insurance holding company or mixed-financial holding company is not extended to the ultimate parent (re)insurance undertaking; Section 9.3.13 on the calculation of the SCR diversified, ASUs were considered but not included in the advice; Section 9.3.15 the scope of minimum consolidated group SCR enhanced scope does not extend to ASUs.

9.12 (iii) There are also cases where the consulted policy option would have been of such impact to groups that the outcome would have not been proportionate to the desired benefits of application, and this led to the policy options to be revised or a new ones created to mitigate such material and at instances no proportionate impact across the variety of groups. Furthermore, sometimes, even if there were sound policy proposals the preferred choice was reconsidered to a no change as part of the overall impact assessment analysis. The overview of policy options in section 9.2 of the Call for Advice document notes where a policy has been revised or a new one created, and the following are noted as examples where a proportionate approach was applied: Section 9.3.13 on the issues identified on availability assessment of specific items within the reconciliation reserve, new policy options were developed for policy issues three and four; for Section 9.3.15 the preferred policy option for issue two changed from a no change to a new policy option; Section 9.3.16(2) the preferred policy issue was reconsidered to a no change for the policy issue on allocation of own funds from Other Financial Sectors into relevant Solvency II tiers for the purpose of Solvency II calculations.

9.13 Groups subject to Solvency II, should also consider other proportionality measures presented in other chapters of the advice to the Commission. For instance, reporting and disclosures.

9.14 Proportionality works in two directions as it can be appreciated that the advice can reduce or increase the requirements depending on the nature, scale and complexity of the business and risks inherent to the insurance or reinsurance

group, and related impacts also increase and decrease on industry, supervisors and policyholders as noted in the cost and benefits analysis. For instance, the larger and more complex the business of the insurance group, the more important becomes to have a clear group structure and the roles and responsibilities of the respective Administrative, Management or Supervisory Body (AMSBs), the roles and relationships with its service companies and the inter-relationship between the undertakings within the group. Adequate risk management can only be achieved on the basis of clear group structures, adequate group governance, supporting clear internal reporting and control, transparent to the responsible group supervisor to support the objective of protection of policy holders.

Data Sources and Evidence Used for the Impact Assessment Analysis and definition of the policy choices and advice.

9.15 Section 9.1.6 of the Call for Advice document outlines the various sources of data used in providing the advice on groups. The Information request to groups with deadline December 2019 covered both the impact on solvency and the cost/benefit of proposals.

9.16 The impact assessment document takes into account all data sources outlined for Chapter 9 on Group Issues, and when possible it includes relevant references to the data.

9.17 A qualitative and quantitative analysis was considered in most cases. It is worth mentioning that there are policy issues where the quantitative impact is difficult to ascertain. Therefore, the cost and benefits of requesting data from supervisory authorities and Groups was carefully weighted throughout the process of developing the advice. Quantitative data where groups needed to perform recalculations based on the assumptions of the policy options was requested only on the cases where the materiality impact was envisaged to be high and/or the possible outcome was totally unknown in comparison to current experience. The information request was addressed to a representative sample of European groups, and the participants were selected by the supervisory authorities on a representative basis[81].

9.18 A materiality level for the analysis of policy issues was considered, where possible. The variables chosen to reflect on the impact analysis depend on the policy issue. For instance, the impacts could be compared against metrics like group solvency ratio, eligible own funds, total balance sheet, etc. The materiality ranges chosen also vary on a policy-by-policy issues.

9.19 The supervisory authorities played a pivotal role in interpreting and analysing the outputs of the data request as well as the QRTs data of the groups under their supervision (e.g. by validating the data and providing a context to the peculiarities of each of the groups sampled) to provide additional assurance that the data was interpreted in a consistent manner.

9.20 It is worth noting the limitations encountered with the data outputs provided by groups, which affected comparability across the market. In some cases, some groups found difficult to quantify the impacts of the policy options. In other cases,

[81] The parameters considered for the sample to be representative were:

- the "top" three groups across different type of groups (life, non-life; insurance, reinsurance) size (small, medium and large), and complexity of issues (group structure; national and cross-border groups); and
- the groups which will be relevant in addressing the variety of issues outlined in the data request.

it was noted that groups made a different interpretation of the data request and/or the policy options while in other cases a few groups did not provide outputs for issues that applied to them nor a substantial rationale that could enhance the analysis of the policy option(s) consulted. EIOPA actively engaged with the supervisory authorities when managing any issues regarding completeness and accuracy of the data.

Impact Assessment on Group Issues

9.21 The following sections provide a detailed assessment of impacts by section and policy issue.

Scope of Application of Group Supervision

9.1 Definition of the Group, including issues of dominant Influence; and Scope of the Group Supervision

Policy issues	Options
1. Lack of clarity on the definition of group in Article 212 of the Solvency II Directive, regarding the definitions that support the identification of a group to capture undertakings, which, together, form a de facto group as well as on the concepts of 'acting in concert', 'centralised coordination', identification of dominant influence.	1.1 No Change
	1.2 To clarify Article 212 of the Solvency II Directive in level 2 regarding the definitions that support the identification of a group to capture undertakings, which, together, form a de facto group, upon supervisory powers (preferred)
2. Need to facilitate the application of group supervision under Article 213 of the Solvency II Directive in the case of horizontal groups or with multiple points of entry in the EEA, groups with multiple points of entry in the EEA, and multiple groups held by the same individual or legal entity.	2.1 No Change
	2.2 To provide the supervisory authorities with powers to require to restructure for the purpose of exercising group supervision when necessary (preferred)
3. Lack of clarity in other definitions to secure scope of a group subject to Solvency II	3.1 No Change
	3.2 Clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups (preferred)

Policy issue 1: Lack of clarity on the definition of group in Article 212 of the Solvency II Directive, regarding the definitions that support the identification of a group to capture undertakings, which, together, form a de facto group as well as on the concepts of 'acting in concert', 'centralised coordination', identification of dominant influence.		
Option 1.1: No change		
Costs	Policyholders	Risks to policyholder protection due to lack (or poor) group supervision
	Industry	Cost deriving from uncertainties and divergent practices

	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	No material benefit
	Industry	Neutral impact. Industry continues to apply the rules known to them.
	Supervisors	No material benefit as supervisors will continue facing the challenges described in the analysis.
	Other	N/A
Option 1.2: To clarify Article 212 of the Solvency II Directive in level 2 regarding the definitions that support the identification of a group to capture undertakings, which, together, form a de facto group, upon supervisory powers.		
Costs	Policyholders	No material cost
	Industry	Eventual extension of scope of group supervision may result in additional burden for undertakings/groups
	Supervisors	Eventual extension of scope of group supervision may result in higher supervisory costs
	Other	N/A
Benefits	Policyholders	Increase of policyholders protection through enhanced group supervision
	Industry	Ensures a level playing field through sufficiently harmonised rules. More clarity, less uncertainty of the scope of group supervision
	Supervisors	More clarity, enhanced group supervision
	Other	N/A
Policy issue 2: Need to facilitate the application of group supervision under Article 213 of the Solvency II Directive in the case of horizontal groups, groups with multiple points of entry in the EEA, and multiple groups held by the same individual or legal entity.		
Option 2.1: No change		
Costs	Policyholders	Risks to policyholder protection due to lack (or poor) group supervision
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices.
	Other	N/A
Benefits	Policyholders	No material benefit
	Industry	No material benefit
	Supervisors	No material benefit
	Other	N/A
Option 2.2: To provide the supervisory authorities with powers to require to restructure for the purpose of exercising group supervision when necessary.		
Costs	Policyholders	No material cost
	Industry	Eventual costs in case undertakings are requested to restructure
	Supervisors	No material cost
	Other	N/A
Benefits	Policyholders	Increase of policyholders protection through enhanced group supervision
	Industry	More clarity, less uncertainty of the scope of group supervision that leads to a level playing field.

	Supervisors	Effective and efficient supervision of group supervision and cross-border business
	Other	Further, consultation to EIOPA will ensure consistent use of supervisory powers with respect to cross-border groups as noted in the policy advice (see section 9.3.1 of the advice on group supervision)
Policy issue 3. Lack of clarity in other definitions to secure scope of a group subject to Solvency II		
Option 3.1: No change		
Costs	Policyholders	Risks to policyholder protection due to lack (or poor) group supervision
	Industry	Cost deriving from regulatory uncertainties and divergent practices
	Supervisors	Cost deriving from regulatory uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	No material benefit
	Industry	No material benefit
	Supervisors	No benefits
	Other	N/A
Option 3.2: Clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups		
Costs	Policyholders	No material cost
	Industry	Eventual extension of scope of group supervision may result in additional burden for undertakings/groups
	Supervisors	Eventual extension of scope of group supervision may result in higher supervisory costs
	Other	N/A
Benefits	Policyholders	Increase of policyholders protection through enhanced group supervision
	Industry	Ensures a level playing field through sufficiently harmonised rules. More clarity, less uncertainty of the scope of group supervision.
	Supervisors	More clarity, enhanced group supervision which also leads to enhance supervision of cross-border business
	Other	N/A

Policy issue 1 - Lack of clarity on the definition of group in Article 212 of the Solvency II Directive, regarding the definitions that support the identification of a group to capture undertakings, which, together, form a de facto group

Comparison of options

9.22 The preferred policy option for this policy issue is option 1.2 to provide with further clarification in level 2 to allow the supervisory authorities to consider undertakings related to each other which, in the opinion of the supervisory authorities (and not necessarily on the basis of a contract, clear financial ties or otherwise directly visible ties), are effectively managed on an unified basis and/or through centralised coordination as referred to in Article 212(1)(c) ii of the Solvency Directive. There is also the need to define criteria for the identification, in case of undertakings linked to each other, of the undertaking responsible for group supervision

requirements. This closes the regulatory gap and allows to ensure a level playing field and protection of policyholders. The other policy option considered has been disregarded because it has been considered as not addressing the identified issue from a regulatory and supervisory perspective.

9.23 Based on the Solvency II 2020 Data Request issued via the survey to the supervisory authorities, two more supervisory authorities encountered difficulties with the scope of group supervision, and in particular they identified challenges to capture undertakings, which together form a de facto group.

9.24 Based on the above, EIOPA envisages no material impact for existent groups already subject to Solvency II as the advice is seeking a clarification. However, there will be an impact on those cases where there supervisory authorities found challenges.

Policy issue 2: Need to facilitate the application of group supervision under Article 213 of the Solvency II Directive in the case of horizontal groups, groups with multiple points of entry in the EEA, and multiple groups held by the same individual or legal entity.

Comparison of options

9.25 The preferred policy option for this policy issue is option 2.2 to provide the supervisory authorities with powers to require to restructure for the purpose of exercising group supervision when necessary because this clearly facilitates the application of group supervision in the cases identified where the group supervision would not be applicable otherwise or where effective group supervision is jeopardised. This ensures a level playing field and the protection of policyholders. The other option considered has been disregarded because they have been considered as not addressing the identified issue.

9.26 According to EIOPA Report to the European Commission (EC) on Group Supervision and Capital Management with a Group of Insurance or Reinsurance Undertakings and FoS and FoE under Solvency II, EIOPA-BoS-18-485, 14 December 2018 (pages 86 to 88), it is noted that at least one case of a horizontal group. EIOPA also encountered several issues and different interpretation of Article 212(1)(c) of the Solvency II Directive with the identification of the ultimate parent undertaking.

9.27 EIOPA envisages that there is neutral or no material impact on existent groups, however there will be an impact where lack of clarity has led to the no effective application of group supervision, or absolute absence of group supervision. The cases identified by the supervisors are known to the relevant parties. The impact will be the cost associated in complying with Solvency II.

Policy issue 3: Lack of clarity in other definitions to secure scope of a group subject to Solvency II

Comparison of options

9.28 The preferred policy option for this policy issue is option 3.2 to clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups. This will close the regulatory gap and facilitates a level playing field. The other option considered has been disregarded because they have been considered as not addressing the identified issue.

9.29 The above policy proposals take into account existent cases encountered by supervisory authorities as well as the potential of those cases occurring again in the future. Please refer to the cases noted in EIOPA Report to the EC on Group Supervision and Capital Management with a Group of Insurance or Reinsurance Undertakings and FoS and FoE under Solvency II, EIOPA-BoS-18-485, 14 December 2018, paragraph 3.9.2. on the findings on the scope on group supervision.

9.30 The impact on groups will depend on the peculiarities of each group. Based on the supervisory experience, it will be expected that the impact will affect a few groups with specific group structures. In some cases, group supervisors may have already established a dialogue with the groups regarding challenges with the identification of the group and application of the group supervision.

9.31 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Lack of clarity on the definition of group in Article 212 of the Solvency II Directive, regarding the definitions that support the identification of a group to capture undertakings, which, together, form a de facto group						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross-border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross-border business
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Revised definition	+	++	+	+	++	+
Policy issue 2: Need to facilitate the application of group supervision under Article 213 in the case of horizontal groups, groups or with multiple points of entry in the EEA, and multiple groups held by the same individual or legal entity.						
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross-border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross-border business
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Provide supervisory authorities with the power	+	++	+	+	++	+

to require to restructure						
Policy issue 3: Lack of clarity in other definitions to secure scope of a group subject to Solvency II -						
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross-border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross-border business
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups	+	++	+	+	++	+

9.2 Definition of Insurance Holding Companies and other challenges related to Insurance holding companies and Mixed financial holding companies

Policy issues	Options
1. Article 212 of the Solvency II Directive does not provide additional explanation of the meaning of 'exclusively or mainly' in the definition of IHC.	1.1 No change
	1.2 To clarify the term "exclusively" or "mainly" used in the definition of IHC contained in Article 212(1)(f) of the Solvency II Directive (preferred)
2. Article 214(1) of the Solvency II Directive; and powers over insurance holding companies and mixed financial holding companies	2.1 No change
	2.2 Amend the wording of Article of the 214 (1) Solvency II Directive to allow supervision and enforcement on the top IHC or MFHC of the group and to request of a structural organisation that enables group supervision at holding level or at another level in the group where necessary (preferred)

Policy issue 1: Article 212 of the Solvency II Directive does not provide additional explanation of the meaning of 'exclusively or mainly' in the definition of IHC		
Option 1.1: No change		
Costs	Policyholders	Risks to policyholder protection due to lack (or poor) group supervision
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Neutral impact. Industry continues to apply the rules known to them.
	Supervisors	No material benefit as supervisors will continue facing the challenges described in the analysis.
	Other	N/A
Option 1.2: Clarify the term "exclusively" or "mainly" used in the definition of IHC contained in Article 212(2)(f) of the Solvency II Directive		
Costs	Policyholders	No material impact
	Industry	Potential impact linked to capital requirements depending on determination whether there is an IHC
	Supervisors	Potential increase in supervisory tasks depending on determination whether there is an IHC
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	More clarity, reducing uncertainties and divergent practices
	Supervisors	More clarity, reducing uncertainties and divergent practices
	Other	No material impact
Policy issue 2: Article 214(1) of the Solvency II Directive; and powers over insurance holding companies and mixed financial holding companies		
Option 1.1: No change		
Costs	Policyholders	Risks to policyholder protection due to limited supervisory powers over holding companies
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Option 2.2: Amend the wording of Article of the 214 (1) Solvency II Directive to allow supervision and enforcement on the top IHC or MFHC of the group and to request of a structural organisation that enables group supervision at holding level or at another level in the group where necessary		
Costs	Policyholders	No material impact

	Industry	Eventual restrictions or costs to holding companies/groups derived from the exercise of the powers by the group supervisor
	Supervisors	Eventual supervisory burden to exercise the powers t
	Other	No material impact
Benefits	Policyholders	Enhanced policyholder protection through more effective group supervision
	Industry	More clarity, reducing uncertainties and divergent practices
	Supervisors	More effective group supervision through more powers over holding companies
	Other	No material impact

Policy issue 1: Article 212 of the Solvency II Directive does not provide additional explanation of the meaning of 'exclusively or mainly' in the definition of IHC

Comparison of options

9.32 The preferred policy option for this policy issue is to provide further clarity on the term "exclusively" or "mainly" used in the definition of IHC contained in Article 212(2)(f) of the Solvency II Directive because a clear measurable standard to identify an insurance holding company would ensure a level playing field and avoid any competitive disadvantages for certain groups depending on the interpretation made by the group supervisor and/or national transposition issues. EIOPA encountered several different practices around the EEA for the application of this article in the Solvency II 2020 Data Request issued via a survey to supervisory authorities, some supervisory authorities look at the number of subsidiaries other supervisory authorities look at the importance of the subsidiaries for the total business of the group, others at the balance sheet of the group. See also Paragraphs 3.269 – 3.271 of the EIOPA Report to the EC on Group Supervision and Capital Management with a Group of Insurance or Reinsurance Undertakings and FoS and FoE under Solvency II, EIOPA-BoS-18-485, 14 December 2018. The other option considered has been disregarded because they have been considered as not addressing the identified issue from a supervisory perspective.

9.33 The quantitative impact on this policy is observable from the supervisory cases noted, where companies failed to be categorised as IHC, leading to the absence of full group supervision as a whole in one case, and of sub-group supervision at EEA level in one other case.

9.34 Furthermore, not having a parent undertaking adequately categorised as IHC, instead of a MAIHC, means that for such cases assigned as MAIHC the level of group supervision is limited only to IGTs, therefore jeopardising the position of the group supervisor to exercise effective group supervision.

Policy issue 2: Article 214(1) of the Solvency II Directive; and powers over insurance holding companies and mixed financial holding companies

Comparison of options

9.35 The implementation of Article 214(1) of the Solvency II Directive in national supervisory laws are causing inconsistencies in the application of group requirements to holding companies leading to ineffective supervision and supervisory convergence issues. The preferred policy option for this policy aims at achieving a convergent approach to holding supervision and does not intend for

the holding companies to be subject to full solo-supervision; the aim is for the to ensure group supervisor to have certain powers towards holdings to ensure an effective group supervision; and enforceability over such undertakings only to ensure effective implementation of the group requirements. It also ensures a level playing field. The other option considered has been disregarded because they have been considered as not addressing the identified issue from a supervisory perspective.

9.36 Several supervisory authorities reported in the Solvency II 2020 Data Request to have no supervisory powers towards top holdings of insurance groups at all, others reported to supervise subsidiaries of groups originating in other countries where the group supervisor did not have adequate supervisory powers over holding companies. One supervisory authority reported that according to their national law the insurance group decides which entity in the group scan be approached and is responsible for the group requirements, another supervisory authority experienced group responsibilities for group requirements are scattered over the group and the entity or these entities do not have the seniority nor the powers within the group to be adequately informed if the requirements are fulfilled nor for compliance from their sister companies or the group holding. See also the EIOPA Report to the EC on Group Supervision and Capital Management with a Group of Insurance or Reinsurance Undertakings and FoS and FoE under Solvency II, EIOPA-BoS-18-485, 14 December 2018 paragraph 3.272.

9.37 Depending on how Article 214(1) of the Solvency II Directive has been transposed at national level, as well as any other national regulations available on holding companies (see identification of the issue in section 9.3.2.4 of the Advice), the impacts could vary. If there are already similar powers over holdings the impact will be neutral. Nonetheless, based on the data available, the envisaged impact from the policy advice is to be limited as the policy will apply on a case by case basis, and only when necessary.

9.38 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Article 212 of the Solvency II Directive does not provide additional explanation of the meaning of 'exclusively or mainly' in the definition of IHC						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Clarify the term “exclusively” or “mainly” used in the definition of IHC contained in Article 212(2)(f)	+	+	+	+	+	+

of the Solvency II Directive						
Policy issue 2: Article 214(1) of the Solvency II Directive; and powers over insurance holding companies and mixed financial holding companies						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Amend the wording of Article of the 214 (1) Solvency II Directive to allow supervision and enforcement on the top IHC or MFHC of the group and to request of a structural organisation that enables group supervision at holding level or at another level in the group where necessary	+	+	+	+	+	+

9.3 Article 214(2) of the SII Directive - Exclusion from the scope of group supervision

Policy issues	Options
1. Exclusion of undertakings from the scope of group under supervision, which can lead to complete absence of group supervision or application of group supervision at a lower / intermediate level in the group structure.	1.1 No Change
	1.2 Reinforce documentation and monitoring requirements in case of exclusions by introducing a clearer principle on the exclusion from group supervision (preferred)
2. Negligible interest (Article 214(2)(b) of the Solvency II Directive) vs. achieving the objectives of group supervision.	2.1 No change
	2.2 To provide criteria to be considered for the purpose of assessing "negligible interest" (preferred)

Policy issue 1: Exclusion of undertakings from the scope of group which can lead to complete absence of group supervision or application of group supervision at a lower / intermediate level in the group structure.		
Option 1.1: No change		
Costs	Policyholders	Risks to policyholder protection in case exclusions result in absence (or limitation) of group supervision
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Option 1.2: Reinforce documentation and monitoring requirements in case of exclusions by introducing a clearer principle on the exclusion from group supervision		
Costs	Policyholders	No material impact
	Industry	In case exclusions are not deemed justified, additional costs to comply with group supervision requirements in addition to solo supervision requirements
	Supervisors	Eventual costs in case the scope of the group supervision is widened
	Other	No material impact
Benefits	Policyholders	Policyholder interests will be better protected through more effective group supervision if exclusions are limited
	Industry	More clarity, reducing uncertainties and divergent practices
	Supervisors	Further supervisory convergence could be achieved; better coordination of supervisory authorities in the effective and efficient supervision of cross-border groups
	Other	No material
Policy issue 2: Negligible interest (Article 214(2)(b) of the Solvency II Directive) vs. achieving the objectives of group supervision.		
Option 2.1: No change		
Costs	Policyholders	No material impact
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Option 2.2 To provide criteria to be considered for the purpose of assessing "negligible interest"		

Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	More clarity on the regulatory requirements
	Supervisors	Further supervisory convergence could be achieved
	Other	No material impact

Policy issue 1: Exclusion of undertakings from the scope of group which can lead to complete absence of group supervision or application of group supervision at a lower / intermediate level in the group

Comparison of options

9.39 The preferred policy option for this policy issue is policy option 1.2. which requires to introduce an overall principle in the Solvency II Directive on the exclusion from group supervision to ensure that exceptional cases as well as cases of potential capital relief are adequately justified, documented, monitored and all relevant parties in the decision are also involved in the process because it will ensure further supervisory convergence. The other options considered have been disregarded because they do not provide the necessary solution to the issue at hand.

9.40 The impact from applying the preferred policy option should be neutral for groups that have followed the intended reading of Article 214(2) of the Solvency II Directive, and the guidance provided in EIOPA's Q&A 485 on this subject. However, an impact will be experienced by groups not following the preferred policy advice. In general for the EU market, there will be clear benefits from having an overall principle on the exclusion from group supervision as this ensures a level playing field through sufficiently harmonised rules; effective and efficient supervision of (re)insurance undertakings and groups; as well as adequate risk sensitive capital requirements.

Policy issue 2: Negligible interest (Article 214(2)(b) of the Solvency II Directive) vs. achieving the objectives of group supervision.

Comparison of options

9.41 The preferred policy option for this policy issue is policy option 2.2. which requires to provide criteria to be considered for the purpose of assessing "negligible interest" because it will help in achieving supervisory convergence and provide more clarity on the regulatory requirements for the industry. The other options considered have been disregarded because keeps the status quo.

9.42 Based on the data available from surveys to supervisory authorities in 2018, it is noted that supervisory authorities applied Article 214 (2) (b) of Directive 2009/138/EC to 37 groups and decided not to include in the group supervision the undertaking because it was of negligible interest with respect to the objectives of group supervision. For 17% of the cases where exclusions were applied led to an absolute no application of group supervision, and in 2.7% of the cases lead to a 'simplified' application of full group supervision.

9.43 The policy advice ensures a level playing field through sufficiently harmonised rules; effective and efficient supervision of (re)insurance undertakings and groups; as well as adequate risk sensitive capital requirements. The impact from applying the preferred policy option should be neutral or no significant for groups that followed a stricter interpretation of what is deemed as of 'negligible interest' under Article 214(2)(b) of the Solvency II Directive. However, a significant impact may be experienced by groups where exclusions may have followed a different interpretation and do not fit the intention of the preferred policy option, and such an impact will be related to all areas of compliance with group supervision. In that regard, the groups that are concerned of the impacts of the advice should liaise with their group supervisors as it is not possible, based on the data available, to quantify the impacts for individual groups.

9.44 The effectiveness and efficiency of the policy advice is summarised in the following tables:

Policy issue 1: Exclusion of undertakings from the scope of group which can lead to complete absence of group supervision or application of group supervision at a lower / intermediate level in the group						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Reinforce documentation and monitoring requirements in case of exclusions by introducing a clearer principle on the exclusion from group supervision	+	+	+	+	+	+

Policy issue 2: Negligible interest (Article 214(2)(b) of the Solvency II Directive) vs. achieving the objectives of group supervision.						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements

Option 1.1: No change	0	0	0	0	0	0
Option 1.2: To provide criteria to be considered for the purpose of assessing "negligible interest"	+	+	0	+	+	0

9.4 Supervision of Intragroup Transactions (IGTs) and Risk Concentrations (RCs)

Policy issues	Options
1. No inclusion in the current definition of IGTs of reference to IHC, MFHC, MAIHC, and third country (re)insurance undertakings as one of the possible counterparties of the IGTs	1.1 No Change
	1.2: Amend the wording of Article 13(19) of the Solvency II Directive to include holding companies and third country (re)insurance undertakings as a possible counterparty to the transaction (preferred)
	1.3 Enlarge the IGT definition to any transaction among all undertakings within the group (i.e. ancillary services, etc.)
2. Need for clearer criteria on the application of thresholds for IGTs and RCs	2.1 No Change
	2.2 To amend Article 244(3) of the Solvency II Directive to allow the introduction of additional criteria (preferred)

Policy issue 1. No inclusion in the current definition of IGTs of reference to IHC, MFHC, MAIHC[82], and third country (re)insurance undertakings as one of the possible counterparties of the IGTs		
Option 1.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	Potential costs arising from supervisors' ad hoc request of information according to art. 254 SIID; divergent practices may arise
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact

[82] MAIHCs reporting on IGTs is already provided for under Article 265 of the Solvency II Directive, however where the regulated entity from other financial sectors at the top of the group does not fall under national law in the definition of a MAIHC, Article 265 applies to those entities. Hence, MAIHCs are kept under the scope of the title of this policy option in conjunction with IHC, MFHC.

	Supervisors	No material impact
	Other	No material impact
Option 1.2: Amend the wording of Article 13(19) of the Solvency II Directive to include holding companies, and third country (re)insurance undertakings as a possible counterparty to the transaction.		
Costs	Policyholders	No material impact
	Industry	Potential impact linked to the enlargement of the reporting to supervisors. The enlargement of the scope does not include ancillary services undertakings. It is expected that the policy proposal should not cause excessive burden except if the analysis of specific interlinkages have not already been taken into consideration
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	Better understanding of the links between major entities within the group (e.g. better insight of the funding system)
	Other	No material impact
Option 1.3: Enlarge the IGT definition to any transaction among all undertakings within the group (i.e. ancillary services, etc.)		
Costs	Policyholders	No material impact
	Industry	Potential reporting burden
	Supervisors	Impact on efficiency of the supervision due to an excessive load of information, if not material/relevant
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	The enlargement of the scope of the reported IGTs provides the supervisor with the overall picture of all main transactions within the group
	Other	No material impact
Policy issue 2: Need for clearer criteria on the application of thresholds for IGTs and RCs		
Option 2.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Option 2.2: To amend Article 244(3) of the Solvency II Directive to allow the introduction of additional criteria		

Costs	Policyholders	No material impact
	Industry	No material impact, and any related impact would depend on type of transactions and thresholds.
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	Avoiding the reporting of information not tailored to the nature, structure and complexity of a group. Policy does not pose an excessive reporting burden for groups.
	Supervisors	Better supervision by capturing the necessary information through criteria which take into account the specificities of the supervised group
	Other	No material impact

Policy issue 1: No inclusion in the current definition of IGTs of reference to IHC, MFHC, MAIHC[83], and third country (re)insurance undertakings as one of the possible counterparties of the IGTs

Comparison of options

9.45 The preferred policy option for this policy issue is 1.2, consisting in amending Article 13 (19) of the Solvency II Directive in order to include at least any transaction by which a (re)insurance undertaking, third country (re)insurance undertaking, IHC, MFHC relies, either directly or indirectly, on other undertakings within the same group or on any natural or legal person linked to the undertakings within that group by close links, for the fulfilment of an obligation, whether or not contractual, and whether or not for payment.

9.46 The policy advice makes the definition of IGTs as clear and comprehensive as possible so that supervisors and industry can have a common understanding and assessment of IGTs that could pose a threat to the financial position of the insurance or reinsurance undertakings belonging to a group and adopt measures in a timely manner.

9.47 Moreover the policy proposal clarifies the regulation to be applied in cases where a regulated entity from other financial sectors at the top of the group does not fall under national law in the definition of a MAIHC under Article 212(1)(g) of the Solvency II Directive. Further, it takes into account a proportionate approach, Article 213(3) of the Solvency II Directive allows group supervisors to waive the reporting of IGTs and RCs in order to avoid reporting under Solvency II and FICOD simultaneously.

9.48 Potential impact linked to the enlargement of the reporting to supervisors. The enlargement of the scope in the definition of IGTs does not include MAIHC nor ASUs in order to avoid an excessive burden of possible not relevant/material reporting for an efficient supervision. It is expected that the policy advice should not cause excessive burden except if the analysis of specific interlinkages have not already been taken into consideration. Overall it is envisaged that the benefits of the advice overcome any associated costs.

9.49 The other options considered have been disregarded because not efficient from a regulatory and supervisory point of view.

[83] See previous footnote regarding MAIHCs.

Policy issue 2: Need for clearer criteria for the application of thresholds for IGTs and RCs

Comparison of options

9.50 The preferred policy option for this policy issue is 2.2. It is recommended that Article 244(3) of the Solvency II Directive is amended with a view of allowing the introduction of additional criteria, such as eligible own funds or a qualitative criterion, to these being of the SCR and/or technical provisions for the purpose of setting thresholds for IGTs and RCs reporting as deemed necessary by the group supervisor. A qualitative criterion is defined by the group supervisor on the basis of a risk based approach.

9.51 The preferred policy option will overcome the challenges encountered with the limited number of variables that are considered by definition when setting up thresholds. Setting thresholds that too high or too low may impair the analysis of transactions or risk concentrations that can be important in understanding the overall risks of the group. Moreover, inadequate thresholds can lead to inadequate reporting and inefficient supervisory actions.

9.52 The preferred policy will enhance the level playing field through sufficiently harmonised rules; and it will ensure efficient and effective supervision of groups by having criteria that will facilitate the setting up of thresholds, and application of proportionality to the analysis and supervision of IGTs. It will lead to thresholds being set in such a way that they are useful to supervisors in its role of protecting policy holders while at the same time no pose an excessive reporting burden for groups. The other policy option considered has been disregarded because it does not address the policy issues identified.

