Peer Review on supervision of Prudent Person Principle (PPP) under Solvency II

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European Insurance and Occupational Pensions Authority

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ACRONYMS

AMSB	Administrative, Management or Supervisory Body
ALM	Asset Liability Management
AVM	Alternative Valuation Methods
BP	Best Practice
BoS	EIOPA Board of Supervisors
COM	European Commission
CRAs	Credit Ratings Agencies
CIU	Collective Investment Undertaking
Delegated Regulation/DR	Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environmental, Social and Governance
FSB	Financial Stability Board
FOE	Freedom of establishment
FOS	Freedom to provide services

GL	Guidelines
GWP	Gross Written Premium
IDD	Insurance Distribution Directive
IORPs	Institutions for occupational retirement provision
ITS	Implementing Technical Standards
MB	EIOPA Management Board
MCR	Minimum Capital requirements
NCAs	National Competent Authorities
Non-UIL	Non Unit/Index-linked
NSA	National Supervisory Authority
ORSA	Own Risk and Solvency Assessment
PPP	Prudent Person Principle
PRC	Ad hoc Peer Review Committee for Prudent Person Principle
QMP	Quoted Market Prices
QRT	Quantitative Reporting Template
RA	Recommended Action
RAF	Risk Assessment Framework
SAQ	Self-Assessment Questionnaire
SCR	Solvency Capital Requirement

SFCR	Solvency and Financial Condition Report
SII	Solvency II
SII Directive	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
SII QRT	Solvency II Quantitative Reporting Template
SRP	Supervisory Review Process
SupTech	Supervisory Technology
ToR	Terms of Reference
UCITS	Undertakings for the Collective Investment in Transferable Securities
UIL	Unit/Index-linked

EXECUTIVE SUMMARY

In accordance with its mandate, EIOPA regularly conducts peer reviews, working closely with National Competent Authorities (NCAs), with the aim of strengthening both the convergence of supervisory practices across Europe and the capacity of NCAs to conduct high-quality and effective supervision.

Backgrounds and objectives

Based on EIOPA's Peer review work plan 2023-2024, EIOPA performed a peer review on the supervision of the Prudent Person Principle (PPP) for insurance and reinsurance undertakings under Solvency II according to Article 30 of EIOPA Regulation[1].

The peer review is performed by an ad hoc peer review committee (PRC), composed by EIOPA staff members (including the chair of the committee) and representatives of NCAs who are knowledgeable on the topic.

EIOPA planned this review in light of the importance of investment activity for the insurance business model, including the identification of new types of investments or trends in investment strategies, and considering that the supervision of this principle-based requirement is often mentioned by NCAs as challenging, both in the assessment of compliance and in taking supervisory actions (when needed).

Considering the broad scope of the Prudent Person Principle (PPP) and the need to keep the peer review targeted, the review focused mainly on supervision of investments in non-traditional or more complex assets, including derivatives (above all in the case of their use for efficient portfolio management), and of assets backing unit-linked and index-linked (UIL) contracts where the risk is borne by policyholders.

Concerning the participating NCAs, in this peer review EIOPA has used for the first time the option (provided by its Decision on peer reviews) to allow Member States not materially impacted by the scope of the peer review to request a full exemption from the peer review (waiver) or a limited participation with a reduced scope. To this end, 24 Members States were selected to participate in the peer review, namely 13 Member States in the full scope and 11 Member States for the limited scope (i.e. 7 for non-UIL and 4 for UIL only).

[1] Regulation (EU) No 1094/2010 of the European Parliament and of the Council on 24 November 2010.

Main findings

One of the main sources of information used in the peer review were the answers provided by NCAs to a self-assessment questionnaire, that was structured to collect information in 6 broad aspects, namely:

1) Supervisory framework implemented by Member States to regulate and supervise the compliance with the PPP (i.e. legal acts, additional external supervisory guidance to the market and/or internal handbook for supervision);
2) Overall prudence of the investment portfolio and in particular the assessment of the security, quality, liquidity and profitability of the investment portfolio and the asset-liability management;
3) Risk stemming from individual asset classes with a focus on derivatives and complex/non-traditional investments;
4) Process and procedures related to the valuation of investments;
5) Supervisory activities (e.g. on-site inspections and off-site analysis) carried out by NCAs, separately for investments backing non-UIL and UIL business, and the consequent supervisory actions taken by NCAs to remedy cases of actual or potential deficiencies or non-compliance with the PPP requirements;
6) Specificities of unit/index-linked business.

The above mentioned 6 broad topics led to identify and investigate 15 more detailed aspects of the supervision of the PPP, among which the PRC selected 9 areas (see the table below) that were considered in the end to address 49 total recommended actions to 22 NCAs.

6 areas were not considered relevant to issue recommended actions to NCAs for several reasons: in some cases because there were no findings (it is the case for the implementation of the relevant legal framework and the good progress in reducing the reliance to credit ratings monitored by the Financial Stability Board) or conversely because of the still limited progress in implementing some new legal requirements recently introduced (it is the case of the supervision of the sustainability risk) or lastly because the methodological limits to acquire comprehensive information about the concrete supervisory activities performed by the NCAs and the relevant of the supervisory measures taken (this is case for the section on supervisory activities and actions).

This risk-based approach however allowed the PRC to focus on the most important and challenging aspects of the PPP.

TABLE 1: APPROACH FOLLOWED TO SELECT AREAS FOR RECOMMENDED ACTIONS (RA) AND NUMBER OF RA ADDRESSED TO NCAS

Broad topics	Detailed sub-topics	Areas for Recommended Actions (RA)	Number of Recommended Actions to NCAs
1) Supervisory framework	Legal framework	/	/
	Supervisory handbook	**RA 1**	**4**
	Use of tools and indicators	**RA 2**	**7**
2) Overall prudence of investment portfolio	**Security, quality, liquidity and profitability as a whole**	**RA 3**	**6**
	Independency from rating agencies	/	/
	Asset-Liability management	**RA 4**	**1**
	Sustainability risks	/	/
3) Individual investments	**Derivatives**	**RA 5**	**8**
	Complex/non-traditional investments	**RA 6**	**11**
4) Valuation of investments	**Valuation of investments**	**RA 7**	**2**
5) Supervisory activities and actions	Supervisory activities	/	/
	Supervisory actions	/	/
6) Specificities of UIL business	Close matching	/	/
	Control of risks of underlying assets	**RA 8**	**3**
	Managing assets in best interests of policy holders	**RA 9**	**7**
		Total number of RA	**49**

Overview of recommended actions

This final report outlines the recommended actions that the PRC has issued to the different NSAs in order to improve the supervision of the PPP as laid down in Article 132 of the SII Directive. Each recommended action[2] issued as part of this peer review is based on the findings of the assessment carried out by the PRC and has been discussed with each NCA involved.

The table below provides a high-level overview of the areas of the PPP to which the specific recommended actions apply. More detailed information about the individual recommended actions

[2] The recommended actions set out in this report, which are addressed to the relevant NSAs, should not be considered per se as EIOPA Recommendations for the purposes of Articles 16 and 30(4) of the EIOPA Regulation or of Article 25(4) of the EIOPA Decision on Peer Reviews

addressed to the relevant NCAs, taking into account the specific area of improvement identified, are reported in Annex 2.

TABLE 2: HIGH-LEVEL SUMMARY OF THE RECOMMENDED ACTIONS ADDRESSED TO NCAS

Area of Recommended Actions	Recommended Actions to the NCAs
1. SUPERVISORY FRAMEWORK	
RA1 - Supervisory handbook (for off-site and on-site supervision)	
4 NCAs (1 within the partial scope-UIL and 3 within the full scope) received the recommended action to develop and maintain a local supervisory handbook to carry out off-site analysis and on-site inspection and support supervisory staff in an effective and consistent supervision of undertakings' compliance with the PPP.	• FIN-FSA-FI • KNF-PL • FI-SE • NBS-SK
RA2 - Use of tools and indicators	
7 NCAs (2 within the partial scope non-UIL, 1 within the partial scope UIL, and 4 NCAs within the full scope) received the recommended action to develop, maintain and use risk indicators on PPP, based on the SII QRT, to provide input to the decision-making process to define the annual supervisory work plan.	• ICCS-CY • FIN-FSA (FI) • FMA-LI • DNB-NL • FSA-NO • FI-SE • AZN-SI
2. OVERALL PRUDENCE OF UNDERTAKING' S INVESTEMENT PORTFOLIO	
RA3 -Security, quality, liquidity, and profitability	
6 NCAs (2 within the partial scope non-UIL and 4 within the full scope) received the recommended action to develop internal guidance on the supervision of security, quality, liquidity and profitability of (re) insurance portfolio as a whole. The internal guidance should be both in form of qualitative guidance as well as quantitative indicators based on the Solvency quantitative	• FMA-AT • FSC-BG • ICCS-CY • CAA-LU • FI-SE • NBS-SK

reporting templates and are expected to be used in a risk-based and proportionate manner. **RA4 - Asset-Liability management** 1 NCA (within the partial scope Non-UIL) is recommended to implement regular assessment of whether undertakings invest the assets covering technical provisions in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities**.**	• ICCS-CY
3. INDIVIDUAL INVESTMENTS **RA5 - Derivatives** Taking into account 9 Member States, within the scope of the peer review (excluding the ones participating for UIL only), with a material exposure of derivatives (notional amount higher than 1.5% of total assets), 8 NCAs (6 within full scope and 2 withing the partial scope non UIL) received a recommended action, in most cases focusing only on a specific point: to regularly perform detailed off-site analysis and on-site inspections (2 NCAs), to provide detailed guidance on the supervision of derivatives used for hedging and (6 NCAs) efficient portfolio management. **RA6 - Complex / non-traditional investments** Non-traditional investments are assets which generally give a higher return and therefore carry a higher risk. Seven NCAs have taken the responsibility of holding ex-ante discussions with their supervised undertakings prior to them investing in such assets which is considered by EIOPA as a good practice. 11 NCAs (7 within the full scope and 4 within partial scope non-UIL) received the recommended action to publish external guidance to the market regarding what type of assessment is required by undertakings to carry out prior to investing in risky/complex and non-routine investments or at least have internal guidance so that the NCA supervisors to ensure a common approach during supervision.	• NBB-BE • BaFin-DE • FTNET -DK • ACPR-FR • CBI- IE • DNB -NL • FSA-NO • FI-SE • NBB- BE • FS- BG • ICCS- CY • FTNET-DK • HANFA-HR • BoL- LT • Latvijas Banka (Central Bank of Latvia) • DNB-NL • FSA-NO • FI-SE • AZN-SI

4. VALUATION OF INVESTMENTS **RA7 - Valuation of investments** In view of the existence of national audit requirements of Solvency II reporting in several Member States, the expected introduction of this requirement in the review of Solvency II and the current composition of investment portfolio on average, the PRC decided to focus the recommended actions mostly on the supervision of the governance aspect of the valuation process. 2 NCAs (1 within the partial scope UIL and 1 withing the full scope) received the recommended action to put in place a supervisory process to assess the independent internal valuation performed by undertakings, mostly notably for complex and/or illiquid financial instruments subjects at greater evaluation risk.	• CNB-CZ • FI-SE
5. SUPERVISORY ACTIVITIES AND ACTIONS Several NCAs (16 out of 24 participating to the peer review) have either issued additional legal acts to complete SII provisions on PPP (9 NCAs) and/or set out clear supervisory expectation to their market (12 NCAs) in several aspects among which mainly guidance/expectations on how to manage risks stemming from complex or alternative assets (such as securities lending, infrastructure, derivative es, inter-company loans or transactions, crypto assets and more in general complex and illiquid assets), national regulation of assets covering technical provisions and valuation issues. In addition to that the peer review assessed the presence of internal supervisory handbook (for off-site analysis and on-site inspections) for the supervision of the PPP and if it is based on EIOPA Handbook chapter on PPP. No recommended actions were issued.	Not applicable
6. SPECIFICITIES OF UNIT-INDEX LINKED BUSINESS **RA8 - Control of the risks of underlying assets** 3 out of 17 NCAs within the scope of the UIL part of the peer review received recommended actions regarding the control of the risks of underlying assets within UIL contracts. All NCAs	• FMA-AT • FIN-FSA-FI

received the same recommended action to develop their supervisory approach to manage the risk that investments backing unit/index-linked policies carry undue investment risks or are not subject to appropriate control by insurance undertakings.	• FI-SE
RA9 - Managing assets in best interest of policyholders 7 out of 17 NCAs within the scope of the UIL part of the peer review received recommended actions to formulate and communicate to insurance undertakings specific expectations regarding the assessment of whether investments backing UIL contracts are made in the best interests of policy holders. The recommended actions addressed expectations regarding the appropriate management of conflicts of interests arising from investments backing UIL policies and the appropriate controls relating to the selection and monitoring of specific investment vehicles. 2 NCAs received recommended actions concerning specifically the management of conflicts of interests; 3 NCAs received recommended actions concerning specifically the controls relating to the selection and monitoring of specific investment vehicles; and for the remaining 2 NCAs the recommended actions concerned both of these aspects.	• CNB-CZ • FTNET-DK • BoG-EL • CBI-IE • CAA-LU • AZN-SI • NBS-SK

1. BACKGROUND, SCOPE, TASKS AND DELIVERABLES

BACKGROUND

Article 30 of the EIOPA Regulation establishes that EIOPA must conduct peer reviews of some or all the activities of National Competent Authorities ("NCAs"), to further strengthen consistency and effectiveness of supervisory outcomes.

Detailed guidance on the rules governing the peer review and its methodology is included in EIOPA Decision on peer reviews[3].

A Peer Review on the Solvency II PPP has been agreed in the two-year peer review work plan 2023-2024, published on EIOPA's website, to be performed in 2023.

The Peer Review is performed by an ad hoc peer review committee (PRC), composed of EIOPA staff members (including the chair of the PRC) and representatives of competent authorities who are knowledgeable on the topic.

DESCRIPTION AND SCOPE

EIOPA had planned this review in light of the importance of the investment process for the value chain of an insurance undertakings[4] and the challenges posed by the supervision of insurance and reinsurance undertakings' investments.

In the past, an undertaking's investment strategy was limited by rule-based requirements (i.e., eligibility criteria and quantitative (hard) limits for the assets covering technical provisions), which aimed to guarantee a prudent approach. Conversely, Solvency II follows a risk-based approach where the PPP, in addition to the capital requirements required for the investment risks, plays a central role aiming to ensure that market risk is not only accurately measured, but also properly understood, managed, and reported.

This shift towards a principle-based requirement has brought significant benefits, providing more flexibility and opportunities for innovation and allowing more consistency with undertakings' risk appetite, including to better facilitate the transition to sustainable/ESG assets. However, its

[3] https://www.eiopa.europa.eu/sites/default/files/publications/2022_02_14_-_decision_on_peer_reviews.pdf

[4] Indeed, investments have a material direct impact on capital requirements as market risk is frequently the most material risk within the Standard Formula (approximately 40% of the SCR)

supervision and especially its enforcement have proved to be a challenge for NCAs that, in some cases, have prioritised the supervision of market and counterparty of SCR, which usually might be easier to assess.

Considering the broad scope of the PPP[5] and the need to keep the review targeted, it was decided that the scope should be limited to certain aspects of the PPP leading to the exclusion of some other aspects, namely:

In the scope	Out of the scope
Legal and supervisory framework	Undertakings' investment framework (e.g. investment policy, investment process, resources, outsourcing)
Security, quality, liquidity and profitability as a whole	Separate assessment of security, quality, liquidity and profitability considered individually
Sustainability	Conflict of interest (for non-UIL)
Individual investments in derivatives	Individual investments (except derivatives)
Complex / non-traditional investments	Diversification
Valuation of investments	Localisation
Asset-liability management	Availability
Specificities of UIL: - Close matching principle - Control of the risks of underlying assets - Managing assets in best interest of policyholders	Intragroup assets and transactions
Supervisory activities and actions	

Concerning the participating NCAs, EIOPA's peer reviews have so far included all national NCAs (with one exception only[6]). While this approach has the benefit to ensure a comprehensive assessment of all NCAs, it comes at the expense of the length and complexity of the process.

