Insurance Ireland's
contribution
to the

European Commission [public consultation on Insurance & reinsurance firms – review of prudential rules (Solvency II Directive)]

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Florian Wimber
Head of European Affairs and International Insurance
P) +32 493 963623
E) florian.wimber@insuranceireland.eu

Natalie Dillon
Insurance Regulation Executive
P) +353 1 644 7796
E) natalie.dillon@insuranceireland.eu

Explanatory Note:

Insurance Ireland wants to express its disappointment that the European Commission (EC) limited the potential input from stakeholders by only allowing for the elaboration and justification of answers if the "right box" was ticked in the multiple choice questionnaire. Insurance Ireland chose to adjust itself to the limitation for some question. Nonetheless, we consider this unnecessary restriction as a backdrop for the EC to assess the full picture of the issues under consultation and a threat to better regulation standards.

This document is an adaptation of the online form provided for by the European Commission. Adjustments have been made to ensure that this document provides a readable version of Insurance Ireland's input.

Where multiple-choice questions are asked, the answer of choice of Insurance Ireland is marked in green. Where an adjustment has been made in the official answer to allow for comments, this has been marked red.

Questionnaire

Section 1: Long-termism and sustainability of insurers' activities, and priorities of the European framework

Question 1: What could be the renewed objectives of European legislation for insurance companies?

On a scale from 1 to 9 (1 being "not important at all" and 9 being "of utmost importance"), please rate, and if possible rank, each of the following proposals.

	1	2	3	4	5	6	7	8	9	Don't know /no opinion
Policyholder protection									**x**	
Financial stability					**x**					
Fostering investments in environmentally-sustainable economic activities which will be defined in the EU taxonomy						**x**				
Fostering long-term investments in the real economy and providing long-term financing to European companies, including SMEs						**x**				
Ensuring a fair and stable single market								**x**		

If you identify other political objectives, please specify them and give a rating of their importance from 1 to 9 for each of them:

The further integration of the EU single market for insurance should be a key objective of Solvency II (SII). While closely linked to the last point on the list of suggested objectives *(“ensuring a fair and stable single market”*), we believe that the European Commission (EC) should emphasise the aim of more integration. Improving and enabling regulatory and supervisory convergence and consistency should be an overarching aim of SII. If added, the Irish insurance industry ranks this objective with “9”.

In addition, to the further single market integration, ensuring that the EU insurance industry remains competitive at global level should also be an objective of SII. This objective should be ranked at “8” in line with the other objectives set by Art. 28 SII Directive.

Question 2: In light of market developments over the recent years, in particular the low or even negative interest rates environment and the Covid-19 crisis, what should be the priorities of the review of the European legislation for insurance companies?

On a scale from 1 to 9 (1 being “low priority” and 9 being “very high priority”)? Please rate, and if possible rank, each of the following proposals.

	1	2	3	4	5	6	7	8	9	Don't know /no
Ensuring that insurers remain solvent				x						
Ensuring that insurers' obligations to the policyholders continue to be fulfilled even in the event that they fail							x			
Ensuring that there are no obstacles for insurance companies to invest in accordance with the objectives of the Capital Markets Union, i.e. fostering insurers’ long-term financing of the European economy, including SMEs									x	
Facilitating insurers' ability to offer (sufficiently) high returns to policyholders, even if this implies taking more risks								x		
Facilitating insurers' ability to offer products with long-term guarantees									x	
Ensuring that insurers do not face liquidity issues (i.e. that they have sufficiently liquid assets) to meet at all times short-term obligations			x							

Preventing the build-up of systemic risk and ensuring financial stability				x						

If you identify other priorities, please specify them and give a rating from 1 to 9 to each of them:

In line with other stakeholders, Insurance Ireland understands that this question is not about the general importance of certain objectives but about whether and how/where the existing regulatory framework needs to be improved in order to achieve these objectives.