9.53 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: No inclusion in the current definition of IGTs of reference to IHC, MFHC, MAIHC, and third country (re)insurance undertakings as one of the possible counterparties of the IGTs						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Promoting good risk management	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Amend the wording of Article 13(19) of the Solvency II Directive to include at least holding companies and third country	+	+	+	+	+	+

(re)insurance undertakings as a possible counterparty to the transaction						
Option 1.3: Enlarge the IGT definition to any transaction among all undertakings within the group	+	+	+	0	0	0

Policy issue 2: Need for clearer criteria for the application of thresholds for IGTs and RCs						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving proportionality	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: To amend Art 244(3) of the Solvency II Directive to allow the introduction of additional criteria	+	0	0	+	0	0

Third Countries

9.5 Article 262 Solvency II Directive - Clarification

Policy issues	Options
1. Further regulatory clarity needed on the application of Article 262 of the Solvency II Directive	1.1 No change
	1.2 Clarify the objectives of the use of "other methods" under Article 262 of the Solvency II Directive, including the establishment of EU-holdco depending on already exiting EU structure; and other clarifications. (preferred)

Policy issue 1: Further regulatory clarity needed on the application of Article 262 of the SII Directive		
Option 1.1: No change		
Costs	Policyholders	No material impact
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Option 1.2: Clarify the objectives of the use of 'other methods' under Article 262 of the Solvency II Directive, including the establishment of EU-holdco depending on already exiting EU structure; and other clarifications.		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	Some benefits derived from the clarity on the objectives and application of Article 262 of the Solvency II Directive.
	Supervisors	More consistency in the application of other method and further convergence among the supervisory authorities.
	Other	No material impact

Policy issue - Further regulatory clarity needed on the application of Article 262 of the Solvency II Directive

Comparison of options

9.54 The preferred policy option for this policy issue is policy option 1.2 which requires to provide a clear expectation as regards as to the "other methods" that supervisors can make use in addition to what is already provided in Article 262 of the Solvency II Directive, and also clarify other issues identified in the language contained in Article 262 of the Solvency II Directive. This will ensure harmonised rules that support consistency on the application across all member states which will lead to supervisory convergence. The other options considered have been disregarded because they are not efficient from a supervisory point of view.

9.55 Currently there are around 200 insurance groups with the top holding outside the EEA (both equivalent and non-equivalent) are supervised by EEA supervisors. According to EIOPA Report to the EC on Group Supervision and Capital Management with a Group of Insurance or Reinsurance Undertakings and FoS and FoE under Solvency II, EIOPA-BoS-18-485, 14 December 2018 (pages 91 to 93),

several supervisory authorities report no sub-holding in the EEA is required in case the third country is equivalent and good co-operation is assured, preferable accompanied by an effective college set up by the non-EEA group supervisor. It is also noted that at least two supervisory authorities have notified the application of other methods under Article 262 of the Solvency II Directive and notified directly to the European Commission as per current regulations.

9.56 The impact of the policy should not be material as it seeks a clarification on the objectives and the language used in Article 262 of the Solvency II Directive. Furthermore, the objectives included in the advice capture the practices noted by the supervisory authorities. A material impact may occur for groups that have not engaged with or not concluded in discussions with their relevant supervisory authorities in relation to the application of the existent Article 262 of the Solvency II Directive.

Policy issue 1: Further clarity needed on the application of Article 262 of the Solvency II Directive						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Clarify the objectives of the use of "other methods" under Article 262 of the Solvency II Directive, including the establishment of EU-holdco depending on already exiting EU structure; and other clarifications.	+	+	+	+	+	0

Rules governing the methods for calculating Rules governing the methods for calculating group solvency (including Own Fund requirements), including the interaction with Directive 2002/87/EC "FICOD"

Method 1 -Calculation of Group Solvency

9.6 Treatment of Insurance Holding Companies (IHC), Mixed Financial Holding Companies (MFHC)

Policy issues	Options
1. Need to clarify how a notional SCR should be calculated and how to treat the IHC and MFHC for the purpose of the group solvency calculation, in particular of a notional SCR and own funds for such undertakings	1.1. No Change (maintain status quo)
	1.2 State that a notional SCR equal to zero for the intermediate IHC and MFHC
	1.3. Clarify how a notional SCR should be calculated and clarify how to treat the IHC and MFHC for the purpose of the group solvency calculation, in particular of a notional SCR and own funds for such undertakings.

Policy issue 1: Need to clarify how a notional SCR should be calculated and how to treat the IHC and MFHC for the purpose of the group solvency calculation, in particular of a notional SCR and own funds for such undertakings		
Option 1.1: No change		
Costs	Policyholders	None
	Industry	Unlevel playing field. The information on the solvency position would not be reflecting real risks from the holding company in the MS where a notional SCR is non requested on national basis
	Supervisors	Unlevel playing field. The information on the solvency position would not be reflecting real risks from the holding company in the MS where a notional SCR is non requested on national basis
	Other	None
Benefits	Policyholders	None
	Industry	Maintain the status quo
	Supervisors	None
	Other	None
Option 1.2: A notional SCR equal to zero for the intermediate IHC and MFHC		
Costs	Policyholders	The information on the solvency position would not be reflecting real risks from the holding company
	Industry	There is no capital charge, however there are less own funds recognised at group level issued by the holding companies.
	Supervisors	The information on the solvency position would not be reflecting real risks from the holding company
	Other	None
Benefits	Policyholders	Limited benefits as the option although a practical one does not capture the risks associated with the holding companies.
	Industry	Less cost for industry regarding the capital charge as under this option it is assumed that the notional SCR is zero for intermediate IHC and MFHC.
	Supervisors	Limited benefits from harmonization of practices
	Other	None

Option 1.3: Clarify how a notional SCR should be calculated and how to treat the IHC and MFHC for the purpose of the group solvency calculation, in particular of a notional SCR and own funds for such undertakings.		
Costs	Policyholders	None
	Industry	There may be additional costs for some industry players both from an operational point of view (calculation) and also from a capital requirements point of view due to application of the provisions to the parent and intermediate IHC and MFHC.
	Supervisors	Non material costs associated with supervising groups with IHC and MFHC
	Other	None
Benefits	Policyholders	Harmonization of rules. The information on the solvency position would be fully reflecting the risks from the holding company.
	Industry	Harmonization of rules. The information on the solvency position would be fully reflecting the risks from the holding company. Furthermore, the adequate calculation of the notional SCR for these holding companies will also help industry in applying other provisions where the notional SCR is needed.
	Supervisors	Harmonization of rules. The information on the solvency position would be fully reflecting all existing risks from the holding company
	Other	Offers a balanced treatment between groups headed by insurance companies which enhances the level playing field.

Policy issue 1 -Need to clarify how a notional SCR should be calculated and how to treat the IHC and MFHC for the purpose of the group solvency calculation, in particular of a notional SCR and own funds for such undertakings

Comparison of options

9.57 The preferred policy option for this policy issue is 1.3 which requires to include clearly the provision of a notional SCR for both the parent and intermediate IHC and MFHC, including those in third country because it ensures that in a harmonised framework, the information on the solvency position is reflecting existent risks from those holding companies. Furthermore, the policy advice seeks to have a balanced treatment between groups headed by insurance companies which enhances the level playing field. The other options were considered not effective nor efficient to address regulatory gap: the no change option will maintain the uncertainties faced under the current status quo, and the option 1.2 will lead to the solvency position no reflecting real risks from the parent and/or intermediate IHC and MFHC.

9.58 The feedback statement document provides an assessment of the stakeholders' comments. Supervisory concerns highlighted by group supervisors about the need to ensure that there is an adequate coverage of risks deriving from IHC and MFHC in the calculation of the group SCR, were both considered, and the policy advice consulted has been revised in light of such inputs.

9.59 The impacts of this policy should be seeing in conjunction with other policy advise that relates to this topic:

- Calculation of the contribution to the group SCR (see policy issue 9.3.13(2)
- Availability assessment of own funds at group level
- Calculation of the Minimum Consolidated Group SCR (see Policy proposal under section 9.3.15) as the calculation of the Min.Cons.SCR would be based on the value of the notional SCR.
- Scope of application of Method 2 (see Policy proposal under section 9.3.8)

- Treatment in case of Combination of methods (see Policy proposal under section 9.3.10).

9.60 The quantitative data collated as part of the Solvency II 2020 Data Request on groups for this topic is not comparable for all cases due to the variety of group structures, the current divergent practices regarding the calculation of a notional SCR for IHC and MFHC, and the groups' own interpretation of the data request that they made in light of their current practices.

9.61 Overall, it is noted from the data request that if the interpretation of the group is not aligned to the policy option there will be a significant impact on groups with a significant number of IHC and MFHCs and currently not calculating a notional SCR for these holdings. And in such cases, the impacts as recalculated by the groups appear to be in the range of 10% to 55% of the group SCR, and are concentrated into a few groups (3 out of 79 data inputs received for this policy issues) and are focused on two member states. In the rest of cases sampled, the impact is neutral as there is national regulation or supervisory advice already addressing the issue of a notional SCR for IHC and MFHC (e.g. no impact since the groups in the sample were already calculating notional SCR and taking into account in the group solvency calculation), except for a few cases where there is no impact due to the fact that the proposed policy does not apply to the group structure. Finally, in one case, a group indicated the impact to be as "limited" and no quantification was provided on the projected after impact analysis.

9.62 The general understanding and interpretation of such data, also supported by the analysis provided by the group supervisors, is that the overall impact on group SCR ratios to be limited for the overall EU market. Some exceptions of course apply, for instance, insurers having high amounts of non-available own funds, or where the groups follow a conservative approach regarding whether the solo SCR is a barrier to transferability.

9.63 Some indirect impact could be reflected mainly when assessing any potential deduction to non-available own funds at group level. For some groups, the impact is driven by how the contribution to the group SCR is interpreted and calculated under Method 1 (e.g. by not including IHC and MFHC in the calculation of the denominator, the group could overestimate the contribution of each company to the group SCR, which would consequently result in a greater amount of non-available own funds in the eligible own funds at group level). Please refer to Policy Issue 9.3.13.4(2)

9.64 Finally, the effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Need to clarify how a notional SCR should be calculated and how to treat the IHC and MFHC for the purpose of the group solvency calculation, in particular of a notional SCR and own funds for such undertakings						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements

Option 1.1: No change	0	0	0	0	0	0
Option 1.2 : State that a notional SCR equal to zero for the intermediate IHC and MFHC	0	+	0	0	+	0
Option 1.3: Clarify how a notional SCR should be calculated and how to treat the IHC and MFHC for the purpose of the group solvency calculation, in particular of a notional SCR and own funds for such undertakings.	++	++	++	++	++	++

9.7 Article 229 of the Solvency II Directive – Non-availability of information and undertakings deemed as non-material. An alternative for a proxy Method to calculate group solvency requirements

Policy issues	Options
1. Lack of clarity and consistency in the application of Article 229 of the Solvency II Directive in particular in cases where imposing SII calculation is burdensome or impossible.	1.1. No Change
	1.2 Simplified methodology in favour of equity method with a cap on own funds for non-negligible undertakings for which Solvency II calculation is not possible or small undertakings
	1.3 A revised simplified approach, in addition to the current option provided in Article 229 of the Solvency II Directive, should be introduced in favour of equity method (IFRS or local accounting rules consistent with market valuation) for non-material undertakings for which Solvency II calculation is not possible due to lack of information or other reasonable factors, and subject to group supervisor approval (preferred)

Policy issue 1: Lack of clarity and consistency in the application of Article 229 of the Solvency II Directive in particular in cases where imposing Solvency II calculation is too burdensome or impossible.
Option 1.1: No change

Costs	Policyholders	No direct costs identified however if undertakings that should be included in the group solvency calculations are not properly captured that could have some indirect impact on policyholders
	Industry	None
	Supervisors	None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Option 1.2: Simplified methodology in favour of equity method with a cap on own funds for non-negligible undertakings for which Solvency II calculation is not possible or small undertakings.		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Indirect benefits on policyholders as groups can have an alternative approach for addressing the policy issues identified.
	Industry	Allows calculation for groups with subsidiaries in third countries. Calculation less burdensome for small undertakings.
	Supervisors	Ensures a more transparent group solvency. Same level of prudence as current situation because of the cap on own funds.
	Other	N/A
Option 1.3: A revised simplified approach, in addition to the current option provided in Article 229 of the Solvency II Directive, should be introduced in favour of equity method (IFRS or local accounting rules consistent with market valuation) for non-material undertakings for which Solvency II calculation is not possible due to lack of information or other reasonable factors, and subject to group supervisor approval.		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Indirect benefits on policyholders as groups can have an alternative approach for addressing the policy issues identified.
	Industry	Allows for a clear alternative approach to the full SII calculation and to the deduction of the book value of the participation for groups with subsidiaries in third countries. Alternative simplified calculation with a clear methodology, which will allow groups bringing in the relevant data into the group solvency calculations instead of having to deduct the book value of the subsidiary from the group eligible own funds.
	Supervisors	Ensures a more transparent group solvency which supports group supervision.

	Other	N/A

Policy issue 1: Lack of clarity and consistency in the application of Article 229 of the Solvency II Directive in particular in cases where imposing Solvency II calculation is too burdensome or impossible.

Comparison of options

9.65 The preferred policy option for this policy issue is policy option 1.3 which recommends to introduce a clear methodology that is easily applicable to the calculation of own funds and the group SCR calculation for small undertakings for which the Solvency II calculation is too burdensome or due other reasonable factors subject to group supervisor approval. Such simplified methodology could favour the equity method (IFRS or local accounting rules consistent with market valuation). The preferred policy option ensures effective supervision, and supports a level playing field across Europe by ensuring that groups are calculating its capital requirements and own funds in a consistent manner. The other option considered has been disregarded because they have been considered as not addressing the identified issue from a supervisory perspective.

9.66 The amount of actual deductions under article 229 of the Solvency II Directive is not material across Europe as groups apply article 229 only on exceptional cases. Based on the total assets and own funds data available for groups in 2018, it is noted that the total deductions under article 229 of the Solvency II Directive reported in the group own funds templates are approximately 0.12% of the total assets at group level for the overall EU market, and the average percentage of deductions per group is 0.026% in 2018 using total deductions per group against total assets per group.

9.67 Other basis to set the materiality threshold were taken into consideration, such as excess of assets over liabilities, and total eligible group own funds. However, these were not favoured as these indicators could create more volatility and circularity issues which could restrict the application of the simplified alternative calculation for groups that may need to benefit from it. The outputs using other metrics are included only for completeness. Deductions under article 229 are 0.287% out of Total Eligible Own Funds, and 0.597% out of Group SCR in 2018.

9.68 It is also noted that the current amount of deductions under Article 229 of the Solvency II Directive are concentrated for certain groups and in a few member states. It is understood that this is driven by the nature, scope and complexity of the groups but also stems from the divergent practices across the Europe. It is also our understanding that groups applying Article 229 and with an amount of deductions above the EU average noted above are not expected to be negatively affected by the policy advice.

9.69 It is envisaged that the policy advice would bring more benefits than costs to industry. The policy advice opens up an additional option for groups to calculate the group solvency of the undertakings, currently subject to application of article 229. The general expectation would be that groups availing of the policy proposal in the future, would find more benefits in applying the simplified alternative approach rather than having to deduct the book value of the subsidiary from own funds eligible for the group solvency.

9.70 We also understand that even in cases where there are divergent practices on the application of Article 229 of the Solvency II Directive, it would be expected that a

clear approach for a simplified alternative calculation would bring benefits both to industry and the group supervisor.

9.71 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Lack of clarity and consistency in the application of Article 229 of the Solvency II Directive in particular in cases where imposing Solvency II calculation is burdensome or impossible.						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Simplified methodology with a cap on own funds	+	+	++	+	+	++
Option 1.3: Revised simplified approach	+	++	++	+	++	++

Method 2 -Calculation of Group SCR

9.8 Scope of method 2 (where used exclusively or in combination with method 1)

Policy issues	Options
1. Need to clarify the scope of application, and undertakings to be included under method 2 and their treatment to ensure a consistent treatment across methods (same scope of entities under all methods) and across EEA	1.1 No Change
	1.2 Provide clarity on the scope of undertakings to be included under method 2 and their treatment (preferred)

Policy issue 1: Need to clarify the scope of undertakings to be included under method 2 and their treatment to ensure a consistent treatment across methods (same scope of entities under all methods) and across EEA		
Option 1.1: No change		
Costs	Policyholders	Costs deriving from uncertainties and divergent practices

	Industry	Challenges due to uncertainties and divergent practices
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	
Benefits	Policyholders	None
	Industry	Possibility to continue using their current interpretation however that means an unlevel playing field.
	Supervisors	No clear benefits due to lack of convergence.
	Other	
Option 1.2: Provide clarity on the scope of undertakings to be included under method 2 and their treatment		
Costs	Policyholders	None
	Industry	Clarification on the scope of application may have some impact on the capital requirements depending on the group structure and current interpretation of the legislation.
	Supervisors	Reduced supervisory costs from having a clearer regulatory framework and convergence practices.
	Other	Lack of comparability across groups
Benefits	Policyholders	A clearer regulatory framework and convergence of practices benefits the protection of EEA policyholders
	Industry	A clearer regulatory framework and convergence of practices ensures a level playing field.
	Supervisors	Clarity on the scope of application will ensure supervisory convergence.
	Other	Enhanced comparability across groups.

Policy issue 1: Need to clarify the scope of undertakings to be included under method 2 and their treatment to ensure a consistent treatment across methods (same scope of entities under all methods) and across EEA

Comparison of options

9.72 The preferred policy option for this policy issue is 1.2 which recommends to provide clarity on the scope of undertakings to be included under method 2 and their treatment because it would ensure a consistent treatment across methods (same scope of entities under all methods) used for the calculation of group solvency across EEA. The other option considered has been disregarded because it has been considered as not addressing the identified issue from a supervisory perspective and level playing field.

9.73 The Solvency II Data Request did not include a dedicated request on this subject to reduce the burden on industry. Further, it was understood that the impact would not be material across Europe as Method 1 is the default method of application while Method 2 requires a particular assessment (e.g. not applicable in all cases).

9.74 Based on the data available, the use of Method 2 ("pure" method 2 or in combination with method 1) is not broadly used by groups subject to Solvency II (e.g. circa 7% using combination of methods and circa 3% applying only method 2).

9.75 It is expected that there would be no impact from the application of the policy advice for undertakings that belong to other financial sectors as the results are expected to be the same under Method 1 and Method 2.

9.76 It should be noted that EIOPA also recommends clarification of the application of combination of methods (see section 9.1.11 of this Chapter and section 9.3.11 of the Call for Advice) as well as some specificities regarding the calculations of certain risks (see section 9.1.10 of this document; and section 9.3.10 of the Call for Advice) and which are aligned with the need for clarity on the alternative method.

9.77 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Need to clarify the scope of undertakings to be included under method 2 and their treatment to ensure a consistent treatment across methods (same scope of entities under all methods) and across EEA						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Clarify scope and application of Method 2	+	+	++	+	+	++

9.9 Partial Internal Model (PIM) and Integration Techniques

Policy issues	Options
1.There is no specific provision about the application of integration techniques to partial internal models at group level	1.1 No Change.
	1.2 Introduce requirement to demonstrate appropriateness: Clarify in the regulation that in general there is no mutatis mutandis approach to translate integration techniques for risks in Article 239 of the Delegated Regulation to groups but a demonstration of the appropriateness is required similar to Article 239 (4). Also an explicit link between the requirements of Articles 328 and 343 of the Delegated Regulation should be established. (Preferred).

Policy issue 1: There is no specific provision about the application of integration techniques to partial internal models at group level

Option 1.1: No change		
Costs	Policyholders	No.
	Industry	Continued lack of clarity of regulation regarding assessment criteria.
	Supervisors	Continued lack of clarity of regulation regarding assessment criteria.
	Other	No.
Benefits	Policyholders	No.
	Industry	Partly reduced demonstration requirements.
	Supervisors	No.
	Other	No.
Option 1.2: Introduce requirement to demonstrate appropriateness: Clarify in the regulation that in general there is no mutatis mutandis approach to translate integration techniques for risks in Article 239 of the Delegated Regulation to groups but a demonstration of the appropriateness is required similar to Article 239 (4). Also an explicit link between the requirements of Articles 328 and 343 of the Delegated Regulation should be established		
Costs	Policyholders	No.
	Industry	Partly increased demonstration requirements, including documentation. Eventual change of capital requirements for those groups which currently apply inappropriate integration technique.
	Supervisors	No material supervisory costs associated with the supervision of integration techniques
	Other	No
Benefits	Policyholders	Improved appropriateness of capital requirements is expected to improve policyholder protection.
	Industry	Benefits derived from clarity on regulatory requirements and improvement of level playing field which improves also the documentation of integration technique. There will be no a need to go through all the consecutive steps of the appropriateness of the integration technique assessment process if they are not necessary from the methodological point of view.
	Supervisors	Clarity on regulatory requirements, no need to focus on techniques which may not be appropriate, therefore omitting in the supervisory assessment any redundant steps.
	Other	No.

Policy issue 1: There is no specific provision about the application of integration techniques to the partial internal models at group level

Comparison of options

9.78 The preferred policy option for this policy issue is option 1.2 to introduce a requirement to demonstrate the appropriateness of integration techniques for partial internal models at group level or in the case of several major business units in a solo undertaking and to link the requirements of Articles 238 and 343 of the Delegated Regulation because this increases clarity on the regulatory requirements and supports the level playing field. The option to not change the regulation has been disregarded because a demonstration of appropriateness seems to be usual and proportionate in the context of internal models.

9.79 The Solvency II 2020 consultation paper included an open question, where stakeholders were asked to share their experiences on the interlinkages of partial

internal models and integration techniques. The experience from industry indicates that some groups already use alternative techniques and agree with the policy advice; and some put stress on diversification effects while others use a conservative approach by simple summation of the requirements.

9.80 No specific data was asked from industry in relation to this topic, as the impact in the short time horizon will be mainly qualitative – improving the justification and documentation of the appropriateness of the integration techniques by subjecting them fully to the internal models approval process. In the longer time horizon, the overall group capital requirements may change (in both directions) if the groups decide to change or will have to change the integration technique currently used. Some costs may arise as documentation requirements might be extended in certain cases and the more advanced integration technique require more resources, but it will not be a cliff effect.

9.81 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: There is no specific provision about the application of integration techniques to the partial internal models at group level						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Introduce requirement to demonstrate appropriateness	+	+	+	+	+	+

Combination of Methods – Calculation of Group SCR

9.10 Group SCR calculation when using Combination of methods

Policy issues	Options
	1.1 No Change.

1. A need for clarification of principles to ensure appropriate coverage of risks in the group SCR under the combination of methods. This especially concerns equity risk for participations, currency risk and concentration risk.	1.2 Introduce principles of (i) no double counting of risks, namely the equity risk for participations outside the consolidated part, as this risk is expected to be covered by adding the solo SCR without allowing for diversification and (ii) no material risks are being neglected, but are adequately covered in the group solvency calculation. This pertains in particular currency risk and market concentration risk.

Policy issue 1: A need for clarification of principles to follow to ensure appropriate coverage of risks in the group SCR under the combination of methods		
Option 1.1: No change		
Costs	Policyholders	Indirectly impacted if calculations are not properly capturing all relevant risks in the group SCR.
	Industry	Impacted if calculations are not properly capturing all relevant risks in the group SCR.
	Supervisors	No change will not improve the situation and will probably continue to lead to divergent supervisory approaches.
	Other	N/A
Benefits	Policyholders	Not perceived benefits
	Industry	Maintains the status quo.
	Supervisors	No benefit but maintains the uncertainty and affects a level playing field across Europe.
	Other	N/A
Option 1.2: Introduce principles of no double counting and no omission of material risks		
Costs	Policyholders	No significant costs envisaged.
	Industry	Costs derived from the review of group SCR calculations under the combination of methods. The principle of no omission of material risks could lead to some costs depending on how groups are currently interpreting the legislation.
	Supervisors	Costs derived from the review of group SCR calculations under the combination of methods.
	Other	N/A
Benefits	Policyholders	Indirectly benefit from clarity about no omission of material risks.
	Industry	Clarity on the approach under combination of methods. The principle of no double counting of risks benefits industry avoiding overestimation of group capital requirements.
	Supervisors	Clarity on the regulations assist supervisory work and an enhanced level playing field.
	Other	N/A

Policy issue 1: A need for clarification of principles to follow to ensure appropriate coverage of risks in the group SCR under the combination of methods

Comparison of options

9.82 The preferred policy option for this policy issue is to introduce principles for the case of use of the combination of methods only that ensure that (i) there is no

double counting of risks, namely the equity risk for participations outside the consolidated part, as this risk is expected to be covered by adding the solo SCR without allowing for diversification and (ii) no material risks are being neglected but are adequately covered in the group solvency calculation. This particularly pertains to currency risk and market concentration risk.

9.83 The two main approaches to implement those principles presented in the consultation paper both have advantages and disadvantages, which EIOPA further assessed, inter alia based on the input from stakeholders to decide whether to choose one of both or combine. The advice is now that the Delegated Regulation would explicitly cover equity risk for participations, currency risk and concentration risks, as these risks allow for an explicit description of the treatment in the standard formula. Other risks that might emerge or be relevant in specific cases would be dealt with on a case by case basis based on existing supervisory powers. For the standard formula, and with respect to currency risk reference should be made to Article 188 of the Delegated Regulation and for market concentration risk the reference should be made to Articles 182 to 187 of the Delegated Regulation. For internal models, a reference should be made to Articles 343 and 349 of the Delegated Regulation and thus the usual internal model requirements.

9.84 EIOPA also assessed the impact on the group SCR based on a data request to the industry supporting the consultation paper. According to the figures provided by industry to the supervisory authorities, 18 groups of a total of 257 groups were using combination of methods in 2018, and based on the 14 groups that answered the Solvency II Data Request on this subject, the impact on EEA level for groups applying combination of methods would be immaterial, below 1% of the group SCR of groups using the combination of methods. No EEA impact above 5% per group SCR ratio was reported*. The coverage of the data request in terms of group SCR is 86%.

9.85 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: A need for clarification of principles to follow to ensure appropriate coverage of risks in the group SCR under the combination of methods						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2 : Introduce principles of no double counting and no omission of material risks	+	+	++	+	+	++

* One undertaking has subsequently indicated an impact on the solvency ratio above 5%. The impact at EEA level for groups applying combination of methods would be immaterial, below 1.5% of the group SCR of groups using the combination of methods.

Combination of Methods

9.11 Group Solvency –Application when using combination of methods

Policy issues	Options
1. Need for Article 233 of the Solvency II Directive to explicitly state that Method 2 (where used exclusively or in combination with Method 1) used to calculate the group solvency requirements applies to single undertakings (where used exclusively or in combination with Method 1).	1.1 No Change
	1.2 Indicate that method 2 (where used exclusively or in combination with method 1) applies to single undertakings. It is also advised to amend Articles 220, 227, 234 and 235 to refer to such principle (preferred)

Policy issue 1: Need for Article 233 of the Solvency II Directive to explicitly state that Method 2 (where used exclusively or in combination with Method 1) used to calculate the group solvency requirements applies to single undertakings (where used exclusively or in combination with Method 1)		
Option 1.1: No change		
Costs	Policyholders	Indirect costs if the groups are not adequately calculating the group solvency requirements
	Industry	No material impact.
	Supervisors	Costs derived from uncertainties and divergent practices
	Other	N/A.
Benefits	Policyholders	No benefits noted from keeping the status quo.
	Industry	No benefits noted from keeping the status quo.
	Supervisors	No benefits noted from keeping the status quo.
	Other	N/A
Option 1.2: Indicate that method 2 (where used exclusively or in combination with method 1) applies to single undertakings.		
Costs	Policyholders	No material impact
	Industry	None if industry follows the advice provided in EIOPA Q&A 1401. If not, some impact expected regarding the calculation of capital requirements.
	Supervisors	None if industry follows EIOPA Q&A 1401. If not, some impact expected regarding supervision of capital requirements.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Regulatory clarity on how to apply method 2 ensures level playing field
	Supervisors	Legal provisions aligned to EIOPA Q&A 1401 supports adequate supervision of group solvency requirements.
	Other	Comparability of groups and level playing field.

Policy issue 1 -Need for Article 233 of the Solvency II Directive to explicitly state that Method 2 (where used exclusively or in combination with Method 1) used to calculate the group solvency requirements applies to single undertakings (where used exclusively or in combination with Method 1).

Comparison of options

9.86 The preferred policy option for this policy issue is policy option 1.2 which recommends to indicate in the regulatory provisions that method 2 (where used exclusively or in combination with method 1) applies to individual undertakings because it ensures regulatory clarity on the application as well as it ensure a level playing field. The other option considered has been disregarded because it has been considered as not addressing the identified issue from a regulatory and supervisory perspective.

9.87 It is noted that Method 2 is intended to apply as a by-exception method as the default method is Method 1. Therefore, there is a limited use of Method 2 (or combination of methods) as noted in previous sections which are related to this topic.

9.88 The application of method 2 exclusively, or in combination with method 1 has its consequences due to the definition of the method, and such existent consequences are not affected by the policy advice. It is therefore expected that there would be no impact from the application of the policy advice for undertakings and groups following EIOPA Q&A 1401 (e.g. Method 2 applies to individual undertakings and not to "sub-groups"). However, for those groups deviating from the strict application of Q&A 1401 there would be some impact, and they should check with their group supervisors to understand the level of impact.

9.89 It should be noted that EIOPA also recommends clarification of the scope of application of method 2 (see section 9.1.8 of this Chapter and section 9.3.8 of the Call for Advice) as well as some specificities regarding the calculations of certain risks (see section 9.1.10 of this document; and section 9.3.10 of the Call for Advice) and which are aligned with the need for clarity on the alternative method.

