Solvency II review – proposed amendments to the Delegated Regulation

In April 2024, the European Parliament formally adopted the amendments to the Solvency II Directive[1] arising from the Solvency II 2020 review. Following this, in July 2025, the European Commission published draft amendments to the Delegated Regulation[2] underpinning the Directive. This briefing note summarises these proposed changes.

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With the implementation date for the revised Solvency II framework set for 30 January 2027, the European Commission has reached another key milestone by publishing its proposed amendments to the Delegated Regulation.

Background

In December 2020, the European Insurance and Occupational Pensions Authority (EIOPA) published its opinion on the review of the Solvency II Directive. This was followed by the European Commission's proposals and the European Council's proposals. In July 2023, the European Parliament's Committee on Economic and Monetary Affairs (ECON) approved its amendments to the Directive.

Subsequent negotiations between the European Parliament, the Council, and the Commission led to provisional amendments, which were agreed upon in January 2024 and formally adopted by the Parliament in April 2024. A summary of these Directive amendments is outlined in our briefing note here.

In July 2025, the European Commission published its proposed amendments to the Delegated Regulation, supplementing the adopted Directive. These amendments address the following main areas:

- Risk margin
- Solvency Capital Requirement (SCR)
  - Interest rate risk
  - Equity risk (and symmetric adjustment)
  - Natural catastrophe risk
  - Market risk correlations
  - Counterparty default risk
- Long-term guarantee (LTG) measures
  - Extrapolation
  - Volatility adjustment (VA)
  - Matching adjustment (MA)
- Best estimate calculation
- Pillar 2 requirements
  - System of governance
  - Internal audit
  - Remuneration policy
- Pillar 3 requirements
  - Solvency and Financial Condition Report (SFCR)
  - Regular Supervisory Report (RSR)
- Group solvency
- Proportionality measures and simplifications
- Non-proportional reinsurance

1. The complete text of the adopted Solvency II Directive can be found here.
2. The proposed amendments to the Solvency II Delegated Regulation consultation can be found here.

The consultation period for the proposed amendments is open until 7 September 2025. Adoption of the final text, including any revisions, by the European Commission is expected in the fourth quarter of 2025.

The release of the amended Delegated Regulation brings the review one step closer to formalising Level 2 implementation, with the finalisation of proposed Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) still to follow.

In this briefing note, we also include a comparison with the Solvency II reforms—now known as Solvency UK—implemented by the Prudential Regulation Authority (PRA) in the UK.

Risk margin

In the proposed amended Delegated Regulation, the risk margin formula is revised by introducing an exponential decay factor that reduces the weight of future capital requirements, alongside a reduction in the cost-of-capital rate from 6% to 4.75%—a change already included in the amended Directive. The exponential decay factor has been set at a time-dependent value of 0.96^t, with the reduction capped at 50% within the risk margin formula.

Overall, both the level and interest rate sensitivity of the risk margin are expected to be significantly reduced. These developments will be particularly welcomed by insurers with long-term liabilities.

SCR

INTEREST RATE RISK

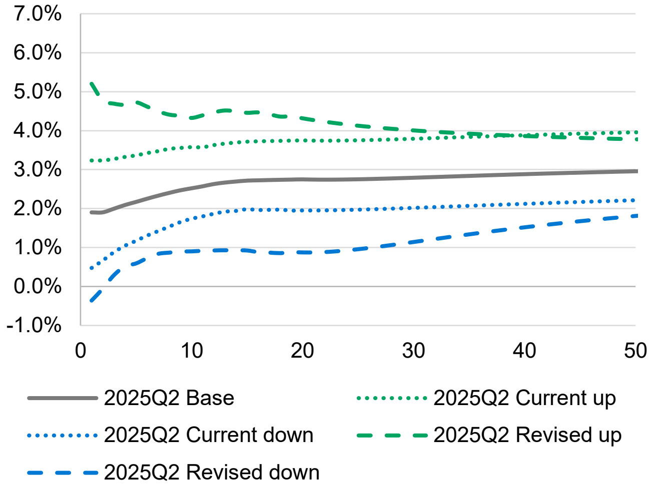
In the proposals, the Standard Formula for the interest rate risk sub-module is revised as follows:

- Interest rate stresses have been revised to allow rates to fall below zero, or further into negative territory, in stress scenarios. The previous 0% floor has been removed and replaced with a new floor ranging from -1.25% to -0.893%, depending on the maturity.
- Furthermore, interest rates after stress will be now subject to extrapolation, with the Ultimate Forward Rate (UFR) stressed by +/-15 basis points in an up/down shock.
- For currencies pegged to the euro, a single capital requirement for the risk of a joint increase or decrease in interest rates denominated in euro and that currency may be calculated (i.e., offsets are now allowed).