The further integration of the EU single market for insurance should be a key objective of the review to emphasise this overarching objective of the Directive itself. Improving and enabling regulatory and supervisory convergence and consistency should be an overarching aim of SII and accordingly of this review. The Irish insurance industry supports an ambitious proposal from the European Commission towards the further integration of the EU single market for insurance and ranks this objective of the review with 9.

Also in line with our answer to question 1, we suggest that "ensuring global competitiveness" should be an objective of this review. It is important that current regulatory flaws to the competitiveness of EU insurers are removed and that the review does not create additional threat. Insurance Ireland would rank this objective with 9.

We agree with the additional priorities highlighted by Insurance Europe:

Reducing the unnecessary burdens and costs of the regulation should be one objective of the review, with an importance set at 9.
The overly high costs and strains of SII result in inflated prices for guarantees, which are ultimately borne by policyholders. Increasing operational efficiency can be achieved by:

- making proportionality work in practice
- simplifying & streamlining reporting requirements, in line with the EC's fitness check of supervisory reporting requirements.

Question 3: Have the recent changes to the prudential framework regarding equity investments appropriately addressed potential obstacles to long term investments?

- *Yes*
- *No, the recent changes will not have a material impact on insurers' ability to invest for the long term*
- *Don't know/no opinion*

Please specify what the remaining obstacles are, and how to address them while preserving the necessary prudential safeguards to ensure policyholder protection:

Insurance Ireland appreciates the efforts of the EC to improve the treatment of long-term equity investments under SII (Art. 171a SII Directive). Already during the development of these measures, we expressed the need for a holistic approach. The prescriptive approach taken is insufficient to counter the unnecessary burden which SII puts on insurers' investments. In line with earlier efforts on the review of the treatment of Simple, Transparent and Standardised (STS) Securitisation, positive steps are acknowledged, while the main goals of avoiding disincentives for insurers to invest in the real economy are not fully met.

We believe that this review is the opportunity to review investment obstacles in conjunction with the aims of the Capital Markets Union, the Green Deal and the Next Generation EU initiatives. We would particularly highlight the wide impact which the current miscalibration of the risk margin has in this respect. A review of the current calibration will have a significant impact on insurers' ability to invest, not just in equity, but across the whole spectrum.

In addition, we support the joined industry position as expressed by Insurance Europe. The industry does not support the existing criteria. The recent alternative criteria proposed by EIOPA as part of its Holistic Impact Assessment are also inadequate because the Long Term Equity (LTE) would only qualify for the reduced risk factor under prohibitive conditions. The industry therefore calls for substantial improvements in the existing /proposed criteria, particularly criteria (b) to (f) as these seem to be overly restrictive in the not sufficiently reflecting insurers' investment structures.

We call for a review of the LTE submodule, aimed at addressing the problems raised by the current and EIOPA's proposed criteria and enhancing the likelihood that it would be applied in practice. Only feasible criteria which ensure that equities can be held for a long term should be maintained.

Question 4: Does the prudential framework set the right incentives for insurers to provide long-term debt financing to private companies, including SMEs (i.e. to invest for the long-term in long-maturity debt instruments)?

Please indicate the statements with which you agree.
at least 1 choice(s)

- *Yes, the framework provides the right incentives*
- *No, investments in long-maturity bonds (more than 15 years) should be less costly for insurers, regardless of whether they hold their investments for the long term*
- *No, there should be a preferential treatment for long-term investments in bonds that are held close to maturity, with appropriate safeguards*
- *No, and in order to effectively reduce the cost of investment in bonds, Solvency II should allow all insurers to apply the dynamic modelling of the volatility adjustment*
- *No, and I have another proposal to address this issue*
- *Don't know/no opinion*

Please specify your answer to question 4 (if needed):

The Volatility Adjustment (VA) in its current design had only very limited impact on Irish insurers. The recent capital markets turbulences due to the Covid-19 pandemic an increase of VA levels was observed. The introduction of a dynamic VA (DVA) as used in internal models can provide an efficient measure and its extension to the standard formula could be considered.

