

Certain parts of this Chapter of the Supervisory Handbook have been omitted from the publication. These omitted sections contain confidential information that is integral to the effective functioning of the supervisory review process.

EIOPA Supervisory Handbook

Chapter on the supervision of intra-group transactions and risk concentrations

The Supervisory Handbook recommends good practices to National Supervisory Authorities (NSAs) for the supervision of insurance and reinsurance undertakings and groups. The recommendations provided to NSAs through this Chapter should not be interpreted as legally binding nor as applicable in all cases to all undertakings and groups. When following the guidance from the handbook, NSAs are always expected to implement a risk-based approach, to use their supervisory judgment, and to take into account the specific risks and characteristics of each undertaking or group under their supervision.

EIOPA(2022)0007807
Supervisory Processes Department
~~EIOPA-CONFIDENTIAL-USE~~
EIOPA-BOS-22-097
26 January 2022

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1. BACKGROUND

1. This chapter was developed following the acknowledgement of the importance of having an adequate supervisory review process around intra-group transactions (IGTs) and Risk Concentration (RC). The supervision of IGTs and RCs is one of the core aspects of the group supervision framework under the Solvency II framework. Moreover, there can be specific cases where the supervision of IGTs is the only/maximum level of group supervision that could be carried out, in particular if the ultimate parent undertaking is a mixed activity insurance holding company (MAIHC) (Article 265 of the Solvency II Directive) or if the supervision of IGTs is applied as one of the possible other methods under Article 262 of the Solvency II Directive in case of a non-equivalent third country parent undertaking.
2. Those considerations highlight the importance of National Competent Authorities (NCAs) having a sound supervisory review process to ensure that a comprehensive review and monitoring of IGTs and RCs is adequately applied. A thorough understanding and supervision of IGTs and RCs is paramount in promoting good risk management, protecting policy holders and ensuring a sound financial position of supervised undertakings and groups.
3. EIOPA Guidelines on Supervisory Review Process (EIOPA-BoS-14/179), and in particular SRP GL 10 is of importance in supporting an adequate SRP in this area. SRP GL 10 states that the group supervisor should consider all relevant entities within the group including regulated and non-regulated EEA and non-EEA entities. The group supervisor should focus on the group-specific issues, including among others: intra-group transactions, complexity and interconnectedness of the group, risk transfer across the group, any other risks from a group wide perspective, risks from non-insurance entities, and any conflict or any potential conflict of interests.
4. This chapter aims to ensure that supervisors have a common understanding and assessment of IGTs and RCs to allow supervisors to identify and act on those that pose a threat to the financial position of the group or insurance or reinsurance undertakings belonging to a group and adopt measures in a timely manner.
5. This chapter reflects on the general principles relevant to the supervision of IGTs and RCs with an emphasis on:
 - Monitoring and analysis of the type of IGTs and RCs that can threaten the solvency and financial position of the group and the (re)insurance undertakings belonging to the group;
 - Supporting further convergence on setting up thresholds for reporting of IGTs and RCs.

6. This chapter provides to supervisors relevant supervisory practices across the EU based on the inputs provided by different NCAs. Some general practical examples are included where possible.
7. Regarding the thresholds for reporting of IGTs and RCs this chapter takes into account:
 - EIOPA’s 2017 stock-taking of the different thresholds and practices identified across supervisory colleges
 - Work carried out on the EU-U.S. Insurance Dialogue Project regarding the supervision of IGTs¹. The outcome of this work sought to gain mutual understandings regarding definitions of IGTs and enhance the understanding of each other’s practices for risk and impact assessment, supervisory review processes and reporting requirements in addition to discussing how to further enhance information exchange practices in global supervisory colleges;
 - Outcome of a recent survey (Q1-2021) launched among some NCAs. The survey results show that supervisory practices on setting thresholds and reviewing IGTs and RCs have improved since the implementation of the Solvency II framework. NCAs have gained valuable experience but there is still a strong interest from NCAs in having guidance not only on setting up thresholds but the overall supervision of IGTs and RCs.
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8. It is important for all NCAs to ensure that they have designed strong supervisory processes on IGTs and RCs, and that they monitor on an on-going basis the risks derived from IGTs and RCs. Furthermore, it is crucial that those supervisory practices follow a holistic approach, and take into consideration all three pillars of the Solvency II framework.
9. This chapter intends to move a step forward in supporting supervisors in understanding some of the challenges associated in supervising IGTs and RCs, including setting thresholds.

¹ https://www.eiopa.europa.eu/sites/default/files/publications/pdfs/supervision_of_intra-group_transactions_igts.pdf?source=search

2. LEGAL PROVISIONS, AND GENERAL CONSIDERATIONS

10. Recital (109) of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 (hereinafter “Solvency II Directive”) states that *supervisory authorities should be able to exercise supervision over risk concentrations and intra-group transactions*, taking into account the nature of relationships between regulated entities as well as non-regulated entities, including insurance holding companies (ICH) and mixed activity insurance holding companies (MAIHC), and take appropriate measures at the level of the insurance or reinsurance undertaking where its solvency is being or may be jeopardised.

Definitions

11. In accordance with Article 13 (19)² of the Solvency II Directive, IGT means any transaction by which an insurance or reinsurance undertaking 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.
12. Although there is not a specific definition of RCs in the Solvency II Directive, Article 13(35) defines concentration risk as all risk exposures with a loss potential that is large enough to threaten the solvency or the financial position of insurance and reinsurance undertakings.