9.90 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: – Policy Issue 9.3.11 (1) - Need for Article 233 of the Solvency II Directive to explicitly state that Method 2 (where used exclusively or in combination with Method 1) used to calculate the group solvency requirements applies to single undertakings (where used exclusively or in combination with Method 1).						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0

Option 1.2: Indicate that method 2 (where used exclusively or in combination with method 1) applies to single undertakings.	++	++	++	++	++	++

Own Funds Requirements for Groups

9.12 Own Funds Requirements for Groups

Policy issues	Options
1. Classification of own funds at group level and the reliance on criteria for classification at solo level - issues with the application of Article 330 (1)(d) of the Delegated Regulation	1.1. No change
	1.2 A deletion of the paragraph (1)(d) of article 330 of the Delegated Regulation (preferred)
2. Assessing "free from encumbrances" in particular in relation to own-fund items issued by an insurance holding company or mixed-financial holding company (recital 127 of the Delegated Regulation)	2.1 No Change
	2.2 Clarify and include a principle indicating the purpose of recital 127 and clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the own-fund item when there is a winding-up situation of any EEA related (re)insurance undertaking of the group. (preferred)
	2.3 Similar to option 2 but applicability to be extended to ultimate parent (re)insurance undertakings

Policy issue 1: Classification of own funds at group level and the reliance on criteria for classification at solo level. - issues with the application of Article 330 (1)(d) of the Delegated Regulation		
Option 1.1: No change		
Costs	Policyholders	No material impact
	Industry	Costs deriving from uncertainties and divergent practices
	Supervisors	Challenges deriving from uncertainties on the application that could lead to divergent practices between NSA's
	Other	N/A
Benefits	Policyholders	No material impact

	Industry	Flexible application due to legal uncertainty
	Supervisors	None
	Other	
Option 1.2: Delete the paragraph (1)(d) of Article 330 of the Delegated Regulation		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact to none.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Ensure level playing field and consistent treatment of own fund-items between groups with related undertakings included with method 1 and method 2.
	Supervisors	Ensure a clearer regulatory framework and convergence. Deleting the relevant paragraph in the regulations will avoid that an OF item (under method 2) not compliant with Articles 331to 333 of the Delegated Regulation (including reference to art. 71/73/77) could still be considered available at group level.
	Other	N/A
Policy issue 2: Assessing "free from encumbrances" in particular in relation to own-fund items issued by an insurance holding company or mixed-financial holding company (recital 127 of the Delegated Regulation)		
Option 2.1: No change		
Costs	Policyholders	None
	Industry	Costs deriving from uncertainties and divergent practices
	Supervisors	Challenges deriving from uncertainties on the application that could lead to divergent practices between NSA's
	Other	None
Benefits	Policyholders	None
	Industry	Flexible application due to legal uncertainty
	Supervisors	None due to lack of legal clarity
	Other	None
Option 2.2: Clarify and include a principle indicating the purpose of recital 127 and clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the own-fund item when there is a winding-up situation of any EEA related (re)insurance undertaking of the group		
Costs	Policyholders	Enhanced policyholders' protection
	Industry	Potential increase of financing costs concerning only the groups which have not already included this provision in the terms and conditions of the instruments issued externally.
	Supervisors	Potential for additional supervisory reviews on specific own fund items affected by the policy proposal.
	Other	None
Benefits	Policyholders	Increased policyholders' protection
	Industry	Ensure level a playing field and consistent treatment of own fund-items issued by IHC and MFHC

	Supervisors	Ensure a clearer regulatory framework and convergence of practices between NSA's
	Other	None
Option 2.3: Similar to option 2 but applicability to be extended to ultimate parent (re)insurance undertakings		
Costs	Policyholders	Increased protection of policyholders.
	Industry	Potential impact linked to the extension of the applicability to ultimate parent (re)insurance undertakings will lead to additional requirements for such undertakings. Potential increase of financing costs concerning only the groups which have not already included this provision in the terms and conditions of the instruments issued externally.
	Supervisors	Potential for supervisory reviews on specific own fund items affected by the policy proposal.
	Other	None
Benefits	Policyholders	Increased protection of policyholders.
	Industry	Ensure level playing field and consistent treatment of own fund-items issued by IHC, MFHC, but also when such own-fund items are issued by a ultimate parent (re)insurance undertakings
	Supervisors	Ensure a clearer regulatory framework and convergence of practices between supervisory authorities. Would also ensure a consistent treatment of own-fund items issued by the ultimate parent of the group, i.e. same treatment independent if the group are headed by a IHC, MFHC or a parent (re)insurance undertaking
	Other	None

Policy issue 1 -Classification of own funds at group level and the reliance on criteria for classification at solo level - issues with the application of Article 330 (1)(d) of the Delegated Regulation

Comparison of options

9.91 The preferred policy option for this policy issue is policy option 1.2. which advices to delete the paragraph (1)(d) of Article 330 of the Delegated Regulation to avoid the inconsistencies between the current wording of Article 330(1)(d) with the other group own fund provisions outlined in articles 331 to 333 of the Delegated Regulation and avoid that an OF item (under method 2) not compliant with Articles 331 to333 of the Delegated Regulation (including reference to Articles 71/73/77) could still be considered available at group level. The other option, the no change option, was considered and discharged as it does not resolve the regulatory issues identified and lack of level playing field.

9.92 Based on the Survey to supervisory authorities which was used in preparing the consultation paper, it is noted that the majority of supervisory authorities have not identified specific cases under Article 330(1)(d) of the Delegated Regulation or this is not applicable to the groups under their supervision except for a supervisory authority that indicated that the use of Method 2 is significantly used (5% of its market).

9.93 The Solvency II 2020 data request to industry did not include a dedicated data request for this policy issue as the impact is considered to be limited and the users of method 2 are also limited. The impact of the policy advice is expected to be non-material for groups currently following the interpretation of the legislation in the way that the policy advice is recommended (e.g. they are compliant with Articles 331 to 333 of the Delegated Regulation). There will be an impact for groups

following a different interpretation, in particular if an own fund item of a related undertaking included with method 2 is not compliant with Articles 331 to 333 of the Delegated regulation (and relevant references to Articles 71/73/77 of the same regulations) and therefore considered available at group level. Groups following such an interpretation will expect a reduction on the amount of available own funds at group level.

Policy issue 2 -Assessing "free from encumbrances" in particular in relation to own-fund items issued by an insurance holding company or mixed-financial holding company (recital 127 of the Delegated Regulation)

Comparison of options

9.94 The preferred policy option 2.2. advices to include a principle indicating the purpose of recital 127 of the Delegated Regulation and clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the own-fund item issued by a IHC or MFHC when there is a winding-up situation of any EEA related (re)insurance undertaking of the group. However, it is also understood that policy option 2.3 is a strong and prudent option and was also supported by some of the stakeholders.

9.95 The difference between option 2 and three, is that option three will provide the same treatment independent if the group are headed by a IHC, MFHC or a (re)insurance undertaking. However, policy option 2.2 was preferred as this policy will strike the right balance of impacts between those groups which do not apply recital 127 at all and the groups that apply it beyond the proposed scope of policy option 2.2. Policy option 2.1 of no change was discharged as it does not provide a solution to the policy issue identified.

9.96 It is understood that the policy advice may have an impact on the financing costs of certain own fund items, like sub-ordinated loans, that will be issued in the future. In the analysis of impacts, financing costs are understood as the cost that compensates for the risks derived from the risk of non-coupon payment, or non-payment of principal to the investors. Financing costs are not directly dependant on the application of recital 127 and there are other factors involved in pricing the issuance of own fund instruments.

9.97 As part of the Solvency II Data Request, groups did not provide a quantification of the estimated associated financial costs nor do the stakeholders' comments provide concrete evidence regarding the impact of the application of the recital on financing costs. The quantitative impact is difficult to ascertain in an effective manner for all groups given the specificity of how own fund instruments are issued, and it will would imply every group making an assessment of the compliance of each individual own fund item with recital 127 of the Delegated Regulation and then calculating the impact. In particular, the impact could be considered significant by groups currently not applying the recital 127 of the Delegated Regulation.

9.98 One supervisory authority attempted to quantify the impact based on their understanding of the market and they deem the impact to be significant for their market. On the other hand supervisory authorities in a member state where some of the insurance-led groups are currently applying the recital 127 has not observed a particular increase of the financing costs due to the application of the recital, and proposed policy.

9.99 Based on the SII 2020 data request analysed by each supervisory authority, it is noted that 13 member states indicated no impact or no material impact; 1 member

state indicated significant impact, and 5 member states indicated this was no relevant to their current groups under their supervision.

9.100 Based data publicly available on spreads of current issuances of own funds by parent insurance companies, there is no evidence of material impact of the application of the recital on financing costs.

9.101 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Classification of own funds at group level and the reliance on criteria for classification at solo level -issues with the application of Article 330 (1)(d) of the Delegated Regulation						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings an	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No Change	0	0	0	0	0	0
Option 1.2: Delete the paragraph (1)(d) of article 330 of the Delegated Regulation	+	++	+	+	++	+
Policy issue 2: Assessing "free from encumbrances" in particular in relation to own-fund items issued by an insurance holding company or mixed-financial holding company (recital 127 of the Delegated Regulation)						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 2.1: No Change	0	0	0	0	0	0
Option 2.2 Clarify and include a principle indicating the purpose of recital 127 and clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the own-fund item	++	++	+	++	++	+

when there is a winding-up situation of any EEA related (re)insurance undertaking of the group						
Option 2.3: Similar to Option 2.2. but with an extended scope of application to ultimate parent (re)insurance undertakings	+	+	+	+	+	+

9.13 Availability Assessment of Own Funds

Policy issues	Options
1. Inclusion of own fund items to cover the solo contribution to group SCR (Article 330(5) of the Delegated Regulation)	1.1. No Change (preferred)
	1.2 Introduce a principle based approach that takes into account the quality of non-available own funds items covering the solo contribution to the group SCR
2. Formula for calculating of the contribution to group SCR- Need to clarify the inclusion of undertakings in the SCR Diversified.	2.1 No Change
	2.2 Clarify the inclusion of all undertakings taken into account in the SCR diversified (preferred)
3. Availability assessment of specific items within the reconciliation reserve, the benefit from transitional measure on technical provisions or risk-free interest rates.	3.1. No Change
	3.2 Clarify in the regulations that by default, the benefit of transitional measures on technical provisions and interest rate is assumed to be unavailable in the meaning of Article 330(3) of the Delegated Regulation
	3.3 (New option) Include in the regulations that the group solvency position without availability of the benefit from these transitional should be disclosed, and supervisory action can be taken. (preferred)
4. EPIFPs and the availability assessment of own funds under Article 330 of the Delegated Regulation	4.1. No Change
	4.2 Clarify in the regulations that by default, EIPFP is assumed to be unavailable in the meaning of Article 330(3) of the Delegated Regulation.
	4.3 Option 3: (New Option): Groups should include EPIFPs in the availability assessment of own funds under Article 330(1) of the Delegated Regulation. (preferred)

Policy issue 1: Inclusion of own fund items to cover the solo contribution to group SCR		
Option 1.1: No change		
Costs	Policyholders	Neutral
	Industry	None
	Supervisors	Lack of information in situations where the quality of non-available OFs is not satisfactory
	Other	N/A
Benefits	Policyholders	Neutral
	Industry	No change in rules
	Supervisors	No material benefits
	Other	N/A
Option 1.2: Introduce a principle based approach that takes into account the quality of non-available own funds items covering the solo contribution to the group SCR		
Costs	Policyholders	No direct costs on policyholders
	Industry	Some costs associated with the change of policy.
	Supervisors	Minor costs associated with monitoring the change of policy
	Other	N/A
Benefits	Policyholders	Indirect benefits on policyholders
	Industry	Benefits will vary but no overall material benefits expected
	Supervisors	Access to readily available information in case the quality of non-available OFs is not satisfactory that would not be otherwise available
	Other	N/A
Policy issue 2: Formula for calculating of the contribution to group SCR- Need to clarify the inclusion of undertakings in the SCR Diversified.		
Option 2.1: No change		
Costs	Policyholders	None.
	Industry	Less meaningful calculation of the contribution to the group solvency requirements.
	Supervisors	Less meaningful calculation of the contribution to the group solvency requirements
	Other	N/A
Benefits	Policyholders	Not direct benefits
	Industry	None
	Supervisors	None
	Other	N/A
Option 2.2: Clarify the inclusion of all undertakings taken into account in the SCR diversified		
Costs	Policyholders	None.
	Industry	No material costs

	Supervisors	Minor costs associated with the monitoring of policy implementation
	Other	N/A
Benefits	Policyholders	Indirect benefits derived from clarity and further harmonization of rules
	Industry	More appropriate calculation of the contribution to the group SCR
	Supervisors	More appropriate calculation of the contribution to the group SCR
	Other	N/A
Policy issue 3: Availability assessment of certain specific items within the reconciliation reserve: the benefit of transitional measures on technical provisions and interest rate		
Option 3.1: No change		
Costs	Policyholders	Indirect costs if group is reliant on certain own fund items which cannot easily demonstrate availability.
	Industry	Limits the effective analysis in the availability assessment
	Supervisors	Limits the effective analysis in the availability assessment
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Option 3.2: Clarify in the regulations that by default, the benefit of transitional measures on technical provisions and interest rate is assumed to be unavailable in the meaning of Article 330(3) of the Delegated Regulation		
Costs	Policyholders	Indirect costs if there is a reduction of total own funds
	Industry	Possible reduction of total own funds at group level across Europe.
	Supervisors	Possible focused supervisory work on this own fund item, in particular for groups where this item has a material impact.
	Other	N/A
Benefits	Policyholders	Benefits derived from a more appropriate availability assessment that takes into account the nature of the item
	Industry	More appropriate availability assessment that takes into account the nature of the own fund item in mention
	Supervisors	More appropriate availability assessment that takes into account the nature of the own fund item in mention.
	Other	N/A
Option 3.3: Include in the regulations that the group solvency position without availability of the benefit from these transitional should be disclosed, and supervisory action can be taken.		
Costs	Policyholders	None
	Industry	Limited costs from disclosures. Data is already available and it will be a matter of presentation.
	Supervisors	No material costs.
	Other	N/A
Benefits	Policyholders	Benefits from enhanced transparency of the impact of these transitional benefit on the group solvency requirements.

	Industry	Enhanced comparability across industry
	Supervisors	Effective and Efficient supervision of groups.
	Other	N/A
Policy issue 4: Availability assessment of certain specific items within the reconciliation reserve: EPIFPs		
Option 4.1: No change		
Costs	Policyholders	Indirect costs if group is reliant on certain own fund items which cannot easily demonstrate availability.
	Industry	Limits the effective analysis in the availability assessment
	Supervisors	Limits in the effective analysis in the availability assessment
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Option 4.2: Clarify in the regulations that by default, EIPFP is assumed to be unavailable in the meaning of Article 330(3) of the Delegated Regulation.		
Costs	Policyholders	Indirect costs if there is a reduction of total own funds
	Industry	Possible reduction of total own funds at group level
	Supervisors	Possible focused supervisory work on this item.
	Other	N/A
Benefits	Policyholders	Benefits from a more appropriate availability assessment that takes into account the nature of the item
	Industry	More appropriate availability assessment that takes into account the nature of the item
	Supervisors	More appropriate availability assessment that takes into account the nature of the item
	Other	N/A
Option 4.3: Groups should include EPIFPs in the availability assessment of own funds under Article 330(1) of the Delegated Regulation.		
Costs	Policyholders	None
	Industry	Possible reduction of total own funds at group level depending on the composition of own funds. However, based on the data outputs impact should not be material.
	Supervisors	Possible focused supervisory work on this item.
	Other	N/A
Benefits	Policyholders	Benefits derived from a more appropriate availability assessment that takes into account the nature of the item
	Industry	More appropriate availability assessment that takes into account the nature of the item
	Supervisors	More appropriate availability assessment that takes into account the nature of the item
	Other	N/A

Policy issue 1 Inclusion of own fund items to cover the solo contribution to group SCR (Article 330(5) of the Delegated Regulation)

Comparison of options

9.102 The preferred policy option for this policy issue is policy option 1.1. no change because keeping the current approach (where the sum of non-available own funds of each related undertaking is compared to that related undertakings contribution to group SCR) is considered by most supervisory authorities as a balanced approach between the spirit of recognizing own funds as available up to the coverage of the solo SCR diversified and the need to take into account the diversification benefits and to limit the transferability over the contribution to the group SCR.

9.103 Option 1.2 was explored as a few supervisory authorities outlined concerns with cases where the non-available own fund items are not of highest quality (i.e. mainly tier 2 and tier 3 items) and the current approach could lead in such cases to an overestimation of the ability of the undertaking to provide support to other undertakings of the group and put the former at risk of breaching the solo SCR if the capital must be transferred. Such an unintended consequence does not fully compensate the efforts of changing the regulatory requirements, and does not lead to an effective and efficient satisfactory application.

9.104 The impact of the policy advice is neutral as no changes are proposed regarding the inclusion of the solo contribution to the group SCR.

9.105 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Inclusion of own fund items to cover the solo contribution to group SCR (Article 330(5) of the Delegated Regulation)						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Consider quality of non-available own funds items covering the solo contribution to the group SCR	0	0	0	0	0	0

Policy issue 2 –Policy issue 2: Formula for calculating of the contribution to group SCR- Need to clarify the inclusion of undertakings in the SCR Diversified.

Comparison of options

9.106 The preferred policy option for this policy issue is to clarify the inclusion of all undertakings taken into account in the SCR diversified (i.e. including IHC and MFHC but not ancillary service subsidiaries) because the clarification of the treatment of the undertakings to be included ensures a more appropriate calculation of the contribution of the solo undertakings to the group SCR. The other option, the no change option, was considered and discharged as it does not resolve the issues identified and it would not lead to efficient and efficient supervisory results.

9.107 There was no dedicated data request for this policy advice however based on the data available to supervisory authorities, and under the understanding that industry is applying Guideline 12 of EIOPA group solvency guidelines in most cases it is envisaged that the contribution will be distributed in a more realistic manner. A consistent approach to the calculation of the contribution from the solo to the group SCR will have an impact on the amount of non-available own funds where in cases the amount of non-available of own funds could be reduced for insurance and reinsurance undertakings while increased for IHC and MFHC depending on the structure and distribution in the group.

9.108 The clarification at a regulatory level of the scope and the formula for calculating the contribution to the group SCR will bring supervisory convergence and enhance the understanding and analysis of the SCR Diversified as well as the availability of own funds at group level.

Policy issue 2: Formula for calculating of the contribution to group SCR- Need to clarify the inclusion of undertakings in the SCR Diversified.						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 2.1: No Change	0	0	0	0	0	0
Option 2.2: clarify the inclusion of all undertakings taken into account in the SCR diversified	+	++	++	+	++	++

Policy issue 3 -Availability assessment of specific items within the reconciliation reserve: the benefit of transitional measures on technical provisions or risk-free interest rates

Comparison of options

9.109 The preferred policy option for this policy issue has changed in light of the review of stakeholders' comments and the materiality noted in data received. The impact of the previously consulted policy issue 3.2 was noticeable on all groups sampled, with a decrease on the solvency position ranging from 11 to 124 percentage points on the group SCR.

9.110 The new policy option (3.3.) is to include in the regulations that the group should calculate and disclose the solvency position without the assumption that transitional benefits are available by default, and that the supervisory actions can be taken upon it. Policy option 3.1 of no change was considered and discharged as it does not provide a solution to the policy and supervisory issue identified.

9.111 The new preferred policy option will not have a quantitative impact on groups. This policy will have an impact on disclosures and it should be also included in the SII Directive to facilitate the supervisor taking necessary supervisory measures on case by case basis depending on the financial position of the group. For groups, where there their solvency requirements are significantly dependent upon these transitional measure may see an impact depending on the supervisory actions taken by the group supervisors.

9.112 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 3: Availability assessment of certain specific items within the reconciliation reserve: the benefit of transitional measures on technical provisions and interest rate						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 3.1: No Change	0	0	0	0	0	0
Option 3.2: Assumed unavailable in the context of Art 330(3)	+	+	+	+	+	+
Option 3.3: Include in the regulations specific disclosures	++	++	++	++	++	++

Policy issue 4 -EPIFPs and the availability assessment of own funds under Article 330 of the Delegated Regulation

Comparison of options

9.113 The previous consulted policy option 4.2 of considering EPIFPS as non-available by default can have a material impact on the solvency position of some of the sampled groups, with a decrease of the solvency ratio on aggregated basis, ranging from 11 to 57 percentage points. Nonetheless, there are a few groups that at their own initiative have conservatively made a decision to consider EPIFPs as not available.

9.114 Based on the outputs of the Solvency II 2020 Data Request and the feedback received from stakeholders on the options consulted, a new policy option 4.3 was developed as the option of a "no change" was not efficient to solve the policy issue identified. The new preferred option requires that groups should include EPIFPs in the availability assessment of own funds on the basis of Article 330(1) of the Delegated Regulation. The groups are expected as part of their self-assessment of own funds to justify availability of EPIFPs, in order to determine the effectively available own funds at group level to cover group solvency requirements. The assessment of this own fund item may end up with non-availability. It should be noted in any case that, in accordance with Article 330(5) of the Delegated Regulation, non-available own funds can be taken into account in the group solvency up to the contribution of each company to the group SCR.

9.115 The quantitative impact of the revised policy option is neutral for all groups. However, there may be impact on an individual cases derived from the availability assessment regarding this own fund item. However, we understand from the inputs provided by stakeholders that in most cases groups have already considered the elements on which EPIFPs can be made available within a 9 month period.

9.116 The comparison of the options against the baseline scenario has been based on their contribution to achieving the following objectives: i) effective and efficient supervision of (re)insurance undertakings and groups; ii) ensuring a level playing field through sufficiently harmonised rules; and iii) ensuring adequate risk sensitive capital requirements.

9.117 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 4: EPIFPs and the availability assessment of own funds under Article 330 of the Delegated Regulation						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 4.1: No Change	0	0	0	0	0	0
Option 4.2: Assumed unavailable in the context of	+	+	+	+	+	+

Art 330(3) Delegated Regulation						
Option 4.3: Include EPIFPs in the availability assessment (Art.330(1) Delegated Regulation)	++	++	++	++	++	++

9.14 Minority Interest –Basis and Approach to calculation of Minority Interest to be deducted from the consolidated group own funds

Policy issues	Options
1. Need for a clear basis and approach for the calculation of minority interest at a regulatory level (level 2).	1.1. No Change.
	1.2. Further clarify the basis of minority interest in Solvency II and the approach to be followed for its calculation (preferred).

Policy issue 1: Need for a clear definition and approach for the calculation of minority interest at a regulatory level (level 2)		
Option 1.1: No change		
Costs	Policyholders	Indirect costs derived from the uncertainty on the basis and approach for the calculation of minority interest in Solvency II
	Industry	Uncertainty on the basis and approach for the calculation of minority interest in Solvency II
	Supervisors	Uncertainty on the basis and approach for the calculation of minority interest in Solvency II
	Other	N/A
Benefits	Policyholders	None
	Industry	Lack of clarity on the basis and approach for the calculation of minority interest in Solvency II gives some 'flexibility' however such benefits do not overcome the costs associated with lack of harmonisation.
	Supervisors	None as uncertainty remains.
	Other	N/A
Option 1.2: Further clarify the basis of minority interest in Solvency II and the approach to be followed for its calculation.		
Costs	Policyholders	None
	Industry	Any costs associated due to the need to comply with a new rule, in particular if industry is not currently applying GL 14 of EIOPA guidelines on group solvency or not applying in a consistent manner.
	Supervisors	No material costs
	Other	N/A

Benefits	Policyholders	Benefits derived from the clarification of the regulatory framework and further harmonization of rules
	Industry	Clarification of the regulatory framework and further harmonization of rules will lead to a clear identification of the amount of minority interest that should be deducted from group own funds.
	Supervisors	Effective and efficient supervision facilitated by clarification of the regulatory framework and further harmonization of rules
	Other	N/A

Policy issue 1 Need for a clear definition and approach for the calculation of minority interest at a regulatory level (level 2).

Comparison of options

9.118 The preferred policy option for this policy issue is policy option 1.2 which recommends to further clarify the basis and approach to calculate minority interest in Solvency II. Guideline 14 of EIOPA guidelines on Group Solvency has been helpful but gaps still remain leading to an unlevel playing field. Therefore, the regulatory clarification in the legislation (at level 2) would allow a better quantification of this item and further harmonization compared to the current gap.

9.119 The approach to the policy option was developed taking in to account the feedback received from stakeholders on the policy option and the cases presented under the policy option 1.2. The advice now confirms case 1.b as the preferred option, where "the calculation of Minority Interest is based on a Solvency II valuation to take into account any revaluation from accounting to solvency II, and it should also be net of intragroup subordinated debt and intragroup ancillary own funds, and should include external subordinated debt".

9.120 Minority interest is the most representative non-available own fund item based on the analysis of group own funds (S.23.04.04.11 -Calculation of non-available own funds at group level--exceeding the contribution of solo SCR to Group SCR). The total EU non-available minority interest is circa 49%, out of the total EU non-available excess own funds with at least the half of the amount of minority interest concentrated in two member states where the most representative groups are located.

9.121 Based on In the example provided in the Call for Advice document (see analysis section 9.3.14.5), it is noted that under the policy advice the amount of minority interest to be deducted will be less, and therefore the expected amount of total solo available own funds that could be considered when calculating the group solvency requirements (ignoring consolidation process) would be higher. This could represent a benefit for industry while still maintaining the overall spirit of guideline 14 of EIOPA guidelines on group solvency.

9.122 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Need for a clear definition and approach for the calculation of minority interest at a regulatory level (level 2).						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of	Objective 2: Ensuring a level playing field	Objective 3: Ensuring adequate risk sensitive	Objective 1: Effective and efficient supervision of	Objective 2: Ensuring a level playing field	Objective 3: Ensuring adequate risk sensitive

	(re)insurance undertakings and groups	through sufficiently harmonised rules	capital requirements	(re)insurance undertakings and groups	through sufficiently harmonised rules	capital requirements
Option 1.1: No Change	0	0	0	0	0	0
Option 1.2 : Further clarify the basis of minority interest in Solvency II and the approach to be followed for its calculation.	++	++	++	++	++	++

Rules governing the calculation of the minimum consolidated group SCR (including the impact on the level of diversification benefits)

9.15 Minimum Consolidated Group SCR

Policy issues	Options
1. Lack of clarity and alignment of the scope of undertakings included in the minimum consolidated group SCR versus the-undertakings included in the group SCR	1.1 No change in the scope undertakings included in the minimum consolidated group SCR calculation
	1.2 Enhancing the scope of the Min.Cons.SCR by including the IHC and MFHC; and upgrading the current Guideline 21b) of EIOPA Guidelines on Groups Solvency on third countries to an explicit law provision (preferred)
2. Calculation method for minimum consolidated group SCR and related mutatis mutandis issues	2.1 No change on the methodology of calculation.
	2.2 Change the way how minimum consolidated group SCR is calculated
	2.3 No Change on the method to calculate the Min.Cons.SCR, clarify the purpose of the Min.Cons.SCR, and introduce a new trigger metric for the application at group level of the requirements related to solo MCR (preferred)

Policy issue 1: Lack of clarity and alignment of the scope of undertakings included in the minimum consolidated group SCR versus the undertakings included in the group SCR

Option 1.1: No change in the scope undertakings included in the minimum consolidated group SCR calculation		
Costs	Policyholders	Some costs derived from the minimum consolidated group SCR not capturing all the risks.
	Industry	Possible unlevel playing field by lack of guideline application.
	Supervisors	Possibilities to omit some risks reflected in minimum consolidated SCR by disregarding IHC and MFHC.
	Other	N/A
Benefits	Policyholders	No
	Industry	More simple calculation by not including some elements in the minimum consolidated group SCR.
	Supervisors	No
	Other	No
Option 1.2: Enhancing the scope of the Min.Cons.SCR by including the IHC and MFHC; and upgrading the current Guideline 21b) of EIOPA Guidelines on Groups Solvency on third countries to an explicit law provision		
Costs	Policyholders	No
	Industry	More entities would be included in the minimum consolidated group SCR with a potential impact on some of the group capital requirements. Need to calculate notional MCR based on the notional SCR (already required for other provisions)
	Supervisors	Lack of full alignment of the scope, however considered as not proportionate to the ultimate aim.
	Other	N/A
Benefits	Policyholders	Enhanced policy holders' protection.
	Industry	Clarity on the application will increase of a level playing field.
	Supervisors	Increased visibility of risks reflected in the scope of the minimum consolidated group SCR.
	Other	N/A

Policy issue 1: Lack of clarity and alignment of the scope of undertakings included in the minimum consolidated group SCR versus the undertakings included in the group SCR

Comparison of options

9.123 The preferred policy option for this policy issue is policy option 1.2 that recommends to upgrade the current Guideline 21b) of EIOPA Guidelines on Groups Solvency to an explicit law provision and enhance the scope by the IHC and MFHC – the notional MCRs would be equal to 35% of the notional SCR (middle of the corridor 25% - 45%). The other option considered have been disregarded because it maintains the current lack of clarity and level playing field in the scope of the minimum consolidated group SCR calculation.

9.124 The calculation of the notional MCRs for the holding companies is designed in such a way that follows a simple and effortless approach, where the notional MCR would be equal to 35% of their notional SCR. The 35% is based on the middle point of the corridor established for solos (25% to 45%). The middle point of the solo corridor (35%) is aligned to the current data available for solo MCRs in the market, where the average MCR is between 32% to 36%. The analysis for choosing the percentage excludes any outlier cases where the MCR is higher than the SCR.

9.125 No specific data request was made on this item as part of the Solvency II 2020 Data Request of groups. It is envisaged that extending the scope of the minimum consolidated SCR to include IHC and MFHC could have a material impact on certain groups with specific group structures (e.g. large number of IHC, MFHC) as expressed by stakeholders and supervisors of such specific group structures. There is an overall impact on industry as notional MCR for IHC and MFHC has not been requested in the past, and material impact will be noted by the groups that have already indicated that the change of the policy on the treatment of IHCs and MFHCs would affect their group SCR (3 out of 79 data inputs received for the policy issue 9.3.6). However, the concerns about trigger inversion issues impacting on the application at group level of the mutatis mutandis solo rules will be managed by the application of the policy advise in the section 9.3.15(2) and which impact is described in the next section of this document.

9.126 Clarifications made regarding the policy issue on the Notional SCR calculation and related issues (see policy issue 9.3.6 in the consultation paper), will facilitate concerned groups that the amount of the Min.Cons.SCR would not necessarily be as high as some stakeholders have stated. In addition, any efforts made by in industry in calculating the notional SCR, if already not calculated for IHC and MFHC will be helpful when complying also with the notional MCR which will be required under this advice.