Therefore/Nonetheless, we would like to express our support for the joined industry position as expressed by Insurance Europe.

The current standard formula risk charges for corporate bonds are based on the incorrect assumption that insurers may have to sell all their corporate bonds at depressed prices during a crisis. However, insurers typically invest in a specific portfolio of corporate bonds which is tailored to provide income to match their expected claims and expenses. If there is no significant change in the expected claims and expenses, then there is no need for insurers to sell their bonds during a period of crisis. In these circumstances, the insurer does not have to sell the bonds and therefore the short-term price fluctuations are irrelevant as the expected cashflows remain the same. Therefore, the true risk to the insurer in this case is default risk.

The DVA is a tool which enables insurers to reflect their risk-bearing capacity as long-term liability driven investors on their balance sheet. It therefore creates a more realistic assessment of the credit risks to which they are exposed.

DVA modelling is already a widely accepted part of many internal models which model market risk and could easily be implemented in the standard formula by adjusting the SCR spread shock scenario. SII also permits the dynamic modelling of the matching adjustment within the standard formula (Art. 181 SII Delegated Regulation).

Question 5: Do you agree or disagree with each of the following proposed change to quantitative rules in Solvency II?

	Agree	Disagree	Don't know /no opinion
We should make it less costly for insurers to invest in SMEs	**x**		
We should make it less costly for insurers to invest in environmentally- sustainable economic activities and associated assets (so-called "green supporting factor")		**x**	
We should make it more costly for insurers (and therefore provide disincentives) to invest in activities and associated assets that are detrimental to the objective of a climate-neutral continent (so-called "brown penalizing factor")		**x**	

Please explain your reasoning for your answer to question 5 (if needed):

Insurance Ireland appreciates that the EC is including the issue of investments in its review. Rather than aiming at incentivising investments in certain asset classes, we believe that this review presents the opportunity to review investment obstacles holistically and in conjunction with the aims of the Capital Markets Union, the Green Deal and the Next Generation EU initiatives. In this respect, we particularly want to highlight the significant impact which the current miscalibration of the risk margin has on insurers' ability to invest, not just in specific asset classes, but across the whole spectrum.

Furthermore, we express our support for the joined industry position as expressed by Insurance Europe.

With respect to insurers' investment in SMEs:

- The current capital requirements for some SME investments are excessive compared to the actual risk exposure and should be reduced in a risk-based manner.
- Insurers invest in SME in various ways, e.g. via listed and unlisted equity, debt, funds, securitisation and covered bonds.
- Avoiding existing disincentives for insurers to invest will support implicitly investments in SMEs (due to the specific financing mechanisms this will also hold for an improvement of the treatment of equity and debt).

With respect to green/brown factors:

- The industry does not support artificial incentives/disincentives on the basis of green/brown qualifications.
- SII is a risk-based framework. Any differential treatment between green assets or brown assets should be based on the difference in underlying risks.

- Instead of a green supporting factor, the priority should be on ensuring that the outcome of the SII review results in focused changes that help insurers to play a key role in supporting carbon neutrality and economic growth. Please, see answer to Q41.
- Finally, and consistent with investments in SMEs, avoiding existing disincentives for insurers to invest will support green investments implicitly.

Question 6: Does Solvency II appropriately mitigate the impact of short-term market volatility on the solvency position of insurance companies?

- *Yes*
- *No*
- *Don't know/no opinion*

Please indicate how the framework could mitigate the volatility of:

- *fixed-income assets*
- *stock markets*

We would like to express our support for the joined industry position as expressed by Insurance Europe that SII does not provide sufficient mitigation against artificial volatility of insurance companies' solvency position caused by short-term market volatility.