System of Governance

13. Regulatory references to the System of Governance should also be considered. In particular, supervisors should be aware of the application of Articles 41(3), 44 and 246 of the Solvency II Directive, supporting elements of the System of Governance in the Delegated Regulation, and the relevant guidelines on the System of Governance Guidelines which refer to the risk management system of the group.
14. The rules and procedures for managing IGTs and RC, including the identification of each type of IGT and RC to be monitored and reported are expected to be covered as part of the undertaking and group’s written policies on risk management, internal control, internal audit (general requirements on the system of governance, Article 41(3) of the Solvency II Directive). Furthermore, the regulation in particular requires for the group internal control mechanisms

² It is worth noting that EIOPA-BoS-20/749 Opinion on the 2020 review of the Solvency II issued advice regarding the need to adjust the IGTs definition, please refer to the relevant analysis on page 13.

to have at least sound reporting and accounting procedures in place to monitor and manage the IGTs and RCs (Article 246 of the Solvency II Directive); and to have in place an effective risk-management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks, at an individual and at an aggregated level, to which undertakings/or the group are or could be exposed, and their interdependencies (Article 44 of the Solvency II Directive).

Reporting and Disclosure

15. Article 245(2) of the Solvency II Directive provides that Member States shall require insurance and reinsurance undertakings, IHC, and mixed financial holding companies (MFHC) to report on a regular basis and at least annually to the group supervisor *all significant IGTs* by (re)insurance undertakings within a group, including those performed with a natural person with close links to an undertaking in the group, unless Article 215(2) applies. In addition, Member States shall require reporting of very significant IGTs as soon as practicable (Article 245(2) of the Directive). Further, Article 377 of the Commission Delegated Regulation 2015/35 (Delegated Regulation) outlines a minimum list of IGTs to be considered for the purpose of identifying significant IGTs.
16. Article 244(2) of the Solvency II Directive provides that Member States shall require insurance and reinsurance undertakings or IHCs or MFHCs to report on a regular basis and at least annually to the group supervisor *any significant RCs* at the level of the group, unless Article 215(2) applies. Article 376 of the Delegated Regulation outlines a minimum list of direct and indirect exposures to be considered for the purpose of identifying significant RCs.
17. In accordance with Articles 245(3) and 244(3) of the Solvency II Directive, in order to identify significant IGTs and RCs to be reported, the group supervisor, after consulting the other supervisory authorities concerned and the group, shall:
 - impose appropriate thresholds based on solvency capital requirements, technical provisions (TPs), or both;
 - identify the type of IGTs and risks (re)insurance undertakings in a particular group must report in all circumstances.³
18. The necessary information shall be submitted to the group supervisor by the insurance or reinsurance undertaking, the IHC or the MFHC which is at the head of the group or, the (re)insurance undertaking in the group identified by the group supervisor after consulting the other supervisory authorities concerned and the group (also applicable to horizontal groups).
19. In the event that a MAIHC is at the head of the group, the Solvency II Directive provides that the reporting is done by the (subsidiary) insurance and reinsurance undertaking. There is a

³ In accordance with Article 245(3) for IGTs and Article 244(3) for RCs

regulatory gap or lack of clarity regarding how to proceed in the case the group, as per Article 213(1)(a) to (c), is a subgroup of a broader group headed by a MAIHC. Specific considerations on transactions with MAIHC and/or other regulated undertakings such as banks are developed in dedicated section 6.

20. Based on the regulatory framework, the ITS⁴ on Solvency II reporting requires the reporting entity as described in paragraph 17 to report the following IGTs using the standardised template in all cases:
- on a regular basis and at least annually to the group supervisor all significant IGTs by insurance and reinsurance undertakings within a group, including those performed with a natural person with close links to an undertaking in the group, unless Article 215(2) of FICOD rules applies (Article 245(2) of the SII Directive);
 - very significant IGTs as soon as practicable (Article 245(2) of the SII Directive);
 - any type of IGTs identified by the group supervisor as to be reported in all circumstances after consultation of the other supervisory authorities concerned and the group as soon as practicable⁵ or as directed by the NSA (Article 245(3) of the SII Directive indicates that Article 244(3) applies mutatis mutandis).
21. With specific regard to IGTs, Article 377 of the Delegated Regulation outlines a minimum list of IGTs that should be considered for the purpose of identifying significant IGTs. Generally speaking, IGTs can concern:
- Equity-type transactions, debt or asset transfers, such as:
 - ✓ equity and other capital items including participations in related entities and transfer shares of related entities of the group;
 - ✓ debt including bonds, loans, collateralised debt, and other;
 - ✓ transactions of similar nature e.g. with periodic pre-determined interest or coupons or premium payments for a pre-determined period of time;
 - ✓ other asset transfers such as the transfer of properties and transfer of shares of other companies unrelated (i.e. outside) to the group.
 - Derivative transactions;
 - Internal reinsurance, such as:
 - ✓ traditional reinsurance between related undertakings; and

⁴ Commission Implementing Regulation (EU) 2023/894 of 4 April 2023 laying down implementing technical standards for the application of Directive 2009/138/EC of the European Parliament and the Council with regard to the templates for the submission by insurance and reinsurance undertakings to their supervisory authorities of information necessary for their supervision (hereinafter, ITS 2023/894).

⁵ The practice about as soon as practicable derives from the inferred application of ITS 2023/894 Article 26.

- ✓ any other transaction that results in transferring underwriting risk (insurance risk) between related undertakings.
 - other intra-group transactions, such as:
 - ✓ internal cost sharing;
 - ✓ contingent liabilities ;
 - ✓ off-balance sheet guarantees;
 - any other transactions between related undertakings or natural persons in scope of the group supervision.
22. The above types of IGTs must be submitted via the Quantitative Reporting Templates (QRTs)⁶:
- S.36.01 – specifying information on intra-group-transactions, involving equity-type transactions, debt and asset transfer;
 - S.36.02 – specifying information on intra-group-transactions on derivatives;
 - S.36.03 – specifying information on intra-group-transactions on off-balance sheet itand contingent liabilities;
 - S.36.04 – specifying information on intra-group-transactions on insurance and reinsurance;
 - S.36.05 - specifying information on intra-group-transactions on profit and loss.
23. As regarding RC, participating insurance and reinsurance undertakings, IHC or MFHC at group level are required to report to the group supervisor risk concentrations using template S.37.01.04 :
- On regular basis, at least annually, any significant risk concentrations (i.e. risk concentrations above the threshold decided by the group supervisor) and;
 - risk concentrations identified by the group supervisor, as reportable in all circumstances, as soon as practicable or as directed by the NSA⁷.
24. When assessing whether a reportable risk concentration arises, the reporting entity should consider both direct and indirect RCs as well as the correlations and interactions of risks arising from all the undertakings of the group. Article 376 of the Delegated Regulation outlines a minimum list of direct and indirect exposures to be considered for the purpose of identifying significant RC:
- individual counterparties;
 - groups of individual but interconnected counterparties, for example undertakings within the same corporate group;

⁷ The practice about as soon as practicable derives from the inferred application of ITS 2023/894 Article 26.