9.127 Finally, the effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Lack of clarity and alignment of the scope of undertakings included in the minimum consolidated group SCR versus the undertakings included in the group SCR						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Enhancing the scope of the Min.Cons.SCR by including the IHC and MFHC; and upgrading the current Guideline 21b) of EIOPA Guidelines on Groups Solvency on third countries to an explicit law provision	++	++	++	++	++	++

Policy issue 2: Change of calculation method for minimum consolidated group SCR

Policy issue 2: Calculation method for minimum consolidated group SCR and related mutatis mutandis issues		
Option 2.1: No change in the calculation method		
Costs	Policyholders	No
	Industry	Although it does not solved the issue of reverse relation between the SCR and minimum consolidated group SCR ratio coverage for some of the groups with the cascade structure, it preserves the widely accepted method of minimum consolidated group SCR.
	Supervisors	No
	Other	No
Benefits	Policyholders	No
	Industry	Preserving the widely accepted method of minimum consolidated group SCR calculation.
	Supervisors	Preserving the widely accepted method of minimum consolidated group SCR calculation.
	Other	No
Option 2.2: Change the way how minimum consolidated group SCR is calculated		
Costs	Policyholders	No
	Industry	Changing the method which seems to have unintended consequences for groups with a cascade structure can trigger other unintended consequences for the rest of the groups
	Supervisors	Costs derived from application of a new regulation.
	Other	No
Benefits	Policyholders	No.
	Industry	Limited benefits to industry, where benefits will focus on groups with specific structures.
	Supervisors	Limited benefits.
	Other	No
Option 2.3: No Change on the method to calculate the Min.Cons.SCR, clarify the purpose of the Min.Cons.SCR, and introduce a new trigger metric for the application at group level of the requirements related to solo MCR		
Costs	Policyholders	Not material costs expected.
	Industry	Some costs associated with the calculation of the notional MCR on IHC and MFHC and for some groups there may be an increase of the Group SCR by the increase on the notional MCR of holdings
	Supervisors	No direct costs, except for the additional work in the initial phase of implementing the rules.
	Other	No
Benefits	Policyholders	Indirect benefits on policyholders as there is clarity that IHC and MFHC have risks for which a notional MCR would be required
	Industry	Clear benefits derived from the fact that there will be a clarification regarding the purpose for the Min.Cons.SCR and the availability of a different trigger metric for mutatis mutandis application of solo MCR rules. Some benefits can be derived by groups examining the need for cascade structures.
	Supervisors	Clarity of rules will enhance supervision of group solvency and adequate trigger points will facilitate the intervention ladder.
	Other	Enhanced comparability of Min.Cons.SCR and other metrics across industry.

Policy issue 2: Calculation method for minimum consolidated group SCR and related mutatis mutandis issues

Comparison of options

9.128 The preferred policy option for this policy issue is option 2.3 no change in the calculation method, and incorporate a new trigger metric for groups. The other options considered have been disregarded because solving a problem that is relevant for the groups with a specific structure could diminish the aims which are desirable from other point of view.

9.129 The change in the calculation of the minimum consolidated group SCR method has been considered as disproportionate to the aim and could create separate challenges and not necessarily solve the issue with the trigger inversion. The current methodology is aligned with the principle of simplicity and auditability the "mutatis mutandis" application at group level of the requirements related to solo MCR. And, the incorporation of a new trigger metric for groups will deal with the "mutatis mutandis" application at group level of the requirements related to solo MCR.

9.130 This policy option was developed taking in to account the feedback received from stakeholders. Therefore, there was no opportunity to include the new policy option into the data request made from supervisory authorities to Industry. However, the data publicly available for own funds via the S.23.01.04.01 was useful in defining the new trigger metric that should be the reference for all group requirements stemming from the mutatis mutandis application of the solo requirements. Based on these data, it is noted that for majority of groups the Min.Cons.SCR represents in average a 47% of the consolidated Group SCR or a 44% of the total group SCR, and it is envisaged that there would not be a material impact on groups considering that the new metric has carefully taken into consideration relationship between applying the 45% to the group SCR and the actual Min.Cons.SCR. The impacts on the application of the policy are also limited as the new metric has a reference limit to the floor to avoid undesirable consequences from the application of the new trigger.

9.131 Having a new trigger metric for groups will help to balance out the undesired impacts regarding the "trigger inversion" derived from the application of mutatis mutandis and which is problematic for some groups. It is expected that the new metric will prevent a trigger inversion, since the new trigger value has been designed to be lower than the group SCR.

9.132 Finally, the effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 2: Calculation method for minimum consolidated group SCR and related mutatis mutandis issues						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance	Objective 2: Ensuring a level playing field through sufficiently	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance	Objective 2: Ensuring a level playing field through sufficiently	Objective 3: Ensuring adequate risk sensitive capital requirements

	undertakings and groups	harmonised rules		undertakings and groups	harmonised rules	
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Change the calculation	0	0	0	0	0	0
Option 2.3: No Change on the method to calculate the Min.Cons.SCR, clarify the purpose of the Min.Cons.SCR, and introduce a new trigger metric for the application at group level of the requirements related to solo MCR	+	++	++	+	++	++

Solvency II and the interactions with Directive 2002/87/EC (FICOD) and any other issues identified with Other Financial Sectors (OFS)

9.16 Inclusion of Other Financial Sectors (OFS)

Policy issues	Options
1.Lack of clarity on inclusion of undertakings in Other Financial Sectors (OFS) into Solvency II	1.1 No change.
	1.2 Clarify that, regardless of method used in the group solvency calculation, Article 329 of the DR is applicable for the inclusion of OFS entities in the group solvency calculation (preferred)
2. Allocation of own funds from Other Financial Sectors into relevant Solvency II tiers for the purpose of Solvency II calculations	2.1 No change (preferred)
	2.2 Confirmation in the regulations that no allocation of own funds from OFS into relevant Solvency II tiers when including these in the group solvency calculation
	2.3 Allocation of clearly identified own-fund items from OFS into relevant Solvency II tiers where practicable and material
3. Clarify the ability of excess of own funds from OFS to absorb losses in the insurance part of the group	3.1 No change
	3.2 Clarify that no availability assessment should be done for own funds from OFS

	3.3 To require an analysis of the loss-absorbing capacity of own-fund items both from a group (self-assessment) and a supervisory perspective.(preferred)
	3.4 To require an analysis of the loss-absorbing capacity of own-fund items from OFS similar to that required under FICOD
4. Lack of clarity about the inclusion of own funds and capital requirements subject to sectoral rules when OFS entities form a group	4.1 No change
	4.2 Clarify that group own funds and group capital requirements calculated according to sectoral rules should be used in the group solvency calculation when OFS entities form a group. (preferred)
5. Need to clarify which capital requirements for credit institutions, investment firms and financial institutions should be included in the group solvency.	5.1 No change
	5.2 Clarify what should be taken into account as the "capital requirements" of the credit institution, investment firms and financial institution in the group solvency calculation. (preferred)

Policy issue 1: Lack of clarity on inclusion of undertakings in Other Financial Sectors (OFS)		
Option 1.1: No change		
Costs	Policyholders	No material impact
	Industry	Costs deriving from uncertainties in the regulatory framework
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Possibility to follow flexible approaches
	Supervisors	Possibility to follow flexible approaches
	Other	N/A
Option 1.2: Clarify that, regardless of method used in the group solvency calculation, Article 329 of the DR is applicable for the inclusion of OFS entities in the group solvency calculation		
Costs	Policyholders	No material impact
	Industry	Less flexibility
	Supervisors	Less flexibility
	Other	N/A
Benefits	Policyholders	Ensure a clearer regulatory framework and convergence of practices that could benefit the protection of EEA policyholders

	Industry	Ensure a clearer regulatory framework and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	N/A
Policy issue 2: Allocation of own funds from Other Financial Sectors into relevant Solvency II tiers for the purpose of Solvency II calculations		
Option 2.1: No change		
Costs	Policyholders	Indirect impact on policy holders ad lack of clarity on the allocation could affect the understanding of the solvency position of a group, in particular if too much reliance on funds coming in from OFS
	Industry	Costs deriving from uncertainties in the regulatory framework
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	None
	Industry	Possibility to follow flexible approaches. Less demanding on Industry to be fully familiar with the regulations applied to other financial sectors,
	Supervisors	Possibility to follow flexible approaches. Less demand on supervisors to be fully familiar with the regulations applied to other financial sectors,
	Other	It would be challenging to implement the other options considered below, in particular as the rules across OFS may not be comparable to Solvency II.
Option 2.2: Confirmation in the regulations that no allocation of own funds from OFS into relevant Solvency II tiers when including these in the group solvency calculation.		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Ensure a clearer regulatory framework and convergence of practices that could benefit the protection of EEA policyholders
	Industry	Ensure a clearer regulatory framework and convergence of practices
	Supervisors	Provides certainty on the question about how to treat the tiering coming in from OFS, in particular when there are differences on the tiering/quality of certain own funds between Solvency II and OFS.
	Other	N/A
Option 2.3: Allocation of clearly identified own-fund items from OFS into relevant Solvency II tiers where practical and material		
Costs	Policyholders	No material impact
	Industry	Potentially additional costs as the allocation of own funds from OFS into the relevant Solvency II tiers, it would also have an impact on reporting and disclosure
	Supervisors	Potential additional costs derived from the individual assessments
	Other	N/A
Benefits	Policyholders	Ensure a clearer regulatory framework and convergence of practices that could benefit the protection of EEA policyholders

	Industry	Ensure a clearer regulatory framework and convergence of practices with no impact on quantitative requirements.
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	N/A
Policy issue 3: Clarify the ability of excess of own funds from OFS to absorb losses in the insurance part of the group		
Option 3.1: No change		
Costs	Policyholders	None
	Industry	Costs deriving from uncertainties in the regulatory framework
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	None
Benefits	Policyholders	
	Industry	Possibility to follow flexible approaches
	Supervisors	Possibility to follow flexible approaches
	Other	None
Option 3.2: Clarify that no availability assessment should be done for own funds in OFS.		
Costs	Policyholders	No material impact
	Industry	No material impact. Possibility of reduced admin costs from no performing a dedicated Solvency II assessment on availability of own funds from OFS
	Supervisors	No material impact
	Other	None
Benefits	Policyholders	No material impact
	Industry	A clear regulatory framework would ensure a level playing field and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	None
Option 3.3: To require an analysis of the loss-absorbing capacity of own-fund items both from a group (self-assessment) and a supervisory perspective.		
Costs	Policyholders	No material impact
	Industry	Potential additional costs derived from the need to understand the excess of own funds from related OFS to absorb losses if the group is not already identifying this.
	Supervisors	Potential additional costs
	Other	N/A
Benefits	Policyholders	Ensure a clearer regulatory framework and convergence of practices that could benefit the protection of EEA policyholders
	Industry	A clear regulatory framework would ensure a level playing field and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	N/A

Option 3.4: Option 4 (new) – To require an analysis of the loss-absorbing capacity of own-fund items from OFS similar to that required under FICOD		
Costs	Policyholders	No material impact
	Industry	Potential additional costs higher than the costs for option 3.3. above as this requires a full availability assessment on own funds from OFS. This option although fully consistent with other sectors it would be much stricter and would require much more resources than option 3.
	Supervisors	Potential additional costs, it requires quite extensive assessment both from the groups and supervisory authorities
	Other	N/A
Benefits	Policyholders	Ensure a clearer regulatory framework and convergence of practices that could benefit the protection of EEA policyholders
	Industry	A clear regulatory framework would ensure a level playing field and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	N/A
Policy issue 4: Lack of clarity of the inclusion of own funds and capital requirements subject to sectoral rules when OFS entities form a group		
Option 4.1: No change		
Costs	Policyholders	None
	Industry	Costs deriving from uncertainties in the regulatory framework
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	none
	Industry	Possibility to follow flexible approaches derived from open interpretations, however this affects the level playing field.
	Supervisors	No benefits derived from lack of convergence.
	Other	N/A
Option 4.2: Clarify that group own funds and group capital requirements calculated according to sectoral rules should be used in the group solvency calculation when OFS entities form a group		
Costs	Policyholders	None
	Industry	Clarity will lead to less flexibility but more certainty.
	Supervisors	Enhanced supervisory practices and level playing field. Clarity will lead to less flexibility but more certainty.
	Other	None
Benefits	Policyholders	Enhanced adequate capital requirements imply better policyholder protection.
	Industry	A clear regulatory framework would ensure a level playing field and convergence of practices
	Supervisors	A clear regulatory framework would ensure a level playing field and convergence of practices
	Other	None
Policy issue 5: Need to clarify which capital requirements for credit institutions, investment firms and financial institutions should be included in the group solvency		

Option 5.1: No change		
Costs	Policyholders	None
	Industry	Costs deriving from uncertainties in the regulatory framework
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	N/A
	Industry	Possibility to follow flexible approaches. However, uncertainty remains.
	Supervisors	Possibility to follow flexible approaches. However, uncertainty remains.
	Other	N/A
Option 5.2: Clarify what should be taken into account as the "capital requirements" for credit institutions, investment firms and financial institutions should be included in the group solvency calculation.		
Costs	Policyholders	None.
	Industry	Clarity will lead to less flexibility but more certainty.
	Supervisors	Enhanced supervisory practices and level playing field. Clarity will lead to less flexibility but more certainty.
	Other	N/A
Benefits	Policyholders	Enhanced adequate capital requirements imply better policyholder protection.
	Industry	Ensure a clearer regulatory framework and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices between NSA's
	Other	N/A

Comparison of options

Policy issue 1: *Lack of clarity on inclusion of undertakings in Other Financial Sectors (OFS)*

9.133 The preferred policy option for this policy issue is policy option 1.1 to clarify that Article 329 of the Delegated Regulation is always applies for the inclusion of OFS entities in the group solvency calculation regardless of the calculation method used. Without such clarification, uncertainty on the treatment in the group solvency calculation of related undertakings in OFS that follow sectoral rules will result continue. Other options were considered but discharged as not solving the policy and supervisory issue.

9.134 The clarifications brought by the policy proposal will be a benefit for industry and supervisors as it will ensure both supervisory convergence and a level playing field. It is expected that the impact of the policy advice to be neutral as there are no changes proposed to the calculation of the group SCR where the undertakings from other financial sectors are brought in by simple summation.

9.135 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Lack of clarity on inclusion of undertakings in Other Financial Sectors (OFS)						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No Change	0	0	0	0	0	0
Option 1.2: Clarify that, regardless of method used in the group solvency calculation, Article 329 of the DR is applicable for the inclusion of OFS entities in the group solvency calculation	+	+	+	+	+	+

Policy issue 2: Allocation of own funds from Other Financial Sectors into relevant Solvency II tiers for the purpose of Solvency II calculations

9.136 The clarification previously sought under policy option 2.3 of clarifying that "own-fund items from OFS should be allocated into relevant Solvency II tiers. An allocation should be done on a high-level and only for specific clearly identified own-fund items and could follow the mapping as described in 68(5) in the Delegated Regulations. The allocation has mainly an impact on the reporting and disclosure. If no allocation is done, this could lead to that own-fund items of lower quality will be included as Tier 1 in the group solvency calculation of related undertakings in OFS that follow sectoral rules" could have been of great support to supervisors when carrying out the assessment. Although the proposal consulted did not imply any reclassification according to Solvency II rules for own-fund items from OFS entities, EIOPA is conscious that it would be challenging to implement this policy in particular as it would require supervisors and groups to be fully familiar with the regulations applied to other financial sectors, and in particular the rules across OFS may not be comparable to Solvency II.

9.137 Therefore, preferred policy option for this policy issue has been changed to a "no change" in light of the review of costs-benefits of the applicability of the consulted option as well as the feedback from stakeholders.

9.138 A no change in the current policy means that the impact is neutral for industry. However, there are indirect costs for group supervisors derived from the lack of an explicit provision stating how own funds from OFS entities should be classified into the Solvency II tiers, and the risk that the current framework could lead to own-fund items regarded as of lower quality according to sectoral rules to be included as Tier 1 in the group solvency calculation.

9.139 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 2: Allocation of own funds from Other Financial Sectors into relevant Solvency II tiers for the purpose of Solvency II calculations						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 2.1: No Change	0	0	0	0	0	0
Option 2.2: No allocation of own funds from OFS into relevant Solvency II tiers when including these in the group solvency calculation	+	+	0	+	+	0
Option 2.3: Allocation of clearly identified own- fund items from OFS into relevant Solvency II tiers where practicable and material	0	+	+	0	+	+

Policy issue 3: Clarify the ability of excess of own funds from OFS to absorb losses in the insurance part of the group

9.140 Based on the input received from stakeholders and data available, the policy options were revised. As part of the discussions other options considered but discharged as not solving the policy and supervisory issue. Therefore, the preferred policy option for this policy issue continues to be policy option 3.3: to clarify in the regulations the ability of excess of own funds from related OFS can absorb losses in the insurance part of the group to have sufficient assurance that the excess of own funds from the OFS can be effectively used to absorb losses in the insurance part of the group, in particular in a stress situation. This will also avoid a misinterpretation of the financial position of the group.

9.141 The implementation of the policy advice should not cause much burden on groups, if groups have already full clarity of the own funds that are contributing to the group own funds. Further, no unintended consequences are envisaged regarding existent OFS rules applicable to their relevant sectors.

9.142 Subordinated debt instruments and Deferred tax assets from OFS are not material when compared to the total own funds from other financial sectors, and are also not significant when compared against the group capital requirements.

Based on the data provided for the Solvency II 2020 Review, for instance, on an aggregated basis the subordinated debt instruments is 8% of the total amount of OFS, and 12% of the group capital requirements, while deferred taxes are 1% of the total amount of OFS and 1% of the group capital requirements Therefore, it is not envisaged that the application of the policy advice will have a material impact on groups.

9.143 The contribution of the excess from OFS to the excess of the total group own funds is up to 15% but for the majority groups it does not exceed 5%. Based on the data available for 2018, there is a very limited number of groups on the range from 5% and 15%. Thus, it is envisaged that the impact of the policy advice not to be material.

9.144 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 3: Clarify the ability of excess of own funds from OFS to absorb losses in the insurance part of the group						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 3.1: No Change	0	0	0	0	0	0
Option 3.2: Clarify that no availability assessment should be done for own funds from OFS	+	+	+	0	0	0
Option 3.3: To require an analysis of the loss-absorbing capacity of own-fund items both from a group (self-assessment) and a supervisory perspective.	++	+	+	++	+	+

Policy issue 4: Lack of clarity on inclusion of own funds and capital requirements subject to sectoral rules when OFS entities form a group

9.145 The preferred policy option for this policy issue is option 4.2 to clarify that when OFS entities subject to sectoral group supervision form a group, the group own funds and group capital requirements calculated according to sectoral rules should contribute to the group solvency instead of the sum of each individual OFS entity's own fund and capital requirement. Other options were considered but discharged as not having a balanced cost benefit.

9.146 The preferred policy option brings significant benefits from a convergence and level playing field, and it should not add costs to industry if they are adhering to guideline 11 of Guidelines on Group Solvency, where this treatment regarding capital requirement is mentioned, but for consistency this should also apply for own funds and clarified in the regulation.

9.147 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 4: Lack of clarity on inclusion of own funds and capital requirements subject to sectoral rules when OFS entities form a group						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 4.1: No Change	0	0	0	0	0	0
Option 4.2: Clarify that group own fundsand group capital requirements calculated according to sectoral rules should be used in the group solvency calculation when OFS entities form a group.	+	+	+	+	+	+

Policy issue 5: Need to clarify which capital requirements for credit institutions, investment firms and financial institutions should be included in the group solvency

9.148 As a result of consultations and further analysis, EIOPA revised the preferred policy option. Taking into account different nature of capital buffers of credit institutions, investment firms and financial institutions versus Solvency II capital add-ons, EIOPA is of the opinion that the approach assumed in Q&A 1344 should be duly revised and be upgraded to the regulations. In particular the purpose of inclusion of macro-prudential capital buffers which depend on the national markets situation should be clarified in the regulations to ensure a level playing field. It is also necessary to clarify why FICO regulation should be applied to all Solvency II groups.

9.149 The quantitative impact will depend on the application of current Q&A 1344 by the groups. If the capital buffers will be encompassed by the capital requirement for the purpose of the group solvency, the decrease in the group solvency ratio may be up to 18% for a few groups based on the Solvency II 2020 Data Request.

9.150 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 5: Need to clarify which capital requirements for credit institutions, investment firms and financial institutions should be included in the group solvency						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 5.1: No change	0	0	0	0	0	0
Option 5.2: Clarify in the legal text at level two what should be taken into account as the "capital requirements" of the credit institution, investment firms and financial institution in the group solvency calculation	+	+	+	+	+	+

9.17 Application of Article 228 of the Solvency II Directive-Related credit institutions, investment firms, and financial institutions

Policy issues	Options
1. Lack of clarity regarding the methods of inclusion of related credit institutions, investment firms and financial institutions in group solvency requirements calculation in Article 228 of the Solvency II Directive, and its interaction with other articles of the Solvency II framework.	1.1. No change
	1.2 Clarify in Article 228 of Solvency II Directive that FICOD methods are only applicable for the inclusion of related credit institutions, investment firms and financial institutions (not for other related undertakings)
	1.3 Remove references to FICOD Methods, in Article 228 of the Solvency II Directive, and Article 68(3) of the Delegated Regulation should also be amended accordingly (preferred)

Policy issue 1: Lack of clarity regarding the methods of inclusion of related credit institutions, investment firms and financial institutions in group solvency requirements

calculation in Article 228 of the Solvency II Directive and its interaction with other articles of the Solvency II framework.		
Option 1.1: No change		
Costs	Policyholders	Not material
	Industry	Not material
	Supervisors	Costs derived from the lack of clarity creates uncertainty.
	Other	N/A
Benefits	Policyholders	Not material
	Industry	None
	Supervisors	None
	Other	N/A
Option 1.2: Clarify in Article 228 of Solvency II Directive that FICOD methods are only applicable for the inclusion of related credit institutions, investment firms and financial institutions (not for other related undertakings)		
Costs	Policyholders	Not material
	Industry	Not material, however some recalculations may be needed for a few groups using FICOD Methods.
	Supervisors	Not material, however some in-depth supervisory reviews may be needed for a few groups using FICOD Methods.
	Other	N/A
Benefits	Policyholders	Not material
	Industry	Clarify the reading of Article 228 will ensure level playing field, but still not best policy choice
	Supervisors	Clarify the reading of Article 228 will ensure level playing field, but still not best policy choice
	Other	N/A
Option 1.3: Remove references to FICOD Methods, in Article 228 of the Solvency II Directive, and Article 68(3) of the Delegated Regulation should also be amended accordingly.		
Costs	Policyholders	Not material
	Industry	Not material costs or impact expected. In particular, there are a few groups currently using FICOD method 1.
	Supervisors	No material Impact. Deletion adds clarity and enhances group supervision.
	Other	N/A
Benefits	Policyholders	N/A
	Industry	Reduced number of methods which will be focused only on Solvency II methods of calculation. Clarity will enhance application of the regulations.
	Supervisors	Reduced number of methods which will be focused only on Solvency II methods of calculation. Clarity will enhance application of the regulations and supervision of the group solvency calculation.
	Other	Comparability of information across Solvency II groups

Comparison of options

9.151 Article 228 of the Solvency II Directive is not clear as to how FICOD methods 1 and 2 should be used for the group solvency calculation. Added to the lack of regulatory guidance, there is a further challenge on how Article 228 of the Solvency II Directive was transposed into national legislation across various member states. Hence, this Article means different things depending on the transposition. Based on this, the preferred policy option is option 1.3 to remove the references to FICOD methods in Article 228 of Solvency II Directive and Article 68(3) of the Delegated Regulation should also be amended accordingly so that references are only made to Solvency II methods. Other options were considered but those were considered ineffective to close both the regulatory and supervisory gap identified.

9.152 The preferred policy option was revised to take into account the feedback from stakeholders and data available. The preferred option now seeks to remove references to FICOD (e.g. the first paragraph of Article 228 of the Solvency II Directive) rather than removing the full article. We appreciate that full deletion would not be favourable to the limited users which are applying deductions under the second paragraph of Article 228 of the Solvency II Directive. According to the data publicly available for own funds in S.23, the amount of deductions under Article 228 is 0.4% of the total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A), and the usage is focused on a few members states and groups under their supervision.

9.153 According to the survey to supervisory authorities that supported the preparation of the Consultation Paper, it is envisaged a limited impact derived from the policy advice, considering that there are only a few groups currently using FICOD method 1.

9.154 Based on the public reporting data available, it is also evident that the policy issues identified limits comparability of data across Solvency II groups which are also denominated as financial conglomerates. For instance, it is noted from the public disclosures from at least one insurance led financial conglomerate that there is a diverse interpretation leading to a Solvency II group either not being consistent in all cases to Solvency II regulations, or having to apply a mixed approach between FICOD rules and Solvency II rules that do not follow a consistent basis of application.

9.155 The overall impact of the policy is expected to be beneficial both for industry and supervisors. It is worth noting that the policy advice does not interfere with the FICOD regulations and brings clarity both to industry and supervisors. It is hard to understand, based on the comments received from stakeholders, how such Solvency II groups will suffer additional burden in the context of FICOD supplementary supervision, in particular as such groups should be already applying full Solvency II rules to integrating such undertakings subject to Article 228 (including Guideline 11 of EIOPA Guidelines on Group Solvency on the treatment of specific related undertakings for group solvency calculation).

9.156 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Lack of clarity regarding the methods of inclusion of related credit institutions, investment firms and financial institutions in group solvency requirements calculation in Article 228 of the Solvency II Directive and its interaction with other articles of the Solvency II framework.						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and	Objective 2: Ensuring	Objective 3: Ensuring	Objective 1: Effective and	Objective 2: Ensuring	Objective 3: Ensuring

	efficient supervision of (re)insurance undertakings and groups	a level playing field through sufficiently harmonised rules	adequate risk sensitive capital requirements	efficient supervision of (re)insurance undertakings and groups	a level playing field through sufficiently harmonised rules	adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Clarify in Article 228 of Solvency II Directive that FICOD methods are only applicable for the inclusion of related credit institutions, investment firms and financial institutions (not for other related undertakings)	+	+	+	+	+	+
Option 1.3: Remove references to FICOD Methods, in Article 228 of the Solvency II Directive, and Article 68(3) of the Delegated Regulation should also be amended accordingly	++	++	++	++	++	++

Governance Requirements - uncertainties or gaps related to the application of governance requirements at group level.

9.18 Mutatis mutandis application of solo governance requirements to groups - Article 40 of the Solvency II Directive (definition of the AMSB for groups); and Article 246 of Solvency II Directive (supervision of the system of Governance)

Policy issues	**Options**
1. Lack of clarity regarding the mutatis mutandis application of solo governance requirements to groups - Article 40 of the Solvency II Directive (definition of the AMSB for groups); and Mutatis Mutandis under Article 246 of Solvency II Directive	Option 1.1: No change
	Option 1.2: Clarify the provisions regarding responsibility for governance requirements at group level, and setting principles to reduce

	SoG mutatis mutandis issues at group level. (preferred)

Policy issue 1: Lack of clarity regarding the mutatis mutandis application of solo governance requirements to groups - Article 40 of the Solvency II Directive (definition of the AMSB for groups); and Mutatis Mutandis under Article 246 of Solvency II Directive		
Option 1: No change		
Costs	Policyholders	Risk to policyholder protection due to poor governance of insurance groups
	Industry	Uncertainty and lack of convergence
	Supervisors	Uncertainty and lack of convergence
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	Flexibility in applying governance requirements at group level
	Supervisors	No material impact
	Other	No material impact
Option 2: Clarify the provisions regarding responsibility for governance requirements at group level, and setting principles to reduce SoG mutatis mutandis issues at group level.		
Costs	Policyholders	No material impact
	Industry	Potential changes on the group's system of governance will be necessary for the groups concerned to be compliant with the new requirements depending on the current national transposition of Article 246 of the Solvency II Directive.
	Supervisors	Potentials changes on the legislation and the practices of involved supervisors should be necessary to implement the harmonised requirements on group governance depending on the current national transposition of Article 246 of the Solvency II Directive.
	Other	No material impact
Benefits	Policyholders	Clarity on responsibilities and implementation of governance requirements at group level, ensuring a sound and robust group management, should improve policyholders' protection.
	Industry	Harmonise the group governance requirements should benefit to the level playing field of groups in the European market asking in all jurisdictions the same level of requirements. The framework proposed include explicitly a proportionate approach to complexity and risks.
	Supervisors	Clarify such requirements should help the involved supervisors to identify clearly the responsibilities at group level. It will guarantee as well consistency between group and solo systems of governance within groups and that groups are correctly identifying and managing group risks. This should reinforce financial stability and group resilience.
	Other	No material impact

Comparison of options

Policy issue 1: Lack of clarity regarding the mutatis mutandis application of solo governance requirements to groups - Article 40 of the Solvency II Directive (definition of the AMSB for groups); and Mutatis Mutandis under Article 246 of Solvency II Directive

9.157 The preferred policy option for this policy issue is option 1.2 to explicitly indicate the application of Article 40 of the directive at group level reference in Article 246(1) and amend the Article 246 of the Solvency II Directive and or the equivalent provisions at level two to set clear SoG expectations for groups to avoid some of the mutatis mutandis issues identified regarding the Articles 41 to 50 of the Solvency II Directive, and where priority should be given to consistency and management of conflict of interest issues between group and solo undertakings. Other options were considered but discharged as will not close the regulatory gap.

9.158 Based on the experience shared by supervisory authorities, the impact of the policy advice it is expected not to be material for the majority of groups. Groups engage actively with their group supervisors where doubts have risen, however, the cases of horizontal group, groups with multiple points of entry or multiple groups hold by the same individual or legal entity (where the parent company is not clearly identifiable or the group supervisors assess that the designated company is not adequate) there will be some impact. The impact in such cases will be driven by which entity is designed as the responsible entity for the group governance and reporting requirements however based on the data available to EIOPA it will not possible be possible to quantify the costs of compliance for such groups as part of this assessment.

9.159 Overall, it is expected that the benefits will overcome any associated costs on an aggregated basis for all the European market. The preferred policy option will lead to the most efficient and effective supervisory results by promoting good risk management, adequate supervision of governance issues at group level as well ensuring a level playing field across Europe.

9.160 The effectiveness and efficiency of the policy advice is summarised in the following table:

Policy issue 1: Lack of clarity regarding the mutatis mutandis application of solo governance requirements to groups - Article 40 of the Solvency II Directive (definition of the AMSB for groups); and Mutatis Mutandis under Article 246 of Solvency II Directive						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: 3) Pro moting good risk management	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: 3) Pro moting good risk management
Option 1: No change	0	0	0	0	0	0
Option 2: Clarify the provisions regarding responsibility for governance requirements at group level, and setting principles to reduce SoG mutatis mutandis	+	++	+	+	++	+

issues at group level.						

10 Freedom to provide services and freedom of establishment

Policy issue	Options
1. Efficient information gathering during the authorisation process	1.1._No change 1.2. Legal requirement for the applicant to inform the NSA on earlier rejections for authorisation in line with the Decision on cooperation (preferred)
2. Information exchange from home to host supervisor in case of material changes in the FoS activities	2.1 No change 2.2. Legal requirement for home supervisor to inform the host supervisor of material changes in the plan of operations where relevant for the host supervisor (preferred)
3. Seek solutions in complex cross border cases where NSAs fail to reach a common view on how to follow up on supervisory issues.	3.1No change 3.2 Specific reference in Article 152b of the Solvency II directive to EIOPA's powers under Article 16 EIOPA Regulation to give a recommendation in a deadlock situation (preferred)
4. Cooperation between home and host NSAs in case of material cross-border insurance business	4.1 No change 4.2 Legal requirement for the home supervisor to actively cooperate with host supervisor to assess whether the undertaking has a clear understanding of the risks (preferred)
5. Explicit power for the host supervisor to request information in a timely manner	5.1 No change 5.2 Information on FoE and FoS to host supervisors to be provided in a reasonable timeframe (preferred)

10.1 Efficient information gathering during the authorisation process

Policy issue 1: Efficient information gathering during the authorisation process		
Option 1.1: No change.		
Costs	Policyholders	As a level I legal obligation for requesting and providing the information is missing policyholders are more at risk than under option 1.2.
	Industry	The information should be asked by NSAs under the Decision on collaboration, there will be no extra costs.
	Supervisors	Supervisors should currently request the information under the Decision on Cooperation, no extra costs.