[5] See Article 132 of the Solvency II Directive.

[6] In the peer reviews in relation to the IORPs, the scope was restricted to jurisdictions with operating IORPs. Countries that have chosen to use the option of Article 4 of the IORP Directive applying certain provisions of the IORPs Directive to insurance undertakings with occupational retirement provision business (Article 4 ring-fenced funds) participated in the peer review on a voluntary basis. Therefore, the NCAs of the Czech Republic, Estonia, Iceland, Lithuania, and Romania were out of scope of this peer view because no IORPs operated in these countries during the reference period.

For this reason, in this peer review EIOPA has used for the first time the option (provided by its Decision on peer reviews) to allow Member States that are not materially impacted by the scope of this peer review to request a full exemption from the peer review (waiver) or a limited participation with a reduction of scope[7].

In order to facilitate the first application of this provision, an impact assessment was prepared, based on simple, clear and objective criteria to identify Member States in which it was expected to be relevant for the NCA to consider requesting a waiver or a reduction of scope[8].

Based on the initial impact assessment and the actual requests for waivers and reductions of scope presented by NCAs (supported by specific evidence) **24 Members States** were selected to participate in the peer review with different levels of engagement, namely:

- Full scope: **13 Member States** (AT, BE, DK, FI, FR, IE, LU, LV, LT, NL, SE, SI, SK - 43%) were included for both topics (non-UIL and UIL);

- Limited scope: **11 Member States** (37%) were included in one of the two topics, namely:

- 7 Member States for non-UIL only, (BG, CY, DE, HR, IS, IT, NO) and
- 4 Member States for UIL only (CZ, EL, LI, PL).

6 Member States (EE, ES, HU, MT, PT, RO – 20%) were fully exempted from the peer review upon their request.

The Table below summarises the final scope in comparison with the result of the initial Impact Assessment:

TABLE 3: FINAL SCOPE AND PARTICIPATING NCAS

	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IS	IT	LI	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK
Impact Asses.	F	F	N	N	U	N	F	E	U	E	F	F	N	E	F	**E**	N	U	**E**	F	**U**	**N**	F	N	U	E	E	F	**U**	**U**
Final Scope	**F**	**F**	**N**	**N**	**U**	**N**	**F**	**E**	**U**	**E**	**F**	**F**	**N**	**E**	**F**	**N**	**N**	**U**	**F**	**F**	**F**	**E**	**F**	**N**	**U**	**E**	**E**	**F**	**F**	**F**

F = Full scope U = Reduced scope (UIL business) N = Reduced scope (Non-UIL business) E = Exempted

The reference period for this peer review was set from 1 January 2016 until 31 December 2022.

[7] See Article 10(1) of the EIOPA Decision on peer reviews on reduction of scope (lett. a) and waiver from the peer review (lett. b), which will be approved by EIOPA Executive Director, upon request by the concerned NCAs supported by sufficient evidence.

[8] The impact assessment was split for UIL and non-UIL business. For UIL business, Member States where UIL investments represented less than 10% of total investments or less than 20% of UIL investments qualified as non-traditional investments were eligible for a waiver. For non-UIL business, Member States where less than 10% of non-UIL investments qualified as non-traditional investments were eligible for a waiver. For this indicator, traditional investments include bonds, equities, cash and deposits.

METHODOLOGY AND APPROACH

The peer review started formally in January 2023 under the rules laid down in Article 30 of the EIOPA Regulation, although some preparatory work was carried out in the last quarter of 2022.

The ad hoc Peer Review Committee (PRC) was led by EIOPA and included representatives from the NCAs of Belgium (NBB), Greece (BoG), Italy (IVASS), Malta (MFSA), Netherlands (DNB), Slovenia (AZN), Spain (DGSFP) and EIOPA.

One of the main sources of information were answers provided by NCAs to a self-assessment questionnaire, which was distributed to the participating NCAs at the end of March 2023 with a deadline for providing responses at the beginning of May 2023 (6 weeks).

Taking into account the preliminary findings following the assessment of the responses to the self-assessment questionnaire and any additional information, for example, following additional questions by the PRC aiming at clarifying the answers provided in the questionnaire, the PRC established priorities for the fieldwork.

Two different levels of engagement with NCAs during the fieldwork (please see Table 4) were selected based on the following criteria:

a) extent of the experience in a particular area with a view of exploring any potential best practice;

b) potential extent of the misapplication of any measures set out in the EU regulatory framework;

c) the relative significance of the NCA as regards the topic under review, which was assessed, among other criteria, through relevant market size and level of activity;

d) relevance of the issue at national level and from a cross-border perspective, affecting more than one EEA jurisdiction;

e) non-contribution, insufficiency of responses to the self-assessment questionnaire or information requested; and

f) inconsistency or lack of clarity of responses provided in the self-assessment questionnaire.

The fieldwork activities allowed the PRC to confirm their understanding of the answers provided and to discuss any potential issues identified, but also to exchange supervisory experiences and to further understand supervisory practices by NCAs to facilitate the identification of best practices.

TABLE 4: COMMUNICATION MEANS DURING FIELDWORK

Communication means	Number of NCAs	NCAs
Written procedure	**11**	BG, CZ, EL, HR, IS, IT, LU, LV, NO, PL, SK
Conference call	**13**	AT, BE, CY, DE, DK, FI, FR, IE, LI, LT, NL, SE, SI

Following the completion of the fieldwork, an analysis of the additional documents and evidence provided was undertaken and the key findings and proposed recommended actions were reported to each NCA.

The detailed timetable for the five phases[9] of the peer review is reported in the following table:

TABLE 5: PHASES AND TIMELINE OF THE PEER REVIEW

Phase	Start	End
Establishment Phase (preparatory work by EIOPA staff, drafting mandate, call for candidates, setup of ad hoc PRC)	September 2022	Beginning December 2022
Preparatory Phase (drafting Terms of Reference and Self-assessment questionnaire)	December 2022	February 2023
Self-assessment Phase (NCAs to fill in the self-assessment questionnaire)	End of March 2023	Beginning of May 2023
Review by ad hoc PRC (analysis of replies to self-assessment questionnaire, peer expectation, fieldwork, preparation of report)	May 2023	December 2023
Final outcomes and publication (The draft assessment letters were shared on 18 December for 4 weeks consultation. The final assessment letters to NCAs and submission of peer review report to BoS followed in February 2024)	December 2023	April 2024

[9] The monitoring phase, following the publication of the peer review report and ahead of the launch of the follow-up of the peer review, is not included.

2. RESULTS OF THE ASSESSMENT

This chapter contains a description of the results of the assessment presented following the structure of the self-assessment questionnaire.

2.1. SUPERVISORY FRAMEWORK

In order to assess the level of completeness and maturity of the overall framework relating to PPP, implemented by the participating Member States, the peer review performed a mapping of the national legal acts to implement the PPP requirements stipulated in the Solvency II Directive[10] as well as any additional supervisory guidance issued by NCAs (section 2.2.1).

In addition to that, the peer review assessed the development and use of an internal supervisory handbook (for off-site analysis and on-site inspections) for the supervision of the PPP and if it is based on EIOPA's Handbook chapter on the PPP (section 2.2.2).

Finally, the peer review assessed whether NCAs make good and extensive use of quantitative risk indicators, built using the Solvency II QRT, and use an IT tool to implement a data-driven supervision and more generally optimize their supervisory resources to prioritise supervisory activities (section 2.2.3).

2.1.1 LEGAL FRAMEWORK AND SUPERVISORY GUIDANCE

As expected, all NCAs have implemented the limited number of legal provisions for the PPP laid down in the Solvency II Directive in their national framework. Furthermore, the peer review assessed whether NCAs published additional measures and/or set out supervisory expectations/guidance (if any) to the market, namely circulars, letters, opinions, recommendations.

Several NCAs (16 out of 24 participating to the peer review) have either issued additional legal acts on PPP to supplement the provisions in the Solvency II Directive (9 NCAs) or set out supervisory expectations to their market (12 NCAs). Guidance setting expectations has mainly covered how to manage risks stemming from complex or alternative assets (such as securities lending,

[10] Articles 132 and 133 of the Solvency II Directive and EIOPA Guidelines on System of Governance (section 5 (GL 27-35) and paragraph 1.11).

infrastructure, derivatives, inter-company loans or transactions, crypto assets and illiquid assets), national regulation concerning assets covering technical provisions and valuation issues.

2.1.2 SUPERVISORY HANDBOOK

According to Article 36 of the Solvency II Directive, NCAs shall, in particular, review and evaluate compliance with the PPP.

To do so, NCAs are expected to have developed an internal supervisory handbook that supervisory staff can use for the supervision of the PPP via off-site analysis and on-site inspections.

To support NCAs in the supervision of the PPP, EIOPA developed in 2015 a comprehensive chapter of the SRP handbook on the supervision of the PPP, which includes a large set of recommendations and risk indicators based on the Solvency II QRT.

In the peer review, NCAs were asked about the development and the use of an internal supervisory handbook (for off-site analysis and on-site inspections) for the supervision of the PPP, and whether this was based on the EIOPA handbook chapter on PPP or not, or whether work was in progress during the reference period of the peer review.

A large majority of the NCAs in the scope of the Peer Review (20 out of 24) do have an internal supervisory handbook and in most cases, it is based (whether largely or partially) on EIOPA's handbook.

RA 1 INDIVIDUAL RECOMMENDED ACTIONS AS REGARDS THE SUPERVISORY HANDBOOK

A recommended action on the development and maintenance of a local supervisory handbook to carry out off-site analysis and on-site inspection was issued to the NCAs which reported, during the reference period, not to have developed an internal handbook to support supervisory staff in an effective and consistent supervision of undertakings' compliance with the PPP.

The NCAs of the following countries received a recommended action: **FIN-FSA-FI**, **KNF-PL**, **FI-SE** and **NBS-SK**.

For further details on the recommended action please see Annex 2 – Overview recommended actions to NCAs.

2.1.3 USE OF TOOLS AND INDICATORS

EIOPA Guidelines on the Supervisory Review Process recommend NCAs to implement a Risk Assessment Framework (RAF) to identify and assess current and future risks that insurance and reinsurance undertakings and insurance groups face (or may face). In particular, it is recommended to classify undertakings/groups impact and risks in four categories using a combination of qualitative and quantitative indicators.

The RAF and more generally data-driven supervision, including the use of new technology (SupTech), enable NCAs to prioritise their supervisory activities (to be formalised in a supervisory plan) and to determine the scope, depth and frequency of off-site analysis and on-site inspections, implementing a risk-based and forward-looking supervision.

In order to optimize their supervisory resources and benefit from data-driven supervision, it is therefore expected that NCAs have defined multiple risk indicators on the PPP, which provide input to the decision-making process to define the annual work plan. The use of risk indicators may differ for non-UIL and UIL contracts.

Taking into consideration all the NCAs participating in the peer review, the peer review showed that 7 NCAs have not developed, during the reference period, risk indicators on the PPP or are still in the process of developing them.

RA 2 INDIVIDUAL RECOMMENDED ACTIONS AS REGARDS THE USE OF TOOLS AND INDICATORS

A recommended action on the development and the use of risk indicators on PPP was issued to the NCAs which presented, during the reference period, the need to develop, maintain and use these risk indicators on PPP to provide input to the decision-making process to define the annual supervisory work plan.

The NCAs of the following countries received a recommended action to define and develop different risk indicators on PPP:

- **FIN-FSA-FI**, **FMA-LI, DNB-NL** and **FI-SE** for UIL;

- **Finanstilsynet-NO** for non-UIL

The NCAs of the following countries received a recommended action to continue their efforts to finalise the development, currently on-going, of risk indicators on PPP to provide input to the decision-making process to define the annual supervisory work plan: **ICCS-CY** for non-UIL and **AZN-SI** for both non-UIL and UIL.

For further details on the recommended action please see Annex 2 – Overview recommended actions to NCAs.

Furthermore, NCAs are expected to have dedicated IT tools, either developed in-house or provided by an external third party, to support their supervisory teams in the Supervisory Review Process, including dashboards powered by data in the context of PPP supervision. Indeed, a majority of the NCA (15 out of 24) stated that they had dedicated IT tools as part of the Supervisory Review Process.

A best practice was identified by one NCA (CBI) covering its use of indicators and tools, including to define their supervisory priorities. This NCA has developed Key Risk Indicators (28) for market risk and liquidity risk as well as an IT tool in the form of an investment risk dashboard. The NCA's planning process is initiated in August of the previous year and drawing on the risk indicators ultimately individual undertaking supervisory plans are defined.

2.2. OVERALL PRUDENCE OF UNDERTAKING'S INVESTMENT PORTFOLIO

The PPP refers to an overall prudence of the investment portfolio with a view to ensuring that insurance and reinsurance undertakings can meet their obligation to policyholders and beneficiaries.

In particular, the PPP refers to the security, quality, liquidity and profitability[11] of the investment portfolio as a whole (Section 2.2.1) as well as the need that assets, purchased with the premiums collected from policyholders, match the nature (e.g., level of uncertainty) and expected duration of technical provisions (Section 2.2.4), taking into account the best interest of policyholders.

The PPP also requires that assets are properly diversified[12] and located (e.g., country of the issuer or custodian) in such a way to ensure their availability.

As already reported in section 1.2, in order to the keep the peer review focused, the supervision of requirements regarding diversification and localisation were not considered in the peer review.

[11] Article 132 of the SII Directive, paragraph 2, second subparagraph.

[12] Except for those assets held in respect of life insurance contracts where the investment risk is borne by the policy holders (i.e. unit or index linked business), where there is no guarantee of investment performance or other guaranteed benefit.

2.2.1 SECURITY AND QUALITY: REDUCING RELIANCE ON CREDIT RATINGS

The security and quality of an undertaking's investment portfolio are related to the protection of its value and to the preservation of its economic substance over time. An important factor to be considered for the level of security and quality, is the credit quality of the investments. Overreliance on the external ratings provided by credit ratings agencies (CRAs) at the expense of effective in-house analysis of credit risk has been highlighted as one of the key issues of the global financial crisis.

Solvency II recognizes the need to address overreliance on external credit ratings. As stated in Article 44(4a) of Directive 2009/138/EC, in order to avoid overreliance on the use of the external credit rating in the calculation of technical provisions and the Solvency Capital Requirement, insurance and reinsurance undertakings shall assess the appropriateness of those external credit assessments as part of their risk management by using additional assessments wherever practicably possible. Furthermore, Guideline 27 of the System of Governance requires undertakings to develop their own set of key risk indicators in line with their investment risk management policy and business strategy. Finally, the internal methodologies to assess the credit risk is one explicit requirement in case undertakings originate loans[13].

To reduce overreliance by undertakings on external credit ratings, NCAs are expected to have provided any form of market recommendation about the fact that undertakings are expected to develop their own capacity (i.e., expertise and resources) to assess the creditworthiness of assets, to complement the use of the external credit rating, and should not invest in assets, bearing credit risk, without conducting their own due diligence. Alternatively (or in addition), NCAs are expected to have developed internal guidance on the use of own set of risk indicators to assess the creditworthiness of counterparties.

Therefore, NCAs participating in the peer review have been asked whether any recommendation has been issued to the market (e.g. circulars, letters, opinions, recommendations) or internal guidance has been developed (e.g. supervisory handbook) on the use of risk indicators for investments besides the use of credit ratings in addition to Guideline 27 on the System of Governance.

The outcome of the peer review showed that the majority of NCAs (15 out of 24 NCAs) have either issued a recommendation to the market or have developed internal guidance on risk indicators (mostly in the form of a dashboard) which consider risk factors that do not merely depend on external credit ratings.

[13] See Article 261 of the Delegated Regulation 2015/35.

Acknowledging that good progress was already made by many NCAs and the fact that there is additional work made by the Financial Stability Board[14] it was decided not to follow up on the area (i.e., not raise formal recommendations to NCAs). However, NCAs are recommended to consider the need to further improve the supervision of this principle and avoid mechanistic reliance on CRA ratings.