To illustrate the significance of these revisions, Figure 1 compares the current and revised stresses applied to the risk-free rates under the new extrapolation regime (which is explained in a later section).

The new interest rate stresses address past underestimation of liability sensitivity in low-rate environments (as experienced in late 2021, for example) and, as specified in the amended Directive, will be phased in over five years to ease the capital impact on insurers.

FIGURE 1: CURRENT AND REVISED INTEREST RATE STRESSES APPLIED TO THE RISK-FREE RATES AS AT Q2 2025 UNDER THE NEW EXTRAPOLATION METHOD



Source: Refinitiv for swap par rates; curve tooling by Milliman.

EQUITY RISK (AND SYMMETRIC ADJUSTMENT)

The amendments introduce a new article covering the prudential treatment of investments in equity under legislative programmes. Provided certain criteria are met, such equity investments will be subject to an equity charge that is at least 5% lower than the corresponding charge for other investments exposed to equity risk, provided that the aggregate of these investments does not exceed 10% of the undertaking's eligible own funds.

The amendments include additional articles outlining the approach for demonstrating the ability to avoid forced sales of long-term equity investments. Firms can either:

- Assess whether they can avoid forced sales using prescribed methodologies
- Make use of the forced-selling test

The updated Delegated Regulation provides significant detail on both the assessment methodologies and the criteria for the forced-selling test.

The Delegated Regulation now also specifies the types of collective investment undertakings and alternative investment funds for which the equity risk capital requirement can be calculated at the fund level, rather than at the level of the underlying assets.

The calculation of the symmetric adjustment to the equity risk capital charge has been revised to reflect upper and lower bounds of ±13%, replacing the previous ±10% range, in line with the amended Directive.

SPREAD RISK

The amended Delegated Regulation revises the treatment of investments in simple, transparent and standardised (STS) and non-STS securitisations under the spread risk module by:

- Revising downwards the charges for senior STS and non-senior STS securitisations
- Revising downwards the charges for securitisations not otherwise specified, which are now differentiated by Credit Quality Step (CQS), duration, and seniority

Provided certain criteria are met, firms may assume a 0% stress for spread risk on the portion of bonds or loans covered by a partial guarantee.

CONCENTRATION RISK

The updated Delegated Regulation incorporates additional guidance regarding market concentration risk, namely:

- The CQS for exposure to central governments and central banks may be reduced by one (e.g., CQS 2 may be treated as CQS 1) provided certain conditions are met.
- Exposures to regional governments and local authorities of EU member states, as well as exposures guaranteed by such entities, should be assigned to CQS 1.
- The value of an equity investment should be excluded from the concentration risk calculation where the value is negative.

MARKET RISK CORRELATIONS

The amendments revise the correlation factor between spread risk and interest rate risk under the downward interest rate stress from 50% to 25%. This adjustment reflects the fact that significant declines in interest rates and substantial increases in credit spreads rarely occur simultaneously. As a result, the combined market risk capital charge is slightly reduced, providing insurers with a modest diversification benefit.

COUNTERPARTY DEFAULT RISK

The revisions to the Delegated Regulation explicitly exclude the newly defined categories of defaulted and forborne loans from the spread risk module, treating them instead as counterparty default risk 'type 2' exposures. The exposure threshold for mortgage loans has been increased to €1.35 million, and the scope of 'type 1' counterparty default exposures now includes repurchase transactions, securities lending and borrowing, and contributions to central counterparty (CCP) default funds. Additionally, the eligibility criteria for mortgage loans have been updated to align with banking regulations.

