

EIOPA consultations and the Solvency II review

2024 consultation papers: Part 2

Jessica Crowson, FIA
Garvan McGrenra, FSAI
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 (CPs) have been published this year, with more expected early next year, providing stakeholders with the opportunity to influence the final requirements.

The Solvency II (SII) legislation is implemented on three levels:

- Level 1: The Solvency II Directive – this 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) – these are legislative provisions made by the European Commission on the basis of advice received from EIOPA.
- Level 3: Guidelines – these are issued by EIOPA to ensure consistent supervisory practices and application of the legislation.

The table in Figure 1 shows all consultations launched in 2024.

FIGURE 1: CONSULTATIONS LAUNCHED IN 2024

CONSULTATION	LAUNCH DATE	CLOSURE DATE	STATUS	INCLUDED IN THIS NOTE
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	✓
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	✓
Market and counterparty risk exposures in the standard formula	04-Dec-24	26-Feb-25	Draft guidelines	✓
Biodiversity risk management	04-Dec-24	26-Feb-25	Draft Report to Commission	✓
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	✗
Standard formula capital requirements for investments in crypto assets	24-Oct-24	16-Jan-25	Draft Technical Advice	✗
Applicability criteria for macroprudential analysis in ORSA and PPP	17-Oct-24	09-Jan-25	Draft RTS	✗
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	✗

CONSULTATION	LAUNCH DATE	CLOSURE DATE	STATUS	INCLUDED IN THIS NOTE
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	✗
Supervising the liquidity risk management of IORPs	26-Sep-24	20-Dec-24	Draft EIOPA opinion	✗
New proportionality framework	02-Aug-24	25-Oct-24	Draft Technical Advice	✗
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	✗
Templates for explanations and opinions, and the standardised test for the classification of crypto assets	12-Jul-24	12-Oct-24	Draft guidelines	✗
Prudential Treatment of Sustainability Risks	13-Dec-23	22-Mar-24	Draft EIOPA opinion	✗

In this briefing note we discuss the second batch of consultation papers in relation to the Solvency II Review, covering the following:

- Draft Regulatory Technical Standards on management of sustainability risks
- Proposed guidelines on diversity in governance structures
- Revised guidelines on undertaking-specific parameters
- Revised Technical Standards on regional and local government exposures in Solvency Capital Requirement (SCR) calculations
- Revised guidelines on market and counterparty risk exposures in the standard formula
- A report on biodiversity risk management

On 1 October 2024, EIOPA published its first batch of consultations in relation to the Solvency II review. These contain EIOPA's proposals in relation to the RTS and ITS requirements, 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 were summarised in a previous briefing note, which can be found [here](#).

Other 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 Prudent Person Principle (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.

Questions to stakeholders

Many of the EIOPA consultation papers include questions to stakeholders looking for comments and feedback.

Respondents are asked to provide comments on the various policy issues outlined in the consultation papers.

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

Management of sustainability risks including sustainability risk plans

The amended Solvency II Directive requires insurers to develop sustainability risk plans that set quantifiable targets and implement processes to monitor and address prudential risks arising from sustainability factors, such as climate change, biodiversity loss and social considerations. These risks include both physical impacts, such as damage caused by extreme weather events, and transition challenges, such as adapting to stricter policies or changing market sentiment.

In this consultation, EIOPA proposes RTS¹ that establish minimum standards and methodologies for the identification, measurement, management and monitoring of sustainability risks. EIOPA aimed to limit the burden on undertakings by:

1. Building on existing requirements by integrating the sustainability risk plans into existing risk management practices.
2. Ensuring sustainability and transition plans are considered jointly.
3. Enabling consistent and efficient disclosure of sustainability risks

The proposals outline the key elements to be included in these plans, including governance, materiality assessments, metrics and actions to mitigate these risks. Emphasis is placed on integrating environmental, social and corporate governance (ESG) risks into insurers' frameworks, aligning with the EU's sustainability objectives.

The RTS also describe the relationship between sustainability risk plans and the ORSA, transition plans, disclosure, reporting and ensuring alignment to the Corporate Sustainability Reporting Directive (CSRD). Proportionality is a key feature, providing tailored approaches for smaller insurers to promote fairness and feasibility.