	Other	None.
Benefits	Policyholders	No benefits.
	Industry	Industry have to provide the information under the Decision on collaboration, no specific benefits.
	Supervisors	The information of former rejections has to be provided under the Decision on collaboration, no specific benefits.
	Other	No other stakeholders are involved.
Option 1.2: Legal requirement for the applicant to inform the NSA on earlier rejections for authorisation		
Costs	Policyholders	As a level I legal obligation for requesting and providing the information is provided policyholders risk are better managed then under option 1.1.; no costs.
	Industry	The decision on former rejections is already in the applicants' possession, costs will be limited to providing this documentation to the NSA of their application.
	Supervisors	The option is a formalisation of the text of the Decision on cooperation, no extra costs involved.
	Other	None.
Benefits	Policyholders	Policyholders benefit from clear supervisory requirements supported by supervisory powers under Level 1; a formal obligation to submit the information to NSAs helps to protect policyholders against forum shopping by those applicants who have been rejected elsewhere.
	Industry	Industry benefits from clear legal obligations for submission of the information which ensure a level playing field across the Union.
	Supervisors	NSAs have a clear legal power to ask for the relevant information on earlier rejections of authorisation.
	Other	none

Comparison of options

Policy issue 1

10.1 The preferred policy option for this policy issue is option 1.2 to have a legal obligation in the Solvency II Directive to provide information on former rejections for authorisation to the to the supervisory authority where the request for authorisation is submitted. An obligation for submission of this essential documentation in level 1 legislation is the best assurance to have the relevant information delivered and opens the possibility for sanctions in case the information is hold back or incomplete. The other option considered have been disregarded because the obligation for NSAs to request the information under the Decision on collaboration does not create a clear legal obligation across the EEA for the industry to submit the information.

Policy issue 1: *Need for efficient and effective information gathering on former info rejections*						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business	Objective 1: Effective and efficient supervision of (re)insurance	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business

	undertakings and groups			undertakings and groups		
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Legal obligation for industry to provide in the authorisation process relevant information on former rejections for authorisation	++	++	++	++	++	++

10.2 Information exchange between home and host supervisors in case of material changes in the FoS activities

Policy issue 2: Information exchange from home to host supervisor in case of material changes in the FoS activities		
Option 2.1: No change		
Costs	Policyholders	Less well informed NSAs will lead to less well protected policyholders.
	Industry	No material impact.
	Supervisors	Host supervisors are currently only high level informed of the activities provided by FoS in their territory: the insurance class and nature of the risks and commitments. Less well informed NSA lead to supervisory issues to be solved only when they already occur. Costs of supervision are higher then when the issues could have been prevented.
	Other	none
Benefits	Policyholders	No benefits as policy holders will be less protected
	Industry	No material impact.
	Supervisors	No material impact.
	Other	none
Option 2.2: Legal requirement for home supervisor to inform the host supervisor of material changes in the plan of operations where relevant for the host supervisor		
Costs	Policyholders	Policyholders will be better protected when host NSAs are better informed about the changes in for example the plan of operations or the business model through which policyholders could be affected.
	Industry	No material impact, as the information exchange is amongst NSAs
	Supervisors	Home supervisory to inform host supervisor of material changes lead to more obligations for information exchange and costs for the home supervisor but as adequate information for home and host supervisors is aiming at prevention

		of supervisory issues also to less costs for taking supervisory actions as potential issues can be better prevented.
	Other	None
Benefits	Policyholders	Policyholders will be better protected when host supervisors are informed of material changes in the plan of operations and therewith the risks for policyholders
	Industry	The NSAs will be better informed about the insurers' operations on the local market, which leads to more efficient communication with the NSA
	Supervisors	The host supervisor will be updated on substantial changes in the insurers' plan of operations and its activities on the local market.
	Other	None

Comparison of options

Policy issue 2

10.2 The preferred policy option for this policy issue is option 2.2. to have a legal obligation in the Solvency II Directive for information exchange from home to host supervisor in case of material changes in the FoS activities also in case where the nature of the risks or commitments does not change or might change as stated in the current text of Article 149 of the Solvency II Directive. Currently the information available to host supervisors is only updated by the home supervisor if the nature of the risk or commitments is changed (Article 149 of the Solvency II Directive), which leads to the risk supervisory issues can only be observed and cannot be prevented. The negative effects might have consequences for the policy holders. The other option considered has been disregarded because the only alternative of sharing updates on changes in FoS activities between home and host supervisors is not to request this information to be shared.

10.3 The selection of the preferred option has required a trade-off between requesting the home supervisor to inform the host supervisory of material changes against no exchange of information then in case a new FoS procedure is started because the nature of the risks or commitments will change. More weight has been given to preventing supervisory issues because timely information exchange reduces the risk of damage to policy holders and reduce the risk of the need for supervisory actions.

Policy issue 2: *Information exchange from home to host supervisor in case of material changes in the FoS activities*						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business
Option 2.1: No change	0	0	0	0	0	0

Option 2.2: Legal requirement for home supervisor to inform the host supervisor of material changes in the plan of operations where relevant	++	++	++	++	++	++

10.3 Enhanced role for EIOPA in complex cross-border cases where NSAs fail to reach a common view in the cooperation platform

Policy issue 3: Seek solutions in complex cross border cases where NSAs fail to reach a common view on how to follow up on supervisory issues		
Option 3.1: No change		
Costs	Policyholders	Policyholders run higher risks when supervisory issues among NSAs remain unsolved.
	Industry	Un-clarity about supervisory measures might lead to higher costs for industry when measures are taken after a long time frame.
	Supervisors	Ineffective supervision: Supervisors might have FTEs occupied with solving a disagreement among NSAs which could otherwise already work on the solution of the supervisory issue.
	Other	none
Benefits	Policyholders	No benefits for policy holders in time consuming difference of opinions in a deadlock among NSAs
	Industry	No benefits for Industry in time consuming difference of opinions in a deadlock among NSAs
	Supervisors	No benefits for supervisors in time consuming difference of opinions in a deadlock among NSAs
	Other	none
Option 3.2: Specific reference in Article 152b of the Solvency II directive to EIOPA's powers under Article 16 EIOPA Regulation to give a recommendation in a deadlock situation		
Costs	Policyholders	A recommendation of EIOPA aims to end the risks of non-action and reduce possible damage to policyholders.
	Industry	A recommendation of EIOPA aims to end the risks of non-action.
	Supervisors	A recommendation of EIOPA with 2 months to report compliance or non-compliance aims to end the risks of non-action.
	Other	none
Benefits	Policyholders	A supervisory recommendation from EIOPA is to the benefit of policyholders when adequately followed up by NSAs.
	Industry	Clear supervisory recommendations and timeframes give guidance to NSAs and therefore for industry on supervisory expectations.

	Supervisors	Clear supervisory recommendation give guidance to NSAs on supervisory actions to be taken.
	Other	none

Comparison of options

Policy issue 3

10.4 The preferred policy option for this policy issue is to have an explicit reference in the Solvency II Directive to the EIOPA Regulation to raise awareness for seeking solutions through an EIOPA recommendation in complex cross border cases where NSAs fail to reach a common view on how to follow up on supervisory issues. The timeframe of two months to follow up on the Recommendation as provided for in Article 16 of the EIOPA Regulation aims to end the a dead-lock in direct adequate follow up on supervisory issues and policyholders are a risk because of supervisory inaction.

Policy issue 3: Seek solutions in complex cross border cases where NSAs fail to reach a common view on how to follow up on supervisory issues						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Specific reference in Article 152b of the Solvency II directive to EIOPA's powers under Article 16 EIOPA Regulation to give a recommendation in a deadlock situation	++	+	++	++	+	++

10.4 Cooperation between home and host NSAs during ongoing supervision

Policy issue 4: Cooperation between home and host NSAs in case of material cross-border insurance business		
Option 4.1: No change		
Costs	Policyholders	No costs for policyholders as they are involved in information exchange among NSAs, therefore no material impact.

	Industry	No costs for Industry are involved in information exchange among NSAs, therefore no material impact.
	Supervisors	Cross border business might not be adequately supervised due to lack of cooperation
	Other	Not applicable
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	none
Option 4.2: Legal requirement for the home supervisor to actively cooperate with host supervisor to assess whether the undertaking has a clear understanding of the risks		
Costs	Policyholders	Better informed supervisors lead to better protected policy holders
	Industry	No material impact
	Supervisors	NSAs has to make an extra effort to be better informed on FoS and FoE business as part of the outcome of the SRP process of the home NSA
	Other	none
Benefits	Policyholders	Home NSAs will be better informed about the FoS and FoE business and therefore the proposal is to the benefit of the policy holders
	Industry	No material impact
	Supervisors	NSAs will be better informed and able to act before issues occur.
	Other	none

Comparison of options

Policy issue 4

10.5 The preferred policy option for this policy issue is to have a legal obligation in the Solvency II Directive for the home supervisor to contact the host supervisor if there are material changes in the cross border business to the host state. The proposal is in line with Part IV 'supervision on a continuous basis' of the Decision on collaboration especially paragraphs 4.1.1.1 to 4.1.1.3.

10.6 The selection of the preferred option has required a trade-off between keeping the current info package shared via the EIOPA Hub and making use of the extra data coming available from the enhanced reporting requirements stemming from the 2020 Review. More weight has been given to the most efficient and cost effective way of data sharing ensuring that all host supervisors receive the data of the same quality and at the same time.

Policy issue 4: In case of material cross-border insurance business under the right of establishment or the freedom to provide services the NSA of the Home Member State informs the NSA of the host Member State on the undertakings understanding of the risk that is faces or may face in the Host state territories and as part of the NSAs continuous SRP Process.						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision	Objective 2: Ensuring a level playing field	Objective 3: Effective and efficient supervision	Objective 1: Effective and efficient supervision	Objective 2: Ensuring a level playing field	Objective 3: Effective and efficient supervision

	of (re)insurance undertakings and groups	through sufficiently harmonised rules	of cross border business	of (re)insurance undertakings and groups	through sufficiently harmonised rules	of cross border business
Option 4.1: No change	0	0	0	0	0	0
Option 4.2: : Legal requirement for the home supervisor to actively cooperate with host supervisor to assess whether the undertaking has a clear understanding of the risks	++	++	++	++	++	++

10.5 Explicit power of the host supervisor to request information in a timely manner

Policy issue 5: Explicit power for the host supervisor to request information in a timely manner		
Option 5.1: No change		
Costs	Policyholders	Costs for policyholders if supervisory information is not provided in a timely manner and supervisory issues therewith remain unsolved.
	Industry	No extra costs for Industry are involved in providing information without a timeframe, therefore no material impact.
	Supervisors	Extra costs for supervisors if the information request has to be repeated and supervisory issues remain unsolved.
	Other	Not applicable
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	Not applicable
Option 5.2: Information on FoE and FoS to host supervisors to be provided in a reasonable timeframe		
Costs	Policyholders	Less costs for policyholders as the risk of supervisory issues is reduced if information is provided in a timely manner.
	Industry	More costs for industry as different priorities might need to be set to provide the information to the supervisory authority.
	Supervisors	Less costs for supervisors as information needs to be provided in a timely manner and repeated requests for information will be less.
	Other	Not applicable
Benefits	Policyholders	Timely availability of supervisory information improves the protection of policyholders.
	Industry	Clear requirements for the provision of information.

	Supervisors	Clear legal requirements for the timeframe to provide information from industry.
	Other	Not applicable

Comparison of options

Policy issue 5

10.7 The preferred policy option for this policy issue is option 5.2 to have a legal obligation in the Solvency II Directive for timely answers to information requests from host supervisors to FoE and FoS providers because currently no specific timeframe is set and it depends on local legislation if there is a obligation for (re) insurers to answer legitimate questions of host supervisors in a timely manner. The other options considered have been disregarded because the other option would be that a reasonable timeframe to answer information request was dependent on local legislation or not set at all.

10.8 The selection of the preferred option has required a trade-off between setting a timeframe and not setting a timeframe for industry to answer information requests from host supervisors. More weight has been given to requesting a reasonable timeframe without mentioning a specific timeframe as to keep flexibility to set the timeframe toward the content of the request.

Policy issue 5: Explicit power for host supervisor to request information in a timely manner						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business
Option 5.1: No change	0	0	0	0	0	0
Option 5.2: Explicit timeframe for answers to be required in a timely manner for information on FoE and FoS to host supervisors	++	++	++	++	++	++

11 Macroprudential policy

Policy issue	Options
1. Assessment of the need to grant NSAs with the power to require a capital surcharge for systemic risk	1.1 No change 1.2 Grant NSAs with the power to increase the capital requirements for macroprudential purposes (preferred)
2. Assessment of the need to grant NSAs with additional measures to reinforce the insurer's financial position	2.1 No change 2.2 Grant NSAs with additional measures to reinforce the insurer's financial position (preferred)
3. Assessment of the need to grant NSAs with the power to define soft concentration thresholds and intervene where deemed necessary	3.1 No change 3.2 Grant NSAs with the power to define soft concentration thresholds and intervene where deemed necessary (preferred)
4. Assessment of the need to expand the use of the ORSA to include the macroprudential perspective	4.1 No change 4.2 Expand the use of the ORSA to include the macroprudential perspective (preferred)
5. Assessment of the need to expand the PPP to take into account macroprudential concerns	5.1 No change 5.2 Expand the PPP to take into account macroprudential concerns
6. Pre-emptive recovery and resolution planning	See section 12
7. Assessment of the need to require SRMPs to insurance undertakings	7.1 No change 7.2 Require SRMPs for all undertakings 7.3 Require SRMPs for a subset of undertakings (preferred)
8. Assessment of the need to grant NSAs with additional mitigating measures in case vulnerabilities in respect to system-wide liquidity risk have been identified	8.1 No change 8.2 Granting NSAs with additional mitigating measures in case vulnerabilities in respect to system-wide liquidity risk have been identified (preferred)
9. Assessment of the need to require LRMPs to insurance undertakings	9.1 No change 9.2 Require LRMPs for all undertakings subject to Solvency II 9.3 Require LRMPs with possibility to waive undertakings (preferred)
10. Assessment of the need to grant NSAs with the power to temporary freeze the redemption rights in exceptional circumstances	10.1 No change 10.2 Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances, which would be applied to the whole or part of the market, or to systemically important institutions (preferred)

11.1. Capital surcharge for systemic risk

Policy issue 1 – Assessment of the need to grant NSAs with the power to require a capital surcharge for systemic risk
Option 1.1: No change

Costs	Policyholders	If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	No material impact.
	Supervisors	Supervisors would not be able to make use of an instrument that may be relevant to address the sources of systemic risk identified.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 1.2: Grant NSAs with the power to increase the capital requirements for macroprudential purposes		
Costs	Policyholders	No material impact.
	Industry	Undertakings subject to a capital surcharge for systemic risk would see a deterioration in their solvency ratio, unless action is taken. The surcharge will increase the cost of capital and the cost of calculating the SCR. The impact of a capital surcharge for systemic risk would however depend on the calibration of the instrument.
	Supervisors	Supervisors would essentially be confronted with a certain reputational risk in case the surcharge is not activated/de-activated at the right moment, or if the level or the time frame is not the right one.
	Other	In case the affected undertakings need to or want to maintain a similar solvency ratio after the increase of the SCR by NSA decision, one possible measure would be cutting dividends, thereby affecting the shareholders. If not properly designed, the tool could have unintended consequences (e.g. risk of procyclicality) or impact market confidence.
Benefits	Policyholders	Policyholders would ultimately benefit from a more stable financial system (see also “other” below).
	Industry	In the short-term, no direct benefit for affected undertakings. However, this measure seeks to ensure an adequate capitalization of undertakings (given their role in the broader financial system), which would have a positive impact in the long-run.
	Supervisors	Supervisors would have at their disposal a relevant tool they could trigger if they deem necessary to address relevant sources of systemic risk identified.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, op. cit.).

- *Impact on Financial Stability*

11.1 From a financial stability point of view, a capital surcharge may mitigate different sources of systemic risk identified, depending on the trigger:

1. A capital surcharge triggered to mitigate an entity-based source of systemic risk could mitigate a deterioration of an undertaking’s solvency position leading to a failure that might have an impact on the financial system and on connected

institutions. A surcharge triggered to address an entity-based source of systemic risk might also address too-big-to-fail problems.

2. A surcharge triggered to address the activity-based sources of systemic risk may help reduce contagion through involvement in bank-like activities or common exposures, and protect against regulatory arbitrage where risks migrate from the banking sector to the insurance sector. It could also discourage the involvement in certain products and activities (depending on its design) and assist in pricing the systemic impact of activities.
3. A capital surcharge triggered to address certain behaviours of undertakings may help to avoid excessive risk-taking by insurance undertakings, as they would be required to hold additional resources on top of the already existing capital requirements. Furthermore, it would also provide additional loss-absorbing capacity in case of inappropriate exposures on the liability side.

11.2 At the same time, however, undertakings may collectively seek to protect themselves from the surcharge by restricting the supply of certain products (which could have also a social impact), specific activities or certain investments.

- *Proportionality – How is proportionality considered*

11.3 Ensuring proportionality in terms of the undertakings subject to this tool and the level of the surcharge is a fundamental element. Furthermore, a certain degree of harmonisation in the use of this tool should also be pursued to reduce the risk of inconsistent application across the EU. This would be achieved by defining technically the potential triggers to activate the surcharge and the scope of undertakings (e.g. systemically important undertakings). NSAs should take these potential triggers as a reference in their assessment of whether such a surcharge is needed and supplement it with their expert judgement, depending on the systemic risk it should address and their knowledge about the national market. Furthermore, this measure should only be considered if no other regulatory instrument covers and mitigates sufficiently the targeted source of systemic risk.

- *Possible impact of such additional specifications on undertakings' behaviour*

Two main impacts on undertakings' behaviour can be indicated:

- If not constructed correctly, a systemic risk capital surcharge based on existing capital charges could have unintended consequences, affecting the business profile of undertakings.
- As stated above, undertakings may collectively seek to protect themselves from the surcharge by restricting the supply of certain products, specific activities or certain investments.

- *Possible interactions with other Solvency II instruments*

11.4 Solvency II incorporates the possibility of a capital add-on (Articles 37 and 232 for groups) in Pillar II. This capital add-on allows supervisors to increase the required capital of individual undertakings on a case-by-case basis. It is aimed at ensuring an adequate level of the SCR in order to protect policyholders' interests rather than explicitly dealing with systemic risk. It also seeks to preserve a level playing field

by including specific criteria that must be met before a capital add-on may be imposed or maintained.[84]

11.5 Under the current Solvency II text, capital add-ons are microprudential in focus, intended only to be used as a corrective measure to increase the level of capital required under the SCR appropriately until the undertaking has remedied the identified deficiencies. The existing capital add-on is not meant to be imposed as a means of addressing systemic risk.

11.6 A macroprudential capital surcharge could be integrated in Solvency II as a new macroprudential tool. A new Pillar II tool, i.e. not an extension of the currently existing one, would help avoiding any interference between both approaches, i.e. the microprudential and the macroprudential one.

- *Effectiveness and efficiency*

11.7 In terms of effectiveness, whereas the measure would contribute to ensuring sufficient loss absorbency capacity and reserving in a more direct way (and ultimately, the protection of policyholders), it would only have an indirect impact to discourage excessive involvement in certain products and activities and risky behaviour. Indeed, it would work to the extent that it incentivises undertakings to reconsider the involvement in certain activities or behaviours. This effect can be illustrated according to the table below.

Policy issue 1: Assessment of the need to grant NSAs with the power to require a capital surcharge for systemic risk			
	Effectiveness (0/+/++)		
Options	Ensuring sufficient loss absorbency capacity and reserving	Discourage excessive involvement in certain products and activities	Discourage risky behaviour
Option 1.1: No change	0	0	0
Option 1.2: Grant NSAs with the power to increase the capital requirements for macroprudential purposes	++	+	+

11.8 In addition, the efficiency dimension has been taken into account. A capital surcharge could contribute to meeting the objectives in an efficient way. At the same time, however, the rationale for using this tool should be clearly documented. The focus should be put on risk management and, in particular, on the investment approach of undertakings. The overall assessment of the efficiency of the tools is summarised in the table below.

Policy issue 1: Assessment of the need to grant NSAs with the power to require a capital surcharge for systemic risk			
	Efficiency (0/+/++)		
Options	Ensuring sufficient loss absorbency capacity and reserving	Discourage excessive involvement in certain products and activities	Discourage risky behaviour
Option 1.1: No change	0	0	0

[84] Chapter 3 of CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Capital add-on.

Option 1.2: Grant NSAs with the power to increase the capital requirements for macroprudential purposes	+	+	+

11.2. Additional measures to reinforce the insurer’s financial position

Policy issue 2 – Assessment of the need to grant NSAs with additional measures to reinforce the insurer’s financial position		
Option 2.1: No change		
Costs	Policyholders	If assumed that the measures can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	No material impact.
	Supervisors	Supervisors would not be able to make use of an instrument that may be relevant to address the sources of systemic risk identified.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 2.2: Grant NSAs with additional measures to reinforce the insurer’s financial position		
Costs	Policyholders	No material impact.
	Industry	Undertakings may not be able to follow the distribution of dividends initially considered or even committed with shareholders. In the short-term, insurance share prices may fall and their volatility increase as an investors’ reaction to the measures.
	Supervisors	Supervisors would essentially be confronted with a certain reputational risk in case the measures are not taken/removed at the right moment, or if the time frame is not the right one.
	Other	No material impact.
Benefits	Policyholders	Policyholders would ultimately benefit from a more stable financial system (see also “other” below).
	Industry	In the short-term, no direct benefit for affected undertakings. However, these measures seeks to ensure an adequate capitalization of undertakings (given their role in the broader financial system) as well as a prudent risk management, which should have a positive impact in the long-run. From that point of view, despite the potential negative impact on the share price in the short-term mentioned above, it can be reasonably expected that the application of these measures in exceptional situations should be rather positive for medium and long-term investors that are maximizing their profit over longer horizon.
	Supervisors	Supervisors would have at their disposal a relevant tool they could trigger if they deem necessary to address relevant sources of systemic risk identified.

	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers.

- *Impact on Financial Stability*

11.9 From a financial stability point of view, the measures to reinforce the insurer's financial position may mitigate to two sources of systemic risk identified:

1. The measures to reinforce the insurers' financial position could mitigate a deterioration of an undertaking's solvency position. This could lead to a failure that might have an impact on the financial system and on connected institutions.
2. The measures would also support a more prudent risk management by the company. Indeed, in situations of high uncertainty regarding the depth, magnitude and/or duration of the crisis, restricting or suspending dividends or other payments to shareholders as well as restricting the purchase of the insurer's own shares are prudent measures to apply for a limited period of time. According to the circumstances, these measures can be applied to the whole market or undertakings with potentially vulnerable risk profiles. In the latter case the decision should be supported by the evidences resulting from the supervisory process (e.g. results of stress tests, forward looking assessments, etc.).

11.10 At the same time, however, in the short-term, insurance share prices may fall and their volatility increase as an investors' reaction to the measures.

- *Proportionality – How is proportionality considered*

11.11 Ensuring proportionality in terms of the undertakings subject to these measures and the implementation time of this measure is fundamental. Proportionality would be achieved in three ways:

— The use of these measures should be limited to exceptional circumstances. EIOPA should issue guidelines to further specify the existence of "exceptional circumstances".[85]

— The application of these measures should be limited to what is strictly needed to address sector-wide shocks.

— The measures should exclusively be applied to those undertakings affected by the crisis. However, the measures may have to be applied across-the-board.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.12 There should not be a substantial impact in terms of undertakings' behaviour. It is not expected that the dividends' policy of undertakings is significantly affected if NSAs are granted with the additional measures to reinforce insurance financial position. However, the possibility of supervisors to make use of such measures would most likely have to be included in the communication with current and potential shareholders.

[85] Similar to the power to temporary freeze the redemption rights in exceptional circumstances.

- *Possible interactions with other Solvency II instruments*

11.13 In Solvency II, there are defined mechanisms for the automatic cancellation or deferral of dividends/distributions, but the current framework only considers this possibility when the SCR/MCR is breached. The proposal is to broaden this possibility to be used to address macroprudential concerns in exceptional circumstances and for a limited period of time.

- *Effectiveness and efficiency*

11.14 In terms of effectiveness, it is expected that the measures have a positive impact in terms of ensuring sufficient loss absorbency capacity and reserving in the long-term. Indeed it should help undertakings to weather a severe crisis by avoiding the disbursement of financial resources that might be needed at a later stage in case the crisis worsens. From this perspective, the measures force companies to follow a prudent approach until the uncertainty is over, thereby promoting good risk management. This effect can be illustrated in the table below.

Policy issue 2– Assessment of the need to grant NSAs with additional measures to reinforce the insurer's financial position		
	Effectiveness (0/+/++)	
Options	Ensuring sufficient loss absorbency capacity and reserving	Promoting good risk management
Option 2.1: No change	0	0
Option 2.2: Grant NSAs with additional measures to reinforce the insurer's financial position	++	+

11.15 In addition, the efficiency dimension has been taken into account. The measures to reinforce the insurers' financial position could contribute to meeting the objectives in an efficient way. At the same time, however, it is clear that the use of this tool should be really restricted to exceptional situations, and only as strictly needed. The overall assessment of the efficiency of the tools is summarised in the table below.

Policy issue 2 – Assessment of the need to grant NSAs with additional measures to reinforce the insurer's financial position		
	Efficiency (0/+/++)	
Options	Ensuring sufficient loss absorbency capacity and reserving	Promoting good risk management
Option 2.1: No change	0	0
Option 2.2: additional measures to reinforce the insurer's financial position capital requirements for macroprudential purposes	+	+

11.3. Concentration thresholds

Policy issue 3 – Assessment of the need to grant NSAs with the power to define soft concentration thresholds and intervene where deemed necessary		
Option 3.1: No change		
Costs	Policyholders	If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	No material impact.
	Supervisors	More limited possibilities to act in case of need.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 3.2: Grant NSAs with the power to define soft concentration thresholds and intervene where deemed necessary		
Costs	Policyholders	No material impact.
	Industry	Although undertakings could go beyond the benchmarks, they might be affected to a certain extent in their investment strategies by the intervention of authorities.
	Supervisors	Supervisors might be confronted with certain operational challenges and uncertainty in defining the appropriate level of the thresholds. Technical work would need to be done to harmonize the procedure to define the soft thresholds, which could be challenging due to national specificities.
	Other	No material impact.
Benefits	Policyholders	Policyholders would ultimately benefit from a more stable financial system (see also "other" below).
	Industry	By defining soft thresholds, undertakings would have a certain benchmark when defining their investment strategies. It would foster diversification in investment portfolio.
	Supervisors	Supervisors would have the power to define soft thresholds or benchmarks to monitor relevant concentrations at market level, which is a useful supplement to other tools currently existing in Solvency II. NSAs could intervene where –according to their judgement– there is a risk to financial stability.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, *op. cit.*).

- *Impact on Financial Stability*

11.16 From a financial stability point of view, granting NSAs with the power to define soft thresholds and allow them to intervene where they see a risk to financial stability would essentially help to discourage excessive levels of direct and indirect exposure concentrations and foster supervisory dialogue when they are breached.

11.17 At the same time, however, there could also be some procyclicality concerns if undertakings approaching the threshold start to collectively sell a certain asset class.

- *Proportionality – How is proportionality considered*

11.18 In order to ensure proportionality in the application of this tool, a flexible approach should be followed. EIOPA's internal research confirmed that, as expected, there are relevant differences across countries, reflecting historical developments, habits and trends at national level. The analysis carried out supports the rationale for a flexible approach on any potential threshold to be defined. As stated in EIOPA's third paper, flexibility at jurisdictional level could better grasp national specificities, such as significant differences in asset allocation amongst undertakings in different jurisdictions.[86]

- *Possible impact of such additional specifications on undertakings' behaviour*

11.19 Introducing thresholds would have an impact on the undertaking's investment behaviour. On the one hand it could foster diversification; on the other hand it could result in undertakings changing their asset allocation and moving to other type of investments. In some cases, it may lead to less safe investments. This, in turn, may also have an impact on the undertakings' overall asset return and ALM policy.

11.20 EIOPA is of the view, however, that such an impact would be mitigated by the fact that the concept of soft threshold or benchmark does not imply any kind of forced sale per se and is flexible enough to cope with national-specific features in the insurance sector. Furthermore, NSAs would have the discretion whether to use this power or not. It can therefore be expected that any action by the NSAs will be restricted to specific circumstances at market level.

- *Possible interactions with other Solvency II instruments*

11.21 Solvency II deals with the risk of concentration to a certain extent. It includes concentration risk charges for single-name exposures, which helps limit excessive concentrations and exposures toward a single issuer.[87] Moreover, the PPP and ORSA requirements are foundation elements in Solvency II and both are relevant to excessive concentration (see Box 11.1). As a monitoring tool, it also requires insurance groups to report significant risk concentrations across a wide range of categories.

Box 11.1: Solvency II tools to cope with excessive concentrations

Solvency II embeds principles/tools that have been conceived to cope with excessive concentration:

- The market-consistent balance sheet valuation approach is the foundation principle, which affects the entire insurance legislative framework. Under this principle, both assets and liabilities are valued at market value (i.e. the riskiness is already reflected in the price of

[86] See EIOPA (2018c), *op. cit*.

[87] No risk charges are however included for other types of exposures concentrations, such as sectoral.

the securities) and all the risks and their interactions are considered together with mitigation techniques (such as reinsurance and hedging).

- This fundamental principle eventually influences the required capital that should always match the amount of risks taken on by the insurance undertaking. The standard formula within the market module considers risks related to concentration issues although with some differences in the treatment for government bonds, where in fact exposure to government bonds should be properly taken into account by Internal Model users. Nevertheless, undertakings using internal models can use a dynamic volatility adjustment, which standard formula undertakings are not allowed to. The inclusion of this measure on internal models give rise to high capital relief that can offset to a high degree or even be higher than the charge included for sovereign bonds.
- The PPP requires undertakings to ensure the security, quality, liquidity and profitability of the investment portfolio (discarding them from any kind of benchmark). It also requires undertakings to properly diversify their assets to avoid excessive reliance on any particular asset, issuer or group of undertakings, or geographical area and excessive accumulation of risk in the portfolio as a whole;
- In terms of governance and risk management requirement, including the ORSA, the latter is an essential element of the undertaking's risk management as it has to be carried out independently from the SCR standard formula. In the ORSA, the undertaking must take into consideration all the risks they face, regardless of whether these risks are in the standard formula. Therefore, risks related to investment exposure (including those related to sovereign holdings) have to be assessed and should be managed either by quantitative or qualitative measures. In the investment risk management policy, undertakings must state the undertaking's own assessment of the credit risk of counterparties, including instances where the counterparties are central governments and their policy in respect to concentration risk management;
- The standard formula users will have to explain their (large) investments exposure within the supervisory review process.88
- To avoid overreliance on credit rating agencies, undertakings are required to develop their own internal credit assessment. This should ensure proper assessment of (large) exposure risks as well.

