

**Background Document  
on the Consultation Paper  
on the Opinion on the 2020 review of  
Solvency II**

**Impact assessment**

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## Introduction

On 11 February 2019, EIOPA received from the European Commission a formal request for technical advice on the review of the Solvency II Directive; the Commission asks EIOPA to provide by 30 June 2020 advice on a number of items of the Solvency II framework, accompanied by a holistic and robust impact assessment.

In order to comply with such request, EIOPA has developed the current draft impact assessment, which is structured as follows:

- Section 1: Holistic impact assessment
- Sections 2-14: Impact assessment of individual policy options per topic

Section 1 provides a comprehensive overview of the combined impact of the proposed legislative changes in all areas concerned; including the impact on the objectives of the 2020 review of Solvency II and the expected costs for the industry. The qualitative analysis will be supplemented with the analysis of the data gathered through the information request to national supervisory authorities and insurance and reinsurance undertakings in parallel to the public consultation of this Opinion. In 2020 EIOPA will also collect data on the combined impact of the proposed changes.

The following sections summarise the main policy options considered to address the issues identified in the equivalent section of the opinion and provides an analysis of the costs and benefits of those options. Such analysis includes a qualitative assessment of the costs and benefits for stakeholders, including policyholders, industry and supervisors. It also considers the impact on the most relevant objectives of the 2020 review of Solvency II, including the comparison of options in terms of effectiveness and efficiency<sup>1</sup> towards those objectives. The draft qualitative impact assessment of main policy options considered is presented below following the same structure of the consultation paper on the opinion. For technical options on certain topics, the qualitative assessment is supplemented with a quantitative assessment in the related section of the opinion.

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<sup>1</sup> Effectiveness measures the degree to which the different policy options meet the relevant objectives. Efficiency measures the way in which resources are used to achieve the objectives. The extent to which objectives can be achieved for a given level of resources/at least cost (cost-effectiveness).

# 1. Holistic impact assessment

## 1.1 Procedural issues and consultation of interested parties

- 1.1 One of the principles that the Commission invites EIOPA to take into account in providing its technical advice is the following: "The provided technical advice should contain a detailed holistic impact assessment of all relevant effects, qualitative and quantitative, on European level and on each Member State; the detailed impact assessment should be presented in easily understandable language respecting current legal terminology at European level."
- 1.2 The presentation of the advice should enable all stakeholders to understand the overall impact of the options presented by EIOPA.
- 1.3 For that purpose, EIOPA has developed the current draft holistic impact assessment which provides an overview of the changes to the Solvency II framework included in the draft technical advice subject to public consultation and the expected overall impact of those changes.

### Evidence

- 1.4 The Commission requests EIOPA explicitly to "provide sufficient factual data backing the analyses gathered during its assessment" and acknowledges that several data requests to NSAs and industry stakeholders may be needed. The following main evidence has been used in the development of this draft advice:
- Quantitative reporting templates (QRT) submitted by insurance and reinsurance undertakings as part of regular supervisory reporting;
  - Information requests to undertakings and NSAs for the annual Long Term Guarantees (LTG) Reports (2016-2019);
  - Information request to insurance undertakings in the preparation of EIOPA's Opinion on the LTG measures and the review of Solvency II due in 2020<sup>2</sup>, including:
    - Information on the LTG measures;
    - Information on the dynamic volatility adjustment in internal models;
    - Information on long-term illiquid liabilities;
  - Surveys to NSAs in the context of the Solvency II review (May-June 2019):
    - Survey on group governance issues;
    - Survey on group solvency, scope of the group, intra-group transactions and risk concentrations;
    - Survey on Article 4 of the Directive and proportionality on Pillar II;
    - Survey on composite insurance undertakings;

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<sup>2</sup> <https://eiopa.europa.eu/regulation-supervision/insurance/long-term-guarantees-review>

- Survey on pre-emptive planning and entry into recovery triggers;
- Stakeholders' queries as part of EIOPA's Question and Answer process on regulation (Q&A process)<sup>3</sup>.

1.5 NSAs experience with respect to the Solvency II provisions, which has been gathered through the regular discussions in EIOPA's project groups and through peer reviews exercises; in particular;

- Peer review on propriety of administrative, management or supervisory body members and qualifying shareholders<sup>4</sup>; and
- Peer review on key functions<sup>5</sup>;
- Evidence gathered in the preparation of EIOPA Report to the European Commission on Group Supervision and Capital Management with a Group of Insurance or Reinsurance Undertakings, and FoS and FoE under Solvency II (December 2018)<sup>6</sup>.

1.6 In addition EIOPA intends to launch an information request in parallel to the public consultation of the Opinion, between mid-October and mid-December 2019.

1.7 After the public consultation EIOPA will carry out an information request to collect information on the combined quantitative impact of the proposed changes on the financial position of insurance and reinsurance undertakings. This information request is scheduled for March 2020. As such data on the combined quantitative impact are currently not available, this consultation paper sets out primarily the qualitative holistic impact of the proposed changes.

### **Consultation with stakeholders**

1.8 During the drafting process stakeholders views were invited through dedicated events on the main topics of the review:

- Workshop on the 2020 Review of Solvency II [LTG measures and measures on equity risk, systemic risk and macroprudential policy in insurance, recovery & resolution and insurance guarantee schemes] on 5-6 June 2019;
- Public event on reporting and disclosure in the Solvency II 2020 review on 15 July 2019;
- Public event on the discussion of various topics of the Solvency II 2020 review [group supervision, technical provisions, SCR standard formula, proportionality in Pillar II, cross-border insurance] on 16 July 2019;

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<sup>3</sup> See Q&A published on EIOPA's website: <https://eiopa.europa.eu/regulation-supervision/q-a-on-regulation>

<sup>4</sup> See report in the following link: <https://eiopa.europa.eu/Publications/Reports/2019-01025%20PeerReviewProprietyReport.pdf>

<sup>5</sup> See report in the following link: <https://eiopa.europa.eu/Publications/Reports/Peer%20review%20Key%20Functions22-11-18.pdf>

<sup>6</sup> See report in the following link: [https://eiopa.europa.eu/Publications/Reports/Report%20on%20Article%20242%20COM%20Request\\_FIN\\_AL%2014%20Dec%202018.pdf](https://eiopa.europa.eu/Publications/Reports/Report%20on%20Article%20242%20COM%20Request_FIN_AL%2014%20Dec%202018.pdf)

- Public event on reporting and disclosure in the Solvency II 2020 review on 30 September 2019.

1.9 In addition, an event with stakeholders is planned for December 2019 to present and discuss the draft advice set out in this consultation paper.

1.10 The draft advice on the following areas have already been subject to public consultation between 12 July and 18 October 2019:

- Consultation on supervisory reporting and public disclosure<sup>7</sup>; and
- Consultation on advice on the harmonisation of national insurance guarantee schemes<sup>8</sup>.

1.11 Previously, EIOPA had published several discussion papers for feedback by stakeholders on certain topics covered in the advice:

- Discussion paper on harmonisation of recovery and resolution frameworks for insurers between July-October 2016<sup>9</sup>;
- Discussion paper on resolution funding and national insurance guarantee schemes between July-October 2018<sup>10</sup>;
- Discussion Paper on systemic risk and macroprudential policy in insurance between March-April 2019<sup>11</sup>.

1.12 In the area of reporting a disclosure, stakeholders views considered include the following:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry; and
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting.

1.13 The draft advice, including this draft holistic impact assessment will be subject to public consultation during three months. Stakeholders' responses to the public consultation will be duly analysed and serve as a valuable input for the revision of the draft technical advice and its impact assessment.

1.14 Additionally, the opinion from the Insurance and Reinsurance Stakeholder Group (IRSG), provided in Article 37 of EIOPA Regulation, will be considered.

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<sup>7</sup> See <https://eiopa.europa.eu/Pages/News/Consultation-on-supervisory-reporting-and-public-disclosure.aspx>

<sup>8</sup> See <https://eiopa.europa.eu/Pages/News/Consultation-on-Advice-on-the-harmonisation-of-national-insurance-guarantee-schemes.aspx>

<sup>9</sup> See <https://eiopa.europa.eu/Pages/Consultations/EIOPA-CP-16-009-Discussion-Paper-on-Potential-Harmonisation-of-Recovery-and-Resolution-Frameworks-for-Insurers.aspx>

<sup>10</sup> See <https://eiopa.europa.eu/Pages/News/EIOPA-CP-18-003.aspx>

<sup>11</sup> See <https://eiopa.europa.eu/Pages/News/EIOPA-publishes-Discussion-Paper-on-Systemic-Risk-and-Macroprudential-Policy-in-Insurance.aspx>.

1.15 In particular, the preliminary analysis included in this draft holistic impact assessment will be revised in view of the stakeholders' comments and to reflect EIOPA's final advice to the COM on the different topics of the Solvency II review.

## **1.2 Problem definition**

1.16 The Solvency II Directive requires a mandatory assessment of certain areas, in which the European Commission shall submit an assessment to the European Parliament and the Council, accompanied, if necessary, by legislative proposals in 2020. The review was foreseen to address any potential issue on the actual implementation of the Solvency II provisions based on the experience of the first years of application of the new regime. The areas subject to review in the Directive<sup>12</sup> are:

- the long term guarantees measures and measures on equity risk;
- the methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement standard formula;
- the Member States' rules and supervisory authorities' practices regarding the calculation of the Minimum Capital Requirement; and
- the group supervision and capital management within a group of insurance or reinsurance undertakings.

1.17 In addition to these, the Commission has identified in its call for advice other areas of Solvency II to be assessed such as technical provisions (beyond the LTG measures), own funds, reporting and disclosure, proportionality and freedom to provide services and freedom of establishment. Furthermore, the call for advice asks EIOPA to assess whether Solvency II provisions should be further developed as regards macro-prudential issues and recovery and resolution, as well as whether there is a need for minimum harmonising rules regarding resolution of insurance or reinsurance undertakings and for national insurance guarantee schemes.

1.18 The call for advice provides a short description of the main potential issues in the different areas, as identified by the Commission services and stakeholders. EIOPA has made its own detailed assessment of all issues<sup>13</sup> (i.e. those issues in the call for advice and other identified by EIOPA based on the sources of evidence listed in the previous section of this holistic impact assessment).

### **Baseline scenario**

1.19 When analysing the impact from proposed policies, the impact assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional regulatory intervention.

1.20 For the analysis of the potential related costs and benefits of the proposed technical advice, EIOPA has applied as a baseline scenario the effect from the application of

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<sup>12</sup> See Articles 77f, 111(3), 129(5) and 242 (2) of the Solvency II Directive.

<sup>13</sup> See subsection "Identification of the issue" under each section of the Opinion

the Solvency II Directive requirements, the Delegated Regulation and the relevant implementing measures as they currently stand.

### 1.3 Objective pursued

1.21 In responding to the Commission request for technical advice on the review of the Solvency II Directive, EIOPA sticks to the general objectives of the Directive, as agreed by the EU legislators in 2009. These general objectives are:

- adequate protection of policyholders and beneficiaries, being the main objective of supervision;
- financial stability; and
- proper functioning of the internal market<sup>14</sup>.

1.22 The review is also guided by EIOPA’s statutory objectives, as reflected in the Regulation of the Authority, notably<sup>15</sup>:

- improving the functioning of the internal market, including in particular a sound, effective and consistent level of regulation and supervision,
- ensuring the integrity, transparency, efficiency and orderly functioning of financial markets,
- preventing regulatory arbitrage and promoting equal conditions of competition,
- ensuring the taking of risks related to insurance, reinsurance and occupational pensions activities is appropriately regulated and supervised, and
- enhancing customer protection.

1.23 Based on the more concrete objectives of the Solvency II Directive, the aim of the reviews foreseen in the text of the Directive (as amended by the Omnibus II Directive)<sup>16</sup> and the content of COM’s request for technical advice, a set of more specific objectives for the review have been identified. The table below summarises the most relevant of those objectives.

Policyholder protection objectives	<ol style="list-style-type: none"> <li>1) Ensuring adequate market-consistent technical provisions</li> <li>2) Ensuring adequate risk sensitive capital requirements</li> <li>3) Promoting good risk management</li> <li>4) Effective and efficient supervision of (re)insurance undertakings and groups</li> </ol>
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<sup>14</sup> See recitals 2, 3, 11, 14, 16, 17 and Article 27 of the Solvency II Directive

<sup>15</sup> See Article 1(6) of EIOPA Regulation

<sup>16</sup> See Articles 77f, 111(3), 129(5) and 242(2) of the Solvency II Directive



	<p>5) Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks</p> <p>6) Effective and efficient policyholder protection in resolution and/or liquidation<sup>17</sup></p>
Financial stability objectives	<p>1) Ensuring sufficient loss-absorbency capacity and reserving</p> <p>2) Discouraging excessive involvement in products and activities with greater potential to pose systemic risk,</p> <p>3) Discouraging risky behaviour</p> <p>4) Discouraging excessive levels of direct and indirect exposure concentrations</p> <p>5) Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds</p> <p>6) Ensuring an orderly resolution of (re)insurance undertakings and groups</p>
Proper functioning of the internal market objectives	<p>1) Ensuring a level playing field through sufficiently harmonised rules</p> <p>2) Effective and efficient supervision of cross-border business</p> <p>3) Improving transparency and better comparability</p>

1.24 Other objectives considered for the review include:

- Avoiding unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees,
- Avoiding unjustified constraints to insurance and reinsurance undertakings holding long-term investments,
- Promoting cross sectoral consistency,
- Reducing reliance on external ratings,
- Avoiding reliance on public funds.

## 1.4 Policy proposals

1.25 In the request from the Commission, EIOPA is asked to justify its advice by identifying, where relevant, a range of technical options and by undertaking evidence-based assessment of the costs and benefits of each. Where administrative burdens and compliance costs on the side of the industry could be significant, EIOPA should where possible quantify these costs.

1.26 With the intention to meet the objectives set out in the previous section, EIOPA has identified different policy options throughout the policy development process

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<sup>17</sup> This objective will be relevant for the advice on recovery and resolution and on insurance guarantee schemes.

with respect to the relevant policy issues in the topics covered in the technical advice. EIOPA has duly analysed the costs and benefits of the main options considered in the respective section of the opinion. Such analysis includes a qualitative assessment of the costs and benefits for stakeholders, including policyholders, industry and supervisors. For technical options on certain topics, it also includes a quantitative assessment of costs; this should be supplemented with the analysis of the data gathered through the information request to undertakings in parallel to the public consultation of the draft opinion.

1.27 The table below provides a summary of the main legislative changes stemming from the preferred policy options on all topics under the Solvency II 2020 review as presented for consultation. It should be noted that for certain topics EIOPA has not identified a preferred policy option at this stage; for those topics, the current draft holistic impact assessment has taken into account the potential impacts of the main options considered. For the detailed impact assessment of all the options considered, please refer to the corresponding section of the opinion.

1.28 For the purpose of this impact assessment, the proposed legislative changes have been grouped according to the nature of the requirements as follows:

- Pillar I: quantitative requirements (technical provisions, capital requirements and own funds)
- Pillar II: qualitative requirements (governance and supervision)
- Pillar III: reporting and disclosure requirements
- Other: resolution, supervisory cooperation in the context of cross-border business, insurance guarantee schemes and groups.

Legislative changes Pillar I	Section of the opinion
<u>TP</u> : Change to LLP for the euro/extrapolation method	2 (LTG measures and measures on equity risk)
<u>TP</u> : Changes to design of VA	2 (LTG measures and measures on equity risk)
<u>TP</u> : Allow realistic assumptions on new business	3 (technical provisions)
<u>TP</u> : Add a definition of Future Management Actions in Article 1	3 (technical provisions)
<u>TP</u> : Amend the definition of EPIFP so it includes all future losses and the impact of reinsurance.	3 (technical provisions)
<u>TP</u> : Amend to include future profits in fees for servicing and managing funds for unit-linked products	3 (technical provisions)
<u>TP</u> : Amend article 18(3) to clarify that it is not applicable to obligations related to paid in premiums	3 (technical provisions)
<u>TP</u> : Amend the third paragraph of article 18(3). Allow the exception only when the undertaking does not have the right to perform the individual risk assessment	3 (technical provisions)
<u>TP</u> : MA asset eligibility criteria: Look through approach for restructured assets	2 (LTG measures and measures on equity risk)
<u>SCR</u> : Amend Article 171a on the Long Term equity so that only well diversified portfolio are eligible, controlled intra-group participation are excluded and to clarify how long term equity risk is correlated with other risks.	2 (LTG measures and measures on equity risk)
<u>SCR</u> : Amend criteria for Strategic equity: propose beta method for the volatility assessment, and include a safeguard for	2 (LTG measures and measures on equity risk)

participation that are significantly correlated with the undertaking.	
<u>SCR</u> : Phase out the duration based equity risk sub-module; new approval should not be granted anymore.	2 (LTG measures and measures on equity risk)
<u>SCR</u> : Allow in standard formula for diversification effects with respect to MA portfolios	2 (LTG measures and measures on equity risk)
<u>SCR</u> : Update calibration of the interest rate risk sub-module	5 (Solvency capital requirement standard formula)
<u>SCR</u> : Simplified calculation for the risk-mitigating effect of derivatives/reinsurance/securitisation	5 (Solvency capital requirement standard formula)
<u>SCR</u> : Hypothetical SCR in the counterparty default risk assumes a gross of reinsurance basis for the fire, marine and aviation risk submodules	5 (Solvency capital requirement standard formula)
<u>SCR</u> : Default and forborne loans to be included as type 2 exposures	5 (Solvency capital requirement standard formula)
<u>SCR</u> : Adjust requirements for the recognition of partial guarantees on mortgage loans	5 (Solvency capital requirement standard formula)
<u>SCR</u> : Definition of a financial risk-mitigation technique	5 (Solvency capital requirement standard formula)
<u>SCR</u> : Amend Article 210 of the Delegated regulation by adding that undertaking are able to show the extent to which there is an effective transfer of risk for reflection of risk mitigation techniques in the standard formula	5 (Solvency capital requirement standard formula)
<u>SCR</u> : Simplified calculation for immaterial risks	5 (Solvency capital requirement standard formula)
<u>MCR</u> : Change the risk factors for the calculation of the MCR set out in Annex XIX of the Delegated Regulation	6 (Minimum capital requirement)
<u>Own funds</u> : Amend Article 258 of the Directive in order to clarify that the group supervisor should assess the level of double leverage and take actions when double leverage is excessive	4 (own funds)
<u>Group solvency</u> : changes to the rules on calculation of group solvency, when method 1, method 2 or a combination of methods is used	9 (group supervision)
<u>Group solvency</u> : changes to the rules on own-funds requirements	9 (group supervision)
<u>Group solvency</u> : changes to the calculation of the minimum consolidated group SCR	9 (group supervision)
<u>Groups and Inclusion of Other Financial Sectors</u>	9 (group supervision)

Legislative changes Pillar II	Section of the opinion
<u>Key functions</u> : Explicit allowance of combinations with other responsibilities/tasks based on proportionality	8 (proportionality)
<u>ORSA</u> : Biennial assessment of significance with which the risk profile of the undertaking deviates from the assumptions underlying the SCR, calculated with the standard formula	8 (proportionality)
<u>ORSA</u> : Explicit reference to proportionality with respect to the complexity of the stress test and scenario analysis	8 (proportionality)
<u>ORSA</u> : Expansion in the use of the ORSA to include the macroprudential perspective	11 (macro-prudential policy)
<u>Written policies</u> : Less frequent review allowed, up to three years, based on proportionality	8 (proportionality)
<u>AMSB</u> : Regular assessment on the adequacy of the composition, effectiveness and internal governance of the AMSB considering proportionality	8 (proportionality)

<u>Remuneration</u> : Exemption to the principle of deferral of a substantial portion of the variable remuneration component considering proportionality	8 (proportionality)
<u>Risk management</u> : Changes to risk management provisions on LTG measures (MA, VA and Transitionals)	2 (LTG measures and measures on equity risk)
<u>Risk management</u> : Additional safeguards regarding extrapolation <sup>18</sup>	2 (LTG measures and measures on equity risk)
<u>Risk management</u> : Require systemic risk management plans from a subset of companies	11 (macro-prudential policy)
<u>Risk management</u> : Require liquidity risk management plans with the possibility to waive undertakings	11 (macro-prudential policy)
<u>Risk management</u> : Require pre-emptive recovery plans from undertakings covering a very significant share of the national market	12 (recovery and resolution)
<u>Prudent person principle</u> : Expansion of the prudent person principle to take into account macroprudential concerns	11 (macro-prudential policy)
<u>Fit and proper</u> : Clarifying ongoing assessment of AMSB and ensuring the supervisory tools	14 (other)
<u>Fit and proper</u> : Changes regarding ongoing assessment of qualifying shareholders	14 (other)
<u>Fit and proper</u> : Changes to ensure in complex cross-border cases more relevant information exchange and allow in exceptional cases for EIOPA to conclude	14 (other)
<u>Supervisory powers</u> : Allow NSAs to limit capital distributions in exceptional circumstances where undertakings do not meet their SCR without the application of the LTG and transitional measures and applying a more economic term structure at the same time if the undertaking cannot demonstrate to satisfaction of the supervisory authority that the intended capital distributions are sustainable	2 (LTG measures and measures on equity risk)
<u>Supervisory powers</u> : Explicit power of the host supervisor to request information in a timely manner	10 (Freedom of services and freedom of establishment)
<u>Supervisory powers</u> : Grant NSAs with the power to require a capital surcharge for systemic risk	11 (macro-prudential policy)
<u>Supervisory powers</u> : Grant NSAs with the power to define "soft" concentration thresholds	11 (macro-prudential policy)
<u>Supervisory powers</u> : Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances	11 (macro-prudential policy)
<u>Supervisory powers</u> : Introduce early intervention powers	12 (recovery and resolution)
<u>Supervisory powers</u> : Set judgment-based early intervention triggers	12 (recovery and resolution)
<u>Groups governance</u> : Amendment of Article 246 of the Directive to clarify requirements of the system of governance at group level	9 (group supervision)

Legislative changes Pillar III	Section of the opinion
<u>QRT</u> : Introducing core and non-core templates and reinforcing the risk-based thresholds	7 (reporting and disclosure)
<u>QRT</u> : Simplifying some of the templates, introducing new templates and modifying some templates	7 (reporting and disclosure)
<u>QRT</u> : Changes in the Financial stability reporting package	7 (reporting and disclosure)

<sup>18</sup> Depending on the final proposed change to LLP for the euro/extrapolation method

<u>SFCR</u> : Distinguishing the SFCR part addressed to policyholders from the part addressed to other users (e.g. professional public) – applicable to solo SFCR. For group SFCR no changes in the addressees – kept as it is currently – one SFCR including executive summary	7 (reporting and disclosure)
<u>SFCR</u> : Clarification of requirements on the correction and re-publication of the report	7 (reporting and disclosure)
<u>SFCR</u> : Changes to the format, structure and content of the SFCR, including additional information on the sensitivities on the SCR and own funds movements	7 (reporting and disclosure)
<u>Group SFCR</u> : Proposal for deleting Article 360 (3) of Level 2 Delegated Regulation.	7 (reporting and disclosure)
<u>SFCR</u> : Auditing requirement for Solvency II balance sheet	7 (reporting and disclosure)
<u>Deadlines</u> : Extension of the annual reporting and disclosure deadlines by 2 weeks.	7 (reporting and disclosure)
<u>QRT and SFCR</u> : Changes to reporting and disclosure provisions on LTG measures	2 (LTG measures and measures on equity risk)
<u>RSR</u> : Amendment to Article 312 of the Delegated regulation	7 (reporting and disclosure)

Legislative changes Other	Section of the opinion
<u>Scope of Solvency II</u> : Amendment thresholds for exclusion in Article 4 (50 million euro for technical provisions; between 5 and 25 million euro for premiums, as Member State option)	8 (proportionality)
<u>Resolution</u> : Establish an administrative resolution authority	12 (recovery and resolution)
<u>Resolution</u> : Set resolution objectives	12 (recovery and resolution)
<u>Resolution</u> : Require resolution plans, incl. resolvability assessment, from undertakings covering a significant share of the national market	12 (recovery and resolution)
<u>Resolution</u> : Grant resolution authorities with a set of harmonised resolution powers	12 (recovery and resolution)
<u>Resolution</u> : Set judgment-based triggers for entry into resolution	12 (recovery and resolution)
<u>Supervisory cooperation</u> : Establish cross-border cooperation and coordination arrangements for crises	12 (recovery and resolution)
<u>Supervisory cooperation</u> : Efficient information gathering during the authorisation process	10 (Freedom of services and freedom of establishment)
<u>Supervisory cooperation</u> : Information exchange between home and host Supervisors in case of material changes in the FoS activities	10 (Freedom of services and freedom of establishment)
<u>Supervisory cooperation</u> : Enhanced role for EIOPA in complex cross-border cases where NSAs fail to reach a common view in the collaboration platform	10 (Freedom of services and freedom of establishment)
<u>Supervisory cooperation</u> : Cooperation between Home and Host NSAs during the ongoing supervision	10 (Freedom of services and freedom of establishment)
<u>IGS</u> : European network of national IGSs (minimum harmonisation)	13 (Insurance guarantee schemes)
<u>IGS</u> : Function - Continuation of policies and/or compensation of claims	13 (Insurance guarantee schemes)
<u>IGS</u> : Geographical scope - Home-country principle	13 (Insurance guarantee schemes)
<u>IGS</u> : Eligible policies - Selected life and non-life policies	13 (Insurance guarantee schemes)

<u>IGS</u> : Eligible claimants - Natural persons and selected legal persons	13 (Insurance guarantee schemes)
<u>IGS</u> : Funding - Ex-ante funding complemented with ex-post funding	13 (Insurance guarantee schemes)
<u>Groups</u> : Changes regarding the definition of groups and the scope of application of group supervision	9 (group supervision)
<u>Groups</u> : Changes regarding supervision of intragroup transactions and risk concentration	9 (group supervision)
<u>Groups</u> : Changes regarding third countries	9 (group supervision)
<u>Groups</u> : Changes regarding supervisory powers over insurance holding companies and mixed financial holding companies	9 (group supervision)

## 1.5 Analysis of impacts

### Impact on policyholder protection

1.29 The following tables provide an overview on the specific objectives of the review that are more directly linked to policyholder protection and indicate whether the proposed legislative changes in the different areas are expected to have a material positive impact with respect to those objectives and consequently improve the protection of policyholders and beneficiaries.

1.30 With respect to Pillar I, the proposed legislative changes are expected to enhance policyholder protection by contributing to adequate market-consistent technical provisions and providing proper risk management incentives for undertakings applying the measures. In particular, the proposed legislative change for extrapolation would partially mitigate the risk of underestimation of technical provisions using more realistic interest rate assumptions for the valuation of long-term liabilities.

1.31 The proposals regarding SCR are expected to improve policyholder protection in particular by ensuring adequate risk sensitive capital requirements; in this respect, updating the calibration of the interest rate risk sub-module will enhance the protection of policyholders, currently undermined by the severe underestimation of risks in the current calibration of the undertakings' capital requirements.

Pillar I Policyholder protection (positive impact)						
Legislative changes	Adequate market-consistent technical provisions	Adequate risk sensitive capital requirements	Good risk management	Effective and efficient supervision	Improving proportionality	Policyholder protection in resolution/liquidation
TP	X	x	x	x	x	
SCR		x	x	x	x	
MCR		x	x	x		
Own funds		x	x	x		
Group solvency		x	x	x		

- 1.32 With respect to Pillar II, the proposed legislative changes are expected to enhance policyholder protection by contributing to good risk management, effective and efficient supervision and proportionality.
- 1.33 In particular, risk management of the undertakings' is expected to be reinforced by the proposed new requirements to take into account macro-prudential/recovery and resolution considerations (e.g. liquidity risk management plan, systemic risk management plan, expansion of the ORSA or pre-emptive recovery planning).
- 1.34 The proposed changes to the risk management requirements with regard to the LTG measures would also improve the protection of policyholders of undertakings applying the volatility adjustment, the matching adjustment or the transitional on technical provisions. Where non-application of the measures and a more market-consistent extrapolation of risk-free interest rates results in non-compliance with the SCR, undertakings would need to demonstrate that dividend payments or other voluntary capital distributions do not put at risk the protection of policyholders and beneficiaries.
- 1.35 Effective and efficient supervision would be promoted by granting additional (or more explicit) supervisory tools to prevent situations that could jeopardise policyholder protection such as excessive risk concentrations or non-suitability of the persons running the undertaking. Furthermore, policyholders would be better protected if early intervention powers are granted to supervisors for those situations where undertakings are still compliant with the capital requirements, but observe a progressive and serious deterioration in their condition; early intervention would avoid the escalation of problems.
- 1.36 Finally the proposed changes improving proportionality in pillar II (e.g. in key functions, ORSA, written policies, AMSB) would indirectly result in a better policyholder protection considering a more effective and efficient allocation of resources in the undertakings.

Pillar II	Policyholder protection (positive impact)					
Legislative changes	Adequate market-consistent technical provisions	Adequate risk sensitive capital requirements	Good risk management	Effective and efficient supervision	Improving proportionality	Policyholder protection in resolution/liquidation
Key functions			x	x	x	
ORSA			x	x	x	
Written policies					x	
AMSB			x		x	
Risk management			x	x		
Prudent person principle			x			
Fit & proper			x	x		

Supervisory powers			x	x	x	
Group governance			x	x		

1.37 With respect to Pillar III, the proposed legislative changes are expected to enhance policyholder protection by contributing to effective and efficient supervision and proportionality. The review of the content of the QRTs template by template is aimed to better reflect proportionality and to reflect supervisory needs by improving the information required on existing templates and by creating new templates when needed.

Pillar III Policyholder protection (positive impact)						
Legislative changes	Adequate market-consistent technical provisions	Adequate risk sensitive capital requirements	Good risk management	Effective and efficient supervision	Improving proportionality	Policyholder protection in resolution/liquidation
QRT				x	x	
RSR				x	x	
SFCR				x	x	
Deadlines					x	

1.38 Other legislative changes proposed are expected to contribute to policyholder protection by promoting effective and efficient supervision through enhanced supervisory cooperation (e.g. proposed legislative changes to improve information exchange between Home and Host supervisors or to establish cross-border cooperation and coordination arrangements for crises). The proposals aimed to ensure orderly resolution of (re)insurance undertakings and groups (e.g. requirement of resolution plans and the establishment of resolution authorities with a set of harmonised powers) are expected to contribute to an effective and efficient policyholder protection in a resolution and/or liquidation context; also the proposed harmonisation of national IGS is expected to provide a minimum level of protection for policyholders in case of failure of an insurance undertaking.

Other Policyholder protection (positive impact)						
Legislative changes	Adequate market-consistent technical provisions	Adequate risk sensitive capital requirements	Good risk management	Effective and efficient supervision	Improving proportionality	Policyholder protection in resolution/liquidation
Solvency II scope				x	x	
Resolution				x		x
Supervisory cooperation				x		
Insurance Guarantee Schemes						x
Groups		x	x	x		x



## Impact on financial stability

1.39 The following tables provide an overview on the specific objectives of the review that are more directly linked to financial stability and indicate whether the proposed legislative changes in the different areas are expected to have a material positive impact with respect to those objectives and consequently improve the stability of the financial system.

1.40 With respect to Pillar I, the proposed legislative changes are expected to contribute to financial stability mainly by ensuring sufficient loss-absorbency capacity and reserving and by limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds. In particular, sufficient loss-absorbency capacity and reserving would be improved by the proposed legislative changes regarding extrapolation, VA and SCR. The changes in the design of the VA are expected to reinforce the VA objective of avoiding procyclical investment behaviour.

Pillar I	Financial stability (positive impact)					
Legislative changes	Sufficient loss-absorbency capacity and reserving	Discouraging excessive involvement in products/activities with greater potential to pose systemic risk	Discouraging risky behaviour	Discouraging excessive levels of direct and indirect exposure concentrations	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Orderly resolution of (re)insurance undertakings and groups
TP	x				x	
SCR	x					
MCR	x					
Own funds	x					
Group solvency	x				x	x

1.41 With respect to Pillar II, the proposed legislative changes are expected to contribute to financial stability mainly by:

- discouraging excessive involvement in products/activities with greater potential to pose systemic risk (e.g. through the requirement of a systemic risk management plan to a subset of undertakings),
- discouraging risky behaviour (e.g. granting NSAs with the power to require a capital surcharge for systemic risk) and
- discouraging excessive levels of direct and indirect exposure concentrations (e.g. granting NSAs with the power to define "soft" concentration thresholds or benchmarks; through the requirement of a liquidity risk management plan for a subset of undertakings).

1.42 In addition granting NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances could contribute to limiting procyclicality in certain circumstances, thereby addressing one of the sources of systemic risk identified, i.e. the collective behaviour by undertakings that may

exacerbate market price movements (e.g. fire-sales or herding behaviour); it should only be applied in exceptional circumstances to prevent risks representing a strong threat for the financial health of the whole insurance market or for the financial system and for a limited period of time.

1.43 Furthermore, sufficient loss-absorbency capacity and reserving would be fostered by requiring insurance and reinsurance undertakings the establishment of pre-emptive recovery plans and allowing supervisors to early intervene in case of deterioration of the financial situation of undertakings.

Pillar II Financial stability (positive impact)						
Legislative changes	Sufficient loss-absorbency capacity and reserving	Discouraging excessive involvement in products/activities with greater potential to pose systemic risk	Discouraging risky behaviour	Discouraging excessive levels of direct and indirect exposure concentrations	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Orderly resolution of (re)insurance undertakings and groups
Key functions						
ORSA	x			x		
Written policies						
AMSB						
Risk management	x	x		x		
Prudent person principle		x		x		
Fit & proper						
Supervisory powers	x	x	x	x	x	
Group governance			x			x

1.44 With respect to Pillar III, the proposed legislative changes are expected to contribute to financial stability by providing additional data points and information which have been identified as key to the ongoing monitoring and analysis of financial stability risks across Europe. As well as this, the additional data will feed into relevant EIOPA publications such as the Financial Stability Report, and EIOPA’s Risk Dashboard, both of which are key tools in communicating Europe wide financial stability trends and risks directly to the public. The additional information requested is a result of gaps identified in the current supervisory reporting by relevant experts in the financial stability division.

Pillar III Financial stability (positive impact)						
Legislative changes	Sufficient loss-absorbency capacity	Discouraging excessive involvement in products/activities	Discouraging risky behaviour	Discouraging excessive levels of direct and indirect exposure	Limiting procyclicality and/or avoiding artificial volatility of	Orderly resolution of (re)insurance undertaking

	and reserving	with greater potential to pose systemic risk		concentrations	technical provisions and eligible own funds	s and groups
QRT			x	x		
RSR			x	x		
SFCR			x	x		
Deadlines						

1.45 Other legislative changes proposed are expected to contribute to financial stability by facilitating an orderly resolution of (re)insurance undertakings and groups. Furthermore, the creation of a European network of national IGSs, which are harmonised to a minimum degree, would enhance the confidence in the industry and contribute to strengthening the overall financial stability in the EU.

Other	Financial stability (positive impact)					
Legislative changes	Sufficient loss-absorbency capacity and reserving	Discouraging excessive involvement in products/activities with greater potential to pose systemic risk	Discouraging risky behaviour	Discouraging excessive levels of direct and indirect exposure concentrations	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Orderly resolution of (re)insurance undertakings and groups
Solvency II scope						
Resolution						x
Supervisory cooperation						
Insurance guarantee schemes	x					x
Groups			x			x

### Impact on proper functioning of the internal market objectives

1.46 The following tables provide an overview on the specific objectives of the review that are more directly linked to proper functioning of the internal market and indicate whether the proposed legislative changes in the different areas are expected to have a material positive impact with respect to those objectives.

1.47 With respect to Pillar I, the proposed legislative changes are expected to contribute to the proper functioning of the internal market through sufficiently harmonised rules promoting a level playing field as well as improving transparency and allowing better comparability.

Pillar I	Proper functioning of the internal market objectives (positive impact)		
Legislative changes	Ensuring a level playing field through sufficiently	Effective and efficient supervision of cross-	Improving transparency and better comparability

	harmonised rules	border business	
TP	x		
SCR	x		x
MCR			
Own funds	x		
Group solvency	x	x	x

1.48 With respect to Pillar II, the proposed legislative changes are expected to contribute to the proper functioning of the internal market through sufficiently harmonised rules promoting a level playing field. In particular, the proposals for the clarification of the application of the proportionality principle are aimed to improve supervisory converge (e.g. with respect to the combinations of key functions allowed by NSAs).

1.49 The requirement to develop pre-emptive recovery plans (currently requested only in seven Members States and with divergent scope) as well as the different legislative changes for the harmonisation of supervisory powers should also contribute to a level playing field among jurisdictions.

1.50 Specific legislative changes are proposed to improve effective and efficient supervision of cross-border business such as: proposed legislative changes to ensure in complex cross-border cases more relevant information exchange for the fit and proper assessment of individuals (and allow in exceptional cases for EIOPA to conclude) and the explicit power of the host supervisor to request information in a timely manner.

Pillar II	Proper functioning of the internal market objectives (positive impact)		
	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of cross-border business	Improving transparency and better comparability
Legislative changes			
Key functions	x		
ORSA	x		
Written policies			
AMSB	x		
Risk management	x		
Prudent person principle			
Fit & proper	x	x	
Supervisory powers	x	x	
Group governance	x	x	x

1.51 With respect to Pillar III, the proposed legislative changes are expected to contribute to the proper functioning of the internal market, in particular by improving transparency and allowing better comparability.

Pillar III	Proper functioning of the internal market objectives (positive impact)		
Legislative changes	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of cross-border business	Improving transparency and better comparability
QRT	x		x
RSR	x		x
SFCR	x		x
Deadlines	x		x

1.52 Other legislative changes proposed are also expected to contribute to the proper functioning of the internal market through sufficiently harmonised rules promoting a level playing field (e.g. harmonisation of supervisory tools in the area of resolution). Level playing field would be particularly improved through the harmonisation of national IGS with respect to their role and functions, geographical scope, eligible policies, eligible claimants or timing for funding. Proper functioning of the internal market will be also improved through improved cooperation between Home and Host supervisors.

Other	Proper functioning of the internal market objectives (positive impact)		
Legislative changes	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of cross-border business	Improving transparency and better comparability
Solvency II scope			
Resolution	x	x	
Supervisory cooperation	x	x	
Insurance guarantee schemes	x		x
Groups	x	x	x

### Contribution to other objectives

1.53 The objective of avoiding unjustified constraints to the availability of insurance and reinsurance (in particular insurance products with long-term guarantees) as well as the objective of avoiding unjustified constraints to insurance and reinsurance undertakings holding long-term investments have been carefully considered in the development of the policy proposals regarding technical provisions (extrapolation and VA design) as well SCR (long-term equity and strategic equity). Promoting cross-sectoral consistency by further alignment (where possible) between the insurance

framework and the banking framework has been particularly considered in the proposals related to own funds, SCR and group solvency. While current differences between both frameworks are in most cases deemed justified, legislative changes are proposed to address those differences not sufficiently justified (e.g. adjust the requirements for the recognition of partial guarantees on mortgage loans).

1.54 With respect to the objective of reducing reliance on external ratings, EIOPA has analysed the possibility to extend the scope of assets subject to the alternative credit assessment currently provided for in the Delegated Regulation and the possible recognition of additional methods allowing for a wider use of alternative credit assessment; however, no concrete legislative changes have been proposed at this stage<sup>19</sup>.

1.55 Finally, the legislative changes proposed to facilitate an orderly resolution of (re)insurance undertakings and groups (e.g. the establishment of resolution authorities equipped with adequate powers) would reduce the reliance on public interventions. Also the proposal to set a European network of sufficiently harmonised national IGSs could help to minimise reliance on public funds by providing protection to policyholders in the event of an insurer's insolvency. The costs of the IGS would be distributed to the industry (and ultimately to all policyholders, to the extent these are incorporated into the premiums); therefore, the risk that taxpayers are exposed to cover the losses of insurance failures would be reduced.

## Costs for industry

1.56 With respect to Pillar I, the following table provides an overview on whether the proposed legislative changes are expected to result in a decrease (-), an increase (+) or non-material impact (=) on the solvency balance sheet of the undertakings (i.e. on technical provisions, SCR, MCR and/or own funds).

Legislative change (Pillar I)	TP	SCR	MCR	OF
TP: Change to LLP for the euro/extrapolation method	+	+	=/+	-
TP: Changes to design of VA	+/=/-	+/=/-	+/=/-	-/=/+
TP: Allow realistic assumptions on new business	=/+	=	=	=/-
TP: Add a definition of Future Management Actions in article 1	=	=	=	=
TP: Amend the definition of EPIFP so it includes all future losses and the impact of reinsurance.	=	=	=	=
TP: Amend to include future profits in fees for servicing and managing funds for unit-linked products	=	=	=	=
TP: Amend article 18(3) to clarify that it is not applicable to obligations related to paid in premiums	=	=	=	=
TP: Amend the third paragraph of article 18(3). Allow the exception only when the undertaking does not have the right to perform the individual risk assessment	=/+	=	=	=
TP: MA asset eligibility criteria: Look through approach for restructured assets	=	=	=	=
SCR: Amend Article 171a on Long Term equity so that only well diversified portfolio are eligible, controlled intra-group participation are excluded and to clarify how long term equity risk is correlated with other risks.	=	=/+	=	=

<sup>19</sup> See section 5.9 of the Opinion

SCR: Amend criteria for Strategic equity: propose beta method for the volatility assessment, and include a safeguard for participation that are significantly correlated with the undertaking.	=	=/+	=	=
SCR: Phase out DBER. New approval should not be granted anymore.	=	=	=	=
SCR: Allow in SF for diversification effects with respect to MA portfolios	=	-	=	=
SCR: Update calibration of the interest rate risk sub-module	=	+	+/=	=
SCR: Simplified calculation for the risk-mitigating effect of derivatives/reinsurance/securitisation	=	=	=	=
SCR: Hypothetical SCR in the counterparty default risk assumes a gross of reinsurance basis for the fire, marine and aviation risk submodules	=	+	+/=	=
SCR: Default and forborne loans to be included as type 2 exposures	=	+	-/=	=
SCR: Adjust requirements for the recognition of partial guarantees on mortgage loans	=	-	-/=	=
SCR: Amend Article 210 of the Delegated regulation by adding that that undertaking are able to show the extent to which there is an effective transfer of risk for reflection of risk mitigation techniques in the standard formula	=	=	=	=
SCR: Simplified calculation for immaterial risks	=	=	=	=
MCR: Change the risk factors for the calculation of the MCR set out in Annex XIX of the Delegated Regulation	=	=	-/+	=
Own funds: Amend Article 258 of the Directive in order to clarify that the group supervisor should assess the level of double leverage and take actions when double leverage is excessive	=	=	=	=

1.57 As regards pillar I for groups, the following table provides an overview on whether the proposed legislative changes related are expected to result in a decrease (-), an increase (+) or non-material impact (=) on the group solvency.

Legislative change (Pillar I)	Group SCR	Eligible Own Funds
To revise the definition of group under Solvency II framework to capture undertakings, which, together, form a de facto group, upon supervisory powers, as well as to clarify other elements of Article 212 of the SII Directive [Reference: Chapter 9 Section 9.3.1]	=/+	=/+
To provide the NSAs with powers to require to restructure for the purpose of exercising group supervision. [Reference: Chapter 9 Section 9.3.1]	=	=
Clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups. [Reference: Chapter 9 Section 9.3.2]	=/+	=/+
Clarify on the term "exclusively" or "mainly" used in the definition of IHC contained in Art. 212(2)(f) of the Solvency II Directive. [Reference: Chapter 9 Section 9.3.2]	=/+	=/+
Amend Article 214(1) of the SII Directive to allow the group supervisor to have certain powers to ensure an effective group supervision; and enforceability over such undertakings. [Reference: Chapter 9 Section 9.3.2]	=	=
To introduce an overall principle in the SII Directive on the exclusion from group to ensure that exceptional cases as well as cases of potential capital relief are adequately justified, documented and monitored and all relevant parties in the decision are also involved in the process. (Article 242(2) of the SII Directive). [Reference: Chapter 9 Section 9.3.3]	=	=
To provide criteria to be considered for the purpose of assessing "negligible interest" (Article 242(2) of the SII Directive) [Reference: Chapter 9 Section 9.3.3]	=	=
<b>Overall: Scope of application of group supervision</b>	<b>=/+</b>	<b>=/+</b>
<b>Proposals on IGTs and RCs</b> [Reference: Chapter 9 Section 9.3.4]	<b>=</b>	<b>=</b>
<b>Proposals on issues with third countries</b> [Reference: Chapter 9 Section 9.3.5]	<b>=</b>	<b>=</b>

Legislative change (Pillar I)	Group SCR	Eligible Own Funds
Include clearly the provision of a notional SCR for both the parent and intermediate IHC and MFHC, including those in third country. [Reference: Chapter 9 Section 9.3.6]	=/+	=/+
Introduce a clear methodology to the calculation of own funds and the group SCR calculation for undertakings for which the SII calculation is not possible and for immaterial undertakings. The use of the simplifications should be subject to approval by the group supervisor. Such simplified methodology could favour the equity method with a cap on own funds. (Article 229 of the SII Directive) [Reference: Chapter 9 Section 9.3.7]	=	=
Provide clarity on the scope of undertakings to be included under method 2 and their treatment. (Article 233 of the SII Directive) [Reference: Chapter 9 Section 9.3.8]	=	=
Introduce requirement to demonstrate appropriateness by clarifying that in general there is no mutatis mutandis approach to translate integration techniques for risks in Article 239 of the DR to groups, but a demonstration of the appropriateness is required similar to Article 229 (4) of the DR. Also an explicit link between the requirements of Articles 328 and 343 of the DR should be established. [Reference: Chapter 9 Section 9.3.9]	=	=
Introduce principles of no double counting and no omission of material risks (approaches based on amendments of article 328 or 335 and 336 of the DR to be used alternatively or appropriately combined) [Reference: Chapter 9 Section 9.3.10]	=/+	=/+
Indicate that method 2 (where used exclusively or in combination with method 1) applies to single undertakings. It is also advised to amend Articles 220, 227, 234 and 235 of the SII Directive to refer to the advised changes on this section. [Reference: Chapter 9 Section 9.3.11]	=	=
<b>Overall combined impact of the proposals regarding calculation of group solvency</b>	=	=
A deletion of the paragraph (1)(d) of Article 330 of the DR would avoid that an own-fund item (under method 2) not compliant with articles 331-333 or the DR (including reference to art. 71/73/77) could still be considered available at group level. [Reference: Chapter 9 Section 9.3.12]	=/+	=/+
Include a principle indicating the purpose of Recital 127 to clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the own-fund item when there is a winding-up situation of any EEA related (re)insurance undertaking of the group. [Reference: Chapter 9 Section 9.3.12]	=	=
Clarify the inclusion of all undertakings taken into account in the SCR diversified [Reference: Chapter 9 Section 9.3.13]	=/+	=/+
Clarify that the benefit of transitional measures on technical provisions and interest rate is assumed to be unavailable by default within the meaning of Article 330(3) of the DR. [Reference: Chapter 9 Section 9.3.13]	=/+	=/+
Clarify that EPIFPs is assumed to be unavailable by default within the meaning of Article 330(3) of the DR. [Reference: Chapter 9 Section 9.3.13]	=/+	=/+
Further clarify the definition of the item minority interest in Solvency II and the approach to be followed for its calculation. [Reference: Chapter 9 Section 9.3.14]	=/+	=/+
<b>Overall combined impact of the proposals regarding own fund requirements</b>	=/+	=/+
Upgrading the current Guideline 21b) of EIOPA Guidelines on Groups Solvency to an explicit law provision and enhancement the scope by the IHC and MFHC – the notional MCRs would be equal to 35% of the notional SCR (middle of the corridor 25% - 45%) [Reference: Chapter 9 Section 9.3.15]	+	=/+
Clarify that Article 329 of the DR is applicable for the inclusion of OFS entities in the group solvency calculation, regardless of methods used [Reference: Chapter 9 Section 9.3.16]	=/+	=/+
Allocation of clearly identified own fund items from OFS into relevant Solvency II tiers where practicable and material [Reference: Chapter 9 Section 9.3.16]	=	=
Clarify that an availability assessment of OFS own funds is required to ensure that OFS own funds in excess of sectoral capital requirement is available at group level [Reference: Chapter 9 Section 9.3.16]	=	=/+
Clarify that group own funds and group capital requirements calculated according to sectoral rules should be used in the group solvency calculation when OFS entities form a group. [Reference: Chapter 9 Section 9.3.16]	=	=/+
Include the answer to Q&A 1344 in the regulations i.e. that the same capital requirements, including buffers and add-ons, should be used in the Solvency II calculation as in the supplementary capital adequacy calculation according to FICOD. [Reference: Chapter 9 Section 9.3.16]	=	=
Delete Article 228 of Solvency II Directive [Reference: Chapter 9 Section 9.3.17]	=	=



Legislative change (Pillar I)	Group SCR	Eligible Own Funds
<b>Overall combined impact of the proposals regarding Solvency II and the interactions with Directive 2002/87/EC (FICOD), and any other issues identified with Other Financial Sectors</b>	=/+	=/+
<b>Overall combined impact of ALL proposals on group supervision</b>	=/+	=+

1.58 With respect to Pillar II, the following table provides an overview on whether the proposed legislative changes are expected to result in a reduction of costs (-), increase of costs (+) or non material additional costs or cost savings are expected (=).