Additionally, the RTS include detailed guidance on supervisory approaches and disclosure practices, equipping insurers to address long-term sustainability challenges while contributing to the EU's climate and sustainability ambitions.

EIOPA'S PROPOSED OPTIONS

The first policy issue identified by EIOPA relates to the level of standardisation required for sustainability risk management

EIOPA's *preferred option* is minimum binding requirements (A.2). These requirements introduce specific minimum standards and methodologies for managing sustainability risks, including mandatory materiality assessments and a list of binding metrics to ensure comparability of financial impacts and support risk assessment.

Alternatives considered were no change (A.1), and nonbinding guidance (A.3).

The second policy issue identified by EIOPA relates to the level of consistency with the European Sustainability Reporting Standards under the CSRD.

EIOPA's *preferred option* is alignment of the format and the structure of the sustainability risk plan with CSRD disclosures, to the extent relevant (B.3), explicitly requiring coherence between CSRD disclosures and risk management targets and actions.

Alternatives considered were no change (B.1), and no alignment with CSRD disclosures (B.2).

Diversity

The amended Solvency II Directive requires that insurance and reinsurance undertakings establish a policy promoting diversity in their administrative, management or supervisory bodies (AMSBs), the boards of directors, including setting individual quantitative objectives related to gender balance. This consultation² presents the draft guidelines that define diversity as:

the situation whereby the characteristics of the members of the AMSB, including their educational and professional background, gender, age and geographical provenance, are different to an extent that allows a variety of views within the AMSB.

The consultation emphasises the importance of diversity in enhancing board effectiveness by encouraging varied perspectives, reducing groupthink and supporting inclusive decision-making.

Key guidelines state that all undertakings should develop and implement a policy promoting diversity in the board, which should include the following diversity aspects: educational and professional background, gender, age and geographical provenance (where relevant). Undertakings are expected to set

1. EIOPA (4 December 2024). Consultation on the proposal for Regulatory Technical Standards on management of sustainability risks including sustainability risk plans. Retrieved 20 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-proposal-regulatory-technical-standards-management-sustainability-risks-including_en.

2. EIOPA (4 December 2024). Consultation on guidelines regarding the notion of diversity for the selection of the members of the administrative, management or supervisory body. Retrieved 20 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-guidelines-regarding-notion-diversity-selection-members-administrative-management-or_en.

and achieve quantitative objectives regarding gender balance within defined timeframes.

Additional proposed guidelines relate to implementing a diversity policy for staff, in order to build a diverse pool of board candidates, and adopting antidiscrimination policies to ensure equal treatment regardless of gender, ethnicity, religion, disability, or other personal characteristics. Employee representation within the board may also be included to bring practical insights and ensure that staff interests are represented.

Undertakings should regularly review and document annually the effectiveness and compliance of their diversity measures, aligning with principles of equal opportunities and inclusion.

EIOPA'S PROPOSED OPTIONS

The policy issue identified by EIOPA in the CP relates to the level of guidelines provided.

Policy option A.1: Definition of diversity only. This option limits the guidelines to defining diversity, offering minimal direction on applying the Directive's diversity requirements. While it respects the mandate, it misses opportunities to enhance diversity or align the insurance sector with other financial sectors.

Policy option A.2 Comprehensive Guidance. This is EIOPA's *preferred policy option*, it expands on the definition of diversity by including specific measures to promote gender balance and address underrepresentation in the AMSB. It aligns insurance sector regulation with other financial sectors, reducing gaps and ensuring consistency. This approach supports diversity objectives while addressing disparities to prevent competitive disadvantages for the insurance sector.

Revised guidelines on undertaking-specific parameters

EIOPA has proposed various amendments to the guidelines³ on undertaking-specific parameters (USPs) used in the calculation of the Solvency II standard formula. Broadly, the amendments aim to simplify and shorten the current guidelines and improve readability. There were also some updates to legal references within the guidelines.

3. EIOPA (4 December 2024). Consultation on revised guidelines on undertaking-specific parameters. Retrieved 20 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-revised-guidelines-undertaking-specific-parameters_en.

Some guidelines have been shortened or deleted entirely, including:

- Removal of Guideline 2 on materiality
- Removal of part of Guideline 6 on continuous compliance
- Removal of part of Guideline 7 on remedial of noncompliance
- Removal of Guideline 8 on requirements from the supervisory authority to use undertaking-specific parameters
- Removal of part of Guideline 11 on the scope of the group using group-specific parameters

EIOPA explained that these changes were proposed because this detail was deemed unnecessary, or was already covered elsewhere. It was noted however that supervisory expectations have not been reduced as a result.