11.22 However, both the PPP and the ORSA are focused on the undertakings assessing their own investment strategy based on their own risk appetite. Undertakings may make "optimal" investment decisions at an individual level, but overall, the sector may be excessively concentrated in particular exposures.[89]

11.23 Completing the current framework by granting NSAs with the power to define soft thresholds providing some kind of flexibility in the form of guided discretion at national level to take action in case the aforementioned thresholds are breached and there is a risk to financial stability is considered as a useful supplement to the PPP and ORSA.

- *Effectiveness and efficiency*

11.24 In terms of effectiveness, while the option to require hard thresholds seems more effective to prevent excessive concentrations, as mentioned, it does not appear to be the right approach for a principle-based framework like Solvency II.

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[88] Articles 244 of Solvency II directive.

[89] In the next sections, a proposal is made to expand ORSA and PPP to take the macroprudential concerns also into account.

Policy issue 3 – Assessment of the need to grant NSAs with the power to define soft concentration thresholds		
	Effectiveness (0/+/++)	
Options	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 3.1: No change	0	0
Option 3.2: Grant NSAs with the power to define soft concentration thresholds	+	+

11.25 This explains why considering the efficiency dimension is fundamental in this context. EIOPA considers that the most efficient option from the two considered is defining "soft" thresholds, given that this would provide additional incentives for good risk management without being prescriptive and, at the same time, acknowledging the different specific features across countries.

Policy issue 3 – Assessment of the need to grant NSAs with the power to define soft concentration thresholds		
	Efficiency (0/+/++)	
Options	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 3.1: No change	0	0
Option 3.2: Grant NSAs with the power to define soft concentration thresholds	++	+

11.4. Expand the use of the ORSA to include the macroprudential perspective

Policy issue 4 – Assessment of the need to expand the use of the ORSA to include the macroprudential perspective		
Option 4.1: No change		
Costs	Policyholders	If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	Undertakings would not receive relevant market-wide information from supervisor, which results from the aggregation and analysis of the different ORSA reports.
	Supervisors	Supervisors would not be able to make use of an instrument that may be relevant to address the sources of systemic risk identified.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.

<table>
<tr><td></td><td>Other</td><td>No material impact.</td></tr>
<tr><td colspan="3">Option 4.2: Expand the use of the ORSA to include the macroprudential perspective</td></tr>
<tr><td rowspan="4">Costs</td><td>Policyholders</td><td>No material impact.</td></tr>
<tr><td>Industry</td><td>A certain adjustment to the new approach would be needed by undertakings, including a more structured approach to the ORSA report.
If too prescriptive, ORSA may scale back to a certain extent undertakings' internal own risk management processes.</td></tr>
<tr><td>Supervisors</td><td>Supervisors/authorities in charge of the macroprudential policy would need to devote more resources to analyse the information of ORSA reports at an aggregate level and provide relevant input to undertakings.</td></tr>
<tr><td>Other</td><td>No material impact.</td></tr>
<tr><td rowspan="4">Benefits</td><td>Policyholders</td><td>Policyholders would ultimately benefit from a more stable financial system (see also “other” below).</td></tr>
<tr><td>Industry</td><td>Undertakings would receive relevant market-wide information from a macroprudential point of view. They would be able to better consider the external environment (i.e. the potential sources of systemic risk identified) in their risk assessment.[90]</td></tr>
<tr><td>Supervisors</td><td>By using the expanded ORSA reports, supervisors would be able to supplement the microprudential approach of this tool, receiving additional information that is also relevant from a macroprudential perspective. This would facilitate peer reviews among different undertakings and facilitate analysis through time.
The ORSA report could serve the purpose of improving the intensity and quality of dialogues between undertakings and supervisors related to market-wide aspects and contribute to mitigate macroprudential risks.</td></tr>
<tr><td>Other</td><td>To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, op. cit.).</td></tr>
</table>

- *Impact on Financial Stability*

11.26 From a financial stability perspective, expanding the use of ORSA could help mitigating two main sources of systemic risk identified. First, it could avoid the deterioration of the solvency position leading to insurance failure(s). Secondly, it could contribute avoiding excessive concentrations.

11.27 On the other hand, there is a potential risk of procyclical behaviour if the feedback provided by authorities triggers some kind of common behaviour affecting the markets. This aspect, which is related to communication, should properly be considered by supervisors.

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[90] A good example of macroprudential risk addressed through an expanded supervisory ORSA assessment could be the risk of excessive concentrations, identified as one of the sources of systemic risk. The ORSA is focused on the undertaking assessing their own investment strategy, based on their own risk appetite, which makes it difficult to address issues of excessive concentration levels at sector level. Undertakings may make “optimal” investment decisions at an individual level, but overall, the sector may be excessively concentrated in particular exposures. With an expanded supervisory use of ORSA reports, (re)insurance undertakings would be able to have sufficient understanding of market-wide developments and the potential macroprudential risks associated with them, which should be taken into account in their ORSA process. This could potentially have an alleviating effect on macroprudential risks.

- *Proportionality – How is proportionality considered*

11.28 In terms of proportionality, as stated by EIOPA, the risk management system and ORSA "should be proportionate to the risks at stake while ensuring a proper monitoring of any evolution of the risk, either triggered by internal sources such as a change in the business model or business strategy or by an external source such as an exceptional event that could affect the materiality of a certain sub-module". Expanding the use of the ORSA reports from a macroprudential point of view should follow a similar approach.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.29 The major impact of this tool on undertakings' behaviour expected is related to the raising of macroprudential awareness where they are material and not already taken into consideration by undertakings. The only issue that could be considered is the risk of a potential imperfect feedback process, which may lead to misinterpretation by undertakings, which may then not take adequate decisions. A prescriptive approach should be avoided. Otherwise it may restrict to a certain extent the undertakings' independence in internal risk management processes.

- *Possible interactions with other Solvency II instruments*

11.30 The proposal of expanding the ORSA to enhance the macroprudential perspective would affect, to a limited extent, the current approach to ORSA. No other interactions with other Solvency II instruments have been identified.

- *Effectiveness and efficiency*

11.31 Regarding the effectiveness, the proposal is essentially focused to discourage excessive levels of direct and indirect exposure concentrations and, in general, promoting good risk management. This should be enhanced by also considering market-wide developments that turn into macroprudential risks. Furthermore, given that ORSA is designed to assess the solvency needs of undertakings, a positive impact is expected also in terms of ensuring sufficient loss-absorbency capacity.

Policy issue 4 – Assessment of the need to expand the use of the ORSA to include the macroprudential perspective			
	Effectiveness (0/+/++)		
Options	Discourage excessive levels of direct and indirect exposure concentration	Ensure sufficient loss-absorbency capacity and reserving	Promoting good risk management
Option 4.1: No change	0	0	0
Option 4.2: Expand the use of the ORSA to include the macroprudential perspective	++	+	++

11.32 In terms of efficiency and, as mentioned, given the expected limited costs of an expanded use of the ORSA, this tool seem to yield an efficient contribution to the operational objectives identified.

Policy issue 4 – Assessment of the need to expand the use of the ORSA to include the macroprudential perspective			
	Efficiency (0/+/++)		
Options	Discourage excessive levels of direct and indirect exposure concentration	Ensure sufficient loss-absorbency capacity and reserving	Promoting good risk management
Option 4.1: No change	0	0	0
Option 4.2: Expand the use of the ORSA to include the macroprudential perspective	++	++	++

11.5. Expand the prudent person principle to take into account macroprudential concerns

Policy issue 5 – Assessment of the need to expand the PPP to take into account macroprudential concerns		
Option 5.1: No change		
Costs	Policyholders	If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	Undertakings would not receive relevant macroprudential information from supervisors, which they could take into account when deciding on their investment strategies.
	Supervisors	Supervisors would have less possibilities to raise awareness and advice the market on possible risky investment behaviour of undertakings.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 5.2: Expand the PPP to take into account macroprudential concerns		
Costs	Policyholders	No material impact.
	Industry	A certain change in the approach might be needed. This would only be the case for those undertakings that do not consider the macroprudential dimension in their investment strategies already.
	Supervisors	Supervisors would need to devote more resources to analyse the information of the different investment strategies at an aggregate level and provide relevant input to undertakings.
	Other	No material impact.
Benefits	Policyholders	Policyholders would ultimately benefit from a more stable financial system (see also "other" below).
	Industry	Undertakings would be able to consider with more emphasis the external environment (i.e. the potential sources of systemic risk identified) in their investment strategies.

	Supervisors	Supervisors would be able to supplement the microprudential approach of this tool, compiling additional macroprudential perspective. This would facilitate peer reviews among different undertakings and facilitate analysis through time. The PPP could serve the purpose of improving the intensity and quality of dialogues between undertakings and supervisors related to investment strategies and contribute to mitigate potential risks.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, *op. cit.*).

- *Impact on Financial Stability*

11.33 From a financial stability perspective, the expansion of the PPP could help mitigating two main sources of systemic risk identified, i.e. the risk of excessive concentrations and the involvement in certain activities or products with greater potential to pose systemic risk.

11.34 On the other hand, there might be a potential risk of procyclical behaviour if the feedback provided by authorities triggers some kind of common behaviour affecting the markets. This aspect, which is related to communication, should properly be considered by supervisors.

- *Proportionality – How is proportionality considered*

11.35 The expansion of the PPP does not raise any proportionality concerns in its application.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.36 As mentioned with the ORSA, the major impact of this tool on undertakings' behaviour expected is related to the raising of macroprudential awareness where not already taken into consideration by undertakings. There could be the issue linked to a potential imperfect feedback process, which may lead to misinterpretation by undertakings.

- *Possible interactions with other Solvency II instruments*

11.37 The proposal to expand the PPP to include macroprudential concerns would improve the current approach to this principle without adding to much burden. No other interactions with other Solvency II instruments have been identified. As mentioned before, the proposal of requiring soft concentration thresholds would be a supplement to the PPP.

- *Effectiveness and efficiency*

11.38 As with the ORSA analysis, this conclusion is reinforced if the effectiveness and efficiency dimensions are considered. Regarding the effectiveness, the proposal is focused on discouraging excessive levels of direct and indirect exposure concentrations and excessive involvement in certain products and activities. In general, it should lead to a better risk management. However, the impact of an expanded PPP is not deemed to be very high, given that it can be considered as a soft corrective tool.

Policy issue 5 – Assessment of the need to expand the PPP to take into account macroprudential concerns			
	Effectiveness (0/+/++)		
Options	Discourage excessive levels of direct and indirect exposure concentration	Discourage excessive involvement in certain products and activities	Promoting good risk management
Option 5.1: No change	0	0	0
Option 5.2: Expansion of the PPP to take into account macroprudential concerns	+	+	+

11.39 In terms of efficiency and, as mentioned, given the expected limited costs of an expanded PPP, this tool seem to yield an efficient contribution to the operational objectives identified.

Policy issue 5 – Assessment of the need to expand the PPP to take into account macroprudential concerns			
	Efficiency (0/+/++)		
Options	Discourage excessive levels of direct and indirect exposure concentration	Discourage excessive involvement in certain products and activities	Promoting good risk management
Option 5.1: No change	0	0	0
Option 5.2: Expansion of the PPP to take into account macroprudential concerns	++	++	++

11.6. Pre-emptive recovery and resolution planning

- *Analysis of options*

Please see chapter 12 on recovery and resolution

- *Impact on Financial Stability*

11.40 By requiring undertakings to draft pre-emptive recovery plans and competent authorities to draft resolution plans, the sector would benefit from a macroprudential perspective. Indeed, the purpose of adequate preparation and planning is to reduce the probability of undertakings failing on the one hand by developing pre-emptive recovery plans, and to reduce the impact of potential failures on the other hand by developing pre-emptive resolution plans. This is particularly relevant when undertakings are operating in stressed macroeconomic environments. As a result, the objectives of policyholder protection, financial stability and protection of public funds should be better achieved.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.41 Pre-emptive resolution planning should not have an impact on the undertakings' behaviour. Regarding pre-emptive recovery planning, it can be assumed that, if properly done, these plans may provide relevant lessons learned for undertakings, which may then seek to mitigate certain risks that were identified.

- *Possible interactions with other Solvency II instruments*

11.42 Pre-emptive recovery plans would be a supplement to the already existing recovery plan in Solvency II.[91] According to Solvency II, undertakings are required to develop recovery plans within two months from the observation of non-compliance with the SCR (Article 138 of the Solvency II Directive). Developing pre-emptive recovery plans allows undertakings to make informed and timely decisions in times of crises and should therefore be helpful for any potential Solvency II recovery plan in case of breach of the SCR. Furthermore, given that pre-emptive recovery plans can be considered as a natural extension of ORSA, there is also certain interaction with this tool.

11.43 Regarding resolution plans to be drafted by competent authorities, there is no equivalent features in the current Solvency II Directive.[92] From that perspective, there is no relevant interaction with other instrument currently existing.

11.7. Systemic risk management plans

Policy issue 7 – Assessment of the need to require SRMPs to insurance undertakings		
Option 7.1: No change		
Costs	Policyholders	If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	No material impact.
	Supervisors	Supervisors cannot benefit from relevant information related to the systemic risk that undertakings may pose in the financial system.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No additional resources need to be devoted.
	Other	No material impact.
Option 7.2: Require SRMPs for all undertakings		
Costs	Policyholders	No material impact.
	Industry	Undertakings may face one-off costs in terms of fees to externals and time devoted by staff involved in the drafting process. Additionally, keeping the plans updated would also require certain resources on an ongoing basis, although these are not deemed high.

[91] Recovery plan would ultimately be an additional layer of policyholder protection, together with other mechanisms such as IGS.

[92] However, there might be some interaction with national insolvency procedures.

	Supervisors	Additional resources needed to analyse the SRMPs provided by undertakings. Depending on the number of undertakings operating in the market, this ongoing resource consumption could be relatively high.
	Other	No material impact.
Benefits	Policyholders	Policyholders would ultimately benefit from a more stable financial system (see also "other" below).
	Industry	SRMPs would provide an overview and understanding of the systemic risks and their build-ups and allow pro-active management of these risks rather than reactive.
	Supervisors	By requiring SRMP to all undertakings, supervisors would have a comprehensive picture of the potential systemic risk (and mitigating actions) that undertakings may pose in the financial system and the respective corrective/mitigating actions.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, *op. cit.*).
Option 7.3: Require SRMPs for a subset of undertakings		
Costs	Policyholders	No material impact.
	Industry	Affected undertakings may face one-off costs in terms of fees to externals and time devoted by staff involved in the drafting process. Additionally, keeping the plans updated would also require certain resources on an ongoing basis, although these are not deemed high.
	Supervisors	Additional resources needed to analyse the SRMPs provided by undertakings. Given that the scope of undertakings would only include systemically important undertakings, the costs are not deemed excessively high in the longer term.
	Other	No material impact.
Benefits	Policyholders	Policyholders would ultimately benefit from a more stable financial system (see also "other" below).
	Industry	SRMPs would provide an overview and understanding of the systemic risks and their build-ups and allow pro-active management of these risks rather than reactive.
	Supervisors	By requiring SRMP to a subset of relevant undertakings, supervisors would strike a balance between having relevant information about the potential systemic risk (and mitigating actions) that undertakings may pose in the financial system without an unnecessary burden.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, *op. cit.).*

- *Impact on Financial Stability*

11.44 From a financial stability perspective, requiring SRMPs should contribute to mitigate two main sources of systemic risk identified i.e. the potential involvement of undertakings in certain activities or products with greater potential to pose systemic risk and the existence of potentially dangerous interconnections.

11.45 By selecting relevant undertakings to draft SRMPs, the sector would benefit from a macroprudential perspective. First, by means of ensuring that the institutions are monitoring and managing more effectively the activities, which could lead to posing systemic risk. Secondly, to make this actually effective in practice,

undertakings should seek to take concrete actions to better manage, reduce or separate their systemically risky activities.

- *Proportionality – How is proportionality considered*

11.46 Proportionality concerns should be addressed by determining the scope of undertakings subject to SRMPs. In EIOPA's view the requirement to draft SRMPs should only apply to those undertakings that could indeed create or amplify systemic risk by themselves both from an entity- and an activity-based perspectives. As a result, EIOPA argues in favor of an "opt-in" approach, i.e. by default, no SRMPs should be required to undertakings, unless NSAs deem it necessary. For example, NSAs could decide to require SRMPs to D-SIIs (where so designated at national level) or to undertakings involved in certain products and activities that are more prone to create systemic risk.

11.47 As with pre-emptive recovery and resolution plans, EIOPA is of the view that, where required, SRMPs should be developed at the group level or at the level of an individual insurance entity, which is not part of a group.

11.48 The development of SRMPs at the group level, however, should not prohibit the possibility for solo supervisors to require the development of such plans at the solo level. Close collaboration with the group supervisor should exist if SRMPs are also required from individual entities belonging to a group.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.49 Regarding the impact on undertakings' behaviour, no major change as a consequence of requiring such plans can be envisaged. However, SRMP may incentivise undertakings subject to these plans to consider the systemic riskiness of the activities they are engaging in as well as how to manage this risk.

- *Possible interactions with other Solvency II instruments*

11.50 Requiring SRMP to a subset of undertakings could – to a limited extent – interact (but not conflict) with ORSA and, more generally, with the risk management system of undertakings. This plan, in which the undertakings would present all applicable measures they intend to undertake to address the systemic risk that the institution may pose in the financial system, would be a supplement to other risk management reports or plans, such as the ORSA.

- *Effectiveness and efficiency*

11.51 The effectiveness and efficiency dimension are summarised in the tables below. Options 7.2 and 7.3 yield a similar result if the subset of undertakings required to draft SRMPs is restricted to those undertakings that are systemically relevant or are involved in certain activities or products with greater potential to pose systemic risk.

Policy issue 7 – Assessment of the need to require SRMPs to insurance undertakings			
	Effectiveness (0/+/++)		
Options	Discourage excessive involvement in certain products and activities	Discourage excessive levels of direct and	Promoting good risk management

		indirect exposure concentrations	
Option 6.1: No change	0	0	0
Option 6.2: Require SRMPs to all undertakings	++	++	++
6.3: Require SRMPs to a subset of undertakings.	++	++	++

11.52 The option to restrict the requirement to a subset of undertakings only is clearly reinforced when the efficiency dimension is considered. Indeed, requiring SRMPs to undertakings that are neither systemically relevant nor involved in certain activities or products more prone to systemic risk is not necessary and, therefore, not as efficient as being able to filter those undertakings that are relevant from this perspective.

Policy issue 7 – Assessment of the need to require SRMPs to insurance undertakings			
	Efficiency (0/+/++)		
Options	Discourage excessive involvement in certain products and activities	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 6.1: No change	0	0	0
Option 6.2: Require SRMPs to all undertakings	+	+	+
Option 6.3: Require SRMPs to a subset of undertakings.	++	++	++

11.8. Liquidity risk framework

Policy issue 8 – Assessment of the need to grant NSAs with additional mitigating measures in case vulnerabilities in respect to system-wide liquidity risk have been identified		
Option 8.1: No change		
Costs	Policyholders	If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	No material impact.
	Supervisors	Supervisory action would be limited in case any vulnerabilities are identified, which may result in adverse effects on financial stability.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No additional resources need to be devoted.
	Supervisors	No additional resources need to be devoted.
	Other	No material impact.

Option 8.2: Granting NSAs with additional mitigating measures in case vulnerabilities in respect to system-wide liquidity risk have been identified		
Costs	Policyholders	No material impact.
	Industry	Undertakings might need to devote additional resources to reporting on liquidity risk and to an increased interaction with supervisors to discuss the outcome of the risk assessment and stress testing exercises. In case a vulnerability is identified and there is supervisory intervention, undertakings might be given less discretion in deciding their investment allocation and business profile. Their profitability could be negatively affected in case there is a need to increase holdings of liquid assets due to the loss of the illiquidity premium.
	Supervisors	Technical work would need to be done to develop liquidity metrics and a stress testing framework based on developments at European and international levels. Supervisors might be confronted with certain operational challenges in defining the appropriate policy response to identified liquidity stresses and to agree on a common definition, adequate level and other potentially relevant elements of the mitigating measures.
	Other	No material impact.
Benefits	Policyholders	A better assessment and monitoring of liquidity risk and the availability of tools to address any identified vulnerabilities is expected to ultimately result in better managed undertakings in the benefit of policyholders. Policyholders would ultimately benefit from a more stable financial system (see also "other" below).
	Industry	In the short-term, no direct benefit for affected undertakings. However, these measures seek to ensure an appropriate assessment and prudent management of liquidity risk of undertakings (given their role in the broader financial system), which should have a positive impact in the long-run. The approach would contribute to ensuring that undertakings can meet their obligations on time and that they do not suffer major discounts on assets due to illiquidity. It may also benefit their reputation, as liquidity crisis usually adversely affect the reputation of undertakings since they often take place through surrenders, inability to meet obligations, etc.
	Supervisors	The proposed approach should allow a proper reply to any potential liquidity risk. An enhanced liquidity monitoring and stress testing framework should support supervisors in identifying in a timely manner companies with vulnerable liquidity profiles and the potential to impact financial stability. If set up properly, these tools should allow supervisors to take adequate measures when risks are identified.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a).

- *Impact on Financial Stability*

11.53 The proposed approach to liquidity risk should allow a proper reply to any potentially systemic liquidity risk stresses. Granting NSAs with additional Pillar II mitigating measures in case vulnerabilities have been identified through risk monitoring and stress-testing should allow supervisors to take adequate measures when risks are identified, safeguarding the rights of policyholders and overall financial stability.

- *Proportionality – How is proportionality considered*

11.54 With regards to the introduction of potential measures to address identified liquidity risk, these should also be proportional to the size of the risk exposure of the undertaking. These measures should target companies that based on the proposed enhanced liquidity risk monitoring and/or stress testing, exhibit particularly vulnerable profiles (e.g. very liquid liabilities or illiquid assets) and the potential to affect overall financial stability.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.55 It is expected that due to increased reporting and more frequent interactions with supervisors on liquidity risk, undertakings become more aware of potential liquidity risk both at an individual level and broader financial sector level.

11.56 The supervisory intervention in case vulnerabilities are identified could ultimately result in undertakings being given less discretion in deciding their investment allocation and business profile if the mitigating measures are applied.

- *Possible interactions with other Solvency II instruments*

11.57 Liquidity risk is only partially covered by the current regulatory framework. Solvency II is a capital-based framework and focusses primarily on solvency, and not specifically on liquidity. Solvency II relies on Pillar II requirements, such as the Prudent Person Principle (PPP), and the liquidity plans required when using the matching adjustment and volatility adjustment to ensure undertakings manage their liquidity risk. Article 44 of the Solvency II Directive addresses risk management, stressing the areas that need to be covered. Liquidity and concentration risk management are among those areas explicitly listed.

11.58 The interaction between (macro) liquidity tools and Solvency II seems to be rather limited. The current proposal would therefore complement current Solvency II provisions.

- *Effectiveness and efficiency*

11.59 The effectiveness and efficiency dimension are summarised in the tables below. The proposed approach to liquidity risk would contribute to the operational objectives of discouraging excessive involvement in certain activities, discouraging excessive levels of direct and indirect exposure concentrations and promoting good risk management.

Policy issue 8 – Assessment of the need to grant NSAs with additional mitigating measures in case vulnerabilities in respect to system-wide liquidity risk have been identified			
	Effectiveness (0/+/++)		
Options	Discourage excessive involvement in certain products and activities	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 8.1: No change	0	0	0
Option 8.2: Granting NSAs with additional mitigating measures in case vulnerabilities in respect to system-wide	++	++	++

liquidity risk have been identified			

11.60 The achievement of the operational objectives identified is considered to outweigh the potential costs of the measure for both insurance undertakings and supervisors in terms of a more intense supervisory dialogue and the development of liquidity risk assessment metrics and potential supervisory measures. Developments on the monitoring and management of liquidity risk are already taking place at European and global level and should support supervisors in the enhancement of their liquidity risk frameworks.

Policy issue 8 – Assessment of the need to grant NSAs with additional mitigating measures in case vulnerabilities have been identified through risk monitoring and stress-testing			
	Efficiency (0/+/++)		
Options	Discourage excessive involvement in certain products and activities	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 8.1: No change	0	0	0
Option 8.2: Granting NSAs with additional mitigating measures in case vulnerabilities in respect to system-wide liquidity risk have been identified	++	++	++

11.9. Liquidity risk management plans

Policy issue 9 – Assessment of the need to require LRMPs to insurance undertakings		
Option 9.1: No change		
Costs	Policyholders	If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	No material impact.
	Supervisors	Supervisors would only to a certain degree be adequately able to assess the framework and arrangements that the undertakings has in place to manage, mitigate or reduce liquidity risk thereby contributing to financial stability.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No additional resources need to be devoted.
	Other	No material impact.
Option 9.2: Require LRMPs for all undertakings subject to Solvency II		
Costs	Policyholders	No material impact.

	Industry	Undertakings may face one-off costs in terms of fees to externals and time devoted by staff involved in the drafting process. Additionally, keeping the plans updated would also require certain resources on an ongoing basis. Although these costs might be relatively high for smaller undertakings, it is reasonable to assume that they will not be extraordinarily high. Given liquidity risk is partially covered in Solvency II, it can be expected that prudently managed undertakings already have some kind of processes or procedures in place.
	Supervisors	Additional resources needed to analyse the LRMPs provided by undertakings. Depending on the number of undertakings operating in the market, this ongoing resource consumption could be relatively high and inappropriate.
	Other	No material impact.
Benefits	Policyholders	A clear and structured liquidity risk management process and procedure is expected to ultimately result in better managed undertakings in the benefit of policyholders. Policyholders would ultimately benefit from a more stable financial system (see also “other” below).
	Industry	The analysis carried out as part of the drafting process could yield relevant lessons for undertakings, which could react accordingly if needed.
	Supervisors	LRMPs create an obligation to explain in a single document how liquidity risks are managed (knowing that liquidity risk is one of the risks included in Article 260(1)(d) of the delegated regulation This would raise awareness of potential liquidity risks at undertakings’ level and overall at sectoral level in a structural way.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a).
Option 9.3: Require LRMPs with possibility to waive undertakings		
Costs	Policyholders	No material impact.
	Industry	Affected undertakings may face one-off costs in terms of fees to externals and time devoted by staff involved in the drafting process. Additionally, keeping the plans updated would also require certain resources on an ongoing basis, although these are not deemed high.
	Supervisors	Methodology for the identification of the undertakings subject to the LRMPs has to be defined. Additional resources needed to analyse the LRMPs provided by undertakings.
	Other	No material impact.
Benefits	Policyholders	A clear and structured liquidity risk management process and procedure is expected to ultimately result in better managed undertakings in the benefit of policyholders. Policyholders would ultimately benefit from a more stable financial system (see also “other” below).
	Industry	The analysis carried out as part of the drafting process could yield relevant lessons for affected undertakings (e.g. by identifying potential liquidity gaps), which could react accordingly if needed.
	Supervisors	LRMPs create an obligation to explain in a single document how liquidity risks are managed (knowing that liquidity risk is one of the risks included in Article 260(1)(d) of the delegated regulation

		This would raise awareness of potential liquidity risks at undertakings' level and overall at sectoral level in a structural way. By being able to waive certain undertakings, supervisors would strike a balance between having relevant information about the management of liquidity risk by undertakings without an unnecessary burden.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, *op. cit.*).

- *Impact on Financial Stability*

11.61 By requesting undertakings to draft LRMPs, the sector would benefit from a macroprudential perspective. The LRMP can increase awareness of potential liquidity risks arising from certain products and activities as well as discourage excessive levels of direct and indirect exposure concentrations, which could result in potentially dangerous interconnections. This should decrease the likelihood that liquidity stresses turn into solvency stresses in the insurance sector.

- *Proportionality – How is proportionality considered*

11.62 Proportionality concerns should be addressed by determining the scope of undertakings subject to LRMPs. Contrary to the requirement of SRMPs, EIOPA is of the view that the scope of undertakings subject to LRMP should be defined in a broader manner. Indeed, liquidity risk management is part of the enterprise risk management and, as such, LRMPs could be considered as a useful tool to recognise and address a liquidity stress.

11.63 In EIOPA's view, the requirement to develop and maintain LRMPs should therefore in principle apply to undertakings within the scope of the Solvency II framework, subject to the proportionality principle.

11.64 In accordance with this principle, NSAs should be able to waive the requirement for certain undertakings based on a set of harmonised criteria and expert judgement/discretion. These criteria would need to be further developed in order to promote convergence in the EU, but could, for instance, be related to the nature, scale, and complexity of the undertaking's activities.

11.65 It should be stressed that, according to Article 44 of the Solvency II Directive, where insurance or reinsurance undertakings apply the matching adjustment or the volatility adjustment, they shall set up a liquidity plan projecting the incoming and outgoing cash flows in relation to the assets and liabilities subject to those adjustments. Both plans, the current existing one and the LRMP, could be combined.[93]

11.66 As with the other plans, EIOPA is of the view that, LRMPs should be developed at the group level or at the level of an individual insurance entity, which is not part of a group.

[93] According to EIOPA's "Report on long-term guarantees measures and measures on equity risk 2018", 696 undertakings use the VA in the EEA (representing 66% of the overall amount of technical provisions at EEA level). In addition, 34 undertakings (representing 15% of the total amount of technical provisions in the EEA) apply the MA. Given that there are 2,912 insurance and reinsurance undertakings in the EEA under supervision according to Solvency II, a 25% of the undertakings are already subject to the currently existing liquidity plans.

11.67 The development of LRMPs at the group level, however, should not prohibit the possibility for solo supervisors to require the development of such plans at the solo level. Close collaboration with the group supervisor should exist if LRMPs are also required from individual entities belonging to a group.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.68 Some of the elements of LRMPs should already be included in undertakings' risk management frameworks. A positive impact in terms of liquidity risk management can be expected, particularly for those undertakings without well-established liquidity risk policies and procedures.

- *Possible interactions with other Solvency II instruments*

11.69 Liquidity risk is only partially covered by the current regulatory framework. Solvency II is a capital-based framework and focusses primarily on solvency, and not specifically on liquidity. Solvency II relies on Pillar II requirements, such as the Prudent Person Principle (PPP), and the liquidity plans required when using the matching adjustment and volatility adjustment to ensure undertakings manage their liquidity risk. Article 44 of the Solvency II Directive addresses risk management, stressing the areas that need to be covered. Liquidity and concentration risk management are among those areas explicitly listed.

