CONSULTATION PAPER

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on the proposal for Regulatory Technical Standards on applicability criteria for macroprudential analysis in own risk and solvency assessment and prudent person principle

EIOPA-BoS-24/321
17 October 2024

European Insurance and Occupational Pensions Authority

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RESPONDING TO THIS PAPER

EIOPA welcomes comments on the Consultation Paper on the proposal for Regulatory Technical Standards on applicability criteria for macroprudential analysis in ORSA and PPP.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please provide your comments to EIOPA via EU Survey (link) by 9 January 2025 23:59 CET.

Contributions not provided via EU Survey or after the deadline will not be processed. In case you have any questions please contact SolvencyIIreview@eiopa.europa.eu.

Publication of responses

Your responses will be published on the EIOPA website unless: you request to treat them confidential, or they are unlawful, or they would infringe the rights of any third-party. Please, indicate clearly and prominently in your submission any part you do not wish to be publicly disclosed. EIOPA may also publish a summary of the survey input received on its website.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents and EIOPA's rules on public access to documents.[1]

Declaration by the contributor

By sending your contribution to EIOPA you consent to publication of all non-confidential information in your contribution, in whole/in part – as indicated in your responses, including to the publication of the name of your organisation, and you thereby declare that nothing within your response is unlawful or would infringe the rights of any third party in a manner that would prevent the publication.

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725. More information on how personal data are treated can be found in the privacy statement at the end of this material.

[1] Public Access to Documents.

Next steps

EIOPA will revise the proposal in view of the stakeholder comments received. EIOPA will publish a report on the consultation including the revised proposal and the resolution of stakeholder comments.

1. BACKGROUND AND RATIONALE

AMENDMENTS TO THE SOLVENCY II DIRECTIVE

The European Commission proposed amendments to Directive 2009/138/EC[2] (Solvency II Directive) in September 2021.[3] The provisional agreement of the European co-legislators on the amendments to the Solvency II Directive[4] includes new requirements for insurance or reinsurance undertakings and groups regarding the inclusion of macroprudential analyses in the own risk and solvency assessment (ORSA) and in the prudent person principle (PPP), see Articles 45(1) and 132(5) of the Solvency II Directive.

According to the new requirements, the supervisory authorities should analyse the ORSA report of undertakings that are requested to take macroprudential considerations into account within their jurisdictions, aggregate them and provide input to undertakings on the elements that should be considered in their future ORSA, particularly as regards macroprudential risks. Furthermore, when required by the supervisory authority, insurance and reinsurance undertaking shall take account of macroprudential concerns when they decide on their investment strategy (e.g. PPP related considerations). Member States should ensure that, where they entrust an authority with a macroprudential mandate, the outcome and the findings of macroprudential assessments by the supervisory authorities are shared with that macroprudential authority.

MANDATE FOR DRAFT REGULATORY TECHNICAL STANDARDS

In order to ensure a consistent application of the macroprudential tools, Article 144d(1)(a)(i) and (ii) of the Solvency II Directive mandates EIOPA to develop draft Regulatory Technical Standards (RTS) on the applicability criteria to be taken into account by supervisory authorities when defining the insurance or reinsurance undertakings and groups which shall be requested to carry out macroprudential analyses in the ORSA and when applying the PPP.

This consultation paper sets out the EIOPA proposal for those draft RTS.

APPROACH TO THE RTS

In EIOPA's view[5], systemic events could be generated in two ways:

(a) The 'direct' effect, originated by the failure of a systemically relevant insurer or the collective failure of several insurers generating a cascade effect.

[2] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335, 17.12.2009, p. 1–155

[3] Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/138/EC as regards proportionality, quality of supervision, reporting, long-term guarantee measures, macro-prudential tools, sustainability risks, group and cross-border supervision

[4] See the text of the provisional agreement as adopted by the European Parliament on 8 October 2024.