EIOPA additionally made amendments to the introduction section to the guidelines to improve readability, but noted that it remains self-evident that any modifications to the standardised methods for USPs disqualify the method from approval, and that USPs are different from internal models.

QUESTIONS TO STAKEHOLDERS

In the questions to stakeholders, EIOPA requests feedback on whether stakeholders have any comments on the proposals to simplify and shorten the guidelines, and/or any other suggestions for simplifying and shortening the guidelines.

Revised Technical Standards on regional and local government exposures in SCR calculations

Exposures to regional governments and local authorities are treated akin to exposures to central government and are therefore assigned a risk factor of 0% for the spread risk and market concentration risk modules within the SCR calculation.

EIOPA proposes⁴ to amend the list of regional governments and local authorities of the Member States within the regulations to include four new types of entities in France and Latvia, and to remove the regional governments of the United Kingdom following Brexit.

4. EIOPA (4 December 2024). Consultation on revised Implementing Technical Standards on the lists of regional governments and local authorities' exposures to the central government. Retrieved 20 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-revised-implementing-technical-standards-lists-regional-governments-and-local_en.

Revised guidelines on market and counterparty risk exposures in the standard formula

EIOPA has issued revised guidelines⁵ on the treatment of market and counterparty risk exposures in the standard formula.

The guidelines, addressed to supervisory authorities under SII, aim to ensure consistent application of market and counterparty risk modules across Member States.

EIOPA will update the proposal based on the feedback received from stakeholders. A report on the consultation, which will include the revised proposal and the responses to stakeholder comments, will be published by EIOPA.

QUESTIONS TO STAKEHOLDERS

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FIGURE 2: GUIDELINES 1-10

GUIDELINE NUMBER	NATURE OF MODIFICATION	RELATES TO	DESCRIPTION OF CHANGE
Guideline 1	Deleted	Employee benefits	EIOPA believes these issues have been covered in other articles of the Delegated regulations
Guideline 2	Amended	Impact of options on duration of bonds and loans	Amendments to allow for wider applications of the principles, such as the guideline now referring to options instead of call options.
Guideline 3	Deleted	Duration for the equity submodule	EIOPA believes these issues have limited relevance
Guideline 4	Amended	Scenarios of the interest rate risk sub-module	Amendments to allow for clarity and generalization of the principle without changing its intent
Guideline 5	Amended	Investments with equity and debt instrument characteristics	Smaller amendments for further clarity
Guideline 6	Amended	Financial risk-mitigating instruments and short equity positions	Amendments to allow for wider applications of the principles
Guideline 7	Deleted	Market risk concentration sub-module	EIOPA believes these issues have been covered in other articles of the Delegated regulations
Guideline 8	Amended	Securities lending or borrowing transactions	Amendments to allow for wider applications of the principles. Changes to the allocation of securities lending or borrowing transactions to consider these transactions in the interest rate risk sub-module as type 2 exposures instead of type 1.
Guideline 9	Amended	Commitments which may create payment obligations	Smaller amendments for further clarity
Guideline 10	Added	Treatment of leveraged funds	Specifying the treatment of leveraged funds to enhance consistency in the counterparty default risk module. EIOPA states that when calculating the market risk module for leveraged investment funds using the look-through approach, undertakings must consider the fund's leverage under relevant market risk sub-modules, applying stress to the gross assets and adjusting for outstanding lending. If the leverage results in a reduction exceeding 100% of the fund's value, then the reduction should be capped at 100%.

5. EIOPA (4 December 2024). Consultation on revised guidelines on market and counterparty risk exposures in the standard formula. Retrieved 20 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-revised-guidelines-market-and-counterparty-risk-exposures-standard-formula_en.

Consultation on a report on biodiversity risk management

The amended Solvency II Directive includes a mandate for EIOPA to assess (re)insurance undertakings' current ORSA practices and identify necessary actions for undertakings to adequately consider biodiversity risk. Under this mandate, EIOPA produced a report⁶ evaluating how insurers assess biodiversity-related risks, which is proposed for consultation.

