21 October 2020

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

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

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.

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

If you identify other political objectives, please specify them and give a rating of their importance from 1 to 9 for each of them:

Solvency II is the most sophisticated prudential regime around the world. Solvency II rules aim at protecting policyholders against insurers' insolvency and increasing financial stability. In

Association of Mutual Insurers and Insurance Cooperatives in Europe aisbl | www.amice-eu.org
Rue du Trône 98/14 | B-1050 Brussels | T : +32 2 503 38 78 | secretariat@amice-eu.org | @AMICE_Mutuals

addition to the objectives mentioned in the table another important objective should be added, the level playing field in the insurance market; The prudential framework should ensure a level playing field across different players operating in the market.

Insurance companies have also a function in the insurability i.e. the availability of insurance products to new consumers should also be included. The protection of current policyholders is a key objective of the prudential legislation. However, Insurers should be able to provide answers to the future needs in terms of protection. Thus, there should also be an objective for future policyholders and existing policyholders able to renew their current policies. The prudential framework should strike a balance between the two so that insurers can play their role in the future, in the real world.

Solvency II should be meaningful for and adapted to the long-term business models and strategies of insurers. This implies refraining from putting barriers to long term investments with excessive liquidity concerns and capital requirements. Such objectives are instrumental for insurance to fulfill its role and protect customers and for the wider economy to remain strong thanks to long terms investors with aligned interests and that greatly contribute to deepen and enhance the functioning of financial markets. Those aligned interests are equally found with sustainability concerns since ESG and green considerations are founded on long term preoccupations and investments.

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.

	1	2	3	4	5	6	7	8	9	Don't know /no opinion
Ensuring that insurers remain solvent					X					
Ensuring that insurers' obligations to the policyholders continue to be fulfilled even in the event that they fail			X							
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									X	

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									X	
Facilitating insurers' ability to offer (sufficiently) high returns to policyholders, even if this implies taking more risks									X	
Facilitating insurers' ability to offer products with long-term guarantees									X	
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]	X									
Preventing the build-up of systemic risk and ensuring financial stability	X									

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

The Covid-19 crisis has exacerbated the need for resilience and capital funding to support the economy and the wider society. Therefore, it places investments in sustainable activities at large very high in main concerns. Insurers must be recognized as key intermediaries to channel savings to capital markets in an effective, risk harnessed way. The Covid-19 crisis has also shown how unexpected great turmoil can develop very quickly and the importance of having suited risk management tools in place not conducive of procyclicality.

This crisis also has demonstrated that liquidity has not been an issue for insurers and this for the good reasons the industry has many times underlined. Liquidity issues for insurers are of a very much smaller scale than for banks due to their inverted business model and the longer horizons of their cash flows. For the relatively small liquidity issues that can arise, they are well mastered by insurers with very comfortable highly predictable cash inflows stemming for their liquid assets. With regards the potential uncertainty of liabilities payments the Covid 19 crisis has been illuminating in the overstatement of mass lapses in the SCR calibration. Not only have mass lapses not taken place, but lapses have decreased. Liquidity should therefore be assessed in a qualitative manner in the Pillar II of Solvency II and some reporting of short-term cashflows can be envisaged in the Pillar III reporting.

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:

One of the main objectives of the European's Capital Market Union aspects is to unlock more
One of the main objectives of the European's Capital Market Union aspects is to unlock more
investments and to mobilize capital to be channeled into funding of the European economy. We did welcome the European´s Commission's action to foster the financing of the real economy by introducing a new asset category "Long-term equity investments" in the new Article 171a in the Delegated Regulation, during the 2018 Solvency II review. However, the eligibility conditions of the LTEI asset category remain very restrictive. The conditions required are impracticable in many respects and constitute a huge limitation to the recognition of the true features of equity long term management and reduced risk. We strongly regret the exclusion from the reduced equity risk of equities backing own funds. Insurers should be able to apply the LTE capital charge on their equity investments backing insurance liabilities as well as own funds. Therefore, the use of this measure would be very limited due to the complexity of its implementation and the limits set on the portfolios. Solvency II should therefore better account for the going concern perspective of insurance undertakings and their ability to avoid forced sales during adverse market situations and the realization of unexpected losses which stand for a key management action featuring a long-term perspective investment management. Again, the ability to avoid forced sales is key in protecting the interest of policyholders. On the longer term, the strategic holding of an equity portfolio provides a good opportunity for higher returns for the policyholder. The scenario and stress testing should provide the means to assess the actual risk for the interests of the policyholder (See also attachment for a proposal on the LTEI).