- specific geographical areas or industry sectors;
 - natural disasters or catastrophes.
25. Narrative information on IGTs and RCs in the group Solvency and Financial Condition Report (SFCR) and group Regular Supervisory Report (RSR) complement the quantitative reporting as required in Article 359 and 372 of the Delegated Regulation and in the guidelines 27 and 28 of the set of EIOPA Guidelines on reporting and public Disclosure. In those reports the following information should be available:
- Individual/Group SFCR - within the System of Governance section, information on any material intra-group outsourcing arrangements, including intra-group reinsurance. This may include information on the outsourcing of critical or important functions or activities within the group;
 - Individual/Group RSR - within the Group's Business and Performance section, qualitative and quantitative information on significant intra-group transactions by insurance and reinsurance undertakings with the group and the amount of the transactions over the reporting period and their outstanding balances at the end of the reporting period;
 - Group SFCR/RSR - the diversification of the group's insurance activities, in terms of geographical areas and lines of business (Section C).
26. To support the assessment of risk concentrations and IGTs other templates are of relevance:
- solvency and liquidity position of the group (QRTs: S.02.01.01 (Balance sheet), S.23.01.04 (Own funds), S.25.01.04 (group SCR), S.33.01.01 (Insurance and reinsurance individual requirements));
 - the complexity of the structure of the group (Section A of the group's SFCR and RSR and (S.32.01.04 (Undertakings in the scope of the group));
 - the importance of regulated entities from other financial sectors or non-regulated entities carrying out financial activities (S.34.01.01 (Other regulated and non-regulated financial undertakings including insurance holding companies' individual requirements));
 - the diversification of the group's investments portfolio (S.06.02.04 (List of assets), S.06.03.04 (Investment fund-look-through approach), S.08.01.04 (Derivatives), and S.08.02.04 (Derivatives transactions));

Other General Considerations

27. The significance of IGTs, both in terms of volume and value of the transaction, is also an important factor to be considered before allowing the use of the deduction and aggregation method in the group solvency calculation. Please refer to Article 328 of the Solvency II Delegated Regulation and to the SRP handbook, Chapter on Group Solvency, for more details.

Additional Sources of information

28. In addition of the information received via QRTs and qualitative reports SFCR and RSR additional sources of information that can support supervision of IGTs and RCs are:
- i. Individual/Group ORSA, this report may provide additional information on intra-group transactions, in particular if intra-group transactions give rise to material risks;
 - ii. Group policy describing the rules and process for managing IGTs and identifying each type of IGT and RC to be monitored and reported to the reporting entity;
 - iii. Information exchanged within colleges and with NCAs from non-EEA countries, including any relevant information exchanged at the financial conglomerate level if the group is identified as such;
 - iv. Reporting from other financial sectors (OFS) can be used to check consistency, and other interlinkages not reported under the Solvency II reporting package;
 - v. Audited financial statements, in particular the notes to the financial statements provide information on related parties and the group structure. Attention should be made to understanding Off-Balance sheet transactions;
 - vi. Internal Control Self-Assessments, Internal Audit and External Audit reports. These will provide useful information about the risk management framework, including the management of IGTs and RCs;
 - vii. Group and undertakings management Information package, which can include the following: Board of Director's minutes; reports from the audit committee, and the risk committee, and other committees;
 - viii. Investors' relations web page of the undertaking/the group provides useful information regarding structure, organisation and future plans.
29. Information on the risk Management System, collected through different supervisory actions such as previous on-sites, provides a clear view of the risk culture of the undertaking/group. Understanding how it is implemented and embedded in the undertaking/group is useful when assessing if there is a sound risk management system supporting the adequacy of IGTs and RCs.

Enforcement Measures

30. Solvency II provides scope for application of enforcement measures. In particular, Article 258 (1) of the Solvency II Directive outlines that where IGTs are a threat to the financial position of the insurance or reinsurance undertakings, enforcement measures need to be adopted by the group supervisor with respect to the insurance holding company or mixed financial holding company and by the supervisory authorities with respect to the insurance undertakings.

Potential challenges derived from IGTs and RCs

31. IGTs are inherent to the normal business of insurance undertakings belonging to a group. However, due to the volume and vast variety of IGTs and interlinkages between undertakings, the potential risks and effects may be difficult to be captured and reviewed by external parties⁸.
32. IGTs can be used to generate capital, and depending on how such transactions are structured they could inflate the individual solvency position through double gearing or as substitute for financial resources (e.g. guarantees or loans) and may expose a (re)insurance undertaking to contagion risk from the financial weakness of another undertaking within the group.
33. Some transactions, in particular the transfer of assets, holding of liabilities issued by other group entities, and the granting of loans, may be realised under terms and conditions that facilitate the creation of artificial own funds, and which will affect the solvency position of an insurance or reinsurance undertaking (e.g. artificial increase of own funds of a related non-regulated entity that in turn increases the own funds of an insurance or reinsurance undertaking).
34. IGTs may be used to mitigate or diversify risk exposures toward third parties taken by another legal entity in the group, however the use of IGTs do not mitigate the group's ultimate exposure toward external parties and can result in high levels of concentration risk within the group.
35. As a result, insurance or reinsurance undertakings may end up bearing risks beyond those that they would normally assume if they were operating as independently managed entities dealing with external counterparties. These concerns can be amplified when there are significant unregulated entities or the group has a complex structure.
36. Some NCAs have identified deficiencies in the way some groups and relevant undertakings cover IGTs and RCs in their Risk Management System. Failure to identify and monitor the risks derived from IGTs and RCs could lead to a build-up of several risks, including risk concentration and other related risks.
37. In the cases where insurance or reinsurance undertakings are part of large international (re)insurance groups, despite the many benefits to it, supervisors should be aware of the significant financial and operational reliance of such undertakings on their groups. While there are many advantages for utilising group structures, it could also significantly increase the concentration risk to a single counterparty, the operational and governance risks associated with being dependent on the group or particular undertakings in the group.