The Regulation introduces detailed changes to loss-given-default (LGD) calculations, including new formulae for reinsurance, securitisations, repurchase transactions, and defaulted loans, as well as clarification on the treatment of CCP exposures and related derivatives. Amendments also clarify how collateral impacts LGD factors and update probability of default rules and the calculation of loss distribution variance to account for the expanded scope of exposures.

LAPSE RISK SUB-MODULE

The amendments clarify that, for reinsurance contracts, the 'mass lapse' shocks (both the 70% and 40% stresses) must be applied to the underlying insurance policies rather than directly to the reinsurance contracts. This approach ensures consistency in the calculation of lapse risk between direct insurance and reinsurance.

NATURAL CATASTROPHE RISK

The Standard Formula parameters for natural catastrophe risk have been updated in the Delegated Regulation, following the 2023/2024 reassessment of the natural catastrophe Standard Formula published by EIOPA in January 2025.[3] Details of the revised parameters and the underlying rationale are outlined in our briefing note here.

The revisions to the parameters used in the natural catastrophe risk sub-module are generally intended to increase capital requirements, ensuring a more adequate reflection of the impact of natural catastrophe events. For example, the factor for motor insurance in flood and hail risk calculations has increased—from 1.5 and 5, respectively, to 10—resulting in significantly higher capital charges.

The amended Regulation also introduces definitions for windstorm, earthquake, flood, hail, and subsidence perils under the natural catastrophe risk sub-module. In addition, Romania and Portugal are now included in the zonal mapping of risks by postal code.

GUARANTEES

The amendments introduce several key changes regarding guarantees recognised in the Basic Solvency Capital Requirement (BSCR). These guarantees typically cover credit risk exposures, such as loans, investments, or other receivables, and must meet specific regulatory criteria to be eligible for capital relief.

Key changes include:

- Guarantees must not include any rights for the protection provider to unilaterally cancel or change the protection—the exclusion on the right to 'change' has now been explicitly added to this clause.
- For guarantees covering residential mortgage loans, criteria for timely payout and direct recourse to the guarantor only need to be satisfied within 24 months.
- The presence of clauses related to flawed due diligence or fraud by the lending institution does not disqualify a guarantee from capital relief eligibility.
- Payment from guarantees can now take the form of either a lump sum or future scheduled payments, offering increased flexibility.

3. EIOPA's Opinion on the 2023/2024 Reassessment of the Natural Catastrophe Standard Formula is available here.

- Undertakings must demonstrate to the supervisory authority how they manage concentration risk from guarantees and integrate their guarantee strategy into the overall risk management framework, aligning with their overall risk profile.

Under the proposals, a new Article is inserted, explicitly recognising sovereign and other public sector counter-guarantees for the purpose of capital relief, provided certain criteria are met.

LTG measures

The proposed amendments to the Delegated Regulation contain significant amendments for the following LTG measures:

- Extrapolation
- VA
- MA

These revisions largely reflect EIOPA's opinion on the Solvency II review, with some exceptions. They are in addition to the substantial updates already introduced in the amended Directive.

EXTRAPOLATION

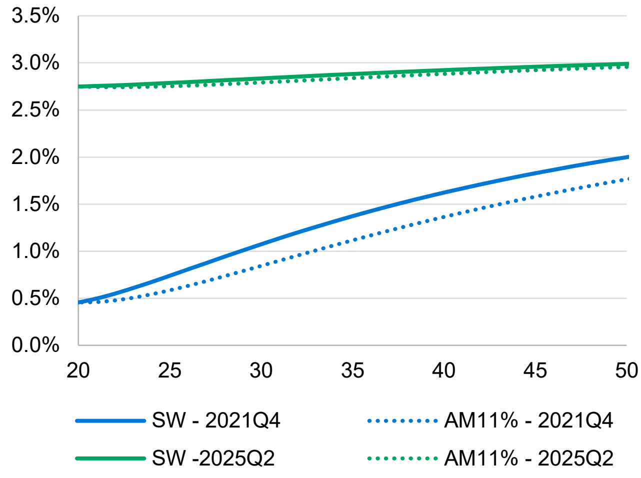
The amended Directive sets out high-level specifications and requirements for the revised extrapolation of risk-free interest rates, adopting the alternative extrapolation methodology (AM) proposed by EIOPA in its opinion on the Solvency II review[4]—as covered in our Directive amendments briefing note here. The proposed Delegated Regulation provides further critical details not included in the Directive, including:

- Currency-related percentages for determining the extrapolation starting point: These percentages are used to determine the extrapolation starting point, known as the first smoothing point (FSP). For the euro, the amended Directive sets the FSP at 20 years as of 28 January 2025. To maintain this 20-year FSP, a safety margin of 1%[5] is added to the minimum percentage of outstanding bonds required.
- Calculation formula for the extrapolated risk-free interest rate: This follows the AM proposed in EIOPA's opinion, with the speed of convergence parameter (α) set at 11%[6] for all currencies except the Swedish Krona (SEK), for which it is proposed to be set at 40% to better capture its yield dynamics.
- Parametrisation of the phasing-in mechanism: This is achieved through the application of speed of convergence parameters over time.
- Other clarifications: These relate to the use of financial instruments to derive risk-free rates and specify when a credit-risk adjustment is required.

In Figure 2, risk-free rates at Q4 2021 (a recent low-rate environment) and Q2 2025 are shown for the proposed alternative extrapolation method, compared to the current Smith-Wilson (SW) methodology. Due to recent increases in long-term swap rates, the differences between the new and current extrapolation methods are now substantially smaller than they were prior to 2022.

When a VA is applied, the new extrapolation method will result in a faster reduction of the VA level beyond the extrapolation point compared to the current methodology.

FIGURE 2: EXTRAPOLATED RISK-FREE RATES 2021 Q4 AND 2025 Q2



Source: Refinitiv for swap par rates; curve tooling by Milliman.

VOLATILITY ADJUSTMENT

The amended Directive already introduced a substantial overhaul of the mechanism underlying the VA, with key changes[7] being:

- An increase in the general application ratio from 65% to 85%.
- Introduction of an undertaking-specific credit spread sensitivity ratio (CSSR) with a value between 0 and 1, to account for volume and duration mismatches between fixed income investments and insurance liabilities.
- For the spread calculation, the respective weights for government bonds and for bonds other than government bonds must sum to 100%.

4. EIOPA's Opinion and background analysis can be found here.

5. Although a 1% safety margin is specified, additional rounding criteria mean that the final threshold applied can range from 1% to 1.5%.

6. This setting fulfils the requirement from the amended Solvency II Directive that at 40 years past the FSP, the UFR weight should have increased to at least 77.5% for the euro.

7. The overhaul of the VA mechanism as outlined in the Directive has been explored in more detail in the Milliman white paper found here.

The proposed Delegated Regulation provides additional critical details not specified in the Directive:

- A detailed formula for calculating risk-corrected spreads, where the gross spread is now unfloored, and the risk correction is a continuous piecewise linear function of the spread level, capped at an appropriate share of long-term average spreads
- A detailed formula for calculating the CSSR, including the scope of fixed income investments to be included (bonds, loans, and securitisations), and the treatment of unit-linked business and products with profit participation
- The CSSR approach for pegged currencies

In line with EIOPA's objectives, the redesigned VA mechanism is expected to reduce spread mismatches and curb VA overshooting during market stress, as seen at the start of the COVID-19 pandemic. With the VA now linked to the CSSR, the liability impact should better reflect asset movements, and the new risk-correction is expected to dampen the VA more effectively in stressed conditions.

MATCHING ADJUSTMENT

The proposed Delegated Regulation introduces changes to the MA rules, including an additional article that provides greater clarity on when firms can include restructured assets within a Matching Adjustment Portfolio (MAP). To demonstrate to the supervisor that such assets can form part of the MAP, firms should be able to show that:

- The cash flows associated to the restructured asset are sufficiently fixed.
- The cash flows are supported by loss absorbency features and would remain sufficiently fixed under changes to the operating environment.
- If the underlying assets contain guarantees, these guarantees do not increase the size of the MA.
- The firm is able to identify, measure, monitor, manage, control, and report on the risks of the underlying assets.