Legislative changes (Pillar II)	Costs -/+	Explanation
Key functions: Explicit allowance of combinations with other responsibilities/tasks based on proportionality	-/+	Eventual costs only for undertakings where combinations are currently allowed not based on proportionality.
ORSA: Biennial assessment of significance with which the risk profile of the undertaking deviates from the assumptions underlying the SCR, calculated with the standard formula	-	Limiting partially the mandatory scope of the annual ORSA would result in a simplification of the process, some resources could be saved
ORSA: Explicit reference to proportionality with respect to the complexity of the stress test and scenario analysis	-/=	Clarifying the need for proportionality would result in decrease of resources needed if small/medium sized undertakings are not requested to perform complex stress test/scenario analysis
ORSA: Expansion in the use of the ORSA to include the macroprudential perspective	=/+	Staff cost (one-off and on-going), additional analysis needed within the undertaking ORSA process
Written policies: Regular review, at least every three years	-	Less staff costs if the process of review does not need to be performed every year
AMSB: Regular assessment on the composition, effectiveness and internal governance of the AMSB considering proportionality	=	No material cost. The assessment should already be part of the regular evaluation of the system of governance
Remuneration: Exemption to the principle of deferral of a substantial portion of the variable remuneration component considering proportionality	-	Reduced burden by limiting the scope of undertakings and staff subject to the requirement
Risk management: Changes to risk management provisions on LTG measures (MA, VA and Transitionals)	=	Additional costs compensated by simplification and partial deletion of previous requirements. Only for undertakings applying the measures.
Risk management: Additional safeguards for extrapolation <sup>20</sup>	+	Staff cost (one-off and on-going), additional work needed to perform the prescribed sensitivity analysis
Risk management: Require systemic risk management plans from a subset of companies	+	Staff cost (one-off and on-going), additional work needed to set and maintain the plan. Only for systemically important undertakings, as well as to those that are involved in certain activities or products with greater potential to pose systemic risk
Risk management: Require liquidity risk management plans from a subset of companies	+	Staff cost (one-off and on-going), additional work needed to set and maintain the plan. Only for a subset of undertakings
Risk management: Require pre-emptive recovery plans from a subset of undertakings	+	Staff cost (one-off and on-going), additional work needed to set and maintain the plan. Only for undertakings representing a very significant share of the national market.
Prudent person principle: Expansion of the prudent person principle to take into account macroprudential concerns	=/+	Staff cost (one-off and on-going), additional work needed

<sup>20</sup> Depending on the final proposed change to LLP for the euro/extrapolation method

Fit and proper: Clarifying ongoing assessment of AMSB and ensuring the supervisory tools	=	No material costs for undertakings.
Fit and proper: Changes regarding ongoing assessment of qualifying shareholders	=	No material costs for undertakings.
Fit and proper: Changes to ensure in complex cross-border cases more relevant information exchange and allow in exceptional cases for EIOPA to conclude	=	No material costs for undertakings.
Supervisory powers: Allow NSAs to limit capital distributions in exceptional circumstances where undertakings do not meet their SCR without the application of the LTG and transitional measures and applying a more economic term structure at the same time if the undertaking cannot demonstrate to satisfaction of the supervisory authority that the intended capital distributions are sustainable	=	Instead of analysis of measures when not complying with the SCR if the measures are not applied, the undertaking should provide evidence upon supervisory request of the sustainability of its capital distributions.
Supervisory powers: Explicit power of the host supervisor to request information in a timely manner	=	No material costs for undertakings.
Supervisory powers: Grant NSAs with the power to require a capital surcharge for systemic risk	=/+	Undertakings subject to the capital surcharge would see a deterioration in their solvency ratio, unless action is taken; the impact would however depend on the calibration of the instrument.
Supervisory powers: Grant NSAs with the power to define "soft" concentration thresholds or benchmarks	=	No material costs for undertakings.
Supervisory powers: Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances	=	No material costs for undertakings.
Supervisory powers: Introduce early intervention powers	=	No material costs for undertakings.
Supervisory powers: Set judgment-based early intervention triggers	=	No material costs for undertakings.
Groups governance: Amendment of Article 246 of the Directive to clarify requirements of the system of governance at group level [Reference: Chapter 9 Section 9.3.18]	=/+	Eventual costs as potentials changes on the group's system of governance will be necessary for the groups concerned to be compliant with the new requirements, depending on the transposition of Article 246 of the Solvency II Directive.

1.59 With respect to Pillar 3, the main cost foreseen from the proposed legislative changes is the audit fee for auditing the Solvency II balance sheet; nevertheless, it should be noted that similar or stricter requirements already exist in 17 Member States<sup>21</sup> based on national legislation; for undertakings in those Member States no extra audit costs are expected. EIOPA has invited all stakeholders that already audit the Solvency II Balance-sheet to provide EIOPA with information on the costs, during the public consultation on supervisory reporting and public disclosure (July-October 2019). If information received during the consultation is not deemed adequate, EIOPA will perform a data request to ensure that appropriate information also by size of undertakings is received as an input for the Impact Assessment.

1.60 With respect to the QRTs, the increased burden for undertakings derived from the need to report extra information (i.e. new templates or new data in existing templates) is compensated by the reduction of burden due to the streamlined content of existing templates (i.e. deletion or simplification) and in particular by reinforcing the risk-based thresholds to increase proportionality (i.e. non-core templates would only need to be submitted by undertakings exceeding the thresholds). The table below provides an overview of the number of templates affected by the proposed changes.

<sup>21</sup> AT, BE, DE, DK, ES, HR, IE, IT, LI, MT, NL, PL, PT, RO, SI, SE and UK

Proposed change (QRTs)	Annual templates affected	Quarterly templates affected
<b>Deletion</b>	9 template	1 template
<b>New/increased thresholds</b>	16 templates	NA
<b>Simplifications</b>	8 templates	4 templates
<b>Additions</b>	8 templates	1 template
<b>New templates</b>	2 template	1 template
<b>TOTAL</b>	Current: 62 business templates Proposed:55 templates	10 templates

- 1.61 Finally, no material costs are expected from the proposed changes to the RSR. The changes proposed are either information previously included in the SFCR and now moved to the RSR, streamlining the report to avoid duplications and increase clarity on supervisors' expectations and identify areas where only material changes are expected by default.
- 1.62 Other proposed legislative changes are not expected to create significant additional burden for the industry since the implementation costs would mainly fall upon by supervisory/resolution authorities. Nevertheless, the proposal of harmonisation of national IGSs would imply costs for insurance undertakings that should contribute to fund the IGS; the possible costs would vary significantly depending on the design of the funding arrangements. In any case, it can be expected that the burden is transmitted (or, at least, partially transmitted) to policyholders via higher premiums. The funding needs would also vary significantly depending on the characteristics of the existing national IGS (if any) in each Member State.
- 1.63 Finally, it should be noted that the proposed amendment to the thresholds for the exclusion from the scope of Solvency II could result in a significant reduction of costs for undertakings below the increased thresholds, depending on prudential regime applied at national level.

## 2. LTG measures and measures on equity risk

### 2.2 Extrapolation of risk-free interest rates

Policy issues	Options
Setting of the LLP for the euro	<ol style="list-style-type: none"> <li>1. No change</li> <li>2. The LLP stays at 20 years and additional safeguards are introduced in pillar 2 (risk management) and 3 (reporting and disclosure)</li> <li>3. The LLP is increased to 30 years</li> <li>4. The LLP is increased to 50 years</li> <li>5. An alternative extrapolation method is applied (for the euro and other currencies)</li> </ol>

Policy issue: Setting of the LLP for the euro		
<b>Option 1: No change</b>		
Costs	Policyholders	Current underestimation of technical provisions undermining policyholder protection would remain
	Industry	Current inappropriate incentives for risk management would remain
	Supervisors	Current supervisory concerns on long-term viability of undertakings providing insurance guarantees beyond 20 years would remain
	Other	None
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
<b>Option 2: The LLP stays at 20 years and additional safeguards are introduced in pillar 2 and 3</b>		
Costs	Policyholders	Current underestimation of technical provisions undermining policyholder protection would remain
	Industry	Additional costs to comply with new risk management requirements (prescribed sensitivity analysis) as well as new reporting and disclosure requirements (results of the sensitivity analysis to be included in the Regular Supervisory Report and disclosed in the Solvency and Financial Condition Report). Eventual limitations to capital distribution depending on the results of the sensitivity analysis.
	Supervisors	Additional resources needed to verify undertakings' compliance with new pillar 2 and pillar 3 requirements

	Other	None
Benefits	Policyholders	Increased transparency on extrapolation. Improved policyholder protection compared to option 1 since dividend payments and other voluntary capital distributions by the undertakings could be limited if they put at risk the protection of policyholders and beneficiaries.
	Industry	None
	Supervisors	Increased transparency on extrapolation and more efficient supervision
	Other	Investors, analysts, rating agencies, journalists: Increased transparency on extrapolation.
<b>Option 3: The LLP is increased to 30 years</b>		
Costs	Policyholders	None
	Industry	Increase of technical provisions for euro long-term liabilities and reduction of regulatory own funds (lower than option 4 but higher than option 5). Similar compliance costs to option 2 with respect to new pillar 2 and pillar 3 requirements
	Supervisors	Additional resources needed to verify undertakings' compliance with new pillar 2 and pillar 3 requirements
	Other	None
Benefits	Policyholders	Improved policyholder protection as technical provisions closer to being market-consistent.
	Industry	Improved incentives for risk management
	Supervisors	Solvency position reflects better the economic situation of undertakings
	Other	Investors, analysts, rating agencies, journalists: Solvency position reflects better the economic situation of undertakings.
<b>Option 4: The LLP is increased to 50 years</b>		
Costs	Policyholders	None
	Industry	Increase of technical provisions for euro long-term liabilities and reduction of regulatory own funds (higher than options 3 and 5).
	Supervisors	None
	Other	None
Benefits	Policyholders	Improved policyholder protection as technical provisions are market-consistent.
	Industry	Improved incentives for risk management
	Supervisors	Solvency position reflects better the economic situation of undertakings
	Other	Investors, analysts, rating agencies, journalists: Solvency position reflects better the economic situation of undertakings.
<b>Option 5: An alternative extrapolation method is applied</b>		

Costs	Policyholders	None
	Industry	Increase of technical provisions for euro long-term liabilities and reduction of regulatory own funds (lower than options 3 and 4). Similar compliance costs to options 2 and 3 with respect to new pillar 2 and pillar 3 requirements
	Supervisors	Additional resources needed to verify undertakings' compliance with new pillar 2 and pillar 3 requirements
	Other	None
Benefits	Policyholders	Improved policyholder protection as technical provisions closer to being market-consistent.
	Industry	Improved incentives for risk management
	Supervisors	Solvency position reflects better the economic situation of undertakings
	Other	Investors, analysts, rating agencies, journalists: Solvency position reflects better the economic situation of undertakings.

Policy issue: Setting of the LLP for the euro						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds
Option 1: No change	0	0	0	0	0	0
Option 2: The LLP stays at 20 years and additional safeguards are introduced in pillar 2 and 3	0	+	0	0	+	0
Option 3: The LLP is increased to 30 years	+	+	0	+	+	0
Option 4: The LLP is increased to 50 years	++	++	0	+	+	0
Option 5: An alternative extrapolation method is applied	+	+	0	+	+	0

- 2.1 With regard to the objective to avoiding unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees, it is noted that extending the starting point of the extrapolation may put current business practices of long-term life insurance at risk which aim to mitigate interest rate risk over time. There are however different views whether Solvency II should facilitate such business practices because they may not be sustainable when interest rates are persistently low.
- 2.2 With regard to the objective of avoiding unjustified constraints to insurance and reinsurance undertakings holding long-term investments, it is noted that extending the starting point of the extrapolation would incentivise undertakings to hold long-term bonds.

## 2.3 Matching adjustment

Policy issue	Options
Diversification benefits	<ol style="list-style-type: none"> <li>1. No change</li> <li>2. Remove the limitation to diversification benefits for MA portfolios in the SCR standard formula (preferred)</li> </ol>
Asset eligibility criteria	<ol style="list-style-type: none"> <li>1. No change</li> <li>2. Introduce a look through approach (preferred)</li> </ol>

### Diversification benefits

<b>Option 1: Do Nothing: Maintain the limitation to diversification benefits for MA portfolios in the SCR standard formula</b>		
Costs	Policyholders	No material impact
	Industry	More complexity in the calculation of SCR for undertakings applying the MA compared to option 2 Higher SCR for undertakings applying the MA and using the standard formula compared to option 2
	Supervisors	More complexity in the supervision, less comparability among SCR of MA users and SCR of non MA users
	Other	Investors, analysts, rating agencies, journalists: Less comparability among SCR of MA users and SCR of non MA users
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	
<b>Option 2: Remove the limitation to diversification benefits for MA portfolios in the SCR standard formula</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	
Benefits	Policyholders	Higher availability of insurance products with long-term guarantees
	Industry	Calculation of SCR according to the real risks and simpler
	Supervisors	Better risk reflection in SCR standard formula calculations, thereby supporting risk-based supervision
	Other	Investors, analysts, rating agencies, journalists: More comparability and more risk sensitive SCR

Policy issue: Diversification benefits



	Effectiveness (0/+ /++)				Efficiency (0/+ /++)			
Options	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Avoiding unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees	Ensuring adequate market-consistent technical provisions	Promoting good risk management	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Avoiding unjustified constraints to the availability of insurance and reinsurance, in particular insurance products with long-term guarantees
Option 1: No change	0	0	0	0	0	0	0	0
Option 2: Remove the limitation to diversification benefits for MA portfolios in the SCR standard formula	0	++	0	+	0	++	0	+

## Asset eligibility criteria

Policy issue: asset eligibility criteria						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Introduce a look through approach	++	+	++	++	++	+

## 2.4 Volatility adjustment

## Disallowance of negative spreads for corporate and government bond portfolios

Policy issue: Negative spreads for corporate and government bond portfolios		
<b>Option 1: No change (i.e. disallow negative spreads)</b>		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 2: Allow for negative spreads for corporate and government bond portfolios</b>		
Costs	Policyholders	None
	Industry	Not material (change of VA only in rare circumstances, and even then considered to be small)
	Supervisors	None
	Other	N/A
Benefits	Policyholders	Improved policyholder protection since VA better reflects economic reality (in cases where aggregated spreads are negative)
	Industry	None
	Supervisors	Supports supervisory use of VA information since VA better reflects economic reality (in cases where aggregated spreads are negative)
	Other	N/A

Policy issue Negative spreads for corporate and government bond portfolios						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
<b>Options</b>	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
<b>Option 1: No change</b>	0	0	0	0	0	0
<b>Option 2: allowance of</b>	+	0	+	+	0	+

<b>negative aggregated spreads for corporate and government bond portfolios</b>						
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## Approval to use the VA

Policy issues	Options
Approval to use the VA	<ol style="list-style-type: none"> <li>1. No change</li> <li>2. Require supervisory approval to use the VA in all Member States</li> <li>3. Do not require supervisory approval to use the VA in all Member States</li> </ol>

<b>Policy issue: Approval to use the VA</b>		
<b>Option 1: No change</b>		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 2: Require supervisory approval to use the VA in all Member States</b>		
Costs	Policyholders	None
	Industry	One-off costs for the approval process (only in countries where currently no approval is required)
	Supervisors	One-off costs for the approval process (only in countries where currently no approval is required)
	Other	N/A
Benefits	Policyholders	Improved policyholder protection when undertakings have to set up adequate technical provisions (only in countries where currently no approval is required)
	Industry	Improved level playing field among undertakings that want to apply the VA

	Supervisors	More insight into the use of the VA by their undertakings (only in countries where currently no approval is required)
	Other	N/A
<b>Option 3: Do not require supervisory approval to use the VA in all Member States</b>		
Costs	Policyholders	Where VA is introduced to liabilities that were previously it would not be approved, it might reduce policyholder protection.
	Industry	None
	Supervisors	Less insight into the use of the VA by their undertakings (only in countries where currently approval is required) Not possible to decline approval where unexpected and undesirable outcomes are observed
	Other	N/A
Benefits	Policyholders	None
	Industry	Improved level playing field among undertakings that want to apply the VA No costs for approval process (for undertakings that newly want to use the VA in countries where currently approval is required)
	Supervisors	None
	Other	N/A

### Proportionality

2.3 All options take into account the principle of proportionality. Requiring approval for the use of the VA is proportionate in view of the impact of the VA on the solvency position of undertakings (at end 2016: increase of own funds by EUR 22 bn, reduction of capital requirements by EUR 30 bn). Only undertakings that want to apply the VA incur costs. The VA is a voluntary measure.

### Evidence

2.4 During the analysis evidence on the use and impact on the VA as provided by undertakings in their regular supervisory reporting and information collected from NSAs has been used.

Policy issue: Approval to use the VA						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 1: No change	0	0	0	0	0	0
Option 2: Require supervisory	+	+	+	+	0	+

approval to use the VA in all Member States						
Option 3: Do not require supervisory approval to use the VA in all Member States	0	+	0	0	++	0

## 2.6 Transitional measures on the risk-free interest rates and on technical provisions

Policy issues	Options
1. Predominant application of the transitionals by undertakings without capital gap	1.1 No change 1.2 Restrict the use of transitionals 1.3 Limit impact of transitionals for undertakings without capital gap 1.4 Strengthen disclosure on transitionals (preferred) 1.5 Extend use of phasing-in plans to all undertakings depending on the transitionals
2. Approval of transitionals after 1 January 2016	2.1 No change 2.2 Allow new approvals for the transitionals 2.3 Disallow new approvals for the transitionals 2.4 Allow new approvals for the transitionals only in specified cases (preferred)
3. Application of a capital add on	3.1 No change 3.2 Clarification to Article 37 of the Directive (preferred)

Policy issue 1: Predominant application of the transitionals by undertakings without capital gap		
Option 1.1: No change		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Benefits	Policyholders	None
	Industry	None

	Supervisors	None
	Other	N/A
<b>Option 1.2: Restrict the use of transitionals</b>		
Costs	Policyholders	None
	Industry	For undertakings applying the transitionals and complying with the SCR without the transitionals additional costs for justifying the use of the transitionals arise. The ongoing costs are expected to be immaterial.
	Supervisors	For supervisors approving the transitionals additional costs for assessing the justification of undertakings for the use of the transitionals.
	Other	N/A
Benefits	Policyholders	Improved policyholder protection when undertakings have to set up appropriate technical provisions
	Industry	Improved level playing field among all undertakings not in need of the transitionals.
	Supervisors	Insight into the undertaking's reason for applying the transitionals
	Other	N/A
<b>Option 1.3: Limit impact of transitionals for undertakings without capital gap</b>		
Costs	Policyholders	None
	Industry	For undertakings applying the transitional but not complying with the SCR without the transitional additional ongoing cost for calculating the cap to the transitional deduction. The costs are expected to be small.
	Supervisors	None
	Other	N/A
Benefits	Policyholders	Improved policyholder protection when undertakings complying with the SCR without the transitional have to set up market-consistent technical provisions. Easier for policyholders to compare solvency position of undertakings.
	Industry	Improved level playing field. Undertakings that comply with the SCR without the transitional do not need to calculate technical provisions and the solvency balance sheet twice, i.e. with and without the transitional. No supervisory reporting and public disclosure of impact of the transitional needed anymore.
	Supervisors	More efficient supervision over undertakings that use the transitional while complying with the SCR without the transitional.
	Other	N/A
<b>Option 1.4: Strengthen disclosure on transitionals</b>		
Costs	Policyholders	None
	Industry	Undertakings that apply the transitionals while complying with the SCR without the transitional have ongoing costs
	Supervisors	None
	Other	None
Benefits	Policyholders	Additional, more accessible information on the solvency position of undertakings.
	Industry	None

	Supervisors	More transparency on the reasons for applying the transitionals and dependency on them.
	Other	Investors, analysts, rating agencies, journalists: More transparency on the reasons for applying the transitionals and dependency on them.
<b>Option 1.5: Extend use of phasing-in plans to all undertakings depending on the transitionals</b>		
Costs	Policyholders	None
	Industry	Undertakings that depend on the transitionals while complying with the SCR without the transitionals have additional costs for setting up and maintaining the phasing-in plan.
	Supervisors	With regard to undertakings that depend on the transitionals while complying with the SCR without the transitionals supervisors have additional costs for supervising the phasing-in plan.
	Other	N/Additional ongoing costs for
Benefits	Policyholders	Improved policyholder protection with regard to undertakings that depend on the transitionals while complying with the SCR without the transitionals.
	Industry	None
	Supervisors	More efficient supervision over undertakings that depend on the transitionals while complying with the SCR without the transitionals.
	Other	N/A

<b>Policy issue 2: Approval of transitionals after 1 January 2016</b>		
<b>Option 2.1: No change</b>		
Costs	Policyholders	Risk of inappropriate use of the transitional resulting in lower policyholder protection
	Industry	Unlevel playing since late approval is not granted by supervisory authorities in all jurisdictions
	Supervisors	Use of the transitional for a different purpose than the original objectives of smooth transition to Solvency II
	Other	N/A
Benefits	Policyholders	None
	Industry	Flexibility for undertakings to obtain some capital relief through the use of the transitional, if allowed by their supervisory authority
	Supervisors	None
	Other	N/A
<b>Option 2.2: Allow new approvals for the transitionals</b>		
Costs	Policyholders	Some undertakings may move away from market-consistent technical provisions, thereby weakening policyholder protection.
	Industry	None
	Supervisors	Additional costs for new approvals and supervision of transitionals.

	Other	N/A
Benefits	Policyholders	None
	Industry	Flexibility for undertakings to obtain some capital relief through the use of the transitional Consistent application of transitional provisions across countries.
	Supervisors	None
	Other	N/A
<b>Option 2.3 Disallow new approvals for the transitionals</b>		
Costs	Policyholders	None
	Industry	Undertakings not using the transitional currently would not be able to benefit from a lower capital requirement through the use of the transitional in the future
	Supervisors	None
	Other	N/A
Benefits	Policyholders	Improved policyholder protection when undertakings that would have applied for the transitional without the ban have to set up market-consistent technical provisions.
	Industry	Consistent application of transitional provisions across countries.
	Supervisors	No costs for approving new transitionals.
	Other	N/A
<b>Option 2.4 Allow new approvals for the transitionals only in specified cases</b>		
Costs	Policyholders	None
	Industry	Undertakings not using the transitional currently would not be able to benefit from a lower capital requirement through the use of the transitional in the future (except for the specified cases)
	Supervisors	None
	Other	N/A
Benefits	Policyholders	Improved policyholder protection when undertakings that would have applied for the transitional without the ban have to set up market-consistent technical provisions.
	Industry	Consistent application of transitional provisions across countries. Smooth transition to Solvency II for undertakings in case of exceeding the thresholds of Article 4 of the Directive Facilitating the transfer of liabilities of undertakings applying the transitional
	Supervisors	No costs for approving new transitionals.



	Other	N/A
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<b>Policy issue 3: Application of a capital add on</b>		
<b>Option 3.1: No change</b>		
Costs	Policyholders	Risk to policyholder protection if supervisors are not able to impose a capital add-on in cases where a proper phasing-in is not realistic
	Industry	Uncertainty on the concrete circumstances that could lead to the imposition of a capital add-on by the supervisory authority with respect to undertakings applying the transitionals. Risk of divergence supervisory practices among jurisdictions resulting in unlevel playing field.
	Supervisors	Difficulty to apply a capital add-on due to lack of clarity of Article 37(1) (d) of the Directive
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 3.2: Clarification to Article 37 of the Directive</b>		
Costs	Policyholders	No material impact
	Industry	Undertakings that depend on the transitionals to comply with the SCR may have additional costs for setting up and maintaining an <i>effective</i> phasing-in plan.
	Supervisors	Supervisors have additional costs to ensure phasing-in plans adequately demonstrate compliance with the SCR in future years. Supervisors will also need to assess whether a capital add-on is appropriate
	Other	N/A
Benefits	Policyholders	Improved policyholder protection with regard to undertakings that depend on the transitionals while complying with the SCR without the transitionals.
	Industry	Advance planning for compliance with SCR in future years once transitionals end to avoid a cliff impact.
	Supervisors	More efficient supervision over undertakings that may not demonstrate compliance with SCR in future years
	Other	N/A

### Proportionality

2.5 All options take into account the principle of proportionality.

2.6 In particular, with regard to policy issue 1 it would be considered proportionate:

- under Option 1.2 that undertakings need to provide justification for using the transitional, given the high impact it can have on the solvency position,
- to allow approximations under Option 1.3 for the calculation of the transitional deduction so that it results in an SCR ratio of 100%,

- under Option 1.4 that undertakings disclose the reason for using the transitionals and any dependencies on it, given the high impact it can have on the solvency position,
- under Option 1.5 that not only undertakings that do not comply with the SCR without the transitionals, but all undertakings that depend on the transitionals provide phasing-in plans.

### Evidence

2.7 During the analysis evidence on the use and impact on the transitionals as provided by undertakings in their regular supervisory reporting and information collected from NSAs has been used.

Policy issue 1: Predominant application of the transitionals by undertakings without capital gap						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Restrict the use of transitionals	++	+	+	0	0	0
Option 1.3: Limit impact of transitionals for undertakings without capital gap	++	++	0	++	+	+
Option 1.4: Strengthen disclosure on transitionals	0	0	+	+	+	0
Option 1.5: Extend use of phasing-in plans to all undertakings depending on the transitionals	0	0	++	0	0	+

Policy issue 2: Approval of transitionals after 1 January 2016						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Ensuring adequate market-consistent	Ensuring a level playing field through sufficiently	Effective and efficient supervision of (re)insurance	Ensuring adequate market-consistent	Ensuring a level playing field through	Effective and efficient supervision of (re)insurance

	technical provisions	harmonised rules	undertakings and groups	technical provisions	sufficiently harmonised rules	undertakings and groups
Option 2.1: No change	0	0	0	0	0	0
Option 2.2 Allow new approvals for the transitionals	0	+	+	0	0	+
Option 2.3 Disallow new approvals for the transitionals	+	+	+	+	+	+
Option 2.4 Allow new approvals for the transitionals only in specified cases	+	++	+	+	++	+

Policy issue 3: Application of a capital add on						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Clarification of Art. 37 of the Directive	++	++	++	+	+	++

## 2.7 Risk-management provisions on LTG measures

Policy issue	Options
1. Role of the liquidity plan for VA	1.1 No change 1.2 Delete the requirement 1.3 Clarify and strengthen the requirement (preferred)
2. Sensitivity analysis for VA	2.1 No change 2.2 To include the requirement in the own risk and solvency assessment 2.3 To change the requirement to refer to sensitivities with respect to different economic (spread) situations instead of referring to the assumptions underlying the measures including clarification how these sensitivities should be reported (preferred)
3. Forced sale of assets for the VA and MA	3.1 No change 3.2 Delete the requirement (preferred)

4. Policy on risk management for the VA	4.1 No change 4.2 Delete the requirement 4.3 Clarify that the policy on risk management should include the use of the VA (preferred)
5. Analysis of measures restoring compliance for the MA and VA	5.1 No change 5.2 Keep the requirement as it is and add clarification in the regulation that an ad-hoc notification is required 5.3 Allow NSAs to limit voluntary capital distributions in case of SCR breach after removal of the measure(s) and delete the existing requirement (preferred)

<b>Policy issue 1: Role of liquidity plan for the VA</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 1.2: To delete the requirement</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ Less burdensome application of the VA
	Supervisors	➤ Reducing complexity of supervisory review
	Other	N/A
<b>Option 1.3: Clarify and strengthen the requirement</b>		
Costs	Policyholders	➤ None
	Industry	➤ Additional effort to take into account the use of the VA in the liquidity risk management plan, but may be less effort than a separate liquidity plan because of the VA
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ May increased policyholder protection as risk management is strengthened

<b>Policy issue 1: Role of liquidity plan for the VA</b>		
	Industry	➤ More effective risk management process
	Supervisors	➤ Increase of effectiveness in supervisory review
	Other	N/A

<b>Policy issue 2: Sensitivity analysis for the VA</b>		
<b>Option 2.1: No change</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 2.2: To include the requirement in the own risk and solvency assessment</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ Improved understanding and role of the sensitivity analysis
	Supervisors	➤ More efficient supervisory review
	Other	N/A
<b>Option 2.3: To change the requirement to refer to sensitivities with respect to different economic (spread) situations instead of referring to the assumptions underlying the measures including clarification how these sensitivities should be reported</b>		
Costs	Policyholders	➤ None
	Industry	➤ Compared to status quo this option would imply higher effort for undertakings
	Supervisors	None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ Improved understanding and role of the sensitivity analysis
	Supervisors	➤ More efficient supervisory review

<b>Policy issue 2: Sensitivity analysis for the VA</b>		
	Other	With prescribed sensitivity analyses better comparability of financial situations of undertakings

<b>Policy issue 3: Forced sale of assets for the VA and MA</b>		
<b>Option 3.1: No change</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 3.2: Delete the requirement</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ Less burden for applying the VA
	Supervisors	➤ None
	Other	N/A

<b>Policy issue 4: Policy on risk management for the VA</b>		
<b>Option 4.1: No change</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None

<b>Policy issue 4: Policy on risk management for the VA</b>		
	Other	N/A
<b>Option 4.2: Delete the requirement</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ Less burden for applying the VA
	Supervisors	➤ None
	Other	N/A
<b>Option 4.3: Clarify that the policy on risk management should include the use of the VA</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ Inclusion of the use of the VA in the regular risk management process
	Supervisors	➤ Ensures broader reflection of use of VA in risk management policy
	Other	N/A

<b>Policy issue 5: Analysis of measures restoring compliance for the MA and VA</b>		
<b>Option 5.1: No change</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 5.2: Keep the requirement as it is and add clarification in the regulation that an ad-hoc notification is required</b>		
Costs	Policyholders	➤ None

Policy issue 5: Analysis of measures restoring compliance for the MA and VA		
	Industry	➤ May cause some effort to change processes
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ Timely notification allowing effective supervision
	Other	N/A
<b>Option 5.3: Allow NSAs to limit voluntary capital distributions in case of SCR breach after removal of the measure(s) and delete the existing requirement</b>		
Costs	Policyholders	➤ None
	Industry	<ul style="list-style-type: none"> <li>➤ Additional calculation for combined impact to be carried out and to be reported</li> <li>➤ May result in additional costs for providing evidence on sustainability of solvency provision</li> <li>➤ May result in restrictions to voluntary capital distributions</li> </ul>
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ Increased policyholder protection as supervisors can limit capital distributions in case of unsustainable solvency positions
	Industry	➤ No costs for specifying measures regarding non-compliance with the SCR without MA or VA
	Supervisors	➤ More efficiency and effectiveness in supervisory review as only focus on undertakings where removal of the LTG measures and changed extrapolation results in non-compliance with the SCR
	Other	N/A

Policy issue 1: Role of liquidity plan for the VA						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: To delete the requirement	0	+	+	0	+	+
Option 1.3: Clarify and strengthen	0	+	+	0	+	+



the requirement						
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Policy issue 2: Sensitivity analysis for the VA						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: To include the requirement in the own risk and solvency assessment	0	0	+	0	0	+
Option 2.3.: To change the requirement to refer to sensitivities with respect to different economic (spread) situations	0	+	++	0	+	++

Policy issue 3: Forced sale of assets for the VA and MA						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Delete the requirement	0	+	+	0	+	+

Policy issue 4: Policy on risk management for the VA						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 4.1: No change	0	0	0	0	0	0
Option 4.2: Delete the requirement	0	+	+	0	+	+
Option 4.2: Clarify that the policy on risk management should include the use of the VA	+	+	+	+	+	+

Policy issue 5: Analysis of measures restoring compliance with the VA						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 5.1: No change	0	0	0	0	0	0
Option 5.2: Keep requirement as it is and add clarification in the regulation that an ad-hoc notification is required	0	+	+	0	+	+
Option 5.3: Allow NSAs to limit voluntary capital distributions in case of SCR breach after removal	0	+	++	0	+	++

of the measure(s) and delete the existing requirement						
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## 2.8 Disclosure on LTG measures

Policy issue	Options
1. Qualitative information	<ol style="list-style-type: none"> <li>No change</li> <li>Prescribe minimum criteria (preferred)</li> </ol>
2. Quantitative information	<ol style="list-style-type: none"> <li>No change</li> <li>Extend SFCR template with impact of LTG measures on SCR and MCR ratios (preferred)</li> </ol>
3. Sensitivity of undertakings to changes to the application of the extrapolation	<ol style="list-style-type: none"> <li>No change</li> <li>Prescribe disclosure regarding sensitivity analysis (preferred)</li> <li>Prescribe reporting regarding sensitivity analysis</li> </ol>

<b>Disclosure deficiency 1: Poor reflection of the LTG measures in the SFCR summary</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	Not applicable.
	Industry	Not applicable.
	Supervisors	Not applicable.
	Other	Not applicable.
Benefits	Policyholders	Not applicable.
	Industry	Not applicable.
	Supervisors	Not applicable.
	Other	Not applicable.
<b>Option 1.2: Prescribe minimum criteria for disclosure of qualitative information</b>		
Costs	Policyholders	No material impact.
	Industry	➤ More effort spent on disclosure by undertakings on average
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	<ul style="list-style-type: none"> <li>➤ Improved comparability between undertakings</li> <li>➤ Improved transparency of the use of LTG-measures</li> </ul>
	Industry	➤ Improved comparability between undertakings

		➤ Improved transparency of the use of LTG-measures
	Supervisors	➤ Level playing field supported by standardisation
	Other	No material impact.2107

**Disclosure deficiency 6: Insufficient quantification of the impact of LTG measures on SCR and MCR**

**Option 2.1: No change**

Costs	Policyholders	Not applicable.
	Industry	Not applicable.
	Supervisors	Not applicable.
	Other	Not applicable.
Benefits	Policyholders	Not applicable.
	Industry	Not applicable.
	Supervisors	Not applicable.
	Other	Not applicable.

**Option 2.2: Extend SFCR template with impact of LTG measures on SCR and MCR ratios**

Costs	Policyholders	➤ None
	Industry	➤ As impact on SCR and MCR already reported in RSR, no significant impact
	Supervisors	➤ None
	Other	None
Benefits	Policyholders	➤ Quantitative impact of LTG-measures on SCR now directly visible
	Industry	➤ Quantitative impact of LTG-measures on SCR now directly visible
	Supervisors	➤ Quantitative impact of LTG-measures on SCR now directly visible
	Other	Quantitative impact of LTG-measures on SCR now directly visible

**Disclosure deficiency 9: No impact calculations regarding Extrapolation provided**

**Option 3.1: No change**

Costs	Policyholders	Not applicable.
	Industry	Not applicable.
	Supervisors	Not applicable.
	Other	Not applicable.
Benefits	Policyholders	Not applicable.
	Industry	Not applicable.

	Supervisors	Not applicable.
	Other	Not applicable.
<b>Option 3.2: Prescribe disclosure of UFR analysis</b>		
Costs	Policyholders	No material impact.
	Industry	➤ More effort for regular scenario calculation.
	Supervisors	No material impact.
	Other	Not applicable.
Benefits	Policyholders	➤ Better insight into undertaking's individual sensitivities
	Industry	➤ More market transparency of impact of UFR changes
	Supervisors	➤ Better and easier overview of undertakings sensitive to changes to the UFR
	Other	Not applicable.
<b>Option 3.3: Prescribe reporting (without disclosure) of UFR sensitivity analysis</b>		
Costs	Policyholders	No material impact.
	Industry	➤ More effort for regular scenario calculation.
	Supervisors	No material impact.
	Other	Not applicable.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	➤ Better and easier overview of undertakings sensitive to changes to the UFR
	Other	Not applicable.

Policy issue 1: Lack of qualitative information						
	Effectiveness (0/+/>++)			Efficiency (0/+/>++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Prescribe minimum criteria for disclosure of qualitative information	++	+	+	++	+	+

Policy issue 2: Lack of quantitative information						
	Effectiveness (0/+/>++)			Efficiency (0/+/>++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Extend SFCR template with impact of LTG measures on SCR and MCR	++	0	+	++	0	+

Policy issue 3: Lack of sensitivity analysis regarding Extrapolation						
	Effectiveness (0/+/>++)			Efficiency (0/+/>++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Prescribe disclosure of UFR sensitivity analysis	+	0	++	+	0	++
Option 3.2: Prescribe reporting of UFR sensitivity analysis	0	0	++	0	0	++

## 2.9 Long-term and strategic equity investments

Policy issue	Options
Design of the Duration-based equity risk sub-module	

Two separate treatment targeting the risk of long term equity	1. No change 2. Phase out (preferred)
Design of the strategic equity risk treatment	
1. Criteria of lower volatility	1.1 No change 1.2 Deletion of the requirement 1.3 Clarify the requirement and add the beta method as an optional method (preferred) 1.4 Clarify the requirement and add the beta method as a mandatory method
2. Control threshold of 20 percent	2.1 No change 2.2 No change but add a clarification (preferred) 2.3 Deletion 2.4 Reduction to 5 or 10 percent
3. Correlation of risks	3.1 No change 3.2 Address the issue of correlation of risks (preferred)
Design of the long-term equity risk treatment	
1. Diversification between LTE and other risks	1.1 No change 1.2 No diversification between LTE and other equity risks 1.3 No diversification between LTE and other risks
2. Diversified LTE portfolios	2.1 No change 2.2 Only diversified portfolios are eligible (preferred)
3. Controlled intragroup investments	3.1 No change 3.2 Exclude controlled intra-group equity from LTE (preferred)

<b>Policy issue: two separate treatment targeting the risk of long term equity</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
<b>Option 1.2: Phase out</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None

	Industry	➤ Reducing complexity of the Solvency II framework for equity risk
	Supervisors	➤ Reducing complexity of the supervision
	Other	N/A

Policy issue 1: two separate treatment targeting the risk of long term equity						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Phase out	+	0	+	+	0	+

## Design of the strategic equity risk treatment

Policy issue 1: criteria of lower volatility		
<b>Option 1.1: No change</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 1.2: Deletion of criterion</b>		
Costs	Policyholders	➤ Less risk sensitive Solvency regime may impede policyholder protection
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A



Benefits	Policyholders	➤ None
	Industry	➤ Less burdensome application of provisions
	Supervisors	➤ Reducing complexity of supervisory review
	Other	N/A
<b>Option 1.3: Clarify the requirement and add the beta method as an optional method</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ May increased policyholder protection where requirements are more effective ensuring risk sensitive provisions
	Industry	➤ Provides further clarity on how requirement can be fulfilled
	Supervisors	➤ Increase of effectiveness in supervisory review
	Other	N/A
<b>Option 1.4: Clarify the requirement and add the beta method as the mandatory method</b>		
Costs	Policyholders	➤ None
	Industry	➤ One off effort introduce the method for all strategic equity investments
	Supervisors	➤ Adjusting supervisory processes implies one off effort
	Other	N/A
Benefits	Policyholders	➤ May increased policyholder protection where requirements are more effective ensuring risk sensitive provisions
	Industry	➤ Provides further clarity on how requirement can be fulfilled
	Supervisors	➤ Increase of effectiveness in supervisory review
	Other	N/A

<b>Policy issue 2: control threshold of 20 percent</b>		
<b>Option 2.1: No change</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None

	Other	N/A
<b>Option 2.2: No change, but add clarification</b>		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Benefits	Policyholders	None
	Industry	Improved consistency allows easier application
	Supervisors	Improved consistency may reduce efforts in supervisory review process
	Other	N/A
<b>Option 2.3: Delete the requirement</b>		
Costs	Policyholders	➤ Less risk sensitive Solvency regime may impede policyholder protection
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ Less burden for applying the provisions
	Supervisors	➤ May reduce effort on supervisory review
	Other	N/A
<b>Option 2.4: Reduction to 5 or 10 percent</b>		
Costs	Policyholders	➤ Less risk sensitive Solvency regime may impede policyholder protection
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ Extension of application of provisions may make it more effective
	Supervisors	➤ None
	Other	N/A

### Policy issue 3: correlation of risks

#### Option 3.1: No change

Costs	Policyholders	➤ None
	Industry	➤ None

	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 3.2: Address the issue of correlation of risks</b>		
Costs	Policyholders	➤ None
	Industry	<ul style="list-style-type: none"> <li>➤ One off effort to test the correlation on existing strategic investments</li> <li>➤ May make provisions less effective where investments are excluded</li> </ul>
	Supervisors	➤ Increases complexity of provisions and therefore of supervisory review
	Other	N/A
Benefits	Policyholders	➤ More risk sensitive provisions enhance policyholder protection
	Industry	➤ Clarification of requirement ensures sound application
	Supervisors	➤ Clarification on correlation of risks ensures consistent interpretation and application and has positive impact on effectiveness on supervisory review
	Other	N/A

Policy issue I: criteria of lower volatility						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Deletion of criteria	0	+	+	0	+	+
Option 1.3: Clarify the requirement and add the beta method as	0	+	+	0	+	+

an optional method						
Option 1.4: Clarify the requirement and add the beta method as an optional method	0	++	+	0	++	+

Policy issue II: control threshold of 20 percent

	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: No change but add clarification	0	+	+	0	+	+
Option 2.3: Deletion of criteria	0	0	0	0	0	0
Option 2.4: Reduction to 5 or 10 percent	0	0	0	0	0	0

Policy issue 3: correlation of risks

	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups

Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Address the issue	0	+	+	0	+	+

## Design of the long-term equity risk treatment

<b>Policy issue 1: Diversification between LTE and other risks</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
<b>Option 1.2: No diversification between LTE and other equity risks</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ Allowance for potential diversification limitations strengthens policyholder protection.
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
<b>Option 1.3: No diversification between LTE and other risks</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A

Benefits	Policyholders	➤ Allowance for potential diversification limitations strengthens policyholder protection.
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A

**Policy issue 2: Diversified LTE portfolios**

**Option 2.1: No change**

Costs	Policyholders	➤ Not sufficiently prudent
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A

**Option 2.2: Only diversified portfolios are eligible**

Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ Appropriate protection of policyholders, as diversified portfolio are deemed to be less risky and the calibration is based on the analysis of diversified portfolio and/or indices.
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A

**Policy issue 3: Controlled intragroup investments**

**Option 3.1: No change**

Costs	Policyholders	➤ Not sufficiently prudent
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None

	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
<b>Option 3.2: exclude controlled intra-group equity from LTE</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ Better protection as controlled intragroup equity is not used to help meeting the requirement of LTE.
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A

Policy issue 1: Diversification between LTE and other risks						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: No diversification with other equity risks	0	+	0	0	+	0
Option 1.3: No diversification with other risks	0	+	0	0	+	0

Policy issue II: Diversified LTE portfolios						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently	Objective 3: Effective and efficient supervision of (re)insurance	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently	Objective 3: Effective and efficient supervision of (re)insurance

		harmonised rules	undertakings and groups		harmonised rules	undertakings and groups
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: only diversified portfolio are eligible	0	0	+	0	+	+

Policy issue 3: Controlled intragroup investments						
	Effectiveness (0/+ /++) <sup>22</sup>			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 3.1: No change	0	0	0	0	0	0
Option 3.3: Exclude controlled intra-group investment from LTE	+	0	+	+	0	+

## 2.12 Extension of the recovery period

Policy issue 1: Need to clarify the role of the ESRB with respect to the extension of the recovery period		
Option 1.1: No change		
Costs	Policyholders	No material impact.
	Industry	➤ Potential delay of the decision to extend the recovery period if ESRB is consulted by the NSA.
	Supervisors	➤ Uncertainty for supervisors on whether they are expected to consult the ESRB. ➤ High burden to provide ESRB with all necessary information for the assessment at undertaking level.

<sup>22</sup> Effectiveness measures the degree to which the different policy options meet the relevant objectives.

Efficiency measures the way in which resources are used to achieve the objectives. The extent to which objectives can be achieved for a given level of resources/at least cost (cost-effectiveness).