Some considerations from the Solvency II 2020 Review

Some supervisory considerations derived from the definition of IGTs:

⁸ Includes and not limited to competent authorities, rating agencies, external auditors, etc.

As noted in EIOPA-BoS-20/749 Opinion on the 2020 review of the Solvency II (i.e. EIOPA Opinion on the 2020 Review), the current definition of IGTs as provided in Article 13(19) of the Solvency II Directive does not explicitly include the reference to i) the Insurance Holding Companies (IHC), Mixed Activities Insurance Holding Companies (MAIHC) or Mixed Financial Holding Companies (MFHC) and to (ii) to third country insurance and reinsurance undertakings in the scope of the group as one of the possible counterparties of the IGTs.

This lack of explicit reference to such entities is also addressed in Q&A 490 published by EIOPA in September 2019.

From a supervisory perspective, this is leading to divergent supervisory practices with most supervisors not requesting consistently the information regarding IGTs that involve only holding companies and other related parties, for example when the group consists of a cascade of holding companies (with insurance subsidiaries at the bottom of the cascade). This information on IGTs is deemed fundamental to understand the movements of capital and other resources within the group.

Thus, EIOPA has underlined in the Opinion on the 2020 Review that based on Article 235 of the Solvency II Directive, according to which insurance holding companies and mixed financial holding company should be considered, for the purpose of group solvency, as insurance or reinsurance undertakings, Article 13(19) should be revised to include clearly such holding companies as one of the possible counterparties, to ensure convergence of practices⁹.

As already outlined in the Q&A 490, NCAs may decide to enlarge the scope in order to include IGTs between other unregulated undertakings, such as Ancillary Services Undertakings (ASUs), to check whether there are circular transactions that may have an indirect impact on the solvency and financial position of the group or insurance and reinsurance undertakings belonging to the group. Information about the transactions which do not fall under the scope of the above mentioned definition may be systematically requested in addition by the relevant supervisory authority on the basis of Article 254 of the Solvency II Directive, according to which supervisory authorities shall have access to

⁹ COM proposal to amend Solvency published in September 2021 proposes the following definition: “‘intra-group transaction’ means any transaction by which an insurance or reinsurance undertaking, a third-country insurance or reinsurance undertaking, an insurance holding company or a mixed financial holding company 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.” and in addition the following addition in article 245 “3a. In addition to intragroup transactions within the meaning of Article 13, point (19), for the purpose of paragraphs 2 and 3 of this Article, where justified, supervisory authorities may require groups to also report intragroup transactions that involve undertakings other than insurance and reinsurance undertakings, third-country insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies.”.

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any information relevant for the purpose of group supervision, regardless of the nature of the undertaking concerned. In particular, considering recital 109 of the Solvency II Directive, by which supervisory authorities should be able to exercise supervision over risk concentrations and intra-group transactions, taking into account the nature of relationships between regulated entities as well as non-regulated entities and take appropriate measures at the level of the insurance or reinsurance undertaking where its solvency is being or may be jeopardised.

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3. IDENTIFICATION AND REPORTING OF IGTS, INCLUDING THE SETTING OF THRESHOLDS

3.1 MAIN CONSIDERATIONS WHEN IDENTIFYING AND REPORTING IGTS

38. The process of identifying and reporting IGTS is a complex process that requires effective cooperation among the insurance and reinsurance undertakings of the group, including insurance and mixed financial holding companies.
39. The reporting entity should ensure that individual insurance and reinsurance undertakings, IHC and MFHC make an assessment of the significance of IGT at individual level and communicate the IGTS to the reporting entity, specifying which are significant, very significant and the ones to be reported in every circumstance.
40. The rules and process for managing IGTS and identifying each type of IGT to be monitored and reported are ideally to be described in a group policy and procedures approved by the group AMSB and shared with the individual undertakings. This to ensure that all the relevant parties are involved in the collection, monitoring and reporting of the IGTS and that group specificities are duly considered. The group policy and any supporting internal procedures should be kept up to date by the group and relevant undertakings and made available upon request to the competent authorities¹⁰.
41. The AMSB of individual (re)insurance undertakings belonging to the group are responsible for the transactions, independently whether they are conducted with internal or external parties to the group. Furthermore, all risks derived from IGTS should be carefully considered in the risk management framework, and adequate mitigating actions should be put in place.

Thresholds

42. According to the current Solvency II framework, the **thresholds** for reporting of IGTS are based on solvency capital requirements, technical provisions, or both. In the absence of a clear reference, the supervisor can set these thresholds based either on group or individual figures or both.
43. Thresholds should be set in such a way that they are useful from a supervisory perspective. In general, the objective of a balanced and proportionate reporting not overburdening groups

¹⁰ See requirements regarding the System of Governance. Main items highlighted in section 2- Legal basis.

and supervisors shall also be considered and should allow to focus on the most relevant IGTs while not creating an excessive reporting burden for groups and supervisors.

