Response to EC Solvency II Better Regulation consultation

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Key messages

SII is a comprehensive prudential framework for insurers operating in the EU. The calibrations of key parameters and the new and updated provisions included in the EC's latest consultation will impact the industry's ability to provide products, make investments and to contribute to the EU's wider political objectives including the SIU, Green Deal and enhancing the EU growth and competitiveness.

European insurers overall support SII but have long called for targeted changes to SII to address: (1) long term focus, (2) excessive conservatism, (3) artificial volatility, and (4) operational/reporting burdens.

The changes to L1 agreed by the co-legislators recognised many of the industry's concerns and introduced several potential improvements to key aspects of SII, including the VA, Extrapolation of RFR, Risk Margin and LTE submodule.

The upcoming changes to the SII DR offer a crucial opportunity to deliver on the L1 political agreement and these potential improvements - ensuring that SII remains fit for purpose, supports EU growth and investment, and maintains financial stability and policyholder protection - without introducing new, unintended burdens or hidden conservatisms.

Since the launch of the review in 2021, the EC has also placed competitiveness and growth at the heart of the EU policy agenda and committed to simplifying rules for businesses.

It is therefore surprising that the EC has not delivered on this potential and aligned the technical proposals with the political ambition.

While some draft proposals go in the right direction, overall they fall short of the improvements needed to realise the review's full potential. In practice, the impact of the review will be incremental rather than transformative.

While the industry recognises and welcomes some positive developments, it also brings challenges for companies. These include:

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- **Volatility** from the miscalibration of the VA risk-correction and the new extrapolation approach.
- **Limitation in supporting long term growth** stemming from excessive conservatism in LTEI, risk margin or securitisation.
- **Operational burdens** from new liquidity and sustainability plans, added calculation complexity and reporting, going against the EC 25% reduction in operational burden objective.
- **New frictional and uneconomic requirements** for internal models and groups.
- **Tight implementation timeline**, in Q1 2027, alongside other new developments eg planned IRRD requirements.

The changes to the L1 also considerably strengthen supervisory powers, notably in cross-border, macroprudential and group supervision.

Priority areas for improvement

Reducing Volatility

- ***VA:*** A calibration based on solid and methodological justification and appropriate data, which preserves the anticyclical nature of the VA.
- ***VA:*** Remove inconsistencies and operational challenges from the CSSR methodology.
- ***Extrapolation of RFR:*** Ensure stability by adding a 2% buffer to the FSP mechanism and set the convergence parameter at 15% (SEK-70%).

Growth and competitiveness

- ***Risk margin:*** Set lambda at 92.5% without a floor, aligning the RM with other international frameworks.
- ***LTE***: Reduce duration criterion from 10 years to 5 to align with L1, review liquidity buffer, amend forced selling tests conditions and expand the list of eligible funds to include UCITS and AIFs to support diversified, long-term portfolios.
- ***Securitisation***: Further improvements are still required.
- ***Group requirements***: Remove group-level availability testing of EPIFP and avoid double counting of minimum capital requirements
- ***SCR calculation***: Adjustments to certain calibrations are needed (eg, expense risk) avoiding undue penalisation of solvency ratios.

Reducing Operational burdens

- ***Proportionality***: Streamline criteria for non-SNCU measures to broaden access.
- ***Reporting***: Minimise new requirements (eg projections of underwriting performance by LoB and geographical areas in RSR), reduce SFCR (eg sensitivity analysis), limit the RSR to material topics/changes.

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1. Volatility adjustment (VA)

Reference: Articles 51, 51a and 51b

Industry concern: In its evaluation of the existing Solvency II rules in 2021, the European Commission (EC) assessed that "there is still excessive short-term volatility in insurer's solvency positions, despite existing tools aiming to mitigate such effects"[1]. This assessment is fully shared by the industry.

Improving the functioning of the VA and ensuring its effective implementation for insurance companies is necessary to remedy the excessive short-term volatility.

Several improvements to the VA were agreed in the updated Solvency II Directive (EU 2025/2). However, these improvements will be undermined if the Commission's proposed calibration of the risk correction parameters and the Credit Spread Sensitivity Ratio (CSSR) are not substantially improved.

1.1 Risk Correction (Article 51)

The calibration of the risk correction should be evidence-based and should:

- rely on solid and methodological justification
- be supported by a realistic assessment and appropriate data,
- be able to preserve the anticyclical nature of the VA.

Industry concern:

Instead, the proposed parameters present some important concerns for the industry, outlined below:

- The excessively high **percentages** associated to the 3 spread scenarios fail to mitigate the procyclicality inherent in the new spread-dependent methodology, acknowledged by the Commission itself.
- The **cap**, introduced in the Directive after recognising the high procyclicality of the proposed methodology especially in periods of high spreads, when the VA would be most needed, activating only in cases of very extreme stress, leaving insurance companies excessively exposed to short term volatility.
- The parameters have not been calibrated based on a **realistic assessment**.
    - Article 51 itself states: "the portion of the average currency spread that is attributable to a realistic assessment of expected losses, unexpected credit risk or any other risk ('risk correction') …".
    - No robust evidence has been provided, neither for the three layers nor for the cap.

On the contrary, the previous Industry position suggests more consistent and justified parameters by considering:

- A calibration exercise based on real market data relating to spreads and default statistics, (as required by legislation on European insurance portfolios (i.e., "realistic assumptions"); and
- Highly prudent assumptions.

[1] See consultation page 2, first bullet point.

Insurance Europe proposal:

Bearing the above concerns in mind, and considering the above-mentioned unintended effects, the following proposal is **an effective compromise solution**, balancing interest from all sides and based on solid methodological justifications.

- Corporate bonds:
  - The risk correction should not exceed 110% of the long-term average spread.
  - The portion of the spread allocated to the risk correction should be 40%, 30%, 20% for the respective tranches.
- Government bonds:
  - The risk correction should not exceed 55% of the long-term average spread.
  - The portion of the spread allocated to the risk correction should be 20%, 15%, 10% for the respective tranches.

It should further be clarified that the level of the risk correction (including the application of the cap level) is to be calculated at the "sub-class" level, consistent with the current derivation of the risk correction and as advised by EIOPA in its technical specifications in the Holistic Impact Assessment (see para 66).

Improvements to the Commission's proposed Risk Correction calibration are necessary to ensure the effectiveness of the new VA and to preserve its anticyclical nature by avoiding incentives for procyclical behaviour under stressed conditions.

The Commission proposal leads to an excessively high and procyclical risk correction, which undermines the purpose of the VA and further reduces its effectiveness, especially in periods of market stress.

Background for the proposed parameters:

- The risk correction, according to the Solvency II Directive, and confirmed by the proposed Delegated Regulation text, should account only for "the portion of that spread that is attributable to a realistic assessment of expected losses or unexpected credit or other risk of the assets.".
- According to the findings of a study published by the ECB ("An empirical study on the decoupling movements between corporate bonds and CDS spreads [ECB Working Paper, August 2009]"), in which the authors decompose the observed credit spreads into the expected losses and the risk premium with an approach based, in fact, on historical default frequencies, the RC should be based on default statistics.
- Table 1 shows how default probabilities implied in the quoted spreads related to the EC's proposed parameters (EC proposal) in case of corporate bonds (i.e., 50% for the first layer, in case of corporate bonds) would result as significantly higher than the once observed historically ("real data statistics"), even considering the most severe credit crunch scenarios ever, like the one related to the 2009 Credit Crunch.
- In fact, assuming the EIOPA reference portfolio of corporate bonds and taking into consideration the default statistics derived from the transition matrix provided by Moody's for 2009 and the high levels of credit spreads observed during 2009, the default rate of the EIOPA benchmark bond portfolio would have been 2.62%, more than 3 times higher than those observed during the credit crunch crisis (i.e. the one reflecting "a realistic assessment", as required from the regulation) - and therefore representing the "worst" default rate of EIOPA reference portfolio - that was equal to 0.74%.
- On the contrary, with the latest proposed parameters ("**compromise proposal**") the default rate is conservatively reflected, being quantified at 2.10% and still above the real default level seen during the credit crunch, demonstrating once again how this Option behaves as a compromise solution.

Table 1: RC parameters' Options comparison

#	Scenario	Portfolio	Calibration approach	Credit spread level (A)	Loss Given Default (LGD) (B)	Credit or Default losses [1] (C) = (B) * (D)	Default rate [2] (D)	RC as average percentage of the spread (E) = (C) / (A)
Real data statistics	2009	EIOPA representative portfolio for corporate (Duration = 6Y)	Default statistics derived from transition matrix provided by Moody's for 2009	5.13%	70% [3]	0.52%	0.74%	10%
EC proposal	2009	EIOPA representative portfolio for corporate (Duration = 6Y)	50%, 40%, 35% for corporate bonds and cap=125%	5.13% With LTAS = 1.47% [4]	70% [3]	1.83%	2.62%	36%
Compromise proposal	2009	EIOPA representative portfolio for corporate (Duration = 6Y)	40%, 30%, 20% for corporate bonds and cap=110%	5.13% With LTAS = 1.47% [4]	70% [3]	1.47%	2.10%	29%

1) Credit or default losses represent the portion of the spread attributable to Risk Correction
2) In relation to default statistics derived by Moody's transition matrix, default rate represents the annualised default probability taking into account the average duration of the portfolio
3) LGD = 70% is assumed as assumed by EIOPA under the current framework for calculating VA
4) LTAS = Long-term average spread

1.2 Credit spread sensitivity ratio (Article 51a and 51b)

The industry acknowledges the intent behind the CSSR proposal but remains concerned about the following key aspects of its implementation which risk creating significant operational and modelling challenges for companies.

The CSSR and VA calculations are complex and resource intensive. The CSSR proposals lack clarity on timing, frequency, portfolio reference date, and treatment of sensitivities. Insurers require flexibility for assumptions and simplifications to avoid operational burden.

Insurance Europe proposal:

Calculation process - Avoiding unnecessary complexity:

- A key element to be considered when clarifying these aspects is the importance of giving the undertaking an adequate **calculation timing** and the possibility to use **assumptions and simplifications**. Not taking industry feedback into account may slow down the overall calculation process of the VA and of other related requirements and create a significant operational burden for insurance companies.
- The CSSR should be calculated **annually** unless there are material changes. The update should not be tied to the reporting frequency and deadline. A 5-week deadline tied to quarterly reporting is not feasible due to dependency on post-reporting VA publication.
- **Groups** should be permitted as an option to apply the same CSSR (per currency) for entities of a subgroup or group, calculated based on the subgroup's or group's asset and liability portfolios.

Currency-hedged foreign investments must be included:

- Fully hedged non-EUR fixed income assets should count toward the CSSR.
- Investments denominated in any non-functional currency should not be disregarded as these investments are part of the investment portfolios of insurers in a currency zone. Based on these investments the reference portfolio of the currency zone or member state is determined

- This is necessary to avoid undermining diversification, increasing transaction costs, and conflicting with Savings and Investment Union (SIU) goals.
- Excluding these assets would disincentivise cross-border investment, contradict economic alignment of asset and liability sensitivities, and contradict the VA's intended design and construction (per EIOPA's the use of Quantitative Reporting Template (QRT) 06.02 to construct the reference portfolio).

Unit-linked (UL) business:

- With respect to unit linked business, the proposed PVBP(MV) calculation excludes the effect of fixed income investments which give rise to no credit spread risk exposure for the undertaking since it is born by the policyholder.
    - However, it is it important that this exclusion only applies to these cases without any credit spread risk and is not inappropriately further extended. Therefore, in the last sentences, the incorrect "or residual" in "**give rise to no or residual credit spread risk"** must be deleted. A simple alternative could be to exclude only investments linked to technical provisions calculated as a whole.
- There is an inconsistency in the reference to ULs regarding the numerator of the ratio comparing the text in Article 51a, where the reference to ULs is missing, and Article 51b, where the reference to ULs has been retained.

Other technical clarifications:

- The CSSR floor of zero is welcome to avoid negatives. However, under some circumstances, an increasing VA can lead to higher best estimate liabilities (BEL), but the proposed CSSR formula does not consider adequately such cases in which PVBP(BEL) becomes negative.
    - The maximisation with zero causes a discontinuity with a large jump of the VA at 0 EUR: While a PVBP(BEL) of just 1 EUR leads to a full VA application (CSSR=1), a PVBP(BEL) of −1 EUR suddenly leads to no VA application at all (CSSR=0).
    - This unreasonable cliff-edge effect brings artificial volatility into Solvency II and is contrary to the intention of the VA the
    - A practical fix would be to set CSSR to 1 when PVBP(BEL) is negative.
- Industry's understanding is that credit derivatives are excluded from the numerator calculation.
- The EC should add "loans and securitisation" to the references to Article 51(3) for consistency with Article 50. Omission of loans and securitisation in this text goes against the EC's efforts to revitalise the securitisation markets in Europe.
- It should be clarified that the CSSR should be calculated as the ratio between the sensitivity of assets to changes in credit spreads and the corresponding sensitivity of liabilities to associated changes to the VA. It is fundamental that the formula reflects that bond sensitivity is towards bond spreads and the liability sensitivity is towards movements in the corresponding VA.

1.3 Zero floor applied to spreads (Article 51)

Industry concern: Industry does not support the proposal to remove the zero floors applied to spreads of government and corporate bonds. Bonds that exhibit a negative spread to the risk-free rates are assessed by the market as extremely safe.

Insurance Europe proposal:

There should either be no further deduction for risk correction or a zero floor for the spread in the VA calculation.

2. Extrapolation

Reference: Articles 43-46

Industry concern: Regulatory stability in the derivation of the risk-free rate (RFR) curves is necessary to ensure an appropriate valuation of the insurer's liabilities, to avoid unnecessary short-term volatility and to ensure that insurers can derive and implement risk management and asset liability management (ALM) programmes.

The Commission's proposed calibration of two key parameters, the residual volume criterion (RVC) and the convergence parameter, underlying the new RFR extrapolation methodology will create the potential for additional solvency volatility, excessive capitalisation of long-term products and introduce new hedging challenges for insurers looking to match their liabilities.