	Other	<ul style="list-style-type: none"> <li>➤ ESRB could be consulted by one or several NSAs on the specific decision to extend the recovery period for each undertaking affected. High burden for ESRB to assess the criteria in Article 289 of the Solvency II Regulation for each of the undertakings affected.</li> <li>➤ Liability risk for ESRB; the ESRB assessment could be challenged by the concerned undertaking, its policyholders/beneficiaries or shareholders.</li> <li>➤ Reputational risk in case the ESRB assessment is against the extension of the recovery period while the concerned NSA is favourable to such extension based on its deeper knowledge of the undertaking under its supervision and considering EIOPA's declaration of an exceptional adverse situation following the assessment of criteria in Article 288 of the Solvency II Regulation.</li> </ul>
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
<b>Option 1.2: Clarify the role of the ESRB</b>		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	➤ Most efficient process, limiting potential delay of the decision to extend the recovery period if ESRB is consulted by the NSA.
	Supervisors	<ul style="list-style-type: none"> <li>➤ Less uncertainty; NSAs not expected to assess the need to the consult ESRB.</li> <li>➤ Full responsibility of the competent NSA to decide on the extension of the recovery period for undertakings under its supervision.</li> </ul>
	Other	<ul style="list-style-type: none"> <li>➤ Where appropriate, ESRB would be consulted by EIOPA in an earlier stage of the process (i.e. before declaring an exceptional adverse situation).</li> <li>➤ EIOPA could benefit from high valuable input for the assessment of the criteria in Article 288 of the Solvency II Regulation; in particular ESRB analysis regarding the EU financial market.</li> <li>➤ Lower burden and liability risks for ESRB.</li> <li>➤ Lower reputational risk.</li> </ul>

Policy issue 1: Need to clarify the role of the ESRB with respect to the extension of the recovery period				
	Effectiveness (0/+ /++)		Efficiency (0/+ /++)	
Options	Effective and efficient supervision of (re)insurance undertakings and groups	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Effective and efficient supervision of (re)insurance undertakings and groups	Limiting procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds
Option 1.1: No change	0	0	0	0

Option 1.2: Clarify the role of the ESRB	+	+	++	++
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### 3 Technical provisions

#### 3.1 Best estimate

Policy issue	Options
Contract boundaries	
Paid-in premiums	<ol style="list-style-type: none"> <li>1. No change</li> <li>2. Clarify that Article 18(3) is only applicable to obligations related to future premiums (preferred)</li> </ol>
Unbundling	<ol style="list-style-type: none"> <li>1. Identification of different parts of a contract according to Article 18(4) should be based on the rights of Article 18(3) instead of on unbundling requirements. No changes needed (preferred)</li> <li>2. Amend Article 18(4) stating that paragraph (3) is to be applied to different parts of the contract only when the contract can be unbundled</li> </ol>
Individual risk assessment	<ol style="list-style-type: none"> <li>1. No change</li> <li>2. Clarify the conditions for the application of the exception</li> <li>3. Deletion of the third paragraph of Article 18(3) (preferred)</li> </ol>
Calculation of Expected Profits In Future Premiums (EPIFP)	<ol style="list-style-type: none"> <li>1. No change</li> <li>2. Include all future losses and the impact of reinsurance in EPIFP (preferred)</li> <li>3. Include all future losses, impact of reinsurance and impact of taxation in EPIFP</li> </ol>
Other future profits	<ol style="list-style-type: none"> <li>1. No change</li> <li>2. Add the notion of expected profits in future fund management fees to the Delegated Regulation (preferred)</li> </ol>
Future Management Actions	
Definition	<ol style="list-style-type: none"> <li>1. No change</li> <li>2. Add future management actions definition in Article 1 (preferred)</li> </ol>
Expenses	
New business	<ol style="list-style-type: none"> <li>1. Hard-going concern principle - no change</li> <li>2. Soft-going concern principle (preferred)</li> </ol>
Valuation of Options and Guarantees	
Dynamic policyholder modelling	<ol style="list-style-type: none"> <li>1. No change (preferred)</li> <li>2. Amend the Delegated Regulation to include a simplified dynamic lapse modelling.</li> <li>3. Amend the Delegated Regulation to accept static policyholder behaviour modelling when there is lack of data for extreme scenarios.</li> </ol>

## Contract boundaries

Policy issue: Paid-in premiums		
<b>Option 1: No change</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Uncertainty on the right interpretation of Article 18(3) of the Delegated Regulation.</li> <li>➤ Divergent practices among undertakings and jurisdictions.</li> </ul>
	Supervisors	➤ Increased burden for the supervision of contract boundaries.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	➤ No changes on current approach, although it may be inconsistent among undertakings and/or jurisdictions.
	Supervisors	No material impact.
	Other	No material impact.
<b>Option 2: Clarify that Article 18(3) is only applicable to obligations related to future premiums.</b>		
Costs	Policyholders	No material impact.
	Industry	➤ Change of approach for undertakings applying Article 18(3) of the Delegated Regulation to obligations related to paid-in premiums. The impact on technical provisions would probably not be material in most of the cases.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Reduction of divergent criteria among undertakings and jurisdictions.</li> <li>➤ Reduced complexity of contract boundaries.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ Reduction of divergent criteria among jurisdictions.</li> <li>➤ Reduced complexity of contract boundaries.</li> <li>➤ With a clearer framework, some NSAs will find easier and less burdensome to challenge divergent approaches in their jurisdictions.</li> </ul>
	Other	➤ Expected alignment with IFRS 17 treatment.

Policy issue: Paid-in premiums						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Efficient supervision of (re)insurance undertakings and groups

Option 1: No change	0	0	0	0	0	0
Option 2: Clarify that Article 18(3) is only applicable to obligations related to future premiums	+	++	+	+	++	+

## Policy issue: Unbundling

Policy issue: Unbundling		
<b>Option 1: Identification of different parts of a contract according to Article 18(4) should be based on the rights of Article 18(3) instead of on unbundling requirements. No changes needed.</b>		
Costs	Policyholders	No material impact.
	Industry	➤ Interpretation of paragraphs (4) and (6) may not be immediately clear, requiring further clarifications yet to be provided.
	Supervisors	➤ Interpretation of paragraphs (4) and (6) may not be immediately clear, requiring further clarifications yet to be provided.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	➤ More granular calculation limiting the impact of the rights of the undertaking only to the obligations affected by them.
	Supervisors	➤ More granular calculation limiting the impact of the rights of the undertaking only to the obligations affected by them. ➤ More meaningful segmentation of contracts. Application of the same criteria to Articles 18(4), 18(6) and 55 may not reflect the different purposes of each article.
	Other	➤ Consistent interpretation of unbundling principle: Risk based. ➤ Reflect differences in wording in the interpretation. "Unbundling" would be relevant only in the provisions where the term appears. ➤ No changes to current wording.
<b>Option 2: Amend Article 18(4) stating that paragraph (3) is to be applied to different parts of the contract only when the contract can be unbundled.</b>		
Costs	Policyholders	No material impact.
	Industry	➤ Change of approach compared to current drafting, leading to a less granular calculation. ➤ Loss of more granular information.
	Supervisors	➤ Less granular calculation since for contracts that cannot be unbundled Article 18(3) will be applied for the contract as whole. ➤ Potential impact on own funds due to the modification of contract boundaries for parts of the contract whose contract boundaries would be different according to the rights strictly affecting to that part of the contract.
	Other	➤ Non-consistent criteria for Article 18(3). Split into parts would be based in the unbundling criteria while paragraph 3 focuses on the unilateral rights of the undertaking. Policy issue 4.2 is an example where such a criteria would potentially lead to undesired results.

Benefits	Policyholders	No material impact.
	Industry	➤ Simplification of Article 18 of the Delegated Regulation since the same rules would apply to paragraphs (4) and (6).
	Supervisors	➤ Simplification of Article 18 of the Delegated Regulation since the same rules would apply to paragraphs (4) and (6).
	Other	No material impact.

Policy issue: Unbundling						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Efficient supervision of (re)insurance undertakings and groups
Option 1: Identification of different parts of a contract according to Article 18(4) should be based on the rights of Article 18(3) instead of on unbundling requirements. No changes needed	0	0	0	0	0	0
Option 2: Amend Article 18(4) stating that paragraph (3) is to be applied to different parts of the contract only when the contract can be unbundled.	0	+	0	0	0	0

3.1 Although the second option could help to harmonize the separation of contracts into parts for contract boundaries purposes, option 2 would also link criteria to separate different parts in Article 18(4) to those in Article 18(6), which may not be the best approach as discussed above. Option 2 can also be seen as a change in the criteria of the Delegates Regulation since “unbundling” currently only appears in Article 18(6). Therefore, EIOPA considers that the same level of harmonization could be achieved without changing the Delegated Regulation by additional clarifications at EIOPA level.

### Policy issue: Individual risk assessment

<b>Policy issue: Exception of the third paragraph of Article 18(3)</b>
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<b>Option 1: No change, i.e. maintain the current wording.</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Uncertainty on the right interpretation of the exception.</li> <li>➤ Risk of divergent practices among jurisdictions.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ Increased burden for the supervision of contract boundaries.</li> <li>➤ Difficulties to challenge alternative interpretations</li> </ul>
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
<b>Option 2: Clarify the conditions for the application of the exception</b>		
Costs	Policyholders	No material impact.
	Industry	➤ Potential impact on technical provisions for undertakings using the exception where there are only technical restrictions. It could lead to a decrease or, more likely, to an increase of technical provisions.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Straightforward interpretation of Article 18(3).</li> <li>➤ Reduction of divergent criteria among jurisdictions.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ Enhanced supervisory convergence and level playing field.</li> <li>➤ Reduced complexity of contract boundaries.</li> </ul>
	Other	No material impact.
<b>Option 3: Deletion of the third paragraph of Article 18(3).</b>		
Costs	Policyholders	➤ Potential impact on product design.
	Industry	<ul style="list-style-type: none"> <li>➤ Impact on technical provisions for undertakings using the exception. It could lead to a decrease or, more likely, to an increase of technical provisions.</li> <li>➤ Potential impact on product design.</li> <li>➤ No reflection in valuation of different economic situations.</li> </ul>
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Reduced complexity of contract boundaries.</li> <li>➤ Reduction of divergent criteria among jurisdictions.</li> </ul>
	Supervisors	➤ Reduced complexity of contract boundaries.
	Other	➤ Consistency among products where premiums and/or benefits can be amended only at portfolio level.

Policy issue: Individual risk assessment- Exception of the third paragraph of Article 18(3)						
Options	Effectiveness (0/+/>++)			Efficiency (0/+/>++)		
	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Efficient supervision of (re)insurance undertakings and groups
Option 1: No changes, i.e. maintain current wording.	0	0	0	0	0	0
Option 2: Clarify the conditions for the application of the exception	++	++	++	++	++	++
Option 3: Deletion of the third paragraph of Article 18(3)	0	+	+	0	+	+

### Policy issue: Calculation of Expected Profits In Future Premiums (EPIFP)

Policy issue: Calculation of Expected Profits In Future Premiums (EPIFP)		
<b>Option 1: No change, i.e. maintain the current wording.</b>		
Costs	Policyholders	No material impact.
	Industry	➤ Incomplete impact of EPIFP in own funds.
	Supervisors	➤ Incomplete impact of EPIFP in own funds.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
<b>Option 2: Include all future losses and the impact of reinsurance in EPIFP</b>		
Costs	Policyholders	No material impact.
	Industry	➤ New calculation required only for information purposes.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.

	Industry	<ul style="list-style-type: none"> <li>➤ Realistic impact of own funds.</li> <li>➤ More detailed information of loss-making and profit-making policies.</li> <li>➤ Detailed information on the impact of reinsurance in future profits.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ Realistic impact of own funds.</li> <li>➤ More detailed information of loss-making and profit-making policies.</li> <li>➤ Detailed information on the impact of reinsurance in future profits.</li> </ul>
	Other	No material impact.
<b>Option 3: Include all future losses, impact of reinsurance and impact of taxation in EPIFP</b>		
Costs	Policyholders	No material impact.
	Industry	➤ New calculation required only for information purposes.
	Supervisors	➤ Lower comparability due to assumptions on taxation.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Realistic impact of own funds.</li> <li>➤ More detailed information of loss-making and profit-making policies.</li> <li>➤ Detailed information on the impact of reinsurance in future profits.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ Realistic impact of own funds.</li> <li>➤ More detailed information of loss-making and profit-making policies.</li> <li>➤ Detailed information on the impact of reinsurance in future profits.</li> </ul>
	Other	No material impact

Policy issue: Calculation of Expected Profits In Future Premiums (EPIFP)						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Promoting good risk management	Ensuring a level playing field through sufficiently harmonised rules	Effective supervision of (re)insurance undertakings and groups	Promoting good risk management	Ensuring a level playing field through sufficiently harmonised rules	Efficient supervision of (re)insurance undertakings and groups
Option 1: No changes, i.e. maintain current wording.	0	0	0	0	0	0
Option 2: Include all future losses and the impact of reinsurance in EPIFP.	++	++	++	++	++	++
Option 3: Include all future	++	+	+	++	+	+



losses, impact of reinsurance and impact of taxation in EPIFP						
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**Policy issue: Other future profits**

Policy issue: Other future profits		
<b>Option 1: No change</b>		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	➤ Incomplete understanding of future profits included in future cash inflows.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
<b>Option 2: Add the notion of expected profits in future fund management fees to the Delegated Regulation.</b>		
Costs	Policyholders	No material impact.
	Industry	➤ New calculation required only for information purposes.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	➤ Deeper understanding of the sources of future profits in case the analysis is not yet performed.
	Supervisors	➤ More complete understanding of profits included in future cash inflows. ➤ More detailed understanding of the components of the reconciliation reserve
	Other	No material impact.

Policy issue: Other future profits						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Promoting good risk	Ensuring a level playing	Effective supervision of	Promoting good risk	Ensuring a level playing	Efficient supervision of

	managemen t	field through sufficiently harmonise d rules	(re)insuranc e undertakings and groups	managemen t	field through sufficiently harmonise d rules	(re)insuranc e undertakings and groups
Option 1: No changes	0	0	0	0	0	0
Option 2: Add the notion of expected profits in future fund management fees to the Delegated Regulation.	++	++	++	++	++	++

## Future Management Actions (FMA)

Policy issue: Future management actions definition		
<b>Option 1: No change</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Uncertainty on the right interpretation of future management actions.</li> <li>➤ Divergent practices among undertakings and jurisdictions.</li> <li>➤ In any case, the quantitative impact on technical provisions is not expected to be material.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ Divergent practices among supervisors.</li> <li>➤ Difficulties to challenge alternative interpretations</li> </ul>
	Other	<ul style="list-style-type: none"> <li>➤ In case of too restrictive interpretations, some future management actions may be considered not to be under the scope of Article 23, which includes a set of conditions to ensure that the future management actions are realistic.</li> </ul>
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
<b>Option 2: Add future management actions definition in Article 1</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Some undertakings may need to widen the framework for future management actions in light with the proposed definition.</li> <li>➤ In any case, the quantitative impact on technical provisions is not expected to be material.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ Change the current approach if not aligned with the proposed definition</li> </ul>
	Other	No material impact.
Benefits	Policyholders	No material impact.

	Industry	<ul style="list-style-type: none"> <li>➤ Straightforward interpretation of Future management actions.</li> <li>➤ Consistent interpretation of Future management across Member States.</li> </ul>
	Supervisors	➤ Enhanced supervisory convergence.
	Other	No material impact.

Policy issue: Future management actions definition						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective and efficient supervision of (re)insurance undertakings and groups
Option 1: No change	0	0	0	0	0	0
Option 2: Add future management actions definition in Article 1	0	++	++	0	++	++

## Expenses

Policy issue: New business		
Option 1: Hard-going concern principle (no change).		
Costs	Policyholders	➤ Where and undertaking has portfolios in run-off, not allowing realistic assumptions usually reduces the amount of expenses projected, thus underestimating technical provisions.
	Industry	<ul style="list-style-type: none"> <li>➤ Unrealistic valuation of best estimate.</li> <li>➤ Assumptions on best estimate not aligned with the real business plan of the undertaking.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ Unrealistic and less prudent assumptions on new business.</li> <li>➤ Once the assumptions depart from the business plan, difficulties to assess which should be the relevant precise assumptions.</li> </ul>
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	➤ Narrower range of assumptions on future business, i.e. simpler assessment.
	Other	➤ In theory, closer to transfer value, a Solvency II principle
Option 2: Soft going concern principle.		
Costs	Policyholders	No material impact.

	Industry	➤ Only undertakings with run-off portfolios not following Q&A 1037 will be affected. For these undertakings, a small increase in technical provisions is expected.
	Supervisors	No material impact.
	Other	➤ In theory, it may be considered to depart from transfer value. In practical terms, this would not be always the case.
Benefits	Policyholders	➤ No underestimation of technical provisions.
	Industry	➤ Straightforward interpretation of Articles 31 and 7. ➤ Realistic assumptions.
	Supervisors	➤ Enhanced supervisory convergence. ➤ Realistic assumptions. ➤ More prudent assumptions.
	Other	No material impact.

Policy issue: New business						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Efficient supervision of (re)insurance undertakings and groups
Option 1: Hard going-concern principle (no change)	0	0	0	0	0	0
Option 2: Soft going-concern principle	+	++	++	+	++	++

## Valuation of Options and Guarantees

Policy issue: Dynamic policyholder modelling		
Option 1: No change in the Delegated Regulation.		
Costs	Policyholders	No material impact.
	Industry	➤ Undertakings not following a dynamic approach will still need to calibrate policyholder behaviour themselves unless they can demonstrate that a purely static approach is more accurate.
	Supervisors	➤ Currently there is lack of convergence using dynamic modelling mainly due to technical reasons. Therefore, if nothing changes, supervisors may face difficulties to change the current situation. However, this could be solved with additional guidance from EIOPA on the calibration of dynamic models.

	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
<b>Option 2: Amend the Delegated Regulation to include a simplified dynamic lapse modelling.</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Undertakings not following a dynamic approach will have to switch to the simplified dynamic modelling or model policyholder behaviour themselves unless they can demonstrate that a purely static approach is more accurate.</li> <li>➤ It is unclear whether a common simplified approach for such a wide range of products would indeed produce more accurate results.</li> <li>➤ Lack of awareness of the real dynamic behaviour of undertaking's portfolios.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ It is unclear whether it is possible to have a meaningful approach common for all jurisdictions. It would probably require to model policyholder behaviour at national level.</li> <li>➤ It is unclear whether a common simplified approach for such a wide range of products would indeed produce more accurate results.</li> </ul>
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	➤ Level playing field across jurisdictions.
	Supervisors	➤ Increased convergence among Member States.
	Other	No material impact.
<b>Option 3: Amend the Delegated Regulation to accept static policyholder behaviour modelling when there is lack of data for extreme scenarios.</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Lower understanding of the real dynamic behaviour of their portfolios.</li> <li>➤ Divergent practices not addressed.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ Lower understanding of the real dynamic behaviour.</li> <li>➤ Divergent practices not addressed</li> </ul>
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	➤ Avoiding the burden of more complex calculation which may not immediately lead to more accurate technical provisions due to the lack of enough data.
	Supervisors	➤ Avoiding complex assumptions on dynamic modelling usually strongly based on expert judgement which may be hard to supervise and verify.
	Other	No material impact.

Policy issue: Dynamic policyholder modelling

Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Effective supervision of (re)insurance undertakings and groups	Ensuring adequate market-consistent technical provisions	Ensuring a level playing field through sufficiently harmonised rules	Efficient supervision of (re)insurance undertakings and groups
Option 1: No change in the Delegated Regulation.	0	0	0	0	0	0
Option 2: Amend the Delegated Regulation to include a simplified dynamic lapse modelling.	0	+	0	0	+	0
Option 3: Amend the Delegated Regulation to accept static policyholder behaviour modelling when there is lack of data for extreme scenarios.	0	+	0	0	+	0

3.2 EIOPA considers that harmonization could be achieved under the current provisions of the Delegated Regulation with additional guidance on the calibration of dynamic models provided by EIOPA, instead of having a common simplification or waiving the requirement to model dynamic policyholder behaviour. Through this guidance it should also be clarified that the lack of data for extreme scenarios is not a reason itself to not model dynamic policyholder behaviour. Therefore, EIOPA's preferred option is Option 1.

## 4 Own funds

### 4.2 Tiering and ancillary own funds

Policy issue	Options
Differences between the Solvency II own funds categorisation system and the banking framework	1.1 No change (preferred) 1.2 Remove the Solvency II Tier 3, DTAs would however remain an own fund item limited to 15% of the SCR

#### Policy issue 1: Differences between the Solvency II own funds categorisation system and the banking framework

Option 1.1: No change		
Costs	Policyholders	No material impact.
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact
Option 1.2: Remove the Solvency II Tier 3. DTAs would however remain an own fund item limited to 15% of the SCR.		
Costs	Policyholders	No material impact.
	Industry	Potential costs on currently issued subordinated debt and AOFs that would not be considered anymore as own fund items in case of absence of grandfathering. Costs of system changes
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	The quality of own funds would be improved, and hence policyholder protection.
	Industry	No material impact.
	Supervisors	Simplification of the framework as it would not be needed anymore to assess whether the features of Tier 3 items are met.
	Other	Overall long term benefits of streamlining and simplification. Higher quality level of the capital

Policy issue 1: Differences between the Solvency II own funds categorisation system and the banking framework						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Effective and efficient supervision of (re)insurance	Ensuring a level playing field through sufficiently harmonised rules	Improving transparency and better comparability	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring a level playing field through sufficiently harmonised rules	Improving transparency and better comparability

	undertakings and groups					
Option 1.1	0	0	0	0	0	0
Option 1.2	0	+	+	+	+	+

### 4.3 Undue volatility

Policy issues	Options
1. Volatility of own funds: Limit for restricted Tier 1	1.1 No change (preferred) 1.2 Express the limit to unrestricted Tier 1 own funds (hybrid instruments) as a percentage of the SCR (for example to 20% of the SCR) and increase the minimum limit to Tier 1 own funds items instrument (for example, to 60% of the SCR).
2. Volatility of own funds: Limit for Tier 2 +Tier 3	2.1 No change (preferred) 2.2 Delete the limit for Tier 2 + Tier 3

Policy issue 2: Limit for restricted Tier 1		
Option 2.1: No change		
Costs	Policyholders	No impact
	Industry	No impact
	Supervisors	No impact
	Other	No impact
Benefits	Policyholders	No impact
	Industry	No impact
	Supervisors	No impact
	Other	No impact
Option 2.2: Express the limit to unrestricted Tier 1 own funds (Hybrid instruments) as a percentage of the Solvency capital requirement (for example to 20 % of the SCR) and to increase the minimum limit to Tier 1 own funds items instrument (for example, to 60 % of the SCR).		
Costs	Policyholders	No impact
	Industry	Could decrease the eligible amount of restricted Tier (but to increase it as well depending of the solvency situation). Decrease of quality of OFs
	Supervisors	
	Other	
Benefits	Policyholders	No impact
	Industry	Allows to avoid a decrease of the eligible amount of restricted Tier 1 due to a decrease of unrestricted Tier 1



	Supervisors	
	Other	

**Policy issue 3: Limit for Tier 2 +Tier 3**

**Option 3.1: No change**

Costs	Policyholders	No impact
	Industry	No impact
	Supervisors	No impact
	Other	No impact
Benefits	Policyholders	No impact
	Industry	No impact
	Supervisors	No impact
	Other	No impact

**Option 3.2: Delete the 50% limit for lower Tiers, but maintain a minimum amount of Tier 1 in total eligible own funds (currently one third of total eligible own fund). AOFs would be eligible up to 50% of the SCR (a lower limit would apply for AOFs other than calls for supplementary contributions by members of mutual or mutual-type associations).**

Costs	Policyholders	Lower level of policyholder protection due to lower quality of capital and increased interest coupon payments. However, the safeguard of a minimum amount of Tier 1 in total eligible own funds would limit the risks although this creates procyclicality.
	Industry	Apart from the restriction on ancillary own funds – which in any case currently represent a minor share of the SCR – no material impact. There will be a minimum amount of Tier 1 in total eligible capital (art 93), which creates procyclicality.
	Supervisors	Need to have a stronger monitoring of the quality of capital, as two companies with the same solvency ratio could display very different capital structures (Tier 1 could make up less than 50% of Total own funds). Also the future capital generation should be monitored and the pressure of interest payments, given that there will be more coupon payments.
	Other	
Benefits	Policyholders	
	Industry	Could increase the available amount of Tier 2. Could help to create a buffer of own funds above SCR. Industry could have easier financing of capital to improve their solvency position
	Supervisors	No benefit.
	Other	

**4.4 Clarity of availability criteria**

Policy issues	Options
4. "Excessive" double leveraging	4.1 amendment of art. 258 of the Solvency II Directive (preferred)

	4.2 Require the insurance undertaking in a group to conduct an assessment of the parent undertaking risk profile
	4.3 No change

<b>Policy issue 4: "Excessive" double leverage (ratio above 100%)</b>		
<b>Option 4.1: amendment of art. 258 of the Solvency II Directive</b>		
Costs	Policyholders	No material impact.
	Industry	Potential impact on group capital management policy due to the potential supervisory action in case of leverage ratio above 100%. However, this option simply implies clarifying a power which is supposedly already at the disposal of group supervisors.
	Supervisors	No material impact since the requirement for the group supervisor to assess the level of double leverage and take actions when it is excessive is already within the scope of empowerments envisaged by art. 258 gives the empowerment to supervisors to take actions in these specific cases.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	Better understanding of the group supervisor of the risks on the solvency/financial situation at group level
	Other	No material impact
<b>Option 4.2: require the insurance undertaking in a group to conduct an assessment of the parent undertaking risk profile</b>		
Costs	Policyholders	No material impact.
	Industry	Costs for the subsidiary caused by the enlargement of the assessment to the risk profile of the parent undertaking due to this specific financing structure.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	Better understanding of the subsidiary of the risks connected with the financing transactions and less pressure by the parent undertaking on distributions.
	Supervisors	Insight of the risks connected with the capital management at group level
	Other	No material impact.
<b>Option 4.3: No change</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact

	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact

Policy issue 4: "Excessive" double leverage (ratio above 100%)						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring a level playing field through sufficiently harmonised rules	Improving transparency and better comparability	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring a level playing field through sufficiently harmonised rules	Improving transparency and better comparability
Option 4.1	++	+	0	++	+	0
Option 4.2	+	+	0	+	+	0
Option 4.3	0	0	0	0	0	0

## 4.5 Correct attribution of items

Policy issue 5: Attribution of EPIFPs to Tier 1		
Option 5.1: No changes in OF regulation, amendment of art. 37 on capital add-on (preferred)		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	Increased consumer protection.
	Industry	No material impact.
	Supervisors	Possible immediate action of NSAs to impose Capital Add-on.
	Other	No
Option 5.2: Limiting the recognition of EPIFP as uT1 own funds		
Costs	Policyholders	Increased consumer protection.
	Industry	To be calculated on individual data by EIOPA. It could have impact for some undertakings in case they have of high share of EPIFP.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	Increased consumer protection.
	Industry	Higher quality of Tier 1 own funds immediately available to absorb losses. It creates incentives to improve capital management.

	Supervisors	Higher quality of Tier 1 own funds immediately available to absorb losses.
	Other	Improvement of market stability from macroprudential perspective.
<b>Option 5.3: Downgrade the Tiering of EPIFP</b>		
Costs	Policyholders	Increased consumer protection.
	Industry	To be calculated on individual data by EIOPA. It could have impact in case of high share of current EPIFP.
	Supervisors	No material impact.
	Other	No material impact.
Benefits	Policyholders	Increased consumer protection.
	Industry	Higher quality of Tier 1 own funds immediately available to absorb losses. It creates incentives to improve capital management.
	Supervisors	Higher quality of Tier 1 own funds immediately available to absorb losses. It creates incentives to improve capital management.
	Other	Improvement of market stability from macroprudential perspective.

Policy issue 5: Attribution of EPIFPs to Tier 1						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring a level playing field through sufficiently harmonised rules	Improving transparency and better comparability	Effective and efficient supervision of (re)insurance undertakings and groups	Ensuring a level playing field through sufficiently harmonised rules	Improving transparency and better comparability
Option 5.1	+	+	+	+	+	+
Option 5.2	++	++	+	++	++	+
Option 5.3	++	++	+	++	++	+

## 5 Solvency Capital Requirement standard formula

### 5.1 Interest rate risk

Policy issues	Options
Calibration of the interest rate risk sub-module	1. No change 2. Update the calibration in line with empirical data (preferred)

Policy issue: Calibration of the interest rate risk sub-module		
<b>Option 1: No change</b>		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
<b>Option 2: Update the calibration in line with empirical data</b>		
Costs	Policyholders	None
	Industry	Increased capital requirements for interest rate risk
	Supervisors	None
	Other	
Benefits	Policyholders	Improved policyholder protection as risk-based capital requirements will increase resilience of the undertaking and improve its supervision.
	Industry	Promoting good risk management as the capital requirement is more risk sensitive and better captures the undertaking's risk profile.
	Supervisors	More effective and efficient supervision as capital requirements better captures the undertaking's risk profile.
	Other	

#### Proportionality

5.1 Proportionality was taken into account in option 2 by keeping the calculation of the capital requirement simple.

#### Evidence

5.2 During the analysis the following evidence has been used:

- Interest rate time series for the EEA currencies were used to calibrate the shock components of the interest rate risk sub-module.
- In 2017 EIOPA carried out an information request to insurance and reinsurance undertakings in order to assess the impact of updating the calibration (based on an LLP of 20 years) on the undertakings' solvency position. Results of that information request are set out in EIOPA's second set of advice to the European Commission on the review of specific items in the Delegated Regulation (pages 476 to 482).

5.3 EIOPA intends to collect further data on the impact of the updated calibration from insurance and reinsurance undertakings during the calculation.

Policy issue: Calibration of the interest rate risk sub-module			
	Effectiveness (0/+ /++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 1: No change	0	0	0
Option 2: Update the calibration in line with empirical data	++	++	+

Policy issue: Calibration of the interest rate risk sub-module			
	Efficiency (0/+ /++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 1: No change	0	0	0
Option 2: Update the calibration in line with empirical data	++	++	+

## 5.4 Correlation matrices

Policy issues	Options
Calibration of the correlation matrices	1. No change (preferred)

	2. Update the calibration in line with empirical data
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<b>Policy issue: Calibration of the correlation matrices</b>		
<b>Option 1: No change</b>		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
Benefits	Policyholders	If current calibration is deemed appropriate, policyholder protection maintains as risk-based capital requirements increase resilience of the undertaking and improve its supervision.
	Industry	If current calibration is deemed appropriate, good risk management is maintained as the capital requirement is risk sensitive and sufficiently captures the undertaking's risk profile.
	Supervisors	If current calibration is deemed appropriate, effective and efficient supervision is maintained.
	Other	None
<b>Option 2: Update the calibration in line with empirical data</b>		
Costs	Policyholders	None
	Industry	Potentially increased capital requirements
	Supervisors	None
	Other	
Benefits	Policyholders	If current calibration is deemed inappropriate, improved policyholder protection as risk-based capital requirements will increase resilience of the undertaking and improve its supervision.
	Industry	If current calibration is deemed inappropriate, promoting good risk management as the capital requirement is more risk sensitive and better captures the undertaking's risk profile.
	Supervisors	If current calibration is deemed inappropriate, more effective and efficient supervision as capital requirements better captures the undertaking's risk profile.
	Other	

### Evidence

EIOPA has used market risk data and QRT data to assess the appropriateness of the correlation matrices.

### Comparison of options

5.4 The preferred policy option for this policy issue is to keep the structure of the correlation matrices and the correlation parameters unchanged since sufficiently strong evidence supporting a change could not be found in the empirical data. Accordingly, keeping the correlation matrices unchanged maintains the protection

of policyholders, promotes good risk management in the insurance industry and allows effective and efficient supervision.

Policy issue: Calibration of the correlation matrices			
	Effectiveness (0/+ /++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 1: No change	++	++	+
Option 2: Update the calibration in line with empirical data	0	0	0

## 5.5 Counterparty default risk

Policy issues	Options
1. Overburdened calculation for the risk-mitigating effect of derivatives, reinsurance arrangement, securitisation	<p>1. 1 No change</p> <p>1.2 Include an additional simplified calculation for the risk-mitigating effect of derivatives or reinsurance arrangements, special purpose vehicles and insurance securitisations (preferred)</p>
2. Implication of the identification of largest man-made exposures on the calculation of the risk-mitigating effect of reinsurance arrangements: hypothetical SCR	<p>2.1 No change</p> <p>2.2 Hypothetical SCR for the fire, marine and aviation risk for the purpose of determining the risk mitigation effect in the counterparty default risk module calculated based on the largest gross risk concentration for the fire, marine and aviation risk (preferred)</p> <p>2.3 SCR for the fire, marine and aviation risk is calculated on a net of reinsurance basis <b>and</b> for the purpose of the hypothetical SCR in the CDR calculations the non-existence of the reinsurance arrangement does not alter the identification of the largest risk concentration for the fire, marine and aviation risk submodules.</p>
3. Capital requirements for forborne and default loans	<p>3.1 No change</p> <p>3.2 Move the forborne and default loans under the type 2 of the counterparty default module (preferred)</p>



4. Effective recognition of partial guarantees of mortgage loans	<p>4.1 No change</p> <p>4.2 Further adjust the requirements for the recognition of partial guarantees for mortgage loans (preferred)</p>
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**Policy issue 1: Overburdened calculation for the risk-mitigating effect of derivatives, reinsurance arrangement, securitisation**

**Option 1.1: No change**

Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None

**Option 1.2: Include and additional simplified calculation for the risk-mitigating effect of derivatives or reinsurance arrangement or securitisation**

Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
Benefits	Policyholders	The risk that more complex strategies do not work as anticipated is avoided
	Industry	Risks and costs associated with more complexity are avoided
	Supervisors	Easier to supervise as supervisors do not have to assess potentially complex strategies
	Other	NA

Proportionality

5.5 Proportionality was taken into account in option 1.2 by keeping the calculation of the capital requirement simple.

**Policy issue 1: Overburdened calculation for the risk-mitigating effect of derivatives, reinsurance arrangement, securitisation**

	Effectiveness (0/+ /++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management

Option 1.1: No change	0	0	0
Option 1.2: Include and additional simplified calculation for the risk-mitigating effect of derivatives or reinsurance arrangement or securitisation (preferred)	+	+	+
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 1.1: No change	0	0	0
Option 1.2: Include and additional simplified calculation for the risk-mitigating effect of derivatives or reinsurance arrangement or securitisation (preferred)	+	+	+

**Policy issue 2: Implication of the identification of largest man-made exposures on the calculation of the risk-mitigating effect of reinsurance arrangements: hypothetical SCR Overburdened calculation for the risk-mitigating effect of derivatives, reinsurance arrangement, securitisation**

**Option 2.1: No change**

Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None

**Option 2.2: SCR for the fire, marine and aviation risk is calculated on a net of reinsurance basis but the hypothetical SCR in the CDR calculations assumes a gross of reinsurance basis for the fire, marine and aviation risk submodules**

Costs	Policyholders	None
	Industry	Depending on the profile of the insurer this may create substantial inconsistencies between the CDR submodule and the catastrophe risk submodules and may not accurately

		represent the additional losses arising in the stressed situation.
	Supervisors	None
	Other	NA
Benefits	Policyholders	None
	Industry	Minimises the calculation burden for undertakings
	Supervisors	Easier to supervise
	Other	NA
<b>Option 2.3: SCR for the fire, marine and aviation risk is calculated on a net of reinsurance basis and for the purpose of the hypothetical SCR in the CDR calculations the non-existence of the reinsurance arrangement does not alter the identification of the largest risk concentration for the fire, marine and aviation risk submodules.</b>		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	NA
Benefits	Policyholders	None
	Industry	Minimises the calculation burden for undertakings
	Supervisors	Easier to supervise
	Other	NA

<b>Policy issue 2: Implication of the identification of largest man-made exposures on the calculation of the risk-mitigating effect of reinsurance arrangements: hypothetical SCR Overburdened calculation for the risk-mitigating effect of derivatives, reinsurance arrangement, securitisation</b>			
	Effectiveness (0/+ /++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 2.1	0	0	0
Option 2.2	+	++	+
Option 2.3	+	++	+
	Efficiency (0/+ /++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 2.1	0	0	0

Option 2.2	++	++	++
Option 2.3	++	++	++

<b>Policy issue 3: Capital requirements for forborne and default loans</b>		
<b>Option 3.1: No change</b>		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
<b>Option 3.2 move the forborne and default loans under the type 2 of the counterparty default module</b>		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	NA
Benefits	Policyholders	None
	Industry	Guarantee more coherence with the underlying credit risk, increase the risk sensitivity of the loan capital requirements, help to overcome the valuation hurdles of the loans, and disincentive moral hazard investment in high risk credit portfolios.
	Supervisors	None
	Other	NA

<b>Policy issue 3: Capital requirements for forborne and default loans</b>			
	Effectiveness (0/+ /++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 3.1: No change	0	0	0
Option 3.2 move the forborne and default	++	++	++

loans under the type 2 of the counterparty default module			
	Efficiency (0/+/++)		
Options	Objective 1: Ensuring adequate risk sensitive capital requirements	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Promoting good risk management
Option 3.1: No change	0	0	0
Option 3.2 move the forborne and default loans under the type 2 of the counterparty default module	++	++	++

<b>Policy issue 4: effective recognition of partial guarantees for mortgage loans in SF SCR</b>		
<b>Option 4.1: No change</b>		
Costs	Policyholders	➤ None
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 4.2: Adjust the requirement for the recognition of partial guarantees for mortgage loans</b>		
Costs	Policyholders	➤ Lower capital requirements generally reduce the policyholder protection, but the reduction is expected to be small
	Industry	➤ None
	Supervisors	➤ None
	Other	N/A
Benefits	Policyholders	➤ None
	Industry	➤ Lower capital requirements for less riskier mortgage loans with partial guarantees
	Supervisors	➤ Improved incentives from capital requirements as less riskier mortgage loans with partial guarantees get a lower capital requirement
	Other	N/A

Policy issue 4: Effective recognition of partial guarantees of mortgage loans in the SF SCR						
	Effectiveness (0/+ /++) <sup>23</sup>			Efficiency (0/+ /++)		
Options	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 1: Improving transparency and better comparability	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of (re)insurance undertakings and groups
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Adjust the requirement for the recognition of partial guarantees for mortgage loans	+	+	+	+	+	+

## 5.10 Risk mitigation techniques

Policy issues	Options
1. Methods for the recognition of the most common non-proportional reinsurance covers for non-life underwriting risks in the SCR standard formula	Not applicable – No policy option proposed, only call to stakeholders for clarifications and new proposals
2. Recognition of adverse development covers and finite reinsurance covers	Not applicable – No policy option proposed, only call to stakeholders for clarifications and new proposals
3. Recognition of capital contingent to reduce the SCR	3.1 Recognition of these instruments in the standard formula 3.2 Non-recognition of these instruments in the standard formula (preferred)
4. Recognition of contingent convertible bonds to reduce the SCR	4.1 Recognition of these instruments in both standard formula and internal models 4.2 Recognition of these instruments only in internal models (preferred) 4.3 Non-recognition of these instruments in standard formula and internal models

<sup>23</sup> Effectiveness measures the degree to which the different policy options meet the relevant objectives. Efficiency measures the way in which resources are used to achieve the objectives. The extent to which objectives can be achieved for a given level of resources/at least cost (cost-effectiveness).

5. Clarity of current provisions on the assessment of basis risk in the Delegated regulation	<p>5.1 No change</p> <p>5.2 Specify in the regulations that the reduction in the SCR capital requirements, or increase in the available capital is commensurate with the extent of risk transfer (preferred)</p>
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**Policy issue 2: Recognition of adverse development covers and finite reinsurance covers**

**Option 2.1: No change**

Costs	Policyholders	
	Industry	
	Supervisors	
	Other	
Benefits	Policyholders	
	Industry	
	Supervisors	
	Other	

**Option 2.2: Recognize those covers as a RMT**

Costs	Policyholders	Would allow for cases of underestimation of the real risk
	Industry	
	Supervisors	
	Other	
Benefits	Policyholders	
	Industry	Grant the request they are reiterating
	Supervisors	
	Other	

**Policy issue 3: Recognition of capital contingent to reduce the SCR**

**Option 3.1: Recognition of these instruments in internal models**

Costs	Policyholders	
	Industry	<ul style="list-style-type: none"> <li>- Proper modelling is needed (including counterparty risk and execution risk)</li> <li>- Would favour non EU counterparties (because of the banking treatment)</li> </ul>

	Supervisors	
	Other	- Create inconsistency between standard formula and internal models
Benefits	Policyholders	
	Industry	Clarification on how to treat these instruments in internal models
	Supervisors	Clarification on how to treat these instruments in internal models
	Other	
<b>Option 3.2: Non-recognition of these instruments in internal models</b>		
Costs	Policyholders	
	Industry	
	Supervisors	
	Other	
Benefits	Policyholders	
	Industry	Clarification on how to treat these instruments in internal models
	Supervisors	- Clarification on how to treat these instruments in internal models - Prudent approach (execution risk apprehended)
	Other	No inconsistency between standard formula and internal models

<b>Policy issue 4: Recognition of contingent convertible bonds to reduce the SCR</b>		
<b>Option 4.1: Recognition these instruments in both standard formula and internal models</b>		
Costs	Policyholders	
	Industry	Proper modelling is needed
	Supervisors	
	Other	
Benefits	Policyholders	
	Industry	Clarification on how to treat these instruments
	Supervisors	Clarification on how to treat these instruments
	Other	No inconsistency between standard formula and internal models
<b>Option 4.2: Recognition of these instruments only in internal models</b>		
Costs	Policyholders	
	Industry	Proper modelling is needed (including execution risk)
	Supervisors	



	Other	Create inconsistency between standard formula and internal models
Benefits	Policyholders	
	Industry	Clarification on how to treat these instruments
	Supervisors	Clarification on how to treat these instruments
	Other	
<b>Option 4.3: Non-recognition of these instruments in standard formula and internal models</b>		
Costs	Policyholders	
	Industry	
	Supervisors	
	Other	
Benefits	Policyholders	
	Industry	Clarification on how to treat these instruments
	Supervisors	<ul style="list-style-type: none"> <li>- Clarification on how to treat these instruments</li> <li>- Prudent approach (execution risk apprehended)</li> </ul>
	Other	No inconsistency between standard formula and internal models

**Policy issue 5: Clarity of current provisions on the assessment of basis risk in the Delegated regulation**

<b>Option 5.1: No change</b>		
Costs	Policyholders	Persistence of a potentially not adequate protection due to an underestimation of the effective risk an undertaking is exposed to.
	Industry	
	Supervisors	Powerlessness to object to situations where an inappropriate use of some RMTs is made
	Other	
Benefits	Policyholders	
	Industry	
	Supervisors	
	Other	
<b>Option 5.2: Specify in the regulations that the reduction in the SCR capital requirements, or increase in the available capital is commensurate with the extent of risk transfer</b>		
Costs	Policyholders	
	Industry	Potentially higher SCR in case they have so far benefited from using reductions in requirements not commensurate with the extent of risk transfer
	Supervisors	
	Other	

Benefits	Policyholders	More adequate and risk sensitive protection level
	Industry	
	Supervisors	They would be given a legal hook to avoid situations where a RMT is used to significantly reduce the SCR while there is only limited risk transfer.
	Other	

## 5.9 Reducing reliance on external ratings

Policy issues	Options
1.Scope of assets subject to the alternative credit assessment currently provided for in the DR	<p>1.1 No change (preferred)</p> <p>1.2 Broaden the scope of the current undertaking's own internal credit assessment to include certain corporate exposures that already have an ECAI rating.</p>
2.Recognition of additional methods allowing for a wider use of alternative credit assessment	<p>2.1 Use of a composite index</p> <p>2.2 Recognize, at this stage, new alternative credit assessment approach to mirror rated bonds features.</p> <p>2.3 No recognition of additional methods for the time being, but open an analysis table to investigate how alternative credit assessment could be tailored to some specific rated exposures under a standard methodology (preferred)</p>

<b>Policy issue 1: Scope of assets subject to the alternative credit assessment currently provided for in the DR</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	No further reduction of reliance on ECAI ratings
	Industry	Fees for obtaining rating and need to ensure transparency
	Supervisors	No control of the external ratings
	Other	Cyclicality of clustered rating trends may jeopardize financial stability
Benefits	Policyholders	Prudent to not expand the scope of the new approach until we have some supervisory experience of its effectiveness
	Industry	No other investments in processes change

	Supervisors	Lower supervisory work to control compliance and robustness of internal processes
	Other	N/A
<b>Option 1.2: Broaden the scope of assets subject to the alternative credit assessment currently provided for in the DR, including certain corporate exposures that have an ECAI rating</b>		
Costs	Policyholders	The approach is untested, so broadening the scope, at this stage, may have unintended consequences
	Industry	The internal assessment approach was developed for unrated debt, which has different characteristics to rated debt (e.g. in relation to size, types of company, features of debt) It is less sophisticated and risk sensitive than an ECAI rating Forcing all players to use the internal assessment approach may increase the burden on small undertakings compared to using ECAI ratings Banks' internal model may stoke adverse selection (bank retains some exposure to the debt) Costs for attaining transparency of information (the insurer needs to have sufficient information about the model and data used by the bank in coming to the rating)
	Supervisors	Higher supervisory work to control compliance and consistency of application across the industry Banks' internal models may encourage insurers to place reliance on banks instead of ECAIs, without any improvement to risk management Moral hazard of coinvestments with banks, without adequate regard to the credit quality It has not been tested and may have unintended consequences
	Other	Prudent to not expand the scope of the new approach until we have some supervisory experience of its effectiveness For internal models there are also some concerns in the banking industry about the lack of consistency between the models, with different models potentially producing different ratings for the same exposure. There is a trend within the banking industry to reduce reliance on internal models There are concerns in relation to the banks willingness to share information on its model, as they may classify this information as sensitive Prudent to not expand the scope of the new approach, until we have some supervisory experience of its effectiveness
Benefits	Policyholders	Reduction of reliance on ECAI ratings
	Industry	Achievement of improved risk management in relation to corporate debt exposures

		Savings to not pay the ECAI fees
	Supervisors	No additional resources to develop a new methodology
	Other	Lower procyclicality
<b>Policy issue 2: Recognition of additional methods allowing for a wider use of alternative credit assessment</b>		
<b>Option 2.1: Use of composite index</b>		
Costs	Policyholders	Minor reduction of reliance from credit agencies
	Industry	Revision of the processes and internal procedure to take into account the updated regulation
	Supervisors	No control of the rating methodologies
	Other	Increase of the procyclicality
Benefits	Policyholders	No need to further develop methodologies
	Industry	Lower fees to be paid to the agencies
	Supervisors	Less intensive resources for monitoring
	Other	N/A
<b>Option 2.2: Recognize, at this stage, the new alternative credit assessment approach to mirror rated companies features</b>		
Costs	Costs	The approach is untested, so broadening the scope at this stage may have unintended consequences
	Industry	Higher development burden and costs to develop more complex models
	Supervisors	Heavier supervisory tasks and need for additional resources to supervise different models
	Other	Methodology still to be developed More burdensome for small companies Possible longer implementation period due to the drafting of the methodology
Benefits	Benefits	Reduction of reliance from external rating
	Industry	Increase of internal risk management expertise and higher possible use of models for credit quality management More robust and fit for purpose models Savings to not pay the ECAI fees
	Supervisors	Higher control of the risk management internal process and effectiveness to change eventual malfunctioning
	Other	N/A
<b>Option 2.3: No recognition of additional methods for the time being, but open an analysis table to investigate how the new alternative credit assessment methods could be tailored on specific rated exposures and under a standard methodology</b>		

Costs	Policyholders	Longer development period
	Industry	Uncertainty about the regulatory developments
	Supervisors	Delay in improvement of internal risk management processes
	Other	N/A
Benefits	Policyholders	Consistent and appropriate reduction of reliance on external rating
	Industry	Potential use of regulatory standard criteria for strengthening internal risk management processes
	Supervisors	Fostering of improvement of risk management
	Other	

### Comparison of options

- 5.6 Regarding the policy issues the proposal is to not recognize additional methods for the time being, but to open an analysis investigating if and how alternative credit assessment could be tailored on specific rated exposures and under a standard methodology. The purpose is to overcome the potential shortcomings to be faced where a methodology drafted for unrated debt is used and to allow the undertakings to invest in regulatory models to be used in internal risk management. Moreover, it would allow to perform an impact assessment before the final methodology is set up. The other options considered have been disregarded because not fit for purpose, could entail moral hazard and adverse selection, may pose risk to consistency and does not ensure enough control of the processes and compliance.
- 5.7 The selection of the preferred option has required a trade-off between adequacy of the approach and prudence of the methodology chosen. More weight has been given to pursuement of a robust method other than timing, because it would help the industry to conform to the risk management best practices and to limit eventual undesirable consequences.

