

EIOPA consultations and the Solvency II review

2024 consultation papers: Part 1

Aisling Barrett, FSAI
Nia Powis, FSAI, CERA
Arushi Mittal, FSAI



Introduction

The European Parliament approved the final text of the Solvency II review in October 2024. While this is not expected to go live until early 2027, the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) have started work on the areas where they will be providing further detail. Several consultation papers have been published this year, with more expected early next year, providing stakeholders with the opportunity to influence the final requirements.

The Solvency II legislation is implemented on three levels:

- **Level 1:** The Solvency II Directive is the framework legislation and is subject to European legislative approval procedures which require agreement by the European Parliament, European Council and European Commission
- **Level 2:** The Delegated Regulation, Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) are legislative provisions made by the European Commission on the basis of advice received from EIOPA
- **Level 3:** Guidelines are issued by EIOPA to ensure consistent supervisory practices and application of the legislation

The table in Figure 1 on page 2 shows all consultations launched in 2024.

In this briefing note we discuss the following consultations:

On 1 October 2024 EIOPA published its first batch of consultations in relation to the Solvency II review. They contain EIOPA's proposals in relation to the RTS and ITS required covering:

- Liquidity risk management plans
- Exceptional sector-wide shocks
- Undertakings under dominant/significant influence or managed on a unified basis
- Enhancing the supervision of cross-border activities
- Scenarios for best-estimate valuations for life insurance obligations

The following consultations were launched earlier in 2024, and are now closed:

- Supervising the liquidity risk management of institutions for occupational retirement provision (IORPs)
- The implementation of the new proportionality framework under Solvency II
- Standard formula capital requirements for insurers' direct exposures to qualifying central counterparties
- (Re)assessment of natural catastrophe risk in the standard formula
- Templates for explanations and opinions, and the standardised test for the classification of crypto assets
- Prudential treatment of sustainability risks

These consultations are also summarised in this briefing note.

Other EIOPA consultations launched by EIOPA in 2024 that were open at the time of writing are:

- Applicability criteria for macroprudential analysis in the own risk and solvency assessment (ORSA) and purchasing power parity (PPP)
- Standard formula capital requirements for investments in crypto assets
- Annexes to the opinion on the use of risk mitigation techniques by insurance undertakings: mass-lapse reinsurance and reinsurance agreements' termination clauses

These consultations have not been discussed in this briefing note.

Finally, EIOPA launched a second batch of consultation papers in relation to the Solvency II review in December 2024, as shown in Figure 1. They will be discussed in a separate briefing note.