2.2.2 SECURITY, QUALITY, LIQUIDITY AND PROFITABILITY

The reference to the security, quality, liquidity, and profitability of undertakings' investment portfolio should not be considered looking at the four characteristics in isolation as there is a trade-off between some of these features. Indeed, it is commonly known in finance that an efficient portfolio can be set maximizing the investment return for a given risk or minimizing the risk for a given return. In other words, it is expected that the profitability can only be achieved at the expense of increased credit, market or liquidity risk.

Therefore, undertakings are expected to select (and NCAs to supervise) the optimal portfolio that allows for the desired levels of security, quality, liquidity and profitability, taking into consideration the guaranteed rates promised to policyholders, the macro-economic condition of the markets and the risk appetite and overall risk tolerance limits as defined by the administrative, management or supervisory body (AMSB).

The security and quality of an asset refers to its ability to preserve its value over time (sometimes known as safe or risk-free asset). The level of security and quality of an asset depends on the intrinsic value (i.e., preserving the capital paid at the inception increased by some interests), its credit quality (i.e., the external rating) and additional factors that could potentially change the characteristics of the investments (such as collateral or guarantee provided by a third party).

As an example, the most common assets that would satisfy the feature of security and quality are bank deposits or debt instruments repaying the entire principal amount (with a fixed amount, not linked to external conditions[15]) at maturity as well as interest payments[16] that do not carry significant credit risk (i.e. investment grade bond).

Adequate level of liquidity needs to be maintained by undertakings, taking into account also the liquidity and the level of uncertainty (i.e., the predictability of cash out-flows) of related technical

[14] For more information, see G20 and FSB priority reform agreed following the 2008 financial crisis to reform the global financial system, including reducing overreliance on rating provided by CRA (link).

[15] This is not the case of the credit-linked note that includes an embedded credit default swap (a financial derivative) permitting the issuer to transfer specific credit risks (e.g., in case of default) to the investors in return of higher yield. Other are collateralized debt obligation (CDO), subordinated debt, contingent convertible bonds or so called AT1 (Additional Tier 1) bonds.

[16] Typically, fixed coupon or variable coupon linked to an interest rate reference. A zero coupon might be also possible.

provisions, so that a required volume of assets can be converted into cash rapidly with little or no loss of value, and therefore payments to policyholders/beneficiaries can be fulfilled.

Similar to security, quality and liquidity, the assessment of the level of profitability is also not an absolute assessment and needs to consider the overall macro-economic environment (e.g. the level of interest rates), the undertaking's risk appetite and the guarantee rates offered to policyholders (including their reasonable expectations).

Notwithstanding the importance of the topic and although EIOPA provided some guidance (via the EIOPA supervisory handbook) in this regard, the outcome of the peer review showed that – taking into consideration the NCAs in full scope and in the non-UIL scope[17] - 6 NCAs do not have any internal guidance (e.g. handbook) on how to supervise the compliance with the security, quality, liquidity and profitability of the portfolio as a whole in addition to GL 29 of EIOPA Guidelines on System of Governance.

RA 3 - INDIVIDUAL RECOMMENDED ACTIONS AS REGARDS THE SUPERVISION OF THE SECURITY, QUALITY, LIQUIDITY AD PROFITABILITY OF UNDERTAKINGS' PORTFOLIO AS A WHOLE

A recommended action to draft internal guidance (e.g., handbook) on the supervision of security, quality, liquidity and profitability of (re) insurance portfolio as a whole was issued to the NCAs who reported not to have such guidance available to the staff responsible of supervisory activities (e.g., off-site analysis and on-site inspections) in the reference period. The NCAs of the following countries received a recommended action: **FMA-AT, FSC-BG, ICCS-CY, CAA-LU, FI-SE, NBS-SK.**

The recommended internal guidance should be both in form of qualitative guidance as well as quantitative indicators based on the Solvency quantitative reporting templates and are expected to be used in a risk-based and proportionate manner.

Guidance in this regard can be found in EIOPA's handbook.

For further details on the recommended action please see Annex 2 – Overview recommended actions to NCAs.

[17] The NCAs participating in the reduced scope represented by UIL only (i.e. CZ, EL, LI, PL) were not assessed.

2.2.3 LIQUIDITY

In the insurance sector, liquidity risk is usually linked to surrender options, above all in scenarios where sudden increases in interest rates might lead to policyholders simultaneously surrendering their insurance savings products seeking higher yields.

However, liquidity risk may also arise from the asset side: the so called ‘gilt crisis’ in the United Kingdom in September 2022, after the announcement of plans to cut taxes by the Government, highlighted the volatility of markets and its link with liquidity risk. The yields on 30-year gilts increased almost 150bps and triggered margin calls to pension funds on interest rate derivatives. In order to raise cash to fulfill margin requirements, pension funds sold treasuries at distressed prices incurring losses and putting further upward pressure on yields. The attempt to mitigate solvency risk created liquidity risk.

Regarding regulatory requirements on liquidity risk, Article 132(2) of the Solvency II Directive requires that assets are invested "in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole". In addition, Article 132(4) allows investments in derivatives "insofar as they contribute to a reduction of risks or facilitate efficient portfolio management". As proved by the recent gilt crisis, sudden moves in the financial markets may trigger sharp increases in clearing obligations that could endanger the liquidity of an insurance undertaking and this risk remained largely unnoticed or underestimated until the recent events.

Furthermore, article 260 of the Delegated Regulation requires undertakings to manage short- and long-term liquidity risk, including having a plan to deal with changes in expected cash in/out-flows, and Guideline 26 on System of Governance sets the minimum information that undertakings’ liquidity policies should cover.

As is the case for any emerging risk, NCAs are expected to assess the risk and, in case it is considered material either at market level or at undertaking level, to take the necessary steps to ensure undertakings are properly managing the risk, e.g., including this risk/scenario within the liquidity plan described in Article 260.1(d)(iii) of the Delegated Regulation.

Results of the peer review showed different depths in the analysis performed by NCAs and also differences in the measures taken following the identification of the liquidity risk. Overall, all NCAs showed a good understanding of the exposure to the liquidity risk at market level and some also reported exhaustive analysis at individual/group level to identify potential cases with high exposures. Overall, no major cases of material distress at market level were reported and therefore very limited reactive supervisory actions were reported. As consequence, no individual formal recommended actions to NCAs were issued, although NCAs are recommended to consider further extending their analysis after sudden emerging risk aiming to identify material exposures not only at market level, but also at individual level.

2.2.4 ASSET-LIABILITY MANAGEMENT

Article 275 of the Solvency II Directive allows for two options to ensure that insurance claims take precedence over other claims against the insurance undertaking: either insurance claims take absolute precedence with regard to assets representing technical provisions, or else, with regard to all assets, insurance claims take precedence over any other claim with the only possible exception of claims by employees from employment relationships, taxes, social security systems and rights in rem.

In the first case, Article 276 requires insurance undertakings to keep at its head office a special register of the assets used to cover technical provisions. However, Solvency II does not regulate the valuation principle to be applied to the special register, therefore NCAs can apply the Solvency II valuation principles, which has the benefit of being European wide and EIOPA's standard measurement, but the accounting values are also an option.

Article 132(2) the Solvency II Directive requires all assets, in particular those covering the Minimum Capital Requirement and the Solvency Capital Requirement, to be invested ensuring the security, quality, liquidity and profitability of the portfolio. Regarding assets covering technical provisions, the same article requires them to be invested in a manner appropriate to the nature and duration of the insurance liabilities and in the best interest of policyholders.

These requirements were reflected in the Commission Implementing Regulation 2023/894 on supervisory reporting[18], in particular in the list of assets (S.06.02), where reporting the allocation of individual investments to life business, non-life business and shareholders' funds is allowed – but not required. While identifying assets accordingly might be a common practice in some Member States, the lack of more specific requirements and the total balance sheet approach followed by Solvency II led to limited specific supervisory or regulatory activity in this regard.

Liabilities of insurance undertakings, in particular in relation to life business, usually have a longer duration than their investments[19], resulting in a negative duration gap, which exposes undertakings to several risks, in particular interest rate risk, which is frequently mitigated with interest-rate swaps[20].

As stated in Article 44(2) of the Solvency II Directive, asset liability management (ALM) is one of the areas of the risk management system. In accordance with the same Regulation, insurance undertakings shall have a written policy on risk management, which should include an Asset-liability

[18] Regulation laying down implementing technical standards for the application of Directive 2009/138/EC of the European Parliament and the Council with regard to the templates for the submission by insurance and reinsurance undertakings to their supervisory authorities of information necessary for their supervision and repealing Implementing Regulation (EU) 2015/2450

[19] According to EIOPA's Report on the Impact of Inflation on the Insurance Sector - European Union (europa.eu), the duration gap for life undertakings is 3.8 years on average (duration of assets 5.7 years and duration of liabilities 9.5 years)

[20] For more information, please see EIOPA's 2022 FINANCIAL STABILITY REPORT (europa.eu)

management policy[21]. Article 260 of the Delegated Regulation defines the policies that need to be included in the risk management system.

NCAs are expected to review whether the undertaking's ALM process is in place from the governance and implementation aspects, with clearly defined aims and methods, and whether there is appropriate alignment with the overall investment objectives.

NCAs are also expected to assess how ALM is considered in the definition of the strategic asset allocation, interacts with the relevant functions or committees within the undertaking and contributes to other tasks. NCAs are also expected to review the reporting to the AMSB on ALM issues, tools/techniques used, input variables to the cash flow models of liabilities, whether ALM is performed at the proper level of aggregation and how undertakings monitor any significant deviation from the expected matching between assets and liabilities.

The peer review showed that, taking into consideration the NCAs in full scope and in the non-UIL scope[22], most NCAs meet the above-mentioned expectations and adequately supervise ALM from insurance and reinsurance undertakings to ensure that assets covering the technical provisions are invested in a manner appropriate to the nature and duration of the insurance and reinsurance obligations, and only one NCA reported deficiencies on this regard.

RA 4 - INDIVIDUAL RECOMMENDED ACTIONS AS REGARDS THE SUPERVISION OF THE ASSETS-LIABILITY MANAGEMENT

A recommended action to implement regular assessment whether undertakings invest the assets covering technical provisions in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities was issued to the **ICCS-CY** who declared not to have such assessment in place, during the reference period.

For further details on the recommended action please see Annex 2 – Overview recommended actions to NCAs.

[21] Guideline 24 of EIOPA Guidelines on the System of Governance.

[22] The NCAs participating in the reduced scope represented by UIL only (i.e. CZ, EL, LI, PL) were not assessed.

2.2.5 SUSTAINABILITY

Article 275a of Delegated Regulation 2015/35[23] requires insurance and reinsurance undertakings to integrate sustainability risks in the implementation of the PPP. The undertakings shall take into account sustainability risks when they identify, measure, monitor, manage, control, report and assess risks arising from investments. For that purpose, undertakings shall take into account the potential long-term impact of their investment strategy and decisions on sustainability factors and, where relevant, that strategy and those decisions of the insurance undertaking shall reflect the sustainability preferences of its customers.

Although these requirements are only applicable from 2 August 2022, EIOPA considered it relevant to collect information from NCAs on their approach to these new requirements.

The peer review showed that various NCAs (8) have not yet implemented any internal guidance or recommendations to the market on how to integrate sustainability risks arising from investments in the undertakings policy (e.g. Investment policy, Asset and Liability policy other than technical provisions policy, Liquidity risk policy).

Similarly, numerous NCAs (8) have not developed internal guidance or recommendations to the market regarding the requirement for the insurer's strategy and investment decisions to reflect customers' sustainability preferences. As part of their responses some NCAs referred to the limited supply of products in their market with sustainable features, as well as steps being taken in relation to the Sustainable Finance Disclosure Regulation (SFDR).

Nevertheless, some NCAs (12) have performed specific steps including conducting a thematic review, modifying their national regulation, publishing a guide to the market with good practices, circulating a letter to the industry to consider the documents published by EIOPA. Some NCAs have already implemented the topic into their supervision, and it is also a regular part of discussions with the companies.

Considering the recent implementation of the new abovementioned requirements, and the future work expected for the implementation of the review of Solvency II, the PRC decided not to issue any formal recommended actions to participating NCAs. Nevertheless, the findings indicated a need for improvement in the supervision of the new principle, and NCAs are encouraged to consider how to strengthen the supervision in this area.

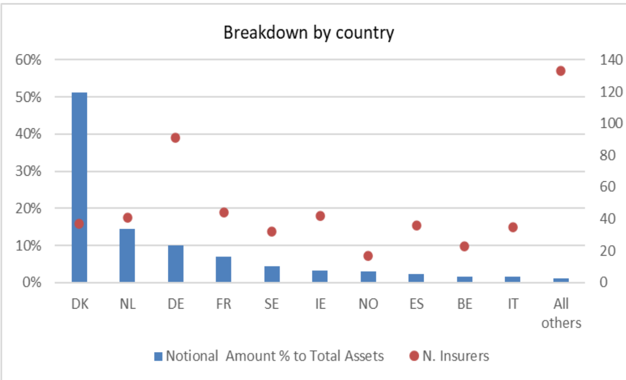
[23] Amended by Delegated Regulation 2021/1256/EC of 21 April 2021

2.3. INDIVIDUAL INVESTMENTS

2.3.1 DERIVATIVES

The use of derivatives by insurance and reinsurance undertakings is concentrated in a few EEA countries. Out of 531 undertakings using derivatives, 398 (=75%) are concentrated in nine Member States (DK, NL, DE, FR, SE, IE, NO, ES, BE and IT) where the average exposure in the Member State, in terms of notional amount, is higher than 1.5% of total assets. Currency derivatives and interest rate derivatives are the most frequent types in most Member States.

GRAPH 1: NOTIONAL AMOUNT OF DERIVATIVES (IN %) AND NUMBER OF INSURERS



	Nr. Of insurers using derivatives
All derivatives	531
Interest Rate derivatives	**286**
IRS	186
Swaptions	60
Forwards	53
Bond options	15
Others	59
Currency derivatives	**344**
FX	292
All other derivatives	**308**

Source: EIOPA's [Financial Stability Report December 2022 - European Union (europa.eu)]

While the content in this section of the report covers all NCAs within the scope of the peer review and might be relevant for all Member States, the PRC issued - following a risk-based approach - recommended actions, where relevant, to the nine Member States with the most material exposures.

Derivatives are financial instruments for which their value depends on an underlying asset or group of assets, which require a lower investment than would be required if the underlying asset were directly acquired (leverage[24]) and that are settled at a future date. These characteristics make them particularly risky and complex to manage, which mean that they are subject to specific treatment under Solvency II.

[24] Leverage increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest.

Article 132(4) of the Solvency II Directive allows for the use of derivatives only in two cases (except for unit-linked and index-linked assets without guarantees): reducing the risks or facilitating an efficient portfolio management.

Hedging

The use of derivatives for the reduction of risks (hedging) refers to the situation where an undertaking enters into a derivative transaction whose value is expected to offset changes in the value or the cash flows of the hedged risk position with a reasonable degree of effectiveness. One of the most frequent examples within insurance business is hedging interest rate risk to manage the duration (and convexity) gap between assets and liabilities.

One of the key considerations for these derivatives is the 'hedge effectiveness', i.e., whether there is an (almost) 1:1 hedging relationship between the hedging derivative and the hedged risk position. Changes in the effectiveness over time might require rebalancing, in particular for dynamic hedging strategies.

NCAs are expected to assessing hedge effectiveness during on-site inspections and having internal guidance on the key elements to be considered. For example, NCAs may assess the net profit/losses of the hedge activity, or the hedge ratio based on the delta[25] of the derivative. In particular, NCAs are expected to assess:

- whether the undertaking is actually exposed to the risk it is trying to hedge and the hedging activity does not give rise to basis risk, i.e., whether there is a clear and direct economic link between a specific risk and the hedging instrument, especially in case of macro-hedging;
- whether the notional amount of the hedging derivatives is not materially different from the market value of the hedged risk position so that there is not a significant under-hedging (the former is lower than the latter), which would limit the risk-mitigating effect and jeopardise the hedging effect, or over-hedging (the former is bigger than the latter), in which case the hedging activity may lead to additional risks.
- Whether the rebalancing strategy is adequate considering the nature and volatility of the risk hedged.

