Public consultation on the review of prudential rules for insurance and reinsurance companies (Solvency II)

Fields marked with * are mandatory.

Introduction

This consultation is now available in 23 European Union official languages. Please use the language selector at the top of this page to choose your language for this consultation.

Insurance companies play an important economic and social role. Indeed, insurance is provided for many events of human life (sickness, car accidents, fire damage, death, etc.) but also for potential liabilities as regards third parties such as medical liability. Insurers also play an important role in non-bank intermediation, for instance by channelling household savings into the financial markets and into the real economy.

The core business model of insurance companies is very specific. Insurers collect premiums from clients (referred to as “policyholders”) up-front but are only obliged to make payments if a predefined adverse event occurs at a later stage. The insurance sector is also prone to information asymmetry. In general, policyholders are less aware than the insurance company about the own ability of the latter to fulfil the terms of the contract (solvency) or the risks underlying the contract (conduct of business).

Insurance companies perform a key function in the economy, and their failure could have very detrimental consequences for its functioning. Intervention of public authorities is therefore needed, in particular to guarantee that insurance companies are able to honour insurance contracts (i.e. that they are “solvent”). For this reason, there is regulation as regards the solvency of insurance companies and for minimisation of the disruption and losses for policyholders in case of insurance failure (so-called “prudential supervision”).

Since the 1970s, the European Union (EU) has adopted a series of legislative acts (so-called “Solvency I”) aiming at facilitating the development of a Single Market in insurance services, whilst securing an appropriate level of policyholder protection. However, this framework was characterised by a number of structural weaknesses. In particular, it ignored key risks faced by insurers (for instance, risks of negative downturns in financial markets) and did not guarantee an equivalent level of protection for all citizens in Europe.

Solvency II which entered into application in 2016, introduces for the first time a harmonised, sound and robust prudential framework for insurance firms in the EU. It is based on the risk profile of each individual
insurance company but still ensures comparability, transparency and competitiveness. The Solvency II framework consists of three 'pillars':

- quantitative requirements, including the rules to value assets and liabilities (in particular, technical provisions – liabilities towards policy holders), to calculate capital requirements and to identify eligible own funds to cover those requirements (referred to as “Pillar 1”);
- requirements for risk management, good governance, as well as the details of the supervisory process with competent authorities (“Pillar 2”);
- requirements on transparency, reporting to supervisory authorities and disclosure to the public (“Pillar 3”).

The same approach is being applied for insurance groups as for individual insurers, so that groups are recognised and managed as economic entities.

As confirmed by stakeholders’ statements at the recent conference organised by the European Commission on the review of Solvency II on 29 January 2020, the general perception is that the European framework as a whole functions well. At the same time, the experience gained from the first years of application of the Solvency II framework and the feedback received from industry stakeholders and public authorities have identified a number of areas, which could deserve a review. Furthermore, the framework also needs to take into account the political priorities of the European Union (notably the European Green Deal, the completion of the Capital Markets Union, and the strengthening of the single market) and should also be flexible enough to cope with any economic and financial developments (including the unprecedented protracted low – and even negative – interest rate environment).

Following a [formal request for advice](https://www.eiopa.europa.eu) that was sent by the European Commission to the European Insurance and Occupational Pensions Authority (EIOPA) in February 2019, EIOPA conducted three technical consultations covering the 19 topics of the Solvency II review that were identified by the European Commission.

In parallel to EIOPA’s work on the review, the European Commission intends to collect feedback from a wider audience, including policyholders, consumer associations, and financial market stakeholders other than insurers, by conducting its own consultation on the review. This more general consultation will cover four main areas:

1. long-termism and sustainability of insurers’ activities and priorities of the European framework;
2. proportionality of the European framework and transparency towards the public;
3. possibilities to improve citizens’ trust, to deepen the single market in insurance services and to enhance policyholder protection and financial stability;
4. new emerging risks and opportunities (e.g. sustainability, technological developments, etc.) that may need to be addressed by the European framework.

The results of the present consultation will complement the one resulting from EIOPA’s technical consultations. They will all feed into the European Commission review process of the Solvency II framework.

---

[1] Note that throughout this consultation document, unless explicitly stated otherwise, the term “insurance” encompasses both insurance and reinsurance.

[2] For instance, a house fire, a car accident causing damages to the policyholder’s car or physical injuries, the death of the insured triggering the payment of accumulated capital to pre-determined beneficiaries in the case of a life insurance contract, etc.

[3] The recording of the conference is available here.
Please note: In order to ensure a fair and transparent consultation process only responses received through our online questionnaire will be taken into account and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-s2review-consultation@ec.europa.eu.

More information:

- [on this consultation](#)
- [on the consultation document](#)
- [on Solvency II](#)
- [on the protection of personal data regime for this consultation](#)

About you

* Language of my contribution
  - Bulgarian
  - Croatian
  - Czech
  - Danish
  - Dutch
  - English
  - Estonian
  - Finnish
  - French
  - Gaelic
  - German
  - Greek
  - Hungarian
  - Italian
  - Latvian
  - Lithuanian
  - Maltese
  - Polish
  - Portuguese
  - Romanian
I am giving my contribution as

- Academic/research institution
- Business association
- Company/business organisation
- Consumer organisation
- EU citizen
- Environmental organisation
- Non-EU citizen
- Non-governmental organisation (NGO)
- Public authority
- Trade union
- Other

* First name

Peter

* Surname

Norwood

* Email (this won't be published)

peter.norwood@finance-watch.org

* Organisation name

Finance Watch

* Organisation size
- Micro (1 to 9 employees)
- Small (10 to 49 employees)
- Medium (50 to 249 employees)
- Large (250 or more)

Transparency register number

255 character(s) maximum
Check if your organisation is on the transparency register. It's a voluntary database for organisations seeking to influence EU decision-making.

37943526882-24

* Country of origin

Please add your country of origin, or that of your organisation.

- Afghanistan
- Åland Islands
- Albania
- Algeria
- American Samoa
- Andorra
- Angola
- Anguilla
- Antarctica
- Antigua and Barbuda
- Argentina
- Armenia
- Aruba
- Australia
- Austria
- Azerbaijan
- Bangladesh
- Barbados
- Belarus
- Belgium
- Belize
- Benin
- Bermuda
- Bhutan
- Bolivia
- Bosnia and Herzegovina
- Botswana
- Brazil
- British Indian Ocean Territory
- British Virgin Islands
- Brunei Darussalam
- Bulgaria
- Burkina Faso
- Burundi
- Cambodia
- Cameroon
- Cape Verde
- Cayman Islands
- Central African Republic
- Chad
- Chile
- China
- Christmas Island
- Colombia
- Comoros
- Congo
- Cook Islands
- Costa Rica
- Croatia
- Cuba
- Cyprus
- Czech Republic
- Denmark
- Djibouti
- Dominica
- Dominican Republic
- Ecuador
- Egypt
- El Salvador
- Equatorial Guinea
- Eritrea
- Estonia
- Eswatini
- Ethiopia
- Falkland Islands
- Faroe Islands
- Fiji
- Finland
- France
- French Guiana
- French Polynesia
- French Southern Territories
- Gabon
- Gambia
- Georgia
- Germany
- Ghana
- Grenada
- Greenland
- Grenada
- Guadeloupe
- Guam
- Guinea
- Guinea-Bissau
- Guyana
- Haiti
- Heard Island and McDonald Islands
- Honduras
- Hong Kong
- Hungary
- Iceland
- India
- Indonesia
- Iran
- Iraq
- Ireland
- Isle of Man
- Israel
- Italy
- Jamaica
- Japan
- Jersey
- Jordan
- Kazakhstan
- Kenya
- Kiribati
- Korea
- Krym
- Kuwait
- Kyrgyzstan
- Laos
- Latvia
- Lebanon
- Lesotho
- Liberia
- Libya
- Liechtenstein
- Lithuania
- Luxembourg
- Macau
- Madagascar
- Malawi
- Malaysia
- Maldives
- Mali
- Malta
- Marshall Islands
- Martinique
- Mauritania
- Mauritius
- Mayotte
- Mexico
- Micronesia
- Moldova
- Monaco
- Mongolia
- Montenegro
- Montserrat
- Morocco
- Myanmar
- Namibia
- Nepal
- Netherlands
- Nepal
- Nauru
- Nicaragua
- Niger
- Nigeria
- Niue
- Norfolk Island
-Northern Ireland
- Norway
- Oman
- Pakistan
- Palau
- Panama
- Papua New Guinea
- Paraguay
- Peru
- Philippines
- Pitcairn Islands
- Poland
- Portugal
- Puerto Rico
- Qatar
- RA
- Romania
- Russian Federation
- Rwanda
- Saint Kitts and Nevis
- Saint Lucia
- Saint Pierre and Miquelon
- Saint Vincent and the Grenadines
- Samoa
- San Marino
- Saudi Arabia
- São Tomé and Príncipe
- Senegal
- Serbia
- Seychelles
- Sierra Leone
- Singapore
- Sint Maarten
- Slovakia
- Slovenia
- South Africa
- South Georgia and the South Sandwich Islands
- South Korea
- Spain
- Sri Lanka
- Sudan
- Suriname
- Swaziland
- Sweden
- Switzerland
- Syria
- Taiwan
- Tajikistan
- Tanzania
- Thailand
- Timor-Leste
- Togo
- Tonga
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
-Turkmenistan
- Tuvalu
- Ukraine
- United Arab Emirates
- United Kingdom
- United States
- Uruguay
- Uzbekistan
- Vanuatu
- Venezuela
- Vietnam
- Virgin Islands (British)
- Virgin Islands (U.S.)
- Wallis and Futuna
- Western Sahara
- Yemen
- Zambia
- Zimbabwe
- Zanzibar
<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>French Guiana</td>
<td>Mexico</td>
</tr>
<tr>
<td>Bahrain</td>
<td>French Polynesia</td>
<td>Micronesia</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>French Southern and Antarctic Lands</td>
<td>Moldova</td>
</tr>
<tr>
<td>Barbados</td>
<td>Gabon</td>
<td>Monaco</td>
</tr>
<tr>
<td>Belarus</td>
<td>Georgia</td>
<td>Mongolia</td>
</tr>
<tr>
<td>Belgium</td>
<td>Germany</td>
<td>Montenegro</td>
</tr>
<tr>
<td>Belize</td>
<td>Ghana</td>
<td>Montserrat</td>
</tr>
<tr>
<td>Benin</td>
<td>Gibraltar</td>
<td>Morocco</td>
</tr>
<tr>
<td>Bermuda</td>
<td>Greece</td>
<td>Mozambique</td>
</tr>
<tr>
<td>Bhutan</td>
<td>Greenland</td>
<td>Myanmar /Burma</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Grenada</td>
<td>Namibia</td>
</tr>
<tr>
<td>Bonaire Saint Eustatius and Saba</td>
<td>Guadeloupe</td>
<td>Nauru</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>Guam</td>
<td>Nepal</td>
</tr>
<tr>
<td>Botswana</td>
<td>Guatemala</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Bouvet Island</td>
<td>Guernsey</td>
<td>New Caledonia</td>
</tr>
<tr>
<td>Brazil</td>
<td>Guinea</td>
<td>New Zealand</td>
</tr>
<tr>
<td>British Indian Ocean Territory</td>
<td>Guinea-Bissau</td>
<td>Nicaragua</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>Guyana</td>
<td>Niger</td>
</tr>
<tr>
<td>Brunei</td>
<td>Haiti</td>
<td>Nigeria</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Heard Island and McDonald Islands</td>
<td>Niue</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Honduras</td>
<td>Norfolk Island</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Field of activity or sector (if applicable)

