EIOPA publishes annual report on the use of capital add-ons during 2020 under Solvency II

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The European Insurance and Occupational Pensions Authority (EIOPA) published today its annual Report on the use of capital add-ons during 2020. The objective of the capital add-on measure is to ensure that the regulatory capital requirements reflect the risk profile of the solo undertaking or of the insurance group. Therefore, it is important that national competent authorities (NCAs) use it when needed, with the aim to ensure a high degree of supervisory convergence in its application. It is also important to maintain a level playing field regarding the setting of capital add-ons.

The analysis included in the report is based on 2020 year-end data collected under Directive 2009/138/EC (Solvency II) as reported by the solo undertakings or insurance groups from the European Economic Area, and complemented by a dedicated survey for NCAs that entailed both qualitative and quantitative questions.

During 2020, two NCAs that set capital add-ons in the previous years no longer set capital add-ons in 2020. This situation led to a number of capital add-ons set at the end of 2020 even lower than in 2019. In 2020 seven NCAs set capital add-ons to nine solo undertakings (six non-life and three life undertakings respectively), while in 2019 nine NCAs had set capital add-ons to ten solo undertakings, including two life, seven non-life undertakings and one composite (excluding the capital add-ons set by the UK in the past). For groups, similarly to 2019, no capital add-ons were set during 2020.

Due to the low number of capital add-ons, the weight of capital add-ons imposed on undertakings using the standard formula remains very low overall in 2020 (i.e. less than 0.1% of the total Solvency Capital Requirement of all undertakings). However, it remains significant when considering the amount at individual level accounting for 25% of the total SCR of the undertakings with capital add-ons. Although there is a wide range in its distribution (from 86% to 1%), in all cases (except for one) the capital add-on increases the SCR by at least 10%.

Following the findings of the survey, in view of a decreasing number of capital add-ons at an already low level, EIOPA will continue to monitor the usage of capital add-ons and pay particular attention on the proposals made by NCAs on how to make a more efficient use of this tool in the future.

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