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EUROPEAN INSURANCE

AND OCCUPATIONAL PENSIONS AUTHORITY

# Understanding the Solvency II Balance Sheet

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# Objective of the Solvency II balance sheet

## Protection of policyholders

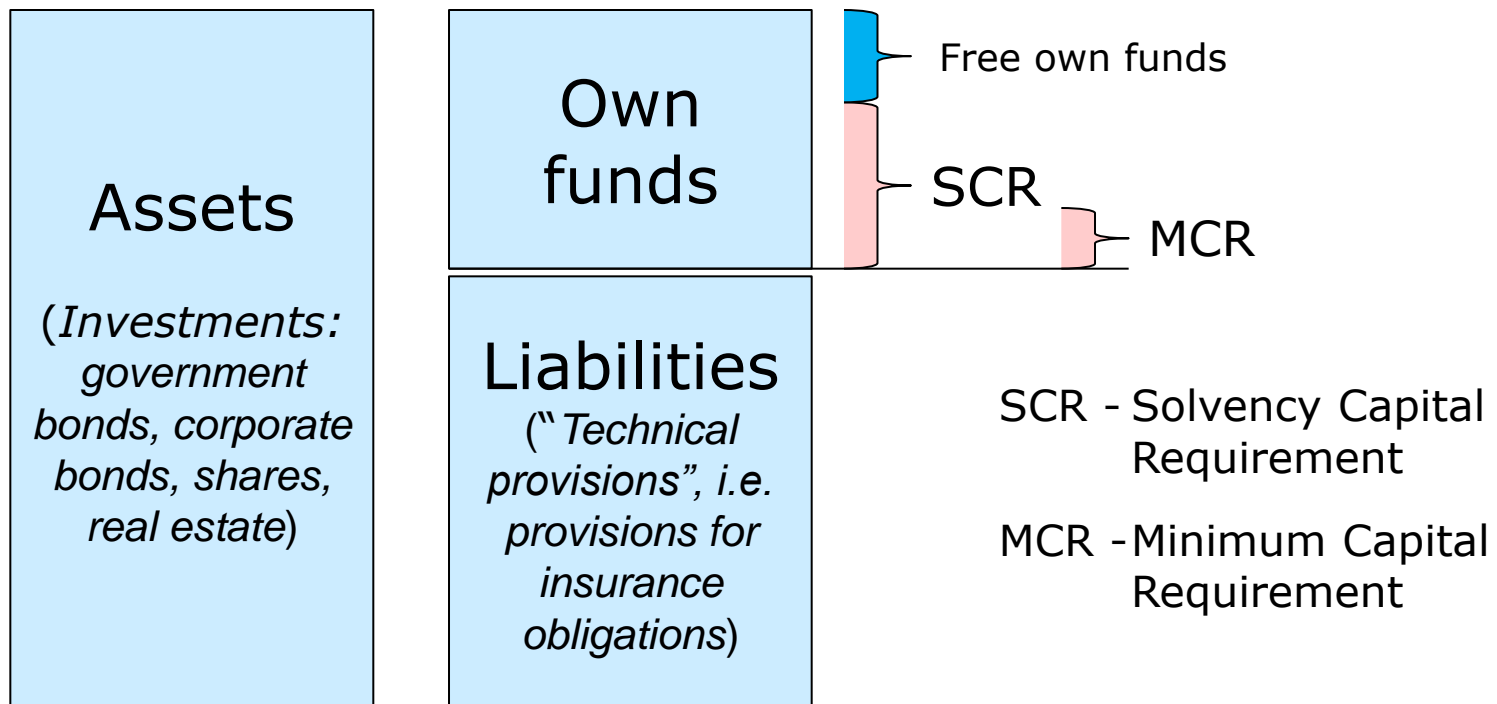


Insurers are able to fulfil insurance contracts, also under adverse circumstances



Insurers hold sufficient assets to pay expected insurance benefits and bear unexpected losses

# Balance sheet under Solvency II



# Capital requirements and own funds

## SCR

- Risk-based and prospective
- Insurance risks, Investment risks, Credit risks and Operational risks
- Calculated with standard formula specified in the law or internal model developed by the insurer and approved by the supervisor

## MCR

- Minimum level of security
- Calculated in simple manner

## Own funds

- Insurers need to hold own funds to cover the SCR and the MCR.
- Own funds should absorb losses and be of sufficient quality (permanently available, subordinated, sufficient duration)
- Based on market-consistent valuation of assets and liabilities

# What if SCR or MCR are breached?

The SCR corresponds to the amount of own funds needed to withstand the worst annual loss expected to occur over the next 200 years ...

## **Breach of the SCR** →

intensified supervision, undertaking required to take measures to meet SCR again within 6 months

The MCR reflects the minimum level of protection of the policyholders and beneficiaries; breaching the MCR would amount to an unacceptable level of risk...

## **Breach of the MCR** →

leave the market unless MCR is met again within short period of time

# Finally, two more Solvency II concepts

## **Solvency ratio: Own funds / SCR**

- Ratio 100% or higher  $\Rightarrow$  SCR is met
- Comparisons of solvency ratios should be handled with care, in particular with Solvency I and banks

## **Long-term guarantee measures**

The measures affect the Solvency II balance sheet

“Volatility adjustment”  
“Matching adjustment”

Short-term volatility of financial markets is only reflected in the balance sheet to the extent meaningful.

Transitional measures

Smooths transition to Solvency II