**at least 1 choice(s)**

- Accounting
- Auditing
- Banking
- Credit rating agencies
- Insurance and reinsurance
- Pension provision
- Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- Social entrepreneurship
- Other
- Not applicable

*Please specify your activity field(s) or sector(s):*

EU financial services legislation

*Publication privacy settings*

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

- **Anonymous**
  
  Only your type of respondent, country of origin and contribution will be published. All other personal details (name, organisation name and size, transparency register number) will not be published.
Public

Your personal details (name, organisation name and size, transparency register number, country of origin) will be published with your contribution.

I agree with the personal data protection provisions

Section 1: Long-termism and sustainability of insurers' activities, and priorities of the European framework

The main objective of Solvency II is the protection of policyholders.

The protection of policyholders requires that insurance companies are subject to effective solvency requirements based on the actual risks they are facing. Such a framework provides incentives for insurance companies to appropriately measure and manage their risks. The framework is defined in such a way that the risk of an insurance failure, even though not null, is of very low probability, as an insurer complying with its requirements is supposed to be able to cope with an extreme adverse event whose probability of occurrence is only 1 in every 200 years.

At the same time, it is important to ensure that insurers are not hindered from providing long-term funding to the European economy in line with the European Commission’s political priorities such as:

- the European Green Deal, which should make Europe the world’s first climate-neutral continent by 2050. To achieve this ambition, there are significant investment needs as well as opportunities. Their magnitude requires mobilising both the public and private sectors, including insurance companies;

- the completion of the Capital Markets Union (CMU), which aims to mobilise financial resources in Europe and channel them to all companies, including small and medium-sized enterprises (SMEs), and in infrastructure projects that Europe needs to expand and create jobs.

Solvency II includes a series of provisions aiming to ensure that the framework does not unduly prevent insurers from providing financing to the economy and to offer life insurance products with guaranteed returns (or capital guarantee). However, according to some stakeholders, European legislation has incentivised insurance companies to retrench from more long-term and thus illiquid assets (e.g. infrastructure projects). This may negatively affect European economic growth, and result in lower expected returns for life insurance policyholders.

Moreover, the current heightened equity and credit spreads volatility and the significant stock market contraction stemming from the Covid-19 crisis, as well as the vulnerabilities in the real estate sector must be taken into account when reviewing the existing rules. The prudential framework should provide the right incentives for robust risk management while avoiding excessive risk-taking, and limiting financial stability implications. At the same time, it should avoid procyclical behaviour and not unduly prevent insurers from contributing to the long-term financing of the economic recovery of the European Union in the aftermaths of the current crisis.

In addition, while insurers' investments are exposed to risks related to climate change and reputational risk, European legislation may not appropriately reflect those risks, hence not providing the right incentives. The European Central Bank recently showed that climate change-related risks have the potential to become systemic for the euro area through possible significant exposures to climate risk, which are currently not included in the prudential framework.

Finally, over the recent years, insurers have faced an unprecedented environment of low interest rates, which is progressively deteriorating their profitability. This can raise several concerns. First, despite the prudential framework, it can incentivise insurers to “search for yield” by taking more risks and investing in more complex securities, as pointed out by the European Central Bank in November 2019. Second, the low interest rate environment can also materially...
affect the life insurance landscape, and the ability of insurers to offer insurance products with guarantees. The current trend of risk shifting to policyholders can result in new challenges, depending on customers’ risk tolerance and financial literacy.


[5]↑ See the special feature “Climate change and financial stability” published in May 2019 as part of the European Central Bank’s Financial Stability Review.


Objectives of the framework and priorities of the review

According to the current European legislation, “the main objective of insurance and reinsurance regulation and supervision is the adequate protection of policy holders and beneficiaries. (...) Financial stability and fair and stable markets are other objectives of insurance and reinsurance regulation and supervision which should also be taken into account but should not undermine the main objective”.

Question 1: What could be the renewed objectives of European legislation for insurance companies?

On a scale from 1 to 9 (1 being “not important at all” and 9 being “of utmost importance”), please rate, and if possible rank, each of the following proposals.

<table>
<thead>
<tr>
<th>Proposal</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>Don't know/no opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policyholder protection</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial stability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fostering investments in environmentally-sustainable economic activities which will be defined in the EU taxonomy[7]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fostering long-term investments in the real economy and providing long-term financing to European companies, including SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensuring a fair and stable single market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[7]↑ The taxonomy is a clear and detailed EU classification system for sustainable and environmentally-sustainable activities, which is currently under development. It is aimed to become a “common language” for all actors in the financial system.
If you identify other political objectives, please specify them and give a rating of their importance from 1 to 9 for each of them:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It is important to point out that the goals of making sure that the Solvency II framework is robust enough to ensure financial stability and the sustainable finance agenda go hand in hand. The industry argues that Solvency II is already robust enough (even too conservative) to provide for financial stability and policyholder protection and that therefore the review now needs to focus on making the framework less conservative as this is the only way to allow insurers to free up capital and invest in the Green Deal.

In our view, however, this is a flawed logic. As we explain in more detail in subsequent questions of this consultation, climate change is a major cause of financial instability and the Solvency II framework currently does not take account of this sufficiently, both on the asset and liability side (capital charges for fossil fuel assets as well as a correct valuation of liabilities which are impacted by climate-change causing natural catastrophes).

Moreover, lowering of capital requirements will not automatically lead to insurers investing more in sustainable assets. The same also applies to more and better ESG disclosures. It is doubtful that insurers will simply modify their investment behaviour impacting their socio-environment (inside-out extra-financial impact) once they have more capital at their disposal and more and better ESG data. Insurers, like all financial market players, “finance the world as it is” and, confronted with two profitable projects, one sustainable and one non-sustainable, provide capital to both projects, regardless of their respective colour. Lowering capital requirements across the board (and improving ESG disclosures) will therefore not change insurers' behavior. Only a change of regulation (e.g. increasing capital charges for fossil fuel assets) can achieve this objective.

Question 2: In light of market developments over the recent years, in particular the low or even negative interest rates environment and the Covid-19 crisis, what should be the priorities of the review of the European legislation for insurance companies?

On a scale from 1 to 9 (1 being “low priority” and 9 being “very high priority”)? Please rate, and if possible rank, each of the following proposals.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>Don’t know/no opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring that insurers remain solvent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Ensuring that insurers’ obligations to the policyholders continue to be fulfilled even in the event that they fail</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensuring that there are no obstacles for insurance companies to contribute to the investment needs of the European Green Deal, i.e. fostering insurers’ investments that help the transition to carbon neutrality by 2050</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensuring that there are no obstacles for insurance companies to invest in accordance with the objectives of the Capital Markets Union, i.e. fostering insurers’ long-term financing of the European economy, including SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilitating insurers’ ability to offer (sufficiently) high returns to policyholders, even if this implies taking more risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilitating insurers’ ability to offer products with long-term guarantees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensuring that insurers do not face liquidity issues (i.e. that they have sufficiently liquid assets) to meet at all times short-term obligations[8]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preventing the build-up of systemic risk and ensuring financial stability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[8]↑ i.e. cash or other highly marketable securities.

---

If you identify other priorities, please specify them and give a rating from 1 to 9 to each of them:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The primary goals of this review should be to make sure that the framework provides for financial stability, policyholder protection and addresses climate risks (which is linked to financial stability). In these areas, Solvency II does not adequately address a number of risks:

- There have been failures of insurance companies in recent years and cases of near failures as rightly
highlighted by the ESRB and EIOPA (e.g. see Report on systemic risks in the EU insurance sector – Annex 3, ESRB, December 2015 and ‘Failures and near misses in insurance, EIOPA, 2018).