Duration based equity

The EIOPA's proposal to delete the provision of Article 170 of the DR 2015/35 will have an impact for the entities financing the real economy.

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.

- 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
- 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

Please specify your answer to question 4 (if needed)

The investments in long-maturity debt instruments are very costly in terms of capital requirements, particularly the investments in SMEs. We believe that these such as other investments should be properly analyzed for their long-term investment dimension and yield a commensurate in the risk calibration.

The real risk of long-term bonds and loans with enough guarantees is the risk of default. The risk of increases or decreases in spreads of bonds and loans is not material as long as the insurer can earn the asset cash flows. Moreover, if the insurer can avoid forced sales, the drop in the market value of the bonds and loans would automatically recycle in a gain as the bond approaches their maturity.

The calculation of the capital requirements for long-term bonds and loans should be shifted to the **counterparty default risk sub-module** of Solvency II; only short-term fixed income assets should remain in the spread risk module. The ability of the insurer to avoid forced sales should protect the interest of the current policyholders in the short and longer term and should ensure that future policyholders have the possibility of continue buying insurance products.

A **dynamic VA** should be introduced within the standard formula in order to align the use of the VA with article 105 (5d) of the Solvency II Directive. The VA was designed to avoid the exaggeration of spread volatility in balance sheets during stressed conditions. The VA mechanism being a function of the levels of spreads, it is absolutely key that it is updated simultaneously or consecutively when spreads are changing, which is what happens in the spread risk sub-module. This would allow the VA to fulfill its role in the central balance sheet, whereas the introduction of the dynamic VA would ensure that the SCR calculation reflects the variation in the own funds.

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

Question 5: Do you agree or disagree with each of the following proposed change to quantitative rules in Solvency II?

	Agree	Disagree	Don't know /no opinion
We should make it less costly for insurers to invest in SMEs		X	
We should make it less costly for insurers to invest in environmentally- sustainable economic activities and associated assets (so-called "green supporting factor")		X	
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")		X	

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

The long-term view should help assess the removal of barriers to investment and serve as an incentive. We believe that with LTGA measures and the new long-term equity category insurers can adapt to this objective without artificially distorting the risk-based approach of Solvency II.

Regarding the "**brown penalizing factor**”, we believe that the main priority should be to support insurers in their transition to a climate-neutral economy. Discriminating between investments and imposing higher risk weightings for brown assets is not an appropriate approach; In terms of asset management, the investment universe would be considerably reduced as more and more insurers will declare that they no longer wish to invest in brown assets. Insurers will have no choice but to invest in assets less sensitive to an environmental approach, thus making the approach counterproductive.

With respect to **investments in SMEs**, there should be consideration of the long- term strategy of the investor so that the long-term dimension could act as an indicator and be factored as a way of reducing the calibration of non-rated debt; this can result in a better treatment in the spread risk sub- module through a less penalizing credit quality step; Regarding equity, investments in SMEs with a long-term view and which are part of diversified portfolios should be aligned with the reduced calibration that the long- term investments attach. An innovative way to contribute to enhanced sustainable and long-term investments would be to base the risk-assessment on a going-concern. The biggest risk for a long-term investor is the default risk and under-performance and not the short-term changes in market values.

Therefore, it would be sufficient to compute a default risk for certain assets provided forced sales could be avoided; If the institutions fail to properly recognize the reduction needed in the SCR calibration for long-term investments then special measures will be needed to support green investments.

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**

An important step towards the correction of the short-term bias of Solvency II was made in Omnibus II with the long-term guarantee measures (i.e LTGA measures) and the introduction of the LTEI in the 2018 review.

On these major topics we would like to refer to the detailed notes we have produced and that are provided as attachments to this consultation where we elaborate all the key aspects, notably on the volatility adjustment, dynamic volatility adjustment (i.e DVA), long-term equity investment (i.e LTEI), risk free rate curve, interest rate risk (i.e IRR) and transitional measures.