These Commission's proposals for these technical parameters are contrary to its objectives of reducing excessive short term solvency volatility and facilitating insurer's ability to offer long-term life and pension products with guarantees and to contribute to the long-term financing of the economy.[2]

Regarding the RVC, the proposed 1% buffer for the Euro on the observed lowest possible value in January 2025 is by far not sufficient. Analyses of the RVC of previous years for the Euro show a clearly increasing trend and they show that the lowest possible value leading to 20 years can increase by more than 1 percentage point within four years. Thus, a 1-percentage-point-buffer risks a jump of the First Smoothing Point (FSP) onto 25 years for the Euro already in 2028 or 2029. At the same time, it is possible that maturities between 20 and 25 years become Deep Liquid and Transparent (DLT) making a change of the FSP for the Euro even more likely.

2.1 Residual volume criterion (Article 43a)

The RVC is a regulatory assessment which is used to define the starting point of the extrapolation (the FSP). Volatility in the FSP, especially for the euro, will result in avoidable solvency volatility and is highly undesirable from a risk management perspective.

Industry concerns:

- The proposed calibration of the RVC will result in the future instability of the RFR curves, notably for the Euro RFR curve.
- There is a lack of transparency on the data and the process which is being used to define the RVC.

Insurance Europe proposal:

The industry calls for an improvement to the proposed methodology by adding 2% to the lowest percentage that gives a FSP of 20 years, for the Euro, or alternatively by using the arithmetic mean between the lowest possible or the highest possible value leading to 20 years for the Euro.

Additionally, industry calls for a transparent governance process for the inputs.

If the draft methodology is used, the industry would propose the following edits in red tracked changes to minimise future volatility in the FSP:

[2] See Commission Inception Impact Assessment on Solvency II review (here)

Article 43a (1):
(a) for the euro, the applicable percentage shall be the closest half-integer or integer percentage greater than or equal to the sum of:
(i) ~~one~~ two percentage point~~s~~;

Fixing the FSP at 20 years for the Euro would lead to stability in times of volatile market circumstances, provide clarity for hedging purposes, and prevent disturbances in the Interest Rate Swap (IRS) market for long maturities. A moving FSP may lead to more demand from insurers at longer maturities affecting the balance between supply and demand in those markets.

2.2 Convergence parameter (Article 46)

The new extrapolation methodology calculates the regulatory risk-free rates by combining market data (known as the Last Liquid Forward Rate (LLFR)) with the more stable Ultimate Forward Rate (UFR). The methodology combines these rates using a new parameter called the convergence parameter which specifies the weights of the LLFR and UFR in the extrapolation.

A higher convergence parameter gives the UFR a higher weighting than the LLFR, providing both more stability to the illiquid part of the risk-free rate curves and lower capital burden for long term products. The Directive sets the minimum of the convergence parameter to be 11%.

Industry concerns: The proposed 11% calibration would have several undesirable impacts including:

- Adding unnecessary volatility to the SII framework.
- Pushing insurers towards otherwise unnecessary procyclical behaviour.
- Making it harder for insurers to offer long-term guarantees.
- Pushing insurers towards extensive derivative usage.
- Overestimating the value of very long-term liabilities when rates are low and underestimating them when rates are high.

Insurance Europe proposal:

The industry supports a calibration of the convergence parameter of 15% and 70% for the Swedish Krona (SEK).

Using a 15% (or 70% for the SEK) convergence parameter would create RFR curves which are similar to the level and sensitivity of the existing RFR curves, which have proven to work well over the past 10 years, notably during periods of low and negative interest rates. As such, they would address many of the undesirable impacts outlined above while catering for the supervisory request to include more market data in the calculations.

2.3 Last liquid forward rate (LLFR) (Articles 44 and 46(1c))

Industry concerns: The draft Delegated Acts regarding the determination of the LLFR (Article 46 (1c)) is hard to decipher.

Insurance Europe proposal:

The industry recommends using formulas as a replacement, without changing the content, for example:

The last liquid forward rate LLFR is defined as:

$$LLFR = w_{FSP}.fwd_{j,FSP} + \sum_i w_i.fwd_{FSP,i}$$

where:

- i represents the set of tenors post FSP that are available in deep, liquid and transparent financial markets; and
- j is the last tenor in the construction of the curve prior of the FSP that is available in deep, liquid and transparent financial markets.
- The weights are defined as

$$w_k = \frac{V_k}{\sum_l V_l} \text{ for all k in } \{\text{FSP and post FSP DLT tenors}\},$$

- l uses all elements in that set.
- Vk stands for the daily traded notional amount for maturity k.

To ensure transparency in the derivation of the basic risk-free interest rates, EIOPA should not only publish the extrapolated basic risk-free interest curve but also the underlying market data, i.e. the risk-adjusted swap rates or government bond rates, whichever are applicable. To this end, the amended Delegated Regulation should also include corresponding provisions that require EIOPA to publish the required data for all relevant currencies.

Technical remark:
In Article 46 (1a) (c) and (d), it should say "annualised discretely compounded" instead of "annualised discreetly compounded".

3. Long-term equity

Reference: Articles 171a-171d

Insurance Europe welcomes the improvements to the long-term equity (LTE) framework introduced in the revised Solvency II Directive, which aim to facilitate long-term investments by insurers in support of the Savings and Investments Union and broader EU sustainability and pension objectives. The industry supports the continued availability of the LTE submodule but emphasises that its practical usability must be safeguarded in the delegated regulation.

Industry concern: While Article 171a provides welcome flexibility, the implementing conditions under Articles 171b–d risk rendering the framework too complex and too restrictive in practice.

- In most Member States, the LTE investment (LTEI) submodule has been underutilised since its introduction in 2018 due to overly complex and conservative conditions.
- The revised Level 1 text provides an important opportunity to make the framework more usable by removing unjustified constraints.
- The delegated regulation must ensure that the LTEI framework remains consistent with its policy objective: facilitating long-term investment aligned with insurers' liability structures.

Already using LTEI – increased difficulty under EC proposal
The current EC proposal for the classification of long-term equity (LTEI) remains quite complex, and at times, even more so than existing provisions in particular for some insurers and/or some markets (e.g. in Belgium) already using the LTEI submodule. This contradicts the intention of the European Parliament, which aimed to encourage investment in LTEI.

The heavy restrictions introduced in the delegated act instead make it more difficult in practice to apply the conditions in the Directive to truly simplify the use of the LTEI classification. The proposal is neither aligned with the Directive nor with Parliament's objective to promote long-term equity investment.

Transition period and non-compliance cases
No transitional period with existing provisions is foreseen, even though in some markets (e.g. Belgium) the long-term equity (LTE) submodule is actively used. The proposed operational burden and heavy restrictions

could fail to make the LTE attractive. Losing eligibility for the LTE has a major impact on affected undertakings' Solvency Capital Requirement (SCR) ratios, with equity charges rising from 22% to 39% or 49%. This would force sudden portfolio adjustments and equity sell-offs.

Additionally, a smoothing of the SCR shock applied to the LTEI portfolio in case of non-compliance should be foreseen, to avoid abrupt changes in solvency positions due to the limited time period (six months) of non-compliance foreseen in Art. 105a (3) subparagraph 3 of the Solvency II Directive. This time period is too short for companies to adapt their investment policy and derisk their equity investments and would therefore lead to an abrupt raise in SCR if suddenly the LTE positions would be shocked at 39% or 49% instead of 22%. A possible solution is to introduce a linear interpolation of the SCR shock of LTE (22%) towards the type 1 (39%) and type 2 (49%) shocks over five years. A gradual raise of the SCR would guarantee the absence of undue volatility in solvency positions.

If the requirements cannot be revised as proposed by the industry, Insurance Europe calls for a transition period. Grandfathering existing holdings under current LTE conditions, with a phasing-out period of ten years, would allow a gradual adjustment without sudden solvency shocks.

Frequency & reporting

The frequency of verifying LTE conditions is not specified. This should be annual (unless there is a material change), not quarterly. In particular, the "methodologies to avoid forced sales" and "forced selling test" are labour-intensive and unsuitable for calculation within a five-week reporting deadline. As these results are expected to remain stable, annual checks are more proportionate.

Clarification is also needed on reporting to National Supervisory Authorities (NSAs). Companies prefer to report compliance in the Own Risk and Solvency Assessment (ORS)A rather than via new QRTs or ad-hoc national reporting, to avoid unnecessary duplication and burden.

Insurance Europe proposals:

Article 171a – Flexibility in demonstration

Insurance Europe supports the Commission's approach in Article 171a, which allows undertakings flexibility in how to demonstrate their ability to avoid forced sales. This flexibility is essential to ensure that the LTEI submodule becomes operationally viable for a broader range of undertakings. At the same time, it is key that this flexibility does not lead to the practice of NSAs to push companies towards the forced selling (liquidity) test rather than the EIOPA approach.

Article 171b – Methodologies to avoid forced sales

Non-life approach

- The current drafting requires the liquidity buffer to be based on all non-life best estimate cashflows, effectively resembling a solvency ratio rather than a liquidity measure. This is not economically justified and could prevent otherwise eligible undertakings from using the LTEI submodule. In addition, the buffer threshold has been raised from 100% (as in the holistic impact assessment) to 105%. This tightening is not justified, especially given the already strict calculation conditions for the buffer.
- **The approach should be recalibrated to:**
  - **Limit the cashflows to a five-year horizon, in line with Directive Article 105a (1)(b).**
  - **Include investment vehicles - that have the same liquidity characteristics as those of the directly held assets deemed eligible - in the list of liquid assets. They constitute an essential liquidity source for undertaking, excluding them from the liquidity ratio is not justified and would lead to a significant impediment for non-life undertakings to make use of this approach.**

- Reconsider the proposed haircuts on assets that are excessive and not well-justified. These were calculated by EIOPA in 2019-2020 based on a ten-year period of avoiding forced selling in the current delegated regulation, whereas the SII Directive introduced a 5-year period of avoiding forced selling. Hence, a recalibration of the haircuts on assets is needed.

Life approach

- The use of modified duration is inappropriate, as it is a sensitivity, not a time-based measure.
- The proposed ten-year threshold is excessively conservative and inconsistent with the holding period and avoiding forced selling period under stress, which are both set at **five years**, as foreseen in Level 1 (Article 105a (1) (b) & (d) Solvency II directive), in addition it is not aligned with the average duration of liabilities in many European countries.

The industry proposes to reduce the threshold to five years.

In light of those comments, the industry proposes the changes to Article 171b in the **Annex.**

Article 171c – Forced selling test

Several elements of the proposed forced selling test would significantly limit its applicability:

- Overly narrow definition of eligible investment vehicles: Requiring control over vehicles (Article 3.a) would exclude commonly used diversified investment structures. This criterion should be deleted.
- Unjustified exclusion of financial sector bonds/loans: The exclusion of bonds and loans issued by financial institutions (Article. 3.a.iii) is overly restrictive and based on a systemic crisis assumption. The exclusion should be limited to intra-group exposures.
- Redundant VA conditions: The paragraph linking bond sales to VA assumptions duplicates existing requirements and could restrict asset sales inappropriately under stress. These conditions should be deleted.
- Double counting of stress assumptions (Article 5):
  - Applying market and counterparty SCR as an annual outflow over the full horizon is inappropriate. It should only apply to assets expected to be sold.
  - Including full premium and reserve SCRs in year one, and stressing future flows, leads to double counting. Stress should be applied only once across the full projection.
- Diversification loss from exclusion of lapse/catastrophe risks: The exclusion of lapse and catastrophe modules from the SCR aggregation (Article 5.b) should not result in losing the associated diversification benefit.

Proposed adjustments include:

- Delete the requirement for control over investment vehicles (Article 3.a).
- Limit the exclusion of financial sector exposures to intra-group only (Article 3.a.iii).
- Remove redundant VA-related constraints on bond sales.
- Adjust stress methodology to avoid double counting market and underwriting risks.
- Clarify that the diversification benefit in SCR aggregation is retained, even when excluding specific submodules.

In light of those comments, the industry proposes the changes to Article 171c in the **Annex**.

Article 171d – Eligible funds

- The current wording is ambiguous. Article 171d identifies types of CIUs for which the LTE conditions under Article 105a may be assessed at fund level rather than at the level of underlying assets. It does not exclude other funds from LTE eligibility, as the text currently implies.

  Proposal: The article should be amended to clarify this:

"A new Article 171d specifies the types of collective investment undertakings (CIUs) and alternative investment funds identified as lower-risk, for which the conditions in Article 105(1) may be assessed at fund level rather than at the level of underlying assets."

- The industry highlights the need to have a broader range of funds which qualify for LTE assessment at fund level — including Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs) — while maintaining appropriate risk standards. Therefore, in the second column, under "Assessment," AIFs should be added alongside UCITS.

  Proposal: In that perspective, the industry proposes to include UCITs and AIFs to the list of simplified criteria foreseen in Article 171d (as per the proposal in the **Annex**).

- Additionally, the current drafting of Article 171d appears to establish a dual approach:
  - For funds not listed under paragraph 2, a look-through analysis of the underlying assets is required to determine compliance with LTEI criteria.
  - For funds listed under paragraph 2, paragraph 3 suggests that either a look-through analysis may be conducted, or the LTEI criteria may be applied directly at the level of the fund units.

  However, the wording of paragraph 3 introduces ambiguity. It could be read as requiring a look-through analysis for funds listed under paragraph 2, with the application of criteria at the unit level allowed only where look-through is not feasible. This seems to contradict Article 105a(2) of the Directive and imply that funds not listed in paragraph 2 cannot be included in the LTEI submodule, even where a look-through can be performed.

  Furthermore, imposing a look-through requirement on funds explicitly listed under paragraph 2 undermines the rationale for their inclusion. The purpose of listing such funds is precisely to allow for assessment at the unit level without necessitating transparency of underlying holdings. If look-through remains mandatory, the added value of inclusion in the list is effectively nullified.