The proposed updates remove the requirement for firms to calculate a separate SCR in respect of a MAP, unless the MAP forms a ring-fenced fund. Where a MAP does not form a ring-fenced fund, firms will be able to calculate the SCR for the MAP and the rest of the business as a whole, allowing for diversification between the MAP and the rest of the business. Currently, no allowance is made for diversification between the MAP and the rest of the business.

Best estimate

The proposed updates to the Delegated Regulation include amendments relating to the calculation and treatment of best estimate liabilities, covering the following:

- Contract boundaries: A clarification is provided which states that for life policies where undertakings can amend premiums or benefits but cannot repeat individual risk assessments, future cash flows are included within the contract boundary if premiums do not fully reflect the risk at the contract level.
- Expenses: These must be projected with consideration for the undertaking's administrative, management, or supervisory body's decisions concerning new business.
- Expected profit in future fees (EPIFF): This newly defined term reflects the expected present value of future fees for servicing and managing funds related to existing index-linked and unit-linked contracts, as included in technical provisions. EPIFF represents fees that may not be charged for reasons other than the occurrence of the insured event. The Delegated Regulation specifies that insurers are required to report EPIFF in both the SFCR and the RSR.
- Homogeneous risk groups (HRG): Previously optional, offsetting loss-making policies against profit-making ones within the same HRG is now required. Additionally, there is a new requirement to offset at an aggregated level between loss-making and profit-making HRGs. These refinements aim to reflect a more realistic aggregation of risks across an insurer's portfolio.
- Climate data: a requirement to implement internal procedures to avoid overreliance on historical data for climate change-related trends in best estimate calculations and in the computation of capital requirements under an internal model, including, where appropriate, the use of climate scenarios.

Pillar 2

Pillar 2 sets out the qualitative requirements under Solvency II, including those related to governance, risk management, and the Own Risk and Solvency Assessment (ORSA). The proposed amendments affecting Pillar 2 are summarised below.

EVALUATION OF THE SYSTEM OF GOVERNANCE

Undertakings are now required to explicitly assess the following aspects of their system of governance:

- The adequacy of the composition of the administrative, management, or supervisory body (AMSB), with specific attention to gender balance and diversity
- The effectiveness of the AMSB
- The internal governance framework as a whole

This evaluation must be conducted in a manner proportionate to the nature, scale, and complexity of the risks inherent in the undertaking's business.

INTERNAL AUDIT FUNCTION

The previous allowance for combining the internal audit function with other key functions has been removed, reinforcing the independence and objectivity of internal audit.

REMUNERATION POLICY

The proposed additions to the remuneration policy requirements aim to reinforce the link between pay, prudent risk-taking, and long-term performance. These additions emphasise the importance of aligning variable remuneration with sustainable financial results, ensuring that payouts are appropriately justified by performance at all levels of the organisation.

Greater attention is placed on the use of deferral mechanisms and the potential adjustment or recovery of variable pay in cases of poor performance or misconduct. The proposals also acknowledge the need for proportional application, allowing for flexibility based on the nature, scale, and risk profile of the undertaking.

Pillar 3

SFCR

The amended Directive codifies a new structure for the SFCR, which will now be divided into two distinct sections: one aimed at policyholders and the other at market professionals. The amended Delegated Regulation now provides significantly more detailed and prescriptive requirements regarding the content of the report, including:

- Policyholder section: This section must include mandatory content covering business and performance, capital management, and risk profile. It will also provide clearly prescribed definitions of the SCR and the Minimum Capital Requirement (MCR) to support policyholder understanding. This section is strictly limited to five pages. Additionally, translations must be made available upon request in the official language of the recipient's member state, if the undertaking operates in that member state.
- Market professional section: This section requires more detailed disclosures, including:
  - Business and performance data
  - System of governance, including remuneration policies and details of outsourced functions
  - Valuation for solvency purposes
  - Capital management and risk profile
  - Impact of not applying transitional measures (if applicable)
  - Sensitivity analysis for material risks

The sensitivity analysis on own funds and SCR must include the following shocks:

- Equities: ±30%
- Risk-free rate (RFR): ±50 basis points
- Credit spreads: ±100 basis points
- Property values: ±30%

Additionally, new sustainability-related disclosure requirements have been introduced for market professionals. Undertakings will be required to report on their sustainability plans in line with other EU regulatory requirements, including any material exposure to climate change-related risks and, where applicable, the management actions taken to address those risks.