- Furthermore, there have been liquidity stresses, for example, policyholders lapsing in high numbers (e.g. the case of the key Belgian insurer Ethias).
- Interest rates have been very low and are expected to remain so over the next years, leading to insurers engaging in riskier behaviors to have higher returns.
- Insurers are facing threats to their solvency due to the risks posed by climate change: insurers are invested in a high number of fossil fuel assets which will become stranded and therefore worthless in a few years’ time. Moreover, as natural catastrophes increase as a result of climate change, the liabilities of insurers are increasing. Since insurers are not able to adequately quantify climate risks over time, they are currently inevitably underestimating the valuation of their liabilities and not holding enough capital to meet them.
- Data shows that the stresses of the current corona crisis (whose economic consequences will likely persist for some time and may get worse) are having impacts and will continue to impact the solvency of insurers.

New tools are needed within Solvency II to adequately address these risks (e.g. through a harmonised recovery and resolution framework, a liquidity buffer, etc.). We will explore these issues and more in more detail in the subsequent questions of the consultation.

Capital requirements for investments in SMEs (both in equity and debt), for long-term investments and for sustainable investments

Question 3: Have the recent changes to the prudential framework regarding equity investments appropriately addressed potential obstacles to long term investments?

☐ Yes
☐ No, the recent changes will not have a material impact on insurers’ ability to invest for the long term
☐ Don’t know/no opinion

Please specify what the remaining obstacles are, and how to address them while preserving the necessary prudential safeguards to ensure policyholder protection:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The Commission should carefully investigate concerns raised by many stakeholders that certain risk charges in Solvency II are not properly calibrated and discourage investment in equities, listed and unlisted, and unrated debt. There may to be evidence to suggest that insurers have scaled back their engagement in equities and that private equity funds are able to outbid the public markets for assets. We recognise that this could be attributable, at least in part, to different drivers such as perceived excessive valuation levels in
listed equities and the ability of private equity funds to take on high levels of very low cost debt. However, if the Commission can establish that there is genuine evidence of an imbalance in Solvency II that penalises equities and discourages insurers from investing in the real economy then it should be addressed.

Question 4: Does the prudential framework set the right incentives for insurers to provide long-term debt financing to private companies, including SMEs (i.e. to invest for the long-term in long-maturity debt instruments)?

Please indicate the statements with which you agree.

at least 1 choice(s)

☐ Yes, the framework provides the right incentives

☐ No, investments in long-maturity bonds (more than 15 years) should be less costly for insurers, regardless of whether they hold their investments for the long term

☐ No, there should be a preferential treatment for long-term investments in bonds that are held close to maturity, with appropriate safeguards\[9\]

☐ No, and in order to effectively reduce the cost of investment in bonds, Solvency II should allow all insurers to apply the dynamic modelling of the volatility adjustment

☐ No, and I have another proposal to address this issue

☑ Don't know/no opinion

\[9\] Note that in this case, it may be justified that the capital relief cannot exceed the one stemming from matching adjustment.

Insurers’ contribution to the objective of a sustainable economic growth and policyholder protection

Solvency II is a risk-based and evidence-based framework. This implies in particular that the quantitative rules governing capital requirements for insurers’ investments are supported by quantitative evidence. This entails a need for sufficient and robust data to support changes to Solvency II, which could further incentivise insurers to contribute to the long-term and sustainable financing of the European economy, while preserving the necessary level of policyholder protection embedded in the framework.

In particular, there is a need for sufficient evidence that the risk of investment in SMEs or in environmentally-sustainable economic activities and associated assets is lower than what the current prudential rules would imply.

Question 5: Do you agree or disagree with each of the following proposed change to quantitative rules in Solvency II?
Agree | Disagree | /no opinion
--|--|--
We should make it less costly for insurers to invest in SMEs

We should make it less costly for insurers to invest in environmentally-sustainable economic activities and associated assets (so-called "green supporting factor")

We should make it more costly for insurers (and therefore provide disincentives) to invest in activities and associated assets that are detrimental to the objective of a climate-neutral continent (so-called "brown penalizing factor")

Please explain your reasoning for your answer to question 5 (if needed):

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There is a need to adjust the capital charges for insurance companies' investments in activities and associated assets that are detrimental to the objective of a climate-neutral European economy. We are not advocating for a brown penalizing factor, but that the Solvency II rules take account of the fact that fossil fuel assets are riskier and therefore a higher capital charge should apply to them which is consistent with the current Solvency II framework.

As Finance Watch has highlighted in a recent report on the same issue in relation to the banking sector ("Breaking the climate-finance doom loop"), urgent action is needed to tackle the climate-finance doom loop, in which fossil fuel finance enables climate change, and climate change threatens financial stability. There is now broad recognition amongst central bankers, financial regulators and supervisors that climate change has a negative impact on financial stability. Insurers currently provide huge sums of finance to fossil fuel companies and thereby help finance climate change and financial instability. When insurers provide capital to fossil fuel activities, they incur the risk linked to the unavoidable decline of the value of fossil fuel enterprises, either because fossil fuel reserves will stop being exploited in future in an attempt not to exhaust the planet’s carbon budget, or because their continued exploitation will take the planet beyond the global warming tipping point and thus trigger a global economic and financial meltdown. In both scenarios, the financial value of fossil fuel reserves and companies will collapse and the implications for insurance companies exposed to those assets will be considerable. Thus, what we are advocating here is not to make it costlier to invest in non-sustainable assets to further a political goal but merely to adapt the capital charges according to the risk profile of fossil fuel assets to ensure that Solvency II can meet its goal of ensuring financial stability.

Short-term volatility, procyclicality, and insurance products with long-term guarantees

The current Covid-19 crisis, characterised by heightened volatility in financial markets, drops in stock markets, rises in spreads and a series of rating downgrades by credit rating agencies, has resulted in more volatility of insurers’ solvency positions over the last months, according to industry stakeholders and public authorities. This requires assessing the effectiveness of the mechanisms embedded in the Solvency II framework (in particular, the so-called "long-term guarantee measures and the measures on equity risk") aiming at mitigating volatility of insurers’ solvency and at avoiding procyclical behaviours. If this volatility becomes excessive, it may hinder their ability to offer products with long-
term guarantees and may incentivize them to largely shift the risk to policyholders (via the distribution of unit-linked or index-linked products). This could question the sustainability of the traditional life insurance business.

**Question 6: Does Solvency II appropriately mitigate the impact of short-term market volatility on the solvency position of insurance companies?**

- Yes
- No
- Don’t know/no opinion

Please indicate how the framework could mitigate the volatility of:

- fixed-income assets
- stock markets

Liquidity risk should be better addressed in Solvency II to mitigate the impact of short-term market volatility on the solvency position of insurance companies. As rightly pointed out by both EIOPA and the ESRB earlier this year, while insurers are less exposed to liquidity risks than banks, liquidity risks can nevertheless arise on their balance sheets. In times of shocks (such as the current one due to COVID-19), insurers can be exposed to liquidity risks triggered by factors such as sudden increases in insurance claims (e.g. business interruption), shortfalls in premia inflows (due to lower incomes), lowering new business, margin calls, a decrease in investment income and lower liquidity of insurers’ investments.

The two last risk dashboards of EIOPA confirm that the above has already been happening since the outbreak of the corona crisis and could very well continue or even get worse in the months to come. Furthermore, the recent report of the ESRB (“Enhancing the macroprudential dimension of Solvency II”) has thrown light on the fact that insurers have indeed faced mass lapse events in the past which necessitated regulatory intervention. Moreover, any liquidity risks in insurance has the potential to lead to financial stability risks due to contagion effects and due to impacts on the financial markets if insurers facing liquidity problems rapidly sell liquid assets to meet liquidity needs.

In light of this, we would urge policymakers to address liquidity risk in insurance in the Pillar 2 of Solvency II by providing supervisors with the power to require individual insurers with a vulnerable liquidity profile to hold a liquidity buffer. In order to allow supervisors to quickly assess whether an undertaking needs a liquidity buffer, a requirement should also be introduced for (re)insurers to perform internal stress testing and reporting. This should be complemented by supervisory stress tests that incorporate liquidity risk.

**Question 7: Does Solvency II promote procyclical behaviours by insurers (e.g. common behaviour of selling of assets whose market value is plunging or whose credit quality is decreased), which could generate financial instability?**
Please indicate how the framework could avoid procyclical behaviour by insurers:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In our view, existing anti-procyclicality mechanisms should be enhanced by a symmetric and transparent volatility adjustment which should form an additional own funds buffer and by addressing interactions with internal models.

Over the recent years, in some countries, insurers have favoured the supply of insurance products where the investment risk is shifted to policyholders (i.e. higher risk for policyholders, but also prospects of potential higher returns over the long run), instead of traditional life insurance products with guarantees.

In a recent report\[10\], the International Monetary Fund recommended public authorities to consider “policies serving as a disincentive to new life insurance products offering guaranteed returns”.

[10]\(^\text{↑}\) See the Global Financial Stability Report: Lower for longer (October 2019), and in particular page 47.

Question 8: Some stakeholders claim that Solvency II has incentivised insurers to shift investment risk to policyholders. Do you agree with this statement?