44. Setting thresholds that are too high or too low may impair the analysis of transactions that can be important in understanding the overall risks of the group. For that reason, supervisors may decide to establish different thresholds for different types of transactions.
45. As the materiality of the impact of the IGTs may be different for the group and for its individual undertakings, the group supervisor should consider both, the group and the individual aspects, when setting the threshold for significant and very significant IGTs or when identifying the IGTs to be reported in all circumstances, in consultation with the relevant supervisory authorities. It is a good practice that the thresholds are set based on the indicators of the individual undertakings in order to take into account proportionality, in particular the size and scale of the entities belonging to the group and the potential impact on each and every insurance undertaking of the group.
46. Transactions linked to each other with respect to time, counterparty, function or planning, should be considered as if they were a single transaction for the purposes of applying a threshold, even if any individual transaction value is below the threshold.
47. Since the definition of intra-group transactions encompasses “all transactions by which an insurance or reinsurance undertaking [...] rely directly or *indirectly* on other undertakings within the same group [...] for the fulfilment of an obligation, [...]”, consideration should be given to transactions that:
 - shift risk exposures between entities within the (re) insurance undertakings of the group, including transactions with special purpose vehicles or ancillary services undertakings;
 - consist of several connected transactions where assets or liabilities are transferred to entities outside of the group, but ultimately risk exposure is brought back within the group.
48. When establishing thresholds for IGTs, the group supervisor is recommended to consider the following aspects:
 - nature, scale and complexity of the group (importance of particular undertakings for the group);
 - structure of the group including existence of non-regulated entities, SPVs, ancillary entities, third countries undertakings;
 - types of IGTs and interlinkage with the business model of the group (e.g. intra-group risk transfer mechanism, intra-group pricing transfer mechanism, capital and liquidity management, etc.);
 - systemic importance of specific undertakings of the group, including other sectors involved in the IGT, such as banking, asset management and unregulated entities;
 - transactions done under terms or circumstances which independent third parties would not easily accept, e.g. service level agreements that are not transacted at arm’s length;

- solvency and financial condition of the group and of the specific individual (re) insurance undertakings;
 - adequacy of the system of governance, in particular the risk management system;
 - existence of limits in exposures established by European or national regulations or risk management of the positions (e.g. clearing waivers of derivative positions under EMIR).
49. As noted in the background section, this section aims to be a step forward in supporting supervisors in understanding some of the challenges associated in supervising IGTs and RCs, including setting thresholds. Regarding the setting of thresholds, the following sections provide examples of supervisory practices but further work will be required to seek further harmonisation.

3.2 SIGNIFICANT IGTs

50. Based on the stock-taking performed by EIOPA in 2017 and the recent survey to NCAs, the most common practices regarding the identification of significant IGTs include:
- The use of relative thresholds based on the solvency capital requirement (SCR) of the individual undertaking involved in the transaction. In case more than one (re)insurance undertaking is involved in the transaction, the lowest SCR of the undertakings involved would be normally considered (e.g. x% of the /lowest individual SCR of the (re)insurance undertakings involved in the transaction). The most common threshold used was 5%. In some cases it was clarified that where the lowest reference SCR was lower than the minimum capital requirement (MCR), the reference threshold was the MCR.
 - Variations of the above threshold included the following cases of changing the above %:
 - ✓ transactions above certain fixed amounts that varied in accordance with the amount of the SCR of the smaller entity part of the transaction;
 - ✓ the use of gross technical provisions calculated for solvency purposes (e.g. 5% of the lowest total amount of the gross technical provisions of the counterparties involved) with and without an absolute value identified as a floor to reduce volatility on the reporting;
 - ✓ a combination of thresholds based on the lowest gross technical provisions and the lowest SCR of the individual undertaking involved, the group SCR or the conglomerate capital requirement, the most material IGTs (for example the top 5 or 10), the available group capital, and the assets of the transacting entities;
 - ✓ a comprehensive approach combining a threshold based on the SCR and the type of IGTs.

Considerations about the basis used for setting up the thresholds

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51. It is noted that a threshold based on SCR or TPs may result in unintended consequences, as the increase of these values will increase the threshold. This could mean that the higher risk, resulting in higher TPs or SCR, lowers the number of transactions/exposures to be reported on the basis of such thresholds, which is not the aim of the reporting.
52. An additional drawback of thresholds set exclusively on SCR or TPs could be their volatility that would impair to correctly capture the IGTs in the long term and require adapting them on a frequent basis.
53. In order to overcome those drawbacks, NCAs have considered several solutions. Some countries have considered to set an absolute floor for each threshold to secure the reporting from any fluctuations. Others have defined a specific metric for setting thresholds, e.g. a specific threshold is fixed for specific buckets of SCR values. The thresholds increase less proportionate than the SCR values.
54. It is worth noting that in the EIOPA-BoS-20/749 Opinion on the 2020 review of the Solvency II, it is advised to update Article 244(3) of the Solvency II Directive to allow the introduction of additional criteria such as eligible own funds or qualitative criteria for the purpose of setting thresholds for IGTs (the article refers to RCs but is applied *mutatis mutandis* for IGTs) reporting as deemed necessary by the group supervisor. Any qualitative criteria should be clearly documented by the NCAs to ensure consistent and transparent application.¹¹

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3.3 VERY SIGNIFICANT IGTs

55. Based on the stock-taking performed by EIOPA in 2017, the most common practice was linking the threshold of the very significant IGTs with the one for significant IGTs. For instance, 5 times the thresholds set for significant IGTs.
56. Other approaches included the use of a % over the group SCR or the lowest SCR of the (re)insurance undertaking involved, technical provisions of the counterparties involved with and without floors and the combination of quantitative and qualitative criteria.

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¹¹ COM proposal to amend Solvency published in September 2021 proposes a new para. 3 for article 244 “In order to identify significant risk concentration to be reported, the group supervisor, after consulting the other supervisory authorities concerned and the group, shall impose appropriate thresholds based on Solvency Capital Requirements, technical provisions, eligible own funds, other quantitative or qualitative risk-based criteria deemed appropriate or a combination thereof”.