FIGURE 1: CONSULTATIONS LAUNCHED IN 2024

CONSULTATION	LAUNCH DATE	CLOSURE DATE	STATUS	INCLUDED IN THIS NOTE
Prudential Treatment of Sustainability Risks	13-Dec-23	22-Mar-24	Draft EIOPA opinion	✓
Templates for explanations and opinions, and the standardised test for the classification of crypto assets	12-Jul-24	12-Oct-24	Draft guidelines	✓
Standard formula capital requirements for insurers' direct exposures to qualifying central counterparties	31-Jul-24	23-Oct-24	Draft Technical Advice	✓
(Re)assessment of natural catastrophe risk in the standard formula	31-Jul-24	23-Oct-24	Draft EIOPA opinion	✓
New proportionality framework	02-Aug-24	25-Oct-24	Draft Technical Advice	✓
Supervising the liquidity risk management of Institutions for Occupational Retirement Provision (IORPs)	26-Sep-24	20-Dec-24	Draft EIOPA opinion	✓
Liquidity risk management plans	01-Oct-24	02-Jan-25	Draft RTS	✓
Exceptional sector-wide shocks	01-Oct-24	02-Jan-25	Draft RTS	✓
Undertakings under dominant/significant influence or managed on a unified basis	01-Oct-24	02-Jan-25	Draft RTS	✓
Enhancing the supervision of cross-border activities	01-Oct-24	02-Jan-25	Draft RTS	✓
Scenarios for best-estimate valuations for life insurance obligations	01-Oct-24	02-Jan-25	Draft ITS	✓
Applicability criteria for macroprudential analysis in ORSA and PPP	17-Oct-24	09-Jan-25	Draft RTS	✗
Standard formula capital requirements for investments in crypto assets	24-Oct-24	16-Jan-25	Draft Technical Advice	✗
Annexes to the opinion on the use of risk mitigation techniques by insurance undertakings: mass-lapse reinsurance and reinsurance agreements' termination clauses	08-Nov-24	07-Feb-25	Draft Annex to EIOPA opinion	✗
Biodiversity risk management	04-Dec-24	26-Feb-25	Draft Report to Commission	✗
Management of sustainability risks including sustainability risk plans	04-Dec-24	26-Feb-25	Draft RTS	✗
Notion of diversity for the selection of the members of the administrative, management or supervisory body	04-Dec-24	26-Feb-25	Draft guidelines	✗
Undertaking-specific parameters	04-Dec-24	26-Feb-25	Draft guidelines	✗
Market and counterparty risk exposures in the standard formula	04-Dec-24	26-Feb-25	Draft guidelines	✗
Regional governments and local authorities' exposures to whom are to be treated as exposures to the central government	04-Dec-24	26-Feb-25	Draft ITS	✗

Questions to stakeholders

EIOPA consultation papers include questions to stakeholders looking for comments and feedback. For each of the consultation papers covered in this note, the questions to stakeholders were similar in nature, asking for general feedback on various aspects of the proposals. Respondents are also asked to provide comments on the analysis of the various policy issues outlined in the consultation papers and the impact assessment of these options.

The deadline for submitting responses is shown in Figure 1 for each paper.

Liquidity risk management plans

Under the amended Solvency II Directive, all undertakings are required to draw up and regularly update a short-term liquidity risk management plan. At present, undertakings are expected to include short-term and long-term liquidity risk management within their risk management systems. With the amended Directive, (re)insurers will likely need to enhance the assessments they currently produce as part of their risk management strategies in order to stay compliant. In addition to this, the amended Directive allows supervisors to request firms to extend this liquidity risk management plan to analyse their liquidity over the medium and long term. The RTS specifies the criteria in which supervisors can request this analysis as well as additional requirements to ensure a more harmonised approach to reporting this information.

EIOPA's proposed draft RTS¹ mandates that all undertakings and groups with assets over €12 billion include medium- and long-term liquidity analysis in their liquidity risk management plans (LRMPs). Supervisors can also request this analysis from other entities based on qualitative assessments. These qualitative assessments should consider liquidity risk arising from:

- Exposure to insurable events
- Policyholder behaviour
- The structure or composition of assets
- Counterparty risk
- Economic or market developments with impact on funding

The liquidity risk management plan should follow a common structure as follows:

0. Overall assessment: An introduction or executive summary should be included at the beginning of the report providing an overall liquidity assessment. This should include the main conclusions from any analysis completed and also state whether the company's risk tolerance limits are satisfied.

1. Assumptions underlying the projections: The undertaking is required to document the assumptions used for cash flow projections under base and stressed scenarios. This should include the applied shocks.

2. Cash flow projections: The RTS sets out the information to be included in relation to the projections in the LRMP, including a proposed minimum breakdown of inflows and outflows.

3. Buffers of liquid assets: This section of the plan should outline the liquidity buffers that the undertaking has in place. The breakdown of the types of liquid assets before and after the application of their assumed haircuts should be shown.

4. Liquidity risk indicators: Undertakings are required to have liquidity risk indicators in place to help identify and monitor risk. The set of liquidity indicators should include the liquidity coverage ratio indicator, calculated as "*the ratio of the value of assets held in the buffer of liquid assets and the projected shortfall between incoming and outgoing cash flows under stressed conditions considering the relevant time horizon.*" A 'comply or explain' approach is expected to be taken with respect to this measure.