○ Yes
○ Yes, but it is not the most important driver
○ No
○ Don’t know/no opinion

Question 9: Do you agree with the International Monetary Fund that public authorities should aim to provide disincentives to the selling of new life insurance products offering guaranteed returns?

| Yes | No | Don’t know/no opinion |
From the point of view of a policyholder
In terms of financial stability

Please explain your reasoning for your answer to question 9 (if needed):

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We are of the view that new life insurance products offering guaranteed returns are unsustainable and a risk to financial stability. Given the current zero to negative interest rates environment and negative yields on most "secure" financial products, insurers offering guaranteed products could see themselves forced to invest in risky assets if they offer life insurance products offering guaranteed returns. History has shown that life insurers offering guaranteed products will do this. For example, larger-than-average spreads between return guarantees and local yields as well as duration mismatches have driven Asian life insurers (Japan, Korea, Taiwan) to search for yield, increasing their foreign assets to nearly $1.5 trillion, almost double the amount five years ago (see the IMF report). This search for higher yield behavior exposes not just individual insurers to a higher risk but could also have systemic implications leading to financial stability risks (as highlighted by the IMF as well as EIOPA and the ESRB). These risks could be further amplified during times of crises such as the current one. Therefore, guaranteed products could lead to risks that could harm policyholders to a larger extent than any benefits incurred from having products with guaranteed returns.

Prudential rules and Covid-19

The Covid-19 outbreak allows assessing the robustness of the regulatory framework under a crisis situation. As Solvency II requires insurers to set aside capital to absorb losses stemming from extreme events – including sanitary crises such as a pandemic – that occur once in two hundred years, the insurance sector proved to be in general well-prepared to cope with the current adverse financial and economic conditions.\[11\]

[11] By the end of 2019, insurers held on average an amount of capital which was more than twice as high as the one required by the legislation.

Question 10: In light of the Covid-19 crisis, have you identified any major issues in relation to prudential rules that you were unaware of or considered of lesser importance prior to the pandemic?

- Yes
- No
- Don’t know/no opinion

* Please elaborate your answer to Question 10:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.
The consequences of the crisis (e.g. on the solvency, profitability and liquidity of insurers) has again shown the importance of having macroprudential tools in place in Solvency II to address systemic, financial stability and policyholder protection risks. For example, as highlighted by the recent EIOPA risk dashboard from July 2020, profitability and solvency risks in the insurance sector remain at high level and a further deterioration for the next quarter is foreseen for SCR ratios, both life and non-life, mainly driven by the low yield environment and possible depreciation of assets in the context of Covid-19. Moreover, as highlighted under question 6, data shows that the crisis has also had impacts on the liquidity of insurers.

As highlighted already by several stakeholders such as the ESRB and EIOPA, macroprudential tools to address these risks are currently lacking in the framework and should be introduced. In our view, effective macroprudential tools to address these risks are:

- A harmonized recovery and resolution framework
- A harmonized insurance guarantee scheme
- A liquidity buffer
- Dividend restrictions and changes to variable remuneration policies of insurers during times of stress
- Discouraging the sales of life insurance products with guaranteed returns
- Capital buffers built ex-ante to cover for the potential materialisation of systemic risk, as they can be released against losses during crises and provide breathing space for insurers.

In addition, the prolonged interest rate environment has again highlighted that it is key that the interest rate risk sub-module is properly calibrated in Solvency II. The current calibration underestimates the risk and does not take into account the possibility of a steep fall of interest rates as experienced during the past years and the existence of negative interest rates.

**Other issues**

Some insurance companies are subsidiaries of (and therefore belong to) wider insurance groups. The European legislation identifies such insurance groups as integrated “economic entities”, which are therefore subject to Solvency II rules on a consolidated basis. However, under current rules, public authorities focus on ensuring that both the solo entities of the group and the group as a whole have enough capital to cover their risks.

Some stakeholders are of the view that it might be sufficient for public authorities to supervise the solvency position of insurance groups only (and not of individual insurers), and to ensure that they are sufficiently well-capitalised to support all funding needs of insurance subsidiaries. This would imply that individual insurers belonging to a group could be left under-capitalised, provided that the group as a whole is well-integrated and has sufficient available capital to cover all risks to which insurance companies within the group are exposed, and therefore to meet each subsidiary’s financing needs on demand.

**Question 11:** From the point of view of policyholders, would it be acceptable to waive Solvency II requirements to insurance companies that belong to a group, if the group as a whole is subject to “strengthened” supervision?

- ☐ Yes, it is sufficient for the insurer to rely on the group's wealth
- ☐ No, it is not sufficient for the insurer to rely on the group's wealth
- ☐ Don’t know/no opinion

Please explain your answer to question 11 (if needed):
Some stakeholders claim that Solvency II focuses too exclusively on the monitoring of individual insurers without taking into account their exposure to and interconnectedness with other insurers, the broader financial sector and the real economy.

**Question 12: Should the European legislation be amended to better take into account insurers’ exposure to and interconnectedness with the broader financial sector and the real economy? Please indicate the statements with which you agree.**

*at least 1 choice(s)*

- [x] Yes, in targeted areas of the framework[^12]
- [x] Yes, a number of gaps in the framework need to be addressed in areas other than those mentioned in the previous answer (for instance, insurers’ significant exposure to specific types of assets)
- [ ] No
- [ ] Don’t know/no opinion

[^12]: Reference can be made to the closed list of topics identified in section 3.10 of the European Commission’s [Call for advice](https://ec.europa.eu/info/sites/info/files/own_risk_and_solvency_assessment.pdf): the own risk and solvency assessment, the prudent person principle, liquidity risk management and reporting, and systemic risk management planning.

Please specify the additional instruments that you would consider, and the type of systemic/financial stability risks that those instruments would aim to address:

*2000 character(s) maximum*

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We would consider a harmonized recovery and resolution regime. This would help mitigate the impacts of failures, thus contributing to stability. A lack of harmonization makes cross-border cooperation and
coordination difficult and risks that financial stability and policyholder protection objectives are not met. In addition, current national schemes might be inadequate in the event of multiple failures or the failure of a large life insurer. This in turn may impose costs on policyholders and society in general through bailouts.

In addition, harmonized insurance guarantee schemes are needed to ensure that all policyholders across the Union are protected in the event of insurance insolvency.

Moreover, as elaborated in more detail under question 6, we think a liquidity buffer is needed to address liquidity risks.

Furthermore, we would argue for tools to address the financial stability risks posed by climate change. As explained in more detail under question 5, climate change threatens financial stability. Therefore, tackling climate change risks for insurers is important to mitigate risks to financial stability. In addition to increasing the capital charge on fossil fuel assets (as advocated under question 5), other tools to be considered are (will be explored in more detail in subsequent questions): impact underwriting and requiring climate scenario analyses as part of the ORSA.

Moreover, we support the introduction of tools for addressing risks stemming from the provision of credit to the economy, e.g. when insurers originate mortgage loans or invest in corporate bonds. The treatment of the provision of credit should be enhanced by capital-based tools for sectoral exposures and by bringing insurers in scope of borrower-based tools to ensure consistency in macroprudential policy across the financial sector.

Section 2: Proportionality of the European framework and transparency towards the public

Scope of Solvency II

Solvency II is a sophisticated while often complex prudential framework. Applying it appropriately is a costly exercise.

Therefore, certain companies that provide insurance services are not covered by the European framework due to their size, their legal status, their nature – as being closely linked to public insurance systems – or the specific services they offer. In practice, Solvency II does not apply to very small insurance companies (it is worth mentioning that the exclusion from Solvency II also prevents the insurers concerned from doing business on a cross-border basis). However, the quantitative thresholds of exclusion have not been reviewed since the entry into force of the Directive in 2009.

Increasing the quantitative thresholds of exclusion of Solvency II would result in an increase in the number of insurance companies which are not in the scope of the European framework. This increase could be justified by the objective of further alleviating undue regulatory burden for small insurers, and might result in lower premiums to be paid by policyholders of those small firms with (possibly) higher fixed costs.

On the other hand, for policyholders of those firms, which would be excluded from the scope of Solvency II, there is no guarantee that the level of protection introduced at national level would be as high as the one stemming from Solvency II rules. In addition, from a European perspective, it might be argued that new exclusions from the scope of Solvency II would go against the objectives of integration of the Single Market for insurance services and of level-playing field within the European Union.
Question 13: From the point of view of policyholders, should the scope of small insurance companies, which are not subject to Solvency II be extended?

☐ Yes
☐ No
☐ Don’t know/no opinion

Please explain your reasoning for your answer to question 13 (if needed):

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

No, it shouldn't. Very small firms are already excluded. Widening the exclusion more would potentially put policyholder protection at risk as the national rules that would be applied are not necessarily as high as the ones stemming from Solvency II.

Moreover, widening the exclusions would undermine supervisory convergence in the EU and go against the creation of a level-playing field and the integration of the Single Market.

Proportionality in the application of Solvency II

Solvency II aims at limiting the burden for small and medium-sized insurance companies within its scope. One of the tools by which to achieve that objective is the application of the proportionality principle. In other words, the requirements should be adapted and simpler when such an approach is justified by the nature, scale and complexity of the risks. That principle should apply both to the requirements imposed on insurance companies and to the exercise of powers by public authorities.

As Solvency II is a “principle-based” framework, its implementation by public authorities heavily relies on supervisory judgement by public authorities. In particular, as regards proportionality, there are only broad principles regarding the way of assessing whether a given insurer may be allowed to implement certain requirements in a more proportionate and flexible way.

In practice, this high level of supervisory discretionary power may have limited the effective implementation of the proportionality principle, and the effective possibilities for small insurers with a low risk profile to implement the framework in a simplified way.

For this reason, some stakeholders claim that Solvency II should be more “rules-based” regarding the implementation of the proportionality principle, which would require setting clear and unambiguous criteria in the legislation - for automatic allowance for simplified rules when those criteria are met. However, it may be challenging in practice to define appropriate criteria, which would take into account the actual risks faced by each insurer.

