Press Release

Contact: Jerneja Orthmayr
Phone: +49(0)69951119350
press@eiopa.europa.eu

EIOPA RECOMMENDS SIMPLIFICATIONS TO THE CALCULATION OF CAPITAL REQUIREMENTS

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

Frankfurt, 30 October 2017 – Today, the European Insurance and Occupational Pensions Authority (EIOPA) submitted its first set of Advice to the European Commission on the review of specific items in the Solvency II Delegated Regulation.

The Advice proposes simplified calculations of the capital requirements in the Solvency Capital Requirement (SCR) standard formula. The changes foresee simplifications to the calculation of risks such as lapse and mortality. To reduce over-reliance of insurance undertakings on external credit ratings in the calculation of the SCR, EIOPA recommends applying simplified calculations by nominating only one credit rating agency and calculating capital requirements for the remaining non-complex assets only subject to credit quality step 3 (i.e. BBB rating).

EIOPA advises to create a new asset class for non-listed guarantees issued by regional governments and local authorities to align insurance with the banking framework and by that to ensure improved risk-sensitivity of the calculations. Furthermore, the Advice identifies the need for the extension of the application of the look-through approach to related undertakings that invest on behalf of the insurer. It also includes the proposal for the use of undertaking specific parameters for reinsurance stop-loss treaties to allow for better reflection of the risk profile. With respect to risk mitigation techniques, EIOPA recommends to better recognise strategies to hedge financial risks where the exposure is changing frequently.

Finally, EIOPA carried out an analysis of the loss-absorbing capacity of deferred taxes (LAC DT) across the European Economic Area including supervisory and industry practices. The results of the analysis show that the national supervisory authorities use similar supervisory practices with respect to 75% of the 100 billion euros of LAC DT. On the convergence of the supervisory practices for the remaining 25% of LAC DT EIOPA will provide further elements in February 2018.

Gabriel Bernardino, Chairman of EIOPA, said: *"This first set of Advice covers key aspects of the standard formula to reduce its complexity while at the same time retaining a proportionate, technically robust, risk-sensitive and consistent supervisory regime for the insurance sector. This Advice, based on evidence, is a first important step in the review of the Solvency II framework."*

This first set of Advice follows-up on the first request received from the European Commission. The second set of Advice will focus on the analysis of items such as the cost of capital in the calculation of the risk margin and the calculation of non-life and life underwriting risks, catastrophe risks, unrated debt and unlisted equity. EIOPA plans to submit it to the European Commission by February 2018.

The Advice is available via EIOPA's Website.

Notes for Editors:

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

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

Lapse risk is the risk that policyholders step back from their insurance contracts, causing unexpected insurance obligations to be paid by the insurance undertaking.

Mortality risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.

Reinsurance stop-loss treaty is a specific type of reinsurance cover, in which losses over a specific threshold are covered solely by the reinsurer and not by the insurer.

Undertaking specific parameters are a set of parameters in the SCR standard formula that can be replaced by ones calibrated on insurer's specific data. They are subject to supervisory approval.

Participating vs. Related undertaking - The participating undertaking is the undertaking which is calculating its solvency position. The term related undertaking refers to any related undertaking of that participating undertaking. The term participation is used to denote one type of related undertaking.

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

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