5. Any other information: The RTS also includes some additional requirements for the frequency of updates as well as requirements for groups. The short-term liquidity analysis required by all firms should be completed at least quarterly, if not sooner, based on a change in risk profile. For those required to produce medium- and long-term analysis, this should be refreshed annually.

For more information on the CBI's IGT guidance, [click here](#) to read our briefing note

1. EIOPA (1 October 2024). Consultation on Liquidity Risk Management Plans – Solvency II Review. Draft RTS. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-liquidity-risk-management-plans-solvency-ii-review_en.

These requirements also apply at a group level. Intragroup transactions (IGTs) should be given particular attention, especially if there are any concentrations of risk within the group. In January 2023, the Central Bank of Ireland (CBI) published guidance for insurers in relation to IGTs. This RTS should not require significant additional effort from Irish (re)insurers in relation to IGTs. The CBI also published a guidance note in 2015 on liquidity considerations related to the Italian Withholding Tax regime, including a requirement for a liquidity policy. Italian insurers in Ireland are therefore likely to already be well prepared to meet the requirements of the proposed RTS.

EIOPA'S PROPOSED OPTIONS

The first policy issue identified by EIOPA relates to the criteria for the applicability of a medium- and long-term LRMP.

EIOPA's *preferred approach* is to apply both qualitative and quantitative criteria to determine which companies are required to produce the LRMP on a medium- and long-term basis. EIOPA notes that expanding the criteria to include a quantitative and qualitative assessment, as outlined in the draft RTS, will ensure that all appropriate undertakings are included in the scope of the requirements.

The second policy issue identified by EIOPA relates to the prescriptiveness of the liquidity risk management plan's content.

EIOPA's *preferred option* is to include minimum requirements on the content of LRMPs, as shown in the draft RTS. EIOPA identified that this option would make it easier to compare and assess various undertakings from a supervisory perspective. Minimum content requirements ensure that the relevant information needed from a macroprudential perspective is included in the liquidity risk management plan and so is more effective in terms of risk management and financial stability.

Exceptional sector-wide shocks

Under the amended Solvency II Directive, in times of crisis supervisors may impose restrictions on particular insurers by restricting or suspending dividend payments, share buybacks or bonuses in order to safeguard policyholders and the financial stability of the insurer and industry. The aim of this RTS² is to provide a framework for supervisors to identify these insurers and exceptional events and to ensure consistent application of these supervisory powers.

2. EIOPA (1 October 2024). Consultation on the Criteria for the Identification of Exceptional Sector-Wide Shocks – Solvency II Review. RTS. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-criteria-identification-exceptional-sector-wide-shocks-solvency-ii-review_en.

EIOPA proposes that different criteria be introduced to identify shocks that pose a risk to financial stability and shocks that pose a risk to policyholder protection. It proposes that supervisors take into account factors including:

- The nature, scale and scope of the event
- The relevance of the undertakings in the sector for financial stability
- The effect of the event on undertakings in the sector

EIOPA'S PROPOSED OPTIONS

The policy issue identified by EIOPA relates to the possibility of using quantitative criteria to identify exceptional sector-wide shocks.

Policy option A1: Adopting criteria and conditions based on quantitative thresholds.

Policy option A2: EIOPA's *preferred policy option* involves no use of quantitative criteria and suggests that qualitative criteria are only used. This option poses the risk that the criteria are interpreted differently by member states. However, there is less of a risk that criteria are not met in a severe crisis. EIOPA notes that there may be a higher burden on supervisors to review qualitative measures. However, EIOPA states that this is outweighed by the effectiveness in identifying exceptional sector-wide shocks.

Undertakings under dominant/significant influence or managed on a unified basis

This RTS³ aims to supplement the Directive and provide a framework for supervisors to identify undertakings under dominant or significant influence and those managed on a unified basis.