  Clarification is therefore requested to confirm that funds not listed under paragraph 2 are not automatically excluded from the LTEI framework, and that for listed funds, the application of LTEI criteria at the unit level constitutes a valid and sufficient approach.

  Proposal: In light of those observations, **the industry proposes to delete point 3 of article 171d**
- The current drafting of Article 171d(2)(d) limits eligible AIFs to **closed-ended funds**. This restriction is not justified, as many **open-ended AIFs**:
  - are widely used by insurers,
  - include mechanisms ensuring long-term stability (e.g. lock-up periods), and
  - invest in infrastructure and renewable assets aligned with EU priorities.

  This limitation is also inconsistent with the treatment of other funds in paragraph 2 (e.g. ELTIFs, EuVECA, EuSEFs), which may be either open- or closed-ended.
- **Proposal:** Amend Article 171d(2)(d) to allow **both open- and closed-ended AIFs**, provided they employ **no leverage**.

Typo in Article 171b (2) (a)

"the value in accordance with Article 75 of Directive 2009/138/EC of illiquid liabilities referred to in paragraph 1(a) exceeds the total amount of equity investments within the portfolio of assets related to life insurance or reinsurance obligations;".

This wording is incorrect. The condition should apply only to the subset of **long-term equity investments**, not to all equity investments.

4. Risk margin

Reference: Articles 37(1) and 39

The proposed changes to the risk margin included in the Directive (2025/2) are strongly supported, particularly the reduction of the cost of capital to 4.75% and the introduction of a Lambda factor. The risk margin is a conservative prudential buffer, creating an aggregate €140bn of capital requirements for the industry, which largely serves only a theoretical purpose.

Comparison with other established global prudential regimes, such the Solvency UK and the new Japanese solvency system, clearly demonstrates the current calibration of the Solvency II risk margin to be excessive and overly conservative.

Industry concerns: The proposed calibration of the lambda parameter at 96% with a 50% floor does not sufficiently address the excessive conservatism in the risk margin and will continue to leave EEA insures at a competitive disadvantage relative to their international peers. The 50% floor on the Lambda parameter also contradicts the Level 1 objective (Recital 41) to reflect the time dependency of risks and reduce the risk margin for long-term liabilities.

Insurance Europe proposal:

Remove the 50% floor to ensure full alignment with the Directive and lower the 96% lambda parameter to 92.5%.

5. Expected Profit in Future Premium (EPIFP)

Reference: Article 330

The Commission proposed changes to Article 330(1) explicitly refer to EPIFP (Art. 70(2)) in the context of own funds that require availability justification at group level. However, the reconciliation reserve, of which EPIFP is a typical component, is not otherwise included in the list.

The proposed treatment of EPIFP under the amended Solvency II framework is inconsistent, unjustified, and introduces a disproportionate burden on undertakings — particularly regarding its availability assessment at group level under Article 330(1).

Industry concerns:

- There is no objective justification for treating EPIFP differently from other elements of the reconciliation reserve.
- Singling out EPIFP for availability testing imposes an additional burden on undertakings, even though EPIFP are already subject to the same prudential treatment as other own funds within the reconciliation reserve.
- Due to the inherently model-based and forward-looking nature of EPIFP, it is particularly difficult to provide concrete proof of availability at group level — making the proposed requirement both disproportionate and impractical.
- A derecognition would not be practicable for EPIFP, as they stem from the future premiums captured in the contract boundaries and are projected in the best estimates cash-flows. They are intrinsic of the

insurance contracts terms compensating for the SCR and risk margin requirements associated with those future premiums.

- Conflict with SIU and long-term business objectives: Restricting EPIFP availability undermines incentives for long-term guarantees by effectively locking capital in subsidiaries, preventing its use for economic growth or closing protection gaps. This contradicts the SIU's objective of unlocking trapped capital.
- Supervisory divergence risk: The proposed Article 330 opens the door to divergent interpretations, gold-plating, and increased administrative burden.
- Not a solvency issue: Denying group recognition of EPIFP is not justified by solvency concerns. Even in extreme scenarios where EPIFP materialises only after claims are paid, this could create liquidity issues — but not solvency issues — and Solvency II already requires undertakings to manage asset-liability cashflows accordingly.

Insurance Europe proposal:

The industry supports a principle-based approach, taking into account the elements currently identified by the regulations, ensuring consistent treatment of all elements within the reconciliation reserve. Therefore, the industry calls for the removal of the specific reference to EPIFP in Article 330(1).

6. Share capital

Reference: Article 330(1)

Industry concern: Share capital (Article 69(a) point (i)), is a notional equity item that is subsequently represented in the assets and liabilities of the balance sheet. Therefore, the availability assessment the regulation refers to in Art. 330 should focus on the items in which it is invested rather than its overall value.

Insurance Europe proposal:

In this regard, the current formulation of the article already meets this requirement, and there is no need for further specific provisions.

7. Partial and indirect guarantees

Reference: Article 180, 215a

Industry supports the revision of Article 180 (specific exposures – partial public guarantees) and the introduction of Article 215a (Sovereign and other public sector counter-guarantees), allowing the recognition of partial and indirect public guarantees in the spread risk SCR calculation. Such a change would acknowledge a widespread market practice.

Industry concern: However, part of the requirements is that 'all credit risk elements' are to be covered.

Insurance Europe proposal:

Industry believes this requirement is too strict. The EC should ensure counter guarantees remain recognised, reflecting the risk-mitigation effect.

8. Risk mitigation techniques

Reference: Article 210-212 and Article 235

Industry supports:

- Improvements to the treatment for non-proportional reinsurance
- The introduction of dedicated treatment of ADCs (however, the proposal is overly complex with testing and risk-limitation criteria).
- The recognition of risk-mitigating effects of State guarantees or State reinsurance.

Amendments to demonstrate effective transfer of risk (Article 210- Article 212) are critical because they are overly descriptive and require undertakings to demonstrate risk transfer "to the satisfaction of the supervisory authority".

The Commission's proposals on the new criteria for demonstrating effective risk transfer are unworkable for 99% of reinsurance contracts. For instance, it is unclear whether NatCat non-proportional reinsurance for motor insurance would qualify as a RMT with the proposed amendment.

Industry concern:

- The introduction of new excessive measures may disincentivise the use of proper risk mitigation techniques.
- The idea that treaties should "closely mirror" the underlying insurance policies "under a comprehensive set of scenarios" ignores the reality of the market and negate the ability of reinsurers to price the risk, negotiate terms and conditions, or structure holistic reinsurance programs where some layers inure to the benefits of others. If a reinsurance treaty has to be a clone of the underlying insurance policies to be recognized in Solvency II, only one reinsurance contract would be admissible by supervisors leading to the end of the competition in the reinsurance market.
- This flawed definition, together with the creation of a bureaucratic "supervisory satisfaction regime", are likely to give rise to gold-plating and unlevel-playing field across the single market, significant delays in already overly busy renewal seasons, early termination of treaties and non-renewals.
- Taken together, these substantial changes are the negation of a functioning and competitive reinsurance market. They will hinder the use of reinsurance, both proportional and non-proportional, while the stated objective in recital 18 was to improve the recognition of non-proportional reinsurance. This conflict between the objective and the proposed amendment highlights a need for a proper impact assessment before any change is made.
- The demonstration of the effective transfer of risk "to the satisfaction of the supervisor" may become so difficult given the constraints of the standard formula, that the range of reinsurance solutions available to EU insurers will likely be reduced and the prices for reinsurance protection will likely go up.
- The importance of the sharing of risks with reinsurers should be considered and the EC should refrain from adopting these amendments before making a proper impact assessment of their significant and long-lasting consequences on the functioning of the EU insurance market.
- There is no industry support for equal treatment of contingent capital treatments in internal models and the standard formula. These proven capital protection solutions can be accurately reflected in internal models' economic scenarios and are effective in shielding against tail events like natural catastrophes.

Insurance Europe proposal:

The industry urges the removal of the proposed amendments to Article 210-Article 212 and Article 235.

At the very least, 212(7) second paragraph should be deleted and article 210(3a) reviewed as follows:

"the changes in value of the exposure covered by the risk-mitigation technique ~~closely mirror~~ is responsive to the changes in value of the risk exposure of the undertaking under ~~comprehensive~~ an appropriate set of risk scenarios, including scenarios that are consistent with the confidence level set out in Article 101(3) of Directive 2009/138/EC".

9. Foreseeable dividends

Reference: Article 70a, Article 1 (66)

Industry supports the introduction of an accrual approach to the treatment of foreseeable dividends as proposed in Article 70a.

Industry concern:

- Article 70a(4) is too restrictive as it only allows reliance on a dividend/distribution policy. In practice, some undertakings do not have such a formal policy but follow a consistent pay-out practice
- Without recognition of this proven practice, these undertakings would face disproportionate constraints.
- Likewise, the second part of paragraph 4 assumes that, in the presence of a payout range, the upper end of the range shall be applied—an approach that lacks economic rationale.

Insurance Europe proposal:

- The industry proposes to change Article 70a (4) as follows:

  ~~*Where the dividend or distributions policy contains a pay-out range instead of a fixed value fixed single pay-out ratio or amount, the average dividend or distribution pay-out ratio or amount over the three financial years prior to the engaging financial year.*~~

  4. For the purposes of paragraph 3, point (b), the dividend or distributions pay-out ratio or pay-out amount shall be determined on the basis of the dividend or distributions policy approved by the administrative, management or supervisory body. ~~*the upper end of the range shall be used.*~~

  ~~*Where the dividend or distributions policy contains a pay-out range instead of a fixed value fixed single pay-out ratio or amount, the average dividend or distribution pay-out ratio or amount over the three financial years prior to the ongoing financial year.*~~

- Additionally, the following change in the text is proposed to the related definition, proposed in Article 1:

  Article 1 (66)

  a. *'distributions' means the pay-out of accounting profits other than dividends to shareholders, members or similar, including share buybacks and other transfers of own funds items.*

10. Repayment and redemption

Reference: Article 70b

Industry concern: The one-month restriction is unnecessarily rigid and not reflective of market practice. Share buy-backs used to service stock options may be exercised over a longer period. Retaining this limit creates operational complexity without adding prudential value.

Insurance Europe proposal:

The following change to the text of Article 70(b)(2) is proposed:

Article 70 (b)(2):

2. For the purpose of the paragraph 1, share buy-backs shall be considered to have the same economic effect as repayment or redemption, unless the shares which are bought back are used to exercise stock options, ~~*either immediately or within no more than one month from the date of the execution of the share buy-back program*~~

11. Matching adjustment (MA)

Reference: Article 70, 81, 216, 217, 234

Industry supports the proposed removal of the own fund restrictions as well as the allowance for diversification effects.

12. Interest rate risk

Reference: Articles 165-167

Industry supports the draft proposals for:

- **Phasing-in:** Industry supports not introducing a (mandatory) phasing-in.
- **Design**: Industry supports the general design the new shifted methodology as well as the proposed calibrations of the s and b factors.
- **Pegged currencies:** Industry supports the proposed treatment of pegged currencies.

Industry concerns and Insurance Europe proposals:

- **LLFR**: The proposed methodology to derive the stressed LLFR remains ambiguous. The industry supports a clarification that market data based spot rates should be stressed first, then used to derive the stressed forward rates, and finally the stressed LLFR.
    - This method requires information on swap rates or government bond rates, as applicable, for maturities beyond the first smoothing point. Instead of introducing technical errors by using the extrapolated basic risk-free curve for the calculation of the stressed LLFR, a provision should be added that requires EIOPA to publish the corresponding market data for maturities beyond the first smoothing point where deep, liquid and transparent markets are available. These publications should include data for all material currencies. This would ensure consistent and technically correct calculations and should thus be supported by corresponding provisions in the Delegated Regulation.
- **Floor**: The industry proposes setting a floor based on Euro swap data instead of the significantly lower proposals in Article 167 (1).
- **UFR**: Industry opposes the proposed stresses of 15 bps to the ultimate forward rate (UFR) as it represents a long-term average that should not reflect sudden shocks.
- **Other currencies**: To ensure a level playing field and foster fair competition in line with the objectives of the EU's Savings and Investments Union, the methodology must be appropriately calibrated for all currencies to which it is applied. The current interest rate stresses for the euro are much too strict for e.g. the Norwegian krone (NOK). A specific calibration for NOK should therefore be included in the delegated regulation.
- **General call**: As for all amendments, industry calls for updated technical specifications that avoid additional complexity and operational burden and for clarity on the extrapolation approach

13. Expense risk

Reference: Articles 140 and 157

Industry concern:

- Article 140 of the Delegated Regulation stipulates that expenses used in the calculation of technical provisions must be subjected to a stress to determine the SCR for life expense risk. However, the article does not provide any exceptions for acquisition expenses or other contractually fixed costs.

- This represents a departure from a genuinely risk-based approach, as it forces insurers to apply the stress to expenses that, by nature, cannot vary—such as acquisition expenses—ultimately resulting in excessive and unjustified capital requirements. A similar issue arises in the context of Article 157.
- Insurance Europe welcomed the draft discussed at the 4 June EGBPI meeting, in which the Commission's services preliminarily proposed amendments to Articles 140 and 157. These amendments aim to address the issue described above by clarifying that, for the purpose of applying the 10% increase to the expenses considered in the calculation of technical provisions, "insurance and reinsurance undertakings may exclude expenses that are contractually fixed and cannot change under any circumstances."

Insurance Europe proposal:

Insurance Europe therefore considers it necessary to amend the Delegated Regulation to address the treatment of expense risk under the standard formula, in line with the proposal put forward by the Commission's services.