Group SFCRs will be governed by the same requirements as individual undertakings, with the addition of the following disclosures, where applicable:

- Material intragroup outsourcing arrangements
- Restrictions to the fungibility and transferability of own funds

RSR

The amended Delegated Regulation modifies the RSR by consolidating content, streamlining requirements, and introducing new specific disclosure obligations, in areas such as:

- The calculation approach for immaterial risk capital requirements
- Long-term equity investments and demonstrated methods of forced sales avoidance
- Liquidity risk, expected profit in future premiums (EPIFP), and EPIFF
- An overview of anticipated future risk concentrations
- A description of any material risk-mitigation techniques the undertaking is considering purchasing or entering into

In addition, detailed requirements regarding underwriting income and expenses by material line of business and by material geographical areas, as well as detailed information on income and expenses related to investment activities, have now been replaced with broader analysis requirements.

Group solvency

TREATMENT OF PARTICIPATIONS

The proposed amendment clarifies that strategic participations included in group solvency calculations using Method 1 (consolidation) do not need to be deducted again from own funds. This change prevents double counting and aligns with updated Solvency II rules.

CHOICE OF GROUP SOLVENCY CALCULATION METHOD

When considering the method for calculating group solvency, a new criterion requires the group supervisor to take into account whether the group intends to use a specific integration technique for related undertakings not included in the group internal model. This ensures that these undertakings can still be appropriately integrated into the group solvency calculation.

GROUP OWN FUNDS ELIGIBILITY AND AVAILABILITY

The Delegated Regulation introduces a specific formula for calculating the amount of minority interest in a subsidiary that exceeds its contribution to the group solvency, thereby providing greater clarity and a standardised approach for this deduction.

TRANSITIONAL RECOGNITION OF OWN-FUND ITEMS IN GROUP ACQUISITIONS

The amended Regulation introduces new provisions that allow for a transitional and time-limited recognition of own-fund items issued by an undertaking before it became part of the group. For a period of less than two financial years, the compliance with own-funds requirements is assessed based on the solo SCR of the acquired undertaking rather than the group SCR. This addresses potential disproportionate capital costs associated with external growth and mergers/acquisitions.

HOW DIFFERENT TYPES OF PARTICIPATIONS ARE TREATED AND CONSOLIDATED

The amendments update and clarify the components of consolidated data for Method 1. It now explicitly includes 'holding companies of third-country insurance and reinsurance undertakings' in the full/proportional consolidation lists.

Crucially, the previous regulation outlined the inclusion of a proportional share of own funds from various financial sector entities. The amended Delegated Regulation specifically focuses on the difference between the value of holdings and the proportional share of the SCR for related undertakings to which Method 2 (deduction and aggregation) applies. A new paragraph also clarifies the definition of 'holdings in related undertakings' for this context and then incorporates this holding in the updated calculation of a group's SCR.

LONG-TERM EQUITY INVESTMENTS AT GROUP LEVEL

The Delegated Regulation now outlines how long-term equity investments are treated at the group level, generally limiting them to the sum of solo/proportional solo amounts but also allowing the group supervisor to require recalculation if significant group-wide liquidity risks or intragroup transactions are present.

SIMPLIFIED CALCULATION FOR PARTICIPATIONS IN IMMATERIAL-RELATED UNDERTAKINGS

This introduces a simplified approach for including immaterial-related undertakings in the group solvency calculation, aiming to reduce the administrative burden for groups.

GROUP INTERNAL MODELS AND INTEGRATION TECHNIQUES

The amendment provides that, if a group wishes to use a partial internal model, it must provide detailed documentation explaining how the risks of entities excluded from the model are integrated into the overall group risk calculation. The group must also justify the methodological choices made, demonstrate the appropriateness of the techniques used, and explain why a particular integration technique is more appropriate than the alternatives provided for by the Regulation.

GROUP LEVEL PROPORTIONALITY MEASURES

The amended Delegated Regulation also incorporates proportionality concepts within the group structure. Even groups not classified as Small and Non-Complex Undertakings (SNCU) may benefit from proportionality measures, subject to supervisory approval. The assessment criteria include:

- Group structure complexity
- Jurisdictional spread
- Revenue distribution across member states
- Presence of non-(re)insurance entities
- Materiality of intragroup transactions

This opens the door for tailored supervisory relief where justified, even for larger or more complex groups.

