

Solvency II review: A balanced update for challenging times



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The European Insurance and Occupational Pensions Authority (EIOPA) submitted today to the European Commission its Opinion on the Solvency II 2020 Review.

EIOPA's approach has been "evolution not revolution". The measures proposed aim at keeping the regime fit for purpose by introducing a balanced update of the regulatory framework, reflecting better the economic situation and completing the missing elements from the regulatory toolbox. From a prudential perspective, EIOPA is of the view that, overall, the Solvency II framework is working well and no fundamental changes are needed at this point in time but a number of adjustments are required to ensure that the regulatory framework continues as a well-functioning risk-based regime.

The proposals from EIOPA include the following:

EIOPA also recommends to introduce a new process for applying and supervising the principle of proportionality. Clear risk-based quantitative criteria are proposed to identify low risk undertakings eligible for applying proportionality measures. These will capture not only the size but also the nature and complexity of the different risks and will provide legal certainty regarding the application of the proportionality principle. The undertakings complying with such criteria will be able, after a notification, to apply automatically a number of proportionality measures. These measures focus mainly on the system of governance and reporting. For example, the submission of the Regular Supervisory Report every three years will be the default approach for low risk profile undertakings.

Further proposals relate to cross-border business, in particular

to support efficient exchange of information among national supervisory authorities during the process of authorisation and in case of material changes in cross-border activities.

The Opinion also reflects the need to supplement the current micro prudential framework with a macro-prudential perspective, including the introduction of specific tools and measures to equip supervisors with sufficient powers to address all sources of systemic risk.

Finally, EIOPA also proposes the establishment of a minimum harmonised and comprehensive recovery and resolution framework and the introduction of a European network of national Insurance Guarantee Schemes that should meet a minimum set of harmonised features with the primary aim to protect policyholders, paying compensation when needed or ensuring the continuation of insurance policies.

This extensive Opinion is a result of almost two-years of work by EIOPA, including a public consultation and a holistic impact assessment. During this time, EIOPA closely consulted with a wide range of stakeholders.

Gabriel Bernardino, Chairman of EIOPA, said: “EIOPA’s Opinion on the 2020 Solvency II review achieves all the defined objectives: adapts the regime to the new interest rate market reality; creates conditions for more long-term investment; brings a paradigm shift on the application of proportionality; and completes the European insurance framework with a macro-dimension and proposals on recovery and resolution and insurance guarantee schemes. Most importantly, these adjustments will ensure that Solvency II will continue to be a credible and fit for purpose regime, capable of protecting policyholders and contributing to market stability even in stress situations.”

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