Artificial volatility in SII generally arises where the market consistent approach and 1-year time horizon used to quantify the insurer's solvency position have not been properly adapted to deal with the long-term nature of insurance business. This short-term focus can incentivise insurers to hold bigger capital buffers to protect against the artificial impact of capital market volatility which in turn inhibits the proper allocation of capital across Europe.

The risk margin is a major source of artificial volatility because of its high sensitivity interest rates. To address this and its excessive size, an appropriate lambda parameter should be introduced, there should be increased recognition of diversification at group level and the Cost of Capital rate should be lowered to 3%, in line with evidence provided by the industry.

Further improvements will also be necessary for the other measures with respect to level and consistent application across all markets. In this respect, we particularly would like to highlight the following potential improvements:

- On the Volatility Adjustment:
  - Review current prudent adjustments (risk corrections) which reflect downgrade and default risk,
  - Do not allocate a zero-yield on non-fixed income assets,
  - Remove the technically unjustified 35% haircut to account for a range of unquantified risks which are already reflected in SII.
- On the matching adjustment (MA): EIOPA's proposals to remove the restriction on diversification between MA and non-MA portfolios are welcomed.

Finally, we would like to emphasise that the current extrapolation method for determining the risk-free interest rate curve (including the last liquid point, LLP) is maintained.

Question 7: Does Solvency II promote procyclical behaviours by insurers (e.g. common behaviour of selling of assets whose market value is plunging or whose credit quality is decreased), which could generate financial instability?

- Yes
- No
- Don't know/no opinion

Please indicate how the framework could avoid procyclical behaviour by insurers:

We would like to express our support for the joined industry position as expressed by Insurance Europe that SII does not generally promote procyclical behaviours. It already contains important instruments which counteract procyclicality. However, there is room for improvement to make these instruments fully functional and further reduce potential procyclical effects.

The effectiveness of the VA, a tool to mitigate the artificial impact of artificial volatility in fixed income markets, could be significantly improved. The extent to which a robust VA is needed has not been fully witnessed since the implementation of SII. While some spread widening was experienced during the COVID-19 crisis, this was nowhere near the magnitude of 2008 or 2011 crises.

EIOPA's proposed change to the extrapolation methodology could also create additional procyclicality, because insurers would be incentivised to increase allocations to ultra-long dated bonds or swaps to improve the asset-liability management. The additional demand for these instruments is likely to further lower the RFR curves and increase demand further.

With regard to the interest rate risk submodule, there is a need to better reflect the risk of a low or negative interest rate environment. However, it is imperative that its design and recalibration to avoid a significant and detrimental impact on financial stability as such a change will significantly impact solvency ratios. This can be achieved by introducing a floor and extrapolating the illiquid part of the curve.

Under its current design the Risk Margin, as noted in recent Bank of England Financial stability reports, can encourage insurance companies to reinforce falls (rises) in risk-free interest rates by switching into (out of) low-risk assets.

Question 8: Some stakeholders claim that Solvency II has incentivised insurers to shift investment risk to policyholders. Do you agree with this statement?

- *Yes*
- *Yes, but it is not the most important driver*
- *No*
- *Don't know/no opinion*

Question 9: Do you agree with the International Monetary Fund that public authorities should aim to provide disincentives to the selling of new life insurance products offering guaranteed returns?

	Yes	No	Don't know/no opinion
From the point of view of a policyholder		**x**	
In terms of financial stability		**x**	

Please explain your reasoning for your answer to question 9 (if needed):

It is indispensable that insurers are able to meet consumers preferences and needs in accordance with national regimes and across the EU. A prudential regulatory framework, like SII, should not limit this ability per se. In line with our comments regarding investments, we believe that SII should be risk-based – including the provision of guarantees to customers.

Long-term guarantee can refer to both the amount and duration of the future claim (in some markets insurers can provide a pension for as long as you live). A combination of SII rules and the prolonged low-interest rate environment has adversely affected the ability of insurers to provide products with long-term guarantees.