Proportionality

Whilst the amended Directive introduced the foundational legal basis and broad categories for proportionality, the amended Delegated Regulation provides the specific, granular, and often quantitative criteria and operational rules that enable the practical application of proportionality within the Solvency II framework, as mandated by the Directive.

The core structure of the proportionality framework remains unchanged. Details on the classification of SNCUs, simplified reporting, governance, and computational reliefs are covered in our Directive amendments briefing note here. What follows highlights the main refinements introduced by the amended Delegated Regulation.

SIMPLIFIED CALCULATIONS FOR IMMATERIAL RISK MODULES

The Delegated Regulation provides further detail on the simplified calculation method for immaterial risk modules or sub-modules. The criteria for using this simplified approach are set out in the amended Directive. Under this method, the capital requirement for a specific risk module is determined as the greater of either the standard capital requirement for that module or the product of a risk factor and the relevant volume measure. The risk factor is established by comparing the standard capital requirement to the volume measure for that module.

This approach ensures that simplifications are both conservative and proportionate to the actual exposure, whilst also reducing the operational burden of performing full recalculations for risks that are demonstrably immaterial. However, full recalculation is still required at least once every three years or sooner if there is a material change affecting the validity of the simplification.

A key exclusion is that this method cannot be applied to the market risk module or any of its sub-modules, and it cannot be used for more than three years without conducting a full, non-simplified SCR calculation.

SIMPLIFIED RISK MITIGATION EFFECT ALLOCATION

The amended Delegated Regulation also introduces a simplified method for calculating the risk-mitigating effect of reinsurance, derivatives, and securitisations.

The allocation of the total risk mitigation benefit across counterparties is now formulaic: The formula divides the total risk reduction among all counterparties by assigning each a share proportional to the undertaking’s risk exposure to them compared to the total risk.

This proportional allocation approach simplifies the treatment of complex instruments whilst maintaining alignment with overall capital relief. The criteria for using this simplified approach are set out in the existing proportionality criteria of the Delegated Regulation.

VALUATION OF SHORT-TERM DEPOSITS

The amended Delegated Regulation introduces the option for SNCUs to value short-term deposits (with maturities of less than one year) at cost or amortised cost, provided that this does not result in material errors or overestimations compared to the standard valuation method.

APPLICABILITY OF PROPORTIONALITY MEASURES FOR NON-SNCU

The amendments expand the availability of proportionality measures—already secured by SNCUs—to include non-SNCUs, provided a harmonised set of conditions is met. The measures now available are:

- Reduced frequency of the RSR
- Combination of key functions
- Reduced frequency of policy reviews
- Reduced frequency of ORSA
- Use of prudent deterministic valuation for immaterial options and guarantees
- Waiver from short-term liquidity analysis

To qualify for these measures, undertakings must meet the following criteria:

- Meet quantitative thresholds, such as:
  - Life technical provisions not exceeding €12 billion
  - Non-life gross written premiums below €2 billion
  - Market share under 5% in the home member state
- Demonstrate resilience to current and future risks
- Have no ongoing supervisory measures in place
- Operate a non-complex business model
- Exceed the SCR by an appropriate margin
- Have no unresolved governance concerns
- Provide evidence of immateriality (for options and guarantees) or low liquidity risk, where applicable

The amendments also introduce fallback clauses, allowing approval where the risk profile is considered sufficiently low, and standardises the conditions under which supervisory approval must be withdrawn.

Non-proportional reinsurance

The amended Delegated Regulation introduces significant clarifications and refinements to the treatment of non-proportional reinsurance, particularly regarding its recognition as a risk-mitigation technique and its impact on capital requirements. These updates are designed to enhance risk sensitivity, ensure proportionality, and better align capital relief with actual risk transfer. The main changes are summarised below.