Efficient portfolio management

While reducing or hedging risks is commonly understood, expectations on which cases should be considered to facilitate an efficient portfolio management may differ. In general, efficient portfolio management refers to the situation where undertakings use derivatives for the purpose of reducing investment costs, income enhancement or as purchase preparation without materially changing the leverage of the investment portfolio. Although providing a perfect definition allowing for an

[25] The delta of an option measures the sensitivity of the option value to changes in the underlying asset's price.

unquestionable boundary might not be possible, by identifying some of the key elements for the assessment and/or providing examples NCAs can foster a convergent interpretation.

Ensuring a common understanding on the specific cases that are considered to be hedging and efficient portfolio management as well as the cases that are not considered to be either of these two categories has been identified as a good practice. Therefore, NCAs are expected to have communicated to the market (via national regulation or recommendation) or guidance (i.e., qualitative and/or quantitative) how to interpret the concept of using derivatives for efficient portfolio management or, at least, to have developed internal guidance to ensure a common approach during supervision.

One of the key risks of derivatives used for efficient portfolio management is that the use of derivatives could lead to a material leverage effect, unlimited losses and/or deeply transform the risk profile of the insurance undertaking (i.e., in amount and/or type of risks) with only a limited amount being invested, potentially deviating from the investment policy.

Regularly assessing the risks derived from derivatives used for efficient portfolio management both, within off-site analysis and during on-site inspections, is considered a good practice. NCAs are expected to use all available information from prudential reporting, in particular QRT S.08.01[26] (ITS 2023/894), in their off-site analysis, to monitor their market assessing the main types of derivatives, the existence of material leverage and the potential for unlimited losses.

Furthermore, during on-site inspections, NCAs are expected to assess whether material leverage exists and the policies and processes in place at the undertaking to monitor changes in the leverage that could lead to a material deviation from their target risk profile. NCAs are also expected to ask undertakings to demonstrate how the quality, security, liquidity or profitability of the portfolio is improved without significant impairment of any of these features where derivatives are used to facilitate efficient portfolio management[27].

The outcome of the peer review showed that – taking into consideration the NCAs in full scope or non-UIL scope[28] and excluding NCAs supervising markets with a non-material exposure to derivatives - 8 NCAs reported to have no guidance or insufficient guidance to support the supervision of derivatives. In addition, 2 NCAs reported limited regular supervisory activity to supervise the risks created by derivatives.

[26] S.08.01 requires classifying derivatives in four categories: Micro-hedging, Macro-hedging, efficient portfolio management and matching asset and liability cashflows (within a matching adjustment portfolio).

[27] Guideline 34 on System of Governance.

[28] The NCAs participating in the reduced scope represented by UIL only (i.e., CZ, GR, LI, PL) were not assessed.

RA 5: INDIVIDUAL RECOMMENDED ACTIONS AS REGARDS THE SUPERVISION OF DERIVATIVES

In several Member States within the scope of this peer review, the use of derivatives is not material[29]. Therefore, even if the recommended actions within this section might be useful for other Member States, only Member States within the scope of this peer review where the use of derivatives is material[30] have received individual recommended actions where necessary.

Recommended action to perform detailed off-site analysis and on-site inspections

A recommended action to regularly perform detailed off-site analysis of the risks stemming from derivatives, hedging effectiveness, efficient portfolio management and the creation of leverage, as well as assess it in detail during on-site inspections covering investment strategy or the PPP was issued to NCAs who declared not regularly assessing it. The NCAs of the following countries received a recommended action:

- Use of derivatives for hedging purposes: **FI-SE;**
- Use of derivatives for efficient portfolio management and assessing the creation of leverage: **BaFin-DE, FI-SE.**

Recommended action to issue detailed guidance on the supervision of derivatives used for hedging and for efficient portfolio management purposes

The FSA-NO reported not having established any specific methodology for analysing the use of derivatives for hedging nor for efficient portfolio management purposes. The **FSA-NO** is recommended to issue detailed internal guidance (e.g., Handbook) to support the supervision of derivatives used for hedging and for efficient portfolio management purposes.

A recommended action to ensure a common understanding, issuing either external or internal guidance, on the cases of derivatives that should be considered efficient portfolio management was issued to NCAs who declared not having such guidance. The NCAs of the following countries received a recommended action: **NBB-BE, FSA-DK, CBI-IE, ACPR-FR, DNB-NL and FI-SE.**

[29] For this purpose, a total notional amount below 2% of total assets has been considered as not material.

[30] DK, NL, DE, FR, SE, IE, NO, BE and IT

For further details on the recommended action please see Annex 2 – Overview recommended actions to NCAs.

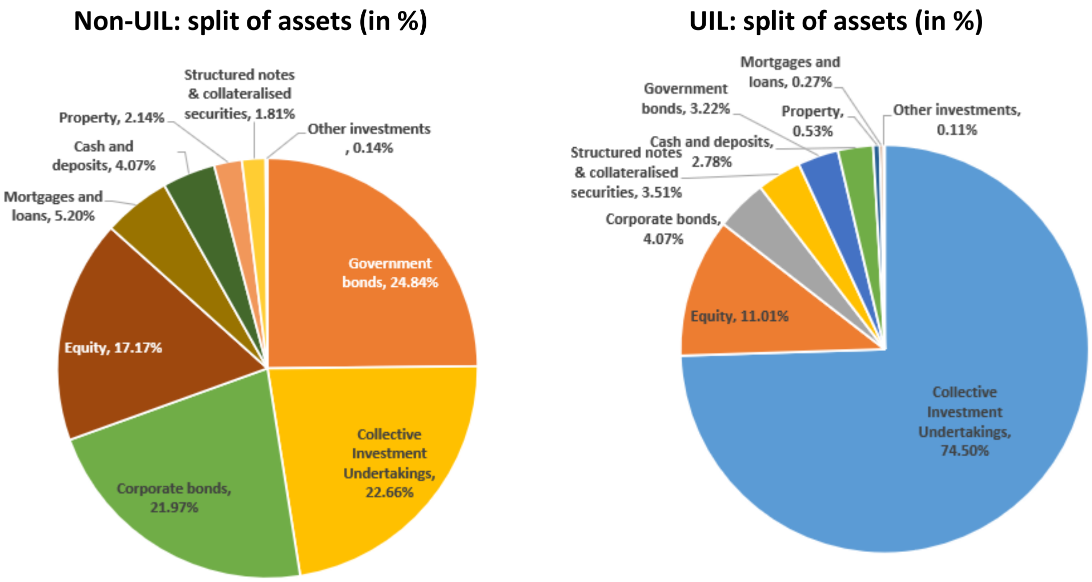
2.3.2 COMPLEX / NON-TRADITIONAL INVESTMENTS

Article 132 of the SII Directive requires that undertaking should properly identify, measure, monitor, manage, control and report, and appropriately consider in the ORSA, above all when insurance and reinsurance undertakings hold risky/complex and non-routine investments, the risks of investments.

It is commonly believed that European insurance and reinsurance undertakings invest in relatively simple and traditional investments[31], mainly fixed-income instruments which provide predictable cash-flows to match the corresponding insurance liabilities, also with the purpose of reducing the capital requirements under Solvency II (i.e. higher investment risks attracts higher capital requirements). Indeed, this is the case of assets covering non-UIL contracts where fixed-income instruments (i.e., government bonds, corporate bonds and loans) account for more than 50% of the total investments in the EU.

[31] It is worth reminding that, depending on the market specificities, a category of investment that would be generally considered as non-traditional/routine investment could be considered in one specific country/market as traditional.

GRAPH 2: SPLIT OF ASSETS TYPE (IN %) FOR NON-UIL AND UIL



Source: EIOPA Insurance Statistics (2022-Q4)

However, individual insurance and reinsurance undertakings might invest in more risky/complex assets, for instance when investment returns are lower (i.e. low interest rate environment), and there is more appetite for higher risk assets, when it is needed to boost the investment returns to match the guaranteed rates offered to policyholders (e.g. participating contracts) or also to invest in national specific assets (e.g. real estate investments, loans) or new assets types (e.g. infrastructure investments, private equity investments).

When this is the case, it is important that NCAs assess that undertakings have established a sound framework to identify and invest in more risky/complex assets, which includes the explicit identification of the risk categories, which must be in line with the overall investment strategy set by the AMSB and the internal resources[32], and the definition of investment limits, including a sound monitoring process over time and regular update to the AMSB.

The same governance is expected to be implemented also in the case of more risky/complex assets purchased via investment funds (e.g. alternative investment funds), when the identification and

[32] In terms of appropriate skills, knowledge, expertise and personal integrity.

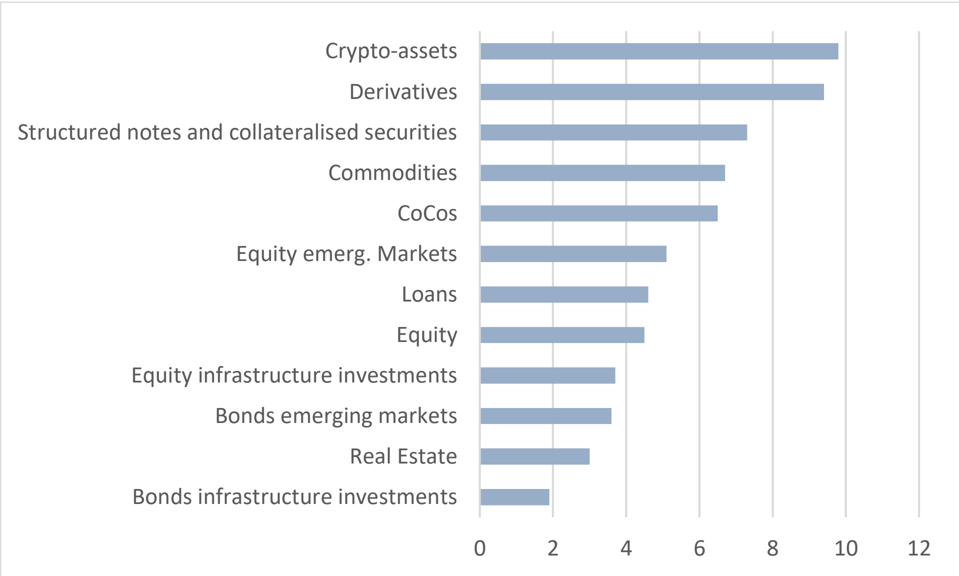
monitoring of underlying assets might be more challenging, requiring undertakings to look-through[33] the funds that they invest in.

It is expected that in the Member State there exists a common understanding between the NCA and the industry on the need to closely monitor material non-routine investments as well as on how to judge the materiality and/or risk of investments that might require close monitoring. Well established good practices and/or clear internal guidance for supervisors achieves the expectations mentioned above.

In this regard, it is recommended that NCAs issue either recommendations to the market or internal guidance to the supervisory staff on how to define and identify risky/complex assets to accurately assess risks and the potential need for additional actions.

In the peer review, NCAs were requested to rank a pre-defined list of 12 asset classes according to the perceived level of risk usually embedded in the instruments that would trigger a closer dialogue or supervisory activity. From the responses given, it was noted that crypto assets and derivatives were both ranked as the riskiest assets, while in second place there was structured notes and collateralized securities, in third place there was contingent convertible bonds, in fourth place there was Commodities and in fifth place there was direct loans.

GRAPH 3: RANKING OF RISKIER ASSETS AS PERCEIVED BY THE NCAS



[33] The identification of each of the underlying assets of Collective Investment Undertaking (look-through approach) is required for the calculation of the solvency capital requirement under Solvency II.

The higher the risk the higher the score on the x-axis, showing that crypto assets are considered to carry the highest risk. 12 is considered the maximum risk perceived.

As regards crypto-assets, they are considered to be a sensitive type of investments where specialised supervision is necessary for undertakings that take on such investments to safeguard the interests of policy holders. Hence, it is recommended that NCAs identify those undertakings that invest in crypto assets to be able to carry out the necessary supervision for such assets.

As for dialogues with undertakings, while Solvency II introduced the principle of freedom of investment (while taking an overall prudent approach), it is considered a good practice that, following a risk-based and proportionate approach, a dialogue is held prior to cases where the undertaking is going to invest a material amount in risky/complex assets compared to the overall portfolio. Indeed, an early dialogue in the case of material high risk/complex or non-routine investments can have benefits for both supervisors and undertakings as it reduces the likelihood of potential future issues once the investments have been made. However, such early dialogue should not been considered as an (pre) approval by NCAs, not requested by the Solvency II, or diminish the responsibility of the investment decision, that lies with undertakings' AMSB.

Seven NCAs (FMA-AT, NBB-BE, ACPR-FR, FMA-LI, BoL-LT, CAA-LU[34], Latvijas Banka (Central Bank of Latvia), DNB-NL) reported that they have established, as a good practice within their market, *ex-ante* discussions between the NCA and the undertaking intending to invest a material share of the investment portfolio in risky/complex and/or non-routine investment activities.

RA 6: INDIVIDUAL RECOMMENDED ACTIONS AS REGARDS THE SUPERVISION OF COMPLEX / NON-TRADITIONAL INVESTMENTS

A recommended action to set out clear expectations to the market (via national regulation or recommendations) to be used to define or identify risky/complex investments, which require more robust processes and procedures in place, or, at least, to (further) develop internal guidance (e.g., handbook) to ensure a common approach during supervision was issued to the NCAs who reported, during the reference period, not to have developed such external or internal guidance.

The NCAs of the following countries received a recommended action: **NBB-BE, BoL-LT, FSC-BG, ICCS-CY, FTNET-DK, HANFA-HR, Latvijas Banka (Central Bank of Latvia), DNB-NL, FSA-NO, FI-SE** and **AZN-SI.**

[34] CA-LU non-UIL only

Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.

For further details on the recommended action please see Annex 2 – Overview recommended actions to NCAs.

Considering that the supervision of complex/non-traditional investments is the area that led to the highest number of recommended actions to NCAs (11), despite some guidance is already provided in EIOPA Supervisory handbook, EIOPA will consider whether additional guidance can be provided in the next revision of EIOPA handbook.

2.4. VALUATION OF INVESTMENTS

Solvency II is based on the market-consistent valuation (Article 75 of the Solvency II Directive), with Article 10 of the Delegated Regulation requiring the use of market prices as default approach to ensure a reliable valuation of assets backing insurance liabilities and therefore mitigate the risk of misstatement of values with negative impacts on the amount and availability of capital resources. However, Article 10 of the Delegate Regulation envisages a complete hierarchy of valuation methods, ending with the use of alternative valuation methods (i.e., a mark-to-model approach).

Valuation risk[35] is an area of particular concern in the case of illiquid or complex assets, which are usually valued with alternative valuation methods. The use of such alternative methods incorporates a higher degree of valuation uncertainty and risk and requires sound governance requirements, including - among other things - an active role of undertakings' AMSB.

On the assets side, currently undertakings are more exposed to valuation risk also due to the increased exposure to complex and/or illiquid assets, as a consequence of years of persistent low interest rates, which has led undertakings to search for higher returns.

When assessing the valuation of assets, NCAs should assess the adequacy and efficiency of the undertaking's systems and controls in line with the requirements in Article 267 of the Delegated Regulation and conduct their own assessment using the information received from the undertaking and from market information providers or other external sources, following a risk-based approach in the context of both off-site analysis and on-site inspections.

[35] Valuation risk is defined as the risk of loss arising from the difference between the price of an instrument reported on a undertaking's balance sheet – as determined by accounting rules – and the actual price an undertaking would obtain if it sold that asset.