Policy issue 1: Scope of assets subject to the alternative credit assessment currently provided for in the DR			
	Effectiveness (0/+/++)		
Options	Objective 1: adequacy market-consistent technical provisions	Objective 2: appropriateness of risk sensitive capital requirements	Objective 3: promotion of good risk management
Option 1.1: No change	0	0	0

Option 1.2: Broaden the scope of assets subject to the alternative credit assessment currently provided for in the DR including certain corporate exposures that have an ECAI rating	+	+	++
Policy issue 2: Recognition of additional methods allowing for a wider use of alternative credit assessment			
Option 1.1: Use of composite index	0	+	0
Option 1.2: Recognize, at this stage, the new alternative credit assessment approach to mirror rated companies features	0	0	+
Option 1.3: No recognition of additional methods for the time being, but open an analysis table to investigate how the new alternative credit assessment methods could be tailored on specific rated exposures and under a standard methodology	++	++	++

## 6 Minimum Capital Requirement

Policy issues	Options
1. Use of cap and floor	<p>1.1 No change to the 25%-45% corridor (preferred)</p> <p>1.2 Enlarge the corridor to 20%-50% of the SCR</p> <p>1.3 Delete the calculation of the linear MCR and state that MCR is the maximum between the absolute floor and 35% of the SCR</p>
2. Consistency with a VaR 85%	2.1 No change in the methodology (update of the parameters)
3. Identification of eligible basic own funds items for composite undertakings	3.1 No change (preferred)

	<p>3.2 Suppress the calculation of these notional MCRs for life and non-life</p> <p>3.3 Define precisely which own funds should be allocated to the life side and which own funds should be allocated to the non-life side</p>
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<b>Policy issue 1: Use of cap and floor</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	No.
	Industry	No.
	Supervisors	No.
	Other	No.
Benefits	Policyholders	No.
	Industry	No.
	Supervisors	No.
	Other	No.
<b>Option 1.2: Enlarge the corridor to 20%-50% of the SCR</b>		
Costs	Policyholders	No.
	Industry	Create more discrepancies between undertakings
	Supervisors	No.
	Other	No.
Benefits	Policyholders	No.
	Industry	More risk-based (as the cap and the floor will be less impacted)
	Supervisors	More risk-based (as the cap and the floor will be less impacted)
	Other	No.
<b>Option 1.3: Delete the calculation of the linear MCR and state that MCR is the maximum between the absolute floor and 35% of the SCR</b>		
Costs	Policyholders	No.
	Industry	Introduce a change in the current methodology for MCR calculation
	Supervisors	Introduce a change in the current methodology for MCR calculation
	Other	No.
Benefits	Policyholders	No.
	Industry	- Calculation of the MCR will be simpler - Equal treatment for all undertakings (with no cap and no floor)
	Supervisors	Calculation of the MCR will be simpler.

	Other	No.
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<b>Policy issue 3: Identification of eligible basic own funds items for composite undertakings</b>		
<b>Option 3.1: No change</b>		
Costs	Policyholders	No.
	Industry	No.
	Supervisors	No.
	Other	No.
Benefits	Policyholders	No.
	Industry	Keep the double vision (life and non-life) for composite undertakings
	Supervisors	No.
	Other	No.
<b>Option 3.2: Suppress the calculation of these notional MCRs for life and non-life</b>		
Costs	Policyholders	No.
	Industry	Loss of the double vision (life and non-life)
	Supervisors	No
	Other	No.
Benefits	Policyholders	No.
	Industry	No need to compute and report life and non-life notional MCRs
	Supervisors	No.
	Other	No.
<b>Option 3.3: Define precisely which own funds should be allocated to the life side and which own funds should be allocated to the non-life side</b>		
Costs	Policyholders	No.
	Industry	Methodology of allocation and reporting could be complex
	Supervisors	Methodology of allocation and reporting could be complex
	Other	No.
Benefits	Policyholders	No.
	Industry	More clarity on how to allocate the own funds between life and non-life
	Supervisors	More clarity on how to allocate the own funds between life and non-life
	Other	No.

Policy issue 1: Use of cap and floor



	Effectiveness (0/+ /++)		
Options	Objective 1: Ensuring risk sensitive capital requirements	Objective 2: Ensuring a level playing field through sufficiently harmonized rules	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0
Option 1.2: Enlarge the corridor to 20%-50% of the SCR	+	+	+
Option 1.3: Delete the calculation of the linear MCR and state that MCR is the maximum between the absolute floor and 35% of the SCR	+	+	++
<b>Policy issue 3: Identification of eligible basic own funds items for composite undertakings</b>			
Option 1.1: No change	0	0	0
Option 1.2: Suppress the calculation of these notional MCRs for life and non-life	0	+	0
Option 1.3: Define precisely which own funds should be allocated to the life side and which own funds should be allocated to the non-life side	+	++	++

## 7 Reporting and disclosure

Policy issues	Options
1. Frequency of the RSR	<p>1.1. No change</p> <p>1.2 Introduce L3 tools for achieving supervisory convergence by keeping the minimum requirement for submission of full RSR once every 3 years but ask mandatory assessment by NCAs and communication of the frequency of the RSR. (preferred)</p> <p>1.3. Amend article 312 to promote further proportionality in the RSR requirement</p> <p>A change to be made with regards to the provisions in the SII Directive and the DR by defining a mandatory regular frequency for the full RSR once every 2 years, with possibility to exempt once but impose mandatory communication of material changes (as defined in Art 305 of the DR) on annual basis. In this case NCAs could use the possibility to exempt based on the SRP, in which case the undertakings would only be required to submit the full report every 4 years, but the default frequency is set at 2 years, as a maximum.</p>
2. Structure and content of the RSR	<p>2.1 No change</p> <p>2.2 Improve both the structure and the content of the RSR (preferred)</p>

### Policy Issue 1: Frequency of the RSR

Policy issue 1: Approach towards modification of Art. 312 of the Delegated regulation		
<b>Option 1.1: No change</b>		
Costs	Policyholders	No material costs are expected
	Industry	Procedures are already in place, no material costs are expected
	Supervisors	No material costs are expected
	Other	-
Benefits	Policyholders	Same level of assurance as today
	Industry	No material benefits are expected
	Supervisors	No material benefits are expected
	Other	-
<b>Option 1.2: Introduce L3 tools for achieving supervisory convergence by keeping the minimum requirement for submission of full RSR once every 3 years <u>but ask mandatory assessment by NCAs and communication of the frequency of the RSR.</u></b>		

Costs	Policyholders	No material costs are expected, the overarching principle of policyholder protection is ensured
	Industry	No material costs are expected
	Supervisors	No material costs are expected, only possible internal necessary process adjustments for some NCAs <sup>24</sup> . In some cases the costs on internal process might be more material.
	Other	-
Benefits	Policyholders	Supervisory convergence promotes a similar level of policyholder protection
	Industry	Might reduce the costs for implementation of Solvency II rules – preparation of full RSR - for low risk profile undertakings that will benefit from increased proportionality to be applied across EEA countries.
	Supervisors	More clarity via L3 tools on expectations on the process for assessment of frequency of the RSR.
	Other	
<p><b>Option 1.3: A change to be made with regards to the provisions in the SII Directive and the DR by defining a <u>mandatory regular frequency for the full RSR once every 2 years, with possibility to exempt once but impose mandatory communication of material changes (as defined in Art 305 of the DR) on annual basis.</u></b></p>		
Costs	Policyholders	No material costs are expected, the overarching principle of policyholder protection is ensured
	Industry	Costs could occur for some undertakings with current submission of every 3 years that might see that frequency reduced for 2 years.
	Supervisors	No material costs are expected, only possible internal necessary process adjustments for some NCAs <sup>25</sup> . In some cases the costs on internal process might be more material.
	Other	The application of the 2 years by default is not risk based.
Benefits	Policyholders	Supervisory convergence promotes a similar level of policyholder protection
	Industry	Reduce the costs for implementation of Solvency II rules – preparation of full RSR – for all undertakings with a default of 2 years. However please see also the costs.
	Supervisors	-
	Other	-

## Evidence

7.1 In the preparation of the analysis the input received from the following events has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry

<sup>24</sup> Assessment based on the preliminary results from the RSR peer review still ongoing.

<sup>25</sup> Assessment based on the preliminary results from the RSR peer review still ongoing.

- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting
- Insurance Europe proposals – April 2019
- Information collected during the ongoing Peer review on the RSR

### Preliminary views from the Peer Review

7.2 EIOPA used as a tool for identifying the issues of proportionality and fit for purpose with regards to the RSR a peer review. The proposals under this document take into consideration the preliminary results of the ongoing peer review. The preliminary results of this peer review list number of legal and supervisory practices regarding the frequency of submission of RSR and the definition of material changes as well as the approach used in the supervisory assessments of the RSR to define the frequency of submission. However, for the discussion of the comments received under this public consultation, more final results will be available.

#### Comparison of options

7.3 The preferred policy option for this policy issue is Option 1.2. as it is seen as a supervisory convergence issue where the legal framework is considered adequate.

7.4 The assessment of each option has taken into account the need for a risk-based and proportionate approach and the need to keep the flexibility of supervisory judgment while recognising that work under supervisory convergence is needed.

7.5 In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives.

Policy issue 1: Approach towards modification of Art. 312 of the Delegated regulation			
	Effectiveness (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0
Option 1.2: Introduce L3 tools for achieving supervisory convergence by keeping the minimum requirement for submission of full RSR once every 3 years <u>but ask mandatory assessment by NCAs and communication of the frequency of the RSR.</u>	++	+	+
Option 1.3: A change to be made with regards to the provisions in the	+	++	+

SII Directive and the DR by defining a <u>mandatory regular frequency for the full RSR once every 2 years, with possibility to exempt once but impose mandatory communication of material changes</u> (as defined in Art 305 of the DR) <u>on annual basis.</u>			
	Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0
Option 1.2: Introduce L3 tools for achieving supervisory convergence by keeping the minimum requirement for submission of full RSR once every 3 years <u>but ask mandatory assessment by NCAs and communication of the frequency of the RSR.</u>	+	++	0
Option 1.3: A change to be made with regards to the provisions in the SII Directive and the DR by defining a <u>mandatory regular frequency for the full RSR once every 2 years, with possibility to exempt once but impose mandatory communication of material changes</u> (as defined in Art 305 of the DR) <u>on annual basis.</u>	++	+	0

## Policy Issue 2: Structure and content of the RSR

<b>Policy issue 2: Structure and content of the RSR</b>
<b>Option 2.1: No changes</b>

Costs	Policyholders	No additional financial cost. However, based on the experience gained in these years and the feedback received from the stakeholders during the call for input this option will not allow to improve the content and usefulness of the RSR for supervisors. The quality of the RSR ultimately impact the protection of policyholders.
	Industry	No additional costs are envisaged as this is the current option. However, based on the experience of the first years the overlaps and lack of clarity of some requirements identified would not be addressed and the structure of the RSR would not be streamlined to avoid repetitive information within RSR and with other supervisory reports. Thus the reporting burden as mentioned by some undertakings would not be eased and the usefulness of the report improved.
	Supervisors	No additional cost is envisaged. Still there will be overlapping of information reported both within RSR and with other reports and information reported might not be correctly targeted for the purpose. Efficiency of supervision would not be promoted.
	Other	No additional financial cost.
Benefits	Policyholders	No additional benefits are envisaged as the option is kept as of today
	Industry	No special benefits except that the industry would follow the same approach already followed in the last years.
	Supervisors	No special benefits are envisaged
	Other	No special benefits are envisaged
<b>Option 2.2: Improve both the structure and the content of the RSR</b>		
Costs	Policyholders	No material costs are expected as any of the change proposed have a material impact for undertaking as well.
	Industry	No material costs are expected. The changes proposed are either information previously included in the SFCR and now moved to the RSR, streamlining the report to avoid duplications and increase clarity on supervisors' expectations and identify areas where only material changes are expected by default.
	Supervisors	No material costs are expected
	Other	No material costs are expected
Benefits	Policyholders	Indirect benefits steaming from the benefits for both undertakings and supervisors, ultimately contributing to the protection of policyholders.
	Industry	Avoiding repetitive reporting of information already available, streamlining and improving the content of the report thus improving its usefulness also for internal use. This option also address the comments made from the industry to revise the structure and address the overlaps identified. Information expected to be static information is also identified reducing the burden when material changes do not occur.
	Supervisors	Improved and more focused report and streamlining of supervisory reporting in general would improve the use of information by supervisors and the efficiency of supervision.
	Other	No material costs are expected

7.6 Option 2 will not lead to material costs while leading to a number of benefits. The improved structure and content of the RSR will lead to an immediate decrease in the reporting burden and also over time resulting in an overall reduction in the on-going reporting costs; the report will be better fitted for its purpose and improved based on the experience gained in the first years of its submission to supervisors.

### Proportionality

7.7 Proportionality in RSR is embedded as it is directly linked to the nature and complexity of the business. In addition, with the streamlining of the report and identification of information expected to be static the end result of the new RSR requirements will in fact contribute to a better application of proportionality principle.

### Evidence

7.8 In the preparation of the analysis the input received from the following events has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting
- EIOPA Peer Review on the RSR

### **Preliminary views from the Peer Review**

7.9 The peer review is also assessing the content of the full and summary RSR as well as its added value for supervisory purposes more as a contextual information for the purposes of the peer review on frequency of submission of the report. There were some tendencies identified which could serve as an input for the fit and purpose of the RSR within the SII 2020 review.

7.10 The majority of the jurisdictions which use the risk based approach for setting frequency of submission of RSR underline that the report is used to large extent for supervisory purposes. The experience of those EEA supervisors is that RSRs provides modest amounts material new information, more than 90% of the RSR content is found to be aligned with supervisors' understanding of undertakings, i.e. had been provided by way of QRT, ORSA, or SFCRs. Notwithstanding the limited volume of additional information provided by RSRs, supervisors have noted that RSRs are a particularly useful supervisory tool because RSRs:

- Contain accessible board-approved information, which, supervisors have noted, tends to be particularly useful in the case of lower impact undertakings;
- Are an additional control-point to check the consistency of information previously provided in other formats;
- Are confidential / not for publication and may therefore can be open and objective on matters which have critical impact on the undertaking in the future.

7.11 Among the parts of the RSR (both full and summary) which were found useful from supervisory point of view (because undertakings used the opportunity to provide information not available in other reports) are: Proposals for changes in governance, ownership etc., Proposals for changes in business strategy, Proposals for changes in operational strategy, Proposals on outsourcing strategies, Details of internal audit, Financial projections.

7.12 In the jurisdictions applying risk based and proportionate approach towards setting the frequency of the RSR the quality of the content of the report is mostly perceived as a driving factor for requiring more frequent/less frequent submission. Usually inadequacies in a full RSR, or notifications of material change in a summary RSR may in one of the jurisdictions trigger a request for:

- Rework and resubmission of a deficient RSR;
- Submission of an RSR for the following year's exercise;
- More frequent submission of full RSRs;
- Submission of missing information in other formats, such as updated QRTs, addenda to an ORSA or Solvency and Financial Condition Report. It should be additionally noted those supervisors usually have a range of options to seek information for supervisory purposes and requesting a full or summary RSR may not be the most direct and immediate of these.

7.13 Furthermore, additional evidence is expected to be collected at a later stage as part of the Public consultation of the proposal.

#### Comparison of options

7.14 The preferred policy option for this policy issue is Option 2: "Improve both the structure and the content of the RSR" as it builds on the experience gained in the first years of reporting and feedback provided by supervisors and takes into account the feedback received from the stakeholders, avoiding repetitive information and reducing the reporting burden. The other option considered have been disregarded as it did not tackle the areas where improvements in the structure and the content of the RSR are needed.

7.15 In addition, the feedback received from the stakeholders clearly shows that the structure and content needs to be revised to avoid overlaps and repetitions between reporting supervisory reports and across reporting years.

7.16 The assessment of each option has taken into account the degree to which it meets the relevant objectives e.g. Adequate protection of policyholders and beneficiaries; Improving transparency and better comparability and Ensuring a level playing field through sufficiently harmonised rules. The selected Option 2: "Improve both the structure and the content of the RSR" will improve the comparability of the RSR and deliver a more focused and useful RSR.

7.17 In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives. As already mentioned option 2 will lead to the decrease of reporting costs based on the streamlining of the structure and content and promote the efficiency of supervision.



Policy issue 2: Structure and content of the RSR						
	Effectiveness (0/+/>++)			Efficiency (0/+/>++)		
Options	Objective 1 Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 1 Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules
Option 2.1: No changes	0	0	0	0	0	0
Option 2.2: Improve RSR	0	+	+	+	+	+

## Group reporting and disclosure

7.18 This impact assessment covers the following group reporting proposals:

- Principle of proportionality and group templates;
- Group and single SFCR and Group RSR (excluding Audit);
- Audit requirement for group SFCR.

7.19 Please note that the following assessment only address proposals impacting group reporting that are not already mentioned in the solo reporting package document. For the amendments at group level similar to the ones at solo level the impact is considered to be similar.

## Principle of proportionality and group templates

7.20 In the development of the advice regarding principle of proportionality and group templates, EIOPA has duly analysed the costs and benefits of the main options considered; these options are listed in the table below.

Policy issues	Options
1. Principle of proportionality	1.1 Don't change Article 254 or Article 35 (6) and (7) of SII Directive

	1.2	Improve proportionality under Articles 35 (6), 35 (7) and article 254 of SII Directive (preferred option)
2. Group templates	2.1 2.2 2.3	No change Proportionality review Proportionality review and new supervisory needs (preferred option)

## 7.21 The specific amendments proposals are:

- Principle of proportionality:

EIOPA proposes in the area of groups to amend Article 254 of SII Directive allowing for exemption of groups reporting without the condition of exemption of all solo insurance undertakings belonging to that group.

- Template S.05.01 – Premiums, claims and expenses - by LoB

This template is proposed for deletion.

- Template S.05.02 - Premiums, claims and expenses - by country

This template is proposed to be simplified by deleting information regarding “Changes in other technical provisions”.

- Template S.06.02 – List of assets

Same amendments as in solo are proposed and one additional amendment on the Issuer Codes.

- Template S.23.01 - Own funds

This template was not impacted by any change. However EIOPA proposes to clarify the instructions of the template at group level. It is also noted that additional changes may arise from group specific issues under this consultation.

- Template S.23.02 - Detailed information by tiers on own funds

This template is simplified with the deletion of table 23.02.04.03 referring to the reconciliation of the excess of assets over liabilities from Solvency II regulations to Local GAAP.

- Template S. 32.01 –Undertakings in the scope of the group

This template is improved to increase its usability:

- a. Amend C0020 – Identification code of the undertaking – to require the LEI code to be mandatorily used for EEA insurance and reinsurance

undertakings and other EEA regulated undertakings (approach to non-EEA undertakings and non-regulated undertakings is kept);

- b. Add information on direct and ultimate parent(s) and direct subsidiary(ies). The information should include LEI codes where those are available, names, participating interests/voting rights in the EEA undertaking and country;

It was also discussed the proposal to have a similar template for individual undertakings. As relates to solo reporting dealt with in the previous Consultation Paper, the proposal will be considered after the consultation period.

- Template S.33.01 - Insurance and Reinsurance individual requirements

This template is impacted by some additions that require information regarding own funds and SCR (cells C0060 to C0230) to be reported also for all EEA and all non EEA (not only on local basis). Insurance and reinsurance undertakings under method 1 to provide supervisory authorities an overview of all solo SCRs and an estimation of the diversification benefits at group level.

- Template S.34.01 - Other regulated and non-regulated financial undertakings

This template is not impacted by any change, however instructions need to be clarified in cases when groups report banking contribution on a subconsolidated basis.

- Template S.35.01 - Contribution to group Technical Provisions

This template is not impacted by any change

- Template S.36.01 IGT

Concrete amendments have not been identified yet but EIOPA proposes to clarify the instructions and the scope of the template to consider alignment with work under development for the FiCo, while considering the different purposes of the SII and Fico. Concrete amendments will be presented once the proposal for reporting IGTs in the financial conglomerates is finalised<sup>26</sup>.

- Template S.37.01 - Risk concentration

Concrete amendments have not been identified yet but EIOPA proposes to consider amending of the template in line with the proposal under discussion in the context of ESAs work on the Risk concentration reporting at the level of the financial conglomerate<sup>27</sup> while considering the different purposes of the

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<sup>26</sup> <https://eba.europa.eu/-/esas-launch-consultation-on-technical-standards-on-the-reporting-of-intra-group-transactions-and-risk-concentration-for-financial-conglomerates>

<sup>27</sup> <https://eba.europa.eu/-/esas-launch-consultation-on-technical-standards-on-the-reporting-of-intra-group-transactions-and-risk-concentration-for-financial-conglomerates>

templates. Concrete amendments will be presented once the proposal for reporting IGTs in the financial conglomerates is finalised.

The draft template on RC under discussion in that context is simplified and less granular (not by single exposure, but by counterparty) with expected benefits for both the groups and supervisors. The scope and instructions will also be clarified.

### Comparison of options

7.22 The preferred policy option for this policy issue is Option 1.3: Review the proportionality principle requirements (article 254 of Solvency II Directive) and review the requirements template by template to better reflect proportionality and to reflect supervisory needs by improving the information required on existing templates. The overall balance of costs and benefits for the preferred option highlights the importance to reduce the burden on group reporting while guaranteeing that necessary information for supervisory purposes will be delivered to supervisory authorities. Furthermore, gaps in the reporting templates have been identified. Minor new requirements are proposed as this would increase the usability of the information provided. This minor additions are balanced with simplifications proposed. The simplifications proposed are in line with solo proposals and also specific simplifications are proposed.

7.23 Option 1.2 has been disregarded because, even though it allows for greater application of proportionality across group reporting it does not sufficiently highlight the need to meet supervisory needs and the optimal use of information reported.

7.24 Option 1.1 has been disregarded because keeping the status quo would not match the needs highlighted by the inputs received by stakeholders regarding the need to apply more proportionality. The guiding principle of the review is that only information needed for the purposes of fulfilling national supervisory authorities' responsibilities under Directive 2009/138/EC shall be required. Option 1.1 would clearly not follow the aim of the provisions of proportionality that are outlined in Directive 2009/138/EC. In conclusion, given EIOPA's willingness to guarantee a win-win outcome for both supervisors and groups and given the importance to guarantee the right level of information without requiring a too burdensome reporting to supervised entities, EIOPA believes that option 1.1 would not guarantee the fulfilment of such objectives.

7.25 The selection of the preferred option has required a trade-off between supervisors' needs and those of the industry. Taking policyholders' protection and adequate group supervision and willingness to decrease burden on groups while preserving supervisory needs as a baseline, options for Policy Issue 1 have been compared measuring efficiency and effectiveness granted by each of the three foreseen options.

7.26 In terms of Effectiveness, the three options are foreseen to have the following outcomes:

- option 1.1 means keeping the status quo and represents a solution that is not foreseen to increase effectiveness;

- option 1.2, combines a positive effect on reducing the burden for reporting entities and effect on improvement in the application of proportionality but not on the effectiveness of supervision;
- option 1.3 proves to be better fitting all the three objectives also granting more effectiveness in the group supervision if compared to option 1.2.

7.27 In terms of Efficiency, the three options are foreseen to have the following outcomes:

- option 1.1 means keeping the status quo, does not generate any cost efficiency and represents a solution that is not foreseen to increase efficiency;
- option 1.2, impacts efficiency in terms of pure proportionality principle but as information is not used efficiently by supervisors as crucial information would be needed the option is not efficient for the remaining objectives;
- option 1.3 proves to be better fitting all the three objectives also granting more efficiency and effectiveness in the group supervision if compared to option 1.2. Eventual costs incurred in to implement the option are more than offset by the high benefits implied by the option.

7.28 The above mentioned effects are also illustrated by the table below:

Policy issue: 1. Principle of proportionality and group templates			
	Effectiveness (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0
Option 1.2: proportionality review of templates and review of article 254	+	++	+
Option 1.3: proportionality review of templates and of article 254 and new supervisory needs	++	++	++
	Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No change	0	0	0

Option 1.2: proportionality review	+	++	+
Option 1.3: proportionality review and new supervisory needs	++	++	++

7.29 With respect to option 1.3, the changes proposed by EIOPA to the reporting package and the expected impacts in terms of reporting burden for groups are summarised in the tables below. The expected impact has been estimated through qualitative assessment based on the nature of the change proposed, the number of templates and entry points affected, the complexity of calculations and availability of data. The additional information proposed is minimum and corresponds to information available within the group.

**Business templates (i.e. excluding S.01.01 and S.01.02) for which proposals are different than for solo**

Proposed change	Templates affected
Deletion	1 template (S.05.01)
Simplifications	2 templates (S.05.02, S.23.02)
No changes	2 templates (S.34.01, S.35.01)
Additions	8 templates (S.06.02, S.32.01, S.33.01, S.36.01 to S.36.04, S.37.01)
Potential changes	1 template (S.23.01)

**Group and single SFCR and Group RSR (excluding Audit requirements)**

7.30 In the development of the advice regarding the group SFCR and group RSR, EIOPA has duly analysed the costs and benefits of the main options considered; these options are listed in the table below.

Policy issues	Options
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1. Addressees of the SFCR	Please see solo advice (Advice copied in this consultation paper only as some adaptations are needed)
2. Structure and content	Please see solo Advice
3. Gaps identified	Please see solo Advice
4. Availability	Please see solo Advice
5. Audit	See point 4.5.5
6. Language	1) Keep language requirements as laid out in current Delegated Regulation 2) Improve the language requirement (preferred option)
7. Templates used in SFCR	1) Keep templates as in current Commission Implementing Regulation 2015/2452 (preferred option) 2) Improve the templates
8. Deadlines	1) The disclosure deadlines could be aligned with the single SFCR deadlines applicable for 2019 both for the policyholder and other financial users sections 2) The disclosure deadlines could be aligned with the single SFCR deadlines applicable for 2019 only for the other financial users section while no changes are proposed for the disclosure of the policyholders section (preferred option)
9. Group RSR	1) No change (preferred option) 2) Allow for a group RSR

### Analysis of impacts

7.31 The following table summarises the costs and benefits for the main options considered regarding the issues identified above except policy issue 5.

7.32 The costs and benefits of the different options considered regarding the requirement of auditing the SFCR (policy issue 5) have been analysed separately (see section 4.5.5). An impact assessment of the options considered for other policy issues is not presented separately since none of the proposed changes is expected to give rise to material costs individually.

**Policy issues 1 to 9 (except 5)**

<b>Option 2.1: No changes</b>		
Costs	Policyholders	No additional financial cost. However, based on the experience gained in these years and the feedback received from the stakeholders during the call for input this option will not allow to improve the usefulness of the SFCR for the policyholders. The report will continue not to be used by policyholders due to too technical and complicated amount of information presented in a big amount of pages and the overlap with the information at solo level, more adequate for policyholders.
	Industry	No additional costs are envisaged as this is the current option. However, based on the experience of the first years the issues identified would not be addressed and the structure of the SFCR would not be streamlined to avoid repetitive information. Thus the disclosure burden as mentioned by some groups would not be eased and the usefulness of the report improved. Timing of the publication would continue to generate compliance costs.
	Supervisors	No additional cost is envisaged. In addition, supervisors are not the main addressees of the SFCR as they receive RSR. Still there will be overlapping of information reported both in SFCR and RSR which together with increased reporting might require some additional supervisory efforts in review of the SFCR. With the preferred option the structure is changed – part of information required previously in the SFCR is moved to the RSR and not required anymore in the SFCR. In addition, the structure of the SFCR will be better streamlined to avoid repetitive information.
	Other	No additional financial cost. However, based on the experience gained in these years and the feedback received from the stakeholders during the call for input this option will not allow to improve the usefulness of the SFCR, also at group level.
Benefits	Policyholders	No additional benefits are envisaged as the option is kept as of today
	Industry	No special benefits except that the industry will follow the same approach already followed in the last years.
	Supervisors	No special benefits are envisaged
	Other	No special benefits are envisaged
<b>Option 2.2: Improvements in the SFCR in general and RSR</b>		
Costs	Policyholders	No material costs are expected as any of the change proposed have a material impact for groups as well
	Industry	Some minor additional costs are expected with the implementation of this options. At group level a SFCR for policyholders would not required. One-off costs are envisaged with the introduction of this option to adapt the structure and the content of the SFCR. On an on-going basis, the amended content of the SFCR will reduce the burden (by avoiding repetitive information and by moving part of the information to the RSR) while the focus on professional users of financial information will be beneficial for the market. Some costs are expected from the requirement that all groups have a website to make the SFCR available as some of them might not have a website currently. The new information requested reflects the best practices from the market and is already being disclosed by part of the market, however some additional costs might be expected.



	Supervisors	The additional information requested based on the gaps identified might lead to additional supervisory efforts. However the streamline of the information and the improved structure will be beneficial
	Other	No material costs are expected
Benefits	Policyholders	No material benefits are expected.
	Industry	Better streamlining of the information for different stakeholders allowing groups to focus only on professional users. Avoiding repetitive reporting of information already available, streamlining and improving the content of the report thus improving its usefulness also for internal use. This option also address the comments made from the industry to revise the structure and also the comments from the stakeholders to report risk sensitivity. Improve transparency, comparability and use of the SFCR by a higher number of stakeholders. The proposal on deadlines and translation should benefit industry by reducing compliance costs.
	Supervisors	Improvements in both SFCR and RSR increase the efficiency of supervision.
	Other	No material benefits are expected

7.33 Option 2 will lead to additional non-material costs which are mainly foreseen at the beginning with some adaptations needed in the disclosure requirements. These one-off costs will be outweighed by the benefits of the improved content of the SFCR and streamline of its structure, which will lead to decrease in the reporting burden over time resulting in an overall reduction in the on-going reporting costs; the report will be better fit for its purpose and improved based on the experience gained in the first years of its disclosure.

#### Proportionality

7.34 Proportionality is embedded as for small and less complex (re)insurance undertakings and groups the information disclosed should be less complex.

#### Evidence

7.35 In the preparation of the analysis the input received from the following events has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting

7.36 Furthermore, additional evidence is expected to be collected at a later stage as part of this Public consultation.

#### Comparison of options

#### **Policy issues 1 to 9 (except 5):**

7.37 The preferred policy option for this policy issue is Option 2: "Improvements in the SFCR in general" because it builds on the experience gained in the first years of disclosure, takes into account the feedback received from the stakeholders, avoids repetitive information and reduces the disclosure burden over time. The other options considered have been disregarded because they do not tackle the structure and the content of the SFCR – the areas where improvements are needed.

7.38 In addition, the feedback received from the stakeholders clearly shows that the addressees of the SFCR, its structure and content need to be revised, that some information was missing and the use by policyholders needed to be enhanced.

7.39 The assessment of each option has taken into account the degree to which it meets the relevant objectives e.g. Adequate protection of policyholders and beneficiaries; Improving transparency and better comparability and Ensuring a level playing field through sufficiently harmonised rules. The selected Option 2: "Improvements in the SFCR in general" will improve the transparency and will address better the needs of professional users of the SFCR.

7.40 In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives. As already mentioned, option 2 involve some additional costs with the implementation of the revised requirements. However, option 2 will also lead to decrease of some existing reporting costs based on the streamlining of the structure, proposals on translation and reporting deadlines and will ease the reporting burden.

7.41 The assessment of the effectiveness and efficiency are presented in the table below.

Policy issues 1 and 2: Addressees, structure and content of SFCR							
		Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1 Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 1 Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	
Option 2.1: No changes	0	0	0	0	0	0	
Option 2.2: Improvements in the SFCR in general	++	+	++	+	+	++	

## **Audit requirements (Policy issue 5)**

7.42 Regarding audit of the group SFCR, the proposals considered by EIOPA were the following:

- 1) Keep the legislation as it is – no audit requirement at group level in the Solvency II Directive – Members discretion;
- 2) Minimum requirement explicit in Solvency II Directive on audit to audit group Solvency II Balance-Sheet (Members discretion to additional requirements);
- 3) Minimum requirement explicit in Solvency II Directive on audit to audit group Solvency II BS/MCR/SCR/EOF (Members discretion to additional requirements)

7.43 All options should explain the level of assurance, in particular regarding the expectations regarding the internal model.

7.44 Where auditing requirements are in place all NSAs consider these to be beneficial, improving the quality of the data, assisting in supervision thus helping to protect policyholders and also probably benefiting at least smaller groups that struggle more with Solvency II compliance.

7.45 Indeed EIOPA has always been of the opinion that only high quality disclosed figures and good public reports can fulfil the goals set out by Solvency II (please refer to the EIOPA publication<sup>28</sup>). Otherwise, stakeholders may be misguided in their judgements, in comparison to other public disclosure like financial statements, which are strictly regulated and scrutinised. Therefore, EIOPA and its members will be very attentive to the actual application of the Solvency II public disclosure by insurance groups and potentially divergent levels of quality in different Member States. Currently auditing requirement at group level are in place in several Member States, and there are contradictory views from stakeholders on the costs (see above).

7.46 The disclosure of information in the SFCR is to serve transparency which to be meaningful requires that there is some assurance that the information disclosed is complete and correct. There is also the timing dimension to consider.

7.47 The SFCRs are disclosed to the market and sent to the NSAs at the same time, therefore the review from supervisors can only take place after the undertakings published their SFCR. In the SRP NSAs will of course check the information provided by groups on their solvency and financial position in the SFCR. However, as much as possible groups should not publish deficient data in the first place.

7.48 Regarding proportionality principle the following was considered:

- Complete exemption: all stakeholders deserve the same level of assurance about the completeness and correctness of the information disclosed, regardless of the size or risk profile of the groups, therefore it is not recommendable to have different requirements for different type of groups. Proportionality should be embedded as audit should be less complex, however there is evidence that audit

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<sup>28</sup> EIOPA-BoS-15/154 of the 29<sup>th</sup> June 2015 "Need for high quality public disclosure: Solvency II's report on solvency and financial condition and the potential role of external audit

fees might be significantly higher as a proportion of premium income for small groups vs larger groups;

- Allow NSAs to exempt with a minimum frequency of auditing every 3 years: as said before, all stakeholders deserve the same level of assurance about the completeness and correctness of the information disclosed, regardless of the size or risk profile of the groups, therefore it is not recommendable to have different requirements for different type of groups.

7.49 In fact, EIOPA believes that auditing should be about transparency and accuracy of the information and therefore those values should not be subject to proportionality principle.

**Impact assessment (specific for Audit)**

7.50 In the development of the advice regarding audit of the SFCR, EIOPA has duly analysed the costs and benefits of the main options considered; these options are listed in the table below.

Policy issues	Options
3. Audit of group SFCR	<p>1.1 Keep the legislation as it is – no audit requirement in the Solvency II Directive – Members discretion;</p> <p>1.2. Minimum requirement explicit in Solvency II Directive on audit to audit group Solvency II Balance-Sheet (Members discretion to additional requirements);</p> <p>1.3. Minimum requirement explicit in Solvency II Directive on audit to audit group Solvency II BS/MCR/SCR/EOF (Members discretion to additional requirements) (preferred option)</p>

Policy issue: Audit of the SFCR information		
<b>Option 1.1: No change - Keep the legislation as it is – no audit requirement in the Solvency II Directive – Members discretion</b>		
Costs	Policyholders	The lack of audit might undermine market discipline due to: <ul style="list-style-type: none"> <li>- poor quality or incompleteness of the information disclosed by groups,</li> <li>- eventual mistakes in the calculation of technical provisions and/or capital requirements not spotted at the time of the public disclosure.</li> </ul>
	Industry	No audit requirement is envisaged in Solvency II. The costs for groups vary depending on the audit requirements in the national legislation. The feedback received from the industry clearly shows that Members States’ discretion should be avoided as it can affect the fairness of approaches across jurisdictions and might create entry barriers to cross-border activity or complicate matters for large multinational insurance groups with subsidiaries subject to different audit requirements.

	Supervisors	The lack of audit might lead to higher supervisory costs (e.g. to check and follow up of incorrect information)
	Other	Lack of reliability of the information disclosed for the financial users of the information disclosed (e.g. analysts)
Benefits	Policyholders	No special benefits are envisaged
	Industry	No additional costs from the EU legislation.
	Supervisors	No special benefits are envisaged
	Other	
<b>Option 1.2: Minimum requirement explicit in Solvency II Directive on audit to audit group Solvency II Balance-Sheet (Members discretion to additional requirements)</b>		
Costs	Policyholders	No material costs are expected.
	Industry	Additional on-going costs are envisaged with the audit of the group SII Balance-Sheet in the form of annual audit fees to be paid by insurance groups which are not subject to those requirements yet. However, currently in at least 16 Member States, there is an audit requirement on the Solvency II Balance sheet and for (re)insurance undertakings operating in these Member States no additional costs are expected. In one Member State proportionality is reflected in the audit requirements, in that case even if audit requirements exist costs are expected for undertakings currently exempted. However, the Members discretion to additional requirements will not allow for establishment of a full level playing field basis and might have a negative impact on the consistency especially in case of cross-border insurance groups operating in different Member States, even if minimised.
	Supervisors	Based on the experience gained in these years the audit requirement only on the Solvency II balance sheet might lead to incorrect information in the SCR, MCR, EOF which will lead to additional supervisory costs in checking and following up of the incorrect information which might occur in the non-audited parts. However, the information submitted to supervisors is subject to supervisory review in any case.
	Other	Lack of reliability of the information disclosed for the financial users of the information disclosed (e.g. analysts) in information other than the Balance Sheet, even if minimised compared to option 1.1
Benefits	Policyholders	Benefits for the protection of the policyholders stemming from the group audited Balance sheet and the improved quality of the information disclosed.
	Industry	For those Member States already having audit on the group Balance sheet no additional benefits are expected. For the Member States with no audit requirements at the moment initial costs are justified. Being the Solvency II balance-sheet the basis for the remaining prudential calculations this would lead to improved quality and accurateness of the audited information.
	Supervisors	Less mistakes and incorrect information requiring further follow up. Being the Solvency II balance-sheet the basis for the remaining prudential calculations this would lead to improved quality and accurateness of the audited information
	Other	Improved quality of the information disclosed also for other users of the SFCR.

<b>Option 1. 3: Minimum requirement explicit in Solvency II Directive on audit to audit group Solvency II BS/MCR/SCR/EOF (Members discretion to additional requirements)</b>		
Costs	Policyholders	Additional costs expected as groups might pass additional costs to policyholders, increasing the price of insurance products.
	Industry	Additional on-going costs in the form of annual audit fees (higher than option 1.2) are envisaged with the introduction of this option. However, it has to be noted that currently in 12 Member States there is already such an audit requirement based on the Members discretion. For (re)insurance undertakings operating in these Member States no additional costs are expected. The Members discretion option will in addition not allow for establishment of a full level playing field basis, however in this option this impact should be minimum as the most important figures are included in the scope of minimum auditing.
	Supervisors	No additional costs from the supervisors are expected. The improved quality and the decrease in the mistakes will reduce the supervisory costs and burden related to the follow up actions required in case of incorrect or wrong information.
	Other	-
Benefits	Policyholders	Enhanced reliability and confidence in the information disclosed across Europe.
	Industry	Valuable quality control; provides reassurance for management that the information disclosed is accurate.
	Supervisors	Improved quality and decrease in the mistakes. Decrease in the supervisory follow up in case of inconsistency and mistakes. However, it is not expected a full assurance and in case of internal models users additional specific guidance would be needed on expectations from the audit.
	Other	Enhanced reliability and confidence in the information disclosed across Europe

7.51 Options 1.2 and 1.3. will lead among others to regulatory compliance costs for the industry. These costs might be significant for insurance groups which are not subject to those requirements yet. However, it has to be noted that currently there are audit requirements in 16 Member States and for (re)insurance undertakings in these states no additional costs are envisaged. In one Member State proportionality is reflected in the audit requirements, in that case even if audit requirements exist costs are expected for undertakings currently exempted. Furthermore, the expected benefits stemming from the improved quality of the reports, of the decrease of mistakes, of the increased transparency and market discipline are expected to outperform the expected costs, at least in option 1.2.

7.52 Options 1.2 and 1.3 creates on-going costs associated with the audit of elements from the annual SFCR.

7.53 According to the time horizon, policy options 1.2 and 1.3 produce material costs on on-going base.

#### Proportionality

7.54 Proportionality is embedded as for small and less complex insurance groups the audit should be less complex. In addition, auditing should be about transparency

and accuracy of the information and therefore those values should not be subject to proportionality principle.

### Evidence

- In the preparation of the analysis the input received from the following events has been used:
- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NSA Workshops with industry
- Stakeholders' feedback to the Commission public consultation on fitness check on supervisory reporting
- Additional Insurance Europe proposals – April 2019

7.55 Furthermore, additional evidence is expected to be collected at a later stage as part of this Public consultation.

### Comparison of options

#### **Policy issue: Audit of SFCR**

7.56 The preferred policy option for this policy issue is Option 1.2: Minimum requirement explicit in Solvency II Directive on audit to audit group Solvency II Balance-Sheet (Members discretion to additional requirements) because it will establish consistent minimum audit requirements across Member States in a way that meets public expectations and enhances the quality of private and public reporting and will increase the quality, and the correctness of the information publicly disclosed. The other options considered have been disregarded because even if the quality of the audited information will improve even more than in option 1.2 the costs are expected to outperform the benefits. Furthermore, the practise has shown that the quality and correctness of information improves significantly in cases where there is an audit, therefore Option 1.1. was not considered as adequate following evidence observed by Members where audit requirements were implemented.

7.57 In addition, the feedback received from the industry clearly shows that Members discretion will need to be avoided as it can affect the fairness of approaches across jurisdictions and create entry barriers to cross-border activity or complicate matters for large multinational insurance groups. Option 1.2 minimises the discretion, even if does not eliminate it completely.

7.58 The additional costs for the different options are expected to be proportionate to the additional benefits that the increased accuracy and reliability of the SFCR would bring, in particular to policyholders and supervisors. However a re-assessment needs to be done once further information is received.

7.59 The assessment of each option has taken into account a preliminary view considering the degree to which it meets the relevant objectives e.g. adequate protection of policyholders and beneficiaries; improving transparency and better comparability and ensuring a level playing field through sufficiently harmonised rules. The selected Option 1.2. Requirement explicit in Solvency II Directive on audit

to the Solvency II Balance-Sheet (Members discretion to additional requirements) will ensure a minimum level playing field through establishing common requirements in the Member States, will improve transparency and better comparability by improving the quality of the disclosed information and will contribute to the policyholders and beneficiaries protection.

7.60 In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives. As already mentioned, all options except the baseline involve costs associated with the auditing requirements. However, the improvement of the quality of the information disclosed, of the comparability and the decrease of the mistakes are considered to be more beneficial.

Policy issue: Audit of SFCR						
	Effectiveness (0/+/>++)			Efficiency (0/+/>++)		
Options	Objective 1 Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 1 Adequate protection of policyholders and beneficiaries	Objective 2: Improving transparency and better comparability	Objective 3: Ensuring a level playing field through sufficiently harmonised rules
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Minimum audit of BS	++	+	+	++	++	++
Option 1.3: Minimum audit of BS/MCR/SCR/EOF	++	+	++	+	+	++



## 8. Proportionality

### 8.1. Thresholds for exclusion from Solvency II

Policy issues	Options
1. Approach towards exclusion from Solvency II framework	<p>1.1 No Change</p> <p>1.2 Maintain the exclusion from Solvency II - for certain undertakings as defined in article 4 (see also Policy Option 2 regarding the content of article 4) and reinforce proportionality across the three pillars of Solvency II</p> <p>1.3 Maintain the exclusion from Solvency II for certain undertakings as defined in article 4 (see also Policy Option 2 regarding the content of article 4) and introduce a specific supervisory regime for medium-sized undertakings, who would fall under the scope of Solvency II, but with a special regime.</p>
2. Revision of article 4 content	<p>2.1 No Change (Size thresholds: 25 million euro TP, 5 million euro annual GWP)</p> <p>2.2 Raise size thresholds (50 million euro TP, 10 million euro TP)</p> <p>2.3 Raise size thresholds but with Member States discretion to decide on the premiums (50 million euro TP, between 5 and 25 million euro annual GWP)</p> <p>2.4 Changing article 4 thresholds methodology by incorporating pre-defined annual average growth rates of the insurance market (and/or ECB's inflation goal and/or EEA GDP growth rate)</p> <p>2.5 Changing article 4 thresholds methodology to apply a premiums related threshold to non-life business and a technical provisions threshold to life insurance undertakings (new amounts tested)</p> <p>2.6 Predefine the exclusion from the scope of Solvency II based on percentage share of the total insurance national market (both Solvency II and non-Solvency II) instead of on strict size criteria as laid out in article 4</p> <p>Option 2.4 and 2.6 are excluded</p>

Analysis of impacts

8.1 The following table summarises the costs and benefits for the main options considered in order to remedy the policy issues above. Costs and benefits for options 2.4 and 2.6 are not further analysed since these options have been discarded at an early stage due to the challenges they raise (see section 8.1 for further details).