EIOPA is proposing that supervisors should consider various aspects of the undertaking, including:

- Control or ability to influence decisions
- Strong reliance on an undertaking or person
- Coordination of financial or investment decisions
- Coordinated and consistent strategies, operations or processes

Forms of evidence of these assessments may include contractual rights, voting rights and the ability to influence the nomination of key personnel or significant transactions.

3. EIOPA (1 October 2024). Consultation on Undertakings Under Dominant/Significant Influence or Managed on a Unified Basis – Solvency II Review. RTS. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-undertakings-under-dominantsignificant-influence-or-managed-unified-basis-solvency-ii_en.

EIOPA'S PROPOSED OPTIONS

The policy issue identified by EIOPA relates to the mandatory consideration of all evidence identified in the RTS.

Policy option A1: Supervisors are required to consider all evidence identified in the RTS

Policy option A2: EIOPA's *preferred option* means supervisors are not required to consider all evidence identified in the RTS. This allows supervisors to tailor assessments on a case-by-case basis.

Enhancing the supervision of cross-border activities

The amended Solvency II Directive includes a new article to improve supervisory cooperation and information exchange between the supervisor of the home Member State, that granted authorisation to an insurance or reinsurance undertaking, and the supervisors of the Member States, where that undertaking operates through branches or by providing services. The cooperation between home and host supervisors, proportional to the risks involved, must cover governance, outsourcing, distribution partnerships, business strategy, claims handling and consumer protection.

This proposed RTS⁴ specifies the conditions and criteria, under which the host Member State's supervisor can consider cross-border activities, carried out under the right of establishment or under the freedom to provide services, as "significant" to its host Member State's market.

"Significant" cross-border activities will be defined as insurance or reinsurance activities of undertakings which are not classified as small and noncomplex and have either of the following conditions:

- Annual gross written premium income by the undertaking in a host Member State exceeding €15 million
- Activities deemed "relevant" by the host state's supervisor (see below)

This proposed RTS aims to specify the "relevance" of cross-border activities using both qualitative and quantitative information, without introducing strict thresholds. This approach allows for more targeted assessments and reflects unique market circumstances.

The supervisor shall consider the conditions and criteria below for determining the "relevance" of activities carried out by an insurance or reinsurance undertaking in a host Member State's market.

4. EIOPA (1 October 2024). Consultation on Relevant Insurance and Reinsurance Undertakings With Respect to the Host Member State's Market – Solvency II Review. RTS. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-relevant-insurance-and-reinsurance-undertakings-respect-host-member-states-market_en.

1. Concentration of activities in the following situations:
 - Share of activities in the host Member State compared to total annual gross written premium income
 - Market share in the host Member State's insurance market measured as a percentage of annual gross written premium income or gross technical provisions
2. Significant impact with respect to:
 - Impact on specific lines of business, insurance risks or products important to the host Member State's market
 - Impact on the protection of policyholders and beneficiaries

The significance of the impact shall be assessed with regard to the following factors:

- Relative market share of specific lines of business, insurance risks or products.
- Level of substitutability in the host Member State's market, based on the notion of substitutability as per Article 5(2) of the Insurance Recovery and Resolution Directive (IRR), which states that the supervisor shall subject (re)insurance undertakings (at least 80% of the Member State's life and non-life, and reinsurance market, respectively) to pre-emptive recovery planning requirements on the basis of their size, business model, risk profile, interconnectedness, substitutability and, in particular, cross-border activity.
- Potential detriment to policyholders and beneficiaries normally using criteria, including level of affected policies, higher than average level of complaints, commission rates and gross written premium growth in the previous financial year.

EIOPA'S PROPOSED OPTIONS

The policy issue identified by EIOPA in the CP relates to defining the appropriate approach to calibrate criteria and conditions for enhanced cross-border supervision.

Policy option 1: No change. This option implies that no RTS are in place and represents a hypothetical scenario for comparison purposes.