[5] EIOPA publishes Discussion Paper on Systemic Risk and Macroprudential Policy in Insurance - European Union (europa.eu)

(b) The ‘indirect’ effect, in which possible externalities are enhanced by engagement in potentially systemic activities (activity-based sources) or the widespread common reactions of insurers to exogenous shocks (behaviour-based source).

As a consequence, the role of macroprudential policy and macroprudential instruments is crucial. Solvency II is a comprehensive microprudential framework covering the calculation of capital requirements (Pillar 1), governance, including the management of risks (Pillar 2) and reporting and disclosure requirements (Pillar 3). Solvency II embeds, since its entry into force, also a set of instruments with a macroprudential impact (e.g., the long-term guarantees measures and transitional measures) to mitigate the unintended consequences of a full mark-to-market approach for the valuation of assets and liabilities in consideration of the long-term nature of the insurance business.

While the tools with direct macroprudential impact are not the subject of this consultation paper, the tools with indirect macroprudential impact (ORSA and PPP) are in scope, limited to the extent of the criteria to identify the undertakings which should include additional macroprudential analyses.

This consultation paper leverages on quantitative and qualitative criteria already used in the supervisory context. In particular:

(a) The proposed absolute threshold of EUR 12 billion in total assets in the Solvency II balance sheet is in line with the criteria to identify the reporting entities for financial stability reporting[6].

(b) The proposed set of risk-based criteria related to interconnectedness, activity, substitutability, and liquidity risks leverage on the assessment made in the context of the Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector of the International Association of Insurance Supervisors and the Insurance Recovery and Resolution Directive[7].

The risk based criteria are meant to complement the criterion based on the total assets size in order to allow supervisory judgment and include risk based considerations which are beyond the size of an entity. On the basis of the identified risk based criteria, national supervisory authorities can add or remove entities to the pool of selected insurances or reinsurance undertakings or groups that are required to perform macroprudential analysis in their ORSA or PPP. In particular the requirement to remove entities from the pool where their inclusion would be disproportionate will ensure a proportionate application of the RTS.

In relation to the interplay between group and solo undertakings, the Level 1 text empowers solo supervisors to perform the consideration at stake. Therefore, independent from the considerations made by the group supervisor, solo supervisors are allowed to request the undertakings under their remit of supervision and belonging to the group, to include macroprudential analysis in their ORSA and macroprudential considerations in the application of the PPP, regardless of the approach taken at group level.

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[6] Refer to Annex II of EIOPA's Guidelines on financial stability reporting

[7] See text of the provisional agreement, as adopted by the European Parliament on 23 April 2024, on the Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of insurance and reinsurance undertakings and amending Directives 2002/47/EC, 2004/25/EC, 2009/138/EC, (EU) 2017/1132 and Regulations (EU) No 1094/2010 and (EU) No 648/2012.

2. DRAFT TECHNICAL STANDARDS

EUROPEAN COMMISSION

Brussels, DD.MM.YYYY
C(20..) yyy final

COMMISSION DELEGATED REGULATION (EU) No …/..

of [ ]

COMMISSION DELEGATED REGULATION (EU) No …/… supplementing Directive 2009/138/EC of the European Parliament and of the Council with regard to regulatory technical standards on applicability criteria for macroprudential analyses in the own risk and solvency assessment and the prudent person principle

of [ ]

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)[8], and in particular Article 144d(1)(a), third subparagraph thereof,

Whereas:

(1) This Regulation specifies applicability criteria for macroprudential analyses in the own risk and solvency assessment and the incorporation of macroprudential consideration in the prudent person principle.

(2) For the purpose of the identification of entities whose actions could have a potential macroprudential impact, the approach taken is in line with the most recent approaches to assess the macroprudential relevance of insurers and in particular it follows the principle of the International Association of Insurance Supervisors Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector.

(3) The notion of substitutability and of interconnectedness applied in this Regulation should be in line with the notion referred to in Article 5(2) of the [Insurance Recovery and Resolution Directive (IRRD)].