14. Remuneration

Reference: Article 275

Industry concern:

- While the proposals under letter (b) are welcomed, the amendments proposed under (a) are very concerning and not supported. The amendments go **well beyond EIOPA's technical advice**, which was limited to proposing a waiver from mandatory deferral of a significant portion of variable remuneration under the proportionality framework.
- The draft proposal instead introduces **complexity and legal uncertainty** into the remuneration framework.
- The explanatory memorandum provides only a **general reference** to alignment with Directive 2013/36 (CRD IV) and does not make the EU Commission's regulatory objectives transparent. Recital 40 explains only the amendments under letter (b), not under letter (a).
- Numerous **undefined legal terms** grant NCAs excessive discretion, e.g.:
    - Payment/vesting contingent on the "sustainability of the financial situation" of the undertaking.
    - Restricting remuneration in cases of "subdued or negative financial performance".
    - Requirement that variable remuneration be cumulatively justified on performance of the undertaking, business unit, and individual, which contradicts Article 275(2)(b) (allowing for collective performance only).
- The proposed restrictions appear **inconsistent with the Solvency II Directive**, which only allows suspension/restriction of variable remuneration in defined cases: solvency deterioration (Art. 136a(2)(d)), liquidity vulnerabilities in exceptional circumstances (Art. 144b(3)(d)), or sector-wide shocks (Art. 144c(2)(d)). The Delegated Regulation has no mandate to extend these circumstances.

Insurance Europe proposal:

- **Delete the amendments under letter (a)** to avoid overreach beyond EIOPA's advice, the Level 1 Directive, and the Commission's mandate.
- If retained, **amend the recitals** to:
    - Clearly state the regulatory objectives of all amendments under letter (a).
    - Confirm that the purpose is alignment with banking rules (Directive 2013/36) and ensuring a level playing field.
      Stress that alignment should avoid **gold plating**, drawing lessons from past transposition of CRD IV.

15. Investments under legislative programs (SIU)

Reference: Article 173

Industry strongly supports the objective of encouraging long-term investment in equity through legislative programs which align with broader Insurance Europe SIU objectives. However, the proposed amendments to Article 173 are not entirely clear and would require further clarification and discussion.

Industry concern: The draft introduces a cap limiting such equity investments to 10% of the undertaking's eligible own funds. This is inappropriate, as any reduction in own funds would automatically tighten the cap and increase the SCR, creating a procyclical effect. Additionally, it is not clear how Article 173 would apply: the notion of legislative program is not specified, and the envisioned reduction in equity shock seems to rely on an assessment of the reduction in credit risk of the insurance undertaking consequently to the existence of the investments in legislative programs. Overall, the provisions do not seem to be tailored to the insurance sector.

Insurance Europe proposal:

The cap should not be based on eligible own funds but instead be set relative to total assets, to avoid procyclicality and better reflect the SIU's goal of supporting long-term equity investment. Before adopting the proposed amendments, further clarifications should be provided on the definition of a legislative program and on the determination of the reduction in equity shock.

16. Securitisation

Reference: Article 178

The industry supports the decreases for Senior Simple, Transparent, and Standardised (STS) AAA and AA and welcomes the alignment between Senior STS AAA and AA with those of covered bonds AAA and AA. These proposals are aligned with long-standing industry positions, most recently in the December 2024 response to the EC consultation and the recent Insurance Europe SIU position.

Industry concern: While the adjustments to non-STS calibrations are a welcome move in the right direction, improvements are needed.

- Even after the proposed changes, non-STS calibrations remain 3–4 times too high (compared to 8–10 times today), particularly for non-senior tranches.
- This creates an uneven playing field, as securitisations with the same credit rating receive different treatment depending on their STS label.

Insurance Europe proposal:

- Scientific evidence (Duponcheele & Perraudin, *How to Calibrate Securitisation Capital Rules*, March 2025) supports significantly lower, risk-adequate risk factors. (Link).
- In general, securitisations with similar credit ratings should benefit from comparable regulatory treatment, regardless of their STS label.

Reference: Article 6

Industry concern: The Delegated Act currently requires securitisation exposures held by insurers to be double-rated.

Furthermore, the industry advocates for the **deletion of Article 6 of the Solvency II Delegated Act** which imposes a double-credit rating requirement on securitisation exposures held by European insurers.

- While originally introduced as a post-crisis safeguard to restore investor confidence, this provision has become a structural impediment to the development of a competitive and efficient European securitisation market.
- In contrast, the U.S. market—where no such double-rating requirement exists and AAA senior tranches are now single-rated—has flourished, offering deeper liquidity, broader investor participation, and more cost-effective issuance.
- The EU regime therefore disadvantages European issuers and investors, reducing liquidity and increasing costs.

Insurance Europe proposal:

- **Deletion of Article 6 of the Solvency II Delegated Act** which imposes a double-credit rating requirement on securitisation exposures held by European insurers.
- Securitisation should be treated consistently with other fixed income instruments.
- The double-rating requirement no longer serves a prudential purpose and perpetuates a post-crisis stigma.
- **Alternatively, if deletion is not possible, the industry urges policymakers to carve out Article 6 for AAA senior tranches** (Credit Quality Step, CQS0). Doing so would restore balance between prudential safeguards and market development, create a level playing field for European vs US issuers, and improve the ability of (re)insurers to invest meaningfully in securitizations across both markets.

17. Correlation matrices

Reference: Article 164

Industry supports reducing the correlation between spread risk and interest rate risk in the downward scenario (from 0.50 to 0.25), in line with EIOPA's advice.

18. Counterparty default risk

CCPs and Repos

Reference: Article 189

Industry supports the proposed treatment for Central Counterparties (CCPs) and repurchase agreements (repos), securities lending and borrowing transactions.

Industry concern: However, it is noted that reverse repos are not specifically mentioned. While it is recognised that repurchase agreements generally mean both the buying as well as the seller sight, the European Commission is asked to confirm the interpretation of repos to also include reverse repos. It is noted that the collateral is especially important for reverse repos. It is further noted that for securities lending, also securities borrowing is specifically mentioned.

Insurance Europe proposal:

Include the reverse repos in Article 189.

Mortgage loans

Reference: Article 191 and 192

While the industry welcomes the increase of the mortgage threshold in line with inflation, the current treatment of mortgage loans in Solvency II is appropriate and should be retained.

Issue – LGD floor: The introduction of an artificial floor for the LGD, even for cases where there is no default risk for the insurer (small remaining debt, high property value), is not justified and would contradict the risk-oriented and market value-based determination of capital requirements under Solvency II.

Industry concern:

- A simple comparison with banking regulation is not sensible as the system of capital requirements under Solvency II is completely different.
- The floor has not been discussed nor tested by EIOPA in previous communications, consultations or impact assessments. The floor was also not discussed when redrafting the Solvency II directive.
- The proposal based on an ESRB report[3], focuses narrowly on credit risk and parity with banks, ignoring other SCR risk modules, internal model usage, and fundamental differences in regulatory frameworks, business models, and balance sheet treatments between insurers and banks.
  Industry believes it would be more appropriate for EIOPA to evaluate the actual risks and capital needs of insurers, especially regarding loans with a low loan-to-value (small remaining debt relative to the property value).

Insurance Europe proposal:

Remove the LGD floor and retain the current Solvency II treatment, which already captures the actual risk of mortgage exposures.

Issue – Treatment of purchased mortgage portfolios Some NSAs interpret an overly strict treatment of mortgage portfolios purchased wholesale from banks.

Industry concern: In order to avoid divergent supervisory practices, it is necessary to clarify that, under the following conditions, mortgage portfolios purchased or originated from credit institutions shall be treated as type 2 under the counterparty default risk module, rather than under the spread risk module as some, but not all NSAs, currently require.

Insurance Europe proposal:

Proposed amendment to Article 191, to add to the existing requirements for mortgage loans to be treated as type 2 exposures under the counterparty default risk:

1. Retail loans secured by mortgages on residential property (mortgage loans) shall be treated as type 2 exposures under the counterparty default risk provided the requirements in paragraphs 2 to 13, or paragraph 15, are met.

15. When the undertaking has purchased in a wholesale transaction a portfolio of loans originated by an EU credit institution and the credit institution was, before selling the loans

[3] 3.2.1 Residential mortgage loans ESRB 978-92-899-4092-4 "Enhancing the macroprudential dimension of Solvency II" February 2020.

(i) classifying the loans as retail exposures according to Article 123.1 of Regulation (EU) No 575/2013; and
(ii) applying the treatment foreseen in article 125(1) of the same regulation.

Then, the loans of the portfolio are deemed to comply with paragraphs 1 to 12 of the Article 191.

Simplified calculation of the loss-given-default

Reference: Article 192(4)

Industry concern: The new formula proposed for the LGD appears excessively conservative.

- In the current framework, the mortgage value is already reduced as a "risk-adjusted value," and an additional layer of conservatism is introduced through the 80% factor.
- The proposed 5% minimum LGD does not appear risk-based and applies even where external guarantees are in place, further widening the gap with the actual risk borne.

Insurance Europe proposal:

Therefore, if the 5% floor is nevertheless retained, the formula should be adjusted as follows:

$$\boldsymbol{LGD} = \mathbf{max}\,[\mathbf{0}; \mathbf{max}(\boldsymbol{Loan} - (\mathbf{80\%} \times \boldsymbol{Mortgage}); \mathbf{5\%} \times \boldsymbol{Loan} - \boldsymbol{Guarantee})]$$

Industry proposal for IRRD clarifications

Reference: Article 189(6) and 192(4)

Industry concern: The Insurance Recovery and Resolution Directive (IRRD, 2025/1), with application timing in line with the Solvency II-review (2025/2), introduces definitions for "financing arrangements" (Article 2(27) and "insurance guarantee schemes" (Article 2(62)).

Insurance Europe proposal:

Industry requests that an amendment to the Delegated Regulation be introduced to clarify these arrangements and schemes should not contribute to any counterparty default risk under Solvency II.

Industry proposes the following amendment to Article 189(6), where other exceptions are stated:

"(e) obligations arising from contributions or guarantees to financing arrangements and insurance guarantee schemes as defined in Article 2 (27) and Article 2 (62) of Directive (EU) 2025/1"

Alternatively, if this exception is not introduced through the above amendment, industry calls on the EC to explicitly reduce the Probability of default (PD) (for economic reasons) in Article 199 and specify the calculation of the Loss-given-default LGD (either similar to LGD for guarantees Article 192 (5) or similar to LGD for pool exposures Articles 193 – 195).

19. Defaulted and forborne loans

Reference: Article 176 and 189

The proposed amendment to Article 176 explicitly excludes defaulted and forborne loans ("other than defaulted and forborne loans"). However, these loans are not addressed elsewhere in the spread risk submodule, creating uncertainty about their treatment under the SCR. However, the proposed amendment to Article 176 suggests a shift from spread risk (Article 176) to counterparty default risk (Article 189).

Industry concern:

- **Recognition of collateral/guarantees**: Under the proposed approach, collateral and guarantees are not recognised, unlike in banking practice (Article 127 CRR 575/2013). This creates an uneven playing field between banks and insurers.
- **Punitive LGD floor**: The revised Loss Given Default (LGD) formula sets a minimum of 36% of the loan amount, regardless of collateral. This is unjustified, as collateral or guarantees (e.g. pledged accounts, public support, or real assets) can significantly reduce losses.

Insurance Europe proposal:

Defaulted and forborne loans should be treated consistently across the framework, with collateral and guarantees duly recognised in the LGD calculation, aligned with banking rules. The 36% LGD floor should be reconsidered to avoid disproportionate capital charges.

20. Inflation adjustments

Reference: Articles 168a, 176a and 176c

Industry supports the intention to apply inflation adjustment to the thresholds reflecting cumulative inflation since March 2019 and anticipating application of the amending Directive as of January 2027.

21. Mass-lapse risk

Reference: Articles 142(6) and 159 (6)

Industry concern:

- The risk factors for the life and health mass lapse scenarios appear to be unreasonably high. There is no evidence of the veracity of the calibrations has been provided by EIOPA. In reality, even in extreme situations of individual life insurers, lapse rates of 40% (or 70%) have not occurred. The mass lapse risk factors for life and similar to life techniques health should therefore be recalibrated (or at least be re-placeable by an undertaking-specific parameter).
- EIOPA's interpretation of Article 142, as reflected in Q&A ID 1678 and ID 2402, assumes undertakings cannot respond to the lapse shock, leading to an automatic increase in per-policy expenses. This view is based on the "instantaneous" nature of the shock and Article 83.1(d), which prohibits dynamic management actions.
- However, this approach is overly conservative and does not reflect economic reality. Lapse and expense risks are inherently correlated, and legitimate, pre-planned cost adjustments—especially for variable or discretionary expenses—should not be disregarded. In addition, it doesn't take into account the new powers for supervisory authorities to remedy liquidity vulnerabilities in exceptional circumstances in level 1 (new Article 144 b in the Directive).

Insurance Europe proposal:

Industry proposes wording along the following lines:

> "For the purposes of determining the loss in basic own funds of the insurance or reinsurance undertaking under the mass lapse scenario, the undertaking shall base the calculation considering that the per-policy expenses should remain unchanged."

22. Other standard formula amendments

Non-life premium and reserve risk

Reference: Articles 116

Industry concern:

- Article 116 (5) should be amended to clarify the netting of premiums. When deducting the premiums for reinsurance contracts, reimbursements such as provisions paid by the reinsurer to the cedent should not be considered. This means that premiums for reinsurance contracts should be considered gross of any such deductions.
- Otherwise, the volume measure for the premium risk would increase by the amount of these reimbursements, which would in turn increase the respective SCR. This would apply the same risk factors to the reimbursements as to the premiums remaining with the cedant, which would greatly overestimate the risk at hand. Even if the reimbursements represent risk in cost volatility, this volatility is much smaller than the claims volatility that is mainly described by the risk factors in the standard formula.

Insurance Europe proposal:

Thus, a clarification should be included by replacing the first subparagraph of Article 116 (5) by the following:

> *'For the purposes of the calculations set out in paragraphs 3 and 4, premiums shall be net, after deduction of premiums for reinsurance contracts. Payments other than premiums between the reinsurance undertaking and the ceding undertaking should not be considered in the calculation of premiums for reinsurance contracts. The following premiums for reinsurance contracts shall not be deducted:'*

Reference: Article 117 (3) and 148 (3)

Industry concern:

- Industry objects to the change to the adjustment factor for non-proportional reinsurance to the premium risk in Article 117, paragraph 3, which would prevent the general applicability of this factor.
- The standard formula should reflect market conditions, which is why the current applicability of this factor is appropriate in complexity and effect. The specificities of a given undertakings are then considered in the ORSA when assessing the adequacy of the standard formula. The proposed addition of further complexity to the standard formula should be avoided.