Policy option 2: Adopting criteria and conditions based on quantitative thresholds.

Policy option 3: Adopting criteria and conditions without thresholds, EIOPA's *preferred option*. This option allows for flexibility and supervisory judgement, capturing market specificities and ensuring effective supervision. This option does not impose additional reporting burdens on undertakings and groups, as the required information can be obtained from existing supervisory review processes.

Scenarios for best-estimate valuations for life insurance obligations

The amended Solvency II Directive introduces a new article allowing small and noncomplex insurance and reinsurance undertakings to use a prudent deterministic valuation for life obligations with nonmaterial options and guarantees. To ensure uniform application, this proposed ITS specifies the methodology for determining the scenarios used for the prudent deterministic valuation. EIOPA will calculate and publish these scenarios quarterly for each relevant currency. The proposed ITS will only cover the scenario determination methodology, while the Commission will adopt Delegated Acts for the valuation process and its conditions.

The proposed ITS⁵ specifies the methodology for determining scenarios used in the prudent deterministic valuation of the time value of options and guarantees (TVOG), including both the choice and calibration of the methodology. EIOPA calibrates the volatility hypotheses for the scenarios based on information from the Solvency Capital Requirement (SCR) standard formula stresses for relevant market parameters, such as interest rates, equity and real estate.

EIOPA's approach to the ITS includes a potential mathematical implementation of its foreseeable methodology for determining the scenarios. The methodology involves specifying a base methodology for generating scenarios, including steps to adjust scenarios for a sufficiently prudent level of volatility and an acceptable level of error, ensuring practical feasibility and limited risk of underestimation of the TVOG.

EIOPA proposes an option to use pure stochastic trajectories for its simplicity, robustness and ease of implementation, making it effective for market-consistent valuation of technical provisions and improving transparency and comparability across undertakings.

However, this ITS may actually increase complexity for undertakings that are currently using a deterministic approach and may now have to use a stochastic valuation approach (with approximately 10 scenarios).

EIOPA'S PROPOSED OPTIONS

The policy issue identified by EIOPA in the CP relates to the choice of base methodology for determining scenarios.

Policy option A.1: Use of pure stochastic trajectories, EIOPA's *preferred option*. This option uses a stochastic model to generate scenarios, employing simple models like a basic Gaussian stochastic process for interest rates and a Black and Scholes model for equity-like indexes. It is favoured by EIOPA for its simplicity, robustness and ease of implementation, making it effective for market-consistent valuation of technical provisions and improving transparency and comparability across undertakings. EIOPA states that its straightforward methodology limits the burden on small and noncomplex entities, ensuring proportionality and efficiency without unnecessary complexity, unlike the alternatives, which do not significantly enhance scenario quality or reduce estimation errors.

Policy option A.2: Use of percentile level lines. This method generates a large number of scenarios (e.g., 1,000 to 10,000) and selects percentiles (e.g., 10%, 20%, 50%) of financial market parameters at each time-step. Adjustments are made to handle extreme values in equity-like indexes.

Policy option A.3: Use of ranked scenarios with conditional expectations. This method builds a reference portfolio and ranks scenarios based on the portfolio's value at a defined horizon. It uses conditional expectations to average scenarios that match specific percentiles.

QUESTIONS TO STAKEHOLDERS

In the questions to stakeholders, EIOPA requests feedback on the following:

1. Appropriateness of an exclusion of an additional drift term in its interest rate model to maintain simplicity, as subsequent adjustments proposed ensure that martingale conditions are met.
2. Appropriateness of simplification of using the standard deviation of spot rate changes for a fixed maturity instead of swaption volatility prices for interest rate volatility targeting.
3. Appropriateness of the penalty term design to ensure all scenarios contribute to the best-estimate calculation
4. Appropriateness of the approach for deriving the volatility parameters.

5. EIOPA (1 October 2024). Consultation on Scenarios for Best-Estimate Valuations for Life Insurance Obligations – Solvency II Review. ITS. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-scenarios-best-estimate-valuations-life-insurance-obligations-solvency-ii-review_en.