<b>Policy issue 1: Approach towards exclusion from Solvency II framework</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	No extra costs are expected
	Industry	Procedures are already in place, no material costs are expected as there is no change to the current situation
	Supervisors	No extra costs are expected
	Other	-
Benefits	Policyholders	Same level of assurance as today
	Industry	Situation remains as of today. No additional benefits
	Supervisors	Situation remains as of today. No additional benefits
	Other	-
<b>Option 1.2: Maintain the exclusion from Solvency II to certain undertakings as defined in article 4 (see also Policy Option 2 regarding the content of article 4) and reinforce proportionality across the three pillars of Solvency II</b>		
Costs	Policyholders	No material costs are expected, the overarching principle of policyholder protection is ensured
	Industry	No material costs are expected, only possible internal necessary process adjustments stemming from the reinforced proportionality via the three SII pillars. As a result the costs for implementation of Solvency II rules for low risk profile undertakings that do not meet the size criteria laid out in Art. 4 might be reduced
	Supervisors	No material costs are expected as the current exclusion thresholds fro, SII are kept, only possible internal necessary process adjustments
	Other	-
Benefits	Policyholders	-
	Industry	Low risk profile undertakings that do not meet the size criteria laid out in Art. 4 might benefit as they won't need to implement Solvency II rules
	Supervisors	The complexity of the Solvency II rules might be lowered for eligible undertakings and therefore result in lower supervisory costs
	Other	-
<b>Option 1. 3: Maintain the exclusion from Solvency II for certain undertakings as defined in Article 4 (see also Policy Option 2 regarding the content of article 4) and introduce a specific supervisory regime for medium-sized undertakings that would fall under the scope of Solvency II but with a special regime.</b>		
Costs	Policyholders	The overarching principle of Solvency II, the <b>protections of policyholders</b> , would solely depend on the size of the

		undertaking reflecting neither the nature nor the individual risk profile of the undertaking. Additionally, the principle of Solvency II <b>same risk same regulatory treatment</b> would be violated, because the supervisory treatment for the special regime undertakings would solely depend on the size of the undertaking.
	Industry	No material costs are expected, only possible internal necessary process adjustments
	Supervisors	Softening the regulatory requirements might lead to a deterioration of the quality of the supervisory review process. This could lead to a situation in which those risks the undertakings are exposed to are not properly identified and/or assessed. The principle underlying the special regime would be unclear and will not be risk- but only size-based. This would likely lead to arbitrariness. The complexity introduced by a special regime might increase the supervisory costs.
	Other	-
Benefits	Policyholders	-
	Industry	Might create relief-like structures for all undertakings meeting the size criteria of the special regime irrespective of their individual risk profile.  Against the background of the considerable barriers to market entry for new insurance undertakings, a less extensive regulatory regime might foster competition in the EEA-market.
	Supervisors	-
	Other	-

<b>Policy issue 2: Revision of article 4 content</b> <b>(Option 2.4 and 2.6 are excluded from the assessment following the challenges faced (please see Article 4 section))</b>		
<b>Option 2.1: No change</b>		
Costs	Policyholders	No additional costs are expected as the option remains as of today
	Industry	Procedures are already in place, no material costs are expected as the option remains as of today
	Supervisors	No additional costs are expected as the option remains as of today
	Other	-
Benefits	Policyholders	Same level of assurance as today
	Industry	No additional benefits. Current number of undertaking excluded as of today - 558
	Supervisors	No additional benefits are expected
	Other	-
<b>Option 2.2: Raise all thresholds to align Solvency II with the European Commission's' definition of small-sized companies by doubling all quantitative thresholds (e.g. raising GWP from 5 to 10 Million €, TP from 25 to 50 Million €)</b>		
Costs	Policyholders	Benefits are dependent on the regime applicable to the undertakings excluded from SII scope. In case it has lower

		standards of policyholder protection than Solvency II, any increase of the size criteria thresholds of article 4 will lead to a higher number of policyholders being insured by undertakings with lower protection standards. This could be negligible, if national competent authorities could ensure the level of policyholder protection by obliging small undertakings with high risk profiles to meet the Solvency II rules.
	Industry	Procedures are already in place, no material costs are expected. However, the option proposed will lead to increase of the number of undertakings meeting the criteria of the doubled thresholds and thus creating decrease of cost for them
	Supervisors	The increase of the undertakings meeting the doubled criteria will affect also supervisors depending on the rules applicable for supervision of undertakings.
	Other	-
Benefits	Policyholders	No additional benefits expected
	Industry	The implication of the criteria will affect 275 small and medium-sized undertakings in the EEA if only general size criteria of the undertaking are taken into account. This will decrease SII costs for these undertakings.
	Supervisors	Under the assumption that supervision in the regime applicable to undertakings not subject to Solvency II is less burdensome for supervisors than in the Solvency II regime, the introduction of higher thresholds might lead to regulatory cost reductions.
	Other	-
<b>Option 2.3: Same as option 2 but with Member States discretion to decide on the premiums threshold as long as the technical provisions threshold is not breached.</b>		
Costs	Policyholders	same impact as in Option 2.2 with the difference that up to 377 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Industry	same impact as in Option 2.2 with the difference that up to 377 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Supervisors	same impact as in Option 2.2 with the difference that up to 377 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Other	-
Benefits	Policyholders	same impact as in Option 2.2 with the difference that up to 377 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Industry	same impact as in Option 2.2 with the difference that up to 377 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Supervisors	same impact as in Option 2.2 with the difference that up to 377 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Other	-
<b>Option 2.5: Changing Article 4 thresholds methodology to apply premium related threshold to non-life business and technical provisions threshold to life insurance undertakings (new amounts tested) - In this case composites would apply both thresholds to each part of the business.</b>		

Costs	Policyholders	same impact as in Option 2.2 with the difference that up to 209 non-life (from 1537 currently covered) and 92 life undertakings (out of 558 currently covered) might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Industry	same impact as in Option 2.2 with the difference that up to 301 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Supervisors	same impact as in Option 2.2 with the difference that up to 301 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Other	-
Benefits	Policyholders	same impact as in Option 2.2 with the difference that up to 301 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Industry	same impact as in Option 2.2 with the difference that up to 301 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Supervisors	same impact as in Option 2.2 with the difference that up to 301 undertakings might be exempted from Solvency II in the EEA (for country numbers please see the Annex)
	Other	-

8.2 All options except Option 2.1. Will lead to increase of the number of undertakings exempted from Solvency II where the difference is in the number. As a result there will be decrease in the regulatory compliance costs and administrative burden for the additional number of exempted undertakings. The decrease in such costs is significant and includes IT, training, staff, compliance costs etc.

8.3 The options do not mean a one-off cost or on-going costs as they lead to decrease of the costs for the undertakings meeting the thresholds as per different options.

#### Proportionality

##### Policy issue 1: Approach towards exclusion from Solvency II framework

8.4 An adequate implementation of the proportionality principle at the level of both the requirements applicable to undertakings and the Supervisory Review Process is considered sufficient to guarantee a proportionate approach. The preference for this option should be seen in conjunction with remaining EIOPA proposals on proportionality on Pillar I, Pillar II and Pillar III which aim to further improve the application of the proportionality principle while acknowledging that keeping flexibility on its application is crucial and work on supervisory convergence in this area should continue.

##### Policy issue 2: Revision of article 4 content

8.5 The Solvency II Directive has room for manoeuvre to increase the thresholds to foster proportionality for small undertakings with low risk profiles. EIOPA and national supervisory authorities agreed on there being room to increase the current thresholds and impact only a residual share of the market, i.e. very small

undertakings. The proposed option 3 considers the Technical Provisions as the first line of defence of policyholders protection and therefore not be flexible in this amount but to allow for flexibility on the premiums income threshold to allow undertakings with premiums higher than EUR 5 million to be excluded if Member State allows it considering the specificities of the market.

### Evidence

8.6 In the preparation of the analysis the input received from the following events has been used:

- - Public Call for input from stakeholders (December 2018 – February 2019);
  - - Public workshops on Reporting and Disclosure over the last 2 years, including;
  - - ECB/EIOPA/NCB/NCA Workshops with industry;
  - - Stakeholders’ feedback to the Commission public consultation on fitness check on supervisory reporting;
  - - Insurance Europe proposals – April 2019;
  - - Insurance Ireland and the Dutch Insurance Association proposal;
- Other Association proposal;

### Comparison of options

#### **Policy issue 1: Approach towards exclusion from Solvency II framework**

8.7 The preferred policy option for this policy issue is “Maintain the exclusion from Solvency II to certain undertakings as defined in Article 4 (see also Policy Option 2 regarding the content of article 4) and reinforce proportionality across the three pillars of Solvency II” because it directly fosters more proportionate structures while ensuring that the guiding principles of Solvency II are met. The other options considered were rejected because introducing a special regime with lower rules would need the definition of new risk based guiding principles.

8.8 The selection of the preferred option has required a trade-off between lowering the burden of Solvency II application and still ensuring the policyholder protection throughout the EEA, in particular by ensuring effective and efficient supervision of insurance undertakings. More weight has been given to comparable policyholder protection because pure size-based relief structures – as suggested by introducing a size based special regime – do not reflect individual risk profiles.

8.9 The comparison of options against a baseline scenario is based on the effectiveness of policyholder protection and on their contribution to achieving the following objectives: i) Effective and efficient supervision; ii) Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks; iii) Financial Stability. In particular, in determining the effectiveness of each option EIOPA has taken into account that risks are undertaking-specific and are not impacted by the pure size of the undertaking. Effectiveness measures the degree to which the different policy options meet the relevant objectives. This effect is illustrated in the table below.

Policy issue 1: Approach towards exclusion from Solvency II framework			
	Effectiveness (0/+ /++)		
Options	Objective 1: Adequate Protection of	Objective 2: Improving proportionality,	Objective 3: Financial Stability

	policyholders and beneficiaries	in particular by limiting the burden for (re)insurance undertakings with simple and low risks	
Option 1.1: No change	0	0	0
Option 1.2: Maintain the exclusion from Solvency II for certain undertakings as defined in Article 4 (see also Policy Option 2 regarding the content of article 4) and reinforce proportionality across the three pillars of Solvency II	+	+	+
Option 1.3: Maintain the exclusion from Solvency II for certain undertakings as defined in Article 4 and introduce a specific supervisory regime for medium-sized undertakings that would fall within the scope of Solvency II.	+	++	+

8.10 In addition, the efficiency of each option was taken into account using the same objectives as for effectiveness objectives. Efficiency measures the way in which resources are used to achieve the objectives. The extent to which objectives can be achieved by an option is given in the table below. "0" covers both cases where the option does not increase the effectiveness/efficiency in achieving the objectives a decrease of the effectiveness/efficiency compared to the baseline. This effect is illustrated in the table below.

Policy issue 1: Approach towards exclusion from Solvency II framework			
	Efficiency (0/+/++)		
Options	Objective 1: Adequate protection of policyholders and beneficiaries	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Financial Stability
Option 1.1: No change	0	0	0

Maintain the exclusion from Solvency II for certain undertakings as defined in Article 4 (see also Policy Option 2 regarding the content of article 4) and reinforce proportionality across the three pillars of Solvency II	+	++	0
Option 1.3: Maintain the exclusion from Solvency II for certain undertakings as defined in Article 4 and introduce a specific supervisory regime for medium-sized undertakings, who would fall under the scope of Solvency II.	+	+	0

## Policy issue 2: Revision of article 4 content

- 8.11 The preferred policy option for this policy issue is Option 2.3: "Same as option 2 but with Member States discretion to decide on the premiums threshold as long as the technical provisions threshold is not breached", because it builds on the experience gained in the first years of Solvency II, takes into account the feedback received from the stakeholders, fosters a higher form of proportionality and gives Member States the opportunity to increase the size-based thresholds to fit the situation on their individual market.
- 8.12 The rationale behind this is to consider the technical provisions as the first line of defence of policyholders protection and therefore not to be flexible with regard to this amount but to allow for flexibility on the premiums income threshold in order that undertakings with premiums higher than EUR 10 million can be excluded if a Member State considers this to be appropriate in view of the specificities of that Member States' market.
- 8.13 The comparison of options against a baseline scenario is based on the effectiveness of policyholder protection. In particular, in determining the effectiveness of each option EIOPA has taken into account that risks are undertaking-specific and are not impacted by the pure size of the undertaking. This effect is illustrated in the table below.
- 8.14 Simply doubling all quantitative thresholds was considered inappropriate as this is not risk-based and an undertaking solely being small-size does not justify its exclusion from the higher policyholder protection standards of the Solvency II regime.
- 8.15 Applying a premiums based threshold to non-life undertakings and a technical provisions based threshold to life undertakings would be in line with what is usually considered a relevant size criterion, see e.g. the current approach for the market-share calculation in applying Art. 35(6) to (8) of the Solvency II Directive. However, with technical provisions being the first line of defence for policyholder protection disregarding technical provision levels for non-life undertakings was not considered suitable for exclusion from the Solvency II regime. Furthermore, in some markets the current premiums based threshold does not provide an adequate exclusion for



non-life undertakings that should and non-life undertakings that should not be included in the Solvency II regime. In theory increasing the thresholds would reduce the scope of SII and the harmonisation of the EU insurance market. Allowing Members more flexibility on the thresholds would also undermine the supervisory convergence. In light of this it is the proportionality that is the major improvement of the proposal, in particular by limiting the burden for (re)insurance undertakings with simple and low risks.

Policy issue 2: Revision of article 4 content			
	Effectiveness (0/+ /++)		
Options	Objective 1: Adequate protection of policyholders and beneficiaries	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Ensuring a level playing field through sufficiently harmonised rules
Option 2.1: No change	0	0	0
Option 2.2: Raise all thresholds to align Solvency II with the European Commission's definition of small-sized companies by doubling all quantitative thresholds	0	+	0
Option 2.3: Same as option 2, but with Member States discretion to decide on the premiums threshold as long as the technical provisions threshold is not breached.	0	++	-
Option 2.5: Changing Article 4 thresholds methodology to apply the premium related threshold to non-life business and the technical provisions threshold to life insurance undertakings (new amounts tested)	0	+	-

8.16 In addition, the efficiency of each option was taken into account using the same objectives. The effect is illustrated in the table below.

Policy issue 2: Revision of article 4 content			
	Efficiency (0/+ /++)		
Options	Objective 1: Adequate protection of	Objective 2: Improving proportionality, in particular by	Objective 3: Financial Stability

	policyholders and beneficiaries	limiting the burden for (re)insurance undertakings with simple and low risks	
Option 2.1: No change	0	0	0
Option 2.2: Raise all thresholds to align Solvency II with the European Commission's definition of small-sized companies by doubling all quantitative thresholds	0	+	0
Option 2.3: Same as option 2, but with Member States discretion to decide on the premiums threshold as long as the technical provisions threshold is not breached.	0	++	0
Option 2.5: Changing Article 4 thresholds methodology to apply the premium related threshold to non-life business and the technical provisions threshold to life insurance undertakings (new amounts tested)	0	+	0

## 8.2. Proportionality in pillar 1

### 8.2.1 Solvency Capital Requirement standard formula

Policy issues	Options
Enhance proportionality of the framework by introducing further simplifications to the calculation capital requirements for immaterial risks of the SCR standard formula	<ol style="list-style-type: none"> <li>1. No change i.e. no further simplifications</li> <li>2. Introduce a new set of simplified calculation of capital requirements for immaterial risks</li> <li>3. Introduce an integrated simplified calculation of capital requirements for immaterial risks</li> </ol>

**Policy issue: Enhance proportionality of the framework by introducing further simplifications to the calculation capital requirements for immaterial risks of the SCR standard formula**

**Option 1: No change**

Costs	Policyholders	None
	Industry	Computational burden, particularly for more complex but immaterial risks remains
	Supervisors	Need to supervise/monitor the calculation of immaterial risks
	Other	None
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
<b>Option 2: Introduce a new set of simplified calculation of capital requirements for immaterial risks</b>		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
Benefits	Policyholders	None
	Industry	Computational burden particularly for more complex but immaterial risks is substantially reduced, promotes the principle of proportionality
	Supervisors	Easy to supervise, can focus supervision on material risks
	Other	No changes to QRT needed
<b>Option 3: Introduce an integrated simplified calculation of capital requirements for immaterial risks</b>		
Costs	Policyholders	None
	Industry	Undertakings need to perform identification and reassessment processes to find and maintain immaterial risks
	Supervisors	Need to define the threshold for immaterial risks
	Other	None
Benefits	Policyholders	None
	Industry	Computational burden particularly for more complex but immaterial risks is substantially reduced, promotes the principle of proportionality
	Supervisors	Easy to supervise, can focus supervision on material risks
	Other	None

### Proportionality

8.68 The approach developed to significantly reduce the computational burden for immaterial SCR risks promotes the principle of proportionality.

### Comparison of options

8.69 Both approaches presented in option 2 and option 3 would significantly reduce the computational burden for immaterial risks for SCR and thus promote the principle of proportionality.

8.70 Option 3 is a direct update of the SCR for immaterial risk, while option 2 introduces techniques to simplify the calculation of immaterial risks. At this stage, EIOPA has not decided upon a preference for option 2 or option 3, but both option 2 and option 3 are preferred to the option 1 of 'no change'. Concerning option 2 EIOPA has not formed a preference for method 1 or method 2 at this stage.

Policy issue: Enhance proportionality of the framework by introducing further simplifications to the calculation capital requirements for immaterial risks of the SCR standard formula			
	Effectiveness (0/+ /++)		
Options	Objective 1: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 2: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 3: Improving transparency and better comparability
Option 1: No change	0	0	0
Option 2: Introduce a new set of simplified calculation of capital requirements for immaterial risks	++	++	++
Option 3: Introduce an integrated simplified calculation of capital requirements for immaterial risks	++	++	++

### **8.3. Proportionality in pillar 2**

Policy issue	Options
1 Key functions	(a) Combination with operational functions 1a.1 No change 1a.2 Combination explicitly allowed based on proportionality (except the internal audit function) (preferred) (b) Members of the AMSB and key function holder 1b.1 No change 1b.2 Combination of roles explicitly allowed based on proportionality (preferred) (c) Combination of key functions 1c.1 No change

	1c.2 Combination explicitly allowed based on proportionality (preferred)
2 ORSA	(a) ORSA supervisory report 2a.1 No change (preferred) 2a.2 Standardised reporting for small/less complex undertakings  (b) Frequency 2b.1 No change 2b.2 Biennial assessment of significance with which the risk profile of the undertaking deviates from the assumptions underlying the SCR, calculated with the standard formula (preferred)
3 Written policies (review)	3.1 No change 3.2 Less frequent review allowed, up to three years, based on proportionality (preferred)
4 AMSB	4.1 No change 4.2 Specific requirements on the composition of the AMSB 4.3 Regular assessment on the composition, effectiveness and internal governance of the AMSB considering proportionality (preferred)
5 Remuneration (deferral of the variable component)	5.1 No change 5.2 Exemption to the principle of deferral of a substantial portion of the variable remuneration component considering proportionality (preferred)

### 8.3.1.1 Key functions

Policy issue 1a: Combination with operational functions		
Option 1a.1: No change		
Costs	Policyholders	No material impact
	Industry	Ambiguity on the conditions under which combination would be allowed by the supervisory authority. Unlevel playing field where different supervisory approaches are followed in each jurisdiction. Potential of increased operational risk in case conflicts of interests between control functions and operational functions are not properly managed.
	Supervisors	May lead to inconsistent approaches among jurisdictions which could affect supervisory convergence in this area.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Ambiguity in the regulation could result in higher flexibility for undertakings, depending on the approach currently followed by their NSA
	Supervisors	No material impact

	Other	N/A
<b>Option 1a.2: Combination explicitly allowed based on proportionality (except the internal audit function)</b>		
Costs	Policyholders	No material impact
	Industry	Possible lower flexibility for undertakings compared to the current situation, depending on the approach currently followed by their NSA
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection since conditions under which combination would be allowed are specified. Reduction in operational costs of the undertaking could be passed on to the policyholder e.g. through reduced premiums
	Industry	More certainty on the conditions under which combination would be allowed by the supervisory authority, in particular for small undertakings. Combination could lead to reduction in operational costs as less individuals required to fulfil separate posts.
	Supervisors	Additional guidance in the regulation for the assessment of combinations should result in more supervisory convergence while still allowing for supervisory judgement on a case by case basis.
	Other	N/A

<b>Policy issue 1b: Members of the AMSB and key function holder</b>		
<b>Option 1b.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	Ambiguity on the conditions under which combination would be allowed by the supervisory authority. Unlevel playing field where different supervisory approaches are followed in each jurisdiction. Potential of increased operational risk in case conflicts of interests between both roles are not properly managed.
	Supervisors	May lead to inconsistent approaches among jurisdictions which could affect supervisory convergence in this area.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Ambiguity in the regulation could result in higher flexibility for undertakings, depending on the approach currently followed by their NSA
	Supervisors	No material impact
	Other	N/A
<b>Option 1b.2: Combination of roles explicitly allowed based on proportionality</b>		
Costs	Policyholders	No material impact
	Industry	Possible lower flexibility for undertakings compared to the current situation, depending on the approach currently followed by their NSA
	Supervisors	No material impact
	Other	N/A

Benefits	Policyholders	Improved policyholder protection since conditions under which combination would be allowed are specified. Reduction in operational costs of the undertaking could be passed on to the policyholder e.g. through reduced premiums
	Industry	More certainty on the conditions under which combination would be allowed by the supervisory authority, in particular for small undertakings. Combination could lead to reduction in operational costs as less individuals required to fulfil separate posts.
	Supervisors	Additional guidance in the regulation for the assessment of combinations should result in more supervisory convergence while still allowing for supervisory judgement on a case by case basis.
	Other	N/A

<b>Policy issue 1c: Combination of key functions</b>		
<b>Option 1c.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	Ambiguity on the conditions under which combination would be allowed by the supervisory authority. Unlevel playing field where different supervisory approaches are followed in each jurisdiction. Potential of increased operational risk in case conflicts of interests between key functions are not properly managed.
	Supervisors	May lead to inconsistent approaches among jurisdictions which could affect supervisory convergence in this area.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Ambiguity in the regulation could result in higher flexibility for undertakings, depending on the approach currently followed by their NSA
	Supervisors	No material impact
	Other	N/A
<b>Option 1c.2: Combination explicitly allowed based on proportionality</b>		
Costs	Policyholders	No material impact
	Industry	Possible lower flexibility for undertakings compared to the current situation, depending on the approach currently followed by their NSA
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection since conditions under which combination would be allowed are specified. Reduction in operational costs of the undertaking could be passed on to the policyholder e.g. through reduced premiums
	Industry	More certainty on the conditions under which combination would be allowed by the supervisory authority, in particular for small undertakings. Combination could lead to reduction in operational costs as less individuals required to fulfil separate posts.
	Supervisors	Additional guidance in the regulation for the assessment of combinations should result in more supervisory convergence while still allowing for supervisory judgement on a case by case basis.

	Other	N/A
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Policy issue 1a: Combination with operational functions						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 1a.1: No change	0	0	0	0	0	0
Option 1a.2: Combination explicitly allowed based on proportionality (except internal audit)	+	+	+	+	+	+

Policy issue 1b: Members of the AMSB and key function holder						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 1b.1: No change	0	0	0	0	0	0
Option 1b.2: Combination explicitly allowed based on proportionality	+	+	+	+	+	+

Policy issue 1c: Combination of key functions
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	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 1d.1: No change	0	0	0	0	0	0
Option 1d.2: Combination explicitly allowed based on proportionality	+	+	+	+	+	+

### 8.3.1.2 ORSA

<b>Policy issue 2a: ORSA supervisory report</b>		
<b>Option 2a.1: No change</b>		
Costs	Policyholders	No material impact.
	Industry	Undertakings will continue to incur high costs involving the development of the ORSA
	Supervisors	High resources devoted to review and challenge the quality of the ORSA supervisory reports on a case by case basis
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Flexibility
	Supervisors	Still have the tools based on the generic proportionality principle to provide guidance to the undertakings under their supervision on how to construct their ORSA, in particular stating the extensiveness and quality required for them to be confident with the ORSA supervisory report delivered
	Other	N/A
<b>Option 2a.2: Standardised ORSA supervisory report for small/less complex undertakings</b>		
Costs	Policyholders	No material impact
	Industry	Standardisation would restrict flexibility for undertakings on how to present the outcomes of the ORSA. Every undertaking would still have to ensure new developments which might have an impact on their ORSA are properly considered. One-off cost to adapt the structure/format of their current ORSA supervisory report to the new template.
	Supervisors	Risk that the ORSA is taken as a supervisory exercise; undertakings may limit the ORSA process to the minimum aspects to fill-in the template.
	Other	N/A
Benefits	Policyholders	No material impact

	Industry	More certainty for small/less complex undertakings on the content of the ORSA. Potentially less capacity to be put into delivering the ORSA supervisory report may result in less costs.
	Supervisors	Higher standardisation would facilitate the analysis. More detailed general requirements on the content may improve the quality of the ORSA supervisory reports for small/less complex undertakings.
	Other	N/A

<b>Policy issue 2b: Frequency</b>		
<b>Option 2b.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	High burdensome obligation to perform a full ORSA annually
	Supervisors	High burdensome assessment of the undertaking's ORSA
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
<b>Option 2b.2: Biennial assessment of significance with which the risk profile of the undertaking deviates from the assumptions underlying the SCR, calculated with the standard formula</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Partial relief of the compliance burden every two years
	Supervisors	Partial relief of the supervisory burden every two years
	Other	N/A

8.116 The effectiveness and efficiency of each option against the relevant objectives of the review has been illustrated in the table below.

8.117 In the tables "0" covers both cases where the option does not increase the effectiveness/efficiency in achieving the objectives and cases where the option decrease the effectiveness/efficiency compared to the baseline. Consequently, it should be noted that option 2a.2 (standardised ORSA supervisory report for small/less complex undertakings) is deemed to have a negative impact with

respect to the objective of promoting good risk management and improving proportionality.

Policy issue 2a: ORSA supervisory report						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 2a.1: No change	0	0	0	0	0	0
Option 2a.2: Standardised ORSA supervisory report for small/less complex undertakings	0	0	+	0	0	+

Policy issue 2b: Frequency of the ORSA						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Effective and efficient supervision	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 2b.1: No change	0	0	0	0	0	0
Option 2b.2: Biennial assessment of significance with which the risk profile of the undertaking deviates from the assumptions underlying the SCR, calculated with	0	+	+	0	+	+

the standard formula						
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### 8.3.1.3 Written policies

<b>Policy issue 3: Frequency of policy review</b>		
<b>Option 3.1: No change</b>		
Costs	Policyholders	No material impact.
	Industry	High burden to carry out a annual review of all the written policies, irrespective of the undertaking's risk profile
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	Certainty on the mandatory frequency of the review Level playing field since undertakings under Solvency II are subject exactly to the same requirement
	Supervisors	No need to apply supervisory judgement to decide the appropriate frequency of the review for each undertaking. No room for supervisory divergence
	Other	N/A
<b>Option 3.2: Less frequent review allowed, up to three years, based on proportionality</b>		
Costs	Policyholders	No material impact.
	Industry	Uncertainty on the supervisory expectations with respect to the appropriate frequency of the review of the policies of each undertaking
	Supervisors	Risk of supervisory divergence
	Other	N/A
Benefits	Policyholders	No material impact.
	Industry	Adjustment of the requirement to the risk-profile; more flexibility. Partial relief of burden for small/less complex undertakings, less resources needed if annual review is not requested for all written policies.

	Supervisors	Case-by-case approach; more room for manoeuvre/more flexibility.
	Other	N/A

Policy issue 3b: Frequency of review						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Flexibility on the frequency of the review of policies	0	++	0	0	+	0

#### 8.3.1.4 AMSB

Policy issue 4: Composition of the AMSB		
Option 4.1: No change		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Flexibility for undertakings to decide on the composition of the AMSB
	Supervisors	No material impact
	Other	N/A
Option 4.2: Specific requirements on the composition of the AMSB		
Costs	Policyholders	No material impact
	Industry	Additional costs for undertakings to comply with the new requirements, depending on the current composition of their AMSB and the specific requirements (e.g. costs derived from the

		recruitment process and remuneration of additional members of the AMSB) Potential lack of flexibility; general requirements may not be fully appropriate for concrete undertakings
	Supervisors	Potential lack of flexibility for the supervisory assessment of the AMSB composition
	Other	N/A
Benefits	Policyholders	Improved policyholder protection by reinforced governance of the undertakings
	Industry	More certainty of the supervisory expectations with respect to the AMSB (e.g. on the expected number of AMSB Members)
	Supervisors	More guidance in the regulation for the supervision of the AMSB
	Other	N/A
<b>Option 4.3: Regular assessment on the adequacy of the composition, effectiveness and internal governance of the AMSB considering proportionality</b>		
Costs	Policyholders	No material impact
	Industry	Additional resources needed for the extended mandatory scope of the regular evaluation of the undertaking's system of governance (if AMSB composition, effectiveness and internal governance are not explicitly covered currently)
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Improved policyholder protection by reinforced governance of the undertakings
	Industry	Flexibility for undertakings to decide on the composition of the AMSB
	Supervisors	Flexibility for the supervisory assessment of the AMSB composition
	Other	N/A

Policy issue 4: Composition of the AMSB						
	Effectiveness (0/+/>++)			Efficiency (0/+/>++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 4.1 No change	0	0	0	0	0	0
Option 4.2 Specific requirements on the	+	+	++	+	+	+

composition of the AMSB						
Option 4.3 Regular assessment on composition, effectiveness and internal governance of AMSB considering proportionality	+	++	+	++	++	+

### 8.3.1.5 Remuneration

<b>Policy issue 5: Remuneration (Deferral variable component)</b>		
<b>Option 5.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	Mandatory deferral may be disproportionate for small undertakings as well as for staff with low levels of variable remuneration
	Supervisors	No material impact
	Other	Lack of cross-sectoral consistency, in view of the exemptions allowed in the banking framework
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
<b>Option 5.2: Exemption to the principle of deferral of a substantial portion of the variable remuneration component considering proportionality</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Less costs for undertakings exempted in view of their size and for all undertakings with respect to staff exempted in view of the low amounts of variable remuneration perceived
	Supervisors	No material impact
	Other	Improved cross-sectoral consistency

## 9. Group supervision

Policy issue 5: Remuneration (deferral of the variable component)						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field	Objective 1: Promoting good risk management	Objective 2: Improving proportionality	Objective 3: Ensuring a level playing field
Option 4.1 No change	0	0	0	0	0	0
Option 4.2: Exemption based on proportionality	0	+	+	0	+	+

### Scope of Application of Group Supervision

#### 9.1.1 Definition of the Group, including issues of dominant Influence; and Scope of the Group Supervision

Policy issues	Options
1. Lack of clarity on the definition of group in Art. 212 of the SII Directive, as well as on the concepts of 'acting in concert', 'centralised coordination', identification of dominant influence.	1.1 No Change
	1.2 To revise the definition of group under Solvency II framework to capture undertakings, which, together, form a de facto group, upon supervisory powers (preferred)
2. Need to facilitate the application of group supervision under Art. 213 in the case of horizontal groups or with multiple points of entry in the EEA.	2.1 No Change
	2.2 To provide the NSAs with powers to require to restructure for the purpose of exercising group supervision (preferred)
3. Need to clarify certain definitions that support scope of the group.	3.1 No Change
	3.2 Clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups (preferred)

**Policy issue 1: Lack of clarity on the definition of group in Art. 212 of the SII Directive, as well as on the concepts of 'acting in concert', 'centralised coordination', identification of dominant influence.**



<b>Option 1.1: No change</b>		
Costs	Policyholders	Risks to policyholder protection due to lack (or poor) group supervision
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	No material benefit
	Industry	Neutral impact. Industry continues to apply the rules known to them.
	Supervisors	No material benefit as supervisors will continue facing the challenges described in the analysis.
	Other	N/A
<b>Option 1.2: To revise the definition of group under Solvency II framework to capture undertakings, which, together, form a de facto group, upon supervisory powers.</b>		
Costs	Policyholders	No material cost
	Industry	Eventual extension of scope of group supervision may result in additional burden for undertakings/groups
	Supervisors	Eventual extension of scope of group supervision may result in higher supervisory costs
	Other	N/A
Benefits	Policyholders	Increase of policyholders protection through enhanced group supervision
	Industry	More clarity, less uncertainty of the scope of group supervision
	Supervisors	More clarity, enhanced group supervision
	Other	N/A
<b>Policy issue 2: Need to facilitate the application of group supervision under Art. 213 in the case of horizontal groups or with multiple points of entry in the EEA.</b>		
<b>Option 2.1: No change</b>		
Costs	Policyholders	Risks to policyholder protection due to lack (or poor) group supervision
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	No material benefit
	Industry	No material benefit
	Supervisors	No material benefit
	Other	N/A
<b>Option 2.2: To provide the NSAs with powers to require to restructure for the purpose of exercising group supervision.</b>		
Costs	Policyholders	No material cost

	Industry	Eventual cost in case undertakings are requested to restructure
	Supervisors	No material cost
	Other	N/A
Benefits	Policyholders	Increase of policyholders protection through enhanced group supervision
	Industry	More clarity, less uncertainty of the scope of group supervision
	Supervisors	Enhanced group supervision,
	Other	N/A
<b>Policy issue 3. Need to clarify certain definitions that support scope of the group.</b>		
<b>Option 3.1: No change</b>		
Costs	Policyholders	Risks to policyholder protection due to lack (or poor) group supervision
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	No material benefit
	Industry	No material benefit
	Supervisors	No material benefit
	Other	N/A
<b>Option 3.2: Clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups</b>		
Costs	Policyholders	No material cost
	Industry	Eventual extension of scope of group supervision may result in additional burden for undertakings/groups
	Supervisors	Eventual extension of scope of group supervision may result in higher supervisory costs
	Other	N/A
Benefits	Policyholders	Increase of policyholders protection through enhanced group supervision
	Industry	More clarity, less uncertainty of the scope of group supervision
	Supervisors	More clarity, enhanced group supervision
	Other	N/A

### Comparison of options

**Policy issue 1 - Lack of clarity on the definition of group in Art. 212 of the SII Directive, as well as on the concepts of 'acting in concert', 'centralised coordination', identification of dominant influence.**

- 9.1 The preferred policy option for this policy issue is option 1.2 to revise the definition of group under Solvency II framework to capture undertakings, which, together, form a de facto group, upon supervisory powers because it closes the regulatory

gap and allows to ensure a level playing field. The other option considered has been disregarded because they have been considered as not addressing the identified issue from a regulatory and supervisory perspective.

**Policy issue 2: Need to facilitate the application of group supervision under Art. 213 in the case of horizontal groups or with multiple points of entry in the EEA**

9.2 The preferred policy option for this policy issue is option 2.2 to provide the NSAs with powers to require to restructure for the purpose of exercising group supervision because this clearly facilitates the application of group supervision in the cases identified and ensures a level playing field. The other option considered has been disregarded because they have been considered as not addressing the identified issue.

**Policy issue 3: Need to clarify certain definitions that support scope of the group**

9.3 The preferred policy option for this policy issue is option 3.2 to clarify the definitions of subsidiary, parent undertaking, control, participation and the definition of groups, to secure the scope of existing groups. This will close the regulatory gap and facilitates a level playing field. The other option considered has been disregarded because they have been considered as not addressing the identified issue.

Policy issue 1: Lack of clarity on the definition of group in Art. 212 of the SII Directive, as well as on the concepts of 'acting in concert', 'centralised coordination', identification of dominant influence.						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Revised definition	+	++	+	+	++	+
Policy issue 2: Need to facilitate the application of group supervision under Art. 213 in the case of horizontal groups or with multiple points of entry in the EEA.						
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements

Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Provide NSAS with the power to require to restructure	+	++	+	+	++	+
<b>Policy issue 3: Need to clarify certain definitions that support scope of the group.</b>						
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: Revised definitions	+	++	+	+	++	+

### 9.1.2 Definition of Insurance Holding Companies and other challenges related to Insurance holding companies and Mixed financial holding companies

Policy issues	Options
1. Article 212 of the Solvency II Directive does not provide additional explanation of the meaning of 'exclusively or mainly' in the definition of IHC	1.1 No change
	1.2 To clarify the term "exclusively" or "mainly" used in the definition of IHC contained in Article 212(2)(f) of the Solvency II Directive (preferred)
2. Article 214(1) of the Solvency II Directive; and powers over insurance holding companies and mixed financial holding companies	2.1 No change
	2.2 Amend Article 214(1) of the SII Directive to allow the group supervisor to have certain powers to ensure an effective group supervision; and enforceability over such undertakings (preferred)

<b>Policy issue 1: Article 212 of the Solvency II Directive does not provide additional explanation of the meaning of 'exclusively or mainly' in the definition of IHC</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	Risks to policyholder protection due to lack (or poor) group supervision

	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Neutral impact. Industry continues to apply the rules known to them.
	Supervisors	No material benefit as supervisors will continue facing the challenges described in the analysis.
	Other	N/A
<b>Option 1.2: Clarify the term "exclusively" or "mainly" used in the definition of IHC contained in Article 212(2)(f) of the Solvency II Directive</b>		
Costs	Policyholders	No material impact
	Industry	Potential impact linked to capital requirements depending on determination whether there is an IHC
	Supervisors	Potential increase in supervisory tasks depending on determination whether there is an IHC
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	More clarity, reducing uncertainties and divergent practices
	Supervisors	More clarity, reducing uncertainties and divergent practices
	Other	No material impact
<b>Policy issue 2: Article 214(1) of the Solvency II Directive; and powers over insurance holding companies and mixed financial holding companies</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	Risks to policyholder protection due to limited supervisory powers over holding companies
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
<b>Option 2.2: Amend Article 214(1) of the SII Directive to allow the group supervisor to have certain powers to ensure an effective group supervision; and enforceability over such undertakings.</b>		
Costs	Policyholders	No material impact
	Industry	Eventual restrictions or costs to holding companies/groups derived from the exercise of the powers by the group supervisor
	Supervisors	Eventual supervisory burden to exercise the powers t
	Other	No material impact

Benefits	Policyholders	Enhanced policyholder protection through more effective group supervision
	Industry	More clarity, reducing uncertainties and divergent practices
	Supervisors	More effective group supervision through more powers over holding companies
	Other	No material impact

Comparison of options

**Policy issue 1: Article 212 of the Solvency II Directive does not provide additional explanation of the meaning of 'exclusively or mainly' in the definition of IHC**

9.4 The preferred policy option for this policy issue is to provide further clarity on the term "exclusively" or "mainly" used in the definition of IHC contained in Article 212(2)(f) of the Solvency II Directive because it allows to ensure a level playing field. The other option considered has been disregarded because they have been considered as not addressing the identified issue from a supervisory perspective.

**Policy issue 2: Amend Article 214(1) of the SII Directive to allow the group supervisor to have certain powers to ensure an effective group supervision; and enforceability over such undertakings.**

9.5 The issues concerning the interpretation of Article 214(1) are causing inconsistencies in the application of group requirements to holding companies leading to ineffective supervision and supervisory convergence issues. As whether the holding of the insurance group is under supervision depends on the local law. Thus, the preferred policy option for this policy issue is to allow the group supervisor to have certain powers to ensure an effective group supervision; and enforceability over such undertakings and it also ensures a level playing field. The other option considered has been disregarded because they have been considered as not addressing the identified issue from a supervisory perspective.

Policy issue 1: Article 212 of the Solvency II Directive does not provide additional explanation of the meaning of 'exclusively or mainly' in the definition of IHC						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Clarify "exclusively or mainly"	+	+	+	+	+	+

Policy issue 2: Amend Article 214(1) of the SII Directive to allow the group supervisor to have certain powers to ensure an effective group supervision; and enforceability over such undertakings.

	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Supervisory powers over holdings	+	+	+	+	+	+

### 9.1.3 Article 214(2) of the SII Directive - Exclusion from the scope of group supervision

Policy issues	Options
1. Different practices related to the exclusion of undertakings from the scope of group under supervision, which can lead to complete absence of group supervision or application of group supervision at a lower / intermediate level in the group structure.	1.1 No Change
	1.2 To introduce an overall principle in the SII Directive on the exclusion from group supervision to ensure that exceptional cases as well as cases of potential capital relief are adequately justified, documented, monitored and all relevant parties in the decision are also involved in the process (preferred)
2. Further clarity on "negligible interest" with respect of achieving the objectives of group supervision (as laid down in Article 214(2)(b))	2.1 No change
	2.2 To provide criteria to be considered for the purpose of assessing "negligible interest" (preferred)

**Policy issue 1: Different practices related to the exclusion of undertakings from the scope of group which can lead to complete absence of group supervision or application of group supervision at a lower / intermediate level in the group structure.**

**Option 1.1: No change**

Costs	Policyholders	Risks to policyholder protection in case exclusions result in absence (or limitation) of group supervision
	Industry	Cost deriving from uncertainties and divergent practices

	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
<b>Option 1.2: To introduce an overall principle in the SII Directive on the exclusion from group supervision to ensure that exceptional cases as well as cases of potential capital relief are adequately justified, documented, monitored and all relevant parties in the decision are also involved in the process.</b>		
Costs	Policyholders	No material impact
	Industry	In case exclusions are not deemed justified, additional costs to comply with group supervision requirements in addition to solo supervision requirements
	Supervisors	Eventual costs in case the scope of the group supervision is widened
	Other	No material impact
Benefits	Policyholders	Policyholder interests will be better protected through more effective group supervision if exclusions are limited
	Industry	More clarity, reducing uncertainties and divergent practices
	Supervisors	Further supervisory convergence could be achieved; better coordination of NSAs in cross-border groups
	Other	No material
<b>Policy issue 2: Further clarity on “negligible interest” with respect of achieving the objectives of group supervision (as laid down in Article 214(2)(b))</b>		
<b>Option 2.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
<b>Option 2.2 To provide criteria to be considered for the purpose of assessing “negligible interest”</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact



	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	More clarity on the regulatory requirements
	Supervisors	Further supervisory convergence could be achieved
	Other	No material impact

Comparison of options

**Policy issue 1: Different practices related to the exclusion of undertakings from the scope of group which can lead to complete absence of group supervision or application of group supervision at a lower / intermediate level in the group**

9.6 The preferred policy option for this policy issue is policy option 1.2. which requires to introduce an overall principle in the SII Directive on the exclusion from group supervision to ensure that exceptional cases as well as cases of potential capital relief are adequately justified, documented, monitored and all relevant parties in the decision are also involved in the process because it will ensure further supervisory convergence. The other options considered have been disregarded because they do not provide the necessary solution to the issue in hand.

**Policy issue 2: Further clarity on “negligible interest” with respect of achieving the objectives of group supervision (as laid down in Article 214(2)(b))**

9.7 The preferred policy option for this policy issue is policy option 2.2. which requires to provide criteria to be considered for the purpose of assessing “negligible interest” because it will help in assist in achieving supervisory convergence and provide more clarity on the regulatory requirements for the industry. The other options considered have been disregarded because keeps the status quo and therefore they have not be considered as a preferred choice.

Policy issue 1: Different practices related to the exclusion of undertakings from the scope of group which can lead to complete absence of group supervision or application of group supervision at a lower / intermediate level in the group						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Overall principle on exclusions	+	+	+	+	+	+

Policy issue 2: Further clarity on “negligible interest” with respect of achieving the objectives of group supervision (as laid down in Article 214(2)(b))
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	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Options						
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Clarify relevant criteria	+	+	0	+	+	0

### 9.1.4 Supervision of Intragroup Transactions (IGTs) and Risk Concentrations (RCs)

Policy issues	Options
1. No inclusion in the current definition of IGTs of reference to Insurance Holding Companies (IHC), Mixed Activities Insurance Holding Companies (MAIHC) or Mixed Financial Holding Companies (MFHC), and third country (re)insurance undertakings as one of the possible counterparties of the IGTs	1.1 No Change
	1.2: Amend the wording of Art. 13(19) of the Solvency II Directive to include holding companies (IHC, MFHC, MAIHC) and third country (re)insurance undertakings as a possible counterparty to the transaction (preferred)
	1.3 Enlarge the IGT definition to any transaction among all undertakings within the group (i.e. ancillary services, etc.)
2. Lack of consistency in application of thresholds for IGTs and RCs among the NSAs.	2.1 No Change
	2.2 To amend Art 244(3) of the Solvency II Directive to allow the introduction of additional criteria (preferred)

**Policy issue 1. The current definition of IGTs does not explicitly include the reference to the Insurance Holding Companies (IHC), Mixed Activities Insurance Holding Companies (MAIHC) or Mixed Financial Holding Companies (MFHC) and third country (re)insurance undertakings as one of the possible counterparties of the IGTs**

**Option 1.1: No change**

Costs	Policyholders	No material impact
	Industry	No material impact

	Supervisors	Potential costs arising from supervisors' ad hoc request of information according to art. 254 SIID; divergent practices may arise
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
<b>Option 1.2: Amend the wording of Art. 13(19) of the Solvency II Directive to include holding companies (IHC, MFHC, MAIHC) and third country (re)insurance undertakings as a possible counterparty to the transaction.</b>		
Costs	Policyholders	No material impact
	Industry	Potential impact linked to the enlargement of the reporting to supervisors
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	Better understanding of the links between major entities within the group (e.g. better insight of the funding system)
	Other	No material impact
<b>Option 1.3: Enlarge the IGT definition to any transaction among all undertakings within the group (i.e. ancillary services, etc.)</b>		
Costs	Policyholders	No material impact
	Industry	Potential reporting burden
	Supervisors	Impact on efficiency of the supervision due to an excessive load of information, if not material/relevant
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	The enlargement of the scope of the reported IGTs provides the supervisor with the overall picture of all main transactions within the group
	Other	No material impact
<b>Policy issue 2: Lack of consistency in application of thresholds for IGTs and RCs among the NSAs.</b>		
<b>Option 2.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact

Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
<b>Option 2.2: To amend Art. 244(3) to allow the introduction of additional criteria for the purpose of setting thresholds for IGTs and RCs reporting as deemed necessary by the group supervisor.</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	Avoiding the reporting of information not tailored for the group
	Supervisors	Better supervision by capturing the necessary information through criteria which take into account the specificities of the supervised group
	Other	No material impact

### Comparison of options

#### **Policy issue 1**

- 9.8 The preferred policy option for this policy issue is 1.2, consisting in amending Article 13 (19) of the Solvency II Directive in order to include at least any transaction by which a (re)insurance undertaking, third country (re)insurance undertaking, insurance holding company, mixed financial holding company and mixed activity insurance 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.
- 9.9 Within this framework the NSAs would be allowed to include in the scope of IGTs reporting further type of counterparties based on their supervisory need. For instance, independently of the classification of a bank as being/or not a MAIHC, the Solvency II legal framework requires a reporting of that intra/group transactions between insurance undertaking(s) and a bank.
- 9.10 The other options considered have been disregarded because not efficient from a supervisory point of view

#### **Policy issue 2**

- 9.11 The preferred policy option for this policy issue is 2.2. It is recommended that Article 244(3) of the Solvency II Directive is amended with a view of allowing the introduction of additional criteria, such as eligible own funds or a qualitative criterion, to these being of the SCR and/or technical provisions for the purpose of setting thresholds for IGTs and RCs reporting as deemed necessary by the group supervisor. Further convergence can be achieved by the regulatory framework

from further guidance/best practice for setting up thresholds and supervision of IGTs and RCs.

Policy issue 1: The current definition of IGTs does not explicitly include the reference to the Insurance Holding Companies (IHC), Mixed Activities Insurance Holding Companies (MAIHC) or Mixed Financial Holding Companies (MFHC) as one of the possible counterparties of the IGTs						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Amend the definition	+	+	+	+	+	+
Option 1.3: Similar to Option 1.2 but with a broader scope	+	+	+	0	0	0

Policy issue 2: Lack of consistency in application of thresholds for IGTs and RCs among the NSAs.						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Introduce additional criteria	+	0	0	+	0	0

## Third Countries

## 9.1.5 Article 262 Solvency II Directive - Clarification

Policy issues	Options
1. Further clarity needed on the application of Art. 262 of the SII Directive	1.1 No change
	1.2 To clarify the circumstances for establishment of EU-holdco depending already exiting EU structure. Also on the objectives of the use of 'other methods' (preferred)
2. Further clarity needed on consistency and clarity of the language contained in Art. 262 of the SII Directive	2.1 No change
	2.2 To ensure consistency and clarity of the language contained in Art. 262 of the SII Directive (preferred)

<b>Policy issue 1: Further clarity needed on the application of Art. 262 of the SII Directive</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	Cost deriving from uncertainties and divergent practices
	Supervisors	Cost deriving from uncertainties and divergent practices
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
<b>Option 1.2: Providing further clarity on the circumstances for establishment of EU-holdco depending already exiting EU structure. Also on the objectives of the use of 'other methods'.</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	More consistency in the application of other method and further convergence among the NSAs
	Other	No material impact
<b>Policy issue 2: Other issues identified in the application of current provisions on third countries - consistency and clarity of language</b>		

<b>Option 2.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
<b>Option 2.2: Providing further clarity needed on consistency and clarity of the language contained in Article 262 of the SII Directive</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	More consistency in the application of other method and further convergence among the NSAs
	Other	No material impact

### Comparison of options

#### **Policy issue 1**

9.12 The preferred policy option for this policy issue is policy option 1.2 which requires to provide further clarity on the circumstances for establishment of EU-holding and on consistency and clarity of the language contained in Art. 262 of the SII Directive because it would benefit the EEA group supervisor when assessing the most appropriate method to apply taking into account the existing group depending already existing EU structure. This will ensure more consistency in the application of other method and further convergence among the NSAs. Also on the objectives of the use of 'other methods' would assist supervisors in that regard. The other options considered have been disregarded because they are not efficient from a supervisory point of view.