3.4 IGTs TO BE REPORTED IN ALL CIRCUMSTANCES

57. Where supervisors establish criteria for IGTs to be reported in all circumstances, most of such criteria is of a qualitative nature although some also establish quantitative thresholds.
58. Group supervisors are recommended to consider the following list as examples of types of IGTs for the identification of IGTs to be reported in all circumstances:
- IGTs not concluded in accordance with arm's-length principle, i.e. any intra-group transaction that takes place at conditions other than standard or market conditions that can be disadvantageous for one of the parties involved;
 - Particularly complex IGTs, such as not collateralised/margined derivatives or security financing transactions or material cross-border gross derivative exposures even under netting and collateral agreements;
 - Off balance-sheet transactions, including guarantees and commitments (such as Lines of Credit (LoCs)) received from, or provided to, other group entities. Although these transactions fall into the category of off-balance or potential liabilities, they are exposing undertakings to credit risk;
 - Unplanned move of significant amount of capital or income, particularly IGTs not supported by the capital policy or dividend policy (for the group and related undertakings) with direct impact on the own funds;
 - Transfer of unusual or large amounts of capital or income from undertakings, particularly transactions close to year-end, without proper collateralisation, or due to material change in the nature, scale or complexity of the group or related undertaking.

4. IDENTIFICATION AND REPORTING OF RISK CONCENTRATIONS, INCLUDING THE SETTING OF THRESHOLDS

59. Similarly to IGTs, thresholds should be based on solvency capital requirements, technical provisions, or both. When defining the thresholds, the group supervisor and the supervisory authorities concerned should take into account, based on the Delegated Regulation:
- the solvency and liquidity position of the group;
 - the complexity of the structure of the group;
 - the importance of regulated entities from other financial sectors or non-regulated entities carrying out financial activities;
 - the diversification of the group's investments portfolio;
 - the diversification of the group's insurance activities, in terms of geographical areas and lines of business.
60. As referred in the section for setting thresholds on the IGTs, the specific group structure and risk-management structure of the group should also be considered.
61. Similarly to IGTs, the rules and procedures for managing and identifying each type of RC to be monitored and reported are to be ideally described in a group policy and procedures approved by the group AMSB and shared with the individual undertakings, in order to ensure that all the relevant parties are involved in the collection, monitoring and reporting of the exposures and that group specificities are duly considered. The group policy and any supporting internal procedures should be kept up to date by the group and relevant undertakings, and made available upon request to the competent authorities¹².

4.1 SIGNIFICANT RISK CONCENTRATIONS

62. Based on the above mentioned EIOPA stock-taking 2017 on the different thresholds and practices identified across supervisory colleges and the recent survey among NSAs, the most common practice is the use of the group SCR. At the time of the stock-taking the most common threshold used was 10% of the group SCR.

¹² See references to the regulatory framework in section 2- Legal provisions and general considerations

63. Other practices included a % on the group technical provisions or on the lowest total amount of technical provisions of the counterparties involved, the major 5 RCs, % over the lowest individual SCR, over the conglomerate capital requirement or over the assets of the individual undertakings.
64. There was also a comprehensive approach of combining size and type of instrument capturing ultimate counterparties that could be significant in aggregation without exceeding any threshold of each instrument type.
65. It is worth noting that in the EIOPA-BoS-20/749 Opinion on the 2020 review of the Solvency II, it is advised to update Article 244(3) of the Solvency II Directive to allow the introduction of additional criteria such as eligible own funds or a qualitative criteria for the purpose of setting thresholds for RCs reporting as deemed necessary by the group supervisor. Any qualitative criteria should be clearly documented by the NCAs to ensure consistent and transparent application.¹³
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4.2 RISK CONCENTRATIONS TO BE REPORTED IN ALL CIRCUMSTANCES

66. Based on the stock-taking, the most common practice is to use qualitative, principles-based and/or simplified approaches namely the Top10 risk exposures to financial and non-financial entities, the highest 3 (Top3) or 5 (Top5) risk exposures complemented with explanations on the associated risk of contagion for each. An alternative example would be to consider all significant RCs which exceed the value of three times the threshold established for the purpose of the reporting of significant RCs (e.g. 30% or more of the group SCR).
67. The criteria for identifying the types of RCs reportable in all circumstances and thresholds for reporting of such transactions should be decided in consultation with members of the college as part of the supervisory coordination arrangements, taking into account both the group and the individual aspects. When the group supervisor receives information related to Intra-Group Transactions and risk concentrations at group level it should disseminate such information to relevant supervisors involved and vice-versa.

¹³ COM proposal to amend Solvency published in September 2021 proposes a new para. 3 for article 244 “In order to identify significant risk concentration to be reported, the group supervisor, after consulting the other supervisory authorities concerned and the group, shall impose appropriate thresholds based on Solvency Capital Requirements, technical provisions, eligible own funds, other quantitative or qualitative risk-based criteria deemed appropriate or a combination thereof”.

5. SUPERVISORY PRACTICES ON IGTS AND RCS (INCLUDING INFORMATION SHARING)

68. When supervising IGTS and RCS supervisors also need to adopt a risk-based and proportionate approach, which takes into account the scope, structure and complexity of the group. In particular, the group supervisor should focus on the group-specific issues¹⁴, including regarding IGTS and RCS:
- intra-group transactions complexity and interconnectedness of the insurance group;
 - the group risk profile including any diversification effects, risk concentrations and risk transfer across the insurance group.
69. As already indicated before, the IGTS and RCS can have a material impact on the risk profile of any group. Additionally for some groups, supervision of IGTS could be the only supervisory activity applied. Therefore, it is important that supervisors plan adequately the supervisory approach to follow and the frequency of the reviews.
70. NCAs can decide to carry out thematic reviews on specific IGTS or RCS as part of their supervisory review process and regular engagement with their supervised undertakings. Those thematic reviews can be mainly desk-based or can be complemented with on-site activities. It is noted that a NCA has recently carried out thematic reviews on intra-group transactions¹⁵. The NCA found that the majority of undertakings, even those with otherwise good risk management frameworks, do not consider the risk of transactions with related group entities to a sufficient degree. It is also noted that another NCA published good practices on its website to support supervision of IGTS and RCS.¹⁶
71. Supervisors need to be aware that the interconnectedness of IGTS can increase risks on an individual and aggregated basis. Hence, the importance of following a holistic approach when supervising IGTS.
72. Interconnectedness is evident across many sectors, and supervisory activities on IGTS and RCS should be enhanced. There is the need for a more active and frequent supervisory discussions

¹⁴ GL 10 of the EIOPA Guidelines on the supervisory review process

¹⁵<https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/communications/insurance-quarterly-news/the-insurance-quarterly---june-2021.pdf?sfvrsn=4>

¹⁶<https://www.dnb.nl/en/sector-information/supervision-sectors/insurers/prudential-supervision/group-supervision/good-practice-intragroup-relationships-in-the-insurance-sector/>

on this topic at Supervisory Colleges, supervisory platforms, and any other cross-border supervisory engagements.