Question 14: Should public authorities have less discretion when deciding whether insurers may apply simplified approaches and/or implement
Solvency II rules in a more proportionate and flexible way? Please explain your reasoning (if needed).

- Yes
- No
- Don’t know/no opinion

Please specify the criteria that should be introduced in the European legislation, in order for an insurer which meets them to be automatically granted the use of simplified approaches and/or a more proportionate and flexible application of the rules:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Solvency II should be more “rules-based” regarding the implementation of the proportionality principle. The current system of relying on the discretion of supervisory authorities carries the risk that proportionality is not implemented in a harmonised and consistent way both within and across member states, leading to a lack of a level-playing field. Proportionality is about levelling the playing field. As with any other eco-system, diversity of insurance company sizes and business models improves the stability of the system and its resilience in times of crisis. The criteria to be used when determining whether proportionality should be applied should not be limited to the company size but also its risk profile. Different insurers have different risk profiles due to factors such as: their exposure to contagion, their level of interconnectedness to other sectors (e.g. the banking sector), whether they operate cross-border or not, their exposure to high risk activities such as derivatives, etc. This is important to ensure financial stability and policyholder protection.

We would also like to point out that proportionality should cut both ways: it is very important to ensure that there are stricter rules in place for systemically important insurers. The case of Metlife in 2012 is a very good example for why this is so important despite the current difficulties in the discussions on the development of ICS 2.0.

Scope of reporting obligations

The European framework requires insurance companies to regularly submit to public authorities the information which is necessary for the purpose of prudential supervision. However, it also contains some exemptions and limitations that national authorities can grant if the companies concerned do not represent more than 20% of a Member State’s insurance market.

Question 15: Should the exemptions and limitations always be subject to the discretion of the public authorities? Please indicate the statements with which you agree.

at least 1 choice(s)

- The current system of exemptions and limitations is satisfactory
-
The framework should also include some clear criteria for automatic exemption and limitation

- The 20% limit should be increased
- The 20% limit should be reduced
- There should be no discretion at all
- I have another answer
- Don't know/no opinion

Please specify your answer to question 15 (if needed).

In particular, if you think that there should be clear criteria for automatic exemption and limitation, please specify those criteria:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There is a need for some clear criteria for automatic exemption and limitation in the level 1. Otherwise, there is the risk of a situation where there is a lack of consistency with regards to exemptions across member states, leading to a lack of a level playing field across the Union and to an undermining of supervisory convergence and the Single Market.

In terms of criteria, the 20% threshold should not be increased. In addition to company size, the risk profile of the company should also be considered. The criteria to be used when determining the risk profile are factors such as: the exposure to potential contagion, the level of interconnectedness to other sectors (e.g. the banking sector which is quite risky), whether they operate cross-border or not, the exposure to high risk activities such as derivatives, etc.

Specificities of not-for-profit insurers

Most Solvency II rules apply uniformly to all insurers regardless of their legal form or corporate structure. This is in particular the case for governance requirements (e.g. requirements for directors and board members to have appropriate knowledge and experience).

The European legislation has required changing and strengthening the governance of mutual companies (i.e. not-for-profit companies, which are collectively owned by their members who are at the same time their clients) and paritarian institutions (i.e. not-for-profit institutions that are jointly managed by the social partners).

Question 16: Should the European framework take into account the specific features of not-for-profit insurance companies (e.g. democratic governance, exclusive use of the surplus for the benefit of the members, no dividend paid to outside shareholders)?

- Yes
- No
The areas of the framework to be adapted (quantitative requirements, etc.) should depend on the specific feature of each individual not-for-profit insurance company. For example, if a not-for-profit insurer does not pay dividends to outside shareholders, this should be taken into account in the quantitative requirements for that specific insurer.

The European framework has substantially improved transparency towards the public. Indeed, each insurer subject to Solvency II has to disclose – that is to say make it available to the public in either printed or electronic form free of charge – at least on a yearly basis, a report comprising information on its business strategy, financial and solvency situation, and risk management (so-called “Solvency and Financial Conditions Report” – SFCR).

Some insurers claim that this report is burdensome to produce and is not fit for purpose, as it may appear too complex and too detailed for current or prospective customers. On the other hand, other stakeholders in the financial industry (e.g. investors) are requesting further transparency on solvency data.

Please note that the European Commission is also reviewing the rules concerning non-financial reporting for public interest entities, including insurance companies. One of the aims of this review is to improve publicly available information about how non-financial issues, and sustainability issues in particular, impact companies, and about how companies themselves impact society and the environment. As part of this review, the European Commission launched a public separate consultation between 20 February and 11 June 2020.

Transparency towards the general public

Question 17: How can the framework facilitate policyholders’ and other stakeholders’ access to the SFCRs?

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Disagree</th>
<th>Don’t know / no opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>The current framework is sufficient, as it already requires insurers to publish their SFCR on their website if they own one</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Please specify your answer to question 17 (if needed).

In particular, if you identified other options, please elaborate:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The SFCR is an important report for policyholders as it discloses information about insurers’ business strategy, financial and solvency situation and risk management. This is important information for policyholders in their decision whether an insurance company is safe enough for them to take out an insurance policy with them and whether to renew an existing insurance policy. Likewise, it is important for policyholders with sustainability preferences to see how insurers take sustainability considerations into account.

It is important that the SFCR is easily accessible for the public on a regular basis (once a year) as the information in the SFCR (e.g. solvency situation or business strategy) can change over time. As not all insurance companies own a website and not all consumers are tech savvy, insurers should be required to send the SFCR to each policyholder by mail on a yearly basis, giving consumers the option to opt out of receiving the report by mail but in an electronic format instead. In addition, if the company owns a website, they should be required to publish it there as well.

Question 18: If you have already consulted a SFCR, did you find the reading insightful and helpful, in particular for your decision making on purchasing (or renewing) insurance, or investing in/rating an insurance company? Please indicate the statement(s) with which you agree.

at least 1 choice(s)

- The reading was insightful
- The information provided was in the right level of details
- The information provided was too detailed
- The information provided was redundant with what can be found in other public reports by insurers
- No, the reading was not insightful
- I have never consulted a SFCR
Many SFCRs are currently indeed not user-friendly for the general public as they are too complex and detailed. The reports should be made more engaging and understandable for policyholders. The professional public (e.g. investors) indeed understand and require more details and complex information than the general public (regular policyholders) and therefore it would be a good idea to split the reports between a section for the policyholders and a section for the professional public. As ESG information is also very increasingly important for policyholders and investors it is key that this kind of information is disclosed in the SFCR in an understandable way as well going forward. This information should comprise not only information on how sustainability issues impact insurers financially but also information about how insurers impact society and the environment (non-financial information).

Question 19: Which information should be provided to policyholders on insurers’ financial strength, business strategies and risk management activities? What should be the ideal format and length of the SFCR?

The SFCR for policyholders should be written in a concise, simple, objective, balanced and non-promotional form that is understandable for an average policyholder. Moreover, information should be in simple language and in the language of the policyholder.

In terms of content, it should cover as a minimum the following:

- The name and contact details of the supervisory authority responsible for financial supervision of the undertaking;
- If part of a group, information on the name of their respective group, legal form and jurisdiction of the group;
- Any significant business or other events that have occurred over the reporting period that have had or may yet have a material impact on the undertaking risk profile, such as run-off or important mergers and acquisitions;
- Quantitative information on the undertaking's underwriting performance at an aggregate level for material line of business where it carries out business over the reporting period and investment performance, including at least main items such as premiums, claims, investment return and profit and loss;
- Information regarding the consideration of ESG factors in the investment policy of the insurance or reinsurance undertaking.
- Information on the consideration of ESG factors in the underwriting practices and product pricing and design practices of the (re)insurance undertaking.
- A description of the material risks the undertaking is exposed to, including sustainability-related risks, as well as any material changes over the reporting period and a description of the applied risk mitigation techniques.
- Information on whether the SCR is calculated with the Standard Formula or an Internal Model (partial or full);
- Ratio of the SCR and MCR coverage at the end of the reporting period and last reporting period.
- Regarding any non-compliance with the Minimum Capital Requirement or the Solvency Capital Requirement of the insurance or reinsurance undertaking during the reporting period or at the time of disclosure, the period of each non-compliance, an explanation of its origin and consequences, any remedial measures taken and an explanation of the effects of such remedial measures.
- Information on the company’s liquidity profile at the end of the reporting period and last reporting period.
- Any other information regarding the insurance or reinsurance undertaking that may be material for policyholders (e.g. the details of any insurance guarantee scheme covering the insurance company).

Question 20: Some insurers belong to wider insurance groups, which also have to publish a Solvency and Financial Conditions Report at group level (so-called "group SFCR"). Do policyholders (current or prospective) need to have access to information from group SFCRs?

- Yes
- No
- Don’t know/no opinion

Please specify the format and content of the information that should be disclosed to policyholders in group SFCRs, and what would be the appropriate frequency of publication of such reports:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

These reports should be published yearly (same frequency as for solo entities). The group SFCRs should contain any information that has an impact on the entities within the group which are not already covered by the entity-specific SFCR. It is important that policyholders and investors also have access to a group SFCR as the position of the group (e.g. solvency position) can have an impact on all insurers within the group (e.g. if the group were to have solvency problems).
Question 21: Should all insurers publish a SFCR on a yearly basis? Please indicate if you agree or disagree with the following statements.