Additionally, it is worth noting that the volatility of the framework could be reduced by introducing innovative solutions such as:

1. **Fixed income assets should be treated in the counterparty default risk** rather than in the spread risk sub-module provided the insurer has the ability to avoid forced sales in a going concern;
2. the **volatility adjustment** should be improved by introducing an **own asset portfolio option** which consists of allowing for the calculation of the risk weightings on the insurers´ own asset portfolio;
3. A **dynamic volatility adjustment** should be introduced for the standard formula for those fixed income assets which have a spread risk.

With respect to **stock markets** the equity calibration needs to take into account the investment time horizon of the investor; for long term equity investments, short term volatility should not be considered and should lead in turn to a lower capital requirement.

However, the eligibility conditions of the new LTEI asset category of Article 171a of the Delegated Regulation should be still largely improved.

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?

- Yes
- No
- Don´t know / no opinion

Please indicate how the framework could avoid procyclical behaviour by insurers:

- **Volatility adjustment & DVA**

The proposed EIOPA´s amendments to the Volatility adjustment would not fully help smooth artificial volatility and will introduce undue complexity in the calculation (see also attachment for a proposal on the VA).

- **Long-term equity investment**

The qualifying criteria for the long-term equity category has to be improved as almost no equities qualify in practice.

- **Extrapolation**

An alternative extrapolation method should not only be assessed in detail for the Euro currency but also for the non-euro currencies such as the Swedish Krona. More work needs to be done especially regarding the use of the DLT criteria. Other alternative discount rates methods proposed by the industry should be assessed.

- **Risk Margin**

The proposed "tapering approach" is a step in the right direction. However, the current design of the Risk Margin is extra interest rate risk sensitive; the CoC factor should therefore be a function of the risk-free interest rate in such a manner that a more anti-cyclical outcome is obtained. Furthermore, the MA or VA should when projecting future SCRs and diversification benefits between life and non-life business within the same entity should be granted.

- **Interest rate risk**

AMICE is not supportive of the EIOPA´s HIA alternative calibrations 1 & 2 and believes that these exaggerate the interest rate down risk especially for the short maturity points for which little evidence has been provided to support the calibration. The industry concerns regarding the treatment of the illiquid part of the discount curve in this module should be taken into account (see also attachment for a proposal on the IRSG´s IRR proposal).

- **Property risk**

The differences in volatility between different types of real estate assets are less important than those observed between different European countries. It is therefore appropriate to recalculate this shock using a weighted average that includes data from a wide range of European Union members.

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		X	
In terms of financial stability		X	

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

Most policyholders do not want to run the risk of obtaining lower returns than they had anticipated. Especially with events that will take place in the far future any policyholder would surely prefer a life insurance product that provides certainty of returns even if the profit is small. However, under the current low interest rate environment, the life insurance products offering guarantees can be too costly.

Under Solvency II, any insurance product currently sold with a guarantee has an appropriate calculated best estimate and related required capital requirements. Insurers selling these types of products are required to hold sufficient capital; There is no need from a stability point of view to provide disincentives to the selling of guaranteed products.

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:

The answer to this question should be linked to Q1.
With respect to the capital requirement being 1 in 200 throughout any crisis with no possibility to relax the confidence level, an important opportunity to soften the requirements during the crisis has been missed. Although the undertakings' solvency II ratios remained on average two times above the regulatory target SCR during the crisis, no levers for adaptation of the prudential framework other than the Pillar III requirements have been allowed.

The Solvency II ladder of supervisory intervention and the extension of the recovery period are key to allow insurers to recover from a major crisis and provide time to restore limits being internal or the SCR itself. This not only from a European macro-level perspective but also at any entity specific level where needed. The ladder of intervention enables supervisors to step in when there is an imminent risk that the capital requirement is breached. It also provides for intervention points while insurers are still sufficiently capitalized.

Moreover, the extension of the recovery period should provide insurers with the flexibility to avoid responding to non-compliance with the SCR in a way which results in an adverse impact to the undertaking or act procyclical.