#### **Policy issue 2**

9.13 The preferred policy option for this policy issue is policy option 2.2 which requires further clarity needed on consistency and clarity of the language contained in Article 262 of the SII Directive. This will ensure consistency on the application across all member states which will lead to supervisory convergence. The other options considered were disregarded as they are not efficient from a supervisory convergence point of view.

Policy issue 1: Further clarity needed on the application of Art. 262 of the SII Directive

	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2:	+	+	+	+	+	0
Policy issue 2: Other issues identified in the application of current provisions on third countries - consistency and clarity of language						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Option 2.1: No change	0	0	0	0	0	0
Option 2.2:	+	+	0	+	+	0

## Rules governing the methods for calculating Rules governing the methods for calculating group solvency (including Own Fund requirements), including the interaction with Directive 2002/87/EC "FICOD"

### Method 1 -Calculation of Group Solvency

#### 9.1.6 Treatment of Insurance Holding Companies (IHC), Mixed Financial Holding Companies (MFHC)

Policy issues	Options
1. Need to clarify how to treat the IHC and MFHC for the purpose of the group solvency calculation, in particular of a notional SCR for such undertakings.	1.1. No Change (maintain status quo)
	1.2 State that a notional SCR equal to zero for the intermediate IHC and MFHC
	1.3. Include clearly the provision of a notional SCR for both the parent and intermediate IHC and MFHC, including those in third country (preferred)



**Policy issue 1: Need to clarify how to treat the IHC and MFHC for the purpose of the group solvency calculation, in particular of a notional SCR for such undertakings**

**Option 1.1: No change**

Costs	Policyholders	Unlevel playing field. The information on the solvency position would not be reflecting real risks from the holding company in the MS where a notional SCR is non requested on national basis
	Industry	None
	Supervisors	Unlevel playing field. The information on the solvency position would not be reflecting real risks from the holding company in the MS where a notional SCR is non requested on national basis
	Other	
Benefits	Policyholders	None
	Industry	Maintain the status quo
	Supervisors	None
	Other	

**Option 1.2: State that a notional SCR equal to zero for the intermediate IHC and MFHC**

Costs	Policyholders	The information on the solvency position would not be reflecting real risks from the holding company
	Industry	None
	Supervisors	The information on the solvency position would not be reflecting real risks from the holding company
	Other	
Benefits	Policyholders	Limited benefits from harmonization of practices
	Industry	Less cost for industry regarding the capital charge as under this option it is assumed that the notional SCR is zero for parent and intermediate IHC and MFHC.
	Supervisors	Limited benefits from harmonization of practices
	Other	

**Option 1.3: Include clearly the provision of a notional SCR for both the parent and intermediate IHC and MFHC, including those in third country**

Costs	Policyholders	None
	Industry	There may be additional costs both from an operational point of view (calculation) and also from a capital requirements point of view due to application of the provisions to the parent and intermediate IHC and MFHC.
	Supervisors	None
	Other	
Benefits	Policyholders	Harmonization of rules. The information on the solvency position would be reflecting real risks from the holding company
	Industry	Harmonization of rules. The information on the solvency position would be reflecting real risks from the holding company
	Supervisors	Harmonization of rules. The information on the solvency position would be reflecting real risks from the holding company
	Other	

## Comparison of options

### **Policy issue 1**

9.14 The preferred policy option for this policy issue is 1.3 which requires to include clearly the provision of a notional SCR for both the parent and intermediate IHC and MFHC, including those in third country because it ensures that in a harmonised framework, the information on the solvency position is reflecting real risks from those holding companies. The other options were considered not effective nor efficient to address regulatory gap: the no change option will maintain the uncertainties faced under the current status quo, and the option 1.2 will lead to the solvency position no reflecting real risks from the parent and/or intermediate IHC and MFHC.

Policy issue 1: : Need to clarify how to treat the IHC and MFHC for the purpose of the group solvency calculation, in particular of a notional SCR for such undertakings						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2 : notional SCR equal to zero for the intermediate IHC and MFHC	0	+	0	0	+	0
Option 1.3: notional SCR for both the parent and intermediate IHC and MFHC, including those in third country	+	+	+	+	+	+

### **9.1.7 Article 229 of the Solvency II Directive – Proxy Methods**

Policy issues	Options
1. Article 229 does not necessarily lead to efficient results in cases where imposing SII calculation is burdensome or impossible	1.1. No Change
	1.2 Introduce a clear methodology that is easily applicable to the calculation of own funds and the group SCR calculation for

	<p>undertakings for which the SII calculation is not possible and for immaterial undertakings.</p> <p>Such simplified methodology could favour the equity method with a cap on own funds.</p> <p>The use of the simplification should be subject to approval by the group supervisor (preferred)</p>
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**Policy issue 1: Article 229 does not necessarily lead to efficient results in cases where imposing Solvency II calculation is burdensome or impossible**

<b>Option 1.1: No change</b>		
Costs	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 1.2: Introduce a clear methodology that is easily applicable to the calculation of own funds and the group SCR calculation for undertakings for which the S2 calculation is not possible and for immaterial undertakings. Such simplified methodology could favour the equity method with a cap on own funds.</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Allows calculation for groups with subsidiaries in third countries. Calculation less burdensome for small undertakings.
	Supervisors	Ensure more transparent group solvency. Same level of prudence as current situation because of the cap on own funds
	Other	N/A

Comparison of options

**Policy issue 1**

9.15 The preferred policy option for this policy issue is policy option 1.2 which recommends to introduce a clear methodology that is easily applicable to the calculation of own funds and the group SCR calculation for undertakings for which

the Solvency II calculation is not possible and for immaterial undertakings. Such simplified methodology could favour the equity method with a cap on own funds. The preferred policy option ensures effective supervision, and supports a level playing field across Europe by ensuring that groups are calculating its capital requirements and own funds in a consistent manner. The other option considered has been disregarded because they have been considered as not addressing the identified issue from a supervisory perspective.

Policy issue 1: Article 229 does not necessarily lead to efficient results in cases where imposing Solvency II calculation is burdensome or impossible						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Simplified methodology with a cap on own funds	+	+	++	+	+	++

## Method 2 -Calculation of Group SCR

### 9.1.8 Scope of method 2 (where used exclusively or in combination with method 1)

Policy issues	Options
1. Need to clarify the scope of undertakings to be included under method 2 and their treatment to ensure a consistent treatment across methods (same scope of entities under all methods) and across EEA	1.1 No Change
	1.2 Provide clarity on the scope of undertakings to be included under method 2 and their treatment (preferred)

Policy issue 1: Need to clarify the scope of undertakings to be included under method 2 and their treatment to ensure a consistent treatment across methods (same scope of entities under all methods) and across EEA		
Option 1.1: No change		
Costs	Policyholders	Costs deriving from uncertainties and divergent practices
	Industry	Challenges due to uncertainties and divergent practices

	Supervisors	Challenges due to uncertainties and divergent practices
	Other	
Benefits	Policyholders	None
	Industry	Possibility to follow flexible approaches
	Supervisors	Possibility to follow flexible approaches
	Other	
<b>Option 1.2: Provide clarity on the scope of undertakings to be included under method 2 and their treatment</b>		
Costs	Policyholders	None
	Industry	Clarification on the scope of application may have some impact on the capital requirements depending on the group structure and current interpretation of the legislation.
	Supervisors	Clarity on the scope of application will ensure supervisory convergence.
	Other	
Benefits	Policyholders	Ensure a clearer regulatory framework and convergence of practices that could benefit the protection of EEA policyholders
	Industry	Ensure a clearer regulatory framework and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	

### Comparison of options

#### **Policy issue 1**

9.16 The preferred policy option for this policy issue is 1.2 which recommends to provide clarity on the scope of undertakings to be included under method 2 and their treatment because a clarification on the scope of undertakings to be included under method 2 and their treatment would ensure a consistent treatment across methods (same scope of entities under all methods) and across EEA. The other option considered has been disregarded because they have been considered as not addressing the identified issue from a supervisory perspective.

#### **9.1.9 Partial Internal Model (PIM) and Integration Techniques**

Policy issues	Options
1. There is no specific provision about the application of integration techniques to partial internal models at group level	1.1 No Change.
	1.2 Introduce requirement to demonstrate appropriateness: Clarify in the regulations that in general there is no mutatis mutandis approach to translate integration techniques for risks in Article 239 of the Delegated Regulation to groups but a demonstration of

	the appropriateness is required similar to Article 239 (4). Also an explicit link between the requirements of Articles 328 and 343 of the Delegated Regulation should be established (preferred).
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<b>Policy issue 1: There is no specific provision about the application of integration techniques to the partial internal models at group level</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	No.
	Industry	Continued lack of clarity of regulation regarding assessment criteria.
	Supervisors	Continued lack of clarity of regulation regarding assessment criteria.
	Other	No.
Benefits	Policyholders	No.
	Industry	Partly reduced demonstration requirements.
	Supervisors	No.
	Other	No.
<b>Option 1.2: Introduce requirement to demonstrate appropriateness</b>		
Costs	Policyholders	No.
	Industry	Partly increased demonstration requirements.
	Supervisors	No.
	Other	No.
Benefits	Policyholders	Improved appropriateness of capital requirements is expected to improve policyholder protection.
	Industry	Clarity on regulatory requirements and improvement of level playing field, lack of necessity to go through the consecutive steps of the procedure if they are not necessary from the methodological point of view.
	Supervisors	Clarity on regulatory requirements, lack of priority for techniques which may not be appropriate, omitting in the assessment redundant steps.
	Other	No.

### Comparison of options

#### **Policy issue 1: There is no specific provision about the application of integration techniques to the partial internal models at group level**

9.17 The preferred policy option for this policy issue is option 1.2 to introduce a requirement to demonstrate the appropriateness of integration techniques for partial internal models at group level or in the case of several major business units in a solo undertaking and to link the requirements of articles 238 and 343 of the Delegated Regulation because this increases clarity on the regulatory requirements and supports the level playing field. The option to not change the regulation has

been disregarded because a demonstration of appropriateness seems to be usual and proportionate in the context of internal models.

Policy issue 1: There is no specific provision about the application of integration techniques to the partial internal models at group level						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Introduce requirement to demonstrate appropriateness	+	+	+	+	+	+

## Combination of Methods – Calculation of Group SCR

### 9.1.10 Group SCR calculation when using Combination of methods

Policy issues	Options
1. Need for clarification of principles to follow to ensure appropriate coverage of risks in the group SCR under the combination of methods. This especially concerns equity, concentration and currency risk.	1.1 No Change.
	1.2 Introduce principles of no double counting and no omission of material risks (approaches based on amendments of article 328 or 335 and 336 of the Delegated Regulation to be used alternatively or appropriately combined) (preferred)

Policy issue 1: Need for clarification of principles to follow to ensure appropriate coverage of risks in the group SCR under the combination of methods		
Option 1.1: No change		
Costs	Policyholders	Indirectly impacted if calculations are not properly capturing all relevant risks in the group SCR.
	Industry	impacted if calculations are not properly capturing all relevant risks in the group SCR.
	Supervisors	No change will not improve the situation and will probably continue to lead to divergent supervisory approaches.
	Other	N/A

Benefits	Policyholders	Not perceived benefits
	Industry	Maintains the status quo.
	Supervisors	Maintains the uncertainty and affects a level playing field across Europe.
	Other	N/A
<b>Option 1.2: Introduce principles of no double counting and no omission of material risks</b>		
Costs	Policyholders	No significant costs envisaged.
	Industry	Costs derived from the review of group SCR calculations under the combination of methods. The principle of no omission of material risks could lead to some costs depending on how groups are currently interpreting the legislation.
	Supervisors	Costs derived from the review of group SCR calculations under the combination of methods.
	Other	N/A
Benefits	Policyholders	Indirectly benefit from clarity about no omission of material risks.
	Industry	Clarity on the approach under combination of methods. The principle of no double counting of risks benefits industry.
	Supervisors	Clarity on the regulations assist supervisory work and an enhanced level playing field.
	Other	N/A

### Comparison of options

#### **Policy issue 1: Need for clarification of principles to follow to ensure appropriate coverage of risks in the group SCR under the combination of methods**

9.18 The preferred policy option for this policy issue is to introduce explicit principles to the delegated regulation that ensure that (i) there is no double counting of risks, namely the equity risk for participations outside the consolidated part, as this risk is expected to be covered by adding the solo SCR without allowing for diversification and (ii) no material risks are being neglected but are adequately covered in the group solvency calculation. This particularly pertains to currency risk and market concentration risk. But, the two main approaches to implement those principles both have advantages and disadvantages, which EIOPA would try to further assess based on the input from stakeholders to decide whether to choose one of both or combine. The other option considered has been disregarded because they have been considered as not addressing the identified issue from a regulatory and supervisory perspective.

Policy issue 1: Need for clarification of principles to follow to ensure appropriate coverage of risks in the group SCR under the combination of methods						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance	Objective 2: Ensuring a level playing field through sufficiently	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance	Objective 2: Ensuring a level playing field through sufficiently	Objective 3: Ensuring adequate risk sensitive capital requirements



	undertakings and groups	harmonised rules		undertakings and groups	harmonised rules	
Option 1.1: No change	0	0	0	0	0	0
Option 1.2 : Explicit principles needed	+	+	+	+	+	+

## Combination of Methods

### 9.1.11 Group Solvency –Application when using combination of methods

Policy issues	Options
1. Need for Article 233 of the Solvency II Directive to explicitly state that Method 2 (where used exclusively or in combination with Method 1) used to calculate the group solvency requirements applies to single undertakings (where used exclusively or in combination with Method 1).	1.1 No Change
	1.2 Indicate that method 2 (where used exclusively or in combination with method 1) applies to single undertakings. It is also advised to amend Articles 220, 227, 234 and 235 to refer to such principle (preferred)

<b>Policy issue 1: Need for Article 233 of the Solvency II Directive to explicitly state that Method 2 (where used exclusively or in combination with Method 1) used to calculate the group solvency requirements applies to single undertakings (where used exclusively or in combination with Method 1)</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	No material impact.
	Supervisors	Costs derived from uncertainties and divergent practices
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A

<b>Option 1.2: Indicate that method 2 (where used exclusively or in combination with method 1) applies to single undertakings.</b>		
Costs	Policyholders	No material impact
	Industry	None if industry follows the advice provided in Q&A 1401. If not, some impact expected regarding the calculation of capital requirements.
	Supervisors	None if industry follows Q&A 1401. If not, some impact expected regarding supervision of capital requirements.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	-More clarity on how to apply method 2 -Ensures level playing field
	Supervisors	-Legal provisions that support the Q&A in case of combination of methods -Ensures level playing field
	Other	No material impact

### Comparison of options

#### **Policy issue 1**

9.19 The preferred policy option for this policy issue is policy option 1.2 which recommends to indicate that method 2 (where used exclusively or in combination with method 1) applies to individual undertakings because it ensures regulatory clarity on the application as well as it ensure a supervisory level playing field. The other option considered has been disregarded because they have been considered as not addressing the identified issue from a regulatory and supervisory perspective.

Policy issue 1: Need for Article 233 of the Solvency II Directive to indicate that method 2 (where used exclusively or in combination with method 1) applies to single undertakings.						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Possibility to request the establishment of an EEA holding company	+	+	++	+	+	++

## Own Funds Requirements for Groups

### 9.1.12 Own Funds Requirements for Groups

Policy issues	Options
1. Need for clarification of Article 330(1)(d) of the Delegated Regulations versus assessing if criteria outlined in articles 71,73 and 77 of the Delegated Regulation is met at group level	1.1. No change
	1.2 A deletion of the paragraph (1)(d) of article 330 would avoid that an OF item (under method 2) not compliant with art 331-333 (including reference to art. 71/73/77) could still be considered available at group level (preferred)
2. Include the aim of recital 127 and its effective application to groups	2.1 No Change
	2.2 Include a principle indicating the purpose of recital 127 and clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the own-fund item when there is a winding-up situation of any EEA related (re)insurance undertaking of the group. (preferred)
	2.3 Similar to option 2 but applicability to be extended to ultimate parent (re)insurance undertakings

<b>Policy issue 1: Need for clarification of Article 330(1)(d) of the Delegated Regulations versus assessing if criteria outlined in articles 71,73 and 77 of the Delegated Regulation is met at group level</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	Costs deriving from uncertainties and divergent practices
	Supervisors	Challenges deriving from uncertainties on the application that could lead to divergent practices between NSA's
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Flexible application due to legal uncertainty
	Supervisors	None
	Other	
<b>Option 1.2: Delete the paragraph (1)(d) of article 330 to avoid that an OF item (under method 2) not compliant with art 331-333 (including reference to art. 71/73/77) could still be considered available at group level.</b>		

Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact to none.
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Ensure level playing field and consistent treatment of own fund-items between groups with related undertakings included with method 1 and method 2.
	Supervisors	Ensure a clearer regulatory framework and convergence of practices between NSA's
	Other	N/A
<b>Policy issue 2: Include the aim of recital 127 and its effective application to groups</b>		
<b>Option 2.1: No change</b>		
Costs	Policyholders	None
	Industry	Costs deriving from uncertainties and divergent practices
	Supervisors	Challenges deriving from uncertainties on the application that could lead to divergent practices between NSA's
	Other	N/A
Benefits	Policyholders	None
	Industry	Flexible application due to legal uncertainty
	Supervisors	None
	Other	N/A
<b>Option 2.2: Include a principle indicating the purpose of recital 127 and clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the own-fund item when there is a winding-up situation of any EEA related (re)insurance undertaking of the group.</b>		
Costs	Policyholders	Enhanced policyholders' protection
	Industry	Potentially less flexible treatment of own-fund items issued by IHC and MFHC. Potential increase of financing costs concerning only the groups which have not already included this provision in the terms and conditions of the instruments issued externally.
	Supervisors	Potential for supervisory reviews on specific own fund items affected by the policy proposal.
	Other	N/A
Benefits	Policyholders	Increase of policyholders protection
	Industry	Ensure level playing field and consistent treatment of own fund-items issued by IHC and MFHC
	Supervisors	Ensure a clearer regulatory framework and convergence of practices between NSA's
	Other	N/A
<b>Option 2.3: Similar to option 2 but applicability to be extended to ultimate parent (re)insurance undertakings</b>		
Costs	Policyholders	Increase of policyholders protection

	Industry	Potentially less flexible treatment of own-fund items issued by IHC and MFHC. Potential impact linked to the extension of the applicability to ultimate parent (re)insurance undertakings will lead to additional requirements for such undertakings. Potential increase of financing costs concerning only the groups which have not already included this provision in the terms and conditions of the instruments issued externally.
	Supervisors	Potential for supervisory reviews on specific own fund items affected by the policy proposal.
	Other	N/A
Benefits	Policyholders	Increase of policyholders protection
	Industry	Ensure level playing field and consistent treatment of own fund-items issued by IHC, MFHC, but also when such own-fund items is issued by a ultimate parent (re)insurance undertakings
	Supervisors	Ensure a clearer regulatory framework and convergence of practices between NSA's. Would also ensure a consistent treatment of own-fund items issued by the ultimate parent of the group, i.e. same treatment independent if the group are headed by a IHC, MFHC or a parent (re)insurance undertaking
	Other	N/A

Comparison of options

**Policy issue 1 -Need for clarification of Article 330(1)(d) of the Delegated Regulations versus assessing if criteria outlined in Articles 71, 73 and 77 of the Delegated Regulation is met at group level**

9.20 The preferred policy option for this policy issue is policy option 1.2. which advises to delete the paragraph (1)(d) of article 330 to avoid that an own-fund item of a related undertaking included with method 2 not compliant with art 331-333 (including reference to art. 71/73/77) could still be assessed for availability and therefore could be considered available at group level. The other option, the no change option, was considered and discharged as it does not resolve the issues identified.

**Policy issue 2 -Include the aim of recital 127 and its effective application to groups**

9.21 The debate of a preferred policy option for this policy issue is among policy options 2.2. and 2.3. Policy option 2.2. advises to include a principle indicating the purpose of recital 127 and clearly indicate that it is sufficient to provide for the suspension of repayment/redemption of the own-fund item issued by a IHC or MFHC when there is a winding-up situation of any EEA related (re)insurance undertaking of the group. However, it is also understood that policy option 2.3 is a strong and prudent option and it would be its next best alternative. In that order of ideas, stakeholders are asked in the Consultation Paper to provide their views in light of the two options. Policy option 2.1 of no change was discharged as it does not provide a solution to the policy issue identified.

Policy issue 1: Need for clarification of Article 330(1)(d) of the Delegated Regulations versus assessing if criteria outlined in articles 71,73 and 77 of the Delegated Regulation is met at group level						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and	Objective 2: Ensuring	Objective 3: Ensuring	Objective 1: Effective and	Objective 2: Ensuring	Objective 3: Ensuring

	efficient supervision of (re)insurance undertakings and groups	a level playing field through sufficiently harmonised rules	adequate risk sensitive capital requirements	efficient supervision of (re)insurance undertakings and groups	a level playing field through sufficiently harmonised rules	adequate risk sensitive capital requirements
Option 1.1: No Change	0	0	0	0	0	0
Option 1.2: Delete the paragraph (1)(d) of article 330	+	+	+	+	+	+
Policy issue 2: Include the aim of recital 127 and its effective application to groups						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 2.1: No Change	0	0	0	0	0	0
Option 2.2 Include purpose of Recital 127, and a clearer principle of application	+	+	+	+	+	+
Option 2.3: Similar to Option 2.2. but with an extended scope of application.	+	+	+	+	+	+

### 9.1.13 Availability Assessment of Own Funds

Policy issues	Options
1. Inclusion of own fund items to cover the solo contribution to group SCR	1.1. No Change (preferred)
	1.2 Introduce a principle based approach that takes into account the quality of non-available own funds items covering the solo contribution to the group SCR
2. The formula for calculating of the contribution to group SCR	1.1 No Change
	1.2 Clarify the inclusion of all undertakings taken into account in the SCR diversified (preferred)
3. Availability assessment of specific items within the reconciliation reserve: the benefit of transitional measures on technical provisions and interest rate	3.1. No Change
	3.2 Clarify in the DR that by default, the benefit of transitional measures on technical

	provisions and interest rate is assumed to be unavailable in the meaning of Article 330(3) (preferred)
4. Availability assessment of specific items within the reconciliation reserve: EPIFP	4.1. No Change
	4.2 Clarify in the DR that by default EPIFP is assumed to be unavailable in the meaning of Article 330(3).

**Policy issue 1: Inclusion of own fund items to cover the solo contribution to group SCR**

**Option 1.1: No change**

Costs	Policyholders	
	Industry	None
	Supervisors	Lack of information in case the quality of non available OFs is not satisfactory
	Other	
Benefits	Policyholders	
	Industry	No change in rules
	Supervisors	No material benefits
	Other	

**Option 1.2: Introduce a principle based approach that takes into account the quality of non-available own funds items covering the solo contribution to the group SCR**

Costs	Policyholders	
	Industry	No material costs
	Supervisors	None
	Other	N/A
Benefits	Policyholders	
	Industry	No material benefits, assumed that this assessment is done at group level
	Supervisors	Access to information in case the quality of non available OFs is not satisfactory that would not be otherwise available
	Other	N/A

**Policy issue 2: The formula for calculating of the contribution to group SCR**

**Option 2.1: No change**

Costs	Policyholders	
	Industry	Less meaningful calculation of the contribution
	Supervisors	Less meaningful calculation of the contribution
	Other	N/A

Benefits	Policyholders	
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 2.2: Clarify the inclusion of all undertakings taken into account in the SCR diversified</b>		
Costs	Policyholders	
	Industry	No material costs
	Supervisors	None
	Other	N/A
Benefits	Policyholders	Clarity and further harmonization
	Industry	More appropriate calculation of the contribution
	Supervisors	More appropriate calculation of the contribution
	Other	
<b>Policy issue 3: Availability assessment of certain specific items within the reconciliation reserve: the benefit of transitional measures on technical provisions and interest rate</b>		
<b>Option 3.1: No change</b>		
Costs	Policyholders	
	Industry	Limits the effective analysis in the availability assessment
	Supervisors	Limits in the effective analysis in the availability assessment
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 3.2: Clarify in the DR that by default, the benefit of transitional measures on technical provisions and interest rate is assumed to be unavailable in the meaning of Article 330(3)</b>		
Costs	Policyholders	
	Industry	Possible reduction of total own funds
	Supervisors	Possible focused supervisory work on this item.
	Other	N/A
Benefits	Policyholders	More appropriate availability assessment that takes into account the nature of the item
	Industry	More appropriate availability assessment that takes into account the nature of the item
	Supervisors	More appropriate availability assessment that takes into account the nature of the item



	Other	N/A
<b>Policy issue 4: Availability assessment of certain specific items within the reconciliation reserve: EPIFPs</b>		
<b>Option 3.1: No change</b>		
Costs	Policyholders	
	Industry	Limits the effective analysis in the availability assessment
	Supervisors	Limits in the effective analysis in the availability assessment
	Other	N/A
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 3.2: Clarify in the DR that by default, EPIFPs is assumed to be unavailable in the meaning of Article 330(3)</b>		
Costs	Policyholders	
	Industry	Possible reduction of total own funds
	Supervisors	Possible focused supervisory work on this item.
	Other	N/A
Benefits	Policyholders	More appropriate availability assessment that takes into account the nature of the item
	Industry	More appropriate availability assessment that takes into account the nature of the item
	Supervisors	More appropriate availability assessment that takes into account the nature of the item
	Other	N/A

Comparison of options

**Policy issue 1 Inclusion of own fund items to cover the solo contribution to group SCR**

9.22 The preferred policy option for this policy issue is policy option 1.1. no change because keeping the current approach (where the sum of non-available own funds of each related undertaking is compared to that related undertakings contribution to group SCR) is considered by most NSAs as a balanced approach between the spirit of recognizing own funds as available up to the coverage of the solo SCR diversified and the need to take into account the diversification benefits and to limit the transferability over the contribution to the group SCR.

9.23 Option 1.2 was explored as a few NCAs outlined that the current approach may lead in some cases where the non-available own fund items are not of highest quality (i.e. mainly tier 2 and tier 3 items), and could lead in such cases to an overestimation of the ability of the undertaking to provide support to other undertakings of the group and put the former at risk of breaching the solo SCR if the capital is really transferred. Such an unintended consequence does not fully

compensate the efforts of changing the regulatory requirements, and does not lead to an effective and efficient satisfactory application.

Policy issue 1: Inclusion of own fund items to cover the solo contribution to group SCR						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Consider quality of non-available own funds items covering the solo contribution to the group SCR	0	0	0	0	0	0

### Policy issue 2 – Policy issue 2: The formula for calculating of the contribution to group SCR

9.24 The preferred policy option for this policy issue is to clarify the inclusion of all undertakings taken into account in the SCR diversified because the clarification of the treatment of the undertakings to be included ensures a more appropriate calculation of the contribution of the solo undertaking to the group SCR. The other option, the no change option, was considered and discharged as it does not resolve the issues identified and it would not lead to efficient and efficient supervisory results.

Policy issue 2: Inclusion of own fund items to cover the solo contribution to group SCR						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 2.1:	0	0	0	0	0	0

No Change						
Option 2.2: clarify the inclusion of all undertakings taken into account in the SCR diversified	+	+	+	+	+	+

**Policy issue 3 -Availability assessment of certain specific items within the reconciliation reserve: the benefit of transitional measures on technical provisions and interest rate**

9.25 The preferred policy option for this policy issue is 3.1. to clarify in the regulations that by default, the benefit of transitional measures on technical provisions and interest rate is assumed to be unavailable in the meaning of Article 330(3) because it would let the group to apply a more appropriate availability assessment that takes into account the nature of this specific item, even if included in the reconciliation reserve. Even though there is a preferred choice, stakeholders are asked in the Consultation Paper to provide their views in light of the recommended policy option. Policy option 3.1 of no change was considered and discharged as it does not provide a solution to the policy and supervisory issue identified.

Policy issue 3: Availability assessment of certain specific items within the reconciliation reserve: the benefit of transitional measures on technical provisions and interest rate (Article 330(3) of the Delegated Regulation)						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 3.1: No Change	0	0	0	0	0	0
Option 3.2: Assumed unavailable in the context of Art 330(3)	+	+	+	+	+	+

**Policy issue 4 -Availability assessment of certain specific items within the reconciliation reserve: EPIFPs**

9.26 There is a debate among supervisors regarding the preferred policy option for this policy issue. If policy option is considered to be the preferred choice 4.1, the rationale will be similar to the policy issue previously presented. The idea would be for this reconciliation item to be assume as not available by default unless it is

demonstrated to the group supervisor. This will lead to apply a more appropriate availability assessment that takes into account the nature of this specific item, even if included in the reconciliation reserve. As there is no full consensus on the preferred policy choice, stakeholders are asked in the Consultation Paper to provide their views in light of the recommended policy options.

9.27 The comparison of the options against the baseline scenario has been based on their contribution to achieving the following objectives: i) effective and efficient supervision of (re)insurance undertakings and groups; ii) ensuring a level playing field through sufficiently harmonised rules; and iii) ensuring adequate risk sensitive capital requirements.

Policy issue 4: Availability assessment of certain specific items within the reconciliation reserve: EPIFPs (Article 330(3) of the Delegated Regulation)						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 4.1: No Change	0	0	0	0	0	0
Option 4.2: Assumed unavailable in the context of Art 330(3) DR	+	+	+	+	+	+

### 9.1.14 Minority Interest

Policy issues	Options
1. Need for a clear definition and approach for the calculation of minority interest. GL 14 of Group Solvency has been helpful but gaps still remain leading to an unlevel playing field.	1.1. No Change.
	1.2. Further clarify the definition of the item minority interest in Solvency II and the approach to be followed for its calculation (preferred)

Policy issue 1: Need for a clear definition and approach for the calculation of minority interest.		
Option 1.1: No change		
Costs	Policyholders	Uncertainty on the definition and calculation of minority interest in Solvency II

	Industry	Uncertainty on the definition and calculation of minority interest in Solvency II
	Supervisors	Uncertainty on the definition and calculation of minority interest in Solvency II
	Other	N/A
Benefits	Policyholders	None
	Industry	Benefits from flexible approaches
	Supervisors	None as uncertainty remains.
	Other	N/A
<b>Option 1.2: Further clarify the definition of the item minority interest in Solvency II and the approach to be followed for its calculation.</b>		
Costs	Policyholders	None
	Industry	Any cost due to the need to comply with a new rule, if different, and possible impact on the calculation of minority interest and amount to be deducted
	Supervisors	No material costs
	Other	N/A
Benefits	Policyholders	Clarification of the regulatory framework and further harmonization of rules
	Industry	Clarification of the regulatory framework and further harmonization of rules
	Supervisors	Clarification of the regulatory framework and further harmonization of rules
	Other	N/A

Comparison of options

**Policy issue 1 Need for a clear definition and approach for the calculation of minority interest.**

9.28 The preferred policy option for this policy issue is policy option 1.2 which recommends to further clarify the definition of the item minority interest in Solvency II and the approach to be followed for its calculation. GL 14 of Group Solvency has been helpful but gaps still remain leading to an unlevel playing field. Therefore, the clarification of the definition and calculation of minority interest would allow a better quantification of this item and further harmonization compared to the current gap. Policy 1.1. no change was also considered but discharged as it will not fill in the current gaps.

Policy issue 1: Need for a clear definition and approach for the calculation of minority interest.						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently	Objective 3: Ensuring adequate risk sensitive capital requirements

		harmonised rules			harmonised rules	
Option 1.1: No Change	0	0	0	0	0	0
Option 1.2 : Clear definition and approach for the calculation of minority interest.	+	+	+	+	+	+

## Rules governing the calculation of the minimum consolidated group SCR (including the impact on the level of diversification benefits)

### 9.1.15 Minimum Consolidated Group SCR

Policy issues	Options
1 Lack of clarity and alignment of the scope of undertakings included in the minimum consolidated group SCR	1.1 No change in the scope undertakings included in the minimum consolidated group SCR calculation
	1.2. Upgrading the current Guideline 21b) of EIOPA Guidelines on Groups Solvency to an explicit law provision and enhancement the scope by the IHC and MFHC – the notional MCRs would be equal to 35% of the notional SCR (middle of the corridor 25% - 45%) (preferred)
2. Change of calculation method for minimum consolidated group SCR	2.1 No Change on the methodology of calculation. (preferred)
	2.2 Change the way how minimum consolidated group SCR is calculated

<b>Policy issue 1: Lack of clarity and alignment of the scope of undertakings included in the minimum consolidated group SCR</b>		
<b>Option 1.1: No change in the scope undertakings included in the minimum consolidated group SCR calculation</b>		
Costs	Policyholders	No
	Industry	Possible unlevel playing field by lack of guideline application.

	Supervisors	Possibilities to omit some risks reflected in minimum consolidated SCR by disregarding IHC and MFHC.
	Other	No
Benefits	Policyholders	No
	Industry	More simple calculation by not including some elements in the minimum consolidated group SCR.
	Supervisors	No
	Other	No
<b>Option 1.2:Upgrading the current Guideline 21b) of EIOPA Guidelines on Groups Solvency to an explicit law provision and enhancement the scope by the IHC and MFHC – the notional MCRs would be equal to 35% of the notional SCR (middle of the corridor 25% - 45%).</b>		
Costs	Policyholders	No
	Industry	More entities would be included in the minimum consolidated group SCR with a potential impact on some of the capital requirements. Need to calculate notional SCR for IHC and MFHC (however such calculation would be required to support other policy proposals and not only for this policy issue).
	Supervisors	Lack of full alignment of the scope, however considered as not proportionate to the ultimate aim.
	Other	No
Benefits	Policyholders	Enhanced policy holders' protection.
	Industry	Increase of level playing field.
	Supervisors	Increase of scope of risks reflected in the minimum consolidated group SCR.
	Other	No

### Comparison of options

9.29The preferred policy option for this policy issue is policy option 1.2 that recommends to upgrade the current Guideline 21b) of EIOPA Guidelines on Groups Solvency to an explicit law provision and enhance the scope by the IHC and MFHC – the notional MCRs would be equal to 35% of the notional SCR (middle of the corridor 25% - 45%). The other option considered have been disregarded because they maintain the current lack of clarity and level playing field in the scope of the minimum consolidated group SCR calculation.

Policy issue 1: Lack of clarity and alignment of the scope of undertakings included in the minimum consolidated group SCR						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements

Option 1.1:	0	0	0	0	0	0
Option 1.2: Clarification of the scope	+	+	+	+	+	+

## Policy issue 2: Change of calculation method for minimum consolidated group SCR

<b>Policy issue 2: Change of calculation method for minimum consolidated group SCR</b>		
<b>Option 2.1: No change in the calculation method</b>		
Costs	Policyholders	No
	Industry	Although it does not solved the issue of reverse relation between the SCR and minimum consolidated group SCR ratio coverage for the groups with the cascade structure, it preserves the widely accepted method of minimum consolidated group SCR.
	Supervisors	No
	Other	No
Benefits	Policyholders	No
	Industry	Preserving the widely accepted method of minimum consolidated group SCR calculation.
	Supervisors	Preserving the widely accepted method of minimum consolidated group SCR calculation.
	Other	No
<b>Option 2.2: Change the way how minimum consolidated group SCR is calculated</b>		
Costs	Policyholders	No
	Industry	Change of method which seems to have unintended consequences for groups with a specific structure.
	Supervisors	Possible lack of desired characteristics of minimum consolidated group SCR, which make the supervision predictable and tailored to the purpose.
	Other	No
Benefits	Policyholders	No
	Industry	Possibilities of solving the issue of reverse relation between SCR coverage and minimum consolidated group SCR ratios for a few groups with the cascade structure.
	Supervisors	Possibilities of solving the issue of reverse relation between SCR coverage and minimum consolidated group SCR ratios for a few groups with the cascade structure.
	Other	No

### Comparison of options

9.30 The preferred policy option for this policy issue is option 2.1 no change in the calculation method. The change in the calculation method would diminish the effect embedded in the current calculation method: the same intervention point at solo and group level. The recalculation of solo MCRs would not be in line with the principle of simplicity and auditability of the MCRs at solo level. In addition,



the change in the calculation of the minimum consolidated group SCR method has been considered as disproportionate to the aim. The other options considered have been disregarded because solving a problem relevant for the groups with a specific structure could diminish the aims which are desirable from other point of view.

Policy issue 2: Change of calculation method for minimum consolidated group SCR						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Change the calculation	0	0	0	0	0	0

## [Solvency II and the interactions with Directive 2002/87/EC \(FICOD\) and any other issues identified with Other Financial Sectors \(OFS\)](#)

### 9.1.16 Inclusion of Other Financial Sectors (OFS)

Policy issues	Options
1.Lack of clarity on inclusion of undertakings in Other Financial Sectors (OFS) into Solvency II	1.1 No change.
	1.2 Clarify that Article 329 of the DR is applicable for the inclusion of OFS entities in the group solvency calculation, regardless of methods used (preferred)
2. Lack of clarity on the allocation of OFS own funds into relevant Solvency II tiers	2.1 No change.
	2.2 No allocation of own funds from OFS into relevant Solvency II tiers when including these in the group solvency calculation
	2.3 Allocation of clearly identified own-fund items from OFS into relevant Solvency II tiers where practicable and material (preferred)

3. Lack of clarity about the availability assessment of OFS own funds	3.1 No change
	3.2 Clarify that no availability assessment should be done for own funds from OFS
	3.3 Clarify that an availability assessment of OFS own funds is required to ensure that OFS own funds in excess of sectoral capital requirement is available at group level. (preferred)
4. Lack of clarity about the inclusion of own funds and capital requirements subject to sectoral rules when OFS entities form a group	4.1 No change
	4.2 Clarify that group own funds and group capital requirements calculated according to sectoral rules should be used in the group solvency calculation when OFS entities form a group. (preferred)
5. Lack of clarity about the inclusion of capital requirements from credit institutions, investment firms and financial institutions	5.1 No change
	5.2 Include the answer to Q&A 1344 in the regulations i.e. that the same capital requirements, including buffers and add-ons, should be used in the Solvency II calculation as in the supplementary capital adequacy calculation according to FICOD. (preferred)

<b>Policy issue 1: Lack of clarity on inclusion of undertakings in Other Financial Sectors (OFS)</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	No material impact
	Industry	Costs deriving from uncertainties in the regulatory framework
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	Possibility to follow flexible approaches
	Supervisors	Possibility to follow flexible approaches
	Other	N/A
<b>Option 1.2: Clarify that Article 329 of the DR is applicable for the inclusion of OFS entities in the group solvency calculation in the Solvency II Directive</b>		
Costs	Policyholders	No material impact
	Industry	Less flexibility

	Supervisors	Less flexibility
	Other	N/A
Benefits	Policyholders	Ensure a clearer regulatory framework and convergence of practices that could benefit the protection of EEA policyholders
	Industry	Ensure a clearer regulatory framework and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	N/A
<b>Policy issue 2: Lack of clarity on the allocation of OFS own funds into relevant Solvency II tiers</b>		
<b>Option 2.1: No change</b>		
Costs	Policyholders	Indirect impact
	Industry	Costs deriving from uncertainties in the regulatory framework
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	None
	Industry	Possibility to follow flexible approaches
	Supervisors	Possibility to follow flexible approaches
	Other	N/A
<b>Option 2.2: No allocation of own funds from OFS into relevant Solvency II tiers when including these in the group solvency calculation</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	Ensure a clearer regulatory framework and convergence of practices that could benefit the protection of EEA policyholders
	Industry	Ensure a clearer regulatory framework and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	N/A
<b>Option 2.3: Allocation of clearly identified own-fund items from OFS into relevant Solvency II tiers where practical and material</b>		
Costs	Policyholders	No material impact
	Industry	Potentially additional costs
	Supervisors	Potential additional costs
	Other	N/A
Benefits	Policyholders	Ensure a clearer regulatory framework and convergence of practices that could benefit the protection of EEA policyholders

	Industry	Ensure a clearer regulatory framework and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	N/A
<b>Policy issue 3: Lack of clarity about the availability assessment of OFS own funds</b>		
<b>Option 3.1: No change</b>		
Costs	Policyholders	None
	Industry	Costs deriving from uncertainties in the regulatory framework
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	
	Industry	Possibility to follow flexible approaches
	Supervisors	Possibility to follow flexible approaches
	Other	N/A
<b>Option 3.2: Clarify that no availability assessment should be done for own funds in OFS.</b>		
Costs	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	N/A
Benefits	Policyholders	No material impact
	Industry	A clear regulatory framework would ensure a level playing field and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	N/A
<b>Option 3.3: Clarify that an availability assessment on OFS own funds is required to ensure that OFS own funds in excess of sectoral capital requirement is available at group level</b>		
Costs	Policyholders	No material impact
	Industry	Potential additional costs
	Supervisors	Potential additional costs
	Other	N/A
Benefits	Policyholders	Ensure a clearer regulatory framework and convergence of practices that could benefit the protection of EEA policyholders
	Industry	A clear regulatory framework would ensure a level playing field and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	N/A

**Policy issue 4: Lack of clarity on inclusion of own funds and capital requirements subject to sectoral rules when OFS entities form a group**

**Option 4.1: No change**

Costs	Policyholders	None
	Industry	Costs deriving from uncertainties in the regulatory framework
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	none
	Industry	Possibility to follow flexible approaches
	Supervisors	Possibility to follow flexible approaches
	Other	N/A

**Option 4.2: Clarify that group own funds and group capital requirements calculated according to sectoral rules should be used in the group solvency calculation when OFS entities form a group**

Costs	Policyholders	None
	Industry	Clarity will lead to less flexibility but more certainty.
	Supervisors	Enhanced supervisory practices and level playing field. Clarity will lead to less flexibility but more certainty.
	Other	N/A
Benefits	Policyholders	Indirect Positive Benefits
	Industry	A clear regulatory framework would ensure a level playing field and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices
	Other	

**Policy issue 5: Lack of clarity on the inclusion of capital requirements from credit institutions, investment firms and financial institutions**

**Option 5.1: No change**

Costs	Policyholders	None
	Industry	Costs deriving from uncertainties in the regulatory framework
	Supervisors	Challenges due to uncertainties and divergent practices
	Other	N/A
Benefits	Policyholders	N/A
	Industry	Possibility to follow flexible approaches. However, uncertainty remains.
	Supervisors	Possibility to follow flexible approaches. However, uncertainty remains.
	Other	N/A

**Option 5.2: 2 Include the answer to Q&A 1344 in the regulations i.e. that the same capital requirements, including buffers and add-ons, should be used in the Solvency II calculation as in the supplementary capital adequacy calculation according to FICOD.**

Costs	Policyholders	None.
	Industry	Clarity will lead to less flexibility but more certainty.
	Supervisors	Enhanced supervisory practices and level playing field. Clarity will lead to less flexibility but more certainty.
	Other	N/A
Benefits	Policyholders	Indirect positive benefits from the clarity added.
	Industry	Ensure a clearer regulatory framework and convergence of practices
	Supervisors	Ensure a clearer regulatory framework and convergence of practices between NSA's
	Other	N/A

### Comparison of options

#### **Policy issue 1: Lack of clarity on inclusion of undertakings in Other Financial Sectors (OFS)**

9.31 The preferred policy option for this policy issue is policy option 1.1 to clarify that Article 329 of the DR is applicable for the inclusion of OFS entities in the group solvency calculation regardless of the calculation method used. Without such clarification will result in continued uncertainty on the treatment in the group solvency calculation of related undertakings in OFS that follow sectoral rules. Other options considered but not discharged as not solving the policy and supervisory issue.

#### **Policy issue 2: Lack of clarity on the allocation of OFS own funds into relevant Solvency II tiers**

9.32 The preferred policy option for this policy issue is policy option 2.3 to clarify that own-fund items from OFS should be allocated into relevant Solvency II tiers. An allocation should be done on a high-level and only for specific clearly identified own-fund items and could follow the mapping as described in 68(5) in the Delegated Regulations. The allocation has mainly an impact on the reporting and disclosure. If no allocation is done, this could lead to that own-fund items of lower quality will be included as Tier 1 in the group solvency calculation of related undertakings in OFS that follow sectoral rules. Other options considered but not discharged as not solving the policy and supervisory issue.

#### **Policy issue 3: Lack of clarity about the availability assessment of OFS own funds**

9.33 The preferred policy option for this policy issue is policy option 3.3 to clarify that own-fund items from OFS should be assessed for availability to ensure that any excess of sectoral capital requirement is available to absorb losses stemming from (re)insurance undertakings within the group. If no availability assessment is done, this could lead to that an excess of OFS own-fund items would be taken into account in the group solvency even though these own funds could not cover the "insurance part" of the group, i.e. the groups solvency position would appear to be better than it is. Other options considered but not discharged as not solving the policy and supervisory issue.

#### **Policy issue 4: Lack of clarity on inclusion of own funds and capital requirements subject to sectoral rules when OFS entities form a group**

9.34 The preferred policy option for this policy issue is option 4.2 to clarify that when OFS entities subject to sectoral group supervision form a group, the group own funds and group capital requirements calculated according to sectoral rules should contribute to the group solvency instead of the sum of each individual OFS entity's own fund and capital requirement. In GL 11 of Guidelines on Group Solvency, this treatment is mentioned regarding capital requirement, but for consistency this should also apply for own funds and clarified in the regulation. If this is not clarified there will be different treatment and therefore not enhancing convergence among the NSAs. Other options considered but not discharged as not solving the policy and supervisory issue.

**Policy issue 5: Lack of clarity on the inclusion of capital requirements from credit institutions, investment firms and financial institutions**

9.35 The preferred policy option for this policy issue is 5.2 to include the answer to Q&A 1344 in the Delegated Regulation. This would clarify that the same capital requirement for related credit institutions, investment firms and financial institutions, i.e. including buffers and add-ons, should be used in the Solvency II group solvency calculation as used in the supplementary capital adequacy calculation for a financial conglomerate. Without such clarification there would still be continued uncertainty regarding which capital requirement (amount) to include in the group solvency calculation. Other options considered but not discharged as not solving the policy and supervisory issue.