Especially in on-site inspections, NCAs are expected to evaluate the appropriateness of the valuation method chosen within the hierarchy of Article 10 of the Delegated Regulation as well as its reliability and accuracy, in particular in case of alternative valuation methods.

In compliance with Article 267(3) of Delegated Regulation, NCAs may request undertakings to undertake an external, independent valuation or verification of the value of material assets.

Use of the option to require an external, independent valuation of verification of material asset required by NCA (yes or no)

TABLE 6: USE OF THE OPTIION TO REQUIRE AN EXTERNAL INDEPENT VALUATION OF MATERIAL ASSET BY NCAS

Use of the option	NON UIL	UIL	Full scope	Total number[36]
Yes, a few times	IT, BG, LV, SI	LI	LU, NL	**7**
Yes, often	CY		BE	**2**
No	DE, HR, IS, NO	CZ, EL, LV, SI, PL	AT, DK, FI, FR, IE, LT, SE, SK	**17**

It should be noted that 17 Member States[37] (Greece, Germany, Denmark, Liechtenstein, Austria, Belgium, Italy, Netherlands, Poland, Portugal, Slovenia, Spain, Sweden, Malta, Croatia, Romania, Ireland) have already introduced national requirements to annually audit the Solvency II Balance Sheet. This means that, in contrast with other elements of the Solvency II framework, valuation of assets (and liabilities) frequently benefits from an independent review increasing the reliability of the Solvency II Balance Sheet. Following EIOPA's proposal in the 2020 review of Solvency II[38], the European Commission proposed to introduce a new Article 51a requiring undertakings to audit their Balance Sheet with a statutory auditor or audit firm[39] to ensure a similar level of assurance across all Member States.

In addition to these audit requirements, the peer review showed that three NCAs issued recommendations to the market or internal guidance on the adjustment(s) to quoted market prices (QMP) of similar assets (AT and DK) or on alternative valuation methods (IT) to ensure a common understanding in their markets, although this is not a widespread practice in the EEA.

In view of the above, considering the existing national audit requirements, the proposal from the European Commission to harmonise them and the average investment portfolio in the EEA (see

[36] The total number (26) is higher than the number of participating NCAs (24) because two Member States (i.e. LV and SI) provided different answers for the non-UIL and UIL part.

[37] See section 7.3.4 of the Background document on the opinion on the 2020 review of Solvency II.

[38] See section 7.2 of eiopa-bos-20-749-opinion-2020-review-solvency-ii.pdf (europa.eu)

[39] EUR-Lex - 52021PC0581 - EN - EUR-Lex (europa.eu)

section 2.3.2), the PRC decided to focus the recommended actions mostly on the supervision of the governance aspect and issue a recommended action only in cases where the independent review required by article 267(4) has never been evaluated.

RA 7: INDIVIDUAL RECOMMENDED ACTIONS AS REGARDS THE SUPERVISION OF VALUATIONS OF INVESTMENTS

A recommended action to put in place a supervisory process to assess the independent internal valuation performed by undertakings, mostly notably for complex and/or illiquid financial instruments subjects at greater evaluation risk was issued to the NCAs which declared to have never evaluated the independent review and verification performed by the undertakings. The NCAs of the following countries received a recommended action: **CNB-CZ** and **FI-SE**.

For further details on the recommended action please see Annex 2 – Overview recommended actions to NCAs.

2.5. SUPERVISORY ACTIVITIES AND ACTIONS

2.5.1 SUPERVISORY ACTIVITIES

Participating NCAs were asked to provide information about supervisory activities carried out with regard to the supervision of the PPP, distinguishing (when possible) between investments backing non-UIL and UIL business.

Starting with the supervisory activities in relation to non-UIL business (involving 20 NCAs[40]), the vast majority of NCAs (16 out of 20) reported to have reviewed, in the last 5 years, undertakings' investment strategy and the governance around it for the totality of their domestic undertakings or most of them (i.e. higher than 70%). This review allowed NCAs to understand undertakings' investment objectives and assess how/whether they are consistent with the overall risk appetite and risk tolerance limits defined by the AMSB, before doing a more detailed review by looking at the data from Solvency II QRT. Furthermore, the investment process[41] was also scrutinised, including the involvement of different types of personnel/roles (from strategic to more operational tasks)

[40] All participating NCAs (24) except for CNB-CZ, BoG-EL, FMA-LI, KNF-PL participating only for UIL.

[41] The process of making investment decisions regarding the strategic and tactical asset allocation.

including the existence of an Investment Committee (if any), and issues concerning risk management, organizational aspects (e.g. in-house versus outsourcing) and resources (IT and human). For this purpose, a number of NCAs commented that the investment policy and the governance around investments are assessed following a risk-based approach leading to further analysis of individual undertakings in case triggers are activated.

Concerning the combination of off-site analysis and on-site inspections, all NCAs reported to use QRTs on investments in a systematic way on a regular basis in the context of off-site analysis and, to a lesser extent, the relevant qualitative information reported in the ORSA report on the SFCR. When asked about on-site inspections on the PPP (either as broader inspections on various topics or exclusively focused on the PPP), the percentage of insurance/reinsurance undertakings inspected in the last 5 years is much less and in 8 cases (4 of which are the same NCAs mentioned in the previous paragraph) NCAs had inspected less than 50% of undertakings.

NCAs were asked to share examples of cases where concerns were raised and the undertaking's approach to PPP challenged. The most relevant examples provided were as follows:

- Analysis of the liquidity of the asset portfolio of several undertakings raised concerns with the NCA due to a significant allocation to illiquid assets, among which were investments in real estate and equity/debt instruments not traded on a regulated market.
- The valuation of illiquid assets has led multiple NCAs to raise concerns, related to the valuation process employed by undertakings, the internal procedures, and the quality of collateral.
- A significant level of concentration of investments in related undertakings, leading to concerns on contagion risk, as well as potential conflicts of interest.
- The use of a complex financial product as a risk mitigation technique by an undertaking, which was discouraged by the NCA, due to the complexity and basis risk involved.

For UIL assets a majority of NCAs (10 out of 17) reported to have reviewed, in the last 5 years, undertakings' investment strategy and the governance around it for the totality of their domestic undertakings or most of them (i.e. higher than 70%). Concerning the combination of off-site analysis and on-site inspections, most NCAs (14 out of 17) reported to use QRTs on investments in the context of off-site analysis and, to a slightly lesser extent (13), the relevant qualitative information reported in the ORSA report on the SFCR. When asked about on-site inspections on the PPP (either as broader inspections on various topics or exclusively focused on the PPP), the percentage of insurance/reinsurance undertakings inspected in the last 5 years is significantly less and in 9 cases NCAs had inspected less than 50% of undertakings.

The peer review gave a good overview of the type and intensity of supervisory activities performed by the participating NCAs. However, considering the large number of participants (24 NCAs) and the investigation tool used in the peer review (the main source of information is the answers to the self-assessment questionnaire, integrated by additional information shared in the fieldwork phase), the PRC concluded that it was not possible to form a view whether the supervisory activities performed by each NCAs is adequate or not and therefore preferred not to raise any formal recommended action to NCAs.

Notwithstanding this, NCAs are encouraged to use the information reported in this section as an overall benchmark to decide whether more decisive supervisory actions should be implemented.

2.5.2 SUPERVISORY ACTIONS

Participants were asked to provide information about cases where they had identified actual or potential deficiencies or non-compliance with the PPP requirements during their supervisory activities (e.g. on-site inspections and off-site analysis - see the previous section) resulting in their NCA taking preventive or corrective measures during the last 5 years.

Starting with the supervisory actions in relation to non-UIL business (involving 20 NCAs), the vast majority of NCAs (except only 2 NCAs) reported that supervisory actions had taken place following the identification of non-compliance with PPP requirements. In relation to UIL business, the majority of NCAs reported that supervisory actions had taken place, but a lower proportion (10 of 17).

However, the estimates provided for both non-UIL and UIL varied significantly (ranging from 0% to 100%) because of the different use of the combination between off-site analysis and on-site inspections, some different interpretations of the concepts of deficiency and non-compliance, and the extent to which they use soft recommendations as a preventive measure.

Some NCAs reporting a high percentage of supervisory actions referred to deficiencies/non-compliance of minor severity (e.g., small mistakes in reporting templates).

Another common feedback was that the percentage of deficiencies/non-compliance identified is usually high in the case of on-site inspections, while it is much lower for off-site analysis. However, often it was reported that the outcome of off-site analysis is used as an input to trigger on-site inspections.

In view of the large number of participants (24 NCAs), the limited information available and the investigation tool used in the peer review (the main source of information was the answers to the self-assessment questionnaire, complemented by additional information shared during the fieldwork phase), the PRC concluded that it was not possible to form a view as to whether the amount and frequency of supervisory actions performed by each NCA to restore compliance with the PPP is adequate or not, and, therefore, preferred not to raise any formal recommended action to NCAs.

Notwithstanding this, NCAs are encouraged to use the information reported in this section as an overall benchmark to decide whether more decisive supervisory actions should be implemented.

2.6. SPECIFICITIES OF UNIT-INDEX LINKED BUSINESS

As stated above, 17 NCAs were within the scope of the UIL part of the peer review assessment. 13 NCAs were covered by the full scope of the peer review; 4 NCAs were only in scope of the UIL part.

The peer review assessed how these NCAs supervised, in the reference period, investment related risks with regard to UIL contracts where the risk is borne by policyholders.

In 2022, at EEA level, gross written premiums (GWP) for UIL contracts were 241 625 million EUR, reflecting a decrease of nearly 14% compared to the previous year. This represents 36% of the total GWP for all types of life insurance. By comparison, profit participation insurance products represent 35% of the total life insurance GWP.[42]

At EEA level, in 2022, UIL assets represented 21% of total assets, but the proportion of UIL assets compared to non-UIL assets varies significantly between Member States as shown in the table below concerning those NCAs within the scope of the UIL assessment.

TABLE 7: PROPORTIONAL OF ASSETS BACKING UNIT-INDEX LINKED CONTRACTS FOR THE PARTICIPATING NCAS

Member State	AT	BE	CZ	DK	EL	FI	FR	IE	LI	LT	LU	LV	NL	PL	SE	SI	SK
Proportion of UIL assets	14%	18%	23%	42%	24%	61%	18%	74%	85%	36%	72%	40%	24%	22%	55%	22%	21%

Source: EIOPA Insurance Statistics, 2022 year-end.

UIL are life insurance contracts with a material savings or investment component and usually a lower insurance/biometric risk cover (e.g., death benefit). Although often the investment risk is wholly passed to policyholders, some contracts might provide policyholders with some guarantee of investment performance or some other guaranteed benefits (e.g., repayment of the premium invested).

UIL products that do not have a guarantee expose consumers directly to market trends and therefore usually are subject to higher volatility compared to other life insurance products (i.e. with-profit contracts or hybrid products which offer some protection to consumers or more smoothed returns over time).

[42] Costs and past performance report 2023 - European Union (europa.eu)

The difference between unit-linked and index-linked refers to the type of link between the benefits provided to policy holders and the related assets:

- Unit-linked contracts are those where the benefits provided by the contract are directly linked to the value of units in a Collective Investment Undertaking (CIU), such as a UCITS (Undertakings for Collective Investment in Transferable Securities), or to the value of assets contained in an internal fund of the insurance undertaking;
- Index-linked contracts are those where the benefits provided by the contract are directly linked to a share index or some other reference value other than those referred to in unit-linked contracts.

The core principles of Article 132 of the Solvency II Directive apply to UIL contracts as well as non-UIL contracts, including for undertakings to only invest in assets whose risks they can properly identify, measure, monitor, manage, control and report.

There are also specific requirements of the PPP only applicable to UIL, including the so called 'close matching' principle.

Additionally, while Solvency II has a principle of freedom of investment regarding different categories of assets that always applies to non-UIL business, for UIL contracts, Member States have the option to restrict the types of assets or reference values to which policy benefits may be linked (Article 133(3)). Consequently, the use or not of this option by Member States affects the nature of the investment risk that can be borne by UIL policy holders in that Member State.

For UIL business, it is also relevant to bear in mind the interaction between the Solvency II PPP requirements and the requirements in the Insurance Distribution Directive (IDD). The nature of the underlying assets of UIL should be a part of the assessments conducted in view of the requirements in the IDD, such as those concerning product oversight and governance (e.g., target market definition), or the suitability and appropriateness assessments. There are some differences in the perspectives and objectives of these requirements, with the IDD looking generally at the level of the product or individual customer, and the PPP considering the level of the portfolio or individual investments. As a result, the IDD requirements are not expected to cover all investment related risks; for example, the appropriate disclosure of the nature of investment risks borne by policy holders, or the appropriate definition of the target market in terms of the risk profile of the product, does not mean *per se* that the insurer is appropriately controlling all of the risks arising from the specific investments selected.

In terms of the precise scope of application of the rules under the Solvency II PPP and the IDD and the extent to which investment aspects are addressed under the IDD, some differences in approach are considered to be possible taking into account the generally principles-based nature of the rules in both of these frameworks. NCAs are expected to consider the interaction between the rules in the Solvency II PPP and the IDD, in order to avoid gaps or overlaps, and as part of the peer review, NCAs were asked whether the risks relating to investments for UIL contracts were addressed using the IDD.

2.6.1 CLOSE MATCHING

The ‘close matching’ principle is set out in Article 132(2), second and third subparagraph, of the Solvency II Directive and requires that an undertaking’s assets replicate - as closely as possible – the reference value on which the benefits to the policyholders depend.

The rationale of the principle is to minimize the basis risks, namely the risk that the reference value - which determines the benefits to be paid to policyholders - moves such that its value is higher than the value of the actual assets held by undertakings to back UIL obligations. In the case that undertakings are exposed to additional risks (i.e. a risk that extra funding would be needed) that should be assessed, measured and dealt with.

It is worth noting that, when assessing the basis risk and its impact, the differences between unit-linked and index-linked should be considered. In fact, without considering the case of additional guarantees provided by the undertaking, for unit-linked the basis risk is less relevant as usually the internal/external funds directly determine (1 to 1) the benefits to policy holders; while for index-linked funds there may be a difference between the reference value specified in the contract (e.g. a certain stock index) and the assets held by the undertaking (e.g. a structured bond replicating the pay-off of the stock index).

While important aspects regarding the close matching principle are set in the Solvency II Directive, such as regarding the appropriate ‘security and marketability’ of linked assets, taking into account the trend of increasing linked business, it is considered a good practice for NCAs to have issued more specific guidance to the market on how the principle can be complied with by undertakings or at least to have dedicated internal guidance (e.g. handbook) to supervise compliance with the principle.

The outcome of the peer review showed that only six NCAs have issued specific rules or measures, either to require undertakings to hold the specific assets defining the benefits of UIL contracts (minimizing or eliminating the basis risk) (FR, LI, LU, SI) or covering other limitations on the assets that the possibility for basis risk to arise (AT, FI).

When analysing this issue during the fieldwork stage, the PRC decided, on the basis of proportionality, to focus on those Member States with higher proportions of UIL assets (UIL assets higher than 30% compared to non-UIL assets at Member State level). In those cases where there is a higher proportion of UIL assets in the Member State but internal or external guidance had not been developed, NCAs were considered to have provided reasonable justifications as to why, taking a risk-based approach, such rules or guidance had not been developed. This included, in particular, that the NCA had not identified material basis risk during their supervisory reviews, due to the market practice being for insurers to invest directly in the assets that determine the benefits to be paid to policy holders. It was therefore, concluded, not to issue individual recommended actions on this topic to NCAs. Nevertheless, those NCAs that have not taken specific steps are suggested to consider further their approach, taking into account that material basis risks might still emerge in the future, for example due to new market practices or growth in index-linked (rather than unit-linked) business.