The EIOPA consultation paper explores biodiversity risks and their relevance for insurers, and how those risks can be defined for prudential risk purposes. It highlights how biodiversity loss impacts underwriting, investments, and overall risk management within the insurance sector.

EIOPA discusses biodiversity risk as the potential economic and financial threats arising from biodiversity loss and ecosystem degradation. It also highlights the interconnectedness of biodiversity and climate change, emphasising the mutual reinforcement of these risks and the potential for compound mitigation measures. It states that insurers should consider both holistic, integrated climate-nature scenario assessments and specific, targeted biodiversity risk scenarios. This dual approach allows for the identification and management of biodiversity risks in a manner that acknowledges their complexity and interconnection with other environmental risks.

EIOPA observes that insurers acknowledge biodiversity as an emerging mega-trend, with many insurers integrating these risks into their governance strategies. EIOPA outlines that biodiversity risk management in the insurance industry is at an early stage, with reliance on narratives and scenario-based evaluations. Some insurers set biodiversity-related exclusions or engage with high-impact sectors, often focusing on reputation management.

EIOPA suggests that insurers align their governance systems with sustainability goals, incorporating biodiversity risk into their risk management frameworks. EIOPA suggests insurers perform a materiality assessment comprising a narrative and exposure analysis. If biodiversity risks are deemed material, then insurers are suggested to conduct a financial risk assessment as part of the ORSA, using both qualitative and quantitative approaches, including scenario analysis. EIOPA highlights challenges in using metrics and models to measure biodiversity-related financial risks, emphasising the need for science-based, relevant and decision-useful metrics, with frameworks provided by the Task Force on Nature-related Financial Disclosures (TNFD) and the Network for Greening the Financial System (NGFS).

EIOPA suggests integrated climate-nature scenarios to address compounded risks and opportunities in nature-based solutions. It also calls for cross-sectoral collaboration to address biodiversity risks comprehensively.

QUESTIONS TO STAKEHOLDERS

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

1. Should biodiversity risks be assessed alongside climate risks or through a dedicated assessment?
2. Should insurers, for financial risk purposes, identify their exposure to (1) economic activities reliant on biodiversity and ecosystems, and (2) activities impacting biodiversity ("biodiversity footprint")?
3. Is the description of how biodiversity risks affect insurers' assets and liabilities accurate?
4. Are there relevant market practices where undertakings narrate the impact of biodiversity risks on their business?
5. What approaches, tools or practices are available for assessing sectoral or geographical biodiversity exposure risks?
6. What methodologies and data are relevant for assessing underwriting risks from biodiversity losses?
7. What tools, models and practices can be used for financial risk assessment of biodiversity risks, including references to potential scenarios?
8. What scenarios exist for assessing financial risks of biodiversity loss in specific sectors (e.g., agriculture, health)?
9. What scenarios are available for integrated climate-biodiversity financial risk assessments?
10. Can you provide examples of targets set by insurers to manage biodiversity risks and their alignment with global or EU conservation targets?
11. What actions can insurance undertakings take to mitigate prudential biodiversity risks, including through nature-based investment and underwriting strategies?
12. What approaches exist for integrating biodiversity or nature-related data into catastrophe modelling?
13. Do you agree with these preliminary conclusions? What additional practices should be highlighted?
14. Are there any additional comments on the consultation paper?

6. EIOPA (4 December 2024). Consultation on a report on biodiversity risk management by insurers. Retrieved 20 December 2024 from https://www.eiopa.europa.eu/consultations/consultation-report-biodiversity-risk-management-insurers_en.

ABOUT THE AUTHORS

Jessica Crowson
Consulting Actuary

Recent publications:

- [Considerations for new entrants to the pension risk transfer market](#)
- [Managing residual risks within partially annuitised decumulation strategies](#)
- [Complex bulk purchase annuity deal features](#)

Garvan McGrenra
Consulting Actuary

Recent publications:

- [Bang for the buck – a practical guide to insurance product Value for Money](#)

Arushi Mittal
Consulting Actuary

Recent publications:

- [Harmonising data: The art of validation and management](#)
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CONTACT

Jessica Crowson
jessica.crowson@milliman.com

Garvan McGrenra
garvan.mcgrenra@milliman.com

Arushi Mittal
arushi.mittal@milliman.com