11.70 The interaction between (macro) liquidity tools and Solvency II seems to be rather limited. Requiring LRMPs where relevant would therefore be a useful supplement for Solvency II.

- *Effectiveness and efficiency*

11.71 The effectiveness and efficiency dimension are summarised in the tables below.

Policy issue 9 – Assessment of the need to require LRMPs to insurance undertakings			
	Effectiveness (0/+/++)		
Options	Discourage excessive involvement in certain products and activities	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 9.1: No change	0	0	0
Option 9.2: Require LRMPs for all undertakings subject to Solvency II	++	++	++
Option 9.3: Require LRMPs with possibility to waive undertakings	++	++	++

11.72 The option to require LRMPs with possibility to waive undertakings is clearly reinforced when the efficiency dimension is considered. Indeed, requiring LRMPs to undertakings that based on their nature, scale, and complexity of the activities are not relevant is not necessary and, therefore, not as efficient as being able to filter those undertakings that are relevant from this perspective.

Policy issue 9 – Assessment of the need to require LRMPs to insurance undertakings			
	Efficiency (0/+/++)		
Options	Discourage excessive involvement in certain products and activities	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 9.1: No change	0	0	0
Option 9.2: Require LRMPs for all undertakings subject to Solvency II	+	+	+
Option 9.3: Require LRMPs with possibility to waive undertakings	++	++	++

11.10. Temporary freeze on redemption rights

Policy issue 10 – Assessment of the need to grant NSAs with the power to temporary freeze the redemption rights in exceptional circumstances		
Option 10.1: No change		
Costs	Policyholders	In case of a market wide solvency stress that may lead to insurance failure(s), the impact on policyholders might be greater compared to a temporary freeze on their redemption right.
	Industry	Undertakings are not able to benefit from the application of this measure. No additional time in case of market-wide liquidity stress can therefore be granted.
	Supervisors	Supervisors are not able to use this tool in exceptional circumstances in order to avoid mass lapses should they occur.[94]
	Other	In case of a market wide solvency stress that may lead to insurance failure(s) there could be a clear risk to financial stability.
Benefits	Policyholders	Policyholders' would not see their redemption rights temporarily precluded in any case of scenario.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 10.2: Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances, which would be applied to the whole or part of the market, or to systemically important institutions		
Costs	Policyholders	The application of this measure will deprive to a certain extent policyholders of their savings, at least for a certain period. During this time, the amount of assets might further deteriorate (e.g. losses on market values or expenses for costs and administration), which could result in an additional harm to policyholders.
	Industry	Undertakings affected by the application of this measure might suffer from a certain reputational risk.

[94] However, in some countries, this power is already available as a microprudential tool. Imposing a temporary stay on early termination rights exercisable under financial contracts is available in 7 Member States, however, in four of them with certain restrictions (EIOPA, 2017a, *op. cit.*).

	Supervisors	An application of this measure will have a reputation cost for supervisors, given that it deprives policyholders of their saving for a certain period. This can be particularly the case if supervisors act to fix self-inflicted problems or mistakes by the undertakings. Supervisors would also run the risk of not applying the measure at the right moment and for the right period.
	Other	No material impact.
Benefits	Policyholders	If applied in exceptional circumstances, this measure can avoid that a liquidity stress of insurance undertakings results in a solvency stress that may even lead to insurance failure(s), which may even have a greater impact on policyholders that a temporary freeze on their redemption rights. From that perspective, the measure may contribute to the objective of policyholder protection
	Industry	Undertakings would benefit from the application of this measure, which could give them additional time in case of market-wide liquidity stress.
	Supervisors	This may be useful in market-wide liquidity stresses.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, *op. cit.*).

- *Impact on Financial Stability*

11.73 From a financial stability point of view, temporarily freezing the redemption rights would contribute to limiting procyclicality in certain circumstances, thereby addressing one of the sources of systemic risk identified, i.e. the collective behaviour by undertakings that may exacerbate market price movements (e.g. fire-sales or herding behaviour).

11.74 At the same time, the application of this measure may also have certain destabilising effects. First, it may affect the confidence of consumers in the insurance sector, even in those undertakings that would not be affected by the measure. Secondly, the correct timing to apply this measure is also key as self-fulfilling prophecies may materialise where policyholder expect the prohibition of lapses. This may accelerate their behaviour in order to anticipate the prohibition, resulting in a liquidity crisis of the undertakings.

11.75 As a result, it should only be applied in exceptional circumstances, to prevent risks representing a strong threat for the financial health of the whole insurance market or for the financial system and for a limited period of time.

- *Proportionality – How is proportionality considered*

11.76 This measure should be applied in a proportionate way. Temporarily freezing or limiting redemption rights is highly sensitive and may clash with consumer protection principles and, as mentioned, may have certain destabilising effects. Proportionality would be achieved in three ways:

— The use of this tool should be limited to exceptional circumstances. An analysis of the underlying reasons of the increased lapses should be conducted before adopting the measure. EIOPA should issue guidelines to further specify the existence of "exceptional circumstances".

— The length of the stay should only be limited to what is strictly needed.

— The measure should exclusively be applied to those undertakings affected by a severe liquidity stress. However, as a matter of principle, the use of this tool should be excluded in those cases where undertakings' own misbehaviour (in terms of aggressive pricing or offering products allowing third parties to use arbitrage opportunities) is at the core of the liquidity stress. NSAs should have the discretion to determine which undertakings should be subject to the measure.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.77 In general, and given that the tool would only be used in very exceptional situations, it should not lead to a change in the behaviour of undertakings both in term of the products they offer and in terms of their investment decisions. However, some undertakings may also seek to minimise the risk of intervention by creating other products or investing in assets with less liquidity risk.

- *Possible interactions with other Solvency II instruments*

11.78 Given that there is no similar measure in Solvency II, the inclusion of such a tool is not considered to interact with other instruments available in the prudential framework.

- *Effectiveness and efficiency*

11.79 The tables below takes into account both the effectiveness and efficiency of the measure. In terms of effectiveness, in exceptional circumstances where, for example, there are mass lapses in the insurance sector, this measure would indeed give the affected undertakings some time to implement necessary measures without procyclical behaviour.

Policy issue 10 – Assessment of the need to grant NSAs with the power to temporary freeze the redemption rights in exceptional circumstances		
	Effectiveness (0/+/++)	
Options	Limit procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Policyholder protection
Option 9.1: No change	0	0
Option 9.2: Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances	++	+

11.80 Although there are pre-emptive options that could be considered more efficient than temporary freezing the redemption rights (e.g. a thorough application of the prudent person principle, better liquidity planning, etc.), this measure is the only measure to manage an actual liquidity crisis. From that perspective, it can also be considered an efficient measure. However, the efficiency will depend on whether the measure can be applied to existing contracts or only to new business. Legal certainty when adopting this tool is needed, particularly on this aspect.

Policy issue 10 – Assessment of the need to grant NSAs with the power to temporary freeze the redemption rights		
	Efficiency (0/+/++)	
Options	Limit procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Policyholder protection
Option 10.1: No change	0	0
Option 10.2: Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances	+	+

12 Recovery and resolution

Policy issue	Options
Harmonisation of recovery and resolution	
1. Harmonised rules for recovery and resolution of (re)insurance undertakings	1.1 No change 1.2 Minimum harmonised rules for recovery and resolution (preferred) 1.3 Maximum harmonised rules for recovery and resolution
Recovery measures	
2. Introduction of pre-emptive recovery planning	2.1 No change 2.2 Require pre-emptive recovery planning from all undertakings subject to Solvency II 2.3 Require pre-emptive recovery from undertakings covering a very significant share of the national market[95] (preferred)
3. Introduction of preventive measures	3.1 No change 3.2 Introduce preventive measures (preferred)
Resolution measures	
4. Introduction of resolution planning, including resolvability assessment	4.1 No change 4.2 Require resolution planning from all undertakings subject to Solvency II 4.3 Require resolution planning for undertakings covering a significant share of the national market[96] (preferred)
5. Introduction of resolution powers	5.1 No change 5.2 Grant resolution authorities a set of harmonised resolution powers (preferred)
6. Establishment of cross-border cooperation and coordination arrangements for crises	6.1 No change 6.2 Establish cross-border cooperation and coordination arrangements for crises (preferred)
Trigger framework	
7. Definition of triggers for the use of preventive measures	7.1 No change 7.2 Rules-based triggers for the use of preventive measures 7.3 Judgment-based early intervention triggers (preferred)
8. Definition of triggers for entry into resolution	8.1 No change 8.2 Rules-based triggers for entry into resolution

[95] In the calculation of the market coverage level, the subsidiaries belonging to a group domiciled in the EU could be taken into account if the subsidiaries are covered in the group pre-emptive recovery plan.
[96] In the calculation of the market coverage level, the subsidiaries belonging to a group domiciled in the EU could be taken into account if the subsidiaries are covered in the group resolution plan.

	8.3 Judgment-based triggers for entry into resolution (preferred)

Harmonised rules for recovery and resolution of (re)insurance undertakings

Policy issue 1: Harmonised rules for recovery and resolution of (re)insurance undertakings		
Option 1.1: No change		
Costs	Policyholders	The fragmented landscape could result in suboptimal outcomes for policyholders due to uncoordinated actions between national authorities.
	Industry	The fragmented landscape distorts the level playing field in the EU.
	Supervisors	The lack of an effective recovery and resolution framework will result in a suboptimal prevention and in a disorderly resolution process. The lack of a harmonised approach does not foster cross-border cooperation and coordination.
	Other	The lack of proper recovery and resolution measures may require the State to step in during the resolution process and make use of taxpayers' money.
Benefits	Policyholders	No material benefits identified.
	Industry	No additional administrative burdens and/or costs arising from the introduction of harmonised rules (e.g. planning requirements).
	Supervisors	National frameworks might reflect national specificities in a better way.
	Other	No material benefits identified.
Option 1.2: Minimum harmonised rules for recovery and resolution		
Costs	Policyholders	No material costs identified.
	Industry	Potential additional administrative burdens and costs (e.g. planning requirements).
	Supervisors	Potential additional administrative burdens and costs (e.g. planning requirements).
	Other	No material costs identified.
Benefits	Policyholders	Effective recovery and resolution measures limit the likelihood and impact of disorderly failures and suboptimal outcomes for policyholders.
	Industry	Harmonised approach contributes to the level playing field in insurance.
	Supervisors	National authorities are equipped with adequate preventive, recovery and resolution measures to deal with failing undertakings in an effective manner.

	Other	Reliance on the State to step in during a resolution process is minimised. Moreover, a harmonised approach contributes to the single market.
Option 1.3: Maximum harmonised rules for recovery and resolution		
Costs	Policyholders	No material costs identified.
	Industry	The compliance costs of maximum harmonisation are likely higher for undertakings compared to option 2.
	Supervisors	Efforts to enhance supervisory convergence will be escalated with potential additional costs to supervisors.
	Other	No flexibility for Member States to further adapt the harmonised rules to the national needs.
Benefits	Policyholders	Effective recovery and resolution measures limit the likelihood and impact of disorderly failures and suboptimal outcomes for policyholders.
	Industry	Harmonised approach contributes to the level playing field in insurance.
	Supervisors	National authorities are equipped with adequate recovery and resolution measures to deal with failing undertakings in an effective manner.
	Other	Reliance on the State to step in during a resolution process is minimised. Moreover, a harmonised approach contributes to the single market.

Policy issue 1: Harmonised rules for recovery and resolution of (re)insurance undertakings				
	Effectiveness (0/+/++)			
Options	Objective 1: Promoting good risk management	Objective 2: Ensuring an orderly resolution of (re)insurance undertakings and groups / Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 1.1: No change	0	0	0	0
Option 1.2: Minimum harmonised rules for recovery and resolution	++	++	+	++
Option 1.3: Maximum harmonised rules for	+	+	++	++

recovery and resolution				
	Efficiency (0/+/++)			
Options	Objective 1: Promoting good risk management	Objective 2: Ensuring an orderly resolution of (re)insurance undertakings and groups / Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 1.1: No change	0	0	0	0
Option 1.2: Minimum harmonised rules for recovery and resolution	++	++	+	++
Option 1.3: Maximum harmonised rules for recovery and resolution	+	+	++	++

12.1 Recovery measures

Introduction of pre-emptive recovery planning

Policy issue 2: Introduction of pre-emptive recovery planning		
Option 2.1: No change		
Costs	Policyholders	Risk that insurance undertakings are not properly prepared for adverse situations could increase the likelihood of higher losses for policyholders.
	Industry	Risk of not being properly prepared for adverse situations; timely remedial actions when needed could therefore be delayed. The lack of harmonisation across the Member States resulted in an unlevel playing field.
	Supervisors	Supervisors would not be able to obtain relevant supervisory information on potential risk and vulnerabilities of undertakings.
	Other	Risk of not being properly prepared for adverse situations could have an impact on the financial stability.
Benefits	Policyholders	No material impact.

	Industry	No additional resources need to be devoted for the drafting and maintenances of recovery plans.
	Supervisors	No additional resources required for the review of pre-emptive recovery plans.
	Other	No material impact.
Option 2.2: Require pre-emptive recovery planning from all undertakings subject to Solvency II		
Costs	Policyholders	No material impact.
	Industry	Undertakings that do not yet draft pre-emptive recovery plans may face one-off and ongoing costs (in terms of staff involved in the drafting process and potentially fees paid to consultants). The expected (one-off and ongoing) costs for undertakings that already develop pre-emptive plans are lower.
	Supervisors	Additional resources needed to check the completeness of the plans and assess whether the recovery options are credible and realistic. Depending on the number of undertakings operating in the market, this ongoing resource consumption could be relatively high.
	Other	No material impact.
Benefits	Policyholders	A clear and structured pre-emptive recovery planning results in a situation where undertakings are better prepared for adverse situations, which contributes to enhanced policyholder protection.
	Industry	Pre-emptive planning enhances the awareness of and preparedness for adverse situations. This allows undertakings to take informed and timely remedial actions when needed.
	Supervisors	Pre-emptive planning enhances the awareness of and preparedness for adverse situations of NSAs. By requiring pre-emptive recovery plans from all undertakings, supervisors would have additional relevant information about potential vulnerabilities and recovery options of the industry as a whole.
	Other	Pre-emptive planning could contribute to mitigating systemic risk and reducing its potential harm to consumers and taxpayers.
Option 2.3: Require pre-emptive recovery planning from undertakings covering a very significant share of the national market		
Costs	Policyholders	No material impact.
	Industry	Undertakings that do not yet draft pre-emptive recovery plans may face one-off and ongoing costs (in terms of staff involved in the drafting process and potentially fees paid to consultants). The expected (one-off and ongoing) costs for undertakings that already develop pre-emptive plans are lower.

	Supervisors	Additional resources needed to check the completeness of the plans and assess whether the recovery options are credible and realistic. Given that proportionality is applied, the resources needed would be less than in the previous option.
	Other	No material impact.
Benefits	Policyholders	A clear and structured pre-emptive recovery planning results in a situation where undertakings are better prepared for adverse situations, which contributes to enhanced policyholder protection for those undertakings with a pre-emptive recovery plan.
	Industry	Pre-emptive planning enhances the awareness of and preparedness for adverse situations. This allows undertakings to take informed and timely remedial actions when needed. A proportionate application removes any excessive burdens on the industry. Additionally, there are no costs for undertakings not subject to the requirement and better application of the proportionality principle compared to option 2.
	Supervisors	Pre-emptive planning enhances the awareness of and preparedness for adverse situations of NSAs. A proportionate application removes any excessive burdens on the NSAs. Additionally, NSAs are able to better take into account the characteristics of each undertaking, applying the proportionality principle and following a risk-based approach.
	Other	Pre-emptive planning could contribute to mitigating systemic risk and reducing its potential harm to consumers and taxpayers.

Policy issue 2: Require pre-emptive recovery planning			
	Effectiveness (0/+/++)		
Options	Objective 1: Promoting good risk management	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring sufficient loss absorbency capacity and reserving
Option 2.1: No change	0	0	0
Option 2.2: Require pre-emptive recovery planning from all undertakings	++	++	++

Option 2.3: Require pre-emptive recovery planning from undertakings covering a very significant share of the national market	++	+	++
	Efficiency (0/+/++)		
Options	Objective 1: Promoting good risk management	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring sufficient loss absorbency capacity and reserving
Option 2.1: No change	0	0	0
Option 2.2: Require pre-emptive recovery planning from all undertakings subject to Solvency II	+	+	+
Option 2.3: Require pre-emptive recovery planning from undertakings covering a very significant share of the national market	++	++	++

Introduction of preventive measures

Policy issue 3: Introduction of preventive measures		
Option 3.1: No change		
Costs	Policyholders	Policyholders could be worse off if the escalation of problems at undertakings is not avoided at an early stage.
	Industry	Divergent practices distort the level playing field in the EU.
	Supervisors	Gaps and shortcomings have been identified by some NSAs. Solvency II is unclear what to do after a notification of deteriorating financial conditions (Article 136 of the Solvency II Directive).
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 3.2: Introduce preventive measures		
Costs	Policyholders	No material impact.

	Industry	Potential costs due the exercise of the supervisory powers (e.g. additional reporting). Intervention restricting the undertaking's management decisions.
	Supervisors	Potential administrative costs for implementing the preventive measures.
	Other	No material impact.
Benefits	Policyholders	Preventive measures could avoid the escalation of problems at undertakings and hence contribute to better policyholder protection.
	Industry	National practices with respect to preventive measures would be harmonised. This adds to the level playing field in insurance.
	Supervisors	NSAs are provided with explicit preventive measures, which enable them to intervene at an early stage to avoid the escalation of problems.
	Other	The early avoidance of problems contribute to the financial stability in the EU.

Policy issue 3: Introduction of preventive measures			
	Effectiveness (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring sufficient loss absorbency capacity and reserving	Objective 3: : Ensuring a level playing field through sufficiently harmonised rules
Option 3.1: No change	0	0	0
Option 3.2: Introduce preventive measures	++	++	++
	Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring sufficient loss absorbency capacity and reserving	Objective 3: : Ensuring a level playing field through sufficiently harmonised rules
Option 3.1: No change	0	0	0
Option 3.2: Introduce preventive measures	++	++	++

12.2 Resolution measures

Introduction resolution planning, including resolvability assessments

Policy issue 4: Introduction of resolution planning (including resolvability assessments)		
Option 4.1: No change		
Costs	Policyholders	There is a higher risk of sub-optimal resolution outcomes, potentially affecting policyholders' rights.
	Industry	Fragmentation and lack of level playing field across the Member States.
	Supervisors/ Resolution authorities	Risk of not being properly prepared to resolve an insurance company in an orderly manner.
	Other	The lack of proper resolution strategies may require the State to step in during the resolution process and make use of taxpayers' money.
Benefits	Policyholders	No material impact.
	Industry	No potential additional information requests from resolution authorities to prepare the resolution plans.
	Supervisors/ Resolution authorities	No additional resources need to be devoted for the drafting and maintenances of resolution plans.
	Other	No material impact.
Option 4.2: Require resolution planning, incl. resolvability assessment, for all undertakings subject to Solvency II		
Costs	Policyholders	No material impact.
	Industry	Potential additional information requests from resolution authorities to prepare the resolution plans. Need to take actions in case the resolution identifies potential resolvability obstacles.
	Supervisors/ Resolution authorities	Resolution authorities may face one-off and ongoing costs in terms of staff involved in the drafting process.
	Other	No material impact.
Benefits	Policyholders	Requiring resolution planning should positively affect the resolution outcome and, ultimately, contribute to the protection of policyholders.
	Industry	The resolution planning process could yield relevant lessons for resolution authorities and NSAs, which could be shared with undertakings in the context of the supervisory review process.
	Supervisors/ Resolution authorities	Resolution planning enhances the preparedness for crises. Facilitating effective use of resolution powers, with the aim of making the resolution of any undertaking feasible and credible.

		Resolvability assessment would allow removing obstacles before the crisis occurs. Identifying cross-border cooperation requirements in the event of failure.
	Other	The implementation of proper resolution strategies will minimise the risk of use of taxpayers' money to fund the resolution process and contribute to maintaining the financial stability in the EU.
Option 4.3: Require resolution planning, incl. resolvability assessment, for undertakings covering a significant share of the national market		
Costs	Policyholders	No material impact.
	Industry	Potential additional information requests from resolution authorities to prepare the resolution plans. However, compared with the previous option, this potential information request would affect a smaller number of undertakings. Need to take actions in case the resolution identifies potential resolvability obstacles.
	Supervisors/ Resolution authorities	Resolution authorities may face one-off and ongoing costs in terms of staff involved in the drafting process. The scope of undertakings is likely smaller than in option 2, hence, the expected costs are lower.
	Other	No material impact.
Benefits	Policyholders	Requiring resolution planning should positively affect the resolution outcome and, ultimately, contribute to the protection of policyholders.
	Industry	The resolution planning process could yield relevant lessons for resolution authorities and NSAs, which could be shared with undertakings in the context of the supervisory review process. Additionally, no costs for undertakings not subject to the requirement and better application of the proportionality principle compared to option 2.
	Supervisors/ Resolution authorities	Resolution planning enhances the preparedness for crises. Facilitating effective use of resolution powers, with the aim of making the resolution of any undertaking feasible and credible. Resolvability assessment would allow removing obstacles before the crisis occurs. Resolution authorities are able to better take into account the characteristics of each undertaking, applying the proportionality principle and following a risk-based approach. Furthermore, it helps to identify cross-border cooperation requirements in the event of failure.
	Other	The implementation of proper resolution strategies will minimise the risk of use of taxpayers' money to fund the resolution process and contribute to maintaining the financial stability in the EU.

Policy issue 4: Assessment of need of resolution planning (including resolvability assessments)	
	Effectiveness (0/+/++)

Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 4.1: No change	0	0	0	0
Option 4.2: Require resolution planning, incl. resolvability assessment, for all undertakings subject to Solvency II	++	++	++	++
Option 4.3: Require resolution planning, incl. resolvability assessment, for undertakings covering a significant share of the national market	++	++	+	+
	Efficiency (0/+/++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 4.1: No change	0	0	0	0
Option 4.2: Require resolution planning, incl. resolvability assessment, for all undertakings subject to Solvency II	+	+	+	++
Option 4.3: Require resolution planning, incl. resolvability assessment, for undertakings covering a significant share of the national market	++	++	++	+

Introduction of resolution powers

Policy issue 5: Introduction of resolution powers
Option 5.1: No change

Costs	Policyholders	An orderly resolution process limits the costs to policyholders. If resolution authorities are not equipped with adequate powers, an orderly resolution of undertakings may not be possible.
	Industry	Divergent practices might distort the level playing field in the EU.
	Supervisors/ Resolution authorities	NSAs will have a limited number of tools available to face resolution processes.
	Other	An orderly resolution process contributes to financial stability and reduces the reliance on public interventions. If resolution authorities are not equipped with adequate powers, an orderly resolution of undertakings may not be possible.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors/ Resolution authorities	No material impact.
	Other	No material impact.
Option 5.2: Grant resolution authorities with a set of harmonised resolution powers		
Costs	Policyholders	The exercise of some resolution powers might have an impact on policyholders, although they would not be worse off than in liquidation.
	Industry	No material impact compared to normal insolvency proceedings.
	Supervisors/ Resolution authorities	The availability of a broad set of resolution powers puts a responsibility on resolution authorities to select the adequate power(s) in specific situations.
	Other	No material impact.
Benefits	Policyholders	An orderly resolution process limits the costs to policyholders. To achieve this goal, resolution authorities should be equipped with adequate and powers to resolve undertakings. Given the cross-border activities in insurance, these powers should have consistent design, implementation and enforcement features, which foster cross-border cooperation and coordination.
	Industry	No material impact.
	Supervisors/ Resolution authorities	Resolution authorities in the EU would be equipped with adequate and powers to resolve undertakings. Given the cross-border activities in insurance, these powers should have consistent design, implementation and enforcement features, which foster cross-border cooperation and coordination.
	Other	An orderly resolution process contributes to financial stability and reduces the reliance on public interventions. To achieve this goal, resolution authorities should be equipped with adequate and powers to resolve undertakings. Given the cross-border activities in insurance, these powers should have consistent design, implementation and enforcement features, which foster cross-border cooperation and coordination.

Policy issue 5: Introduction of resolution powers				
	Effectiveness (0/+/++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 5.1: No change	0	0	0	0
Option 5.2: Grant resolution authorities with a set of harmonised resolution powers	++	++	+	++
	Efficiency (0/+/++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 5.1: No change	0	0	0	0
Option 5.2: Grant resolution authorities with a set of harmonised resolution powers	++	++	+	++

Cross-border cooperation and coordination

Policy issue 6: Establishment of cross-border cooperation and coordination arrangements for crises		
Option 6.1: No change		
Costs	Policyholders	Risk that the result of a cross-border resolution case yields suboptimal results leading to potentially higher loses for policyholders.
	Industry	Higher risk of uncoordinated action by supervisors or resolution authorities in cross-border cases.

	Supervisors/ Resolution authorities	Higher risk that the result of a cross-border resolution case yields suboptimal results, thereby creating additional difficulties for the authorities in charge of resolution.
	Other	Dis-orderly cross-border resolution processes may create financial stability concerns and increase the reliance on public interventions.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors/ Resolution authorities	No material impact.
	Other	No material impact.
Option 6.2: Establish cross-border cooperation and coordination arrangements for crises		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors/ Resolution authorities	An intensive exchange of information within arrangements for cross-border cooperation and coordination may be cost intensive. There might be a risk that different supervisors have different legal interpretations on what should be exchanged, mediation might be needed
	Other	No material impact.
Benefits	Policyholders	Cross-border cooperation should result in a more efficient resolution process, reducing the risk of policyholders' losses.
	Industry	Less risk of uncoordinated action by supervisors and resolution authorities in cross-border cases.
	Supervisors/ Resolution authorities	An enhanced cross-border cooperation and coordination should help supervisors and resolution authorities to minimise the likelihood of a cross-border group failing, and the impact if the failure finally materialises.
	Other	An orderly resolution process contributes to financial stability and reduces the reliance on public interventions.

Policy issue 6: Establishment of cross-border cooperation and coordination arrangements for crises				
	Effectiveness (0/+/++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds

Option 6.1: No change	0	0	0	0
Option 6.2: Establishment of cross-border cooperation and coordination arrangements for crises	++	++	++	++
	Efficiency (0/+/++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 6.1: No change	0	0	0	0
Option 6.2: Establishment of cross-border cooperation and coordination arrangements for crises	++	++	++	++

12.3 Triggers

Definition of triggers for the use of preventive measures

Policy issue 7: Definition of triggers for the use of preventive measures		
Option 7.1: No change		
Costs	Policyholders	The use of different triggers across Member States could hinder cross-border cooperation and coordination between NSAs and consequently result in suboptimal outcomes for policyholders.
	Industry	Uncertainty about the triggers for the use of preventive measures, especially, when NSAs do not have clearly defined triggers.
	Supervisors	The use of different triggers across Member States could hinder cross-border cooperation and coordination between NSAs.
	Other	Potential distortion of the level playing field.
Benefits	Policyholders	No material impact.
	Industry	No material impact.

	Supervisors	National flexibility and discretion to define the triggers for the use of preventive measures.
	Other	No material impact.
Option 7.2: Rules-based triggers for the use of preventive measures		
Costs	Policyholders	No material impact.
	Industry	Even if the trigger is not considered a hard trigger, rule-based triggers might end up acting as a new capital layer. Furthermore, a hard trigger may not consider adequately the individual situation of an undertaking.
	Supervisors	Mechanistic decision-making process does not allow for any supervisory discretion and judgment.
	Other	No material impact.
Benefits	Policyholders	The use of harmonised triggers across Member States facilitates cross-border cooperation and coordination between NSAs and hence contribute to better policyholder protection.
	Industry	Rules-based triggers are clear and transparent and provide for adequate (legal) certainty.
	Supervisors	Rules-based triggers are clear and transparent and provide for adequate (legal) certainty.
	Other	No material impact.
Option 7.3: Judgment-based triggers for the use of preventive measures		
Costs	Policyholders	No material impact.
	Industry	Less (legal) certainty about the timing for the use of preventive measures by NSAs.
	Supervisors	Less (legal) certainty about the justification for the timing for the use of preventive measures by NSAs.
	Other	No material impact.
Benefits	Policyholders	The use of harmonised triggers across Member States facilitates cross-border cooperation and coordination between NSAs and hence contribute to better policyholder protection.
	Industry	Interventions take place after a careful assessment of the situation and circumstances, taking into account of relevant qualitative and quantitative factors.
	Supervisors	Preventive measures take place after a careful assessment of the situation and circumstances, taking into account of relevant qualitative and quantitative factors.
	Other	No material impact.

Policy issue 7: Triggers for the use of preventive measures

	Effectiveness (0/+/++)		
Options	Objective 1: Promoting good risk management	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring sufficient loss absorbency capacity and reserving
Option 7.1: No change	0	0	0
Option 7.2: Rules-based triggers for the use of preventive measures	+	++	+
Option 7.3: Judgment-based triggers for the use of preventive measures	++	+	++
	Efficiency (0/+/++)		
Option 7.1: No change	0	0	0
Option 7.2: Rules-based triggers for the use of preventive measures	+	+	+
Option 7.3: Judgment-based triggers for the use of preventive measures	++	++	++

Definition of triggers for entry into resolution

Policy issue 8: Definition of triggers for entry into resolution		
Option 8.1: No change		
Costs	Policyholders	Potential higher losses for policyholders because of different national resolution triggers.
	Industry	Uncertainty about the triggers for entry into resolution, especially, when NSAs do not have clearly defined triggers.
	Supervisors/ Resolution authorities	The use of different triggers across Member States could hinder cross-border cooperation and coordination between resolution authorities.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.

	Supervisors/ Resolution authorities	National flexibility and discretion to define the triggers for resolution.
	Other	No material impact.
Option 8.2: Rules-based triggers for entry into resolution		
Costs	Policyholders	No material impact.
	Industry	A "one-size-fits-all" mechanic/standardised approach might not fit for any resolution authority.
	Supervisors/ Resolution authorities	A new, quantitative capital requirement would be created.
	Other	Mechanistic decision-making process does not allow for any supervisory discretion and judgment.
Benefits	Policyholders	The use of harmonised triggers contribute to better policyholder protection.
	Industry	Rules-based triggers are clear and transparent and provide for adequate (legal) certainty.
	Supervisors/ Resolution authorities	Rules-based triggers are clear and transparent and provide for adequate (legal) certainty.
	Other	No material impact.
Option 8.3: Judgment-based triggers for entry into resolution		
Costs	Policyholders	No material impact.
	Industry	Less (legal) certainty about the timing of resolution actions.
	Supervisors/ Resolution authorities	Less (legal) certainty about the timing of resolution actions.
	Other	No material impact.
Benefits	Policyholders	The use of harmonised triggers contribute to better policyholder protection.
	Industry	Resolution actions are taken after a careful assessment of the situation and circumstances.
	Supervisors/ Resolution authorities	Resolution actions are taken after a careful assessment of the situation and circumstances.
	Other	No material impact.