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):

It is important that all groups, irrespective of their legal structure, are able to benefit from group supervision ensuring the level playing field and capturing the impacts that the ties to a group mean for all the members and the community. In an internal market with converged supervision, it should not matter where the insurance group is supervised. The possibility to have a group supervision enables groups to benefit from a more efficient capital management which in turn results in less costs.

There should be appropriate monitoring and supervision at both solo(s) and group level. We believe that proper key performance indicators are needed at both levels and that a stand-alone reliance on the group is not enough.

We disagree with EIOPA's view that the principle of transferability of EPIFP should always be challenged in order to be eligible at group level. The burden of proof should not be a rebuttable presumption.

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.

- Yes, in targeted areas of the framework
- 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

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

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):

The Solvency framework is very complex and has been very costly to implement, especially for small insurers. The cost of compliance with Solvency II has represented a significant part of the total amount of administrative expenses for small and medium size undertakings. It is worth pointing out that most SMEs size mutuals only operate in the jurisdiction where they are located and some of them – notably the health mutuals – have a limited risk profile. Exempting those mutuals from the Solvency II regime should not limit the policyholder protection.

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:

The AMICE-Insurance Europe proposal states that

- The Directive must make clear that **NSAs have a duty** to always consider where they should allow companies to deviate from any specific requirements due to proportionality considerations, either by using approximations, simplified approaches or by not applying a requirement where appropriate
- **A "toolbox" providing a non-exhaustive list of simplifications**, alternative calculation methods and/or exemptions from certain reporting templates that can be automatically applied by companies when some predefined and risk-based criteria are met
- EIOPA should publish an **annual report on proportionality** including proposals on how to improve its effectiveness and consistency
- Introducing a **clear risk-based specific criterion** for the automatic application of the measures of the tool box
- EIOPA should develop these **clear risk-based criteria aiming at assisting NSAs** in their assessment of the nature, scale and complexity of risks and increase transparency in the application process of the principle
- A **predefined risk-based criterion** should allow NSAs to identify **low risk companies**, based on their overall scale, nature and complexity
- Companies would be automatically entitled to apply a list of simplifications and waivers, without any additional burden of proof and **without possibility for NSAs to object (there is not pre-application process).** This does not mean that there is not a role for NSAs; they should keep the power to object any decision form undertakings by which the requirements are met. However, we object any pre- approval process. The Solvency II Standard Formula is a regime without prior approval so defining an approval process represents a significant challenge, not least in terms of resources, for both firms and supervisors.

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.

- 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:

We appreciate that more predictable, general criteria to apply proportionality will be included the Delegated Regulation. A clear risk-based criterion for an automatic application of the measures and in the context of the supervisory dialogue should define when applying simplifications. These criteria could be a combination of the following:

- Premium income
- Solvency ratio
- Absence of high-risk lines of business
- Absence of high-risk asset classes
- Small weight of non-risky investments on total investments
- Small weight of local technical provisions of each Life class on total Life
- Absence of threatening downside scenarios on a certain calibration
- Low volatility in the past and absence of material changes in the business structure
- Simple, straightforward group structure
- Access to group support
- Non-reliability on volatile elements of own funds

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
- Don’t know/no opinion

Please specify the areas of the framework, which should be adapted (quantitative requirements? governance requirements? etc.):

The current framework implicitly assumes an insurer has owners (more specifically, shareholders) that are not the same as their clients. This is not the case for certain types of European insurers. AMICE represents mutual and cooperatives, which generally are not for profit in nature and focus on applying “profits” to the benefit of their policyholder/owners in contrast to dispersing them to third party investors. The most recent data indicates that mutual and cooperatives in Europe have a 33% market share, across life and non-life business. They are characterised by a focus on sustainability, a strong relationship with their policyholder/members who participate in their governance, and a long-term approach to business and investments. Many are SMEs providing diversity to the market and contributing to social and financial resilience. Solvency II does not reflect these different models, and therefore does not accommodate this distinct nature in a fair and appropriate manner. Proportionality should refer to the model as well as the business. For mutual insurers, there are specificities about the use of free assets which should be treated differently and more appropriately compared to the dividends of listed entities. The treatment of own funds needs to recognise the mutual model, and reflect its long-term nature and therefore investments. If the SFCR is split into the policyholder and professional part, it should take into account that the professional part is currently used by investment analysts and reinsurance advisers. If an insurer does not seek funds from the capital markets (through issuing equity or bonds) there is no reason for them to make a “professional SFCR”. Other advisers will be satisfied with the information that mutuals provide on request. Mutuals have policyholders, so the policyholder SFCR should be obligatory. But care should be taken to consumer-test the policyholder SFCR to find out if the consumer understands the information they receive.