Supervising the liquidity risk management of IORPs

In September 2024, EIOPA launched a consultation⁶ on supervising the liquidity risk management of institutions for occupational retirement provision (IORPs). EIOPA had identified the need for a thorough assessment of IORPs' vulnerabilities to liquidity risks, including their exposure to margin and collateral calls, early withdrawals and outgoing transfers, as well as their ability to manage these risks. The consultation paper (CP) presents EIOPA's draft Opinion on the supervision of IORPs' liquidity risk management. The draft Opinion is an attempt to achieve harmonised supervision of IORPs in terms of liquidity risk management practices, with a focus on those with material derivative positions. The CP aims to enhance oversight in order to protect pension fund members and beneficiaries and to strengthen the stability of IORPs and the broader financial system.

EIOPA'S PROPOSED OPTIONS

The first policy issue identified by EIOPA in this CP relates to the scope of liquidity risk management.

Policy option A1: Scope restricted to margin and collateral calls on derivative positions.

Policy option A2: The *preferred policy option* involves the scope covering all material sources of liquidity risk. This approach encompasses a broad perspective on liquidity risk, encouraging effective risk management and supporting financial stability. It is specifically aimed at IORPs with significant liquidity risks, requiring both competent authorities and IORPs to adopt the expectations through a risk-based and proportionate method.

The second policy issue identified by EIOPA relates to the outsourcing of investments in derivative instruments.

Policy option B1: The *preferred policy option* requires investment funds to hold an appropriate level of liquid assets using a principle-based approach. This principle- and risk-based strategy ensures that the amount of liquid assets is sufficient to improve operational resilience, while avoiding the imposition of excessive costs associated with unnecessarily large liquidity buffers

Policy option B2: Investment funds to hold appropriate level of liquid assets using standardised approach.

The following consultations were closed for responses at the time of writing.

6. EIOPA (26 September 2024). Consultation on Supervising the Liquidity Risk Management of IORPs. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-supervising-liquidity-risk-management-iorps_en.

New proportionality framework

This CP⁷ aims to provide technical advice to the European Commission on the implementation of the new proportionality framework under Solvency II, specifically focusing on the methodology to be used for the classification of undertakings as small and noncomplex, and the conditions for granting or withdrawing supervisory approval for proportionality measures to be used by undertakings not classified as small and noncomplex. The new proportionality framework aims to address the limited and inconsistent application of proportionality in the initial years of Solvency II and to promote convergence across Member States.

Methodology for classifying undertakings as small and noncomplex: Per EIOPA's opinion, the methodology for classifying undertakings as small and noncomplex, as outlined in the amended Solvency II Directive, is generally clear. EIOPA believes there may be implementational challenges in reconciling proportionality for a solo undertaking and for the respective group.

EIOPA'S PROPOSED OPTIONS

The policy issue identified by EIOPA in the CP relates to the structure of the methodology for the classifying of undertakings and groups as small and noncomplex.

Policy option 1: EIOPA's *preferred option* is no specifications on the methodology for the classification of undertakings and groups as small and noncomplex. Per EIOPA's assessment, no further specifications are needed, and the current methodology is clear and comprehensive. EIOPA believes that additional details will rely on how the framework is practically implemented at the national level and should be covered during the transposition of the amendments to the Solvency II Directive.

Policy option 2: Specify in detail certain procedural aspects for the methodology for the classification of undertakings and groups as small and noncomplex.

Conditions for granting or withdrawing supervisory approval for proportionality measures: The amended Solvency II Directive will allow undertakings that are not classified as small and noncomplex to request proportionality measures. EIOPA expects that applications for proportionality measures must align with the principle that they are appropriate to the nature, scale and complexity of the undertaking's risks. The maximum reduction of requirements should be available to those with lower risk profiles, similar to small and noncomplex undertakings. Per EIOPA's opinion,

7. EIOPA (2 August 2024). Consultation on the Implementation of the New Proportionality Framework Under Solvency II. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-implementation-new-proportionality-framework-under-solvency-ii_en.

conditions for granting or withdrawing these measures must ensure that supervisory practices consider the applicant's risk profile, and supervisors are expected to apply expert judgement based on the risk materiality at stake.