(4) The criteria to identify the insurance or reinsurance undertakings and groups requested to perform macroprudential analysis in their own risk and solvency assessment and macroprudential consideration in the prudent person principle should take into account the nature, scale, and complexity of the risks inherent in the business of the undertakings , and in particular the level of interconnectedness with financial markets, the cross-border nature of insurance and reinsurance activities, and the investments of the insurance and reinsurance undertakings. The set of application criteria is based both on a set of quantitative and qualitative aspects which guide supervisory authorities to identify efficiently the set of undertakings and groups that should be required to perform a macroprudential assessment.

(5) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Insurance and Occupational Pensions Authority.

(6) The European Insurance and Occupational Pensions Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based,

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8 OJ L 335, 17.12.2009, p. 1–155.

analysed the potential related costs and benefits and requested the advice of the Insurance and Reinsurance Stakeholder Group established by Article 37 of Regulation (EU) No 1094/2010.

HAS ADOPTED THIS REGULATION:

Article 1

Definitions

For the purposes of this Regulation, the following definition shall apply:

'Synthetic leverage' means financial leverage that stems from derivative instruments or securities financing transactions that create exposures contingent on the future value of an underlying asset.

Article 2

Applicability criteria for macroprudential analysis in the own risk and solvency assessment

(1) For the purposes of identification of the insurance or reinsurance undertakings and groups to be requested to carry out macroprudential analyses in the own risk and solvency assessment, supervisory authorities shall include the following insurance and reinsurance undertakings and groups:

(a) groups with total assets, valued in accordance with Article 75 of Directive 2009/138/EC, that exceed EUR 12 000 000 000;

(b) individual insurance and reinsurance undertakings with total assets, valued in accordance with Article 75 of Directive 2009/138/EC, that exceed EUR 12 000 000 000 and that do not belong to a group referred to in point (a);

(2) Supervisory authorities may exclude insurance or reinsurance undertakings or groups from the scope of undertakings and groups requested to carry out macroprudential analyses in line with the principle of proportionality and taking into account the criteria set out in paragraph 3.

(3) Supervisory authorities shall assess if additional insurance and reinsurance undertakings and groups shall be included based on the following criteria:

(a) interconnectedness with other financial institutions as referred to in Article 5(2) of [IRRD], where material;
(b) existence of material activities related to systemically relevant exposures;
(c) substitutability as referred to in Article 5(2) of [IRRD];
(d) material exposure to liquidity risk;
(e) the insurance or reinsurance undertaking is part of a group which carries out the macroprudential analyses in the own risk and solvency assessment, but the specificities of that undertaking are insufficiently or inappropriately captured in the analysis of the group.

(4) For the purposes of assessing the type of activities as set out in paragraph 3(b), supervisory authorities shall at least consider the following activities:

(a) use of derivative instruments;
(b) activities related to exposures with macroprudential implications which can potentially generate spillover effects;
(c) offering of products with a guaranteed benefit and with variable annuities;
(d) concentration in certain assets class and common exposures on the asset side.

(5) For the purposes of assessing liquidity risk as set out in paragraph 3(d), supervisory authorities shall consider the liquidity sources referred to in Article 1(3) of the [Regulatory Technical Standard on liquidity risk management plans].

(6) The supervisory authority of an insurance or reinsurance undertaking that belong to a group excluded under Article 2(2) shall be able to request that undertaking to perform the macroprudential analyses in the own risk and solvency assessment, in line with the criteria set out in paragraph 3.