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

	Agree	Disagree	Don't know / no opinion
The current framework is sufficient, as it already requires insurers to publish their SFCR on their website if they own one	X		
The framework should clearly require that insurers’ publication on their website is easily accessible for the public	X		
Insurers should be required to send (electronically or by mail) on a regular basis a summary of the SFCR to each		X	

policyholder			
Insurers should be required to send (electronically or by mail) the SFCR to each policyholder who explicitly requests for it	X		
Other options	X		

Please specify your answer to question 17 (if needed).

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

Currently, any stakeholder is able to get access to the information publicly available. This accessibility is similar to other required information such as the annual financial statements, etc.

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.

- 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
- Don't know/no opinion.

Please specify your answer to question 18.

If you are of the view that some information is missing, or on the contrary that information is too detailed or redundant, please elaborate and give examples:

The question is defined from another perspective; we are therefore not able to answer this question.

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 answer to this question would depend on the type of insurer to whom the question is addressed. More generally we believe that EIOPA's proposal to keep the SFCR as one report and two audiences is an improvement compared to the current situation and we welcome this proposal; however, we would encourage the legislators to be more ambitious and allow SMEs/mutuals to publish the SFCR addressed to policyholders only.

An SME or mutual insurer which has no “rating” and no “listed debt instrument” and operates locally or nationally has different stakeholders from a large financial conglomerate with listed equities and multiple ratings. The main stakeholder from a mutual insurer is its policyholders while a large insurer would have multiple stakeholders. The content of EIOPA’s proposal for the policyholder part contains information on the undertaking’s business and performance, the system of governance and quantitative information about the solvency position of the insurer. All this information is already comprehensive and sufficient for most policyholders.

For the general policyholder the information required in the professional user’s report is too detailed. Policyholders are interested in learning whether their insurers would be able to pay out the claims when due or the benefits when agreed in the future and this information would be provided in EIOPA´s proposal for the policyholder part.

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

Question 21: Should all insurers publish a SFCR on a yearly basis? Please indicate if you agree or disagree with the following statements.

- Yes, but some insurers should only be required to publish a summary of their 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

Please indicate what you consider the appropriate frequency of publication of the SFCR (or of its summary) and whether all insurers or only some types should publish them (if the latter, please specify which types):

In principle, the information included in the SFCR – provided it is fit for purpose for the stakeholders involved - should be made available on an annual basis. However, the detailed information should be based on the actual stakeholders involved (policyholders being natural persons, policyholders being companies, rating agencies, stock exchanges, etc.). As indicated in our previous answers, not all stakeholders need the same amount and type of detailed information. There are insurers which are required to publish their financial statements on an annual basis. Those insurers could be exempted from submitting the financial information in the SFCR. This would reduce duplications significantly.

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 explain the issues stemming from such a disclosure:

The public disclosure of the standard formula results would not serve the purpose of improving the information communicated to the market. One of the main reasons for having an internal model is that the assumptions underlying the standard formula deviate significantly from the undertaking´s risk profile; The internal model is therefore a better reflection of the actual risk profile of the insurer. Requesting a calculation of the solvency capital requirements according to the standard formula and publicly disclosing this information would lead to confusion and wrong conclusions.

Furthermore, the request for internal model players to calculate the undertaking´s solvency position using standard methods for information purposes requires two systems to be in place. Therefore, if an internal model is approved, insurers should only be requested to calculate the SCR by means of the standard formula by using estimations and simplifications.

The calculation of the capital requirements with the standard formula approach would still be necessary whenever the internal model is not fit for business anymore. This would enable the appropriateness assessment included in the ORSA. However, estimations and proportionality should be allowed to reduce the administrative burden on companies. Neither artificial floors nor additional scrutiny are therefore necessary.