EIOPA'S PROPOSED OPTIONS

The policy issue identified by EIOPA in the CP relates to the conditions for granting or withdrawing supervisory approval to undertakings and groups that are not classified as small and noncomplex.

Policy option 1: No change.

Policy option 2: Introduce conditions based only on a qualitative approach.

Policy option 3: EIOPA proposes to adopt a hybrid approach, introducing conditions based both on a quantitative and qualitative approach. The hybrid approach was *preferred* by EIOPA to balance supervisory judgement and convergence. EIOPA believes some conditions should be general, ensuring the nature, scale and complexity of the undertaking's risk justify proportionality. Other conditions should be specific to the type of proportionality measure applied for.

EIOPA proposes a set of conditions, both general and specific to each proportionality measure, to guide supervisory assessments. These conditions include:

- **General conditions:** Assessments based on risk profiles, business model complexity, SCRs, market share, governance concerns and historical compliance.
- **Specific conditions:** Tailored to individual proportionality measures like the frequency of Regular Supervisory Reports (RSRs), combination of key functions, update frequency of written policies, ORSA requirements, technical provisions calculation, liquidity risk management and remuneration deferrals.

Standard formula capital requirements for insurers' direct exposures to qualifying central counterparties

The European Commission requested advice from EIOPA in relation to the standard formula capital requirements for insurers' direct exposures to qualifying central counterparties (QCCPs). EIOPA therefore launched the consultation⁸ on the topic. While Solvency II introduced specific treatment for indirect clearing of derivatives in 2019, no such provisions

8. EIOPA (31 July 2024). Consultation on Standard Formula Capital Requirements for Insurers' Direct Exposures to Qualifying Central Counterparties. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-standard-formula-capital-requirements-insurers-direct-exposures-qualifying-central_en.

existed for direct clearing. The CP explores various options to account for insurers' direct involvement with central counterparties (CCPs).

QUESTIONS TO STAKEHOLDERS

In the questions to stakeholders, EIOPA requested feedback on several aspects of the CP. EIOPA is considering extending the proposed approach for derivatives to include repurchase transactions and potentially other securities and was seeking stakeholders' opinions on the appropriateness of this extension. Additionally, EIOPA invited comments on the current treatment of direct exposures to QCCPs under Solvency II, as well as feedback on the management of liquidity risk faced by insurance and reinsurance undertakings when they are members of a QCCP.

(Re)assessment of natural catastrophe risk in the standard formula

EIOPA launched this consultation⁹ to reassess natural catastrophe risks in the Solvency II standard formula. EIOPA proposed new risk parameters for 25 regions across five perils: flood, hail, earthquake, windstorm and subsidence. As part of this exercise, EIOPA has suggested that certain factors are recalibrated and that additional regions be included that previously have been omitted. For example, flood risk will be recalibrated for 10 countries and nine countries will be added to flood risk, including Ireland, the Netherlands and Finland.

For more information, [click here](#) to read our colleagues' briefing note.

QUESTIONS TO STAKEHOLDERS

Stakeholders were asked to provide their comments on the (re)assessments or (re)calibrations of various regions and perils. EIOPA also asked respondents to provide comments on the additional impact of perils for the European insurance sector, how these perils should be included in the standard formula and whether there are any key factors omitted.

EIOPA will consider the feedback received for this paper and shall submit an opinion on natural catastrophe risk to the Commission by end-2024. The Commission will consider the opinion for a potential (re)calibration of the standard formula parameters.