Article 3

Assessment criteria for macroprudential analyses in the context of the prudent person principle

(1) For the purposes of identification of the insurance or reinsurance undertakings and groups to be requested to incorporate macroprudential considerations when they decide on their investment strategy as part of the prudent person principle , supervisory authority shall consider the criteria set out in Article 2(1), (2) and (3)(a) to (d). Further to the application of those criteria, supervisory authorities shall base the identification of the insurance and reinsurance undertakings and groups also on the following set of criteria related to exposure to market movements:
  (a) duration mismatch between assets and liabilities;
  (b) use of synthetic leverage;
  (c) approach to valuations of asset classes which include at least the exposure towards assets that are illiquid or are difficult to value or have an opaque and complex structure;
  (d) the insurance or reinsurance undertaking is part of a group which carries out the macroprudential analyses in the context of the application of the prudent person principle, but the specificities of that undertaking are insufficiently captured in the analysis of the group.

(2) The supervisory authority of an insurance or reinsurance undertaking that belong to a group excluded under Article 2(2) shall be able to request that undertaking to perform the macroprudential analyses in the context of the prudent person principle in line with the criteria set out in paragraph 1 and in Article 2(3).

Article 4

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

[For the Commission

The President]

[For the Commission

On behalf of the President]

[Position]

ANNEX I: IMPACT ASSESSMENT

In accordance with Article 29 of the EIOPA Regulation[9], where relevant, EIOPA carries out analyses of costs and benefits during the policy development process. The analysis of costs and benefits is undertaken according to an impact assessment methodology.

This impact assessment covers the EIOPA draft Regulatory Technical Standards (RTS) on applicability criteria for macroprudential analysis in ORSA and PPP. It is based on a qualitative assessment done by EIOPA.

In drafting these Regulatory Technical Standards, EIOPA sticks to the general objectives of the Solvency II Directive, as agreed by the legislators in 2009. These general objectives are:

- adequate protection of policyholders and beneficiaries, being the main objective of supervision;
- financial stability;
- proper functioning of the internal market.

In view of the specific purpose of these technical standards, the following more specific objectives were identified:

- discourage excessive levels of direct and indirect exposure concentration;
- ensure sufficient loss-absorbency capacity and reserving;
- promoting good risk management.

As a general approach, proportionality has been considered in drafting the RTS while defining the application criteria for the undertakings required to perform macroprudential analyses in ORSA and PPP, leveraging on detailed impact assessments to understand the impact of each option on stakeholders.

POLICY ISSUE A: DEFINE THE APPROPRIATE APPROACH TO DEFINE THE APPLICATION CRITERIA

This policy issue includes several policy options related to the approach to be used to define the application criteria for undertakings in scope of the RTS, which will be required to perform additional macroprudential analyses in their ORSA and PPP.

[9] Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC; OJ L 331, 15.12.2010, p. 48–83.

Policy option A.0: No Change

This option means that no RTS are in place. It is a hypothetical baseline that is only introduced as a benchmark against which the impact of the other policy options is compared.

This option is not considered as a viable option given the specific mandate given to EIOPA in the context of article 144d of the Solvency II Directive.

Policy option A.1: Being purely principle-based

This policy option leverages on an approach that keeps the status quo and relies on the sole principles of Solvency II and on already existing provisions set out at Level 1. If assumed that introducing macroprudential analyses in ORSA and PPP can work effectively, failing to identify a relevant set of undertakings in scope of the draft RTS may result in less protection for policyholders and higher risk to financial stability. Furthermore, from a supervisory point of view, NCAs would not be able to make use of an instrument that may be relevant to address the sources of systemic risk identified.

Policy option A.2: Fully quantitative approach

This Option aims at defining the application criteria based on strictly defined absolute and relative thresholds resulting in a fully quantitative approach with no leverage on further qualitative assessment. From a financial stability perspective, expanding the use of ORSA could help in mitigating two main sources of risk which could potentially generate indirect macroprudential outcomes. First, it could avoid the deterioration of the solvency position leading to insurance failure(s). Secondly, it could contribute avoiding excessive risk concentrations.

On the other hand, the expansion of the PPP could help mitigating two main sources of facing risks which could potentially generate indirect macroprudential outcomes, i.e. the risk of excessive concentrations and the involvement in certain activities or products with greater potential to generate indirect macroprudential impacts.