2.6.2 CONTROL OF THE RISKS OF UNDERLYING ASSETS

The PPP means that the selection of investments by insurers needs to have regard to the prudence of the selection made, including in relation to UIL business. Accordingly, NCAs are expected to assess the risk that investments backing UIL policies are insufficiently prudent, carry undue investment risks or are not subject to appropriate control by insurance undertakings. This applies, in particular, to the control of assets that are invested in directly, such as those contained in an internal fund held by the insurance undertaking. Indirect investments via CIU may carry significant investment risk and are also subject to the PPP, but depending on the nature of the CIU, it is recognized that certain risks may already be mitigated by the sectoral rules applicable to the CIU (for example, the rules on eligible assets or concentration limits for UCITS).

NCAs’ supervisory approach is expected to consider both the prudence of certain types of assets in general, and the prudence of specific assets. It is expected to include:

- expectations regarding investments made directly by insurance undertakings compared to indirect investments;
- internal and/or external guidance on the identification of risky/complex and non-routine investments;
- regular and systematic assessment of exposures to risky/complex and non-routine investments;
- specific criteria with which to assess the security, quality, and liquidity of the investments.

Some questions to NCAs concerning their overall portfolio, i.e. that applied also to non-UIL business (where that NCA was in scope of the non-UIL part of the peer review), were taken into account during the assessment of UIL aspects, such as questions on complex/risky and non-routine investments.

In terms of UIL specific aspects, NCAs were asked about the use of the option in Article 133(3) of the Solvency II Directive that allows Member States to restrict the types of assets and reference values to which policy benefits may be linked. While this is a Member State option, the existence of such restrictions is important in terms of the nature of investment risks that policy holders can be exposed to. As part of this, where the option had been exercised, NCAs were asked about the nature of the rules imposed and whether these were applicable only to domestic insurers or also to those operating in their market on a cross-border basis. Of those NCAs within the scope of the peer review around half reported that this option had been exercised in their Member State, and two NCAs indicated that the use of the option is planned. It is relevant to bear in mind that the nature of the rules varies between Member States. In some Member States, the asset restrictions are similar to the rules in place for UCITS[43] including a precise list of eligible assets and concentration limits. In other Member States, the restrictions are more principles-based for instance regarding appropriate diversification of assets or requiring investments to be 'transferable'. In one Member State (LT), a list of eligible assets is defined, but it is possible to invest in other assets subject to prior authorisation by the NCA.

On this issue, information was also collected from those NCAs that were not within the scope of the UIL part of the peer review, including those NCAs that were fully exempted from the peer review. No assessment was conducted in relation to those NCAs that were not in scope, but it was considered interesting to have a complete overview at EEA level on the use of this Member State option. A summary of the use of this option is included in the table below, with those Member States that were in the scope of the UIL part of the peer review highlighted in blue bold.

TABLE 8: USE OF THE OPTION PROVIDED BY ARTICLE 133(3) OF THE SOLVENCY II DIRECTIVE BY MEMBER STATES

Use of Member State option in Article 133(3), Solvency II – restrictions on asset or reference values	Member States
Yes, applicable to both domestic undertakings and undertakings operating under freedom of establishment (FOE) and freedom to provide services (FOS)	**AT, FR, LI, LT, LU**
Yes, applicable only to domestic undertakings	CY, **EL**, HU, MT, **NL**, **SI**
No, but it is planned to do so	IT, **PL, SK**
No	**BE**, BG, **CZ**, DE, **DK**, EE, ES, **FI**, HR, **IE**, IS, **LV**, NO, PT, RO, **SE**

[43] In accordance with Article 133(3) of the Solvency II Directive, the rules cannot be more restrictive that those applicable to UCITS.

Besides the option in Article 133(3) of the Solvency II Directive, NCAs were asked how they assess whether the assets offered to UIL policy holders are appropriate, in particular concerning risky/complex and non-routine investments. Numerous NCAs indicated that, besides the use of this Member State option, the appropriateness of the assets offered to policy holders is assessed primarily via IDD (AT, CZ, FR, IE, NL, PL, SK and SE).

Another important aspect concerns whether NCAs analyse the extent to which UIL contracts offer exposure to risky/complex and non-routine investments and a summary of the answered provided is included in the table below.

TABLE 9: TYPE OF ANALYSIS CONDUCTED BY NCAS TO CONTROL THE RISKS OF UNDERLYING ASSETS

Type of analysis conducted	NCA
Off-site analysis of at least 50% of the market	BE, CZ, DK, FR, EL, LV, LI, PL, SK
Off-site analysis of less than 50% of the market	NL, SE
Other type of analysis	AT, IE, FI, LU, LT, SI

Additionally, a number of NCAs (EL, IE, LV, PL) reported that they monitor exposures at least on a quarterly basis, which is considered to be a good practice, and conduct more detailed analysis where they identify potential issues or concerning risky investments.

The other types of analysis included cases of a thematic review, use of on-site inspections and regular checks regarding compliance with the asset restrictions applicable in the Member State.

Lastly, information was requested from NCAs on whether they had internal guidance on how to supervise compliance with the principles of security, quality, liquidity and profitability specifically for UIL business. Seven NCAs answered that they had developed such guidance (AT, DK, EL, IE, LI, LV, LU).

The above aspects were assessed together in order to make an overall assessment of the supervisory approach, considering in particular the nature of asset restrictions in place in the Member State, as well as the analysis of exposures to risky/complex and non-routine investments. Attention was also paid to the nature of UIL assets in the Member State, for example where such assets consisted only of UCITS.

RA 8: INDIVIDUAL RECOMMENDED ACTIONS AS REGARDS THE CONTROL OF THE RISKS OF UNDERLYING ASSETS

A recommended action to develop their supervisory approach to manage the risk that investments backing UIL policies carry undue investment risks or are not subject to appropriate control by insurance undertakings was issued to the following NCAs: **FMA-AT**, **FSA-FI** and **FI-SE**.

For further details on the recommended action please see Annex 2 – Overview recommended actions to NCAs.

2.6.3 MANAGING ASSETS IN BEST INTEREST OF POLICY HOLDERS

The PPP requires assets to be invested in the best interest of all policy holders, including in the case of conflicts of interest. NCAs are expected to have a specific basis to assess whether this is the case. This is expected to include, in particular, evaluating how insurers manage conflicts of interests that might arise (for example, due to the receipt of monetary/non-monetary incentives from asset managers, the use of in-house asset management services or investments in intra-group assets), and whether they have appropriate governance arrangements regarding the selection, monitoring and replacement of investment vehicles supporting UIL policies.

As noted above, IDD includes requirements that can cover similar ground. This includes requirements on acting in the best interests of customers, and managing conflicts of interests in the design and distribution of products. An assessment of the nature and selection of underlying assets or asset managers is also a part of product oversight and governance and ensuring products offer value for money, such as for underlying funds managed by affiliated entities. These IDD requirements are considered to be a possible basis for achieving the desired outcome of the PPP of assets being invested in the best interests of policy holders. However, this would require consideration of the extent to which the IDD can fully capture all investment related aspects, as well as the articulation and robust application of these expectations under the IDD. Consequently, NCAs were asked regarding the extent to which the risks relating to the management of UIL assets in the best interests of policy holders are (fully) addressed using the rules in IDD.

In relation to the management of conflicts of interests, NCAs were asked whether they have developed internal or external guidance on this issue and whether they perform analysis of the extent to which UIL contracts are backed by assets issued by entities belonging to the same group (self-placement).

The majority of NCAs reported that they had developed internal or external guidance (AT, BE, CZ, DK, FR, IE, LI, LT, LV, NL, PL). In some cases, the guidance addresses specific cases where conflicts can arise in relation to UIL investments, such as a recommendation to the market on steps to be taken where policy holders are offered units in debt securities issued by a financial entity related to the insurer. However, in other cases, the measures or guidance referred to were not considered to substantially address the issue, for instance, because they related to only general obligations for insurers to manage conflicts of interest in relation to all aspects of their business.

Most NCAs reported that specific analysis had been conducted regarding self-placement during the reference period as shown in the table below.

TABLE 10: TYPE OF ANALYSIS CONDUCTED BY NCAS TO CONTROL HOW ASSETS ARE MANAGED IN THE BEST INTEREST OF POLICYHOLDERS

Type of analysis conducted	NCA
During on-site inspections	LU
Off-site analysis of at least 50% of the market	FR, EL, LV, LI
Off-site analysis of less than 50% of the market	BE, CZ,
Other	AT, FI, IE, LT, PL
No analysis conducted	DK, NL, SI, SK, SE

Several NCAs reported that analysis is conducted on a quarterly basis using the information from the Solvency II QRTs, which is considered to be a good practice (EL, LI, LV, PL). The BoG explained, for example, that they generate an internal report on a quarterly basis which shows the distribution of UIL assets for each undertaking per issuer and that this is monitored for all undertakings in the market in order to identify the degree of self-placement and is used an indicator when prioritising on-site supervisory inspections.

As regards ensuring that undertakings have appropriate governance arrangements for the selection, monitoring and replacement of investment vehicles supporting UIL business, just under half of NCAs reported that they have internal or external guidance (AT, BE, CZ, DK, FR, LV, LI, LT). Additionally, in some cases, NCAs provided evidence that adequate steps were taken under IDD in relation to these areas.

RA 9: INDIVIDUAL RECOMMENDED ACTIONS AS REGARDS MANAGING ASSETS IN BEST INTEREST OF POLICY HOLDERS

A recommended action to formulate and communicate to insurance undertakings specific expectations regarding the assessment of whether investments backing UIL contracts are made in the best interests of policy holders was issued to the following NCAs**: CNB-CZ, FTNET-DK, BoG-EL, CBI-IE, CAA-LU, AZN-SI,** and **NBS-SK**.

The recommended actions addressed expectations regarding the appropriate management of conflicts of interests arising from investments backing UIL policies and the appropriate controls relating to the selection and monitoring of specific investment vehicles. **CNB-CZ** and **FTNET-DK** received recommended actions concerning specifically the management of conflicts of interests; **CBI-IE**, **CAA-LU** and **AZN-SI** received recommended actions concerning specifically the controls relating to the selection and monitoring of specific investment vehicles; and for **BoG-EL** and **NBS-SK** the recommended actions concerned both of these aspects.

For further details on the recommended action please see Annex 2 – Overview recommended actions to NCAs.

ANNEXES

ANNEX 1 - COUNTRIES AND COMPETENT AUTHORITIES PARTICIPATING IN THIS PEER REVIEW AND THEIR ABBREVIATIONS

NCAs not taking part in the peer review: Estonia, Hungary, Malta, Portugal, Spain, Romania

The below NCAs, in the (full or partial) scope of the peer review, were invited to complete the self-assessment questionnaire, however given that the questionnaire addresses both prudential and conduct supervisory issues, coordination between prudential and conduct supervisors was needed. The Conduct Authorities that were contacted were FSMA (BE) and AFM (Netherlands).

Country	Abbreviation	Name of concerned Competent Authority	Abbreviation used in the report (if any)
Austria	**AT**	Finanzmarktaufsicht (Financial Market Authority)	**FMA**
Belgium	**BE**	National Bank of Belgium	**NBB**
Bulgaria	**BG**	Комисия за Финансов Надзор (Financial Supervision Commission)	**FSC**
Cyprus	**CY**	Αρμοδιότητα της Υπηρεσίας Ελέγχου Ασφαλιστικών Εταιρειών (Cyprus Insurance Companies Control Services)	**ICCS**
Croatia	**HR**	Hrvatska agencija za nadzor financijskih usluga	**HANFA**
Czech Republic	**CZ**	Ceska Narodni Banka (Czech National Bank)	**CNB**
Denmark	**DK**	Finanstilsynet (Danish FSA)	**DFSA**
Finland	**FI**	Finanssivalvonta (Finnish Financial Supervisory Authority)	**FIN-FSA**
France	**FR**	Autorité de Contrôle Prudentiel et de Résolution	**ACPR**
Germany	**DE**	Bundesanstalt für Finanzdienstleistungsaufsicht	**BaFin**
Greece	**EL**	Τράπεζα της Ελλάδος (Bank of Greece - Department of	**BoG**

Country	**Abbreviation**	**Name of concerned Competent Authority**	**Abbreviation used in the report (if any)**
		Private Insurance Supervision)	
Iceland	**IS**	Central Bank of Iceland	**IS-CBI**
Ireland	**IE**	Central Bank of Ireland	**IE-CBI**
Italy	**IT**	Istituto per la Vigilanza sulle assicurazioni	**IVASS**
Latvia	**LV**	Latvijas Banka	**LB**
Liechtenstein	**LI**	Finanzmarktaufsicht (Financial Market Authority)	**FMA**
Lithuania	**LT**	Lietuvos Bankas (Bank of Lithuania)	**BoL-LT**
Luxembourg	**LU**	Commissariat aux Assurances	**CAA**
Netherlands	**NL**	Dutch National Bank	**DNB**
Norway	**NO**	Finanstilsynet	**NFSA**
Poland	**PL**	Komisja Nadzoru Finansowego	**KNF**
Slovakia	**SK**	Narodna Banka Slovenska (National Bank of Slovakia)	**NBS**
Slovenia	**SI**	Agencija za zavarovalni nadzor (Insurance Supervision Agency)	**AZN**
Sweden	**SE**	Finansinspektionen (Financial Supervisory Authority)	**FI**

ANNEX 2 – OVERVIEW RECOMMENDED ACTIONS TO NCAS

In this annex an overview is provided of the recommended actions to NCAs by country by topic and type of recommended actions. The recommended actions set out in this report, which are addressed to the relevant NCAs, should not be considered per se as EIOPA Recommendations for the purposes of Articles 16 and 30(4) of the EIOPA Regulation or of Article 25(4) of the EIOPA Decision on Peer Reviews.

The improvements that several NCAs have implemented as an immediate response on the peer review or to the issued recommended actions are not reflected in the table below.

Total number of Recommended Actions on PPP: 49

Member State	Recommended Action
Area: Supervisory framework	
	RA 1: Supervisory handbook (for off-site and on-site supervision)
FI	FIN-FSA is recommended to develop and maintain an internal handbook to support supervisory staff in an effective and consistent supervision of undertakings' compliance with the PPP.
PL	KNF is recommended to develop and maintain an internal handbook to support supervisory staff in an effective and consistent supervision of undertakings' compliance with the PPP.
SE	FI is recommended to develop and maintain an internal handbook to support supervisory staff in an effective and consistent supervision of undertakings' compliance with the PPP.

SK	NBS is recommended to develop and maintain an internal handbook to support supervisory staff in an effective and consistent supervision of undertakings' compliance with the PPP.
	RA 2: Use of tools and indicators
CY	Although out of the reference period of the peer review, the PRC acknowledges that a project allowing a better use of QRT data is already on-going. Therefore, ICCS is recommended to finalize it and make sure that the new tool can be used to calculate risk indicators on investments that will allow the implementation of a RAF, enabling ICCS to prioritise the supervisory activities (to be formalized in the supervisory plan) and determine the scope, depth and frequency of off-site analysis and on-site inspections. Guidance in this regard can be found in EIOPA's SRP handbook.
FI	FIN-FSA is recommended to define and develop different risk indicators on PPP for UIL, which can be used to assess and prioritize the investment risks as part of the decision-making process to the define the annual supervisory plan. Guidance in this regard can be found in the EIOPA's SRP handbook.
LI	FMA is recommended to define multiple risk indicators on PPP for UIL, which provide input to the decision-making process to define the annual work plan.
NL	DNB is recommended to define and develop different risk indicators on PPP for UIL, which can be used to assess and prioritise the investment risks as part of the decision-making process to the define the annual supervisory work plan. Guidance in this regard can be found in EIOPA's SRP handbook.
NO	Finanstilsynet is recommended to define and develop different risk indicators on PPP for Non-UIL, which can be used to assess and prioritise the investment risks as part of the decision-making process to the define the annual supervisory work plan. Guidance in this regard can be found in the EIOPA's SRP handbook.
SE	FI is recommended to define and develop different risk indicators on PPP for UIL, which can be used to assess and prioritise the investment risks as part of the decision-making process to define the annual supervisory plan. Guidance in this regard can be found in the EIOPA's SRP handbook.