9. EIOPA (3 April 2024). Consultation on the 2023/2024 (Re)Assessment of Natural Catastrophe Risk in the Standard Formula. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-20232024-reassessment-natural-catastrophe-risk-standard-formula_en.

Templates for explanations and opinions, and the standardised test for the classification of crypto assets

The European Supervisory Authorities (ESAs) are tasked with preparing joint guidelines under Article 97(1) of the Markets in Crypto-Assets Regulation (MiCAR). These guidelines aim to standardise the format for explanations and legal opinions, and to create a unified approach for the regulatory classification of crypto assets through a standardised test. The standardised test aims to offer a common framework for regulatory classification, considering EU and national laws, court decisions and regulatory guidance. The guidelines stress that the test focuses on the asset itself, rather than the environment in which it is created or traded, and recognises that each crypto asset requires individual assessment based on its characteristics.

The standardised test for classifying crypto assets involves evaluating whether the asset is a digital representation of value or rights, and whether it can be transferred and stored electronically using distributed ledger technology (DLT) or similar technologies. The test also includes determining whether the crypto asset falls within some exclusions, such as being unique and non-fungible, or qualifying as a financial instrument, deposit, insurance product, reinsurance contract, pension product etc.

In a scenario where there is no harmonisation of explanations or legal opinions and no standardised test, competent authorities would have to request information on a case-by-case basis to evaluate the regulatory classification of a crypto asset.

Prudential treatment of sustainability risks

EIOPA launched this consultation¹⁰ on the prudential treatment of sustainability risks, focusing on assets and activities linked to environmental and social objectives. It examines the impact of sustainability risks on market risks, non-life underwriting risks, and social risks from a prudential perspective. It includes backward- and forward-looking analyses of equity and spread risks, particularly highlighting the elevated risk profiles of fossil fuel-related assets. EIOPA is recommending additional capital charges for these assets.¹¹

The paper also explores the potential impact of climate-related adaptation measures on premium risk and the broader implications for property risk related to energy efficiency. EIOPA suggests that, while there is evidence for differentiated risk profiles, particularly for fossil fuel-related assets, the current data limitations and methodological challenges prevent robust conclusions for all areas. Immediate changes to the prudential framework are not recommended in relation to property risk and non-life underwriting risk. Ongoing work is also recommended to develop guidance in future for social risk assessments in the own risk and solvency assessment (ORSA). Due to the current lack of data and risk models, EIOPA does not recommend a specific prudential treatment of social risks at this stage.

10. EIOPA (13 December 2023). Consultation on the Prudential Treatment of Sustainability Risks. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-prudential-treatment-sustainability-risks_en.

11. EIOPA (7 November 2024). EIOPA recommends a dedicated prudential treatment for insurers' fossil fuel assets to cushion against transition risks. Retrieved 11 December 2024 from https://www.eiopa.europa.eu/eiopa-recommends-dedicated-prudential-treatment-insurers-fossil-fuel-assets-cushion-against-2024-11-07_en.

Conclusion

The Solvency II review will cause many changes to regulatory requirements for (re)insurers. A wide range of changes is being considered, which is evident when you see the array of topics covered by the EIOPA consultation papers. It is important for stakeholders to engage with these consultations to ensure that their views are heard in finalising the requirements.

Additional consultations are expected from EIOPA in the coming months. Further research on this topic will be completed by [Milliman](#) as and when these consultations are released.

Solutions for a world at risk™

Milliman leverages deep expertise, actuarial rigor, and advanced technology to develop solutions for a world at risk. We help clients in the public and private sectors navigate urgent, complex challenges—from extreme weather and market volatility to financial insecurity and rising health costs—so they can meet their business, financial, and social objectives. Our solutions encompass insurance, financial services, healthcare, life sciences, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

[milliman.com](https://www.milliman.com)



CONTACT

Aisling Barrett
Aisling.Barrett@milliman.com

Nia Powis
Nia.Powis@milliman.com

Arushi Mittal
Arushi.Mittal@milliman.com