In terms of proportionality, as also reiterated in the EIOPA Opinion on the Review of Solvency II, the risk management system and ORSA "should be proportionate to the risks at stake while ensuring a proper monitoring of any evolution of the risk, either triggered by internal sources such as a change in the business model or business strategy or by an external source such as an exceptional event that could affect the materiality of a certain sub-module". Expanding the use of the ORSA reports from a macroprudential point of view should follow a similar approach and, for this reason, the thresholds proposed for the application criteria of this draft RTS are based on the approaches followed for the identification of insurance or reinsurance undertakings and groups subject to the EIOPA Financial Stability Reporting and, as consistently as possible, on the application criteria applied in the context of the Insurance Recovery and Resolution Directive (IRRD).

The expansion of the PPP does not raise any proportionality concerns in its application.

In relation to the possible impact of the implementation of this draft RTS on undertakings' behaviour, the major impact of this tool on undertakings' behaviour which can be foreseen is related to the raising awareness with respect to macroprudential outcomes and the impact that undertakings themselves can generate with their risk assessment and investment behaviour. Identifying the most relevant set of undertakings which are deemed to have an indirect macroprudential impact is key to make the new tool useful for both NCAs and the undertakings.

More in detail, the quantitative criterion is based on the Financial Stability Reporting threshold of EUR 12 billion in total assets valuated according to Article 75 of the Solvency II Directive of the insurance and reinsurance undertakings established in the Member State;

One possible issue that could be considered is the risk of a potential imperfect feedback process, which may lead to misinterpretation by undertakings and the translation of the identification into inadequate decisions. For this reason, a fully prescriptive approach regarding the definition of the application criteria should be avoided, to avoid the risk that undertakings' independence in internal risk management processes (in the context of the ORSA) and investment decisions (in the context of PPP) is restricted to a bigger-than-needed extent.

Using appropriate criteria to identify undertakings in scope of the draft RTS is crucial to avoid the inclusion of undertakings mainly based on size factors. The use of purely quantitative metrics might lead to the exclusion from scope of undertakings that could potentially generate an indirect macroprudential impact.

Policy option A.3: Hybrid approach

This Option aims at defining the application criteria based on both qualitative and quantitative information. From a financial stability perspective, expanding the use of ORSA could help in mitigating two main sources of risk which could potentially have systemic implications. First, it could avoid the deterioration of the solvency position leading to insurance failure(s). Secondly, it could contribute avoiding excessive risk concentrations.

On the other hand, the expansion of the PPP could help mitigating two main sources of facing risks which could potentially generate indirect macroprudential outcomes, i.e. the risk of excessive concentrations and the involvement in certain activities or products with greater potential to generate indirect macroprudential impacts.

In terms of proportionality, as also reiterated in the EIOPA Opinion on the Review of Solvency II, the risk management system and ORSA “should be proportionate to the risks at stake while ensuring a proper monitoring of any evolution of the risk, either triggered by internal sources such as a change in the business model or business strategy or by an external source such as an exceptional event that could affect the materiality of a certain sub-module”. Expanding the use of the ORSA reports from a macroprudential point of view should follow a similar approach and, for this reason, the thresholds proposed for the application criteria of this draft RTS are based on the approaches followed for the identification of insurance or reinsurance undertakings and groups subject to the EIOPA Financial Stability Reporting and on thresholds applied in the context of the Insurance Recovery and Resolution Directive (IRRD).

The expansion of the PPP does not raise any proportionality concerns in its application.

In relation to the possible impact of the implementation of this draft RTS on undertakings' behaviour, the major impact of this tool on undertakings' behaviour which can be foreseen is related to the raising awareness with respect to macroprudential outcomes and the impact that undertakings themselves can generate with their risk assessment and investment behaviour.

The characteristic of a hybrid approach is that of leveraging on both quantitative and more strictly defined criteria, but also on more qualitative information which contribute to understanding and defining the potential macroprudential impact of an undertaking on the sector.