- Yes, all insurers should publish a SFCR on a yearly basis
- Yes, but some insurers should only be required to publish a summary of their SFCR on a yearly basis
- No, a yearly publication of the SFCR should not be required for some insurers
- No, a yearly publication of the SFCR should not be required for any insurer
- Don't know/no opinion

Question 22: Some insurers use their own internal models to calculate their solvency requirements, after approval and ongoing supervision by public authorities, and not the prescribed standard approach defined by the legislation. For those insurers that use an internal model, should European legislation require them to also calculate their solvency position using standard methods for information purposes, and to disclose it to the public?

- Yes
- No, insurers that use their own internal models should not be required to publicly disclose their solvency position using standard methods, although they should be required to calculate it and to report it to public authorities
- No, insurers that use their own internal model should not be required to calculate their solvency position using standard methods
- Don’t know/no opinion

Please specify the purpose of such a disclosure in your view:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As highlighted by the ESRB, for example, there are a number of flaws with regards to the use of internal models, leading to the risk that insurers which use internal models are undercapitalized (e.g. Enhancing the macroprudential dimension of Solvency II, February 2020). A good example highlighted by the ESRB in this regard which could have serious negative implications is the dynamic volatility adjustment. Since internal models are mainly used by big insurance companies, the macroprudential risk associated with internal models can be significant.

Ultimately, the only acceptable model should be a standardized approach that allows at least a minimum level of comparability, rather than attempting to standardize some minimal elements around internal models.
Therefore, insurers that use their own internal models should be required to publicly disclose their solvency position using standard methods and report it to both public authorities and the public.

Section 3: Improving trust and deepening the single market in insurance services

Supervision of cross-border business

The rationale for the EU insurance legislation is to facilitate the development of a Single Market in insurance services, whilst securing an adequate level of policyholder protection.

Insurers that have obtained a licence to operate in a Member State under Solvency II rules are allowed to operate in any other Member State of the Union (so-called “EU passporting” system).

The harmonised requirements under Solvency II aim to ensure uniform levels of policyholder protection throughout the Union.

The supervision of insurance activities (including cross-border) is the responsibility of the national public authority that granted the licence to the insurer (the “Home” authority), and not the public authorities of the other Member States where the insurer operates (the “Host” authorities). However, a European Supervisory Authority (the European Insurance and Occupational Pensions Authority) is in charge of ensuring supervisory convergence, and contributes to the coordination of the supervision of cross-border activities.

Some insurers operating cross-border have failed over the recent years, with negative impacts on policyholders. Such cases may have unduly affected public trust in the Single Market for insurance services.

**Question 23:** When the Home authority does not take the necessary measures to prevent excessive risk taking or non-compliance with the European rules by an insurer for its cross-border activities, should the Host authority be provided with additional powers of intervention, in order to protect policyholders?

- Yes
- No
- Don’t know/no opinion

**Please specify the additional powers needed:**

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.
Question 24: Should the supervision of cross-border activities by insurers be exercised by national authorities or by a European authority?

- By national authorities only
- By a European authority only
- By national authorities, with European coordination where needed.
- Other answer
- Don’t know/no opinion

*Please elaborate on your answer to question 24:*

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Supervision should be dealt with by national authorities in the first place, however, European supervisory convergence in insurance supervision should be strengthened and European authorities should be allowed to step in, where necessary. This is necessary to guarantee that there is the same high-level of policyholder protection and financial stability across the EU. Over the recent years, some insurers operating cross-border have failed. Any such failures have negative impacts on policyholders and have the potential to have systemic impacts if the insurer is very large and operates cross-border. Therefore, it is important that the right tools are available to ensure that there is a high degree of adequate supervision of cross-border insurance activities. These tools are: strong supervisory convergence, coordination and the ability for a European authority to step in in cases where an NCA is not willing or able to intervene adequately.

Preventing and addressing insurance failures

Policyholders across the EU have different levels of protection in the event of their insurer’s failure. National public authorities have different sets of powers to deal with an insurer whose financial position is deteriorating or that is failing.

Solvency II already provides authorities with a general power to take any measures, which they deem necessary to safeguard the interests of policyholders. It further requires firms to set up a recovery plan (“ex-post”) when they do not comply with their quantitative solvency requirements. However, some Member States require insurers to also draft and maintain pre-emptive recovery plans setting out possible measures to deal with crisis scenarios. Resolution regimes, which aim to address the fall-out of an insurance failure in an orderly manner and to prepare authorities for such events with resolution plans and resolvability assessments, are mostly incomplete and uncoordinated. The lack of availability for national authorities of the right tools to deal with failures, leads to different levels of policyholder protection and affects public authorities’ ability to safeguard financial stability.

In addition, a majority of Member States have introduced national Insurance Guarantee Schemes (IGS) that provide last-resort protection to policyholders. When insurers are unable to fulfil their contractual commitments, IGS offer protection against the consequences of a failure of an insurance company. These IGS are generally funded by the
insurance industry. An IGS can offer protection by paying compensation to policyholders or by ensuring the continuation of insurance contracts.

However, not all Member States have created such a safety net for the protection of policyholders and the geographical scope, the coverage and powers of the current IGS differ. This implies that policyholders of insurers located within some Member States would not benefit from the same IGS protection in the event of an insurance failure as in other Member States. This situation leads to gaps and overlaps in IGS protection.

Note that the protection of victims of motor accidents in the case of the insolvency of an insurer is already covered by the proposal amending the Motor Insurance Directive, which is currently negotiated by the European Parliament and the Council of the European Union.\[^{14}\]

---


**Question 25:** Do you consider that insurers and public authorities are sufficiently prepared for a significant deterioration of the financial position or the failure of an insurer and that they have the necessary tools and powers to address such situations, in particular in a cross-border context?

- [ ] Yes
- [ ] No
- [ ] Don’t know/no opinion

Please specify the instruments or harmonised powers that are needed at each stage of preparation (i.e. recovery planning, resolution planning, resolvability assessment) and at various stages of intervention (i.e. during early intervention, recovery or resolution):

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Currently, there isn’t a harmonized framework or approach across member states resulting in the fact that policyholders across the EU have different levels of protection in the event of an insurer’s failure and in some cases are not adequately protected at all.

This is further exacerbated by the fact that not all NCAs have the same tools and resources to deal with failures.

The following instruments are needed to set up a harmonised framework (subject to proportionality):

- Pre-emptive plans and assessments (recovery planning, resolution planning and resolvability assessments)
- A common set of early intervention measures should be in place
- A strong resolution toolkit (incl. restructure of liabilities)
- Arrangements for cooperation and coordination for crisis situations should be established
- An effective RR framework should also consider the funding arrangements and, in particular, the issue of IGS
Once put in place, it is also important that the implementation and enforcement of a harmonized recovery and resolution framework is overseen and coordinated by EIOPA.

The Key Attributes of Effective Resolution Regimes for Financial Institutions (the ‘Key Attributes’) by the FSB should be used in determining the core elements which a harmonized RR framework in the EU for the insurance sector should have (the document also considers the specificities of the insurance sector).

As in the case of a harmonized IGS, it is absolutely important that in setting out minimum criteria for harmonisation, the current best practices in place should be assessed and incorporated from the different existing national recovery and resolution frameworks. When drawing upon precedents from different existing frameworks in the EU, the guiding principle must be to ensure proper protection of financial stability and policyholders. A harmonised framework should represent a genuine benchmark of best practice rather than a lowest common denominator.

**Question 26: Should it become compulsory for all Member States to set up an IGS, in order to ensure that a minimum level of policyholder protection is provided across the EU?**

- Yes
- No
- Don’t know/no opinion

**Please explain your reasoning for your answer to question 26 (if needed):**

2000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

There is a need to harmonise Insurance Guarantee Schemes (IGS) in the EU to guarantee that all policyholders across the EU are adequately protected in the case of an insurance failure. Otherwise, consumers could face potentially very high financial losses and detriment that could have devastating financial impacts for consumers (especially vulnerable consumers). In times of economic stress (lower incomes due to unemployment, etc.), these impacts are further amplified.

Insurance guarantee schemes currently do not exist in all EU Member States, meaning that consumers in some member states are not protected at all. In addition, where IGS schemes do exist, rules are not harmonised between EU member states, resulting in legal uncertainty for consumers in the case of failures involving cross-border business. Moreover, fragmented rules mean that individual policyholders are not equally protected across and even within EU Member States (depending on whether they purchase their policy from a domestic firm, or from a cross-border firm, a consumer’s protection could differ depending on the rules of the relevant IGS scheme).

In setting out minimum criteria for harmonisation, the current best practices in place should be assessed and incorporated from the different existing national guarantee schemes. When drawing upon precedents from different existing schemes the guiding principle must be to ensure proper protection of policyholders. A harmonised framework should represent a genuine benchmark of best practice rather than a lowest common denominator.
Question 27: Which of the following life insurance products should be protected by IGS?

- All life insurance products
- Some life insurance products
- No life insurance products
- Don’t know/no opinion

Question 28: Which of the following non-life insurance products should be protected by IGS?

<table>
<thead>
<tr>
<th>Product</th>
<th>Should be covered</th>
<th>Should not be covered</th>
<th>Don’t know/no opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Workers’ compensation</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Insurance against Fire and other damage to property</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>General liability</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Accident (such as damage to the driver)</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Suretyship for home building projects</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Other</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

Please elaborate your answer to question 28.

In particular, if you consider that other non-life insurance products should be protected please specify which products:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See answer to question 27.

In addition to the products in the table above, other relevant insurance policies that should be covered by IGS schemes could potentially include: travel insurance policies and legal expenses insurance policies.
Question 29: Should all mandatory insurance be covered by IGS?