Common Considerations regarding IGTs and RCs

73. An important element of the supervisory work is analysing the data quality received regarding IGTs and RCs. It may be desirable to check consistency with other information available to the supervisory authority. A list of information that may be relevant to support the analysis of specific IGTs or RCs exposures can be found in paragraphs 25 and 27.
74. One of the key aspects to consider in the supervisory approach when it comes to the analysis of IGTs/RCs is to assess the effectiveness of the system of governance framework, in particular the risk management and internal controls that supervised groups/undertakings have in place to ensure that material IGTs and RCs at group level are identified, measured and managed. The risk management system, including internal controls developed by groups/undertakings should be also subject to regular internal audits with results included in relevant internal audit reports. This, in turn, allows the supervisors to evaluate how the reported information on RCs and IGTs compares with the limits set by the internal control systems and risk management processes of the group.
75. The appropriateness of IT systems and data management is important, as the quality of risk management is influenced by the capacity of the information systems to properly capture the various risks and transactions. These systems must ensure the consistency and integrity of all the data required in order to provide a complete and comprehensive overview.

Considerations regarding IGTs

76. It is important that the supervisor assesses the IGTs as the existence of excessive intra-group exposures increases the economic interdependence, and consequently the contagion risk could cause additional complications in case of potential unwinding of the group.
77. Supervisors should be aware and remind groups/undertakings as part of the supervisory dialogue that groups/undertakings must consider the risks of all transactions (e.g. outsourcing of administrative functions, investment management, treasury, reinsurance and loans/investments), whether these are with third parties or related group entities.
78. Hence, if such transactions pose additional risks not covered under pillar 1, those should be considered in the group or individual SCR via capital add-ons. Furthermore, such risks should also be considered in the ORSA as part of the group/undertaking own solvency needs.
79. The following risks should be taken into account when assessing IGTs:
 - Double gearing, where capital, income or assets are transferred aiming intra-group creation of capital;
 - Financial Risk, where transactions adversely affecting the solvency, liquidity and profitability of the individual undertakings, and the group;

- Potential increase of credit risk from lending assets/securities; and increased counterparty risk to counterparties in the group;
- Increase of underwriting risks, taking into account intragroup reinsurance and other risk mitigation techniques;
- Regulatory Risk, whether the effect of the transaction results in circumvention of rules (regulatory arbitrage) to evade/reduce capital or other regulatory requirements;
- Complex links /structures hampering the supervisory view of the group and individual undertakings;
- Contagion risk between the entities part of the group;
- Operational Risk; whether the transactions will affect the capacity of the undertakings or the group to efficiently operate, and the increased risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events;
- Lack of appropriateness of the system of governance or of IT systems and data management of the undertaking and the group.
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The arm's length transaction' principle

80. One of the supervisory considerations that should be taken into account for the purpose of analysing of IGTs is the review of the application of the 'arm's length transaction' principle. Article 75 of Solvency II Directive requires both assets and liabilities to be valued "at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction". The concept of 'arm's length transaction' is commonly known as a transaction in which willing parties, each being reasonably aware of all relevant factors and neither under compulsion to buy, sell, or loan, would act independently. The concept of an arm's length transaction is designed to ensure that both parties in such transaction are acting in their own self-interest and are not subject to any pressure or duress from the other party.
81. IGTs not conducted in accordance with the 'arm's length principle'¹⁷, are likely to be disadvantageous for one of the counterparties of the transactions and may pose a risk to the group and/or an undertaking. A common supervisory concern with IGTs is that a subsidiary in a group would be asked to sell/buy at a price lower/higher than the market price and/or worse conditions than those set by the market in order to benefit a counterparty of the same group. For that reason, it is important that this aspect is included in the supervisory assessment of IGTs.

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¹⁷ Arm's length principle is commonly known as a type of transaction between parties that act independently and have no relationship to each other.

Considerations regarding RCs

82. RCs must be assessed as part of the overall risk assessment. Some risks (market risk concentration) should be appropriately reflected in the group capital requirements. In general, sufficient attention should be given to material risks derived from risk concentration whether they are quantifiable or not.
83. Supervisors need to ensure that the supervised groups have in place, as part of the group's risk management system and internal control function, which include at least sound reporting and accounting procedures, to monitor and manage RCs as well as adequate systems to ensure all material risks incurred, including risk concentrations, are identified and measured, and that eligible own funds exist to cover those risks, where appropriate.
84. The risk management policy should set the actions to be taken to identify relevant sources of concentration risk at group level and legal entity level to ensure that risk concentrations remain within established limits and to analyse possible risks of contagion between concentrated exposures.

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6. REVIEW OF IGTS WITH MAIHC OR OTHER FINANCIAL SECTORS ENTITIES, INCLUDING INTERLINKAGES WITH FINANCIAL CONGLOMERATES (FICO)

6.1 SOME PRACTICAL CONSIDERATIONS FOR SUPERVISORS THAT ARE RESPONSIBLE FOR BOTH SOLVENCY II SUPERVISION AND SUPPLEMENTARY SUPERVISION UNDER FICO REGIME

85. NCAs indicated that the supervisory review approach under the FiCo regime is similar to the one exercised under Solvency II. Supervisory teams will have to take into account the information from all relevant financial sectors.
86. The differences on the supervisory approach are derived from the fact that FiCo enlarges the scope of reporting and supervision to transactions and exposures involving undertakings belonging to other financial sectors and focuses more likely on cross sectoral issues, and the review of IGTS and RCs involving other sectoral entities is done in cooperation with the relevant competent authorities from other sectors.
87. There are also some differences regarding the definition of thresholds. For instance, the FiCo regime offers some specific quantitative metrics to define the threshold to report significant IGT (Article 8(2) FICOD), which is 5 % of the total amount of capital adequacy requirements at the level of a financial conglomerate. This could create some operational challenges for supervisors when monitoring IGTS at conglomerate level and insurance group level.
88. It is acknowledged that setting thresholds under FiCo is more complex than for Solvency II, given the inter-sectoral dimension and the different volume/size of transactions/exposures from other financial sectors.
89. The Solvency II framework provides for a proportionate approach regarding (re)insurance groups subject to Solvency II and FICO. Article 213(3) of the Solvency II Directive allows the group supervisors to waive the reporting of IGTS and RCs in order to avoid reporting under Solvency II and FICOD simultaneously.