Section 3: Improving trust and deepening the single market in 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

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

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):

The Solvency II framework requires insurers to set out its risk appetite and risk tolerance, the own excess of capital, the capital requirements to cover the risks and also to take into account the volatility of the undertaking´s current solvency II position and how all these metrics would evolve in the future. Based on these considerations, insurers should formulate a capital adequacy policy, including its own ladder of intervention. This information is detailed in the ORSA. Insurers are required to calculate its solvency position at a minimum on an annual basis. They are also required to communicate to the supervisory authorities any breach of the SCR and whether they are planning to breach the SCR in the coming three months.

This Question 25 should be rephrased so that the situation in which there is a sudden/immediate deterioration of the solvency position of an insurer and for which no real recovery is possible is assessed. In most cases, the supervisory review process should be sufficient to anticipate any deterioration in an insurer´s solvency position. Also note that the MCR still protects policyholders with a confidence level of 85% over a 12 month- period and the risk margin enables the transfer of the insurance portfolio to a third party. Furthermore, firms are required to develop contingency plans and the definition of scenarios and reverse stress tests within the ORSA.

Regarding the different stages of preparation, the first step should be an assessment of the current tools and how these are implemented and whether there is an engagement between supervisor and insurers This would allow to list the possible measures which would enable a recovery and to spot apparent weaknesses associated with those measures both at an individual level and in conjunction with the measures applied to other insurers. The second and final step would only be needed if the company is in distress and there is a need for the supervisory authorities to intervene.

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):

AMICE believes that Solvency II already provides a sufficiently robust prudential framework with policyholder protection at its core and therefore the need for harmonising IGSs is irrelevant.

There are significant differences between Member States in terms of product lines, tax systems and insurance creditor hierarchy in the event of winding up which would not be eliminated by harmonizing IGSs.
The existence of national IGSs in some Member States should not be used as an argument for introducing an obligation for all Member States to put in place an IGS. Given the different local and cultural approaches to insurance, the existing national IGSs have been designed to take into account the national specificities in each country. Member States should have the flexibility to choose the legal structure

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?

	Should be covered	Should not be covered	Don't know/no opinion
Health		X	
Workers' compensation		X	
Insurance against Fire and other damage to property		X	
General liability		X	
Accident (such as damage to the driver)		X	
Suretyship for home building projects		X	
Other		X	

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:

See answer to Question 26.

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):

See answer to Question 26.

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

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
- 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

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:

We do not believe that public authorities should be granted additional powers to intervene in exceptional adverse situations. The development of the Covid-19 crises should help draw some lessons of such a situation and ensure an adequate review of the Solvency II regime that fixes the flaws the industry has identified and most notably achieves the delivery of a balanced regime.

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

Please specify which additional provisions/measures would provide for sufficient flexibility of the framework, and which regulatory requirements would need to be alleviated during exceptional adverse situations:

Temporary removal of Tier 3 limit

An exceptional measure is to temporary remove the Tier 3 limit of the Eligible Own Funds. As the net DTA is limited to 15% of the SCR, an increase in the amount of net DTA in times of crises could result in a breach of the Tier 3 limits resulting in a certain amount of capital not eligible to cover the SCR. The elements of net DTA which are of a temporary nature can be recycled back through unrealised gains. The proposed measure consists of exempting from the Tier 3 limit the DTA related to these types of exposures.

Article 138 – Extension of the recovery period

The current crisis has not seen the triggering of Article 138 in any jurisdiction. A trigger by EIOPA without the involvement of NSAs is not possible and once declared it will only apply to the jurisdiction which requested it. Furthermore, a declaration does not guarantee an immediate extension to all insurers in distress and the extension of the recovery period can be withdrawn at any time. Thus, Article 138 fails to provide any relief to insurers in times of crisis. An amendment to Article 138 is therefore needed to ensure that pressure on the AMSB of insurers is released when the undertaking´s solvency internal limits are breached.

Recalculation of transitional measures on technical provisions

Since the start of the COVID 19 crisis, the transitional measures on technical provisions have been identified as one of the measures of the Solvency II framework allowing undertaking´s to phase in the increase in technical provisions. However, this measure is not permanent and will only apply until 2032; this tool will therefore not be available for crisis happening later than the end of the transitional period.