Policy issue 8: Definition of triggers for entry into resolution				
	Effectiveness (0/+/++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 8.1: No change	0	0	0	0
Option 8.2: Rules-based triggers for entry into resolution	+	+	++	+
Option 8.3: Judgment-based triggers for entry into resolution	++	++	+	+
	Efficiency (0/+/++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 8.1: No change	0	0	0	0
Option 8.2: Rules-based triggers for entry into resolution	+	+	+	+
Option 8.3: Judgment-based triggers for entry into resolution	++	++	++	+

13 Insurance guarantee schemes

Policy issue	Options
1. Need for harmonisation of national IGSs in the EU	1.1 No change (maintain status quo) 1.2 European network of national IGSs (minimum harmonisation)[97] (preferred) 1.3 Single EU-wide IGS (maximum harmonisation)
2. Need for harmonisation of roles and functions of national IGSs	2.1 Full discretion to Member States 2.2 Compensation of claims 2.3 Continuation of policies 2.4 Continuation of policies and/or compensation of claims (preferred)
3. Need for harmonisation of geographical scope of national IGSs	3.1 Full discretion to Member States 3.2 Home-country principle (preferred) 3.3 Host-country principle 3.4 Host-country principle plus recourse arrangements
4. Need for harmonisation of eligible policies	4.1 Full discretion to Member States 4.2 Life policies only 4.3 Non-life policies only 4.4 Both life and non-life policies 4.5 Selected life and non-life policies (preferred)
5. Need for harmonisation of eligible claimants	5.1 Full discretion to Member States 5.2 Natural persons only 5.3 Natural persons and selected legal persons (preferred) 5.4 Natural persons and legal persons
6. Need for harmonisation of timing of funding	6.1 Full discretion to Member States 6.2 Ex-ante funding 6.3 Ex-post funding 6.4 Ex-ante funding complemented with ex-post funding (preferred)

13.1 Need for harmonisation of national IGSs

Policy issue 1: Need for harmonisation of national IGSs in the EU		
Option 1.1: Maintain status quo (i.e. no change)		
Costs	Policyholders	Policyholders in the EU could have a different level of IGS protection (if at all) following the failure of an insurer depending on their residence.

[97] The phrase "a European network of national IGSs" is used to refer to the system of national IGSs and to any potential underlying European regime laying down rules and/or standards for national IGSs (such as their scope and funding). As such, the reference to a European network should be regarded as a body of Union laws harmonising the standards for national IGSs.

	Industry	No level playing field between insurers. Maintaining the status quo would be costly for those insurers who are already members of an IGS and who face the competitive pressure from insurers from Member states without an IGS. This could give rise to free riding and the possibility to offer lower prices.
	Supervisors	Supervisors will have to deal with a fragmented landscape of national IGSs across the EU. The current patchwork of national approaches does not facilitate cross-border cooperation and coordination between existing national IGSs, which is essential in cross-border failures.
	Other	Governments might be expected to step in and cover some of the losses of policyholders in the event of failures, particularly in the situation where some of the affected policyholders are compensated by a national IGS for their losses.
Benefits	Policyholders	Harmonisation could potentially lead to higher premiums if potential higher IGS costs are transferred to policyholders.
	Industry	Harmonisation could lead to potential higher costs.
	Supervisors	No material impact expected.
	Other	Administrative burden and costs for governments are lower.
Option 1.2: A European network of sufficiently harmonised national IGSs		
Costs	Policyholders	Potential higher costs for the industry might be passed on to policyholders. Differences in policyholder treatment could still exist due to the fact of minimum harmonisation.
	Industry	The cost of an insurance failure will be borne by the insurance sector. Insurers might potentially face higher costs, unless they already contribute to the funding of an IGS.
	Supervisors	No material impact expected, although supervisors/national resolution authorities will have to involve national IGSs in the resolution process.
	Other	Member States without an IGS (10 in total[98]) will have to establish a scheme (or arrange for a similar mechanism) resulting in one-off establishment costs. Information requests to the NCAs in Member States with IGSs have shown that data about the size of these establishment costs are not available. Member States with an IGS in place might have to make amendments to their existing schemes, resulting in operational and/or management costs.
Benefits	Policyholders	Minimum degree of IGS protection for all policyholders in the EU regardless of their place of residence.
	Industry	Contributes to level playing field in the EU. Additionally, it could help to increase consumers' trust in the European insurance sector and the single market.
	Supervisors	A minimum degree of harmonisation of national IGSs could facilitate an orderly resolution process of failed insurers.
	Other	Contributes to level playing field between the different financial sectors (i.e. insurance versus banks/investment firms). Helps to minimise reliance on public funds and contributes to the proper functioning of the internal market.

[98] These Member States are Croatia, Cyprus, Czech Republic, Iceland, Liechtenstein, Lithuania, Luxembourg, Slovakia, Slovenia and Sweden.

Option 1.3: A single EU-wide IGS		
Costs	Policyholders	Potential higher costs for the industry might be translated into higher premiums for policyholders.
	Industry	Insurers might potentially face substantial higher costs depending on the features of the IGS.
	Supervisors	Efforts to enhance supervisory convergence will be escalated with potential additional costs to supervisors.
	Other	Unless considerable further harmonisation in other fields, such as supervision and recovery and resolution frameworks, is achieved, a single EU-wide IGS might be seen as distribution of costs of insurance failures to the EU as a whole. Risk-sharing arrangements between Member States will have to be established with potential additional costs to industry, policyholders and Member States.
Benefits	Policyholders	Policyholders will have a similar IGS coverage regardless of their place of residence. Contributes to the internal market objectives. Transparency and clarity about the IGS involved.
	Industry	Contributes to level playing field in the EU and is comparable to the system adopted in banking.
	Supervisors	Contributes to the internal market objectives. Transparency and clarity about the IGS involved.
	Other	Contributes to the internal market objectives.

Policy issue 1: Need for harmonisation of national IGSs in the EU						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability
Option 1.1: No change (maintain status quo)	0	0	0	0	0	0
Option 1.2: a European network of sufficiently harmonised national IGSs	++	+	+	++	++	++
Option 1.3: Single EU-wide IGS	++	++	++	+	+	+

13.2 Minimum harmonised principles

Roles and functions of national IGSs

Policy issue 2: Need for harmonisation of roles and functions of national IGSs		
Option 2.1: Full discretion to Member States		
Costs	Policyholders	National IGSs will continue to have different roles and functions that might be confusing for policyholders.
	Industry	Industry will have to deal with national IGSs that do not have harmonised principles with respect to their roles and functions.
	Supervisors	Supervisors will have to deal with national IGSs that do not have harmonised principles with respect to their roles and functions.
	Other	The protection of policyholders might get complicated in cross-border failures if national IGSs have different roles.
Benefits	Policyholders	No material benefits identified.
	Industry	No material benefits identified.
	Supervisors	No material benefits identified.
	Other	Member State flexibility to adapt the role and functioning of IGSs to the national needs. Moreover, there will be no potential implementation costs to adapt the role and function of existing to the harmonised principles.
Option 2.2: Compensation of claims		
Costs	Policyholders	Policyholders might be better off if their policies are continued instead of receiving compensation for their claims in liquidation.
	Industry	The continuation of policies could have a more positive impact on consumers' trust in the sector.
	Supervisors	For the sector as a whole and the overall financial stability, the continuation of policies might be better in some instances.
	Other	At least three of the existing IGSs will have to make amendments to their roles and functions.
Benefits	Policyholders	For non-life policies, a swift payment of compensations might be more beneficial for policyholders than the continuation of policies, which might take longer than the compensation of claims.
	Industry	The funding needs tend to be lower for IGSs that only pay compensation compared to IGSs that aim to ensure the continuation of policies.
	Supervisors	Clarity about the roles and functions of national IGSs.
	Other	This option is in line with the role and functioning of a majority of the existing IGSs.
Option 2.3: Continuation of policies		
Costs	Policyholders	For non-life policies, a swift payment of compensations might be more beneficial for policyholders than the continuation of policies, which might take longer than the compensation of claims.
	Industry	The funding needs tend to be higher for IGSs that aim to ensure the continuation of policies compared to IGSs that only pay compensation.
	Supervisors	Supervisors/national resolution authorities will have to be involved in the process to find a suitable solution to ensure the continuation of policies.
	Other	A majority of the national IGSs will have to amend their roles and functions.
Benefits	Policyholders	Policyholders might be better off if their policies are continued instead of receiving compensation for their claims in liquidation.

	Industry	Consumers' trust in the insurance sector might be positively impacted.
	Supervisors	Clarity about the role and functions of national IGSs.
	Other	Continuation of the policies might contribute to the overall financial stability.
Option 2.4: Compensation of claims and/or continuation of policies		
Costs	Policyholders	The type of intervention by an IGS (i.e. compensation of claims or continuation of policies) might not be clear in advance.
	Industry	The type of intervention by an IGS (i.e. compensation of claims or continuation of policies) might not be clear in advance.
	Supervisors	The type of intervention by an IGS (i.e. compensation of claims or continuation of policies) might not be clear in advance.
	Other	No material costs identified.
Benefits	Policyholders	Ideally, the optimal solution from the perspective of policyholder protection, industry and financial stability could be chosen between compensating policyholders and/or ensuring a continuation of policies depending on the situation.
	Industry	Ideally, the optimal solution from the perspective of policyholder protection, industry and financial stability could be chosen between compensating policyholders and/or ensuring a continuation of policies depending on the situation.
	Supervisors	Ideally, the optimal solution from the perspective of policyholder protection, industry and financial stability could be chosen between compensating policyholders and/or ensuring a continuation of policies depending on the situation.
	Other	Ideally, the optimal solution from the perspective of policyholder protection, industry and financial stability could be chosen between compensating policyholders and/or ensuring a continuation of policies depending on the situation.

Policy issue 2: Need for harmonisation of roles and functions of national IGSs						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability
Option 2.1: Full discretion to Member States	0	0	0	0	0	0
Option 2.2: Compensation of claims	+	++	++	+	+	++
Option 2.3: Continuation of policies	+	++	++	+	+	++
Option 2.4: Compensation of claims and/or continuation of policies	++	++	+	++	++	+

Geographical scope

Policy issue 3: Need for harmonisation of geographical scope of national IGSs		
Option 3.1: Full discretion to Member States		
Costs	Policyholders	Policyholders of the same insurer could be treated differently following the liquidation of the insurer depending on their residence.
	Industry	Insurers might be a member of more than one national IGSs and, hence, have to contribute to different national IGSs.
	Supervisors	Supervisors will have to deal with a fragmented landscape of national IGSs across the EU.
	Other	Differences in geographical coverage might complicate cross-border cooperation and coordination between national IGSs.
Benefits	Policyholders	No material benefits identified.
	Industry	No material benefits identified.
	Supervisors	No material benefits identified.
	Other	No changes required for the existing national IGSs.
Option 3.2: Home-country principle		
Costs	Policyholders	Policyholders within the same Member State might be protected by a different national IGS and, hence, could receive a different level of protection.
	Industry	Potential lack of level playing field between domestic and non-domestic insurers (if the level of protection is not harmonised).
	Supervisors	Supervisors might face (operational) challenges to locate and identify policyholders of the failed insurer who live abroad.
	Other	Approximately two third of the existing schemes need to amend their geographical coverage. A potential transitional phase might mitigate the impact of amending the geographical coverage. National IGSs might face (operational) challenges to locate and identify policyholders of the failed insurer who live abroad.
Benefits	Policyholders	Policyholders of the same insurer will be protected by the same IGS regardless of their residence.
	Industry	The home-country principle is aligned with the home-country control principle. A harmonised principle at the EU level avoids the situation where insurers are required to become a member of different national IGSs.
	Supervisors	Alignment with the provisions that the home-country supervisor is responsible for the authorisation, prudential supervision and liquidation of insurers (i.e. the home-country control principle).
	Other	Contributes to cross-sectoral consistency.
Option 3.3: Host-country principle		
Costs	Policyholders	Not all policyholders of an insurer are protected by the same IGS.

	Industry	Insurers with cross-border activities via FoE or FoS are required to participate in all domestic IGSs of the Member States where they are active in.
	Supervisors	The authorities that conduct and supervise the winding-up proceedings would be located in the home country of the failed insurance group.
	Other	Approximately two third of the existing schemes need to amend their geographical coverage. A potential transitional phase might mitigate the impact of amending the geographical coverage. The misalignment with the home-country control principle might make the IGS intervention complex in practice. The host-country principle raises the issue of the need for recourse arrangements between Member States.
Benefits	Policyholders	Policyholders within the same Member State will be protected by the same IGS regardless of the location of their insurer.
	Industry	A harmonised principle at the EU level avoids the situation where insurers are required to become a member of different national IGSs.
	Supervisors	No material benefits identified.
	Other	Avoids possible distortions to the level playing field between insurers in the same Member State.
Option 3.4: Host-country principle plus recourse arrangements		
Costs	Policyholders	Not all policyholders of an insurer are protected by the same IGS.
	Industry	Insurers with cross-border activities via FoE or FoS are required to participate in all domestic IGSs of the Member States where they are active in.
	Supervisors	The authorities that conduct and supervise the winding-up proceedings would be located in the home country of the failed insurer.
	Other	The set-up and implementation of the recourse arrangements might be difficult and complex.
Benefits	Policyholders	Policyholders within the same Member State will be protected by the same IGS regardless of the location of their insurer.
	Industry	A harmonised principle at the EU level could avoid the situation where insurers are required to become a member of different national IGSs.
	Supervisors	No material benefits identified.
	Other	Avoids possible distortions to the level playing field between insurers in the same Member State.
Option 3.5: Home- plus host-country principle (combined approach)		
Costs	Policyholders	Complex structure and less transparent compared to a single approach.
	Industry	Complex structure and less transparent compared to a single approach.
	Supervisors	Complex structure and less transparent compared to a single approach.
	Other	Complex structure and less transparent compared to a single approach.

Benefits	Policyholders	Potential more even level of protection for policyholders in same jurisdictions.
	Industry	No material benefits identified.
	Supervisors	No material benefits identified.
	Other	Flexibility to adapt IGS coverage to national needs.

Policy issue 3: Need for harmonisation of geographical of national IGSs						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability
Option 3.1: Full discretion to Member States	0	0	0	0	0	0
Option 3.2: Home-country principle	++	++	++	++	++	++
Option 3.3: Host-country principle	++	++	+	++	++	+
Option 3.4: Host-country principle plus recourse arrangements	++	++	+	++	++	+
Option 3.5: Home- plus host-country principle (combined approach)	+	+	+	+	+	+

Eligible policies

Policy issue 4: Need for harmonisation of eligible policies		
Option 4.1: Full discretion to Member States		
Costs	Policyholders	Uneven protection of policyholders in the EU is maintained.
	Industry	There will be no (minimum) level playing field on this element of IGSs.
	Supervisors	There will be no (minimum) level playing field on this element of IGSs.

	Other	There will be no (minimum) level playing field on this element of IGSs.
Benefits	Policyholders	No material benefits identified.
	Industry	No material benefits identified.
	Supervisors	No material benefits identified.
	Other	No changes required for the existing national IGSs.
Option 4.2: Life policies only		
Costs	Policyholders	The collapse of non-life insurers could also lead to severe financial hardship for policyholders.
	Industry	All types of life policies would be captured which could become a financial burden on the industry.
	Supervisors	No material costs identified.
	Other	Approximately several of the existing national IGSs would need to extend their scope considerably. A potential transitional phase might mitigate the impact of extending the scope of policies.
Benefits	Policyholders	The failure of a life insurer can often cause very severe financial hardship for policyholders.
	Industry	Limiting the scope of eligible policies reduces the costs for the industry.
	Supervisors	No material benefits identified.
	Other	The scope of eligible policies is broadly in line with the scope of the general schemes covering both life and non-life insurance and schemes covering only life insurance.
Option 4.3: Non-life policies only		
Costs	Policyholders	The failure of a life insurer can often cause very severe financial hardship for policyholders.
	Industry	All types of non-life policies would be captured which could become a financial burden on the industry.
	Supervisors	No material costs identified.
	Other	Approximately several of the existing national IGSs would need to extend their scope considerably. A potential transitional phase might mitigate the impact of existing the scope of policies.
Benefits	Policyholders	The collapse of non-life insurers could lead to severe financial hardship for policyholders.
	Industry	Limiting the scope of eligible policies reduces the costs for the industry.
	Supervisors	No material benefits identified.
	Other	The scope of eligible policies is broadly in line with the scope of 11 existing national IGSs.
Option 4.4: Both life and non-life policies		
Costs	Policyholders	Higher premiums to the extent that the costs for insurers are transferred to consumers.
	Industry	The financial and administrative burden on the industry could be excessive by making all types of policies eligible for IGS protection.
	Supervisors	No material costs identified.
	Other	No material costs identified.
Benefits	Policyholders	Most complete option of policyholder protection.
	Industry	Contributes to achieving a higher degree of level playing field between insurers in the EU.

	Supervisors	No material benefits identified.
	Other	No material benefits identified.
Option 4.5: Selected life and selected non-life policies		
Costs	Policyholders	Not all types of policies would be covered.
	Industry	Potential costs to industry due to the fact that a range of both life and non-life policies are covered.
	Supervisors	No material costs identified.
	Other	No material costs identified.
Benefits	Policyholders	Protection is provided to those policies where the failure of insurers could result in a severe financial/social hardship for policyholders. Compulsory insurances could also be covered depending on the option proposed as compromise for the operationalisation of the home country principle.
	Industry	Ensures a certain degree of level playing field, especially given that policies with a high share in cross-border business would be covered.
	Supervisors	No material benefits identified.
	Other	The exclusion of purely commercial (non-life) policies would be largely in line with the coverage of the existing national IGSs.

Policy issue 4: Need for harmonisation of eligible policies						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability
Option 4.1: Full discretion to Member States	0	0	0	0	0	0
Option 4.2: Life policies only	+	+	+	+	+	+
Option 4.3: Non-life policies only	+	+	+	+	+	+
Option 4.4: Both life and non-life policies	++	++	+	+	+	+
Option 4.5: Selected life and selected non-life policies	++	++	+	++	+	+

Eligible claimants

Policy issue 5: Need for harmonisation of eligible claimants		
Option 5.1: Full discretion to Member States		
Costs	Policyholders	Differences in policyholder eligibility and, hence, policyholder protection, will be preserved and maintained.
	Industry	No level playing field with respect to the eligible claimants across the Member States.
	Supervisors	No material costs identified.
	Other	No material costs identified.
Benefits	Policyholders	No material benefits identified.
	Industry	No material benefits identified.
	Supervisors	No material benefits identified.
	Other	Full flexibility for Member States to determine the eligible claimants. No changes required to existing national IGSs.
Option 5.2: Natural persons only		
Costs	Policyholders	Corporate policyholders, including those similar to natural persons, are not covered in an IGS.
	Industry	No material costs identified.
	Supervisors	No material costs identified.
	Other	No material costs identified.
Benefits	Policyholders	All natural persons are included.
	Industry	Limiting the scope to natural persons only reduces the costs to the industry.
	Supervisors	No material benefits identified.
	Other	All existing national IGSs already provide protection to natural persons.
Option 5.3: Natural persons and selected legal persons		
Costs	Policyholders	Large corporate policyholders are not covered in an IGS.
	Industry	Extending coverage to selected legal persons increases the costs of IGS protection.
	Supervisors	No material costs identified.
	Other	A uniform definition of micro- and small sized entities needs to be developed at the EU level.
Benefits	Policyholders	The financially more vulnerable policyholders – i.e. retail consumers and micro--sized entities – are captured.
	Industry	Increases level playing field in the EU.
	Supervisors	No material benefits identified.
	Other	Consistent with the coverage of roughly half of the existing IGSs.
Option 5.4: Natural persons and legal persons		

Costs	Policyholders	Potential excessive costs might be translated into higher premiums for all policyholders.
	Industry	Covering all natural and legal persons might be excessively expensive.
	Supervisors	No material costs identified.
	Other	This option might not be fully justified because of the presumed objective of IGSs – the protection of retail consumers.
Benefits	Policyholders	No differentiation is made between retail and corporate policyholders.
	Industry	No material benefits identified.
	Supervisors	No material benefits identified.
	Other	No material benefits identified.

Policy issue 5: Need for harmonisation of eligible claimants						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability
Option 5.1: Full discretion to Member States	0	0	0	0	0	0
Option 5.2: Natural persons only	+	+	+	+	+	+
Option 5.3: Natural persons and selected legal persons	++	++	+	++	++	+
Option 5.4: Natural persons and legal persons	++	++	+	+	++	+

Funding

Policy issue 6: Need for harmonisation of timing of funding		
Option 6.1: Full discretion to Member States		
Costs	Policyholders	Some degree of harmonisation across Member States would increase the protection of policyholders, particularly in cross-border situations.
	Industry	No level playing field between insurers in the EU.
	Supervisors	No material costs identified.

	Other	No material costs identified.
Benefits	Policyholders	No material benefits identified.
	Industry	No material benefits identified.
	Supervisors	No material benefits identified.
	Other	No changes are required in the current funding structure of national IGSs.
Option 6.2: Ex-ante funding		
Costs	Policyholders	Collected funds might be insufficient to cover the costs at the time of failure.
	Industry	Money is set aside for potential future failures and, hence, cannot be used by insurers. Also, the set-up and operational/management costs are likely to be higher than for ex-post funded schemes. A potential transitional phase might spread over several years the cost for the industry in case the scheme is newly introduced.
	Supervisors	Supervisors need to oversee that the funds are properly managed by the IGS.
	Other	No material costs identified.
Benefits	Policyholders	Enables swift intervention by IGSs.
	Industry	All insurers, including those that failed, contribute to the scheme.
	Supervisors	Risk of moral hazard by insurers is limited.
	Other	Reduces the risk of pro-cyclicality at the time of an insurance failure.
Option 6.3: Ex-post funding		
Costs	Policyholders	Potential difficulties to ensure a prompt pay-out to policyholders.
	Industry	Failed insurers do not contribute to the IGS.
	Supervisors	Risk of moral hazard by insurers is higher.
	Other	Risk of pro-cyclicality at the time of failure.
Benefits	Policyholders	No material benefits identified.
	Industry	The operational/management costs are limited and funds are collected based on actual need (outstanding claims).
	Supervisors	The funds in the IGS are limited and hence the risk of mismanagement of funds is reduced.
	Other	No material benefits identified.
Option 6.4: Ex-ante funding complemented with ex-post funding		
Costs	Policyholders	No material costs identified.
	Industry	No material costs identified.
	Supervisors	No material costs identified.
	Other	No material costs identified.

Benefits	Policyholders	Enables swift intervention by IGSs with the possibility to raise additional funds in case of shortages.
	Industry	All insurers contribute a certain amount to the scheme without all contributions being raised ex-ante.
	Supervisors	No material benefits identified.
	Other	Limits risk of pro-cyclicality at the time of failure.

Policy issue 6: Need for harmonisation of timing of funding						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability	Objective 1: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Improving transparency and better comparability
Option 6.1: Full discretion to Member States	0	0	0	0	0	0
Option 6.2: Ex-ante funding	+	+	+	+	+	+
Option 6.3: Ex-post funding	+	+	+	+	+	+
Option 6.4: Ex-ante funding complemented with ex-post funding	++	+	+	++	+	+

14 Other topics of the review

14.1 Other transitionals

14.1 With respect to other transitionals, EIOPA has not considered particular policy proposals requiring a detailed cost and benefit analysis

14.2 Fit and proper requirements

Policy issue	Options
1. Need for harmonisation ongoing assessments of the propriety of AMSB members and qualifying shareholders	1.1 No change (maintain status quo = situation described in the EIOPA Peer Review report) 1.2 Clarify the Solvency II Directive text and thereby reinforce the powers of NCAs (preferred – solution proposed in the Peer Review on Propriety) (preferred)
2. Increase the efficiency and intensity of propriety assessments in complex cross-border cases and allow in exceptional cases for EIOPA to conclude	2.1 No change (maintain status quo) 2.2 To ensure in complex cross-border cases more efficient and intense information exchange by providing the possibility of a joint assessment and allow in exceptional cases for EIOPA to conclude (preferred)

Policy issue 1: Need for harmonisation ongoing assessments of the propriety of AMSB members and qualifying shareholders		
Option 1.1: No change (based on the current situation as described in the Peer Review report)		
Costs	Policyholders	Policyholders having a contract with an undertaking in a country in which the propriety of AMSB and qualifying shareholders are not assessed on an ongoing basis might be less protected
	Industry	The risk of failures in countries with no ongoing assessment is higher with potential costs for industry
	Supervisors	Because of lack of clarity in the law additional enforcement costs: Supervisory experience highlights that, when a supervisory decision is challenged in a court of law or administrative tribunal, often the NCAs have to demonstrate not only that they followed a due process in imposing the fit and proper rules but also that the imposition of the rules is critical in protecting the wider public interest and maintaining the integrity of the financial system
	Other	Potential high cost for society given the link between failures and non proper AMSB or qualifying shareholders
Benefits	Policyholders	None
	Industry	Potential less costs for industry in the countries where the ongoing assessment is not enforced
	Supervisors	Potential less costs for supervisors in the countries where the ongoing assessment is not enforced

	Other	None
Option 1.2 Clarify the Solvency II Directive text and thereby reinforce the powers of NCAs		
Costs	Policyholders	None
	Industry	Additional costs for undertakings that do not already assess the propriety in an ongoing manner although the law requires undertakings to already do so. However it is expected that the extra costs would be minor given the fact that having proper AMSB members/qualifying shareholders is already a requirement for all institutions
	Supervisors	Additional costs for supervisors that do not already assess the propriety of the AMSB and/or qualifying shareholders of undertakings in an ongoing manner although it is already expected from them. Cost can be reduced by applying proportionality and risk-based supervision
	Other	Not applicable
Benefits	Policyholders	Equal protection of policyholders with respect to propriety assessments
	Industry	Equal treatment of industry with respect to propriety assessment
	Supervisors	More clarity in the law leads to less enforcement costs
	Other	Less costs for society given the link between failures and non proper AMSB or qualifying shareholders

14.1 Clarification of the Solvency II Directive text to reinforce the powers for on-going supervision of AMSB and qualifying shareholders (Option 1.2) means a one-off costs for supervisors that did not implement clear powers for ongoing supervision and still need to develop their supervisory practice. In the peer review on propriety several suggestions based on supervisory practices are provided for ongoing assessments of AMSB and qualifying shareholders. Supervisors can inform and support each other being part of the EIOPA community. E.g. in relation to AMSB member ongoing assessments there are three options described in detail: as part of their ongoing supervisory activity, themed review and at the point of renewals of mandates or periodic reassessment.

Comparison of options

Policy issue 1: Need for harmonisation ongoing assessments of the propriety of AMSB members and qualifying shareholders

14.2 The preferred policy option for this policy issue is option 1.2 to amend and clarify the Solvency II Directive because the current situation as described in the peer review on propriety (option 1.1) was not satisfactory hence the number of recommended actions to supervisors.

14.3 It is expected that the costs will be only for undertakings that do not already assess the propriety in an ongoing manner although the law requires undertakings to already do so.

14.4 In the same manner also a number of supervisors might be having to do more assessments. Additional costs for supervisors will be a one-off costs to amend their processes. Costs can also be reduced by applying proportionality and risk-based supervision for which several examples are available in the EIOPA community. Also because of improvement of the clarity in the law and the possibility to remove an

AMSB member or to withdraw the license in case of non-compliance with the propriety requirements by qualifying shareholders will reduce the costs of supervision. Overall given the proven link between the (almost) failures of companies as a consequence of a failed management the option 1.2 will reduce this risk and consequently its high social costs. Good risk management will be promoted by the proposal.

Policy issue 1: Need for harmonisation ongoing assessments of the propriety of AMSB members and qualifying shareholders						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Promoting good risk management	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Promoting good risk management
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Clarify the Solvency II Directive text and thereby reinforce the powers of NCAs	++	+	+	++	+	+

Increase the efficiency and effectiveness of propriety assessments in complex cross-border cases

14.5 The intention is to add potential tools to the toolbox of supervisors in line with the outcome of the peer review on propriety that allows supervisors to support each other more efficiently and effectively by exchanging and discussing relevant information in depth especially in cases where particular information about concerns that could lead to refusal of an application of an AMSB member or qualifying shareholder. In exceptional cases the issue would be raised at the level of the Authority either by one of the competent authorities or on the initiative of EIOPA with the intention to take a decision using all relevant information available.

Policy issue 2: Increase the efficiency and intensity of information exchange of propriety assessments in complex cross-border cases and allow in exceptional cases for EIOPA to conclude		
Option 2.1: No change		
Costs	Policyholders	Less protection of policyholder in the current situation as described in the peer review on propriety
	Industry	No costs
	Supervisors	Cost of a cumbersome process to exchange information and reassessments without a change in outcome
	Other	None

Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
Option 2.2: providing the possibility of a joint assessment and allow in exceptional cases for EIOPA to conclude		
Costs	Policyholders	In particular cases where particular information about concerns that could lead to refusal of an application the policyholders are better protected
	Industry	No costs
	Supervisors	Eventual costs to organise and be part of joint assessments (e.g. organisational and travel costs for meetings)
	Other	For EIOPA eventual costs to take part in joint assessments (e.g. human resource and travel costs) as well as to the eventuality provide a recommendation
Benefits	Policyholders	Better protection of policyholders, specifically for those that buy their insurance with undertakings that work on FoE and FoS basis
	Industry	When refusing an application on the correct grounds it improves the reputation of the industry. Less time/costs for industry as more coordinated approach by supervisors.
	Supervisors	Less time/costs to find and assess relevant information
	Other	None

Proportionality

14.6 Proportionality is guaranteed with the intention to only use these tools in case of complex cases that are relevant for two or more supervisors.

Comparison of options

14.7 The preferred policy option for this policy issue is option 1. 2 which encourages cooperation among NCAs in complex cross-border cases and refers to EIOPA's role as a facilitator in these cases. It is expected that there are no extra costs for industry whilst the costs for supervisors will be lower. EIOPA will bear some costs (human resources and travel costs) depending on the number of cases where its involvement is requested or needed. Equally policyholders will be better protected.

Policy issue 2: Increase the efficiency and intensity of propriety assessments in complex cross-border cases by providing the possibility of a joint assessment						
	Effectiveness (0/+/++)			Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of cross-border business	Objective 2: Improving transparency and better comparability	Objective 3: Promoting good risk management	Objective 1: Effective and efficient supervision of cross-border business	Objective 2: Improving transparency and better comparability	Objective 3: Promoting good risk management
Option 2.1: No change	0	0	0	0	0	0
Option 2.2:	+	+	+	+	+	+

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