Policy issue 1: <i>Lack of clarity on inclusion of undertakings in Other Financial Sectors (OFS)</i>						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1:	0	0	0	0	0	0
Option 1.2:	+	+	+	+	+	+
Policy issue 2: <i>Lack of clarity on the allocation of OFS own funds into relevant Solvency II tiers</i>						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 2.1:	0	0	0	0	0	0
Option 2.2:	+	+	+	+	+	+

Option 2.3:	+	+	+	+	+	+
Policy issue 3: Lack of clarity about the availability assessment of OFS own funds						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 3.1:	0	0	0	0	0	0
Option 3.2:	+	+	+	0	0	0
Option 3.3:	+	+	+	+	+	+
Policy issue 4: Lack of clarity on inclusion of own funds and capital requirements subject to sectoral rules when OFS entities form a group						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 4.1:	0	0	0	0	0	0
Option 4.2:	+	+	+	+	+	+
Policy issue 5: Lack of clarity on the inclusion of capital requirements from credit institutions, investment firms and financial institutions						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 5.1: No change	0	0	0	0	0	0
Option 5.2:	+	+	+	+	+	+



### 9.1.17 Application of Article 228 of the Solvency II Directive

Policy issues	Options
1. Lack of clarity regarding Article 228 of the Solvency II Directive, and its interaction with other articles of the Solvency II framework.	1.1. No change
	1.2 Clarify Article 228 of Solvency II Directive
	1.2 Delete Article 228 of Solvency II Directive (preferred)

Policy issue 1: Lack of clarity regarding Article 228 of the Solvency II Directive		
<b>Option 1.1: No change</b>		
Costs	Policyholders	Not material
	Industry	Not material
	Supervisors	Costs derived from the lack of clarity creates uncertainty.
	Other	N/A
Benefits	Policyholders	Not material
	Industry	None
	Supervisors	None
	Other	N/A
<b>Option 1.2: Clarify Article 228 of Solvency II Directive</b>		
Costs	Policyholders	Not material
	Industry	Not material, however some recalculations may be needed for a few groups using FICOD Methods.
	Supervisors	Not material, however some in-depth supervisory reviews may be needed for a few groups using FICOD Methods.
	Other	N/A
Benefits	Policyholders	Not material
	Industry	Clarify the reading of Article 228 will ensure level playing field, but still not best choice
	Supervisors	Clarify the reading of Article 228 will ensure level playing field, but still not best choice
	Other	N/A
<b>Option 1.3: Delete Article 228 of Solvency II Directive</b>		
Costs	Policyholders	Not material
	Industry	Deletion could be burdensome for undertakings using method 1 FICOD
	Supervisors	No material Impact. Deletion adds clarity and enhances group supervision.

	Other	N/A
Benefits	Policyholders	N/A
	Industry	Reduced number of methods. Clarity will enhance application of the regulations.
	Supervisors	Reduced number of methods. Clarity will enhance application of the regulations. The group calculation will be easier to monitor.
	Other	N/A

### Comparison of options

9.36 The article 228 of the Solvency II Directive is not clear as to how FICOD methods 1 and 2 should be used for the group solvency calculation. Added to the lack of regulatory guidance, there is a challenge on how Article 228 of the Solvency II Directive was transposed into national legislation. Hence, it means different things depending on it. Based on this, the preferred policy option for this policy issue is 1.3 to Delete Article 228 of Solvency II Directive. Other options were considered but those were considered ineffective to close both the regulatory and supervisory gap identified.

9.37 According to the Survey to NCAs, it is envisaged a limited impact derived from any proposed changes, considering that there are a few groups currently using FICOD method 1.

Policy issue 1: Lack of clarity regarding Article 228 of the Solvency II Directive						
Options	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring adequate risk sensitive capital requirements
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Delete Article 228 SII Directive	+	+	+	+	+	+

## **Governance Requirements - uncertainties or gaps related to the application of governance requirements at group level.**

### 9.1.18 Application of Article 40 of the Solvency II Directive (definition of the AMSB for groups); and Mutatis Mutandis under Article 246 of Solvency II Directive

Policy issues	Options
Lack of clarity regarding the application of the <i>mutatis mutandis</i> principle set out in Article 246 at group governance requirements.	Option 1.1: No change
	Option 1.2: Extend the application of art 40 of the directive at group level and amend the Article 246 of the directive (preferred)

#### **Policy issue 1: Lack of clarity regarding the application of the *mutatis mutandis* principle set out in Article 246 of the directive at group governance requirements**

<b>Option 1: No change</b>		
Costs	Policyholders	Risk to policyholder protection due to poor governance of insurance groups
	Industry	Uncertainty and lack of convergence
	Supervisors	Uncertainty and lack of convergence
	Other	No material impact
Benefits	Policyholders	No material impact
	Industry	Flexibility in applying governance requirements at group level
	Supervisors	No material impact
	Other	No material impact
<b>Option 2: Extend the application of Article 40 of the directive at group level reference in Article 246(1) and amend the Article 246 of the directive</b>		
Costs	Policyholders	No material impact
	Industry	Potential changes on the group's system of governance will be necessary for the groups concerned to be compliant with the new requirements depending on the transposition of Article 246 of the Solvency II Directive.
	Supervisors	Potentials changes on the legislation and the practices of involved supervisors should be necessary to implement the harmonised requirements on group governance depending on the transposition of Article 246 of the Solvency II Directive.
	Other	N/A
Benefits	Policyholders	Clarity on responsibilities and implementation of governance requirements at group level, ensuring a sound and robust group management, should improve policyholders' protection.
	Industry	Harmonise the group governance requirements should benefit to the level playing field of groups in the European market asking in all jurisdictions the same level of requirements. The framework proposed include explicitly a proportionate approach to complexity and risks.
	Supervisors	Clarify such requirements should help the involved supervisors to identify clearly the responsibilities at group level. It will guarantee as well consistency between group and solo systems

		of governance within groups and that groups are correctly identifying and managing group risks. This should reinforce financial stability and group resilience.
	Other	N/A

### Comparison of options

#### **Policy issue 1 Lack of clarity regarding the application of the *mutatis mutandis* principle set out in Article 246 at group governance requirements**

9.38 The preferred policy option for this policy issue is option 1.2 to extend the application of Article 40 of the directive at group level reference in Article 246(1) and amend the Article 246 of the directive because it will lead to the most efficient and effective supervisory results by promoting good risk management, adequate supervision of governance issues at group level as well ensuring a level playing field across Europe. For further details please refer to the analysis section. Other options were considered but discharged as will not close the policy gap.

Policy issue 1: Lack of clarity regarding the application of the <i>mutatis mutandis</i> principle set out in Article 246 at group governance requirements						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Promoting good risk management	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Promoting good risk management
Option 1: No change	0	0	0	0	0	0
Option 2: Amend Article 246	+	+	+	+	+	+

## **10 Freedom to provide services and freedom of establishment**

Policy issue	Options
1. Efficient information gathering during the authorisation process	<p>1.1. No change implying a General policy for NSAs to ask the applicant for earlier rejections on the basis of the Decision on Collaboration.</p> <p>1.2. Legal requirement for the applicant to inform the NSA on earlier rejections for authorisation in line with the Decision on cooperation. (preferred)</p>

<b>Policy issue 1: Efficient information gathering during the authorisation process</b>		
<b>Option 1.1: No change implying NSAs ask the applicant for earlier rejections on the basis of the Decision on Collaboration.</b>		
Costs	Policyholders	As a level I legal obligation for requesting and providing the information is missing policy holders are more at risk then under option 1.2.
	Industry	The information should be asked by NSAs under the Decision on collaboration, there will be no extra costs.
	Supervisors	Supervisors should currently request the information under the Decision on Cooperation, no extra costs.
	Other	None.
Benefits	Policyholders	No benefits.
	Industry	Industry have to provide the information under the Decision on collaboration, no specific benefits.
	Supervisors	The information of former rejections has to be provided under the Decision on collaboration, no specific benefits.
	Other	No other stakeholders are involved.
<b>Option 1.2: Legal requirement for the applicant to inform the NSA on earlier rejections for authorisation</b>		
Costs	Policyholders	As a level I legal obligation for requesting and providing the information is provided policy holders risk are better managed then under option 1.1.; no costs.
	Industry	The decision on former rejections is already in the applicants' possession, costs will be limited to providing this documentation to the NSA of their application.
	Supervisors	The option is a formalisation of the text of the Decision on cooperation, no extra costs involved.
	Other	None.
Benefits	Policyholders	Policyholders benefit from clear supervisory requirements supported by supervisory powers under Level 1; a formal obligation to submit the information to NSAs helps to protect policy holders against forum shopping by those applicants who have been rejected elsewhere.
	Industry	Industry benefits from clear legal obligations for submission of the information which ensure a level playing field across the Union.
	Supervisors	NSAs have a clear legal power to ask for the relevant information on earlier rejections of authorisation.
	Other	none

### Comparison of options

#### **Policy issue 1**

10.1 The preferred policy option for this policy issue is option 1.2 to have a legal obligation in the Solvency II Directive to provide information on former rejections for authorisation to the to the supervisory authority where the request for authorisation is submitted. An obligation for submission of this essential documentation in level 1 legislation is the best assurance to have the relevant information delivered and opens the possibility for sanctions in case the information is hold back or incomplete. The other option considered have been

disregarded because the obligation for NSAs to request the information under the Decision on collaboration does not create a clear legal obligation across the EEA for the industry to submit the information.

Policy issue 1: <i>Need for efficient and effective information gathering on former info rejections</i>						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Legal obligation for industry to provide in the authorisation process relevant information on former rejections for authorisation	++	++	++	++	++	++

## 10.1 Information exchange between home and host supervisors in case of material changes in the FoS activities

Policy issue	Options
2. Information exchange from home to host supervisor in case of material changes in the FoS activities	2.1 No change 2.2. Legal requirement for home supervisor to inform the host supervisor of material changes in the plan of operations where relevant for the host supervisor (preferred)

Policy issue 2: Information exchange from home to host supervisor in case of material changes in the FoS activities		
Option 2.1: No change		
Costs	Policyholders	Less well informed NSAs will lead to less well protected policy holders.
	Industry	No material impact.

	Supervisors	Host supervisors are currently only high level informed of the activities provided by FoS in their territory: the insurance class and nature of the risks and commitments. Less well informed NSA lead to supervisory issues to be solved only when they already occur. Costs of supervision are higher then when the issues could have been prevented.
	Other	none
Benefits	Policyholders	No benefits as policy holders will be less protected
	Industry	No material impact.
	Supervisors	No material impact.
	Other	none
<b>Option 2.2: Legal requirement for home supervisor to inform the host supervisor of material changes in the plan of operations where relevant for the host supervisor</b>		
Costs	Policyholders	Policyholders will be better protected when host NSAs are better informed about the changes in for example the plan of operations or the business model through which policy holders could be effected.
	Industry	No material impact, as the information exchange is amongst NSAs
	Supervisors	Home supervisory to inform host supervisor of material changes lead to more obligations for information exchange and costs for the home supervisor but as adequate information for home and host supervisors is aiming at prevention of supervisory issues also to less costs for taking supervisory actions as potential issues can be better prevented.
	Other	none
Benefits	Policyholders	Policyholders will be better protected when host supervisors are informed of material changes in the plan of operations and therewith the risks for policyholders
	Industry	The NSAs will be better informed about the insurers' operations on the local market, which leads to more efficient communication with the NSA
	Supervisors	The host supervisor will be updated on substantial changes in the insurers' plan of operations and its activities on the local market.
	Other	none

### Comparison of options

#### **Policy issue 2**

10.2 The preferred policy option for this policy issue is option 2.2. to have a legal obligation in the Solvency II Directive for information exchange from home to host supervisor in case of material changes in the FoS activities also in case where the nature of the risks or commitments does not change or might change as stated in the current text of Article 149 of the Solvency II Directive. Currently the information available to host supervisors is only updated by the home supervisor if the nature of the risk or commitments is changed (Article 149 of the Solvency II Directive), which leads to the risk supervisory issues can only be observed and cannot be prevented. The negative effects might have consequences for the policy holders. The other option considered has been disregarded because the only

alternative of sharing updates on changes in FoS activities between home and host supervisors is not to request this information to be shared.

10.3 The selection of the preferred option has required a trade-off between requesting the home supervisor to inform the host supervisory of material changes against no exchange of information then in case a new FoS procedure is started because the nature of the risks or commitments will change. More weight has been given to preventing supervisory issues because timely information exchange reduces the risk of damage to policy holders and reduce the risk of the need for supervisory actions.

Policy issue 2: Information exchange from home to host supervisor in case of material changes in the FoS activities						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business
Option 2.1: No change	0	0	0	0	0	0
Option 2.2: Legal requirement for home supervisor to inform the host supervisor of material changes in the plan of operations where relevant	++	++	++	++	++	++

## 10.2 Enhanced role for EIOPA in complex cross-border cases where NSAs fail to reach a common view in the cooperation platform

Policy issue	Options
3. Seek solutions in complex cross border cases where NSAs fail to reach a common view on how to follow up on supervisory issues.	3.1 No change 3.2 EIOPA gives a specific recommendation to be followed up by NSAs within 2 month by the NSAs (preferred)



<b>Policy issue 3: Seek solutions in complex cross border cases where NSAs fail to reach a common view on how to follow up on supervisory issues</b>		
<b>Option 3.1: No change</b>		
Costs	Policyholders	Policyholders run higher risks when supervisory issues among NSAs remain unsolved.
	Industry	Un-clarity about supervisory measures might lead to higher costs for industry when measures are taken after a long time frame.
	Supervisors	Ineffective supervision: Supervisors might have FTEs occupied with solving a disagreement among NSAs which could otherwise already work on the solution of the supervisory issue.
	Other	none
Benefits	Policyholders	No benefits for policy holders in time consuming difference of opinions in a deadlock among NSAs
	Industry	No benefits for Industry in time consuming difference of opinions in a deadlock among NSAs
	Supervisors	No benefits for Industry in time consuming difference of opinions in a deadlock among NSAs
	Other	none
<b>Option 3.2: EIOPA gives a specific recommendation to be followed up within two months by the NSAs</b>		
Costs	Policyholders	A recommendation of EIOPA aims to end the risks of non-action and reduce possible damage to policyholders.
	Industry	A recommendation of EIOPA aims to end the risks of non-action.
	Supervisors	A recommendation of EIOPA with 2 months to report compliance or non-compliance aims to end the risks of non-action.
	Other	none
Benefits	Policyholders	A supervisory recommendation from EIOPA is to the benefit of policyholders when adequately followed up by NSAs.
	Industry	Clear supervisory recommendations and timeframes give guidance to NSAs and therefore for industry on supervisory expectations.
	Supervisors	Clear supervisory recommendation give guidance to NSAs on supervisory actions to be taken.
	Other	none

### Comparison of options

#### **Policy issue 3**

10.4 The preferred policy option for this policy issue is to have an explicit reference in the Solvency II Directive to the EIOPA Regulation to raise awareness for seeking solutions through an EIOPA recommendation in complex cross border cases where NSAs fail to reach a common view on how to follow up on supervisory issues. The timeframe of two months to follow up on the Recommendation as provided for in Article 16 of the EIOPA Regulation aims to end the a dead-lock in direct adequate

follow up on supervisory issues and policyholders are a risk because of supervisory inaction.

Policy issue 3: <i>Seek solutions in complex cross border cases where NSAs fail to reach a common view on how to follow up on supervisory issues</i>						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business
Option 3.1: No change	0	0	0	0	0	0
Option 3.2: EIOPA gives a specific recommendation to be followed up by NSAs within 2 month by the NSAs	++	+	++	++	+	++

### 10.3 Cooperation between home and host NSAs during ongoing supervision

Policy issue	Options
4. Cooperation between home and host NSAs	<p>4.1 No change</p> <p>4.2 In case of material cross-border insurance business under the right of establishment or the freedom to provide services, the supervisory authority of the home Member State shall actively cooperate with the supervisory authority of the host Member State to assess whether the insurance undertaking has a clear understanding of the risks that it faces, or may face, in the host Member State and to integrate this process in the SRP process (preferred)</p>

<b>Policy issue 4: : In case of material cross-border insurance business under the right of establishment or the freedom to provide services the home Member State cooperates actively with the host Member State.</b>
<b>Option 4.1: No change</b>

Costs	Policyholders	No costs for policyholders are involved in information exchange among NSAs, therefore no material impact.
	Industry	No costs for Industry are involved in information exchange among NSAs, therefore no material impact.
	Supervisors	No Costs for supervisors as the information is shared via the EIOPA Hub.
	Other	Not applicable
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	none
<b>Option 4.2: In case of material cross border business the supervisory authority of the home Member State assesses whether the insurance undertaking has a clear understanding of the risks that it faces, or may face, in the host Member State as part of its SRP process and informs the host Member State of the outcome of the analyses.</b>		
Costs	Policyholders	Better informed supervisors lead to better protected policy holders
	Industry	No material impact
	Supervisors	NSAs will be better informed on FoS and FoE business as part of the outcome of the SRP process of the home NSA
	Other	none
Benefits	Policyholders	Home NSAs will be better informed about the FoS and FoE business and therefore the proposal is to the benefit of the policy holders
	Industry	No material impact
	Supervisors	NSAs will be better informed and able to act before issues occur.
	Other	none

### Comparison of options

#### **Policy issue 4**

10.5 The preferred policy option for this policy issue is to have a legal obligation in the Solvency II Directive for the home supervisor to contact the host supervisor if there are material changes in the cross border business to the host state. The proposal is in line with Part IV 'supervision on a continuous basis' of the Decision on collaboration especially paragraphs 4.1.1.1 to 4.1.1.3.

10.6 The selection of the preferred option has required a trade-off between keeping the current info package shared via the EIOPA Hub and making use of the extra data coming available from the enhanced reporting requirements stemming from the 2020 Review. More weight has been given to the most efficient and cost effective way of data sharing ensuring that all host supervisors receive the data of the same quality and at the same time.

Policy issue 4: *In case of material cross-border insurance business under the right of establishment or the freedom to provide services the NSA of the Home Member State informs the NSA of the host*

<i>Member State on the undertakings understanding of the risk that it faces or may face in the Host state territories and as part of the NSAs continuous SRP Process.</i>						
Options	Effectiveness (0/+/++)			Efficiency (0/+/++)		
	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business
Option 4.1: No change	0	0	0	0	0	0
Option 4.2: : In case of material cross border business the supervisory authority of the home Member State assesses whether the insurance undertaking has a clear understanding of the risks that it faces, or may face, in the host Member State as part of its SRP process and informs the host Member State of the outcome of the analyses	++	++	++	++	++	++

## 10.4 Explicit power of the host supervisor to request information in a timely manner

Policy issue	Options
5. Explicit power for the host supervisor to request information in a timely manner	5.1 No change 5.2 Information on FoE and FoS to host supervisors to be provided in a reasonable timeframe (preferred)

### **Policy issue 5: Explicit power for the host supervisor to request information in a timely manner**

**Option 5.1: No change**

Costs	Policyholders	Costs for policyholders if supervisory information is not provided in a timely manner and supervisory issues therewith remain unsolved.
	Industry	No extra costs for Industry are involved in providing information without a timeframe, therefore no material impact.
	Supervisors	Extra costs for supervisors if the information request has to be repeated and supervisory issues remain unsolved.
	Other	Not applicable
Benefits	Policyholders	No material impact
	Industry	No material impact
	Supervisors	No material impact
	Other	Not applicable
<b>Option 5.2: Information on FoE and FoS to host supervisors to be provided in a reasonable timeframe</b>		
Costs	Policyholders	Less costs for policyholders as the risk of supervisory issues is reduced if information is provided in a timely manner.
	Industry	More costs for industry as different priorities might need to be set to provide the information to the supervisory authority.
	Supervisors	Less costs for supervisors as information needs to be provided in a timely manner and repeated requests for information will be less.
	Other	Not applicable
Benefits	Policyholders	Timely availability of supervisory information improves the protection of policyholders.
	Industry	Clear requirements for the provision of information.
	Supervisors	Clear legal requirements for the timeframe to provide information from industry.
	Other	Not applicable

### Comparison of options

#### **Policy issue 5**

10.7 The preferred policy option for this policy issue is option 5.2 to have a legal obligation in the Solvency II Directive for timely answers to information requests from host supervisors to FoE and FoS providers because currently no specific timeframe is set and it depends on local legislation if there is a obligation for (re) insurers to answer legitimate questions of host supervisors in a timely manner. The other options considered have been disregarded because the other option would be that a reasonable timeframe to answer information request was dependent on local legislation or not set at all.

10.8 The selection of the preferred option has required a trade-off between setting a timeframe and not setting a timeframe for industry to answer information requests from host supervisors. More weight has been given to requesting a reasonable timeframe without mentioning a specific timeframe as to keep flexibility to set the timeframe toward the content of the request.

Policy issue 5: <i>Explicit power for host supervisor to request information in a timely manner</i>						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Effective and efficient supervision of cross border business
Option 5.1: No change	0	0	0	0	0	0
Option 5.2: Explicit timeframe for answers to be required in a timely manner for information on FoE and FoS to host supervisors	++	++	++	++	++	++

## 10.5 Enhanced reporting requirements and exchange of information

10.9 In 'Article 242 Report', EIOPA concludes "information regarding cross-border business should be enhanced in the Solvency II reporting package given its importance from a prudential perspective. The current requirements were designed to comply solely with Article 159 of Solvency II which is mainly addressing statistical needs and should be reviewed having in mind prudential needs of both home and host supervisors".

10.10 On this regard, it is worth mentioning that EIOPA addressed this topic in the consultation package on supervisory reporting and public disclosure.

10.11 Furthermore, EIOPA is considering to improve the information exchange between the Home and Host supervisor via the EIOPA hub. For instance, EIOPA is considering to share with the Host supervisor the Individual Quantitative Reporting Templates on product-by-product information for life contract (S.14.01), where individual Host country is reported, and the percentage of cross-border business per undertakings and Host country.<sup>29</sup>

<sup>29</sup> This will require a decision taken at level of EIOPA Board of Supervisors to exchange additional confidential data.

# 11 Macprudential policy

## 11.4.1 Capital surcharge for systemic risk

<b>Policy issue 1 – Assessment of the need to grant NSAs with the power to require a capital surcharge for systemic risk</b>		
<b>Option 1.1: No change</b>		
Costs	Policyholders	➤ If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	No material impact.
	Supervisors	➤ Supervisors would not be able to make use of an instrument that may be relevant to address the sources of systemic risk identified.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
<b>Option 1.2: Grant NSAs with the power to increase the capital requirements for macroprudential purposes</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Undertakings subject to a capital surcharge for systemic risk would see a deterioration in their solvency ratio, unless action is taken.</li> <li>➤ The surcharge will increase the cost of capital and the cost of calculating the SCR.</li> <li>➤ The impact of a capital surcharge for systemic risk would however depend on the calibration of the instrument.</li> </ul>
	Supervisors	➤ Supervisors would essentially be confronted with a certain reputational risk in case the surcharge is not activated/de-activated at the right moment, or if the level or the time frame is not the right one.
	Other	➤ In case the affected undertakings need to or want to maintain a similar solvency ratio after the increase of the SCR by NSA decision, one possible measure would be cutting dividends, thereby affecting the shareholders.
Benefits	Policyholders	➤ Policyholders would ultimately benefit from a more stable financial system (see also "other" below).
	Industry	➤ In the short-term, no direct benefit for affected undertakings. However, this measure seeks to ensure an adequate capitalization of undertakings (given their role in the broader financial system), which would have a positive impact in the long-run.
	Supervisors	➤ Supervisors would have at their disposal a relevant tool they could trigger if they deem necessary to address relevant sources of systemic risk identified.
	Other	➤ To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, op. cit.).

- *Impact on Financial Stability*

11.1 From a financial stability point of view, a capital surcharge may contribute to different sources of systemic risk identified, depending on the trigger:

1. A capital surcharge triggered to mitigate an entity-based source of systemic risk could mitigate a deterioration of an undertaking's solvency position leading to a failure that might have an impact on the financial system and on connected institutions. A surcharge triggered to address an entity-based source of systemic risk might also address too-big-to-fail problems.
2. A surcharge triggered to address the activity-based sources of systemic risk may help reduce contagion through involvement in bank-like activities or common exposures, and protect against regulatory arbitrage where risks migrate from the banking sector to the insurance sector. It could also discourage the involvement in certain products and activities (depending on its design) and assist in pricing the systemic impact of activities.
3. A capital surcharge triggered to address certain behaviours of undertakings may help to avoid excessive risk-taking by insurance undertakings, as they would be required to hold additional resources on top of the already existing capital requirements. Furthermore, it would also provide additional loss-absorbing capacity in case of inappropriate exposures on the liability side.

11.2 At the same time, however, undertakings may collectively seek to protect themselves from the surcharge by restricting the supply of certain products (which could have also a social impact), specific activities or certain investments.

- *Proportionality – How is proportionality considered*

11.3 Ensuring proportionality in terms of the undertakings subject to this tool and the level of the surcharge is a fundamental element. Furthermore, a certain degree of harmonisation in the use of this tool should also be pursued to reduce the risk of inconsistent application across the EU. This would be achieved by defining technically the potential triggers to activate the surcharge and the scope of undertakings (e.g. systemically important undertakings). NSAs should take these potential triggers as a reference in their assessment of whether such a surcharge is needed and supplement it with their expert judgement, depending on the systemic risk it should address and their knowledge about the national market.

- *Possible impact of such additional specifications on undertakings' behaviour*

Two main impacts on undertakings' behaviour can be indicated:

- If not constructed correctly, a systemic risk capital surcharge based on existing capital charges could have unintended consequences, affecting the business profile of undertakings.
- As stated above, undertakings may collectively seek to protect themselves from the surcharge by restricting the supply of certain products, specific activities or certain investments.

- *Possible interactions with other Solvency II instruments*

11.4 Solvency II incorporates the possibility of a capital add-on (Articles 37 and 232 for groups) in Pillar II. This capital add-on allows supervisors to increase the required capital of individual undertakings on a case-by-case basis. It is aimed at ensuring an adequate level of the SCR in order to protect policyholders' interests rather than explicitly dealing with systemic risk. It also seeks to preserve a level playing field



by including specific criteria that must be met before a capital add-on may be imposed or maintained.<sup>30</sup>

11.5 Under the current Solvency II text, capital add-ons are microprudential in focus, intended only to be used as a corrective measure to increase the level of capital required under the SCR appropriately until the undertaking has remedied the identified deficiencies. The existing capital add-on is not meant to be imposed as a means of addressing systemic risk.

11.6 A macroprudential capital surcharge could be integrated in Solvency II as a new macroprudential tool. A new tool, i.e. not an extension of the currently existing one, would help avoiding any interference between both approaches, i.e. the microprudential and the macroprudential one.

- *Effectiveness and efficiency*

11.7 In terms of effectiveness, whereas the measure would contribute to ensuring sufficient loss absorbency capacity and reserving in a more direct way (and ultimately, the protection of policyholders), it would only have an indirect impact to discourage excessive involvement in certain products and activities and risky behaviour. Indeed, it would work to the extent that it incentivises undertakings to reconsider the involvement in certain activities or behaviours. This effect can be illustrated according to the table below.

Policy issue 1: Assessment of the need to grant NSAs with the power to require a capital surcharge for systemic risk			
	Effectiveness (0/+ /++)		
Options	Ensuring sufficient loss absorbency capacity and reserving	Discourage excessive involvement in certain products and activities	Discourage risky behaviour
Option 1.1: No change	0	0	0
Option 1.2: Grant NSAs with the power to increase the capital requirements for macroprudential purposes	++	+	+

11.8 In addition, the efficiency dimension has been taken into account. A capital surcharge could contribute to meeting the objectives in an efficient way. At the same time, however, the rationale for using this tool should be clearly documented. The focus should be put on risk management and, in particular, on the investment approach of undertakings. The overall assessment of the efficiency of the tools is summarised in the table below.

Policy issue 1: Assessment of the need to grant NSAs with the power to require a capital surcharge for systemic risk			
	Efficiency (0/+ /++)		
Options	Ensuring sufficient loss absorbency capacity and reserving	Discourage excessive involvement in certain products and activities	Discourage risky behaviour
Option 1.1: No change	0	0	0

<sup>30</sup> Chapter 3 of CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Capital add-on.

Option 1.2: Grant NSAs with the power to increase the capital requirements for macroprudential purposes	+	+	+
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## 11.4.2. Concentration thresholds

Policy issue 2 – Assessment of the need to grant NSAs with the power to define soft concentration thresholds and intervene where deemed necessary		
<b>Option 2.1: No change</b>		
Costs	Policyholders	➤ If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	No material impact.
	Supervisors	➤ More limited possibilities to act in case of need.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
<b>Option 2.2: Grant NSAs with the power to define soft concentration thresholds and intervene where deemed necessary</b>		
Costs	Policyholders	No material impact.
	Industry	➤ Although undertakings could go beyond the benchmarks, they might be affected to a certain extent in their investment strategies by the intervention of authorities.
	Supervisors	<ul style="list-style-type: none"> <li>➤ Supervisors might be confronted with certain operational challenges and uncertainty in defining the appropriate level of the thresholds.</li> <li>➤ Technical work would need to be done to harmonize the procedure to define the soft thresholds, which could be challenging due to national specificities.</li> </ul>
	Other	No material impact.
Benefits	Policyholders	➤ Policyholders would ultimately benefit from a more stable financial system (see also “other” below).
	Industry	➤ By defining soft thresholds, undertakings would have a certain benchmark when defining their investment strategies. It would foster diversification in investment portfolio.
	Supervisors	<ul style="list-style-type: none"> <li>➤ Supervisors would have the power to define soft thresholds or benchmarks to monitor relevant concentrations at market level, which is a useful supplement to other tools currently existing in Solvency II.</li> <li>➤ NSAs could intervene where –according to their judgement– there is a risk to financial stability.</li> </ul>
	Other	➤ To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, <i>op. cit.</i> ).

- *Impact on Financial Stability*

11.9 From a financial stability point of view, granting NSAs with the power to define soft thresholds and allow them to intervene where they see a risk to financial stability would essentially help to discourage excessive levels of direct and indirect exposure concentrations and foster supervisory dialogue when they are breached.

11.10 At the same time, however, there could also be some procyclicality concerns if undertakings approaching the threshold start to collectively sell a certain asset class.

- *Proportionality – How is proportionality considered*

11.11 In order to ensure proportionality in the application of this tool, a flexible approach should be followed. EIOPA's internal research confirmed that, as expected, there are relevant differences across countries, reflecting historical developments, habits and trends at national level. The analysis carried out supports the rationale for a flexible approach on any potential threshold to be defined. As stated in EIOPA's third paper, flexibility at jurisdictional level could better grasp national specificities, such as significant differences in asset allocation amongst undertakings in different jurisdictions.<sup>31</sup>

- *Possible impact of such additional specifications on undertakings' behaviour*

11.12 Introducing thresholds would have an impact on the undertaking's investment behaviour. On the one hand it could foster diversification; on the other hand it could result in undertakings changing their asset allocation and moving to other type of investments. In some cases, it may lead to less safe investments. This, in turn, may also have an impact on the undertakings' overall asset return and ALM policy.

11.13 EIOPA is of the view, however, that such an impact would be mitigated by the fact that the concept of soft threshold or benchmark does not imply any kind of forced sale per se and is flexible enough to cope with national-specific features in the insurance sector. Furthermore, NSAs would have the discretion whether to use this power or not. It can therefore be expected that any action by the NSAs will be restricted to specific circumstances at market level.

- *Possible interactions with other Solvency II instruments*

11.14 Solvency II deals with the risk of concentration to a certain extent. It includes concentration risk charges for single-name exposures, which helps limit excessive concentrations and exposures toward a single issuer.<sup>32</sup> Moreover, the PPP and ORSA requirements are foundation elements in Solvency II and both are relevant to excessive concentration (see Box 6). As a monitoring tool, it also requires insurance groups to report significant risk concentrations across a wide range of categories.

### **Box 6: Solvency II tools to cope with excessive concentrations**

<sup>31</sup> See EIOPA (2018c), *op. cit.*

<sup>32</sup> No risk charges are however included for other types of exposures concentrations, such as sectoral.

Solvency II embeds principles/tools that have been conceived to cope with excessive concentration:

- The market-consistent balance sheet valuation approach is the foundation principle, which affects the entire insurance legislative framework. Under this principle, both assets and liabilities are valued at market value (i.e. the riskiness is already reflected in the price of the securities) and all the risks and their interactions are considered together with mitigation techniques (such as reinsurance and hedging).
- This fundamental principle eventually influences the required capital that should always match the amount of risks taken on by the insurance undertaking. The standard formula within the market module considers risks related to concentration issues although with some differences in the treatment for government bonds, where in fact exposure to government bonds should be properly taken into account by Internal Model users. Nevertheless, undertakings using internal models can use a dynamic volatility adjustment, which standard formula undertakings are not allowed to. The inclusion of this measure on internal models give rise to high capital relief that can offset to a high degree or even be higher than the charge included for sovereign bonds.
- The PPP requires undertakings to ensure the security, quality, liquidity and profitability of the investment portfolio (discarding them from any kind of benchmark). It also requires undertakings to properly diversify their assets to avoid excessive reliance on any particular asset, issuer or group of undertakings, or geographical area and excessive accumulation of risk in the portfolio as a whole;
- In terms of governance and risk management requirement, including the ORSA, the latter is an essential element of the undertaking's risk management as it has to be carried out independently from the SCR standard formula. In the ORSA, the undertaking must take into consideration all the risks they face, regardless of whether these risks are in the standard formula. Therefore, risks related to investment exposure (including those related to sovereign holdings) have to be assessed and should be managed either by quantitative or qualitative measures. In the investment risk management policy, undertakings must state the undertaking's own assessment of the credit risk of counterparties, including instances where the counterparties are central governments and their policy in respect to concentration risk management;
- The standard formula users will have to explain their (large) investments exposure within the supervisory review process.<sup>33</sup>
- To avoid overreliance on credit rating agencies, undertakings are required to develop their own internal credit assessment. This should ensure proper assessment of (large) exposure risks as well.

11.15 However, both the PPP and the ORSA are focused on the undertakings assessing their own investment strategy based on their own risk appetite. Undertakings may make "optimal" investment decisions at an individual level, but overall, the sector may be excessively concentrated in particular exposures.<sup>34</sup>

11.16 Completing the current framework by granting NSAs with the power to define soft thresholds providing some kind of flexibility in the form of guided discretion at national level to take action in case the aforementioned thresholds are breached and there is a risk to financial stability is considered as a useful supplement to the PPP and ORSA.

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<sup>33</sup> Articles 244 of Solvency II directive.

<sup>34</sup> In the next sections, a proposal is made to expand ORSA and PPP to take the macroprudential concerns also into account.

- *Effectiveness and efficiency*

11.17 In terms of effectiveness, while the option to require hard thresholds seems more effective to prevent excessive concentrations, as mentioned, it does not appear to be the right approach for a principle-based framework like Solvency II.

Policy issue 2 – Assessment of the need to grant NSAs with the power to define soft concentration thresholds		
	Effectiveness (0/+ /++)	
Options	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 2.1: No change	0	0
Option 2.2: Grant NSAs with the power to define soft concentration thresholds	+	+

11.18 This explains why considering the efficiency dimension is fundamental in this context. EIOPA considers that the most efficient option from the two considered is defining “soft” thresholds, given that this would provide additional incentives for good risk management without being prescriptive and, at the same time, acknowledging the different specific features across countries.

Policy issue 2 – Assessment of the need to grant NSAs with the power to define soft concentration thresholds		
	Efficiency (0/+ /++)	
Options	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 2.1: No change	0	0
Option 2.2: Grant NSAs with the power to define soft concentration thresholds	++	+

### 11.4.3. Expand the use of the ORSA to include the macroprudential perspective

Policy issue 3 – Assessment of the need to expand the use of the ORSA to include the macroprudential perspective		
Option 3.1: No change		
Costs	Policyholders	➤ If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	➤ Undertakings would not receive relevant market-wide information from supervisor, which results from the aggregation and analysis of the different ORSA reports.
	Supervisors	➤ Supervisors would not be able to make use of an instrument that may be relevant to address the sources of systemic risk identified.

	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
<b>Option 3.2: Expand the use of the ORSA to include the macroprudential perspective</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ A certain adjustment to the new approach would be needed by undertakings, including a more structured approach to the ORSA report.</li> <li>➤ If too prescriptive, ORSA may scale back to a certain extent undertakings' internal own risk management processes.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ Supervisors/authorities in charge of the macroprudential policy would need to devote more resources to analyse the information of ORSA reports at an aggregate level and provide relevant input to undertakings.</li> </ul>
	Other	No material impact.
Benefits	Policyholders	<ul style="list-style-type: none"> <li>➤ Policyholders would ultimately benefit from a more stable financial system (see also "other" below).</li> </ul>
	Industry	<ul style="list-style-type: none"> <li>➤ Undertakings would receive relevant market-wide information from a macroprudential point of view. They would be able to better consider the external environment (i.e. the potential sources of systemic risk identified) in their risk assessment.<sup>35</sup></li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ By using the expanded ORSA reports, 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.</li> <li>➤ The ORSA report 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.</li> </ul>
	Other	<ul style="list-style-type: none"> <li>➤ To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, <i>op. cit.</i>).</li> </ul>

- *Impact on Financial Stability*

11.19 From a financial stability perspective, expanding the use of ORSA could help mitigating two main sources of systemic risk identified. First, it could avoid the

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<sup>35</sup> A good example of macroprudential risk addressed through an expanded supervisory ORSA assessment could be the risk of excessive concentrations, identified as one of the sources of systemic risk. The ORSA is focused on the undertaking assessing their own investment strategy, based on their own risk appetite, which makes it difficult to address issues of excessive concentration levels at sector level. Undertakings may make "optimal" investment decisions at an individual level, but overall, the sector may be excessively concentrated in particular exposures. With an expanded supervisory use of ORSA reports, (re)insurance undertakings would be able to have sufficient understanding of market-wide developments and the potential macroprudential risks associated with them, which should be taken into account in their ORSA process. This could potentially have an alleviating effect on macroprudential risks.

deterioration of the solvency position leading to insurance failure(s). Secondly, it could contribute avoiding excessive concentrations.

11.20 On the other hand, there is a potential risk of procyclical behaviour if the feedback provided by authorities triggers some kind of common behaviour affecting the markets. This aspect, which is related to communication, should properly be considered by supervisors.

- *Proportionality – How is proportionality considered*

11.21 In terms of proportionality, as stated by EIOPA, 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.

- *Possible impact of such additional specifications on undertakings’ behaviour*

11.22 The major impact of this tool on undertakings’ behaviour expected is related to the raising of macroprudential awareness where they are material and not already taken into consideration by undertakings. The only issue that could be considered is the risk of a potential imperfect feedback process, which may lead to misinterpretation by undertakings, which may then not take adequate decisions. A prescriptive approach should be avoided. Otherwise it may restrict to a certain extent the undertakings’ independence in internal risk management processes.

- *Possible interactions with other Solvency II instruments*

11.23 The proposal of expanding the ORSA to enhance the macroprudential perspective would affect, to a limited extent, the current approach to ORSA. No other interactions with other Solvency II instruments have been identified.

- *Effectiveness and efficiency*

11.24 Regarding the effectiveness, the proposal is 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.

Policy issue 3 – Assessment of the need to expand the use of the ORSA to include the macroprudential perspective			
	Effectiveness (0/+ /++)		
Options	Discourage excessive levels of direct and indirect exposure concentration	Ensure sufficient loss-absorbency capacity and reserving	Promoting good risk management
Option 3.1: No change	0	0	0

Option 3.2: Expand the use of the ORSA to include the macroprudential perspective	++	+	++
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11.25 In terms of efficiency and, as mentioned, given the expected limited costs of an expanded use of the ORSA, this tool seem to yield an efficient contribution to the operational objectives identified.

Policy issue 3 – Assessment of the need to expand the use of the ORSA to include the macroprudential perspective			
	Efficiency (0/+ /++)		
Options	Discourage excessive levels of direct and indirect exposure concentration	Ensure sufficient loss-absorbency capacity and reserving	Promoting good risk management
Option 3.1: No change	0	0	0
Option 3.2: Expand the use of the ORSA to include the macroprudential perspective	++	++	++

#### 11.4.4. Expand the prudent person principle to take into account macroprudential concerns

Policy issue 4 – Assessment of the need to expand the PPP to take into account macroprudential concerns		
<b>Option 4.1: No change</b>		
Costs	Policyholders	➤ If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	➤ Undertakings would not receive relevant macroprudential information from supervisors, which they could take into account when deciding on their investment strategies.
	Supervisors	➤ 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.
<b>Option 4.2: Expand the PPP to take into account macroprudential concerns</b>		
Costs	Policyholders	No material impact.
	Industry	➤ A certain change in the approach might be needed. This would only be the case for those undertakings that do not consider the macroprudential dimension in their investment strategies already.



	Supervisors	➤ Supervisors would need to devote more resources to analyse the information of the different investment strategies 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 be able to consider with more emphasis the external environment (i.e. the potential sources of systemic risk identified) in their investment strategies.
	Supervisors	➤ Supervisors would be able to supplement the microprudential approach of this tool, compiling additional macroprudential perspective. This would facilitate peer reviews among different undertakings and facilitate analysis through time. ➤ 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	➤ To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, <i>op. cit.</i> ).

- *Impact on Financial Stability*

11.26 From a financial stability perspective, the expansion of the PPP could help mitigating two main sources of systemic risk identified, i.e. the risk of excessive concentrations and the involvement in certain activities or products with greater potential to pose systemic risk.

11.27 On the other hand, there might be a potential risk of procyclical behaviour if the feedback provided by authorities triggers some kind of common behaviour affecting the markets. This aspect, which is related to communication, should properly be considered by supervisors.

- *Proportionality – How is proportionality considered*

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

- *Possible impact of such additional specifications on undertakings' behaviour*

11.29 As mentioned with the ORSA, the major impact of this tool on undertakings' behaviour expected is related to the raising of macroprudential awareness where not already taken into consideration by undertakings. There could be the issue linked to a potential imperfect feedback process, which may lead to misinterpretation by undertakings.

- *Possible interactions with other Solvency II instruments*

11.30 The proposal to expand the PPP to include macroprudential concerns would improve the current approach to this principle without adding to much burden. No other interactions with other Solvency II instruments have been identified. As mentioned before, the proposal of requiring soft concentration thresholds would be a supplement to the PPP.

- *Effectiveness and efficiency*

11.31 As with the ORSA analysis, this conclusion is reinforced if the effectiveness and efficiency dimensions are considered. Regarding the effectiveness, the proposal is focused on discouraging excessive levels of direct and indirect exposure concentrations and excessive involvement in certain products and activities. In general, it should lead to a better risk management. 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.

Policy issue 4 – Assessment of the need to expand the PPP to take into account macroprudential concerns			
	Effectiveness (0/+ /++)		
Options	Discourage excessive levels of direct and indirect exposure concentration	Discourage excessive involvement in certain products and activities	Promoting good risk management
Option 4.1: No change	0	0	0
Option 4.2: Expansion of the PPP to take into account macroprudential concerns	+	+	+

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

Policy issue 4 – Assessment of the need to expand the PPP to take into account macroprudential concerns			
	Efficiency (0/+ /++)		
Options	Discourage excessive levels of direct and indirect exposure concentration	Discourage excessive involvement in certain products and activities	Promoting good risk management
Option 4.1: No change	0	0	0
Option 4.2: Expansion of the PPP to take into account macroprudential concerns	++	++	++

#### 11.4.5. Pre-emptive recovery and resolution planning

- *Analysis of options*

*Please see chapter 12 on recovery and resolution*

- *Impact on Financial Stability*

11.33 By requiring undertakings to draft pre-emptive recovery plans and competent authorities to draft resolution plans, the sector would benefit from a macroprudential perspective. Indeed, the purpose of adequate preparation and

planning is to reduce the probability of undertakings failing on the one hand by developing pre-emptive recovery plans, and to reduce the impact of potential failures on the other hand by developing pre-emptive resolution plans. This is particularly relevant when undertakings are operating in stressed macroeconomic environments. As a result, the objectives of policyholder protection, financial stability and protection of public funds should be better achieved.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.34 Pre-emptive resolution planning should not have an impact on the undertakings' behaviour. Regarding pre-emptive recovery planning, it can be assumed that, if properly done, these plans may provide relevant lessons learned for undertakings, which may then seek to mitigate certain risks that were identified.

- *Possible interactions with other Solvency II instruments*

11.35 Pre-emptive recovery plans would be a supplement to the already existing recovery plan in Solvency II.<sup>36</sup> According to Solvency II, undertakings are required to develop recovery plans within two months from the observation of non-compliance with the SCR (Article 138 of the Solvency II Directive). Developing pre-emptive recovery plans allows undertakings to make informed and timely decisions in times of crises and should therefore be helpful for any potential Solvency II recovery plan in case of breach of the SCR. Furthermore, given that pre-emptive recovery plans can be considered as a natural extension of ORSA, there is also certain interaction with this tool.

11.36 Regarding resolution plans to be drafted by competent authorities, there is no equivalent features in the current Solvency II Directive.<sup>37</sup> From that perspective, there is no relevant interaction with other instrument currently existing.

#### 11.4.6. Systemic risk management plans

<b>Policy issue 6 – Assessment of the need to require SRMPs to insurance undertakings</b>		
<b>Option 6.1: No change</b>		
Costs	Policyholders	➤ If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	No material impact.
	Supervisors	➤ Supervisors cannot benefit from relevant information related to the systemic risk that undertakings may pose in the financial system.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.

<sup>36</sup> Recovery plan would ultimately be an additional layer of policyholder protection, together with other mechanisms such as IGS.

<sup>37</sup> However, there might be some interaction with national insolvency procedures.

	Supervisors	➤ No additional resources need to be devoted.
	Other	No material impact.
<b>Option 6.2: Require SRMPs for all undertakings</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Undertakings may face one-off costs in terms of fees to externals and time devoted by staff involved in the drafting process.</li> <li>➤ Additionally, keeping the plans updated would also require certain resources on an ongoing basis, although these are not deemed high.</li> </ul>
	Supervisors	➤ Additional resources needed to analyse the SRMPs provided by undertakings. Depending on the number of undertakings operating in the market, this ongoing resource consumption could be relatively high.
	Other	No material impact.
Benefits	Policyholders	➤ Policyholders would ultimately benefit from a more stable financial system (see also "other" below).
	Industry	➤ SRMPs would provide an overview and understanding of the systemic risks and their build-ups and allow pro-active management of these risks rather than reactive.
	Supervisors	➤ By requiring SRMP to all undertakings, supervisors would have a comprehensive picture of the potential systemic risk (and mitigating actions) that undertakings may pose in the financial system and the respective corrective/mitigating actions.
	Other	➤ To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, <i>op. cit.</i> ).
<b>Option 6.3: Require SRMPs for a subset of undertakings</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Affected undertakings may face one-off costs in terms of fees to externals and time devoted by staff involved in the drafting process.</li> <li>➤ Additionally, keeping the plans updated would also require certain resources on an ongoing basis, although these are not deemed high.</li> </ul>
	Supervisors	➤ Additional resources needed to analyse the SRMPs provided by undertakings. Given that the scope of undertakings would only include systemically important undertakings, the costs are not deemed excessively high in the longer term.
	Other	No material impact.
Benefits	Policyholders	➤ Policyholders would ultimately benefit from a more stable financial system (see also "other" below).
	Industry	➤ SRMPs would provide an overview and understanding of the systemic risks and their build-ups and allow pro-active management of these risks rather than reactive.
	Supervisors	➤ By requiring SRMP to a subset of relevant undertakings, supervisors would strike a balance between having relevant information about the potential systemic risk (and mitigating actions) that undertakings may pose in the financial system without an unnecessary burden.
	Other	➤ To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, <i>op. cit.</i> ).

- *Impact on Financial Stability*

11.37 From a financial stability perspective, requiring SRMPs should contribute to mitigate two main sources of systemic risk identified i.e. the potential involvement of undertakings in certain activities or products with greater potential to pose systemic risk and the existence of potentially dangerous interconnections.

