



**I N B R I E F**

**#INSURANCE #SOLVENCYII**

# 2020 REVIEW OF SOLVENCY II

## KEEPING THE REGIME FIT FOR PURPOSE

The introduction of Solvency II in January 2016 was a milestone. The insurance industry now uses a risk-based approach to assess and mitigate risks. It also has better aligned capital to the risks it runs. Insurers have significantly strengthened their governance models and their risk management capacity. The Solvency II framework is working well overall and indeed is a model which has been copied all over the world. EIOPA's overall approach to the review has been therefore one of evolution not revolution.

However, there is no room for complacency particularly in the current economic situation.

Solvency II needs to better reflect the low interest rate environment. It should also recognise that insurers with long-term and illiquid liabilities are particularly able to hold investments long-term.

In summary, the main purpose of the review was to make sure that the Solvency II regime remains fit for purpose. In doing so, we are also making sure that the regime can underpin the economic recovery after the pandemic.

**EIOPA's approach to the Solvency II review is to address three areas where improvements are needed:**



**Balanced updating of the regulatory framework**

EIOPA proposes changes in several areas but with balanced overall impact on insurers. This reflects the fact that Solvency II is overall working well.



**Recognition of the economic situation**

In particular the persistence of low interest rates. EIOPA recommends proper provisions for the risk of interest rate changes.



**Regulatory toolbox completion**

Including better protection of policyholders via macro-prudential tools, recovery and resolution measures and insurance guarantee schemes.

**TIMELINE**

**2019**

**February**  
EIOPA receives a call for advice on the 2020 review from the European Commission

**Mid-July to mid-October**  
Public consultation on draft advice on reporting & disclosure and on insurance guarantee schemes

**2020**

**Mid-October to January 2020**  
Public consultation on draft advice (on all advice other than on reporting & disclosure and insurance guarantee schemes)

**March to June**  
Information request to undertakings for holistic impact assessment

**July to September 2020**  
Complementary information request to take into account impact of Covid-19 pandemic

**December**  
Final advice submitted to EC and published

**Q3 2021**  
European Commission proposal on the review



## KEY FEATURES OF EIOPA'S ADVICE

### 1 LONG-TERM GUARANTEE MEASURES AND EQUITY RISK

- › Change the method of extrapolating risk-free interest rates to better reflect market rates
- › Volatility adjustment: better align the design of the adjustment to its objectives, in particular reward insurers for holding illiquid liabilities.
- › Risk margin: recognise diversification over time thereby reducing size and volatility of the margin, especially for long-term liabilities
- › Equity risk: revise the criteria for the ability to hold equity long-term, by making a link with long-term illiquid liabilities

### 2 SOLVENCY CAPITAL REQUIREMENTS

- › Increase the capital requirement for the interest rate to reflect the steep fall of interest rates experienced during the last years and the existence of negative interest rates

### 3 PROPORTIONALITY

- › Increase proportionality across the three pillars of Solvency II, especially regarding low risk undertakings
- › Introduce a new process for applying and supervising the principle of proportionality characterised by clarity, predictability, risk sensitiveness, supervisory dialogue and reversal of the burden of proof
- › Increase the effectiveness of proportionality embedded in the supervisory review process
- › Increase the transparency on the use of proportionality measures across the three pillars of Solvency II

### 4 MACROPRUDENTIAL POLICY

- › Supplement the current microprudential framework with a macroprudential perspective
- › Introduce tools and measures to equip national supervisory authorities with sufficient powers to address all sources of systemic risk

### 5 RECOVERY AND RESOLUTION

- › Develop a minimum harmonised and comprehensive recovery and resolution framework for (re) insurers to deliver increased policyholder protection and financial stability in the European Union

### 6 INSURANCE GUARANTEE SCHEMES

- › Introduce a European network of national insurance guarantee schemes or alternative mechanisms that should meet a minimum set of harmonised features for the benefit of policyholders and financial stability.

## LEARN MORE



Visit the dedicated webpage:

[https://www.eiopa.europa.eu/browse/solvency-ii/2020-review-solvency-ii\\_en](https://www.eiopa.europa.eu/browse/solvency-ii/2020-review-solvency-ii_en)

## CONTACT US

Westhafenplatz 1,  
60327 Frankfurt am Main  
Germany

<https://www.eiopa.europa.eu/>

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