6. Background information and Data description

Overview and data

EIOPA publishes statistics based on quantitative Solvency II reporting from insurance undertakings and groups in the European Union and the European Economic Area (EEA). These statistics are published on a quarterly basis. Every publication is accompanied by a note describing the key aspects of the statistics published. The tables and charts are available in PDF and Excel format and are based on information from the statistics at the publication date.[65]

The new supervisory regime Solvency II came into full force on 1 January 2016 as a result of timely preparation and appropriate transitional periods.

The Solvency II Directive (Directive 2009/138/EC) introduces advanced solvency requirements for insurers based on a holistic risk assessment, and imposes new assessment rules for assets and liabilities, which must be assessed at market values.

Currently the following type of information is available:

Indicators based on Individual insurance undertakings (solo data)

Quarterly and annual publication of statistics based on solo prudential reporting data and available on a country-by-country basis.

Indicators based on Insurance groups (group data)

Annual publication of key indicators based on group reporting and available at EEA level from Autumn 2017.

Indicators based on reporting for financial stability purposes

Pursuant to Art. 51 Solvency II Directive 2009/138/EC insurance companies have to publish annual Solvency and Financial Condition Reports (SFCR) for groups as well as solo reports for its Solvency II regulated legal entities since May 2017. Hence, annual data with the reference date of end-2016 is available for the first time since the new supervisory regime entered into force. As this annual data is only available in June 2018 for January 2017, no comparative information is available and hence not used in this report.

The structure of this Financial Stability Report covers Q4 2017 and focuses on European (re) insurance undertakings and groups that report regularly under Solvency II. EIOPA bases its analysis mainly on Quarterly Prudential Reporting Solo (QRS) for Q4 2017. But as not all companies report under QRS, EIOPA also uses Quarterly Financial Stability Reporting Group (QFG).

Information is provided on different sample sizes as some (re)insurance companies are exempted from quarterly reporting in accordance with Art. 35 (6). Therefore, the sample of undertakings is not identical in the annual and quarterly publications. Each Figure EIOPA uses in this report is hence accompanied by a source mentioning the sample size and a note on data (if needed).

[65] https://eiopa.europa.eu/Pages/Financial-stability-and-crisis-prevention/Insurance-Statistics.aspx

Insurance sector

In order to smooth the transition towards the new regulatory framework, Solvency II has put in place transitional measures, some of which will apply until 2032, by which time the balance sheet position of insurance companies will be fully estimated at market value. For a period of 16 years after the start of Solvency II (re)insurance undertakings may apply the transitional measure on the technical provisions and the risk-free interest rate. Hence, in the following years the use is expected to decrease.

The use of transitional measures is transparent and insurance companies published their solvency ratios with and without the application of these measures. Transitional measures form an integral part of Solvency II and are intended to limit the procyclicality of the regulatory changes and to facilitate the entry into the new regime by giving companies the time needed to adapt to the new solvency requirements.

The EIOPA Insurance Stress Test Report 2016 and the Report on Long-Term Guarantees (LTG) [66] have shown that, in the absence of the easing effect of the LTG measures, insurers might be induced to force sales and de-risk in order to lower their SCR and MCR, possibly pushing asset prices further down, adding to the market volatility and potentially affecting financial stability.

Pursuant to Art. 51 Solvency II Directive 2009/138/EC solo insurance companies were required to publish annual Solvency and Financial Condition Reporting (SFCR) for the first time in May 2017, followed by groups at the end of June. Hence, this report uses a huge amount of comprehensive information on Solvency II results for the first time.

The publication of SFCR reports gives access to Solvency II results. Capital requirements under Solvency II are twofold. The Solvency Capital Requirement (SCR) is the level above which there is no supervisory intervention for financial reasons. Supervisors will take measures once the SCR is breached and ultimate measures (loss of licence) once the MCR is breached.

While the quarterly templates do contain SCR and MCR information, the SCR is not necessarily recalculated for the quarterly templates which only require annual recalculation. Hence, the quarterly SCR ratios will represent a snapshot, but not necessarily the fully recalculated SCR ratios. Also, the MCR might be affected by this because the SCR is used to define a cap and a floor for the MCR value.

The SCR ratio is calculated either by using a prescribed formula, called the standard formula, or by employing an undertaking-specific partial or full internal model that has been approved by the supervisory authority. Being risk-sensitive the SCR ratio is subject to fluctuations and undertakings are required to monitor it continuously. A variety of degrees of freedom and options in the calculation of Solvency II results allows insurance companies to adjust the calculation of the SCR ratio to their risk profile.

According to Solvency II, insurers' own funds are divided into three "Tier" classes. Tier 1 capital, such as equity, is divided into restricted and unrestricted capital and has the highest ranking. Items that are included in Tier 1 under the transitional arrangement shall make up less than 20% of the total amount of Tier 1 items. Tier 2 capital is mostly composed of hybrid debt while Tier 3 is composed mostly of deferred tax assets. The eligible amount of own funds to cover the SCR has several restrictions: the eligible amount of Tier 3 capital shall be less than 15% of the SCR, while the sum

[66] Note EIOPA's third LTG (long term guarantee) report will be published in late 2018

of the eligible amount of Tier 2 and 3 capital shall not exceed 50% of the SCR. In order to ensure that the application of the limits does not create potential pro-cyclical effects, the limits on the eligible amounts of Tier 2 and Tier 3 items should apply in such a way that a loss in Tier 1 own funds does not result in a loss of total eligible own funds that is higher than that loss.

Reinsurance sector

The section is based on information from the Quarterly Reporting Templates (QRTs) where the reinsurance sample is calibrated with Q4 2017 data. A solo undertaking is listed as a reinsurer if it meets one or more of the following criteria: listed as a reinsurance undertaking on the EIOPA register. The global and European market overview is also based on publicly available reports, forecasts and quarterly updates of rating agencies and other research and consulting studies.

Pension fund sector

The section on pension funds highlights the main developments that occurred in the European occupational pension fund sector, based on feedback provided by EIOPA's Members. Not all EU countries are covered, in some of them IORPs (i.e. occupational pension funds falling under the scope of the EU IORP Directive) are still non-existent or have recently been established. Furthermore, in other countries the main part of occupational retirement provisions is treated as a line of insurance business, respectively underwritten by life insurers, and is therefore not covered. The country cover is 84% (26 out of 31 countries).

Data collected for 2017 was provided to EIOPA with an approximate view of the financial position of IORPs during the covered period. Several countries are in the process of collecting data and in some cases 2017 figures are preliminary, incomplete or based on estimates and may be subject to major revisions in the coming reports.

In addition, the main valuation method applied by each country varies due to different accounting principles applied across the EU. Moreover, data availability varies substantially among the various Member States, which hampers a thorough analysis and comparison of the pension market developments between Member States. For RO, the data refers to 1st Pillar bis and 3rd Pillar private pension schemes only. Finally, it is worth noting that due to differences in objective, scope, cover and reporting period or timing of the data received by EIOPA, information reported in the different EIOPA reports may differ.