- Yes
- No
- Don’t know/no opinion

Please specify your answer for your answer to question (if needed):

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 30: If your insurer fails, what would you prefer?

- Receiving compensation from the IGS
- That the IGS ensures that your insurance policy continues, for example by transferring it to another insurer
- It depends on the type of insurance policy
- Don’t know/no opinion

Question 31: The coverage level of IGS determines the level of protection provided to policyholders. Should the European legislation set a minimum coverage level at EU level?

- Yes
- No
- Don’t know/no opinion

Please specify up to which amount claims should be fully guaranteed as a minimum:

2000 character(s) maximum
We support setting a minimum coverage level at EU level. Any minimum coverage level should be sufficiently high, and Member States should have the clear possibility to increase their level of coverage in their jurisdiction if they wish.

In our view, compensation limits are inappropriate for non-life insurance policies. Claims arising out of non-life insurance contracts can in limited cases be very high, and a lack of protection could have a significant impact on relevant policyholders. A compensation limit that is set too low could fail to adequately protect claimants, who in certain cases may have suffered very high losses.

Maximum compensation limits are not appropriate for life insurance policies either. While there is a maximum €100,000 compensation limit for bank accounts under the Deposit Guarantee Scheme Directive (DGSG), such a limit would not be appropriate for life insurance policies. Life insurance policies are not as easily transferable for consumers compared to bank accounts. Deposits are much more liquid and can easily be transferred from one credit institution to another. Life insurance policies are generally long-term in nature, and unlike bank accounts, consumers are also less likely to diversify their exposure across different life insurance providers. For these reasons, there should be no maximum compensation limit for life insurance policies. In addition, in the event of the insolvency of an insurer, IGS schemes should prioritise the transfer of policies to another insurance undertaking (as opposed to paying out compensation), as consumers may not be able to easily find equivalent cover.

Preventing financial stability risks and ensuring policyholder protection

Question 32: In order to limit the risk of insurance failures and protect financial stability, should public authorities have the power to temporarily prohibit redemptions of life insurance policies? Please indicate the statement(s) with which you agree.

- [ ] Yes, at sectoral level, to the extent that such a measure is absolutely necessary to address major threats to the insurance sector
- [ ] Yes, in cases where a specific insurer is in a weak financial position
- [ ] Yes, in cases where a specific insurer is in financial distress, and as long as policyholders would be better off than in the event of the insurer’s failure
- [x] No
- [ ] Don’t know/no opinion

Question 33: In order to limit the risk of insurance failures and protect financial stability, should public authorities have the power to reduce entitlements of a life insurer’s clients (e.g. reducing the right for bonuses that policyholders were initially entitled to receive)? Please indicate the statement(s) with which you agree.
Yes, if the insurer is in deteriorated financial position

Yes, as a last resort measure, and as long as policyholders would be better off than in the event of a failure

No

Don't know/no opinion

**Flexibility of the framework under crisis situations**

Solvency II provides that when exceptional adverse situations are identified by the European Insurance and Occupational Pensions Authority, national authorities may give more time for insurers to restore compliance with quantitative requirements (from six months to up to seven years). Still, there is a need to evaluate whether the Solvency II framework is sufficiently flexible and reactive to crisis situations (such as the current Covid-19 pandemic), in order to preserve insurers’ solvency and financial stability, but also to restrict the regulatory burden stemming from reporting and disclosure requirements.

**Question 34: Please specify whether other exceptional measures than those mentioned in Question 32 and Question 33 should be introduced in order for public authorities aiming to preserve insurers’ solvency and financial stability to intervene timely and in an efficient manner during exceptional adverse situations.**

Please also clarify if those measures should apply at the level of individual insurers or widely to the whole sector:

3000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Public authorities should have the power under Solvency II to suspend all discretionary dividend distributions and share buy backs aimed at remunerating shareholders by insurers. This measure would effectively help ensure that insurers and reinsurers hold a robust level of reserves to protect policyholders and absorb potential losses during exceptional adverse situations such as the corona crisis.

In addition, public authorities should have the power to oblige insurers to temporarily postpone and/or review their variable remuneration policies. During exceptional adverse situations, insurers should be required to review their current remuneration policies, practices and rewards and ensure that they reflect prudent capital planning and are consistent with, and reflective of, the current economic situation. The variable part of remuneration policies should be set at a conservative level and should be considered for postponement.

The protection of policyholders and financial stability, which are the aims of Solvency II, should come first in any exceptional adverse situations. The recent experience with the COVID-19 crisis has shown that it is not enough to simply rely on insurers to follow measures in this area voluntarily. EIOPA and other NCAs rightly issued statements in March/April 2020 asking insurers to temporarily suspend dividend distributions and postpone variable remuneration policies. However, not all insurance companies complied with these appeals, showing that it is necessary to give public authorities the power under Solvency II to oblige insurers
to follow these measures. Moreover, EIOPA should be given a mandate to closely coordinate the application of such measures to ensure consistency across the Union and contain potential systemic risks caused especially by insurers operating cross-border.

These measures should be applied at the level of individual insurers. However, in exceptional adverse situations, the burden of proof for why the measure do not have to be applied by a specific insurer must be provided by the supervisor. Moreover, EIOPA should be empowered to oversee and coordinate the implementation of these measures to ensure a correct and harmonized implementation across the Union.

Question 35: In your view, should the framework provide for flexibility to alleviate certain regulatory requirements during exceptional adverse situations?

- Yes
- No
- Don’t know/no opinion

Section 4: New emerging risks and opportunities

A. European Green Deal and sustainability risks

The European Commission recently unveiled its European Green Deal for the EU and its citizens, with the aim for Europe to become the world’s first climate-neutral continent by 2050. The European Green Deal is a new growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. To achieve the ambition set by the European Green Deal, there are significant investment needs. These also represent opportunities for sustainable investment.

Insurance companies can contribute to these investment needs and can benefit from new opportunities arising from the green transition. Their underwriting activities can also help increase the Union’s resilience to sustainability risks, in particular when it comes to damage arising from natural catastrophes. However, insurers are exposed to climate change, both through their investment and underwriting activities. The European Insurance and Occupational Pensions Authority (EIOPA) indicated in a recent opinion that the European legislation may currently not appropriately reflect those risks, hence not provide the right incentives. Insurance companies are also exposed to the transition risks.

While this consultation serves to prepare the review of Solvency II, it has to be noted that the European Commission is also preparing a renewed sustainable finance strategy for the 3rd quarter of this year and an upgraded EU Adaptation Strategy for the 4th quarter of this year, with dedicated public consultations.

[15] The questions in this section address similar issues as the questions in section 3.5. (Improving resilience to adverse climate and environmental impacts) of the consultation on the renewed EU Sustainable Finance strategy which was launched on 8 April 2020. Stakeholders that submit responses to both consultations do not need to reiterate the comments already made in responses to the questions of the consultation on the renewed EU Sustainable Finance strategy.


Perils of the natural catastrophe module
The Solvency II standard approach for the calculation of capital requirements for natural catastrophes covers the most common types of natural catastrophes, namely windstorm, flood, hail, earthquake and subsidence. Where an insurance company uses an approved internal model for the calculation of the capital requirements, either on own initiative or on request by the national authority, additional types of natural catastrophes can be covered in the calculation of capital requirements. However, a large number of insurance companies, in particular most small and medium-sized ones, are currently not using an internal model for the calculation of natural catastrophe risk.

**Question 36: Are there additional types of natural catastrophes that might become relevant to the broader insurance sector in the next years and therefore warrant an inclusion in the standard approach for the calculation of capital requirements (e.g. drought or wildfire)?**

- Yes, and sufficient data is available for the calibration of capital requirements for the additional types of natural catastrophes
- Yes, but the calibration of capital requirements is not possible at this stage, as the data will only become available over the next years
- No, additional types of natural catastrophes will continue to have lesser relevance for insurers, and they can be addressed by internal models and qualitative requirements (“Pillar 2”).
- Don’t know/no opinion

**Please indicate the source of available data:**

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We have already witnessed in several parts of the world (e.g. recently the wildfires in California and Australia) that there are additional types of natural catastrophes that might become relevant to the broader insurance sector in the next years and therefore warrant an inclusion in the standard approach for the calculation of capital requirements. As climate change is very likely to increase the frequency and severity of these natural catastrophes over time, their inclusion in capital requirements will be crucial.

Therefore, the Solvency II requirements in this area should remain flexible as to which concrete natural catastrophes are to be taken into account. As new natural catastrophes emerge over the next years, it is key that there is a regular recalibration of the standard parameters for the natural catastrophe risk module of the standard formula each year to take into account future developments, as well as the potential effect of climate change using the latest data and science available.

As it is hard to predict and quantify the physical and impossible to quantify disruption risks of natural catastrophes caused by climate change over time and to predict which new natural catastrophes may emerge quite quickly, this prudential tool should overall be accompanied by adjusting the capital charges applied to non-sustainable assets and adjusting pricing and designs of existing insurance products (for more information on this, please see answers to questions 5 and 39).
Use of historical data

Solvency II sets out several requirements on the use of data in the valuation of liabilities to policyholders. Notably, the data should contain “sufficient historical information” and “appropriately reflect the risks” to which the insurance company is exposed\[^{[17]}\]. In business lines materially affected by climate change, historical data may not capture sufficiently the trends caused by accelerated climate change. EIOPA therefore recommends that insurers combine historical data with knowledge gained from recent scientific research and, where appropriate, the output of forward-looking models when valuing their liabilities towards policyholders.

\[^{[17]}\] See Article 19 of Commission Delegated Regulation (EU) 2015/35.