Reference: Article 117 and 148, paragraphs (4) and (5).

Industry supports the EC's proposal to better recognise Adverse Development Covers (ADCs) in the Delegated Regulation.

Insurance Europe proposal:

However, the industry recommends improving and clarifying the proposal. In addition, the formula proposed by EIOPA should also apply to structures covering multiple lines of business (LOBs) and should not have any limitation in the attachment point.

Industry concern:

Furthermore, there is a sign error in the formula. The maximum of the additional reinsurance premium *Par* should be added, not subtracted.

Data from the UK/ property risk

Reference: Article 174

Industry concern:

- According to recital 104 of Directive (EU) 2025/2, the SCR calibrations should be reviewed in order to eliminate undue dependencies on data from the UK.
- This applies in particular to property risk, for which the risk factor is determined purely on the basis of UK data (commercial property market in the Greater London area).

Insurance Europe proposal:

The current 25% risk factor for property risk in the standard formula is clearly too high for property exposures in the Union and should therefore finally be reduced.

Moreover, in the SCR calculation, properties should be assumed to be sensitive to the currency of their original valuation, not in the currency of the country in which they are located (art. 188). The current approach leads to inconsistencies and artificial opening of positions in currency hedging transactions as most property exposures are valued in EUR.

Line of business for pet health insurance

Reference: Annex I and Annex XII

Industry concern: Pet health insurance is a strongly growing segment in insurance. Currently, Annex I does not specify its assignment to a LOB.

Insurance Europe proposal:

- The industry recommends clarifying that pet health insurance should be assigned to LOB 7 (Fire and other damage to property insurance). This assignment is risk-appropriate: it would correctly lead to no consideration of cat risks and conservatively reflect premium and reserve risk. The volatility of claims is even lower than in other property insurance.
- If this clarification should not be foreseen at this stage of the review of the delegated act, it should be taken into account that no significant catastrophe risk exists. In this case, if pet health insurance is settled in line of business 12, it is suggested that Annex XII should be adapted such that pet health insurance is exempt from non-life catastrophe risk. This would include changing group 3 in Annex XII to:

'Insurance and reinsurance obligations included in lines of business 12 and 24 as set out in Annex I, other than pet health insurance obligations and other than extended warranty insurance and reinsurance obligations provided that the portfolio of these obligations is highly diversified and these obligations do not cover the costs of product recalls'

- Furthermore, the following paragraph should be added to Annex XII:

'For the purpose of group 3, 'pet health insurance obligation' means insurance obligations which cover the cost of pet health measures that exclude costs of animal epidemics.'

23. Best estimate

Reference: Article 1, 7, 18, 31 and 260

Industry agrees with:

- The definition of future management actions (Article 1)
- Clarification that it is a right to perform a contract boundary assessment at contract level (Article 18 (3)).
- Clarifying that both profit- and loss-making policies within a homogeneous risk groups are allowed (Article 260(4)).

Industry concerns:

- The new business assumptions link to Administrative, Management or Supervisory Body (AMSB) decision (Article 31 (4)).
  - Article 7 requires a going concern assumption for the valuation of all assets and liabilities while Article 31 considers whether the AMSB decides to write new business.
  - Should the AMSB decide to stop writing new business, the going concern assumption becomes practically meaningless. In such a case, expenses should be projected to reflect the AMSB's decision on the future volume and mix of new.
- The proposal to allow the application of the exception that allows the extension of contract boundaries for contracts where an individual risk assessment has been performed at inception, only when the undertaking does not have the right legally/contractually to perform assessment again (Article 18 (3)).
- The introduction of a definition of gross expected future profit/loss from servicing and management of funds, because the definition is not accurate and leads to double counting (Article260(2a)).
  - The concept is restricted only to index-linked and unit-linked contracts while a similar construct of profits/loss arising from the differences between the reduction of expected present value of cash flows of the benefit payment and the expected present value of the related expense cash out flows may be applicable for traditional (i.e. non index-linked / unit-linked) contracts as well.
  - Indeed, the definition and calculation method for "expected profits in future fees for servicing and management of funds for index-linked and unit-linked insurance" appear inconsistent. The new metric (Article 1(46a)) and its calculation (Article 260(2a)) do not refer to the present value of future profits from fees retained on unit- and index-linked contracts.
  - These fees also cover the costs of managing such funds (e.g. investment costs, typically proportional to the amount invested). An approach that treats future fees as fully unearned, while counting associated investment/management costs as incurred, does not give an economically accurate representation of the indicator.
  - In addition, the revised Delegated Acts introduce a requirement for the disclosure of "the expected profit in future fees for the servicing and management of funds for index-linked and unit-linked insurance" both in the Solvency Financial Condition Report (Art. 297:

Information targeted at market professionals: Capital management and risk profile, point 5) and in the Regular Supervisory Report (Art. 311: Capital management and risk profile, point 6) within the respective sections dealing with concentration and liquidity risk.
Considering the inconsistency between the definition (Art. 1(46a)) and the methodology for the calculation (Art. 260(2a)), both the purpose and the related benefits of such disclosure requirement are unclear and could possibly lead to misleading conclusions.

Insurance Europe proposals:

Article 18(3) – Contract boundaries

- Broaden the exception for extension of contract boundaries: it should not be limited to cases where the undertaking legally/contractually cannot perform a new risk assessment, but apply more generally where an individual risk assessment has already been performed at inception.

Article 1(46a) & Article 260(2a):

- Revise definition to avoid double counting, broaden scope beyond unit-/index-linked contracts, and align metric and methodology to reflect net present value of future fees.

Articles 297(5) & 311(6):

- Remove disclosure requirement until a consistent and accurate definition/methodology is established.

24. Proportionality

Non-SNCU Proportionality measures

Reference: Chapter XVI Proportionality Measures

While the industry welcomes efforts to introduce further proportionality and reduce operational burden, the industry calls for reduced and streamlined non-SNCU criteria to make proportionality practically accessible beyond SNCUs, as intended at Level 1. Indeed, if applied too strictly, the current proposal risks removing proportionality measures from some small and medium-sized insurers that are not classified as SNCUs but still merit proportional treatment given their limited or immaterial risk profile.

It should also be ensured that the process to apply for proportionality measures does not become excessively burdensome. Some small and medium-sized undertakings are hesitant to apply due to the significant cost in preparing applications, particularly when approval is uncertain. Moreover, proportionality measures can be withdrawn, creating serious challenges where long implementation timelines are required — for example, moving from deterministic or PHRSS approaches to stochastic modelling can take up to two years. The risk of withdrawal may therefore discourage companies from applying in the first place.
It is unclear how often NSAs should verify compliance with the proportionality conditions. If this is a recurring requirement, undertakings warn that the workload of regularly providing proof could offset the intended burden reduction of proportionality measures.

Industry concerns:
Against this background it is key that the conditions for granting proportionality measures to non-SNCUs in "Chapter XVI PROPORTIONALITY MEASURES" are transparent and objectively assessable. **To streamline and clarify the proportionality framework for non-SNCUs, the industry proposes removing the following conditions** (listed in order of priority):

- No complex business model (Article 327 b – g para (1) lit b): This condition is very far-reaching and includes a number of other risk criteria such as SCR, own funds, investments, technical provisions.

However, these criteria are already included in the other conditions, e.g. the SCR ratio already considers market risks, technical provisions, own funds etc.

- Adequate margin on SCR (Article 327b para 1 lit e, 327e para 1 lit e, 327g para 1 lit c): Compliance with the SCR should be sufficient, as this already represents the legally required risk buffer. The consideration of compliance with additional internal margins according to the capital management plan is not adequate as this plan is an internal management instrument. Reconsiderations of this plan for the supervisory approval process of proportionality measures create false incentives to choose lower margins in the plan.
- No limits for intra-group liquidity (Article 327g para 1 lit f) vii: The ability to transfer liquidity across the group is not only an opportunity but also a risk that funds may be withdrawn from an entity. In this respect, the focus should rather be on the extent to which individual entities are liquid or dependent on the (centralized) group liquidity management.

Additionally, it is noted that regarding the quantitative conditions: the limit of 12 billion euro is based on the limit for financial stability reporting. Note that in the current consultation on revised guidelines for the reporting for financial stability purposes[4], EIOPA proposes to raise said limit from 12 billion euro to 20 billion euro. Hence, it seems fair that the Delegated Acts (DA) follows that EIOPA advice.

Additional criterion for benefiting from reduced ORSA frequency: Industry does not support the requirement to prove reduced ORSA frequency does not harm its risk management system as this will require additional burden (Article 327e)

It should also be clarified that Article 29a (1) (a) (v), Article 29a (1) (b) (vi) and Article 29a (1) (c) (viii) of the Solvency II Directive do not apply to reinsurance undertakings This criterion excludes reinsurance undertakings from being classified as SNCU, which is clearly not intended as reinsurance undertakings are not mentioned in Article 29a paragraph 3.

Insurance Europe proposals:

- Conditions for granting proportionality measures should be transparent and objectively assessable.
- Remove the following conditions to streamline the framework:
  - No complex business model (Article 327b–g(1)(b)) – this overlaps with other criteria already covered (SCR, own funds, investments, technical provisions).
  - Adequate margin on SCR (Article 327b(1)(e), 327e(1)(e), 327g(1)(c)) – compliance with the SCR should be sufficient; additional internal capital margins are management tools, not regulatory requirements.
  - No limits for intra-group liquidity (Article 327g(1)(f)(vii)) – focus should be on the liquidity position and dependencies of individual entities rather than group transfers.
- Quantitative threshold: Raise the limit from €12bn to €20bn, in line with EIOPA's proposal in the financial stability reporting guidelines.
- Reduced ORSA frequency: Remove the requirement to demonstrate that reduced frequency does not harm the risk management system (Article 327e), as this creates additional burden.
- Reinsurance undertakings: Clarify that Article 29a(1)(a)(v), 29a(1)(b)(vi), and 29a(1)(c)(viii) of the Directive do not apply to reinsurers, so that reinsurance undertakings are not excluded from proportionality measures.

[4] 3. Financial stability reporting EIOPA-BoS-25/223 consultation paper on the following proposals:

- amendments to Implementing Regulation (EU) 2023/894 on supervisory reporting
- amendments to Implementing Regulation (EU) 2023/895 on public disclosure
- revised Guidelines on reporting for financial stability purposes
- revised Guidelines on the supervision of branches of third-country insurance undertakings, 10 July 2025.

- Process for applying/withdrawing measures: Ensure that the application process is not excessively burdensome and that withdrawal of measures does not discourage undertakings from applying (e.g. where long implementation timelines are required).
- Verification of compliance: Clarify how often NSAs should verify proportionality conditions, avoiding overly frequent reporting requirements that would offset burden reduction.

PHRSS

Reference: Article 34a

Industry concern: Industry takes note of the introduction of the simplified calculation for the time-value of options and guarantees (TVOG) or the prudent harmonised reduced set of scenarios (PHRSS).

- **Not an improvement over current practice**: Companies currently using a deterministic approach (PDV) may lose this proportionality measure and face more burdensome requirements.
- **Key issues with PDV framework**:
  - *SCR as materiality threshold*: The SCR is unsuitable, as it covers both life and non-life businesses and lacks a clear calculation basis.
  - *SCR as volume measure*: Linking applicability of PDV to the SCR is inappropriate; a measure more directly tied to TVOG, and determined alongside the BEL, would be more logical.
  - *Double counting*: The wording of Article 34a(2)(a) risks double counting of TVOG under PDV.
- **Competitiveness concerns**: In markets with many composite insurers (e.g. Hungary), the proposed approach may create significant competitive disadvantages through higher capital requirements and more complex processes.
- **Increased burden vs. proportionality**:
  - Companies using deterministic valuation will have to re-apply[5] for proportionality under Article 327f.
  - Even if granted, they must calculate PHRSS, which is more burdensome than their current approach.
  - Application processes are resource-intensive, and proportionality may be reduced compared to today.
  - The production of the PHRSS data will be very burdensome for EIOPA, too. This is a wrong prioritisation of EIOPA's capacities given that EIOPA will have to publish more interest rate data due to the changes on extrapolation, volatility adjustment and interest rate risk, and EIOPA already stopped the production of interest rate data for important currencies such as the Turkish Lira.
- **Unclear legal basis**: EIOPA's move to make stochastic valuation the default stems from guidelines[6] (Level 3), not from the Directive or Delegated Regulation. It is questionable whether such a change should be introduced outside the political process.
- **Lack of published PHRSS**: Companies cannot assess compliance with Article 327f(1)(f) as PHRSS has not yet been published. Transitioning to stochastic approaches takes years, and the absence of guidance leaves companies unable to prepare in time.
- **Irrelevant conditions in Article 327f**:
  - *Non-life market share (5%)*: A non-life company with a small life portfolio (immaterial TVOG) may still be forced into stochastic valuation.

[5] Art. 29sexies (3) SII directive.

[6] Guideline 53A – use of stochastic valuation EIOPA-BoS-22/217 Guidelines on Valuation of Technical Provisions.6 July 2025.

- *Life technical provisions < €12bn*: Large portfolios (e.g. unit-linked) may have immaterial TVOG, yet fall under stricter requirements.

Insurance Europe proposal:

- Only technical provisions for products with financial options and guarantees should be considered when assessing TVOG proportionality.
- Finally, Article 34a(1) talks about SNCUs only while the new Article 327f talks about applying PDV by non-SNCUs. Although legally correct, the industry suggests a reference to Article 327f in Article 34a(1).
- Typo: in (29) the reference to the relevant article is missing. Only the text "is amended as follows" is written. It is assumed that there should be a reference to Article 117.