SI	AZN is recommended to continue efforts to develop risk indicators on PPP, which provide input to the decision-making process to define the annual work plan.
Area: Overall prudence of undertaking's investment portfolio	
	RA 3: Security, quality, liquidity and profitability
AT	FMA is recommended to develop and implement specific internal guidance (e.g. further developing its handbook) on the supervision of security, quality, liquidity and profitability of the insurance and reinsurance portfolio as a whole, that can be used by Supervision staff responsible for off-site analysis or on-site inspections on a regular basis. The guidance should be both qualitative and quantitative in nature to assess and judge the trade-off between security, quality, liquidity and profitability, the desired levels chosen by the undertakings, the consistency with the risk appetite and overall risk tolerance limits defined by AMSB, taking into consideration the guaranteed rates promised to policyholders, as well as the macro-economic condition of the markets.
BG	FSC is recommended to develop and implement specific operational guidance (e.g. further developing its handbook) on the supervision of security, quality, liquidity and profitability of the insurance and reinsurance portfolio as a whole, that can be used by Supervision staff responsible for off-site analysis or on-site inspections on a regular basis. The guidance should be both qualitative and quantitative in nature to assess and judge the trade-off between security, quality, liquidity and profitability, the desired levels chosen by the undertakings, the consistency with the risk appetite and overall risk tolerance limits defined by AMSB, taking into consideration the guaranteed rates promised to policyholders, as well as the macro-economic condition of the markets. Guidance in this regard can be found in EIOPA's SRP handbook.
CY	ICCS is recommended to develop and implement specific operational guidance (e.g. further developing its handbook) on the supervision of security, quality, liquidity and profitability of the insurance and reinsurance portfolio as a whole, that can be used by Supervision staff responsible for off-site analysis or on-site inspections on a regular basis. The guidance should be both qualitative and quantitative in nature

	to assess and judge the trade-off between security, quality, liquidity and profitability, the desired levels chosen by the undertakings, the consistency with the risk appetite and overall risk tolerance limits defined by AMSB, taking into consideration the guaranteed rates promised to policyholders, as well as the macro-economic condition of the markets. Guidance in this regard can be found in EIOPA's SRP handbook.
LU	CAA is recommended to develop and implement specific operational guidance (e.g. further developing its handbook) on the supervision of security, quality, liquidity and profitability of the insurance and reinsurance portfolio as a whole, that can be used by Supervision staff responsible for off-site analysis or on-site inspections on a regular basis. The guidance should be both qualitative and quantitative in nature to assess and judge the trade-off between security, quality, liquidity and profitability, the desired levels chosen by the undertakings, the consistency with the risk appetite and overall risk tolerance limits defined by AMSB, taking into consideration the guaranteed rates promised to policyholders, as well as the macro-economic condition of the markets.
SE	FI is recommended to develop and implement specific operational guidance (e.g in the handbook) on the supervision of security, quality, liquidity and profitability of the insurance and reinsurance portfolio as a whole, that can be used by Supervision staff responsible for off-site analysis or on-site inspections on a regular basis. The guidance should be both qualitative and quantitative in nature to assess and judge the trade-off between security, quality, liquidity and profitability, the desired levels chosen by the undertakings, the consistency with the risk appetite and overall risk tolerance limits defined by AMSB, taking into consideration the guaranteed rates promised to policyholders, as well as the macro-economic condition of the markets.
SK	NBS is recommended to develop and implement specific operational guidance (e.g. in the handbook recommended with RA1) on the supervision of security, quality, liquidity and profitability of the insurance and reinsurance portfolio as a whole, that can be used by Supervision staff responsible for off-site analysis or on-site inspections on a regular basis. The guidance should be both qualitative and quantitative in nature to assess and judge the trade-off between security, quality, liquidity and profitability, the desired levels chosen by the undertakings, the consistency with the risk appetite and overall risk tolerance limits defined by AMSB, taking into consideration the guaranteed rates promised to policyholders, as well as the macro-economic condition of the markets.

	RA 4: Asset-Liability management
CY	ICCS is recommended to develop internal guidance (e.g. handbook) in order to assess that assets covering the technical provisions are invested consistently with the nature and duration of the insurance and reinsurance liabilities. The assessment should be implemented either through off-site analysis for in on-site inspections.
Area: Individual investments	
	RA 5: Derivatives
BE	NBB is recommended to ensure a common understanding and application by insurance and reinsurance undertakings of the use of derivatives for efficient portfolio management, issuing either guidance to the market to set out clear expectations or internal guidance (e.g. handbook) to support supervisory staff on this regard. Guidance in this regard can be found in EIOPA's SRP handbook.
DE	BaFin is recommended to regularly perform detailed off-site analysis of the risks stemming from derivatives, hedging effectiveness and the creation of leverage derived from material derivatives, as well as assess it in detail during on-site inspections (e.g., after identifying material risk during the off-site analysis).
DK	The Danish FSA is recommended to ensure a common understanding and application by insurance and reinsurance undertakings of the uses of derivatives for efficient portfolio management, issuing either guidance to the market to set out clear expectations or internal guidance (e.g., handbook) to support supervisory staff on this regard. Guidance in this regard can be found in EIOPA's SRP handbook.
FR	ACPR is recommended to ensure a common understanding and application by insurance and reinsurance undertakings of the uses of derivatives for efficient portfolio management, complementing the distribution of EIOPA’s SRP handbook by issuing either guidance to the market, to set out clear expectations, or specific internal guidance (e.g., handbook) to support supervisory staff in this regard.

IE	CBI is recommended to ensure a common understanding and application by insurance and reinsurance undertakings of the use of derivatives for efficient portfolio management, issuing either guidance to the market, to set out clear expectations, or internal guidance (e.g., handbook) to support supervisory staff in this regard. Guidance in this regard can be found in EIOPA's SRP handbook.
NL	DNB is recommended to ensure a common understanding and application by insurance and reinsurance undertakings of the use of derivatives for efficient portfolio management, issuing either guidance to the market to set out clear expectations or internal guidance (e.g., handbook) to support supervisory staff in this regard. Guidance in this regard can be found in EIOPA's SRP handbook.
NO	Finanstilsynet is recommended to issue detailed internal guidance (e.g., Handbook) to support the supervision of derivatives used for hedging and for efficient portfolio management purposes. Finanstilsynet is also recommended to ensure a common understanding and application by insurance and reinsurance undertakings of the use of derivatives for efficient portfolio management, issuing either guidance to the market to set out clear expectations or internal guidance (e.g., handbook) to support supervisory staff in this regard. Guidance in this regard can be found in the EIOPA's SRP handbook.
SE	FI is recommended to regularly perform detailed off-site analysis of the risks stemming from derivatives, hedging effectiveness and the creation of leverage derived from material derivatives, as well as assess it in detail during on-site inspections covering investment strategy or the PPP. FI is also recommended to ensure a common understanding and application by insurance and reinsurance undertakings of the use of derivatives for efficient portfolio management, issuing either guidance to the market to set out clear expectations or internal guidance (e.g. handbook) to support supervisory staff in this regard. Guidance in this regard can be found in the EIOPA's SRP handbook.
	RA 6: Complex/non-traditional investments
BE	Although it is acknowledged that NBB has already implemented some actions to detect complex assets or outliers and uses early dialogue with the supervisory entities (in most of the cases upon their requests) intending to make material investments in non-routine assets, NBB is recommended to keep developing

	internal guidance (e.g. handbook) to fully define and identify risky/complex investments to ensure a common approach during supervision. Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.
BG	FSC is recommended to set out clear expectations to the market (via national regulation or recommendation) to be used to define and identify risky/complex investments, which require more robust processes and procedures in place, or, at least, to develop internal guidance (e.g. handbook) to ensure a common approach during supervision following a risk-based and forward-looking perspective. Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.
CY	ICCS is recommended to set out clear expectations to the market (via national regulation or recommendation) to be used to define and identify risky/complex investments, which require more robust processes and procedures in place, or, at least, to develop internal guidance (e.g. handbook) to ensure a common approach during supervision. Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.
DK	The Danish FSA is recommended to set out clear expectations to the market (via national regulation or recommendation) to be used to define and identify risky/complex investments, which require more robust processes and procedures in place, or, at least, to develop internal guidance (e.g. handbook) to ensure a common approach during supervision. Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.
HR	HANFA is recommended to set out clear expectations to the market (via national regulation or recommendation) to be used to define and identify risky/complex investments, which require more robust processes and procedures in place, or, at least, to develop internal guidance (e.g. handbook) to ensure a common approach during supervision. Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.

LT	Although it is acknowledged that BoL uses early dialogue (for non-UIL) or the ex-ante authorisation process (for UIL) with the supervisory entities intending to make a material investments in non-routine assets, BoL is recommended to set out clear expectations to the market (via national regulation or recommendation) to be used to define and identify risky/complex investments, which require more robust processes and procedures in place, or, at least, to develop internal guidance (e.g. handbook) to ensure a common approach during supervision including the ex-ante authorisation process. Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.
LV	Although it is acknowledged that LB is informed about foreseeable changes in investment strategy via the annual strategic query sent annually to all undertakings and that the guidance provided in this regard in EIOPA’s handbook is taken into consideration, LB is recommended to set out clear expectations to the market (via national regulation or recommendation) to be used to define and identify risky/complex investments, which require more robust processes and procedures in place, or at least to develop its own internal guidance (e.g. handbook) to ensure a common approach during supervision. Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.
NL	Although it is acknowledged that DNB conducts early dialogues with the insurance and reinsurance undertakings on a risk-based approach, DNB is recommended to have more structured dialogues for each case where an insurance and reinsurance undertaking intends to make material investments in non-routine assets, and also set out clear expectations to the market (via national regulation or recommendation) to be used to define and identify risky/complex investments, which require more robust processes and procedures in place, or, at least, to develop internal guidance (e.g. handbook) to ensure a common approach during supervision. Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.
NO	Although it is acknowledged that Finanstilsynet conducts early dialogues with the insurance and reinsurance undertakings upon their request, intending to make material investments in non-routine assets, Finanstilsynet is recommended to have more structured dialogues and also set out clear expectations to the market (via

	national regulation or recommendation) to be used to define and identify risky/complex investments, which require more robust processes and procedures in place, or, at least, to develop internal guidance (e.g. handbook) to ensure a common approach during supervision. Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.
SE	FI is recommended to set out clear expectations to the market (via national regulation or recommendation) to be used to define or identify risky/complex investments, which require more robust processes and procedures in place, or, at least, to develop internal guidance (e.g. handbook) to ensure a common approach during supervision. Some guidance on the key risks and assessments recommended for individual asset classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.
SI	AZN is recommended to set out clear expectations to the market (via national regulation or recommendation) to be used to define and identify risky/complex investments, which require more robust processes and procedures in place, or, at least, to develop internal guidance (e.g. handbook) to ensure a common approach during supervision. Some guidance on the key risks and assessments recommended for individual assets classes (including some risky/complex assets) can be found in EIOPA's SRP handbook.
Area: Valuation of investments	
	RA 7: Valuation of investments
CZ	CNB is recommended to have in place a supervisory process (either through offsite analysis and/or on-site inspections) to assess the independent internal valuation performed by undertakings, above all for complex and/or illiquid financial instruments subjects at greater evaluation risk. In its assessment CNB should at least assess: 1) the level of independence in valuation and the frequency of the independent evaluation performed by the undertakings; 2) the adequacy of documentation (policies and procedures), valuation methods (including model assumptions and limitations) and how they match the risk factors of the financial

	instruments; 3) the role of the AMSB (including the reporting line) and its understanding of model assumptions and limitations.
SE	FI is recommended to have in place a supervisory process (either through offsite analysis and/or on-site inspections) to assess the independent internal valuation performed by undertakings, above all for complex and/or illiquid financial instruments which are subject to greater evaluation risk. In its assessment FI should at least assess: 1) the level of independence in valuation and the frequency of the independent evaluation performed by the undertakings. 2) the adequacy of documentation (policies and procedures), valuation methods (including model assumptions and limitations) and how they match the risk factors of the financial instruments. 3) the role of the AMSB (including the reporting line) and its understanding of model assumptions and limitations.
Area: Specificities of UIL Business	
	RA 8: Control of types of underlying asset
AT	FMA is recommended to develop its supervisory approach to manage the risk that investments backing unit/index-linked policies carry undue investment risks or are not subject to appropriate control by insurance undertakings. This supervisory approach should consider both the prudence of certain types of assets in general, and the prudence of specific assets. It should include at least: • expectations regarding investments made directly by insurance undertakings compared to indirect investments, • internal and/or external guidance on the identification of risky/complex and non-routine investments, • regular and systematic assessment of exposures to risky/complex and non-routine investments, and • specific criteria with which to assess the security, quality, and liquidity of the investments.

	When following up on this recommended action, it is suggested to consider the interlinkages with the supervisory approach under the IDD, including any ongoing work to review that supervisory approach.
FI	FIN-FSA is recommended to develop its supervisory approach to manage the risk that investments backing unit/index-linked policies are insufficiently prudent, carry undue investment risks or are not subject to appropriate control by insurance undertakings. This framework should cover, in the context of investments backing unit/index linked policies, both a macro perspective considering the prudence of certain types of assets in general, as well as a framework for assessing the prudence of specific assets. It should include at least expectations regarding investments made directly by the insurance undertaking compared to indirect investments, internal and/or external guidance on the identification of risky/complex and nonroutine investments, regular and systematic assessment of exposures to risky/complex and non-routine investments, and specific criteria with which to assess the security, quality and liquidity of such investments. When following up on this recommended action, it is suggested to consider the interlinkages with the supervisory approach under the IDD, including any ongoing work to review that supervisory approach.
SE	FI is recommended to develop its supervisory approach to manage the risk that investments backing unit/index-linked policies are insufficiently prudent, carry undue investment risks or are not subject to appropriate control by insurance undertakings. This framework should cover, in the context of investments backing unit/index linked policies, both a macro perspective considering the prudence of certain types of assets in general, as well as a framework for assessing the prudence of specific assets. It should include at least expectations regarding investment made directly by the insurance undertaking compared to indirect investments, internal and/or external guidance on the identification of risky/complex and nonroutine investments, regular and systematic assessment of exposures to risky/complex and non-routine investments, and specific criteria with which to assess the security, quality and liquidity of such investments. When following up on this recommended action, it is suggested to consider the interlinkages with the supervisory approach under the IDD, including any ongoing work to review that supervisory approach.