Question 37: Beyond the general rules on the use of data, should Solvency II rules explicitly require insurers to assess whether the data used in the valuation of liabilities to policyholders captures sufficiently trends caused by climate change?

- Yes, and requiring this assessment is of high importance
- Yes, and requiring this assessment is of medium importance
- Yes, but requiring this assessment is of low importance
- No
- Don’t know/no opinion

Solvency II allows insurance companies to use internal models for the calculation of capital requirements after approval by the supervisory authority. For that purpose, the insurer has to forecast the probability distributions for the relevant risks. Similar rules apply to the data used in the probability distribution forecast in the context of internal models as for the valuation of liabilities towards policyholders\[^{[18]}\].

\[^{[18]}\] See Article 231 of Commission Delegated Regulation (EU) 2015/35.

Question 38: Beyond the general rules on the use of data, should Solvency II rules explicitly require insurers to assess whether the data used in an internal model captures sufficiently trends caused by climate change?

- Yes, and requiring this assessment is of high importance
- Yes, and requiring this assessment is of medium importance
- Yes, but requiring this assessment is of low importance
- No
- Don’t know/no opinion

Scenario analysis
Scenario analyses are common practice for insurers’ risk management to challenge the plausibility of balance sheet valuation and the level of capital requirements. EIOPA also recently recommended that insurers should conduct analyses of climate scenarios as part of their risk management.

**Question 39: Should Solvency II rules for insurers explicitly require climate scenario analyses as part of the qualitative rules ("Pillar 2")?**

- Yes, and climate scenario analyses are of high importance
- Yes, and climate scenarios analyses are of medium importance
- Yes, but climate change scenario analyses is of low important
- No
- Don’t know/no opinion

**Please explain what opportunities and challenges you foresee for the insurance industry when it comes to climate scenario analyses including, for example, whether standardisation of these scenarios would be useful:**

*2000 character(s) maximum* including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

A standardised scenario is preferable from the point of view of allowing comparability between different approaches to the analysis of the scenario and monitoring how these approaches evolve. This scenario should be built around a set of parameters defined by a credible third-party (IPCC or other) and with a hard "floor" set by the regulators for each parameter that internal models cannot fall below.

Generally, while we strongly support climate scenario analyses, we want to point out, however, the difficulty of the exercise. Scenario-based analyses look at how financial institutions will fare in different climate change scenarios, but they do not derive conclusions regarding the solvency of institutions. They generally seek to assess transition risk and, for some of them, physical risk but not the risk of disruption as businesses, finance and insurance providers will respond to adverse new conditions (we define disruption risk as the disruption of human societies, which will disrupt the world economy, which will disrupt the financial system as a consequence of climate change). These second-round effects can be large, unpredictable and non-linear, as the Covid-19 crisis has shown, and are almost impossible to model. Therefore, we should not rely on assessing climate risks by means of modelling alone before taking action. Instead, scenario analysis exercises must be accompanied by additional measures such as adjusting the capital charges applied to fossil fuel assets and adjusting pricing and designs of existing insurance products now (see our answer to question 5).

**Impact underwriting**

EIOPA recently suggested that insurers engage in ‘impact underwriting’, whereby insurers develop new insurance products, design and price products with the aim to contribute to adaptation to and mitigation of climate change without disregard for actuarial risk-based principles of risk selection and pricing.
Question 40: In your view, does Solvency II contain rules that prevent the practice of impact underwriting by insurers?

- Yes
- No
- Don't know/no opinion

Please specify which rules (ideally with legal references) and rate their importance (high, medium, low):

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Insurance claims from climate-change related risks will increase exponentially in the coming years causing systemic risks for the insurance sector. For example, the ECB recently highlighted that the share of weather-related catastrophe losses has increased steadily to account for over 80% of insured catastrophe losses in 2018. Since insurers are not able to adequately quantify climate risks over time, they are currently inevitably underestimating the valuation of their liabilities and not holding enough capital to meet them.

Therefore, it is indispensable that this is adequately factored into the underwriting practices and products of insurers. We support the suggestions put forth by EIOPA in its recent Opinion on this issue that impact underwriting should include the following:

- The integration of ESG considerations in the underwriting strategy and decisions of insurers;
- The development of new products addressing risks stemming from climate change and promoting risk mitigating behaviour;
- Adjustments in the design and pricing of insurance products using forward-looking pricing assumptions;
- Risk consulting services to clients for prevention purposes, especially for business clients; and,
- Engagement of insurers with public authorities to promote risk awareness, risk assessment, disaster resilience and climate mitigation/adaptation strategies.

Both products with a positive ESG impact should be created and products having a negative ESG impact should be identified to then be able to take action accordingly (e.g. repricing or pulling these products from the market). Impact underwriting will shift behaviors in the real economy towards more sustainable activities. We recognize that higher prices reflecting climate change-related increasing risks may render certain risks un-insurable (or unaffordable) in the medium to long-term. This is, however, necessary to address the prudential implications of these risks.

Question 41: Do you have proposals for changes others than those provided in your answers to Question 5 and Questions 36 to 40 that would make Solvency II a more conducive framework for sustainable activities by insurance and reinsurance companies?

3000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.
There should also be an explicit requirement in Solvency II for insurers to engage with companies they invest in or underwrite to encourage them to stop engaging in activities that cause climate change, and as both are linked, to financial stability. Insurers, in their role as shareholders, have the ability to encourage companies they invest in to change their behavior. As explained in Questions 5 and Questions 36 to 40 above, climate change will have devastating impacts on the asset and liability side of the balance sheets of insurers and on financial stability. Therefore, it would be consistent with the goals of the Solvency II framework to require insurers to encourage any companies they invest in to shift their activities from non-sustainable to sustainable going forward. Such a stewardship approach could also be applied on the underwriting side.

This would be not only of benefit to the environment overall but would help reduce the microprudential and macroprudential risks caused by insurance companies investing in the fossil fuel industry and providing insurance products that encourage and enable climate change increasing activities. As such it is therefore in the interest of furthering the goals of the Solvency II framework (ensuring financial stability and policyholder protection).

B. Challenges arising from digitalisation and other issues

While this consultation serves to prepare the review of Solvency II, the European Commission organised between 19 December 2019 and 19 March 2020 a consultation on the need for legislative improvements to make the financial sector more secure and resilient against cyberattacks. In addition, the European Commission is also preparing a new Digital Finance Strategy for Europe that sets out strategic objectives that should guide public policy in the coming five years. This new strategy planned for the third quarter of 2020 will build on the work carried out previously, in particular in the context of the FinTech Action Plan. It will take into consideration all the recent market and technological developments that are likely to impact the financial sector in the near future. A separate public consultation took place between 3 April 2020 and 26 June 2020.

Insurance companies increasingly rely on Big Data analysis in order to set prices and customise insurance product offering for policyholders. While such innovations could provide some potential benefits to policyholders, they also raise questions about privacy, discrimination, fairness and exclusion.

In the context of the digitalisation of the economy, cyber risk has gained increasing relevance as one of the main – if not the top – operational risks faced by organisations. The increasing frequency and sophistication of cyber-attacks and the continued digital transformation and use of new technologies also make insurers increasingly exposed to cyber threats. In addition, there is a rising demand by businesses and individuals for insurance protection against internet-based risks, for instance to cover losses from data or network security breaches, and theft of intellectual property (so-called “cyber-insurance”). While insurers have to be granted authorisation for conducting business in various “classes” of insurance, there is no specific authorisation process (or dedicated reporting requirements) for cyber-insurance products.

Question 42: Should the European legislation introduce enhanced requirements for insurers to monitor and manage information and communication technology (ICT) risks, including cyber-risks as part of their risk management practices ("Pillar 2")?
Please specify your answer to Question 42:

2000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Cyber-attacks are increasing and have become one of the main operational risks to businesses, including insurance companies. Moreover, the increasing reliance on digitalisation and new technologies in the daily operations of their business, as well as the increasing offering of insurance products via digital channels has made insurers increasingly exposed to ICT and cyber threats.

Cyber-attacks can have devastating impacts on business continuity and thus also for consumers if insurers’ operational capacity is interrupted. Moreover, cyber risks for insurers can put policyholder data (which insurers store) at risk.

Question 43: Should the European legislation consider that cyber-insurance is a distinct class of insurance, which would need to be subject to its own authorisation process by public authorities?

- Yes
- No
- Don’t know/no opinion

Insurance companies may decide to conclude an agreement with another entity (for instance a FinTech company), by which the latter performs certain activities, which would otherwise be performed by the insurance company itself (for instance, in relation to IT services).

Insurance companies can also outsource these activities to another entity belonging to the same insurance group. Solvency II does not differentiate intra-group and extra-group outsourcing, in terms of requirements. Some stakeholders claim that intra-group outsourcing, in particular in the area of digital services, should be “lighter”, as insurance groups are treated and managed as integrated economic entities and are subject to all Solvency II requirements on a consolidated basis.

Question 44: Should the legislation differentiate intragroup and extra-group outsourcing, and introduce “lighter” requirement in the former case?

- Yes, but the lighter requirements should be conditioned to the satisfaction of some criteria at the level of the group, for instance appropriate centralised risk management processes and internal control mechanisms of the group
Yes, and those lighter requirements should not be conditioned to any additional criterion

☐ No
☐ Don’t know/no opinion

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

Please upload your file
The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf, txt, doc, docx, odt, rtf are allowed

Useful links
More on this consultation (https://ec.europa.eu/info/publications/finance-consultations-2020-solvency-2-review_en)
Specific privacy statement (https://ec.europa.eu/info/law/better-regulation/specific-privacy-statement_en)

Contact
fisma-s2review-consultation@ec.europa.eu