RSR frequency

Reference: Article 327b(4)

Industry concern:

- The conditions for reduction of the Regular Supervisory Report (RSR) frequency (Delegated Regulation Article 327b) for non- SNCUs is unduly restricting the scope of Article 29c, directive, as one of the conditions is as small as a SNCU (Article 327b(1)(c)), thus restricting automatic application of proportionality measures to SNCUs.
- The exception in paragraph 327b (4) should not only apply to the quantitative thresholds in point c), but also to the complexity criterion in point b). This would ensure that supervisory authorities retain sufficient discretion under the supervisory review process to assess the overall risk profile. The three-year frequency would be aligned with the European Commission's strategy to reduce reporting burdens.

Simplified calculation

Reference: Article 89a

Insurance Europe proposal:

In line with Article 109 of the SII-Directive, the option of simplified calculation should not exclude the market risk module and its sub-modules.

Proportionality at group level

Reference: Article 35

Industry concern: Many proportionality measures for SNCUs in groups, that do not meet the overall definition of a Small and Non-Complex Group (SNCG), lead to practical challenges, particularly regarding reporting and planning requirements at group level. While exempt from these requirements at entity level, SNCUs must still comply indirectly with all group-level requirements. These challenges apply most proportionality measures for SNCU, including RSR frequency (Article 35 para 5a), exemption from QRT/item-by-item reporting (Article 35a para 2) and many more.

Insurance Europe proposal:

To address these issues effectively, it should be allowed at the group level to use historical data for exempted companies or exclude them from consolidation in reports or plans.

25. Other Pillar 2 topics

Reference: Article 41 and 271

Industry concern:

- The possibility of combining internal audit with other key functions in exceptional cases is deleted.
- In effect, the current paragraph 2 of Article 271 will be replaced by the current paragraph 3. However, there are no objective reasons for this change. The newly introduced Article 41(2a) of the Solvency II Directive aims to simplify requirements by allowing SNCUs to automatically combine the three key functions of risk management, compliance, and actuarial. This automatic combination is intended to reduce the burden on SNCUs.

Insurance Europe proposal:

- For all other undertakings, or even for SNCUs, this change should not imply that the internal audit function can no longer be combined in exceptional cases. Such a restriction would represent a tightening of the existing framework and was not foreseen in the legislative process of the Directive.
- In line with Article 41(2a) of the Solvency II Directive, the simplification for SNCUs should not be granted automatically, but – as before – only where compliance with the previous requirements of Article 271(2) of the Delegated Regulation can be demonstrated.

26. Reporting and disclosure

The industry supports the Commission's objective of reducing reporting and disclosure burdens and calls for further streamlining, particularly with regard to the Solvency and Financial Condition Report (SFCR) aimed at market professionals and for the RSR to limit descriptions to material elements. Particularly in view of the fact that the SFCR is hardly consulted by the public yet remains burdensome to prepare given the considerable effort required for limited actual use.

SFCR:

Reference: Chapter XII: Public Disclosure

Industry welcomes the proposed allowance to include links in the SFCR (Article 290), the standardised definition of SCR and Minimum Capital Requirement (MCR) (Article 292 (3)).

Industry concern:

- However, concerns remain that other proposed requirements continue to be overly burdensome relative to their limited use and added value.
- It should be clarified in the Delegated Regulation that the new requirements and structure of the SFCR shall be applied as from 2028 (on the basis of year-end 2027 data) to avoid any uncertainty on when they should be applied. This is also necessary as these requirements are overly burdensome.
- The policyholder section still exceeds its intended purpose. In particular:
    - The content requirements under Article 292(2)(c) and (e) largely duplicate information already disclosed in financial statements.
    - The information required under Article 292(2)(f) — on underwriting and investment performance — and Article 292(3)(a–c) — on Solvency Capital Requirement, Minimum Capital Requirement, and risk of non-compliance — is too complex and not relevant for policyholders. Clear disclosure of coverage ratios would be more appropriate.

- Link to transition plans under Corporate Sustainability Reporting Directive (CSRD) raises several questions, especially if undertaking is not in scope of the CSRD (Article 292 (4)).

- **Professional part of SFCR** (Article 1, point 87, article 297) was reshuffled and expanded, leading to further burden and costs for companies. The changes include addition of sustainability, LTE, sensitivities – related information. In addition, for sensitivities the VA is expected to remain constant. Furthermore, the reference to Regulation (EU) 2023/2859 in article 291 paragraph 1 (a) is critical as it correlates to the development and implementation of European Single Access Point (ESAP). Regarding the requirements relating to sustainability in article 296 paragraph 1 (a), (b) the industry refers to its comment relating to the SFCR part addressed to policyholders and beneficiaries.
- **Article 297**
  - **Article 297 (2)(h):** the requirement should be refined, clarifying that the split refers to the total contributions of Standard Formula modules and Internal Model categories to the diversified SCR and does not refer to showing stand-alone SCR figures for all single elements. Further, as part of the amendment of the ITS on reporting, QRT 25.05 should be amended to also reflect this information there, i.e., two items to be added: one reflecting the total contribution of SF modules to the diversified SCR, the other reflecting the total contribution of IM categories to the diversified SCR.
  - **Art. 297 (1) (e) & (f) and (2) (d) & (e)**: the impact of using the VA/MA should not be disclosed. The VA and MA are an integral part of the Solvency II framework and were introduced to combat excessive volatility due to the market value approach. The publication of Solvency II-results without the VA/MA can lead to an undue loss of said mechanisms in the view of the public and consequently lead to a shadow SCR without VA/MA. It is noted that the NSA already receives this information.
  - **Art 297(2) 2nd and 3rd subparagraph:** The Expansion of requirements for companies subject to **reporting for financial stability purposes**, particularly sensitivity analyses (Article 297(2)) goes far beyond Level 1. A separate quantitative analysis must be conducted for each individual scenario (a) through (h). The proposed sensitivities are arbitrary and not based on any specific calibration. From a risk management perspective, these sensitivities therefore offer no added value. In practice, implementing this requirement can lead to considerable effort, while the usefulness is questionable.
    - The instruction to exclude the VA in the event of spread changes is flawed. Spread changes directly affect the VA, as well as the CCSR and risk-corrected spread, and should therefore be reflected in the analysis. Excluding them would lead to misleading results for users. Additionally, in conjunction with the publication obligation, this requirement implies an additional capital requirement.
    - Further, the upwards shocks for equity and immovable properties are irrelevant
    - If these sensitivity analyses are introduced, to ensure a level playing field and to have consistent calculations, EIOPA should publish the required interest rate term structures for the scenarios prescribed in article 297 paragraph 2, third subparagraph, point (c) and (d). The Delegated Regulation should include a provision that such publications are required.
  - **Article 294 (2) (disclosures on outsourced activities)** It is questioned whether information about the service provider needs to be included in the SFCR. This information is appropriately provided in the RSR and is not deemed relevant for the readers of SFCR. In fact, for various reasons, it may even be inappropriate to disclose this information publicly.
  - **Article 297(5):** The wording on liquidity risk and risk concentrations should be clarified. It is unclear whether liquidity risk should be included in D.6 (risk-mitigation techniques) or D.7 (material risks not captured by the SCR). A clearer and more consistent approach would be to move liquidity risk to D.7 rather than addressing it in multiple sections.

- **Article 297(6):** The previous structure of the requirements on risk mitigation was clearer and more appropriate for the intended audience in terms of readability and should be retained.
- **Article 297(7):** The drafting should be refined. It is not clear whether both qualitative and quantitative information on exposures are required. The current wording ("the SFCR shall contain … the exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles") is too imprecise and could be read as requiring disclosure of quantitative risk exposures, which would be excessively detailed. Suggested amendment: "*The SFCR shall contain both quantitative (…) period, as well as information on the risk exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles*."

- **Article 297a** should be revisited in light of the sustainability omnibus package and the proposal to delay the RTS on sustainability risk plans. The inclusion of disclosures in the SFCR should not go beyond Level 1 requirements.
  - Professional stakeholders should not be confused by multiple sustainability disclosures that may be similar, but not identical. Therefore, Article 297a paragraph 1 and 2 shall be removed. Sustainability risks are best placed in the ORSA instead of the SFCR. Any publication in the SFCR could lead to misunderstandings in relation to European Sustainability Reporting Standards (ESRS) sustainability statements by those insurers that fall in the scope of the CSRD. Against this background, it would be more effective to bundle sustainability requirements in one place rather than generating additional requirements in the Solvency II requirements. The ORSA covers sustainability risks, if material, and measures to address these risks, and thereby should be sufficient to cover the sustainability risk plan reporting. No other reports should duplicate these reporting requirements.
  - The requirement of article 297a (3) is overlapping with the CSRD report. Therefore, it is questionable whether this requirement necessary under the SII legislation given redundancies.
- **Sustainability & climate risk** (Articles 292, 294, 296, 297a) and alignment with other frameworks: there is a fundamental concern that the draft delegated act progresses without clear definitions or alignment with other reporting frameworks (e.g. CSRD). Without this, the scope and impact of the changes cannot be properly assessed. The industry therefore proposes removing references to sustainability risks where detailed requirements are not yet available.
  - Additional SFCR disclosures: Articles 292(3d), 294, 296 and 297a introduce sustainability risk disclosures within the SFCR. While the industry supports transparency on material risks, these are already reported in the ORSA and CSRD. Adding them again in the SFCR in a different format would create significant additional burden without clear added value for users.
  - Terminology inconsistency: The Delegated Acts use "climate-related risks" and "sustainability risks" seemingly interchangeably. This inconsistency creates uncertainty regarding the scope of analysis and disclosures and should be clarified.
- **Article 294 (2) (disclosures on outsourced activities)** It is questioned whether information about the service provider needs to be included in the SFCR. This information is appropriately provided in the RSR and is not deemed relevant for the readers of SFCR. In fact, for various reasons, it may even be inappropriate to disclose this information publicly.
- **Group SFCR**: Ambiguity in Article 359: there is uncertainty about whether groups must publish the SFCR section for policyholders. Article 359, which addresses the structure of the Group SFCR, references only Articles 293-298, which outline content requirements for market professionals. Notably, Article 292, which includes reporting requirements for policyholder and beneficiary information, is not mentioned. However, Article 290 is cited, stating that information from Articles 292 to 298 should be disclosed. This should be clarified to ensure that group disclosure is limited to market professionals.
- **Art 301**:

- **Article 301(6):** This paragraph requires undertakings to submit the exact website location of the SFCR together with the information referred to in Article 304(1)(d). Since Article 304(1)(d) covers both annual and quarterly QRTs, it is unclear why the link should also be provided with the quarterly submissions. It should be clarified that the link is to be submitted only with the annual quantitative templates. In addition, the deadlines for SFCR disclosure and the submission of quantitative templates differ, which means that in practice the link will often be submitted before the SFCR is actually published.
- **Article 301(7):** The last sentence could be read as making undertakings responsible for information disclosed by EIOPA or supervisory authorities. This should be clarified so that undertakings are responsible only for the accuracy of the data they themselves disclose.
- **Article 301(5):** The requirements on format and search function remain unclear and need further clarification.

Insurance Europe proposal:

- It should be clarified in the Delegated Regulation that the new requirements and structure of the SFCR shall be applied as from 2028 (on the basis of year-end 2027 data) to avoid any uncertainty on when they should be applied.
- **SFCR Policyholder section (Article 292):**
  - **Paragraph (1) (e) & (f) and (2) (d) & (e)**: Delete disclosures on the VA/MA to avoid misunderstanding by the public. Reporting to the NSA is sufficient.
  - Avoid duplication with financial statements by removing Articles 292(2)(c) and (e).
  - Replace complex disclosures under Articles 292(2)(f) and 292(3)(a–c) with a simple, clear disclosure of solvency coverage ratios.
  - Clarify that the policyholder/beneficiary section (Article 292) does not apply at group level.
  - Ensure that group SFCR disclosures are limited to market professionals, consistent with the references in Article 359 to Articles 293–298.
  - Avoid ambiguity between Article 290 (general reference to Articles 292–298) and Article 359 by explicitly excluding Article 292 from group SFCR requirements.
- **Article 294(2) – SFCR disclosures on outsourced activities**
  - Remove the requirement to disclose information on outsourced service providers in the SFCR.
  - Keep this information solely in the RSR, where it serves supervisory needs without creating unnecessary public disclosure.
- **SFCR Professional section (Art. 297, 297a):**
  - **Paragraph 2(h):** Clarify that the split refers only to the total contributions of Standard Formula modules and Internal Model categories to the diversified SCR and does not require stand-alone SCR figures for individual elements.
    And, amend the Implementing Technical Standards (ITS) on reporting to adapt QRT 25.05, adding two items:
    - total contribution of SF modules to the diversified SCR,
    - total contribution of IM categories to the diversified SCR.
  - **(2) 3rd subparagraph:** delete the sensitivities to avoid unnecessary burden.
  - **Paragraph 4:**
    - Delete bullets (c)–(g) from Article 297(4).
    - If this information is considered necessary, it should be included in the **RSR**, or referred to in the **ORSA**, rather than in the SFCR.
  - **Paragraph 5 (liquidity risk and risk concentrations):** Provide clearer definitions and streamline the requirements. Liquidity risk should not be spread across several sections (D.5, D.6, D.7). A more consistent approach would be to cover liquidity risk under D.7 (material risks not captured by SCR).

- **Paragraph 6 (risk-mitigation):** Retain the previous structure, which was more appropriate and easier to follow for the target audience.
- **Paragraph 7 (off-balance sheet positions / special purpose vehicles):** Refine the wording to avoid excessive detail. The SFCR should not require full quantitative disclosure of risk exposures. Suggested amendment:
  - *"The SFCR shall contain both quantitative information regarding the reporting period, as well as information on the risk exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles."*
- **Remove Article 297a(1)–(3)** to avoid duplication and confusion with CSRD/ESRS disclosures.

- **Sustainability & climate risk disclosures (Arts. 292, 294, 296, 297a):**
  - Remove references to sustainability risks until clear definitions and alignment with other frameworks (e.g. CSRD) are available.
  - Ensure sustainability requirements are bundled in one place (e.g. ORSA/CSRD), avoiding duplication across Solvency II.
  - Clarify inconsistent terminology between "sustainability risks" and "climate-related risks."