Symmetric Adjustment Mechanism

The symmetric adjustment for equity risk value is capped and cannot be greater than 10 percentage points or smaller than -10 percentage points. The removal of the cap and the floor of the symmetric adjustment mechanism would increase effectiveness in a crisis situation.

Section 4: New emerging risks and opportunities

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:

See answer above

Please elaborate your answer to question 36:

In certain member states, the costs for property insurance as a result of draughts or wildfire are still uncertain. Furthermore, the legal situation (including terms and conditions) in the various member states is different and not all costs are supported by the insurance sector. Further work should be done to really assess the actual damages and possible claims following these events. Only after a careful analysis and assessment, further risks can be included.

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

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

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

- 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

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:

Standardized set of scenarios

A standardized set of quantitative climate change scenarios should not be included in the ORSA. The ORSA is entity specific and should remain focused on the local scenarios specific for the (emerging) risks of the insurer itself. For this reason, a standardized climate change scenario should not be included in the ORSA report as climate change risks are of different nature across insurers and jurisdictions. If a standardized set of scenarios should be developed, this could be part of a (macroprudential) stress test scenario. The nature of such scenarios should be qualitative since quantitative scenarios subject to many different assumptions would deliver uncertain outcomes. Some flexibility should be given as a too standardized set of scenarios would not provide any meaningful information. Naturally, EIOPA could come up with a standardized set of scenarios including assumptions on consumer behavior and trends on technological innovation to assist smaller re/insurers.

Time horizon

The main challenge for the climate scenarios is determining the appropriate time horizon. Setting a long-time horizon (for example 15-30 years) provides sufficient time to assess the impact of climate change in the economy in general and the insurance business in particular.

However, it would require a significant number of assumptions and expert judgment making a comparison/benchmarking of outcomes difficult. For certain changes a shorter-term horizon could be used, however it would not allow an assessment of the impact of climate change on the economy and insurance business. In EIOPA´s second paper on stress testing, there is an assessment as to whether a scenario could be defined as an instantaneous event without the possibility to introduce management actions following the long-term climate effects. We query how credible the outcome would be. The insurance sector has already assessed the impact of changes in claims due to adaption of past events.

Please explain your answer to Question 39:

The time horizon should be chosen so that the climate change stress tests provide relevant information for the insurer's business. The time horizon should therefore be consistent with the one set out for financial or strategic planning purposes. Against the background of increasing complexity and uncertainty, we would suggest to keep the long-term assessments of climate change on a qualitative level. Quantitative long-term stress tests are less relevant given the considerable business evolution / climate change adaption up to this point in time, which is impossible to be easily captured in a quantitative framework.

We would like to question the significance of a stress test exercise that models the changes in an undertaking´s current portfolio over the medium to long term horizon. The projection period should therefore be as short as possible if based on the current portfolio; otherwise too many assumptions would have to be made for the future, also including infrastructural mitigation measures. If a longer-term scenario is chosen, the nature of the stress test should be more explorative.

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

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?

No comment

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")?

- Yes
- No
- Don´t know/no opinion

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

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 centralized risk management processes and internal control mechanisms at group level.
- Yes, and those lighter requirements should not be conditioned to any additional criterion
- No
- Don't know/no opinion

Please specify which requirements should be alleviated in the case of intragroup outsourcing, and the criteria to be satisfied at the level of the group to benefit from the "lighter" requirements:

We agree that in case of internal outsourcing, i.e. where the service provider is in the same group as the undertaking, some of the requirements should be applied more flexibly. Outsourcing insurers can exercise greater governance and risk management control over internal outsourcing than with external outsourcing companies. The examination of the service provider by the outsourcing insurance undertaking may be less detailed and the proportionality principle should apply regarding the requirements on the monitoring of the service provider, the reporting and disclosure requirements to the service provider. and compliance with its internal control system. The outsourcing requirements should also be proportionate to the level of risk of the service provider.

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:

Attachment 1_AMICE_Position Note on LTEI.pdf

Attachment 2_AMICE_Position Paper on Volatility Adjustment.pdf

Attachment 3_AMICE_Position Note on EIOPA First HIA.pdf

Attachment 4_AMICE_Insurance Europe_Proposals for making proportionality work in SolvencyII.pdf