11.38 By selecting relevant undertakings to draft SRMPs, the sector would benefit from a macroprudential perspective. First, by means of ensuring that the institutions are monitoring and managing more effectively the activities, which could lead to posing systemic risk. Secondly, to make this actually effective in practice, undertakings should seek to take concrete actions to better manage, reduce or separate their systemically risky activities.

- *Proportionality – How is proportionality considered*

11.39 Proportionality concerns should be addressed by determining the scope of undertakings subject to SRMPs. In EIOPA's view the requirement to draft SRMPs should only apply to those undertakings that could indeed create or amplify systemic risk by themselves both from an entity- and an activity-based perspectives. As a result, EIOPA argues in favor of an "opt-in" approach, i.e. by default, no SRMPs should be required to undertakings, unless NSAs deem it necessary. For example, NSAs could decide to require SRMPs to D-SIIs (where so designated at national level) or to undertakings involved in certain products and activities that are more prone to create systemic risk.

11.40 As with pre-emptive recovery and resolution plans, EIOPA is of the view that, where required, SRMPs should be developed at the group level or at the level of an individual insurance entity, which is not part of a group.

11.41 The development of SRMPs at the group level, however, should not prohibit the possibility for solo supervisors to require the development of such plans at the solo level. Close collaboration with the group supervisor should exist if SRMPs are also required from individual entities belonging to a group.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.42 Regarding the impact on undertakings' behaviour, no major change as a consequence of requiring such plans can be envisaged. However, SRMP may incentivise undertakings subject to these plans to consider the systemic riskiness of the activities they are engaging in as well as how to manage this risk.

- *Possible interactions with other Solvency II instruments*

11.43 Requiring SRMP to a subset of undertakings could – to a limited extent – interact (but not conflict) with ORSA and, more generally, with the risk management system of undertakings. This plan, in which the undertakings would present all applicable measures they intend to undertake to address the systemic risk that the institution may pose in the financial system, would be a supplement to other risk management reports or plans, such as the ORSA.

- *Effectiveness and efficiency*

11.44 The effectiveness and efficiency dimension are summarised in the tables below. Options 6.2 and 6.3 yield a similar result if the subset of undertakings required to draft SRMPs is restricted to those undertakings that are systemically relevant or are involved in certain activities or products with greater potential to pose systemic risk.

Policy issue 6 – Assessment of the need to require SRMPs to insurance undertakings			
	Effectiveness (0/+ /++)		
Options	Discourage excessive involvement in certain products and activities	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 6.1: No change	0	0	0
Option 6.2: Require SRMPs to all undertakings	++	++	++
6.3: Require SRMPs to a subset of undertakings.	++	++	++

11.45 The option to restrict the requirement to a subset of undertakings only is clearly reinforced when the efficiency dimension is considered. Indeed, requiring SRMPs to undertakings that are neither systemically relevant nor involved in certain activities or products more prone to systemic risk is not necessary and, therefore, not as efficient as being able to filter those undertakings that are relevant from this perspective.

Policy issue 6 – Assessment of the need to require SRMPs to insurance undertakings			
	Efficiency (0/+ /++)		
Options	Discourage excessive involvement in certain products and activities	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 6.1: No change	0	0	0
Option 6.2: Require SRMPs to all undertakings	+	+	+
Option 6.3: Require SRMPs to a subset of undertakings.	++	++	++

### 11.4.7. Liquidity risk management planning and reporting

Policy issue 7 – Assessment of the need to require LRMPs to insurance undertakings		
Option 7.1: No change		
Costs	Policyholders	➤ If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.

	Industry	No material impact.
	Supervisors	➤ Supervisors would only to a certain degree be adequately able to assess the framework and arrangements that the undertakings has in place to manage, mitigate or reduce liquidity risk thereby contributing to financial stability.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	➤ No additional resources need to be devoted.
	Other	No material impact.
<b>Option 7.2: Require LRMPs for all undertakings subject to Solvency II</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Undertakings may face one-off costs in terms of fees to externals and time devoted by staff involved in the drafting process. Additionally, keeping the plans updated would also require certain resources on an ongoing basis.</li> <li>➤ Although these costs might be relatively high for smaller undertakings, it is reasonable to assume that they will not be extraordinarily high. Given liquidity risk is partially covered in Solvency II, it can be expected that prudently managed undertakings already have some kind of processes or procedures in place.</li> </ul>
	Supervisors	➤ Additional resources needed to analyse the LRMPs provided by undertakings. Depending on the number of undertakings operating in the market, this ongoing resource consumption could be relatively high and inappropriate.
	Other	No material impact.
Benefits	Policyholders	<ul style="list-style-type: none"> <li>➤ A clear and structured liquidity risk management process and procedure is expected to ultimately result in better managed undertakings in the benefit of policyholders.</li> <li>➤ Policyholders would ultimately benefit from a more stable financial system (see also "other" below).</li> </ul>
	Industry	➤ The analysis carried out as part of the drafting process could yield relevant lessons for undertakings, which could react accordingly if needed.
	Supervisors	<ul style="list-style-type: none"> <li>➤ LRMPs create an obligation to explain in a single document how liquidity risks are managed (knowing that liquidity risk is one of the risks included in Article 260(1)(d) of the delegated regulation</li> <li>➤ This would raise awareness of potential liquidity risks at undertakings' level and overall at sectoral level in a structural way.</li> </ul>
	Other	➤ To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a).
<b>Option 7.3: Require LRMPs with possibility to waive undertakings</b>		
Costs	Policyholders	No material impact.
	Industry	<ul style="list-style-type: none"> <li>➤ Affected undertakings may face one-off costs in terms of fees to externals and time devoted by staff involved in the drafting process.</li> <li>➤ Additionally, keeping the plans updated would also require certain resources on an ongoing basis, although these are not deemed high.</li> </ul>

	Supervisors	<ul style="list-style-type: none"> <li>➤ Methodology for the identification of the undertakings subject to the LRMPs has to be defined.</li> <li>➤ Additional resources needed to analyse the LRMPs provided by undertakings.</li> </ul>
	Other	No material impact.
Benefits	Policyholders	<ul style="list-style-type: none"> <li>➤ A clear and structured liquidity risk management process and procedure is expected to ultimately result in better managed undertakings in the benefit of policyholders.</li> <li>➤ Policyholders would ultimately benefit from a more stable financial system (see also "other" below).</li> </ul>
	Industry	<ul style="list-style-type: none"> <li>➤ The analysis carried out as part of the drafting process could yield relevant lessons for affected undertakings (e.g. by identifying potential liquidity gaps), which could react accordingly if needed.</li> </ul>
	Supervisors	<ul style="list-style-type: none"> <li>➤ LRMPs create an obligation to explain in a single document how liquidity risks are managed (knowing that liquidity risk is one of the risks included in Article 260(1)(d) of the delegated regulation)</li> <li>➤ This would raise awareness of potential liquidity risks at undertakings' level and overall at sectoral level in a structural way.</li> <li>➤ By being able to waive certain undertakings, supervisors would strike a balance between having relevant information about the management of liquidity risk by undertakings without an unnecessary burden.</li> </ul>
	Other	<ul style="list-style-type: none"> <li>➤ To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, <i>op. cit.</i>).</li> </ul>

- *Impact on Financial Stability*

11.46 By requesting undertakings to draft LRMPs, the sector would benefit from a macroprudential perspective. The LRMP can increase awareness of potential liquidity risks arising from certain products and activities as well as discourage excessive levels of direct and indirect exposure concentrations, which could result in potentially dangerous interconnections. This should decrease the likelihood that liquidity stresses turn into solvency stresses in the insurance sector.

- *Proportionality – How is proportionality considered*

11.47 Proportionality concerns should be addressed by determining the scope of undertakings subject to LRMPs. Contrary to the requirement of SRMPs, EIOPA is of the view that the scope of undertakings subject to LRMP should be defined in a broader manner. Indeed, liquidity risk management is part of the enterprise risk management and, as such, LRMPs could be considered as a useful tool to recognise and address a liquidity stress.

11.48 In EIOPA's view, the requirement to develop and maintain LRMPs should therefore in principle apply to undertakings within the scope of the Solvency II framework, subject to the proportionality principle.

11.49 In accordance with this principle, NSAs should be able to waive the requirement for certain undertakings based on a set of harmonised criteria and expert judgement/discretion. These criteria would need to be further developed in order to promote convergence in the EU, but could, for instance, be related to the nature, scale, and complexity of the undertaking's activities.



11.50 It should be stressed that, according to Article 44 of the Solvency II Directive, where insurance or reinsurance undertakings apply the matching adjustment or the volatility adjustment, they shall set up a liquidity plan projecting the incoming and outgoing cash flows in relation to the assets and liabilities subject to those adjustments. Both plans, the current existing one and the LRMP, could be combined.<sup>38</sup>

11.51 As with the other plans, EIOPA is of the view that, LRMPs should be developed at the group level or at the level of an individual insurance entity, which is not part of a group.

11.52 The development of LRMPs at the group level, however, should not prohibit the possibility for solo supervisors to require the development of such plans at the solo level. Close collaboration with the group supervisor should exist if LRMPs are also required from individual entities belonging to a group.

- *Possible impact of such additional specifications on undertakings' behaviour*

11.53 Some of the elements of LRMPs should already be included in undertakings' risk management frameworks. A positive impact in terms of liquidity risk management can be expected, particularly for those undertakings without well-established liquidity risk policies and procedures.

- *Possible interactions with other Solvency II instruments*

11.54 Liquidity risk is only partially covered by the current regulatory framework. Solvency II is a capital-based framework and focusses primarily on solvency, and not specifically on liquidity. Solvency II relies on Pillar II requirements, such as the Prudent Person Principle (PPP), and the liquidity plans required when using the matching adjustment and volatility adjustment to ensure undertakings manage their liquidity risk. Article 44 of the Solvency II Directive addresses risk management, stressing the areas that need to be covered. Liquidity and concentration risk management are among those areas explicitly listed.

11.55 The interaction between (macro) liquidity tools and Solvency II seems to be rather limited. Requiring LRMPs where relevant would therefore be a useful supplement for Solvency II.

- *Effectiveness and efficiency*

11.56 The effectiveness and efficiency dimension are summarised in the tables below.

Policy issue 7 – Assessment of the need to require LRMPs to insurance undertakings			
	Effectiveness (0/+ /++)		
Options	Discourage excessive involvement in certain products and activities	Discourage excessive levels of direct and	Promoting good risk management

<sup>38</sup> According to EIOPA's "Report on long-term guarantees measures and measures on equity risk 2018", 696 undertakings use the VA in the EEA (representing 66% of the overall amount of technical provisions at EEA level). In addition, 34 undertakings (representing 15% of the total amount of technical provisions in the EEA) apply the MA. Given that there are 2,912 insurance and reinsurance undertakings in the EEA under supervision according to Solvency II, a 25% of the undertakings are already subject to the currently existing liquidity plans.

		indirect exposure concentrations	
Option 7.1: No change	0	0	0
Option 7.2: Require LRMPs for all undertakings subject to Solvency II	++	++	++
Option 7.3: Require LRMPs with possibility to waive undertakings	++	++	++

11.57 The option to require LRMPs with possibility to waive undertakings is clearly reinforced when the efficiency dimension is considered. Indeed, requiring LRMPs to undertakings that based on their nature, scale, and complexity of the activities are not relevant is not necessary and, therefore, not as efficient as being able to filter those undertakings that are relevant from this perspective.

Policy issue 7 – Assessment of the need to require LRMPs to insurance undertakings			
	Efficiency (0/+ /++)		
Options	Discourage excessive involvement in certain products and activities	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
Option 7.1: No change	0	0	0
Option 7.2: Require LRMPs for all undertakings subject to Solvency II	+	+	+
Option 7.3: Require LRMPs with possibility to waive undertakings	++	++	++

#### 11.4.8. Temporary freeze on redemption rights

Policy issue 8 – Assessment of the need to grant NSAs with the power to temporary freeze the redemption rights in exceptional circumstances		
Option 8.1: No change		
Costs	Policyholders	➤ In case of a market wide solvency stress that may lead to insurance failure(s), the impact on policyholders might be greater compared to a temporary freeze on their redemption right.
	Industry	➤ Undertakings are not able to benefit from the application of this measure. No additional time in case of market-wide liquidity stress can therefore be granted.
	Supervisors	➤ Supervisors are not able to use this tool in exceptional circumstances in order to avoid mass lapses should they occur. <sup>39</sup>
	Other	➤ In case of a market wide solvency stress that may lead to insurance failure(s) there could be a clear risk to financial stability.

<sup>39</sup> However, in some countries, this power is already available as a microprudential tool. Imposing a temporary stay on early termination rights exercisable under financial contracts is available in 7 Member States, however, in four of them with certain restrictions (EIOPA, 2017a, *op. cit.*).

Benefits	Policyholders	➤ Policyholders' would not see their redemption rights temporarily precluded in any case of scenario.
	Industry	No material impact.
	Supervisors	➤ No material impact.
	Other	No material impact.
<b>Option 8.2: Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances, which would be applied to the whole or part of the market, or to systemically important institutions</b>		
Costs	Policyholders	➤ The application of this measure will deprive to a certain extent policyholders of their savings, at least for a certain period. During this time, the amount of assets might further deteriorate (e.g. losses on market values or expenses for costs and administration), which could result in an additional harm to policyholders.
	Industry	➤ Undertakings affected by the application of this measure might suffer from a certain reputational risk.
	Supervisors	➤ An application of this measure will have a reputation cost for supervisors, given that it deprives policyholders of their saving for a certain period. This can be particularly the case if supervisors act to fix self-inflicted problems or mistakes by the undertakings. ➤ Supervisors would also run the risk of not applying the measure at the right moment and for the right period.
	Other	No material impact.
Benefits	Policyholders	➤ If applied in exceptional circumstances, this measure can avoid that a liquidity stress of insurance undertakings results in a solvency stress that may even lead to insurance failure(s), which may even have a greater impact on policyholders than a temporary freeze on their redemption rights. From that perspective, the measure may contribute to the objective of policyholder protection
	Industry	➤ Undertakings would benefit from the application of this measure, which could give them additional time in case of market-wide liquidity stress.
	Supervisors	➤ This may be useful in market-wide liquidity stresses.
	Other	➤ To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers and taxpayers (see section 2 of EIOPA 2018a, <i>op. cit.</i> ).

- *Impact on Financial Stability*

11.58 From a financial stability point of view, temporarily freezing the redemption rights would contribute to limiting procyclicality in certain circumstances, thereby addressing one of the sources of systemic risk identified, i.e. the collective behaviour by undertakings that may exacerbate market price movements (e.g. fire-sales or herding behaviour).

11.59 At the same time, the application of this measure may also have certain destabilising effects. First, it may affect the confidence of consumers in the insurance sector, even in those undertakings that would not be affected by the measure. Secondly, the correct timing to apply this measure is also key as self-fulfilling prophecies may materialise where policyholder expect the prohibition of lapses. This may accelerate their behaviour in order to anticipate the prohibition, resulting in a liquidity crisis of the undertakings.

11.60 As a result, it should only be applied in exceptional circumstances, to prevent risks representing a strong threat for the financial health of the whole insurance market or for the financial system and for a limited period of time.

- *Proportionality – How is proportionality considered*

11.61 This measure should be applied in a proportionate way. Temporarily freezing or limiting redemption rights is highly sensitive and may clash with consumer protection principles and, as mentioned, may have certain destabilising effects. Proportionality would be achieved in three ways:

- The use of this tool should be limited to exceptional circumstances. An analysis of the underlying reasons of the increased lapses should be conducted before adopting the measure. EIOPA should issue guidelines to further specify the existence of “exceptional circumstances”.
- The length of the stay should only be limited to what is strictly needed.
- The measure should exclusively be applied to those undertakings affected by a severe liquidity stress. However, as a matter of principle, the use of this tool should be excluded in those cases where undertakings’ own misbehaviour (in terms of aggressive pricing or offering products allowing third parties to use arbitrage opportunities) is at the core of the liquidity stress. NSAs should have the discretion to determine which undertakings should be subject to the measure.

- *Possible impact of such additional specifications on undertakings’ behaviour*

11.62 In general, and given that the tool would only be used in very exceptional situations, it should not lead to a change in the behaviour of undertakings both in term of the products they offer and in terms of their investment decisions. However, some undertakings may also seek to minimise the risk of intervention by creating other products or investing in assets with less liquidity risk.

- *Possible interactions with other Solvency II instruments*

11.63 Given that there is no similar measure in Solvency II, the inclusion of such a tool is not considered to interact with other instruments available in the prudential framework.

- *Effectiveness and efficiency*

11.64 The tables below takes into account both the effectiveness and efficiency of the measure. In terms of effectiveness, in exceptional circumstances where, for example, there are mass lapses in the insurance sector, this measure would indeed give the affected undertakings some time to implement necessary measures without procyclical behaviour.

Policy issue 8 – Assessment of the need to grant NSAs with the power to temporary freeze the redemption rights in exceptional circumstances		
	Effectiveness (0/+ /++)	
Options	Limit procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Policyholder protection

Option 8.1: No change	0	0
Option 8.2: Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances	++	+

11.65 Although there are pre-emptive options that could be considered more efficient than temporary freezing the redemption rights (e.g. a thorough application of the prudent person principle, better liquidity planning, etc.), this measure is the only measure to manage an actual liquidity crisis. From that perspective, it can also be considered an efficient measure. However, the efficiency will depend on whether the measure can be applied to existing contracts or only to new business. Legal certainty when adopting this tool is needed, particularly on this aspect.

Policy issue 8 – Assessment of the need to grant NSAs with the power to temporary freeze the redemption rights		
	Efficiency (0/+ /++)	
Options	Limit procyclicality and/or avoiding artificial volatility of technical provisions and eligible own funds	Policyholder protection
Option 8.1: No change	0	0
Option 8.2: Grant NSAs with the power to impose a temporarily freeze on redemption rights in exceptional circumstances	+	+

## 12 Recovery and resolution

### Harmonised rules for recovery and resolution of (re)insurance undertakings

Policy issue 1: Harmonised rules for recovery and resolution of (re)insurance undertakings		
Option 1.1: No change		
Costs	Policyholders	The fragmented landscape could result in suboptimal outcomes for policyholders due to uncoordinated actions between national authorities.
	Industry	The fragmented landscape distorts the level playing field in the EU.
	Supervisors	The lack of an effective recovery and resolution framework will result in a suboptimal prevention and in a disorderly resolution process.  The lack of a harmonised approach does not foster cross-border cooperation and coordination.
	Other	The lack of proper recovery and resolution measures may require the State to step in during the resolution process and make use of taxpayers' money.
Benefits	Policyholders	No material benefits identified.
	Industry	No additional administrative burdens and/or costs arising from the introduction of harmonised rules (e.g. planning requirements).
	Supervisors	National frameworks might reflect national specificities in a better way.
	Other	No material benefits identified.
Option 1.2: Minimum harmonised rules for recovery and resolution		
Costs	Policyholders	No material costs identified.
	Industry	Potential additional administrative burdens and costs (e.g. planning requirements).
	Supervisors	Potential additional administrative burdens and costs (e.g. planning requirements).
	Other	No material costs identified.

Benefits	Policyholders	Effective recovery and resolution measures limit the likelihood and impact of disorderly failures and suboptimal outcomes for policyholders.
	Industry	Harmonised approach contributes to the level playing field in insurance.
	Supervisors	National authorities are equipped with adequate recovery and resolution measures to deal with failing undertakings in an effective manner.
	Other	Reliance on the State to step in during a resolution process is minimised. Moreover, a harmonised approach contributes to the single market.
Option 1.3: Maximum harmonised rules for recovery and resolution		
Costs	Policyholders	No material costs identified.
	Industry	The compliance costs of maximum harmonisation are likely higher for undertakings compared to option 2.
	Supervisors	Efforts to enhance supervisory convergence will be escalated with potential additional costs to supervisors.
	Other	No flexibility for Member States to further adapt the harmonised rules to the national needs.
Benefits	Policyholders	Effective recovery and resolution measures limit the likelihood and impact of disorderly failures and suboptimal outcomes for policyholders.
	Industry	Harmonised approach contributes to the level playing field in insurance.
	Supervisors	National authorities are equipped with adequate recovery and resolution measures to deal with failing undertakings in an effective manner.
	Other	Reliance on the State to step in during a resolution process is minimised. Moreover, a harmonised approach contributes to the single market.

Policy issue 1: Harmonised rules for recovery and resolution of (re)insurance undertakings				
	Effectiveness (0/+/++)			
Options	Objective 1: Promoting good risk management	Objective 2: Ensuring an orderly resolution of (re)insurance undertakings and groups / Effective and efficient	Objective 3: Ensuring a level playing field through	Objective 4: Avoiding reliance on public funds

		policyholder protection in resolution and/or liquidation	sufficiently harmonised rules	
Option 1.1: No change	0	0	0	0
Option 1.2: Minimum harmonised rules for recovery and resolution	++	++	+	++
Option 1.3: Maximum harmonised rules for recovery and resolution	+	+	++	++
Efficiency (0/+/++)				
Options	Objective 1: Promoting good risk management	Objective 2: Ensuring an orderly resolution of (re)insurance undertakings and groups / Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 1.1: No change	0	0	0	0
Option 1.2: Minimum harmonised rules for recovery and resolution	++	++	+	++
Option 1.3: Maximum harmonised rules for recovery and resolution	+	+	++	++

## Introduction of pre-emptive recovery planning

Policy issue 2: Introduction of pre-emptive recovery planning
Option 2.1: No change



Costs	Policyholders	Risk that insurance undertakings are not properly prepared for adverse situations could increase the likelihood of higher losses for policyholders.
	Industry	Risk of not being properly prepared for adverse situations; timely remedial actions when needed could therefore be delayed.  The lack of harmonisation across the Member States resulted in an unlevel playing field.
	Supervisors	Supervisors would not be able to obtain relevant supervisory information on potential risk and vulnerabilities of undertakings.
	Other	Risk of not being properly prepared for adverse situations could have an impact on the financial stability.
Benefits	Policyholders	No material impact.
	Industry	No additional resources need to be devoted for the drafting and maintenances of recovery plans.
	Supervisors	No additional resources required for the review of pre-emptive recovery plans.
	Other	No material impact.
Option 2.2: Require pre-emptive recovery planning from all undertakings subject to Solvency II		
Costs	Policyholders	No material impact.
	Industry	Undertakings that do not yet draft pre-emptive recovery plans may face one-off and ongoing costs (in terms of staff involved in the drafting process and potentially fees paid to consultants).  The expected (one-off and ongoing) costs for undertakings that already develop pre-emptive plans are lower.
	Supervisors	Additional resources needed to check the completeness of the plans and assess whether the recovery options are credible and realistic.  Depending on the number of undertakings operating in the market, this ongoing resource consumption could be relatively high.
	Other	No material impact.

Benefits	Policyholders	A clear and structured pre-emptive recovery planning results in a situation where undertakings are better prepared for adverse situations, which contributes to enhanced policyholder protection.
	Industry	Pre-emptive planning enhances the awareness of and preparedness for adverse situations. This allows undertakings to take informed and timely remedial actions when needed.
	Supervisors	Pre-emptive planning enhances the awareness of and preparedness for adverse situations of NSAs.  By requiring pre-emptive recovery plans from all undertakings, supervisors would have additional relevant information about potential vulnerabilities and recovery options of the industry as a whole.
	Other	Pre-emptive planning could contribute to mitigating systemic risk and reducing its potential harm to consumers and taxpayers.
Option 2.3: Require pre-emptive recovery planning from undertakings covering a very significant share of the national market		
Costs	Policyholders	No material impact.
	Industry	Undertakings that do not yet draft pre-emptive recovery plans may face one-off and ongoing costs (in terms of staff involved in the drafting process and potentially fees paid to consultants).  The expected (one-off and ongoing) costs for undertakings that already develop pre-emptive plans are lower.
	Supervisors	Additional resources needed to check the completeness of the plans and assess whether the recovery options are credible and realistic.  Given that proportionality is applied, the resources needed would be less than in the previous option.
	Other	No material impact.
Benefits	Policyholders	A clear and structured pre-emptive recovery planning results in a situation where undertakings are better prepared for adverse situations, which contributes to enhanced policyholder protection for those undertakings with a pre-emptive recovery plan.
	Industry	Pre-emptive planning enhances the awareness of and preparedness for adverse situations. This allows

		<p>undertakings to take informed and timely remedial actions when needed.</p> <p>A proportionate application removes any excessive burdens on the industry.</p> <p>Additionally, there are no costs for undertakings benefiting from the waivers and better application of the proportionality principle compared to option 2.</p>
	Supervisors	<p>Pre-emptive planning enhances the awareness of and preparedness for adverse situations of NSAs.</p> <p>A proportionate application removes any excessive burdens on the NSAs.</p> <p>Additionally, NSAs are able to better take into account the characteristics of each undertaking, applying the proportionality principle and following a risk-based approach.</p>
	Other	<p>Pre-emptive planning could contribute to mitigating systemic risk and reducing its potential harm to consumers and taxpayers.</p>

Policy issue 2: Require pre-emptive recovery planning			
	Effectiveness (0/+ /++)		
Options	Objective 1: Promoting good risk management	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring sufficient loss absorbency capacity and reserving
Option 2.1: No change	0	0	0
Option 2.2: Require pre-emptive recovery planning from all undertakings	++	++	++
Option 2.3: Require pre-emptive recovery planning from undertakings covering a very significant share of the national market	++	+	++
	Efficiency (0/+ /++)		
Options	Objective 1: Promoting good risk management	Objective 2: Ensuring a level playing field	Objective 3: Ensuring sufficient loss absorbency

		through sufficiently harmonised rules	capacity and reserving
Option 2.1: No change	0	0	0
Option 2.2: Require pre-emptive recovery planning from all undertakings subject to Solvency II	+	+	+
Option 2.3: Require pre-emptive recovery planning from undertakings covering a very significant share of the national market	++	++	++

## Introduction of early intervention powers

Policy issue 3: Introduction of early intervention powers		
Option 3.1: No change		
Costs	Policyholders	Policyholders could be worse off if the escalation of problems at undertakings is not avoided at an early stage.
	Industry	Divergent practices distort the level playing field in the EU.
	Supervisors	Gaps and shortcomings have been identified by some NSAs. Solvency II is unclear what to do after a notification of deteriorating financial conditions (Article 136 of the Solvency II Directive).
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
Option 3.2: Introduce early intervention powers		
Costs	Policyholders	No material impact.
	Industry	Potential costs due the exercise of the supervisory powers (e.g. additional reporting). Intervention restricting the undertaking's management decisions.
	Supervisors	Potential administrative costs for implementing the early intervention powers.

	Other	No material impact.
Benefits	Policyholders	Early intervention could avoid the escalation of problems at undertakings and hence contribute to better policyholder protection.
	Industry	National practices with respect to early intervention would be harmonised. This adds to the level playing field in insurance.
	Supervisors	NSAs are provided with explicit early intervention powers, which enable them to intervene at an early stage to avoid the escalation of problems.
	Other	The early avoidance of problems contribute to the financial stability in the EU.

Policy issue 3: Introduction of early intervention powers			
		Effectiveness (0/+ /++)	
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring sufficient loss absorbency capacity and reserving	Objective 3: : Ensuring a level playing field through sufficiently harmonised rules
Option 3.1: No change	0	0	0
Option 3.2: Introduce early intervention powers	++	++	++
		Efficiency (0/+ /++)	
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring sufficient loss absorbency capacity and reserving	Objective 3: : Ensuring a level playing field through sufficiently harmonised rules
Option 3.1: No change	0	0	0
Option 3.2: Introduce early intervention powers	++	++	++

## Introduction resolution planning, including resolvability assessments

Policy issue 4: Introduction of resolution planning (including resolvability assessments)		
Option 4.1: No change		
Costs	Policyholders	There is a higher risk of sub-optimal resolution outcomes, potentially affecting policyholders' rights.
	Industry	Fragmentation and no level playing field across the Member States.
	Supervisors/ Resolution authorities	Risk of not being properly prepared to resolve an insurance company in an orderly manner.
	Other	The lack of proper resolution strategies may require the State to step in during the resolution process and make use of taxpayers' money.
Benefits	Policyholders	No material impact.
	Industry	No potential additional information requests from resolution authorities to prepare the resolution plans.
	Supervisors/ Resolution authorities	No additional resources need to be devoted for the drafting and maintenances of resolution plans.
	Other	No material impact.
Option 4.2: Require resolution planning, incl. resolvability assessment, for all undertakings subject to Solvency II		
Costs	Policyholders	No material impact.
	Industry	Potential additional information requests from resolution authorities to prepare the resolution plans.  Need to take actions in case the resolution identifies potential resolvability obstacles.
	Supervisors/ Resolution authorities	Resolution authorities may face one-off and ongoing costs in terms of staff involved in the drafting process.
	Other	No material impact.
Benefits	Policyholders	Requiring resolution planning should positively affect the resolution outcome and, ultimately, contribute to the protection of policyholders.

	Industry	The resolution planning process could yield relevant lessons for resolution authorities and NSAs, which could be shared with undertakings in the context of the supervisory review process.
	Supervisors/ Resolution authorities	Resolution planning enhances the preparedness for crises.  Facilitating effective use of resolution powers, with the aim of making the resolution of any undertaking feasible and credible.  Resolvability assessment would allow removing obstacles before the crisis occurs.  Identifying cross-border cooperation requirements in the event of failure.
	Other	The implementation of proper resolution strategies will minimise the risk of use of taxpayers' money to fund the resolution process and contribute to maintaining the financial stability in the EU.
Option 4.3: Require resolution planning, incl. resolvability assessment, for undertakings covering a significant share of the national market		
Costs	Policyholders	No material impact.
	Industry	Potential additional information requests from resolution authorities to prepare the resolution plans. However, compared with the previous option, this potential information request would affect a smaller number of undertakings.  Need to take actions in case the resolution identifies potential resolvability obstacles.
	Supervisors/ Resolution authorities	Resolution authorities may face one-off and ongoing costs in terms of staff involved in the drafting process.  The scope of undertakings is likely smaller than in option 2, hence, the expected costs are lower.
	Other	No material impact.
Benefits	Policyholders	Requiring resolution planning should positively affect the resolution outcome and, ultimately, contribute to the protection of policyholders.
	Industry	The resolution planning process could yield relevant lessons for resolution authorities and NSAs, which could be shared with undertakings in the context of the supervisory review process.  Additionally, no costs for undertakings benefiting from the waivers and better application of the proportionality principle compared to option 2.

	Supervisors/ Resolution authorities	<p>Resolution planning enhances the preparedness for crises.</p> <p>Facilitating effective use of resolution powers, with the aim of making the resolution of any undertaking feasible and credible.</p> <p>Resolvability assessment would allow removing obstacles before the crisis occurs.</p> <p>Resolution authorities are able to better take into account the characteristics of each undertaking, applying the proportionality principle and following a risk-based approach. Furthermore, it helps to identify cross-border cooperation requirements in the event of failure.</p>
	Other	The implementation of proper resolution strategies will minimise the risk of use of taxpayers' money to fund the resolution process and contribute to maintaining the financial stability in the EU.

Policy issue 4: Assessment of need of resolution planning (including resolvability assessments)				
	Effectiveness (0/+ /++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 4.1: No change	0	0	0	0
Option 4.2: Require resolution planning, incl. resolvability assessment, for all undertakings subject to Solvency II	++	++	++	++
Option 4.3: Require resolution planning, incl. resolvability assessment, for undertakings covering a significant share of the national market	++	++	+	+
	Efficiency (0/+ /++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance	Objective 2: Effective and efficient policyholder protection in	Objective 3: Ensuring a level playing field through	Objective 4: Avoiding reliance on public funds



	undertakings and groups	resolution and/or liquidation	sufficiently harmonised rules	
Option 4.1: No change	0	0	0	0
Option 4.2: Require resolution planning, incl. resolvability assessment, for all undertakings subject to Solvency II	+	+	+	++
Option 4.3: Require resolution planning, incl. resolvability assessment, for undertakings covering a significant share of the national market	++	++	++	+

### Introduction of resolution powers

Policy issue 5: Introduction of resolution powers		
Option 5.1: No change		
Costs	Policyholders	An orderly resolution process limits the costs to policyholders. If resolution authorities are not equipped with adequate powers, an orderly resolution of undertakings may not be possible.
	Industry	Divergent practices might distort the level playing field in the EU.
	Supervisors/ Resolution authorities	NSAs will have a limited number of tools available to face resolution processes.
	Other	An orderly resolution process contributes to financial stability and reduces the reliance on public interventions. If resolution authorities are not equipped with adequate powers, an orderly resolution of undertakings may not be possible.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors/ Resolution authorities	No material impact.
	Other	No material impact.
Option 5.2: Grant resolution authorities with a set of harmonised resolution powers		

Costs	Policyholders	The exercise of some resolution powers might have an impact on policyholders, although they would not be worse off than in liquidation.
	Industry	No material impact compared to normal insolvency proceedings.
	Supervisors/ Resolution authorities	The availability of a broad set of resolution powers puts a responsibility on resolution authorities to select the adequate power(s) in specific situations.
	Other	No material impact.
Benefits	Policyholders	An orderly resolution process limits the costs to policyholders. To achieve this goal, resolution authorities should be equipped with adequate and powers to resolve undertakings. Given the cross-border activities in insurance, these powers should have consistent design, implementation and enforcement features, which foster cross-border cooperation and coordination.
	Industry	No material impact.
	Supervisors/ Resolution authorities	Resolution authorities in the EU would be equipped with adequate and powers to resolve undertakings. Given the cross-border activities in insurance, these powers should have consistent design, implementation and enforcement features, which foster cross-border cooperation and coordination.
	Other	An orderly resolution process contributes to financial stability and reduces the reliance on public interventions. To achieve this goal, resolution authorities should be equipped with adequate and powers to resolve undertakings. Given the cross-border activities in insurance, these powers should have consistent design, implementation and enforcement features, which foster cross-border cooperation and coordination.

Policy issue 5: Introduction of resolution powers				
	Effectiveness (0/+ /++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 5.1: No change	0	0	0	0

Option 5.2: Grant resolution authorities with a set of harmonised resolution powers	++	++	+	++
Efficiency (0/+/++)				
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 5.1: No change	0	0	0	0
Option 5.2: Grant resolution authorities with a set of harmonised resolution powers	++	++	+	++

## Definition of early intervention triggers

Policy issue 7: Definition of early intervention triggers		
Option 7.1: No change		
Costs	Policyholders	The use of different triggers across Member States could hinder cross-border cooperation and coordination between NSAs and consequently result in suboptimal outcomes for policyholders.
	Industry	Uncertainty about the triggers for early interventions, especially, when NSAs do not have clearly defined triggers for early intervention.
	Supervisors	The use of different triggers across Member States could hinder cross-border cooperation and coordination between NSAs.
	Other	Potential distortion of the level playing field.
Benefits	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	National flexibility and discretion to define the triggers for early interventions.
	Other	No material impact.

Option 7.2: Rules-based triggers for early intervention		
Costs	Policyholders	No material impact.
	Industry	Even if the trigger is not considered a hard trigger, rule-based triggers might end up acting as a new capital layer.
	Supervisors	Mechanistic decision-making process does not allow for any supervisory discretion and judgment.
	Other	No material impact.
Benefits	Policyholders	The use of harmonised triggers across Member States facilitates cross-border cooperation and coordination between NSAs and hence contribute to better policyholder protection.
	Industry	Rules-based triggers are clear and transparent and provide for adequate (legal) certainty.
	Supervisors	Rules-based triggers are clear and transparent and provide for adequate (legal) certainty.
	Other	No material impact.
Option 7.3: Judgment-based triggers for early intervention		
Costs	Policyholders	No material impact.
	Industry	Less (legal) certainty about the timing of early interventions by NSAs.
	Supervisors	Less (legal) certainty about the justification for the timing of early interventions by NSAs.
	Other	No material impact.
Benefits	Policyholders	The use of harmonised triggers across Member States facilitates cross-border cooperation and coordination between NSAs and hence contribute to better policyholder protection.
	Industry	Interventions take place after a careful assessment of the situation and circumstances, taking into account of relevant qualitative and quantitative factors.
	Supervisors	Interventions take place after a careful assessment of the situation and circumstances, taking into account of relevant qualitative and quantitative factors.
	Other	No material impact.

Policy issue 7: Triggers for early intervention			
Effectiveness (0/+/>++)			
Options	Objective 1: Promoting good risk management	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Ensuring sufficient loss absorbency capacity and reserving
Option 7.1: No change	0	0	0
Option 7.2: Rules-based triggers for early intervention	+	++	+
Option 7.3: Judgment-based triggers for early intervention	++	+	++
Efficiency (0/+/>++)			
Option 7.1: No change	0	0	0
Option 7.2: Rules-based triggers for early intervention	+	+	+
Option 7.3: Judgment-based triggers for early intervention	++	++	++

### Definition of triggers for entry into resolution

Policy issue 8: Definition of triggers for entry into resolution		
Option 8.1: No change		
Costs	Policyholders	Potential higher losses for policyholders because of different national resolution triggers.
	Industry	Uncertainty about the triggers for entry into resolution, especially, when NSAs do not have clearly defined triggers.
	Supervisors/ Resolution authorities	The use of different triggers across Member States could hinder cross-border cooperation and coordination between resolution authorities.
	Other	No material impact.
Benefits	Policyholders	No material impact.
	Industry	No material impact.

	Supervisors/ Resolution authorities	National flexibility and discretion to define the triggers for resolution.
	Other	No material impact.
Option 8.2: Rules-based triggers for entry into resolution		
Costs	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors/ Resolution authorities	A new, quantitative capital requirement would be created.
	Other	Mechanistic decision-making process does not allow for any supervisory discretion and judgment.
Benefits	Policyholders	The use of harmonised triggers contribute to better policyholder protection.
	Industry	Rules-based triggers are clear and transparent and provide for adequate (legal) certainty.
	Supervisors/ Resolution authorities	Rules-based triggers are clear and transparent and provide for adequate (legal) certainty.
	Other	No material impact.
Option 8.3: Judgment-based triggers for entry into resolution		
Costs	Policyholders	No material impact.
	Industry	Less (legal) certainty about the timing of resolution actions.
	Supervisors/ Resolution authorities	Less (legal) certainty about the timing of resolution actions.
	Other	No material impact.
Benefits	Policyholders	The use of harmonised triggers contribute to better policyholder protection.
	Industry	Resolution actions are taken after a careful assessment of the situation and circumstances.
	Supervisors/ Resolution authorities	Resolution actions are taken after a careful assessment of the situation and circumstances.

	Other	No material impact.
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Policy issue 8: Definition of triggers for entry into resolution				
	Effectiveness (0/+ /++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 8.1: No change	0	0	0	0
Option 8.2: Rules-based triggers for entry into resolution	+	+	++	+
Option 8.3: Judgment-based triggers for entry into resolution	++	++	+	+
	Efficiency (0/+ /++)			
Options	Objective 1: Ensuring an orderly resolution of (re)insurance undertakings and groups	Objective 2: Effective and efficient policyholder protection in resolution and/or liquidation	Objective 3: Ensuring a level playing field through sufficiently harmonised rules	Objective 4: Avoiding reliance on public funds
Option 8.1: No change	0	0	0	0
Option 8.2: Rules-based triggers for entry into resolution	+	+	+	+
Option 8.3: Judgment-based triggers for entry into resolution	++	++	++	+

## 13 Insurance guarantee schemes<sup>40</sup>

## 14 Other topics of the review

### 14.1 Other transitionals

### 14.2 Fit and proper requirements

Policy issue	Options
1. Need for harmonisation ongoing assessments of the propriety of AMSB members and qualifying shareholders	<p>1.1 No change (maintain status quo = situation described in the EIOPA Peer Review report)</p> <p>1.2 Clarify the Solvency II Directive text and thereby reinforce the powers of NCAs (preferred – solution proposed in the Peer Review on Propriety) (preferred)</p>

<b>Policy issue 1: Need for harmonisation ongoing assessments of the propriety of AMSB members and qualifying shareholders</b>		
<b>Option 1.1: No change (based on the current situation as described in the Peer Review report)</b>		
Costs	Policyholders	Policyholders having a contract with an undertaking in a country in which the propriety of AMSB and qualifying shareholders are not assessed on an ongoing basis might be less protected
	Industry	The risk of failures in countries with no ongoing assessment is higher with potential costs for industry
	Supervisors	Because of lack of clarity in the law additional enforcement costs: Supervisory experience highlights that, when a supervisory decision is challenged in a court of law or administrative tribunal, often the NCAs have to demonstrate not only that they followed a due process in imposing the fit and proper rules but also that the imposition of the rules is critical in protecting the wider public interest and maintaining the integrity of the financial system
	Other	Potential high cost for society given the link between failures and non proper AMSB or qualifying shareholders
Benefits	Policyholders	None
	Industry	Potential less costs for industry in the countries where the ongoing assessment is not enforced
	Supervisors	Potential less costs for supervisors in the countries where the ongoing assessment is not enforced
	Other	None

<sup>40</sup> See <https://eiopa.europa.eu/Pages/News/Consultation-on-Advice-on-the-harmonisation-of-national-insurance-guarantee-schemes.aspx>



<b>Option 1.2 Clarify the Solvency II Directive text and thereby reinforce the powers of NCAs</b>		
Costs	Policyholders	None
	Industry	Additional costs for undertakings that do not already assess the propriety in an ongoing manner although the law requires undertakings to already do so. However it is expected that the extra costs would be minor given the fact that having proper AMSB members/qualifying shareholders is already a requirement for all institutions
	Supervisors	Additional costs for supervisors that do not already assess the propriety of the AMSB and/or qualifying shareholders of undertakings in an ongoing manner although it is already expected from them. Cost can be reduced by applying proportionality and risk-based supervision
	Other	Not applicable
Benefits	Policyholders	Equal protection of policyholders with respect to propriety assessments
	Industry	Equal treatment of industry with respect to propriety assessment
	Supervisors	More clarity in the law leads to less enforcement costs
	Other	Less costs for society given the link between failures and non proper AMSB or qualifying shareholders

14.1 Clarification of the Solvency II Directive text to reinforce the powers for on-going supervision of AMSB and qualifying shareholders (Option 1.2) means a one-off costs for supervisors that did not implement clear powers for ongoing supervision and still need to develop their supervisory practice. In the peer review on propriety several suggestions based on supervisory practices are provided for ongoing assessments of AMSB and qualifying shareholders. Supervisors can inform and support each other being part of the EIOPA community. E.g. in relation to AMSB member ongoing assessments there are three options described in detail: as part of their ongoing supervisory activity, themed review and at the point of renewals of mandates or periodic reassessment.

#### Comparison of options

#### **Policy issue 1: Need for harmonisation ongoing assessments of the propriety of AMSB members and qualifying shareholders**

14.2 The preferred policy option for this policy issue is option 1.2 to amend and clarify the Solvency II Directive because the current situation as described in the peer review on propriety (option 1.1) was not satisfactory hence the number of recommended actions to supervisors.

14.3 It is expected that the costs will be only for undertakings that do not already assess the propriety in an ongoing manner although the law requires undertakings to already do so.

14.4 In the same manner also a number of supervisors might be having to do more assessments. Additional costs for supervisors will be a one-off costs to amend their processes. Costs can also be reduced by applying proportionality and risk-based supervision for which several examples are available in the EIOPA community. Also

because of improvement of the clarity in the law and the possibility to withdraw the license in case of non-compliance with the propriety requirements will reduce the costs of supervision. Overall given the proven link between the (almost) failures of companies as a consequence of a failed management the option 1.2 will reduce this risk and consequently its high social costs. Good risk management will be promoted by the proposal.

Policy issue 1: Need for harmonisation ongoing assessments of the propriety of AMSB members and qualifying shareholders						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Promoting good risk management	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Ensuring a level playing field through sufficiently harmonised rules	Objective 3: Promoting good risk management
Option 1.1: No change	0	0	0	0	0	0
Option 1.2: Clarify the Solvency II Directive text and thereby reinforce the powers of NCAs	++	+	+	++	+	+

#### 14.2.1 Increase the efficiency and effectiveness of propriety assessments in complex cross-border cases

Policy issue	Options
2. Increase the efficiency and intensity of propriety assessments in complex cross-border cases and allow in exceptional cases for EIOPA to conclude	2.1 No change (maintain status quo) 2.2 To ensure in complex cross-border cases more efficient and intense information exchange by providing the possibility of a joint assessment and allow in exceptional cases for EIOPA to conclude (preferred)

Analysis of impacts policy issue 2:

#### Increase the efficiency and effectiveness of propriety assessments in complex cross-border cases

14.5 The intention is to add potential tools to the toolbox of supervisors in line with the outcome of the peer review on propriety that allows supervisors to support each

other more efficiently and effectively by exchanging and discussing relevant information in depth especially in cases where particular information about concerns that could lead to refusal of an application of an AMSB member or qualifying shareholder. In exceptional cases the issue would be raised at the level of the Authority either by one of the competent authorities or on the initiative of EIOPA with the intention to take a decision using all relevant information available.

<b>Policy issue 2: Increase the efficiency and intensity of information exchange of propriety assessments in complex cross-border cases and allow in exceptional cases for EIOPA to conclude</b>		
<b>Option 2.1: No change</b>		
Costs	Policyholders	Less protection of policyholder in the current situation as described in the peer review on propriety
	Industry	No costs
	Supervisors	Cost of a cumbersome process to exchange information and reassessments without a change in outcome
	Other	None
Benefits	Policyholders	None
	Industry	None
	Supervisors	None
	Other	None
<b>Option 2.2: providing the possibility of a joint assessment and allow in exceptional cases for EIOPA to conclude</b>		
Costs	Policyholders	In particular cases where particular information about concerns that could lead to refusal of an application the policyholders are better protected
	Industry	No costs
	Supervisors	Eventual costs to organise and be part of joint assessments (e.g. organisational and travel costs for meetings)
	Other	For EIOPA eventual costs to take part in joint assessments (e.g. human resource and travel costs) as well as to the eventuality provide a recommendation
Benefits	Policyholders	Better protection of policyholders, specifically for those that buy their insurance with undertakings that work on FoE and FoS basis
	Industry	When refusing an application on the correct grounds it improves the reputation of the industry
	Supervisors	Less time/costs to find and assess relevant information
	Other	None

### Proportionality

14.6 Proportionality is guaranteed with the intention to only use these tools in case of complex cases that are relevant for two or more supervisors.

### Comparison of options

14.7 The preferred policy option for this policy issue is option 1. 2 which encourages cooperation among NCAs in complex cross-border cases and refers to EIOPA’s role as a facilitator in these cases. It is expected that there are no extra costs for industry whilst the costs for supervisors will be lower. EIOPA will bear some costs (human resources and travel costs) depending on the number of cases where its involvement is requested or needed. Equally policyholders will be better protected.

Policy issue 2: Increase the efficiency and intensity of propriety assessments in complex cross-border cases by providing the possibility of a joint assessment						
	Effectiveness (0/+ /++)			Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of cross-border business	Objective 2: Improving transparency and better comparability	Objective 3: Promoting good risk management	Objective 1: Effective and efficient supervision of cross-border business	Objective 2: Improving transparency and better comparability	Objective 3: Promoting good risk management
Option 2.1: No change	0	0	0	0	0	0
Option 2.2:	+	+	+	+	+	+