- **Sensitivity analyses (Art. 297(2)):**
  - Remove the requirement for standardised mandatory sensitivity analyses and their disclosure.
  - If introduced:
    - the VA should be taken into account
    - it should be ensured that additional analyses do not create de facto additional capital requirements through publication obligations.
    - to ensure a level playing field and to have consistent calculations, EIOPA should publish the required interest rate term structures for the scenarios prescribed in article 297 paragraph 2, third subparagraph, point (c) and (d). The Delegated Regulation should include a provision that such publications are required.
- **Article 301**
  - Clarify that the link to the SFCR should be submitted **together with the annual quantitative templates**, not with quarterly QRTs, to ensure consistency with disclosure timelines.
  - Amend paragraph 7 to clarify that undertakings are responsible **only for the accuracy of data they disclose themselves**, not for information republished by EIOPA or national supervisors.
  - Provide clear guidance on the **format and search function** requirements in paragraph 5.

RSR:

Reference: Chapter XIII: Regular Supervisory Reporting

Industry concern:

- While the structure appears feasible, the extent and complexity of the reporting requirements remain burdensome for undertakings.
- **Article 305:** The EC should introduce the definition of materiality and material changes.
- **Article 304-311/Article 372:** Only material descriptions should be required for the RSR topics (EC is currently requiring a full description for a whole series of topics, including AMSB, remuneration entitlements, requirements regarding skills knowledge and expertise, risk management system, risk management strategies, ORSA process, internal audit etc). This is extremely burdensome and unnecessary and goes against the EC's objective to reduce the operational burden for undertakings by 25%.
- **Article 307:**

- **Article 307(1)(b):** it should be noted that the reference to Regulation (EU) 2023/2859 in article 291 paragraph 1 (a) is dependent on the development and implementation of ESAP, which is introducing uncertainty.
- **Article 307(2d):** While it is welcome that the comparison of underwriting performance (planned vs. actual) and information on reinsurance programmes is no longer required, the new requirement to provide projections of underwriting performance by **material line of business and geographical areas** is highly burdensome and would significantly increase the reporting effort.
- The industry therefore proposes to **keep the current requirement** under Article 307(2d):
  - "projections of the undertaking's underwriting performance, with information on significant factors that might affect such underwriting performance, over its business planning time period."
- If a change is unavoidable, explicit clarification should be added that this does **not require a Solvency II line-of-business breakdown**. Suggested clarification:
  - "2. The regular supervisory report shall include all of the following qualitative and quantitative information regarding the underwriting performance of the insurance or reinsurance undertaking, as shown in the undertaking's financial statements: […] (b) projections of the undertaking's underwriting performance by material line of business (not by SII lines of business) and material geographical areas (...)."
- Although the requirement specifies that information should be reported "as shown in the undertaking's financial statements," there is a risk that local regulators may still demand Solvency II line-of-business detail, as is already the case in Germany. This would create **inconsistent reporting across the EU** and impose an **unreasonable burden**, since planning processes are not designed to produce data at such granular Solvency II levels.

- **Article 308 (6)(&)(iii):** the wording of the requirement "any information on outstanding material issues" needs to be clarified. There is a distinction between "material issues" and "material findings," making it unclear what specific information is expected. It is requested to clarify the meaning of "material issues" as opposed to "material findings."
- **Art 310 (2)**: The extension of the scope of reporting to include sensitivity analysis and back testing is seen critical and should be removed.
- **Article 312:** Industry supports the provision in the amended stating that where there is no requirement to submit a regular supervisory report for a given financial year, undertakings are only required to report on material changes if such changes occur. However, the existing requirements for the annual SFCR, annual ORSA, RSR report every three years, as well as supplementary national reporting of events of material significance to the authorities, ensure that NSAs and other authorities are provided with sufficient information about the company to be able to carry out effective and appropriate supervision. Against this background, the requirement to report on material changes in the interim years for the RSR should be removed entirely as it creates unnecessary administrative burden. If this is not removed, the current wording should be clarified to ensure that the obligation to submit information in years without a RSR applies only where material changes have actually occurred. In the absence of such changes, no interim report should be required. This would reduce unnecessary reporting burdens and allow for some proportionality.
- **Art 313:** The requirements raise questions regarding the form and search function. In addition, the reference to Article 304(1) should be narrowed to **Article 304(1)(b)**; otherwise, SFCR, ORSA and QRT would also be covered, which is not intended. For example, the SFCR already has separate requirements on means of disclosure under Article 301.
  - Without such clarification, it is unclear whether the SFCR can continue to be prepared in the same electronic format as before (as foreseen in Article 301), or whether undertakings would need to submit it in a different format together with the RSR. It is also unclear whether the requirement refers solely to specific PDF formats (e.g. A-3A Iso) mandated by supervisory submission portals.

- Requiring undertakings to prepare the same report in multiple technical formats would significantly increase the reporting burden without adding value.

Insurance Europe proposal:

- The industry calls for - references to materiality and material changes to be introduced.
- **Article 307**
  - Maintain the current wording of Article 307(2)(d) (projections of underwriting performance with significant factors), without adding burdensome requirements by line of business and geographical area.
  - If a change is unavoidable, clarify explicitly that the requirement does **not** refer to Solvency II lines of business but only to **material lines of business as shown in the undertaking's financial statements**.
  - Ensure that local regulators cannot impose more granular Solvency II line-of-business reporting, which would create inconsistency and disproportionate burden.
- **Article 308(6)(iii)**
  - Clarify the terminology by replacing "outstanding material issues" with a clear, consistent reference such as **"outstanding material findings"**, or provide a definition of "material issues" to avoid ambiguity.
- **Article 310(2)**
  - Remove the proposed extension of scope to include **sensitivity analysis and back testing** within the RSR. These requirements go beyond Level 1 and would create excessive burden.
- **Article 312: Remove the requirement** for interim reporting of material changes in years without an RSR, as other reporting obligations (annual SFCR, annual ORSA, triennial RSR, and national event reporting) already provide supervisors with sufficient information.
  If not removed, **clarify** that interim reporting is required **only where material changes have actually occurred**, with no obligation to submit a report in the absence of such changes.
- **Article 313**
  - Specify that the reference to Article 304(1) should be limited to **Article 304(1)(b)** to avoid inadvertently extending disclosure requirements to the SFCR, ORSA, or QRT.
  - Clarify that the SFCR can continue to be submitted in the electronic format foreseen under **Article 301**, without the need for separate or additional formats.
  - Avoid requiring undertakings to prepare the same report in multiple technical formats, as this would significantly increase reporting costs without added value.

Industry concern: For internal model users, the reporting process of the standard formula estimate should be determined individually between the undertaking and its supervisor.

Insurance Europe proposal:

The following wording to Article 311(2) (b), with amendments in tracked changes:

"an estimate of the undertaking's Solvency Capital Requirement determined in accordance with the standard formula, pursuant to Article 112(7) of Directive 2009/138/EC, in a format agreed with the national competent authority, ~~where the supervisory~~ if that authority requires the undertaking to provide that estimate in the regular supervisory report ~~pursuant to Article 112(7) of Directive 2009/138/EC~~;"

Single RSR

Reference: Article 372a

Industry concern:

- The new provision enabling a single RSR is welcome.
- However, it is unclear whether undertakings that experience material changes can also be included in the single RSR, since Article 372a(2) refers only to Articles 307–311 and not to Article 312.
- This lack of clarity could lead to inconsistent application across Member States.

Insurance Europe proposal:

Clarify that undertakings with material changes, as referred to in Article 312, can also be included in the single RSR.

SFCR/RSR – language requirements

Reference:

- Chapter XII: Public Disclosure
- Chapter XIII: Regular Supervisory Reporting

Industry concern:

- The language requirements (Article 292, 298a(1), 366(3), 374) are highly burdensome. An English version should be deemed sufficient in the international context.
- **Policyholder requests:** Companies doing cross-border business would need to provide, upon request, a translated executive summary of the SFCR. As SFCRs are rarely read by policyholders, the likelihood of such requests is very low. Companies are requested to provide policyholders with a machine translation, which could be easily done by themselves, so the additional burden on companies brings no clear benefit.
- **Requests from foreign NSAs:** Foreign NSAs may request a translated version of the SFCR or RSR. Unlike for policyholders, it appears there is no allowance for machine translation, implying costly official translations. While NSAs cannot be expected to know all EEA languages, English is the lingua franca in insurance and finance, and supervisors can reasonably be expected to be proficient. Translation requests should therefore be limited to English or alternatively a language understood by the relevant NSAs with the agreement of the insurance company or group.
- **Multilingual countries**: In countries such as Belgium, strict local language laws apply. Undertakings generally publish in Dutch, French or both, depending on their location; none publish in German. Even insurance legislation is not translated into German. Undertakings located in a certain region often lack knowledge to provide additional translations of other official languages. Requiring companies to cover all national languages would worsen staffing challenges. It should therefore be avoided that foreign NSAs can request translations into official languages. By contrast, requiring an English version where necessary, would be a more reasonable and proportionate solution.

Insurance Europe proposal:

If translations are requested, it should be sufficient for (re)insurance undertakings to provide English versions. It should therefore by avoided that foreign NSAs can request translations into official languages.

27. Group solvency calculation

Group minimum SCR

Reference: Directive Article 230

The Commission is bound by the Level 1 compromise (Article 234) to specify in Level 2 the application of the group minimum SCR. This clarification is essential to eliminate non-economic double counting of risks in intermediate insurance (holding) companies and third-country entities, which disproportionately impacts EU-based international groups due to their vertical structures.

Industry concern: The non-economic double-counting of third-country risks in the Group minimum SCR is not part of any other regime in the world and would unfairly disadvantage European groups.

Insurance Europe proposal:

A clarification should be added that no exposures are to be double counted when aggregating solo MCR amounts. Furthermore, local requirements of third-country entities should not be double counted if undertakings can demonstrate that these risks are already fully reflected in the minimum capital requirements of an EEA parent, to the satisfaction of supervisory authorities.

Add a new recital and new Article 341a:

- Recital 31b:

  "When calculating the minimum consolidated group Solvency Capital Requirement, risks and exposures should be captured only once to avoid double counting. Capital should be held only once, as risks disappear from the group irrespective of holding structures when the underlying entity or policy ceases to exist."

- Article 341a:

  "Where applicable, the minimum consolidated group Solvency Capital Requirement determined in accordance with the requirements set out in the second subparagraph of Article 230(2) of Directive 2009/138/EC shall be the sum of amounts referred to in points (a), (b) and (c), unless the participating undertaking can demonstrate to the satisfaction of the supervisory authority that the risks borne by related third-country insurance and reinsurance undertakings are already taken into account in the contribution of another insurance and reinsurance undertaking established in the EEA for an equivalent amount in (a) or (b)."

Minority interests

Reference: Article 330(4a)

Insurance Europe proposal:

In line with the current Guidelines on group solvency (Guideline 14 - Treatment of minority interests for covering the group solvency capital requirement, pg. 8/15), the industry proposes an amendment (in red) to the text of Article 330(4a)(a):

4a. The amount of minority interest in a subsidiary exceeding the contribution of that subsidiary to the group solvency referred to in paragraph 4, point (a), shall be calculated by multiplying the amount referred to in point (a) of this paragraph by the factor referred to in point (b) of this paragraph:

(a) the difference between the ***consolidated*** *contribution of the subsidiary undertaking to the group Basic Own Funds, net of non-available own funds items, and the contribution of the subsidiary undertaking to the group Solvency Capital Requirement.* ~~*the difference between the total eligible own funds of the subsidiary net of intragroup subordinated debt and ancillary own funds, and the higher of the following:*~~

~~*(i) the contribution of the subsidiary undertaking to the group Solvency Capital Requirement referred to in paragraph 6;*~~

~~*(ii) the total amount of non-available own fund items other than minority interests from the subsidiary undertaking, net of intragroup subordinated debt and ancillary own funds;"*~~

Joint Ventures

Reference: Recital 51, Art. 335 (1)(c)

Industry concern: Recital 51 of these Draft Amendments of the Delegated Acts indicate a change of the DA permitting a consolidation of joint ventures via the equity method. However, the Draft Amendments of the Delegated Acts do not foresee this change in Art. 335 (1) (c).

Insurance Europe proposal:

Amend Article 335(1)(c) to explicitly allow consolidation of joint ventures via the **equity method**, in line with Recital 51.

Classification of Own Funds items at group level

Reference: Article 331, 332 and 333

The proposed amendments to Articles 331(1)(b), 332(1)(b) and 333(1)(b) include the introduction of the wording "*including within the meaning of Article 222(6) of Directive 2009/138/EC*."

Industry concern: These cases should not be considered encumbrances (and therefore entirely unavailable to the Group), but rather as Own Funds items to be subject to the transferability test. In fact, an Own Funds item that is not available to cover risks and losses of other Business Units should be able to contribute to the Group's SCR up to the contribution to the SCR of the company itself (as is currently the case, for example, for Surplus Funds and net deferred tax assets).

Determination of consolidated data

Reference: Article 335

Insurance Europe proposal:

The industry asks for deletion of the reference to "*holding companies of third-country insurance and reinsurance undertakings*" that has been introduced in Article 335(1), item (a) and in Article335(4).

Simplified calculation for participations in immaterial related undertaking

Reference: Article 336b

Industry concern: Industry highlights concerns regarding the narrow scope, which essentially limits any simplified approach to just using the Standard Formula Equity Module mechanism (complemented by market risk and currency risk modules). Companies are already using more sophisticated methods, and this should not be restricted.

Insurance Europe proposal:

The DA should remain open for a range of approaches, including modern methods.

Calculation of the consolidated group Solvency Capital Requirement

Reference: Article 335, 336

Industry concern: Participations in entities that manage infrastructure, usually between 20% and 50% do not diversify with the rest of the portfolio, while investments less than 20% (non-participation) or greater than 50% (subsidiaries) do diversify. This inconsistency and disproportionate treatment discourages undertakings from holding participations within this range, potentially leading to inefficient capital allocation and an unbalanced risk assessment.

