



I N B R I E F

#INSURANCE #PRUDENTPERSON #INVESTING #SOLVENCYII

PEER REVIEW ON THE PRUDENT PERSON PRINCIPLE

The Prudent Person Principle is a key concept within the Solvency II framework, which regulates the functioning of insurers in the European Union. The Prudent Person Principle requires insurance and reinsurance undertakings to invest only in assets whose risks they can thoroughly understand, monitor, and manage. When investing, insurers must also act in the best interests of policyholders while ensuring the overall security, liquidity and profitability of the portfolio.

In this factsheet, we present the findings of a peer review that explored how national supervisors across the EU assess insurers' compliance with this principle. To keep the review targeted, EIOPA chose to concentrate on some aspects of the principle, namely, the supervision of non-traditional and complex assets, such as derivatives, including their use in unit-linked contracts. For a more detailed analysis, read the [full report](#) on EIOPA's website.

SCOPE AND OUTCOME

6
broad topics
analysed

9
areas
for recommendations

49
actions
recommended

to 22
National Competent
Authorities

TOPICS AND AREAS ANALYSED

EIOPA identified and analyzed a total of 15 areas related to the supervision of the Prudent Person Principle. Among these, 9 areas (highlighted in orange below) were deemed to require further action in at least one member state.

T O P I C	Supervisory framework			Overall prudence of investment portfolio			Individual investments		Valuation of investments	Supervisory activities and actions		Specificities of unit- and index-linked business			
	LEGAL FRAMEWORK	SUPERVISORY HANDBOOK	USE OF TOOLS AND INDICATORS	SECURITY, QUALITY, LIQUIDITY AND PROFITABILITY	INDEPENDENCE FROM RATING AGENCIES	ASSET-LIABILITY MANAGEMENT	SUSTAINABILITY RISKS	DERIVATIVES	COMPLEX/NON-TRADITIONAL INVESTMENTS	VALUATION OF INVESTMENTS	SUPERVISORY ACTIVITIES	SUPERVISORY ACTIONS	CLOSE MATCHING	CONTROL OF RISKS OF UNDERLYING ASSETS	MANAGING ASSETS IN BEST INTEREST OF POLICYHOLDERS
#		4	7	6		1		8	11	2				3	7

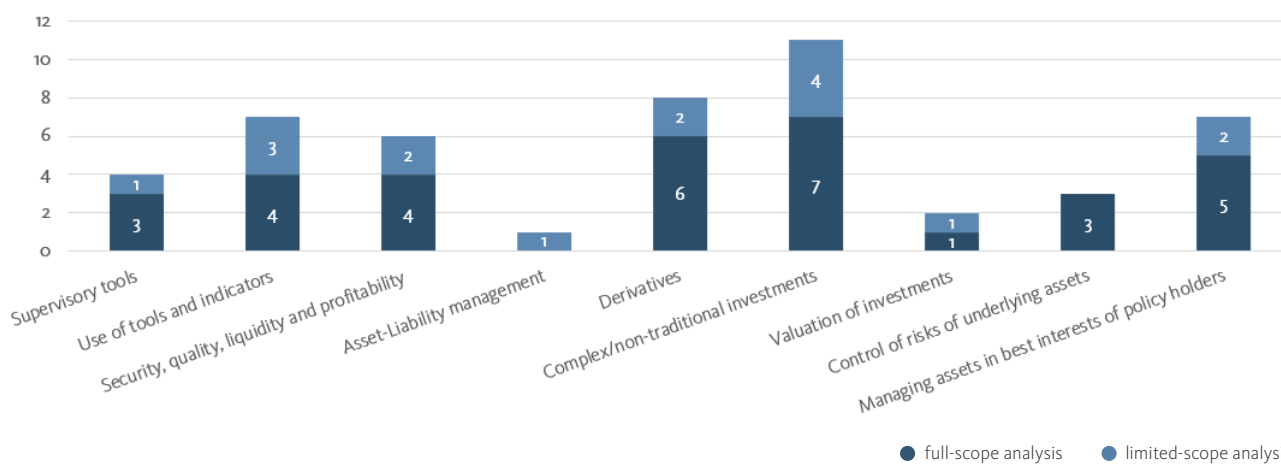
● no action ● action recommended, together with # of recommended actions

RECOMMENDED ACTIONS ACROSS AREAS AND MEMBER STATES

Across these 9 areas, EIOPA issued a total of 49 recommended actions to 22 national supervisors (out of 24 participants) to enhance their supervision of compliance with the principle, and thereby help safeguard the interests of consumers. The area with the highest number of recommended actions was the supervision of complex/non-traditional investments, where recommended actions concern the type of assessments that National Competent Authorities (NCAs) are expected to implement through tools like internal guidance to supervisory staff, clear explanations to the market or early dialogue with insurers prior to investing in

risky/complex assets. 8 NCAs were recommended to improve their supervision of derivatives through off-site analyses, on-site inspections or by providing further guidance to insurers. 7 NCAs were asked to develop, maintain and use risk indicators specific to the Prudent Person Principle. Just as many NCAs (7) were encouraged to provide specific supervisory expectations to insurers on how to assess whether investments for unit-linked and index-linked contracts are made in the best interests of policyholders.

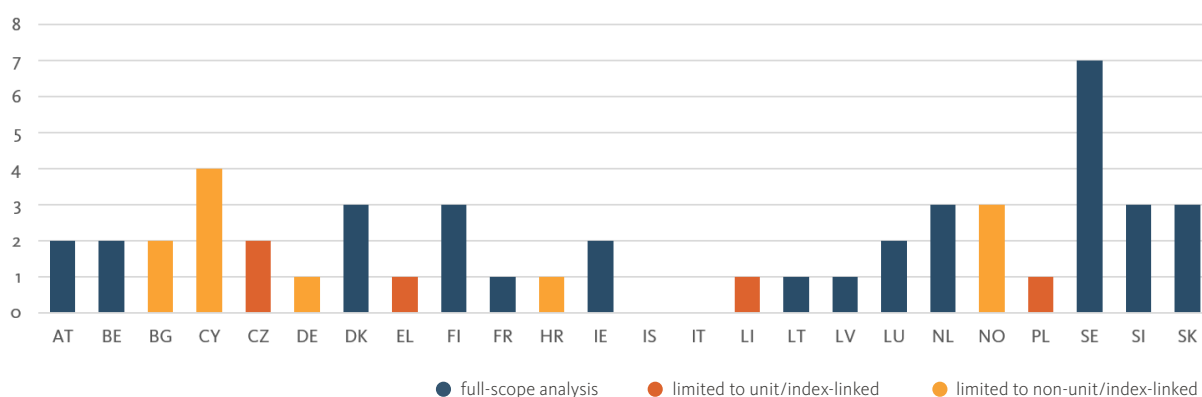
RECOMMENDED ACTIONS ACROSS AREAS



24 member states participated in the peer review as some countries, whose markets are not materially impacted by the scope of the review, received a waiver. 13 member states underwent a full-scope analysis while 11 member states were subject to limited-

scope analysis given the specificities of their markets. A detailed run-down of each recommended action and the NCAs to whom they are addressed can be found in the [report](#).

RECOMMENDED ACTIONS ACROSS MEMBER STATES



LEARN MORE



Visit the dedicated webpage:
https://www.eiopa.europa.eu/publications/peer-review-report-supervision-prudent-person-principle-under-solvency-ii_en

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