More in detail, the quantitative criterion is based on the Financial Stability Reporting threshold of EUR 12 billion in total assets valuated according to Article 75 of the Solvency II Directive of the insurance and reinsurance undertakings established in the Member State;

With regard to the qualitative criteria proposed for undertakings that should perform macroprudential analyses in the context of the ORSA, these relate to an assessment in relation to:

- interconnectedness;
- type of activity performed;
- substitutability;
- liquidity risk;
- insufficient information available in the ORSA and application of PPP at group level.

With regard to the qualitative criteria proposed for undertakings that should perform macroprudential analyses in the context of the PPP, these relate to an assessment in relation to the same set of qualitative criteria proposed for the ORSA with the addition of the following:

- assessment in relation to duration mismatch;
- assessment on the use of synthetic leverage;
- assessment of factors related to approach to valuations of asset classes which include at least the exposure towards assets that are illiquid or are difficult to value or have an opaque and complex structure.

The inclusion of qualitative assessments for identifying the undertakings in scope of the draft RTS also allows a higher degree of proportionality, leaving room for national supervisory authorities to further drill down the list of identified undertakings to those with potential to generate a macroprudential impact.

This policy option, although very much aligned with policy option A.1 differs in the extent of application of strict metrics to define the RTS applicability criteria. This option includes, besides the reliance on relative quantitative thresholds, also the leverage on additional qualitative information available in terms of undertakings' activities, interconnectedness and substitutability. This approach helps in solving the issue identified in policy option A.1 on the risk of relying on a process that is overly structured and does not cater for the additional characteristics that drive the potential macroprudential impact of insurance or reinsurance undertakings and groups.

POLICY ISSUE A: DEFINE THE APPROPRIATE APPROACH TO DEFINE THE APPLICATION CRITERIA

Policy option A.0: No change

Policy option A.0		
Costs	Policyholders	If assumed that the having undertakings perform macroprudential analyses in ORSA and PPP can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	Undertakings would not benefit from the feedback process from NCAs which entails receiving aggregate analysis of the different ORSA reports and PPP and the respective macroprudential analyses. Furthermore, in the context of PPP, undertakings would not receive relevant macroprudential information from supervisors, which they could take into account when deciding on their investment strategies.
	Supervisors	Supervisors would not be able to make use of an instrument that may be relevant to address the sources of undertakings' exposure to activities with potential macroprudential impact. Furthermore, Supervisors would have less possibilities to raise awareness and advice the market on possible risky investment behaviour of undertakings.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.

Policy option A.1: Being purely principle-based

Policy option A.1		
Costs	Policyholders	If assumed that the having undertakings perform macroprudential analyses in ORSA and PPP can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	Undertakings would not benefit from the feedback process from NCAs which entails receiving aggregate analysis of the different ORSA reports and PPP and the respective macroprudential analyses. Furthermore, in the context of PPP, undertakings would not receive relevant macroprudential information from supervisors, which they could take into account when deciding on their investment strategies.
	Supervisors	Supervisors would not be able to make use of an instrument that may be relevant to address the sources of undertakings' exposure to activities with potential macroprudential impact. Furthermore, Supervisors would have less possibilities

		to raise awareness and advice the market on possible risky investment behaviour of undertakings.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.