Insurance Europe proposal:

Insurance Europe proposes to amend the treatment of participations for diversification purposes to ensure undertakings are not penalised for holding participations between 20% and 50%, promoting a more coherent and risk-reflective regulatory environment.

Industry concern: In addition, in the proposed text of Article 336, the current paragraph c has been removed, which would mean that the contributions of reference undertakings (credit institutions, investment firms, financial institutions, AIF managers (AIFMs), UCITS management companies, Institutions for Occupational Retirement Provision (IORPs), non-regulated undertakings carrying out financial activities) to the group SCR would need to be calculated in accordance with article 336 (c) (revised), rather than in accordance with the provisions of the revised article 228 of the Solvency II Directive. Therefore, there appears to be an inconsistency between the Directive and the Delegated Regulation.

Insurance Europe proposal:

Insurance Europe proposes to reestablish a consideration of reference undertakings from the financial sectors in their contribution to the group SCR which is consistent with the Directive.

28. Stress test disclosures

Reference: Directive 2025/2 Article 64

Industry concern: The amended Article 64 of the Solvency II Directive establishes that professional secrecy requirements do not prevent supervisory authorities from publishing stress test results or sharing them with EIOPA for the purpose of EU-level publication. However, the insurance industry considers that the individual publication of stress test results is neither necessary nor appropriate.

Insurance Europe proposal:

Industry calls for a provision in Level 2 necessary to introduce safeguards to ensure that stress tests do not become pass/fail exercises creating additional capital and disclosure requirements that undermine the existing Solvency II requirements and core features, such as long-term guarantee measures (permanent features of the Solvency II framework).

Industry also emphasises that publishing the results may **go against Article 28 of the Solvency II Directive**, which addresses financial stability and procyclicality.

- This article states that, without prejudice to the primary objective of supervision outlined in Article 27, "Member States shall ensure that, in the exercise of their general duties, supervisory authorities shall duly consider the potential impact of their decisions on the stability of the financial systems concerned in the European Union."
- Making such results public could inadvertently amplify market volatility and undermine the directive's intent to safeguard financial stability.

29. Natural Catastrophe (NatCat) risk in the standard formula

Reference: Article 123 and Annexes

Industry concern: Industry highlights an apparent error in the proposed amendment to Article 123 (7) for flood risk. Here the **sum-insured parameter for motor business** is increased from the factor of 1.5 to 10. EIOPA's opinion only proposed an amendment to this parameter for hail risk (from a factor 5 to 10). The hail risk change is reflected in the proposed amendment Article 124 (7) but appears to be copied in error to Article 123 (7). A change to this parameter for flood risk was not advised and is not supported. If this error is introduced, it would create significant unintended consequences across the market.

As per Insurance Europe's response to the EIOPA consultation of their opinion:

- Industry supports the proposed recalibration for:
  - Flood - Denmark
  - Hail - France
- Industry does not support the recalibration for:
  - Earthquake – Romania
  - Flood – Sweden, Finland, Netherlands
  - Windstorm – Martinique, St-Martin, La Reunion,
  - Hail – Germany
  - Subsidence – France, Belgium
- Industry does not support the fact that there was no recalibration for:
  - Flood – Poland

30. Other

Data and climate change-related risks

Reference: Articles 20 and 231

Industry concern:

- There is no clear definition of what 'overreliance on data from past events' means.
- Making the explicit requirement to create procedures to avoid overreliance on data from past events is equal to elevating only a portion of checks around data and modelling quality that is uncharacteristically selective.

- Reliance on data from past events is a relevant topic in modelling other long-term in nature, non-linear and systemic risks, e.g. longevity, inflation, and interest rate.
- It is unclear why requirements regarding climate-related risks are singled out in a way that suggests that current Solvency II practices that (re)insurance companies have to adhere to are not sufficient.

Insurance Europe proposal:

Instead of addition of the text surrounding the 'overreliance on data from past events', industry proposes instead to not include it in the text of the official regulation but to make it a part of the regular review between (re)insurance companies and their regulators.

System of governance/Notion of diversity

Reference: Article 258 (6)

Industry concern:

- The regular evaluation of the governance system is extended to cover **gender-balance and diversity** of the AMSB.
- This goes beyond Article 1(20) of Directive (EU) 2025/2, which limits the regular evaluation to the **adequacy of the composition, effectiveness and internal governance** of the AMSB.
- Diversity and gender balance are already addressed under the **new requirement for a diversity policy**. The Directive does not foresee a requirement to regularly evaluate this policy.
- Overlaps with the **CSRD/ESRS** framework, where diversity aspects are already addressed, risk duplication.

Insurance Europe proposal:

- Align Article 258 with Level 1 by limiting the evaluation to adequacy of composition, effectiveness and internal governance.
- Remove the reference to diversity and gender balance from the evaluation requirement.
- Two reporting strands (Solvency II governance and CSRD/ESRS) should be aligned, and duplication should be avoided.

Errors spotted

- New Article 51b (1):
  In paragraph 1, there is a wrong position of one bracket in the formula.

- New Article 107a:
  In paragraph 2, the reference should be: 'paragraph 1, point (a) **and (b)**'. In paragraph 3, the reference should be 'paragraph 1, point **(c)**'.

- Amendment to Article 120:
  Industry believes the introduction of new definitions should be an amendment to article 1 of Regulation 2015/35 as all relevant definitions are described here. This would be more consistent. The definitions introduced here are not used anywhere else in the text of the regulation in another manner.

- Amendment to Article 148 (3) (c):
  The EC refers to non-life while this article refers to NSLT underwriting Risk.
  The wording should be adjusted to reflect the actual sub risk module concerned.

- (Apparent) amendment of Article 117:

Item (29) of the amendments lists does not mention the Article of Regulation 2015/35. It appears to be Article 117, and this should be clarified.

- Amendment of Art 189:
  The EC states point g is to be included. The EC should mention the following points (g) and (h) are added.

- Amendment of Article 191(b):
  Industry believes the exposure complies with Article 124(2), point(a)(ii), and Article 124(3) of Regulation (EU) No 575/2013. CRR Article 124(3)(c) and (e) refer to the complex concept of 'property value'. The DR does not need this reference given DR article 191(6). Replace text with: "The exposure complies with Article 124(2), point(a)(ii), and Article 124(3),point(a), (b) and (d) of Regulation (EU) No 575/2013."

- Amendment of Art 192:
  The change to the formula in paragraph 2, second subparagraph not only replaces the applied factor from F' to F''' but also changes the sign of the term '50% · RMre'. There is no technical justification for this change, and it is assumed that this was not the intention of the commission. Therefore, the formula should instead be replaced by the following:
  *'LGD = max[90% · (Recoverables **+** 50% · RMre) - **F'''** · Collateral; 0]'*

  Moreover, in the new paragraph 3f, there is a wrong reference to paragraphs 3e to 3h. There are no paragraphs 3g and 3h. The reference is itself located in paragraph 3f, so that presumably only paragraph 3e should be referenced.

  In addition, (4c), paragraph 5, should be replaced with the following:
  > *"Where the guarantee is provided by a counterparty which is fully guaranteed by one or more of the counterparties referred to in Article 180(2), first subparagraph, points (a) to (d)"*

- Amendment of Article 307:
  The EC mentions that this point replaces article 307. However, in the proposal also article 308 is replaced.

- Amendment of Article 331:
  The title of the new article should be "Article 331" instead of "Article 333".

- Amendment of Article 343(5):
  The reference to Article 239(4) Solvency II Directive seems to be incorrect.

Annex II – LTE industry proposals

With tracked changes (in red) from EC proposed amendments.

Article 171b

For the purposes of Article 171a(1)(a), the insurance or reinsurance undertaking shall be able to demonstrate to the satisfaction of the supervisory authority that it complies with either of the following conditions:

(a) a sufficient amount of particular homogeneous risk groups of the life insurance and reinsurance liabilities, whose ~~modified~~ duration exceeds ~~ten~~ five years after neutralizing incoming cash-flows of the future premiums, are illiquid within the meaning of paragraphs 2; or
[…]
3. The condition referred to in paragraph 1(b) shall be deemed fulfilled where the liquidity buffer calculated in accordance with paragraph 6 is higher than 105 %.
For the purposes of the first subparagraph, the liquidity buffer shall be calculated as the ratio of the value of the portfolio of liquid assets corresponding to non-life insurance activities to the sum of the present value of those cashflows included in the best estimate of non-life technical provisions net of reinsurance corresponding to the 1st five years of cash-flow projection, calculated in accordance with paragraphs 4 and 5.
[…]
4. For the purposes of paragraph 3, the portfolio of liquid assets corresponding to non-life insurance activities shall include Level 1 assets, Level 2A assets and Level 2B assets, held either directly or through investment vehicle within the meaning of this paragraph.

Article 171c

3. For the forced selling test referred to in paragraph 1, point (c), the cash inflows shall only include the value of cash and cash equivalents on the reference date and inflows from the following sources over the time horizon of the projections:

(a) revenues stemming from the sale of the following assets, held either directly, through an investment vehicle ~~over which the insurance or reinsurance undertaking exercises control, or, to the extent of the rights of the undertaking, through an investment vehicle over which another entity within the same group exercises control and in which the undertaking holds units or shares~~:

(i) assets representing claims on of the counterparties referred to in Article 180(2);
(ii) assets that are fully, unconditionally and irrevocably guaranteed by one of the counterparties referred to in Article 180(2), where the guarantee meets the requirements set out in Article 215;
(iii) bonds and loans which have been assigned to credit quality step 0, 1, 2 or 3, excluding bonds and loans issued by a financial sector entity which is part of the same group ~~insurance and reinsurance undertakings or financial sector entities within the meaning of Article 4, point (27), of Regulation (EU) No 575/2013~~;
(iv) covered bonds referred to in Article 180(1) which have been assigned to credit quality step 0 or 1, excluding those which are issued by a financial sector entity which is part of the same group;

When assuming revenues stemming from the sale of bonds, loans and securitisations covering the best estimate of insurance obligations to which the volatility adjustment is applied over the time horizon of the test, the undertaking shall be able to demonstrate to the satisfaction of the supervisory authority that its risk profile does not deviate significantly from the following assumptions underlying the volatility adjustment, even as a result of such sales, including under stressed conditions:

~~(a) the undertaking holds assets that are spread-sensitive, and is exposed to changes in credit spreads;~~
~~(b) the application of the volatility adjustment does not result in situations where the impact of an exaggeration of credit spreads on the assets held by the undertaking is overcompensated by the impact of the volatility adjustment on the best estimate of technical provisions;~~
~~(c) the cash flows arising from insurance liabilities of the undertaking to which the volatility adjustment is applied are sufficiently stable and predictable to ensure that the undertaking is not exposed to the risk of~~

~~forced sale of its assets that are spread-sensitive, and can instead hold on to such assets, including during market turmoil.~~

[…]

5. […]

For the purposes of the first subparagraph, points (a) and (b), the following assumptions shall apply without circumventing diversification assumptions as foreseen in the first subparagraph, points (a) and (b):

(a) capital requirements for market risk and counterparty default risk modules decrease each year of the test, the percentage of reduction for a given year is equal to the decrease in the total projected value of the assets held by the insurance or reinsurance undertaking at the end of the previous year. For each year of the test, the additional cash outflow would correspond to a decrease in the revenue stemming from the loss in value at the point of the sale of projected assets, corresponding to the capital requirements for market risk and counterparty default risk modules multiplied by the ratio of the share of assets projected to be sold over the total projected value of the assets held by the insurance or reinsurance undertaking at the end of the previous year.

(b) in relation to the non-life premium and reserve risk sub-module referred to in Article 115, cash outflows referred to in paragraph 4, point (b) shall be estimated by increasing the relevant cash outflows in each segment s set out in Annex II as follows:

(i) the cash outflows occurring during the first year following the date when the insurance or reinsurance cover begins or is renewed shall be increased by a percentage that is equal to the standard deviations for non-life premium risk of the segments s as set out in Annex II multiplied by three;

(ii) the cash outflows occurring after the first year following the date when the insurance or reinsurance cover begins or is renewed shall be increased by a percentage that is equal to the standard deviation for non-life reserve risk of the segments s as set out in Annex II multiplied by three;

(c) in relation to the NSLT health premium and reserve risk sub-module referred to in Article 146, cash outflows referred to in paragraph 4, point

(b) shall be estimated by increasing the relevant cash outflows in each segment s set out in Annex XIV as follows:

(i) the cash outflows occurring during the first year following the date when the insurance or reinsurance cover begins or is renewed shall be increased by a percentage that is equal to the standard deviation for NSLT health premium risk of the segment s as set out in Annex XIV multiplied by three;

(ii) the cash outflows occurring after the first year following the date when the insurance or reinsurance cover begins or is renewed shall be increased by a percentage that is equal to the standard deviation for NSLT health reserve risk of the segment s as set out in Annex XIV multiplied by three.

Article 171d

~~*"1. The funds referred to in Article 105a(2) of Directive 2009/138/EC shall belong to one of the types of collective investment undertakings or alternative investment funds referred to in paragraph 2 of this Article.*~~

~~*2.*~~ *1. The types of collective investment undertakings referred to in Article 105a(2) of Directive 2009/138/EC ~~and alternative investment funds referred to in paragraph 1~~, which are identified as having a lower risk profile, shall be the following:*

(a) European long-term investment funds pursuant to Regulation (EU) 2015/760;

(b) qualifying social entrepreneurship funds as referred to in Article 3, point (b), of Regulation (EU) No 346/2013;

(c) qualifying venture capital funds as referred to in Article 3, point (b), of Regulation (EU) No 345/2013;

(d) closed-ended alternative investment funds managed by authorised EU AIFMs, which have no leverage calculated in accordance with the commitment method set out in Article 8 of Delegated Regulation (EU) No 231/2013.

(e) Collective investment in transferable securities pursuant to Regulation (EU) 2009/65.

(f) Alternative Investment Funds (AIF) as referred to in Article 4 par. 1 (a) EU 2011/61/EU.