	Area: Specificities of UIL Business
	RA 9: Managing assets in the best interests of policy holders
CZ	CNB is recommended to formulate and communicate to insurance undertakings specific expectations regarding the assessment of whether investments backing unit/index-linked contracts are made in the best interests of policy holders. These expectations should address, in particular, the appropriate management of conflicts of interests arising from investments made to back unit/index-linked policies. Communication should be carried out in a formal manner (e.g. guidelines, circulars, letters to the market, publications on websites, other type of publication) or via supervisory activities (through off and on-site inspections or other supervisory actions) based on internal supervisory guidance. When following up on this recommended action, it is suggested to consider the interlinkages with the supervisory approach under the IDD, including any ongoing work to review that supervisory approach
DK	The Danish FSA is recommended to formulate and communicate to insurance undertakings specific expectations regarding the assessment of whether investments backing unit/index-linked contracts are made in the best interests of policy holders. These expectations should address, in particular, the appropriate management of conflicts of interests arising from investments made to back unit/index-linked policies. Communication should be carried out in a formal manner (e.g. guidelines, circulars, letters to the market, publications on websites, other type of publication) or via supervisory activities (through off and on-site inspections or other supervisory actions) based on internal supervisory guidance. When following up on this recommended action, it is suggested to consider the interlinkages with the supervisory approach under the IDD, including any ongoing work to review that supervisory approach.
EL	BoG is recommended to formulate and communicate to insurance undertakings specific expectations regarding the assessment of whether investments backing unit/index-linked contracts are made in the best interests of policy holders. These expectations should address, in particular, the appropriate management of conflicts of interests arising from investments backing unit/index-linked policies and the appropriate controls relating to the selection and monitoring of specific investment

	vehicles. Communication should be carried out in a formal manner (e.g. guidelines, circulars, letters to the market, publications on websites, other type of publication) or via supervisory activities (through off-site and on-site inspections or other supervisory actions) based on internal supervisory guidance. When following up on this recommended action, it is suggested to consider the interlinkages with the supervisory approach under the IDD, including any ongoing work to review that approach.
IE	CBI is recommended to formulate and communicate to insurance undertakings specific expectations regarding the assessment of whether investments backing unit/index-linked contracts are made in the best interests of policy holders. These expectations should address, in particular, the appropriate controls relating to the selection and monitoring of specific investment vehicles. Communication should be carried out in a formal manner (e.g. guidelines, circulars, letters to the market, publications on websites, other type of publication) or via supervisory activities (through off and on-site inspections or other supervisory actions) based on internal supervisory guidance. When following up on this recommended action, it is suggested to consider the interlinkages with the supervisory approach under the IDD, including any ongoing work to review that approach.
LU	CAA is recommended to formulate and communicate to insurance undertakings specific expectations regarding the assessment of whether investments backing unit/index-linked contracts are made in the best interests of policy holders. These expectations should address, in particular, the appropriate controls relating to the selection and monitoring of specific investment vehicles. Communication should be carried out in a formal manner (e.g. guidelines, circulars, letters to the market, publications on websites, other type of publication) or via supervisory activities (through off and on-site inspections or other supervisory actions) based on internal supervisory guidance. When following up on this recommended action, it is suggested to consider the interlinkages with the supervisory approach under the IDD, including any ongoing work to review that approach.
SI	AZN is recommended to formulate and communicate to insurance undertakings specific expectations regarding the assessment of whether investments backing unit/index-linked contracts are made in the best interests of policy holders. These expectations should address, in particular, the appropriate controls relating to the selection and monitoring of specific investment vehicles. Communication should be carried out in a formal manner (e.g. guidelines, circulars, letters to the market,

	publications on websites, other type of publication) or via supervisory activities (through off and on-site inspections or other supervisory actions) based on internal supervisory guidance. When following up on this recommended action, it is suggested to consider the interlinkages with the supervisory approach under the IDD, including any ongoing work to review that approach.
SK	NBS is recommended to formulate and communicate to insurance undertakings specific expectations regarding the assessment of whether investments backing unit and index-linked contracts are made in the best interests of policy holders. These expectations should address, in particular, the appropriate management of conflicts of interests arising from investments made to back unit/index-linked policies and the appropriate controls relating to the selection and monitoring of specific investment vehicles. Communication should be carried out in a formal manner (e.g. guidelines, circulars, letters to the market, publications on websites, other type of publication) or via supervisory activities (through off and on-site inspections or other supervisory actions) based on internal supervisory guidance. When following up on this recommended action, it is suggested to consider the interlinkages with the supervisory approach under the IDD, including any ongoing work to review that approach.

ANNEX 3 – BEST PRACTICES IDENTIFIED DURING THE REFERENCE PERIOD

Use of tools and indicators by CBI-IE

The planning process starts in August in advance of each year. This includes sector wide risk scanning, consideration of the NCA and EIOPA priorities, resulting ultimately in the development of undertaking level supervision plans. Each undertaking level plan will consider investment risk, and if a comprehensive review is required during the period. KRIs and a base assessment by the supervision team would inform this decision. Very specific tasks would be added to the annual plan based on this (e.g. deep dive on company X's investments due to a perceived risk or an onsite inspection planned). An Investment Risk Dashboard (in-house IT tool) was designed to help assist in the completion of the risk assessments. There are KRIs for market risk and liquidity risks. They are all based upon the Balance sheet totals of the various asset types. Some KRIs trigger if the total in the asset type is above a threshold % of total assets and some trigger if the asset type increases or decreases by a certain %. These KRIs look at the Balance sheet level of asset classes and flag large movements or if an undertaking is holding a large % of certain asset types. The share of non-traditional investments, share of sub-investment grade bonds, ratio of assets valued using alternative valuation methods would be covered during risk assessment by supervisors.

ANNEX 4 – TASKS OF THE AD-HOC PRC AND ORGANISATION OF THE WORK AND TERMS OF REFERENCE

The PRC's tasks are:

- Prepare Terms of Reference (ToR) for the peer review.
- Prepare the self-assessment questionnaire.
- Evaluate the answers to the self-assessment questionnaire.
- Perform a comparative analysis, including any initial clarification of responses.
- Develop an overview with the initial findings on which basis the ad hoc PRC decides on priorities and means of fieldwork.
- Perform field work (e.g., conference calls and written procedures).
- Draft Evaluation Letters with reasoned main findings to be sent by the EIOPA Executive Director to the BoS members.
- Prepare the Peer Review Report in consultation with the MB to maintain consistency with other peer review reports and ensuring a level playing field.
- Contact the single-point-of-contact list of national peer review coordinators and assesses if certain information is not to be published for confidentiality or sensitivity reasons.

ANNEX 5 – TERMS OF REFERENCE

Background	Article 30 of the EIOPA Regulation establishes that EIOPA must conduct peer reviews of some or all the activities of National Competent Authorities ("NCAs"), to further strengthen consistency and effectiveness of supervisory outcomes. Detailed guidance on the rules governing the peer review and its methodology are included in EIOPA Decision on peer reviews[44]. In particular, this Terms of Reference is prepared in accordance with Article 17 of the mentioned EIOPA Decision. A **Peer Review on Prudent Person Principle (PPP)**, in the insurance sector ((IORPs are excluded from the scope of this peer review[45]), has been agreed in the two-year peer review work plan 2023-2024, published in EIOPA website[46], to be performed in 2023. EIOPA has planned this review in light of the importance of the investment activity for the insurance business model[47] and considering that the supervision of this principle-based requirement[48] is often mentioned by the NCAs as a challenge (i.e. in the case of need to take supervisory actions). Furthermore, the monitoring of investment strategies in a risk-based approach, where capital requirements are closely linked to the type of investments, is key, including identification of new types of investments or trends in investment strategies. The PPP Peer Review is performed by the ad hoc Peer Review Committee (PRC), as approved by the EIOPA BoS composed by EIOPA staff members (including the chair[49]) and representative by seven competent authorities[50] who are knowledgeable on the topic.

44 https://www.eiopa.europa.eu/sites/default/files/publications/2022_02_14_-_decision_on_peer_reviews.pdf

45 The supervisory practices with respect to the application of the prudent person rule for IORPs were assessed separately with a peer review concluded in April 2019 (the follow-up has started in January 2023).

46 https://www.eiopa.europa.eu/sites/default/files/publications/other_documents/eiopa-bos-22-345_peer_review_work_plan_2023-2024.pdf

47 To give an idea, it is worth reminding that in 2021 the SCR (Standard Formula) for Market risk accounted for 76% of the Basic SCR (without considering the diversification effects) for Composite undertakings, 75% for Life undertakings, 55% for Non-Life undertakings and 53% for Reinsurance undertakings.

48 Articles 132 and 133 of the Solvency II Directive.

49 Giovanni Rago (Chair), Miguel Caballero (Member), Timothy Walter (EIOPA) and additional EIOPA staff members for administrative support.

50 Baldacchino Diane (MFSA MT), Sedej Metka (AZN SI), Edo Alicia (DGSFP, ES), Konrat Angeliki (BoG GR), Mattiozzi Silvia (IVASS IT), Truyens Alexandre (NBB BE), Zagema Jan Sybren (DNB NL).

<table>
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<td>Purpose and Scope of the peer review</td>
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Considering the broad scope of the PPP and the need to keep the review targeted, it will focus on the following two aspects:
1) Investments in non-traditional or more complex assets, including derivatives (above all in case of their use for efficient portfolio management) with a focus on prudential risks; and
2) Assets backing unit/index linked (UIL) contracts where the risk is borne by policyholders, including the option for Member States to restrict the type of assets or reference values to which policy benefits may be linked, with a focus on conduct risks[51].
The peer review could also offer the possibility to collect information about the use of the option, provided by the Solvency II Directive, for Member States to restrict the type of assets or reference values to which policy benefits may be linked[52] as well as assess best practices on use of SupTech which can be spread to other NCAs.
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<tr>
<td>Tasks of the ad hoc PRC</td>
<td>
<u>The PRC’s tasks are</u>:
In the Preparatory phase:

Prepare Terms of Reference (ToR) for the peer review.
Prepare the self-assessment questionnaire.
In the Review phase: Evaluate the answers to the self-assessment questionnaire.
Perform a comparative analysis, including any initial clarification of the responses.
Develop an overview with the initial findings on which basis the ad hoc PRC decides on priorities and means of fieldwork.
Perform field work (e.g. visits, conference calls and written procedures).
Draft Evaluation Letters with reasoned main findings to be sent by the EIOPA Executive Director to the BoS members.

Final outcomes phase:

Prepare the Peer Review Report in consultation with EIOPA Management Board to maintain consistency with other peer review reports and ensuring a level playing field.
Contact the single-point-of-contact list of national peer review coordinators and assesses if certain information is not to be published for confidentiality or sensitivity reasons.

The assessment will be based on the compliance with the relevant provisions and application of guidance listed in Annex I.
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</table>

51 For example, ensuring investment is made in the best interest of policy holders and beneficiaries and matches the target investment strategy of the product. However, prudential issues may also arise stemming, for example from reputational risk.

52 See Article 133, paragraph 3, of the Solvency II Directive.

<table>
<tr><td>Subjective scope of application

(Participants)</td><td>EIOPA's peer reviews have so far included all national NCAs (with one exception only[53]) in the scope of the assessment with the benefit to ensure a full assessment of all NCAs, which comes at the expense of the length and complexity of the process (aspects pointed out by the European Court of Auditors[54]).
Where the topic covered by a peer review is not materially relevant to a given competent authority, EIOPA's recently approved Decision on peer reviews allows the concerned Member States to request EIOPA to reduce their scope of application or to be fully exempted from the peer review[55].
The overall aim of this provision is to improve efficiency, speed and accuracy of the peer review process and to increase the relevance for specific supervisory situations that occur repeatedly.
In order to facilitate the first application of this provision, EIOPA prepared an impact assessment, based on simple, clear, objective (not judgmental) criteria, to identify Member States which, in EIOPA staff's view, were expected to consider requesting EIOPA to be included in the peer review with a limited scope (reduction of scope) or excluded from the full scope of the peer review (waiver). Further information on EIOPA impact assessment is reported in Annex II.

The final scope of the peer review includes 24 Member States out of 30:
▪ Full scope: 13 Member States (AT, BE, DK, FI, FR, IE, LT, LU, LV, NL, SE, SI, SK) are included for both topics (non-UL and UL).
▪ Reduced scope: 10 Member States are included in one out of two topics, namely:
  • 7 Member States are included for non-UL only, (BG, CY, DE, HR, IS[56] IT, NO) and
  • 4 Member States are included for UL only (CZ, GR, LI, PL).
▪ Exempted: 6 Member States (EE, ES, HU, MT, PT, RO) are exempted.</td></tr>
<tr><td>Reference period</td><td>The reference period for the Peer Review on PPP is from 01.01.2016-31.12.2022.</td></tr>
</table>

53 In the IORPs peer reviews the NCAs of the Czech Republic, Estonia, Iceland, Lithuania, and Romania were out of scope of this peer view because no IORPs operated in these countries during the reference period.

54 https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=47562

55 Article 10(1) of the EIOPA Decision on peer reviews on reduction of scope (lett. a)) and waiver from the peer review (lett. b)), which will be approved by EIOPA Executive Director, upon request by the concerned NCAs supported by sufficient evidence.

56 Following the request submitted by Iceland in May 2023, CBI-IS participated in the peer review with a reduced scope.

Timeline	The ad hoc PRC will prepare a peer review report and the reasoned main findings of the peer review for adoption by the EIOPA BoS for publication in accordance with Article 30 of the EIOPA Regulation. The peer review will be conducted along the following key milestones: ➢ **Establishment Phase (Sept. – beginning Dec 2022) – completed** (preparatory work by EIOPA staff, drafting mandate, call for candidates, setup of ad hoc PRC) ➢ **Preparatory Phase (January - February 2023)** (drafting Terms of Reference and Self-Assessment Questionnaire) ➢ **Self-assessment Phase (March-May 2023)** (Launch of the Self-Assessment Questionnaire and its completion by NCAs) ➢ **Review by ad hoc PRC (May – November 2023)** (analysis of replies to Self-Assessment Questionnaire, fieldwork, assessment letters to NCAs and preparation of the draft peer review report) ➢ **Final outcomes** and **publication (December 2023 – January/February 2024)** (submission of the peer review report to BoS for written approval, after the factual check by NCAs) ➢ **Monitoring Phase** *(EIOPA staff work)* **(Q1 2025)** Within a year from the publication of the report, EIOPA, upon request and where relevant, will eventually contact some NCAs to monitor the progress of implementation of the recommended actions addressed to them later During the process, Supervisory Steering Committee (SSC) will be kept informed and, if relevant, strategic and/or highlighted issues will be brought to the attention of the Committee.
Peer's expectations	Peers' expectations sets out what would be reasonable to expect from a Competent Authority regarding the supervision of the regulatory framework applicable to the PPP. The purpose of the peer's expectations is to be used as a benchmark, therefore not exhaustive, for the ad hoc PRC to assess the framework established and the activities typically performed by the National Competent Authorities. Peer expectations can be divided in two main blocks, namely policy and supervisory activities, where the latter one is obviously more important: Policy activities: - Regulatory framework: NCAs should have implemented in the national regulatory framework all relevant provisions from the European regulatory framework on PPP.

	- Communication to the market: NCAs are expected to set clear expectations to the market on the key elements of PPP and material market risks (through for examples circulars, letters, thematic review, public events, meeting with insurance undertakings, etc.). <u>Supervisory Activities</u>: - Supervisory Review Process: NCAs should have developed specific criteria and methods to supervise PPP through off-site analysis and on-site inspections. - Supervision of undertakings' investment framework: NCAs are expected to have a proper understanding and review of undertaking's investment strategy and the governance process around it. - Supervision of the overall prudence of undertakings investment portfolio: NCAs should have in place a supervisory framework to assess the overall prudence of investment portfolios, including at least their security, quality, liquidity and profitability; asset-liability management; conflicts of interest; diversification. - Supervision of risks stemming from individual investments: NCAs should have in place a supervisory framework to assess investments and their valuation on an individual basis. For this peer review, this will only be assessed for complex, risky and/or non-traditional investments. - Unit/Index-linked (UIL) specific considerations: In addition to the previous points, NCAs should have in place a supervisory framework to assess, at least, basis risk from the actual assets held, whether UIL investments are suitable for retail investors, whether UIL investments are chosen in the best interests of policyholders and whether conflicts of interests are appropriately managed. The specific criteria to assess these peers' expectations will be based on the EU regulatory framework, guidance from EIOPA or any other relevant provisions which Competent Authorities are expected to apply. A non-exhaustive list of the provisions to be considered is included in the below Annex.

List of relevant Regulation and guidance

- Solvency II Directive article 36(2)(d)
- Solvency II Directive articles 132 and 133

- Solvency II Delegated Regulation Article 275a[57]
- EIOPA Guidelines on System of Governance and in particular section 5 (GL 27-35) and paragraph 1.11
- EIOPA Supervisory Handbook chapter on Prudent Person Principle supervision
- EIOPA Guidelines on supervisory review process
- EIOPA document on key characteristics of high quality and effective supervision (A Common Supervisory Culture)[58]
- EIOPA Opinion on monetary incentives and remuneration between providers of asset management services and insurance undertakings
- EIOPA Framework for assessing conduct risk through the product lifecycle
- EIOPA Supervisory Statement on the assessment of value for money of unit-linked insurance products under product oversight and governance

[57] Article added by COM Delegated Regulation 2021/1256 amending the SII Delegated Regulation 2015/35 and requiring undertakings to take into account sustainability risks in the prudent person principle.

[58] https://www.eiopa.europa.eu/sites/default/files/publications/pdfs/a_common_supervisory_culture_0.pdf

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