SUPERVISORY STATEMENT ON THE SOLVENCY II RECOGNITION OF SCHEMES BASED ON REINSURANCE WITH REGARD TO COVID-19 AND CREDIT INSURANCE

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European Insurance and Occupational Pensions Authority

1. Introduction

1.1. The risk of a rapid contraction of the credit insurance business following COVID-19 has led the European Commission to take similar initiatives as in the financial crisis in 2008.

1.2. Firstly, on 19 March 2020 the European Commission adopted a "Temporary Framework for State aid measure to support the economy in the current COVID-19 outbreak" (Temporary Framework), which enables Member States to adopt temporary measures, including schemes to support export and trade in general. Measures taken under the Temporary Framework require individual approval from the European Commission.

1.3. Secondly, on 28 March 2020 the European Commission published Communication C/2020/2044 that considers all commercial and political short-term export as temporary non-marketable until 31 December 2020. This allowed state insurers to temporarily cover all short-term risks without requiring prior approval from the European Commission. The coverage provided following that Communication shall comply with a set of requirements that ensure that no advantage is passed on to exporters[1].

1.4. According to the information available to EIOPA at the time of publising this Statement, national schemes implemented through the Temporary Framework with regard to credit insurance have significant differences. Some interact directly with the seller/exporter covering their transactions or providing guarantees to their loans, while others provide indirect support through schemes closer to reinsurance which allow credit insurers to keep the previous coverage limit.

1.5. To support supervisory convergence, this Statement provides EIOPA's supervisory view on the treatment for Solvency II purposes of schemes based on reinsurance implemented by Member States within the Temporary Framework.

2. Supervisory treatment of schemes based on reinsurance

2.1. EIOPA recommends competent authorities to allow insurers and reinsurers to consider schemes that transfer insurance risk to a Member State's goverment based on the Temporary Framework as having the same consequences as reinsurance as defined in Directive 2009/138/EC (Solvency II).

2.2. Such treatment should lead the assets recognised by insurers and reinsurers under the scheme to be considered linked to reinsurance (e.g. reinsurance recoverables or reinsurance receivables) for Solvency II purposes.

2.3. To recognise such schemes as risk-mitigation technique for Solvency Capital Requirement (SCR) calculation, it still needs to be assessed whether the scheme complies with the relevant requirements of Articles 209-215 of Commision Delegated Regulation (EU) 2015/35.

2.4. Where a scheme based on reinsurance is implemented through an Export Credit Agency or an insurer supported by a Member State, that assessment does not present any particular constraint beyond its temporary nature, further discussed in paragraphs from 2.7 to 2.9. Where it is implemented through the government of a Member State requires a consistent assessment across Member States to

[1] European Commission Communication 2012/C 392/01

ensure the level playing field and consistently reflect the economic substance of the technique.

2.5. Considering that Solvency II regime assumes that governments of Member States are solvent counterparties, EIOPA recommends competent authorities to allow insurers and reinsurers to consider that schemes based on reinsurance implemented through the government of a Member State comply with the relevant requirements regarding the counterparty.

2.6. However, other counterparties that are not authorised insurers or reinsurers nor the government of a Member State are not allowed to do reinsurance activity. Therefore, any transfer of risk to them should not be considered as reinsurance activity.

2.7. Considering the temporary nature of government schemes allowed by the Temporary Framework, the forward-looking nature of the Solvency Capital Requirement has also been identified as a key aspect of the risk-mitigation technique assessment that requires a convergent approach.

2.8. Competent authorities should allow insurers and reinsurers to assume that the schemes will be extended in 2021 only where such extension has already been approved. However, for mid-year calculations such assumption may be allowed under the proportionality principle.

2.9. Insurers and reinsurers should clearly indicate the assumptions used in the calculation of the Solvency Capital Requirement in their Solvency and Financial Condition Report.