- Adverse development covers: The risk-mitigating effect of adverse development covers is now recognised in Non-Life and Non-Similar to Life Techniques (NSLT) Health reserve risk modules, allowing a reduction in required capital for insurers using such reinsurance, subject to specific conditions.
- Risk-mitigating effect of reinsurance in counterparty default risk: Only risk-mitigation techniques with effective risk transfer and immaterial basis risk are recognised. Basis risk—including currency mismatches—must be assessed for materiality, with specific requirements and criteria set out in the Regulation.
- Government-backed reinsurance schemes: Risk transfer to government-backed reinsurance schemes, where a member state acts as reinsurer of last resort, is officially recognised as valid reinsurance under the Regulation.
- Contingent capital and convertible bond instruments: Certain contingent capital and convertible bond instruments do not qualify as effective risk transfer and cannot be used to reduce the SCR.

Other

Some other items included in the amended Delegated Regulation are described in this section.

DIVIDENDS AND BUY-BACK PROCEDURES

The amendments adopt an accrual-based approach for determining foreseeable dividends and distributions to be deducted from available own funds. Under the new rules, the calculation must be based on formal decisions or already established distribution policies. Additionally, it is clarified that share buy-backs are not considered capital returns if the repurchased shares are used for stock option plans within one month of the transaction.

EXTENSION AND CLARIFICATION OF THE LOOK-THROUGH APPROACH

The amendments clarify and extend the look-through approach to collective investments managed for multiple group companies, including corporate vehicles, internal funds, and holdings. Each company must apply the look-through to its own share of participation, ensuring all underlying risks are captured in capital requirements. If a precise allocation of shares is not possible, prudential criteria must be used to ensure all risks are properly identified and included.

EURO AMOUNTS ADJUSTED FOR INFLATION

To maintain the consistency and effectiveness of regulatory thresholds, numerous amounts expressed in euros have been updated based on the Harmonised Index of Consumer Prices (HICP). The adjustments were calculated by applying a 35% increase to the original values, reflecting cumulative inflation since 2014. These inflation-related updates primarily concern the monetary amounts used in the Regulation to define limits and thresholds necessary for implementing the solvency framework.

TREATMENT OF PARTICIPATIONS IN THE BASIC OWN FUNDS

The amendments specify that participations may be excluded from deduction from basic own funds if they are qualifying strategic participations approved by the relevant authority.

SPECIFIC EXPOSURES

The amendments specify that exposures to covered bonds assigned to CQSs 0 or 1 are now subject to a 15% relative excess exposure threshold (CTi). Each covered bond exposure is treated as a separate single name exposure, regardless of other exposures to the same counterparty.

REVISED TECHNICAL ANNEXES

The proposed Regulation updates the accompanying annexes to reflect the following:

- Inflation-adjusted thresholds
- Revised catastrophe risk tables (including regions, correlations)
- Corrected errors and removed outdated references
- Updated MCR risk factors

Comparison to UK reforms

In the UK, the PRA has implemented a series of reforms to Solvency II—referred to as Solvency UK—which diverge from the proposed Solvency II changes, although some similarities remain. The PRA, which now maintains the Solvency UK regulations in its Rulebook, is also considering further changes.

Both regimes have revised the risk margin calculation. The PRA has reduced the cost of capital to 4% (compared to Solvency II's 4.75%) and adopted a similar tapering formula, but with different calibration parameters:

- Solvency UK uses a lambda factor of 0.9 for life business and 1.0 for non-life business, compared to Solvency II's proposed 0.96.
- The Solvency UK lambda factor is subject to a floor of 25% whereas Solvency II proposes a floor of 50%.

The PRA has not implemented or proposed any changes to the Standard Formula SCR which are expected to be considered at a future point in time.

The PRA has updated reporting requirements by removing the RSR, raising the Solvency UK threshold, and streamlining Quantitative Reporting Templates (QRTs) to better reflect the UK market.

The PRA has not changed LTG extrapolation or the VA but has simplified the transitional measure on technical provisions (TMTP) recalculations and revised the MA. The MA changes differ from Solvency II's and include broader asset and liability eligibility, removal of sub-investment grade asset limits, streamlined application processes, new senior management attestation and technical assumption requirements, a new data template, and more granular credit rating differentiation. The changes did not, however, include the proposed EIOPA changes to remove the restriction on diversification for the MAP with the rest of the business.

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