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90. In the recent amendments to the Solvency II and FiCo templates¹⁸, the reporting of RCs and IGTs has been aligned to provide supervisory teams a similar set of information to assess the IGTs and RCs at FiCo and at the Solvency II insurance group levels. With these changes the new ITS on FiCo reporting aims to bring better readability and a more structured approach to the information provided on IGTs and RCs that is valuable to supervisors and coordinators.
91. NCAs acting as the FiCo coordinator assess IGTs and RCs taking into consideration all quantitative data available and any qualitative data provided; on demand or in the narrative reporting, available in both insurance and banking and investments sectors. Similarly to Solvency II requirements, it is expected that the group takes into account in its internal control and risk management processes all the risks that arise from IGTs and RCs at the FiCo level as required under Article 9 of the FICOD. Supervisory teams, in both on-site and off-site inspection, should monitor that the FiCos comply with such requirements.

6.2 SOME SUPERVISORY CONSIDERATIONS DERIVED FROM INTERPRETATION AND TRANSPOSITION IN NATIONAL LAW

92. Once a group headed by a MAIHC (or a chain of MAIHC) is identified as subject to Solvency II supervision of IGTs according to Article 213 (2) letter d and Article 265 of Solvency II Directive, the collection and reporting of IGTs is to be done by the (re)insurance undertaking which is a subsidiary of the MAIHC. The reporting should include transactions between the (re)insurance undertaking and the MAIHC as well as the transactions with any MAIHC above in the chain.
93. In the case such a group is including a subgroup subject to full group supervision according to Article 213 (2) letters a, b and c of the Solvency II Directive, it is considered a good practice that the reporting of IGTs with the MAIHC and its related undertakings is done together with the reporting of the subgroup to get a full overview of the transactions, at the highest level. The reporting requirements are outlined in Article 21 of ITS 2023/894.
94. Supervisors should be aware of some issues related to the interpretation and transposition in national law regarding the definition of mixed-activity insurance holding company (MAIHC) as to whether a MAIHC can be a regulated entity or not.
95. In some Member States, a regulated entity other than an insurance undertaking, for example a bank, can be identified as MAIHC, as defined in Article 212(1)(g) of the Solvency II Directive, and intra-group transactions with such regulated entity would be monitored on the basis of Article 265 of the Solvency II Directive. This national transposition is justified with the fact

¹⁸ [Commission Implementing Regulation \(EU\) 2022/2454 of 14 December 2022 laying down implementing technical standards for the application of Directive 2002/87/EC of the European Parliament and of the Council with regard to supervisory reporting of risk concentrations and intra-group transactions](#)

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that no explicit provision prevents a regulated financial undertaking from being a MAIHC and that credit institutions are not excluded in this definition.

96. However, there are other Member States that do not identify a regulated entity other than an insurance undertaking as a MAIHC. The interpretation followed by these Member States is that only non-regulated entities can be identified as a MAIHC. In this case, there is a risk that the group headed by a regulated entity other than an insurance undertaking would not be subject to Solvency II monitoring of IGTs according to Article 265 of the Solvency II Directive, unless the NCA requires such reporting at national level.
97. Another supervisory issue relates to the use of waivers for IGTs and RCs reporting at Solvency II level for financial conglomerate when subject to supplementary supervision in accordance with Article 5(2) of Directive 2002/87/EC. It is important to thoroughly assess (referring to Article 213(3)) the impact on the available information on the IGTs and RCs for a particular insurance undertaking due to possible difference in applied thresholds between Solvency II and FICOD, depending also on the interpretation and transposition in national law.
98. It should be noted that the insurance supervisor should be in a position to monitor IGTs between the insurance undertakings and the bank or any other regulated entity from other financial sectors, if it deems it necessary, even if such entities do not fall into the identification of a MAIHC.
99. Following from this, EIOPA advice as noted in the EIOPA Opinion on the 2020 Review is to clarify in the regulations that where a regulated entity from other financial sectors at the top of the group does not fall under the definition of a MAIHC, Article 265 of the Solvency II Directive also applies to these entities. This independently from the regulated entity (e.g. a bank) being subject or not to financial conglomerates (FICOD) IGTs reporting.¹⁹

¹⁹ Par 9.15 of the EIOPA Opinion on the Solvency II Review "... Where a regulated entity from other financial sectors at the top of the group does not fall under the definition of a mixed-activity insurance holding company (Article 212(1)(g) of the Solvency II Directive), Article 265 of the Solvency II Directive also applies to these entities. This independently from the regulated entity (e.g. a bank) being subject or not to financial conglomerates (FICOD) IGTs reporting. As regards to 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." COM proposal to amend Solvency published in September 2021 proposes consistently in Article 265, the following paragraph 1a: "Member States shall also ensure that, where the parent undertaking of one or more insurance or reinsurance undertakings is a credit institution, an investment firm, a financial institution, a UCITS management company, an alternative investment fund manager, an institution for occupational retirement provision or a non-regulated undertaking which carries one or more of the activities referred to in Annex I to Directive 2013/36/EU where those activities constitute a significant part of its overall activity, the supervisory authorities responsible for the supervision of those insurance or reinsurance undertakings exercise general supervision over transactions between those insurance or reinsurance undertakings and the parent undertaking and its related undertakings."

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