Policy option A.2: Fully quantitative approach

Policy option A.2		
Costs	Policyholders	No material impact.
	Industry	A certain adjustment to the new approach would be needed by undertakings, including a more structured approach to the ORSA report and PPP. Relying on a too prescriptive identification process for undertakings required to perform macroprudential analyses in ORSA and PPP may scale back to a certain extent undertakings' internal own risk management processes and investment strategies and not necessarily lead to the identification of the most relevant set of undertakings which could generate with their behaviour an indirect macroprudential impact.
	Supervisors	Supervisors/authorities in charge of the macroprudential policy would need to devote more resources to analyse the information of ORSA reports and PPP at an aggregate level and provide relevant input to undertakings.
	Other	No material impact.
Benefits	Policyholders	Policyholders would ultimately benefit from a more stable financial system (see also “other” below).
	Industry	Undertakings would benefit from the feedback process from NCAs which entails receiving aggregate analysis of the different ORSA reports and PPP and the respective macroprudential analyses. Furthermore, in the context of PPP, undertakings would receive relevant macroprudential information from supervisors, which they could take into account when deciding on their investment strategies.
	Supervisors	By having a selected set of undertakings perform macroprudential analyses in ORSA and PPP, supervisors would be able to supplement the microprudential approach of this tool, receiving additional information that is also relevant from a macroprudential perspective. This would facilitate peer reviews among different undertakings and facilitate analysis through time. The ORSA report and PPP could serve the purpose of improving the intensity and quality of dialogues between undertakings and supervisors related to market-wide aspects and contribute to mitigate macroprudential risks. The PPP could serve the purpose of improving the intensity and quality of dialogues between undertakings and

		supervisors related to investment strategies and contribute to mitigate potential risks.
	Other	The enhanced set of analyses available in ORSA and PPP will contribute to mitigate risks for potential macroprudential implications and reduce its potential harm to consumers.

Policy option A.3: Hybrid approach

Policy option A.3		
Costs	Policyholders	No material impact.
	Industry	A certain adjustment to the new approach would be needed by undertakings, including a more structured approach to the ORSA report and PPP.
	Supervisors	Supervisors/authorities in charge of the macroprudential policy would need to devote more resources to analyse the information of ORSA reports and PPP at an aggregate level and provide relevant input to undertakings.
	Other	No material impact.
Benefits	Policyholders	Policyholders would ultimately benefit from a more stable financial system (see also “other” below).
	Industry	Undertakings would benefit from the feedback process from NCAs which entails receiving aggregate analysis of the different ORSA reports and PPP and the respective macroprudential analyses. Furthermore, in the context of PPP, undertakings would receive relevant macroprudential information from supervisors, which they could take into account when deciding on their investment strategies. They would be able to better consider the external environment (i.e. the potential sources of risk which could potentially generate systemic implications) in their risk assessment and PPP.
	Supervisors	By adding macroprudential analyses in ORSA reports and PPP, supervisors would be able to supplement the microprudential approach of this tool, receiving additional information that is also relevant from a macroprudential perspective. This would facilitate peer reviews among different undertakings and facilitate analysis through time. The ORSA report and PPP could serve the purpose of improving the intensity and quality of dialogues between undertakings and supervisors related to market-wide aspects and contribute to mitigate macroprudential risks. The PPP could serve the purpose of improving the intensity and quality of dialogues between undertakings and supervisors related to investment strategies and contribute to mitigate potential risks. Identifying the right set of undertakings in scope through the application criteria defined in the draft RTS will help the NCAs on focusing on those undertakings with potential for generating an indirect macroprudential impact.
	Other	The enhanced set of analyses available in ORSA and PPP will contribute to mitigate risks for potential macroprudential implications and reduce its potential harm to consumers.

POLICY OPTIONS EFFECTIVENESS AND EFFICIENCY ASSESSMENT

Policy option A.0, besides being highly inefficient from the point of view of ensuring and fostering financial stability within the insurance sector, is also considered as non-viable option given the empowerment included in article 144d for EIOPA to submit a draft RTS to the European Commission on applicability criteria for undertakings that should include macroprudential analyses in their ORSA and PPP. This consideration applies both in terms of Effectiveness and Efficiency.

Policy option A.1 is considered inefficient from the point of view of ensuring and fostering financial stability within the insurance sector. Relying on a pure set of principles would not contribute to fostering supervisory convergence among National Supervisory Authorities. These considerations apply both in terms of Effectiveness and Efficiency.

Policy option A.2., regarding effectiveness essentially focused to discourage excessive levels of direct and indirect exposure concentrations and, in general, promoting good risk management. This should be enhanced by also considering market-wide developments that turn into macroprudential risks. Furthermore, given that ORSA is designed to assess the solvency needs of undertakings, a positive impact is expected also in terms of ensuring sufficient loss-absorbency capacity. With respect to PPP, as with the ORSA analysis, this conclusion is reinforced if the effectiveness and efficiency dimensions are considered. However, the impact of an expanded PPP is not deemed to be very high, given that it can be considered as a soft corrective tool.

In terms of efficiency and, as mentioned, given the expected limited costs of an expanded use of the ORSA and PPP, this tool seems to yield an efficient contribution to the operational objectives identified.

Finally, the assessment for policy option A.3 is overall similar to the one provided for Policy Option A.2, however noting an important difference on the more flexibility allowed both from an efficiency and effectiveness point of view.

EFFECTIVENESS (0,+,++)			
	Discourage excessive levels of direct and indirect exposure concentration	Discourage excessive involvement in certain products and activities	Promoting good risk management
Policy option A.0	0	0	0
Policy option A.1	0	0	+
Policy option A.2	+	+	+
Policy option A.3	++	++	++

EFFICIENCY (0,+,++)

	Discourage excessive levels of direct and indirect exposure concentration	Discourage excessive involvement in certain products and activities	Promoting good risk management
Policy option A.0	0	0	0
Policy option A.1	0	0	0
Policy option A.2	+	+	+
Policy option A.3	++	++	++

PREFERRED OPTION

Based on the evidence provided in the assessment above, policy option A.3 has been identified as the preferred option. Besides the efficiency and effectiveness and cost benefit analysis, this option is also provides national supervisory authorities with the right tools to enhance and apply proportionality while creating a level playing field.

With respect to the quantitative criteria and risk-based thresholds proposed in the draft RTS, no additional burden is put on undertakings and groups in terms of increased reporting burden, because the information can be derived through the use of the data already contained in the QRTs and information provided by undertakings to supervisors during the regular supervisory dialogue and exchange of information.

The combination of quantitative criteria and risk-based thresholds ultimately gives supervisors the option to further refine the sample of undertakings and groups identified under the scope of the RTS and leads to an efficient and effective outcome in terms of balancing the application of the proportionality principle while still keeping a minimum baseline for supervisory convergence.

Regarding the ORSA, small and non-complex undertakings and undertakings which have obtained prior supervisory approval, pursuant to Article 29d of the Solvency II Directive, are not obliged to conduct the macroprudential analysis.

ANNEX II – NUMBER OF IDENTIFIED ENTITIES WITH TOTAL ASSETS ABOVE EUR 12 BILLION

	N.of groups	N. of solos not belonging to a group	Total
AT	2	0	**2**
BE	4	2	**6**
BG	0	0	**0**
CY	0	0	**0**
CZ	0	0	**0**
DE	24	2	**26**
DK	6	8	**14**
EE	0	0	**0**
EL	0	0	**0**
ES	7	0	**7**
FI	3	0	**3**
FR	21	2	**23**
HR	0	0	**0**
HU	0	0	**0**
IE	3	5	**8**
IS	0	0	**0**
IT	7	1	**8**
LI	0	0	**0**
LT	0	0	**0**
LU	2	2	**4**
LV	0	0	**0**
MT	0	0	**0**
NL	5	0	**5**
NO	3	2	**5**
PL	1	0	**1**
PT	1	0	**1**
RO	0	0	**0**
SE	8	1	**9**
SI	0	0	**0**
SK	0	0	**0**
Total	**97**	**25**	**122**

Source: EIOPA Annual Reporting Solo.
Reference date: 2022.

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Contact details of EIOPA's Data Protection Officer
4. Westhafenplatz 1, 60327 Frankfurt am Main, Germany dpo@eiopa.europa.eu
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