In consequence, it will be important that SII is reviewed in a manner which does not unduly penalise or disincentivise the provisions of guarantees. Products offering long-term guarantees are an important part of the product mix offered by insurers.

It is therefore crucial that regulatory obstacles are avoided so that pension and long-term investment policies enable insurers to meet the demand for guarantees and allow them to fulfil their important role in tackling the pension savings gap and more generally in channelling more private savings into capital markets. The success of important (national) initiatives, like the introduction of auto-enrolment in Ireland should not be undermined by the calibration of SII. Given the potential for life insurance products to provide savers with simple and less risky access to an appropriate asset mix, policymakers should support industry efforts to make wider use of these products. The review should be used to tackle the most important miscalibrations, e.g. the risk margin or the calibration of the mass-lapse risk.

Question 10: In light of the Covid-19 crisis, have you identified any major issues in relation to prudential rules that you were unaware of or considered of lesser importance prior to the pandemic?

- Yes
- No
- Don't know/no opinion

Please elaborate your answer to Question 10:

[The format does only allow for elaborating this answer.]

Question 11: From the point of view of policyholders, would it be acceptable to waive Solvency II requirements to insurance companies that belong to a group, if the group as a whole is subject to "strengthened" supervision?

- *Yes, it is sufficient for the insurer to rely on the group's wealth*
- *No, it is not sufficient for the insurer to rely on the group's wealth*
- *Don't know/no opinion*

Please explain your reasoning for your answer to question 11 (if needed).
In particular, please specify what a "strengthened" group supervision would encompass:

Group supervision under SII is a major improvement compared to Solvency I. Nonetheless, Insurance Ireland is concerned that there might be a push back towards to Solvency I.

Groups are an integral part of the global competitiveness of the EU insurance industry. The building of groups is consistent with SII objectives (i.e. the policyholder protection and preservation of financial

stability) through the capacity to better access financial markets, with lower premiums and the capacity to better diversify risks geographically and between business classes. SII sets global standards for group supervision and is for a functioning single market. Group operations and the according impact are an enabler for reaching the goals reemphasised in the CMU Action Plan.

An essential part of the group supervisory framework is the recognition of the economic capital management at group level. The availability of profits of the in-force business (i.e. the Expected Profits in Future Premiums, EPIFP) should continue to be recognised in the group own funds by default. Ring-fencing own funds at local level would inevitably clash with the objectives of the single market. Moreover, the diversification of risks between life and non-life businesses should be duly recognised in the group risk margin, consistently with the recognition of diversification within the group SCR. The absence of diversification in the group risk margin is particularly penal for reinsurers whose business model, and capacities provided to direct insurers, relies on this economic diversification of risks.

In its consultation, EIOPA has issued proposals undermining the economic functioning of group capital management. At the same time a few local supervisors are tightening domestic requirements to an extent that questions the effective supervisory coordination between NCAs. That actually means that only solo level matters – a throwback to Solvency I which can hardly be conceived as a progress.

Question 12: Should the European legislation be amended to better take into account insurers' exposure to and interconnectedness with the broader financial sector and the real economy? Please indicate the statements with which you agree.

at least 1 choice(s)

- *Yes, in targeted areas of the framework*
- *Yes, a number of gaps in the framework need to be addressed in areas other than those mentioned in the previous answer (for instance, insurers' significant exposure to specific types of assets)*
- *No*
- *Don't know/no opinion*

Please specify the additional instruments that you would consider, and the type of systemic/financial stability risks that those instruments would aim to address:

We believe that the ability of the current framework to mitigate financial stability risks for insurers is sufficient. We would also like to reiterate that the insurance industry does not present a systemic risk in itself. We believe that the industry is well placed to stabilise financial markets and the real economy in cases of short-term disruption, e.g. during the Covid-19 crisis. To allow insurers to maintain a robust role in the economy, the issues of artificial volatility and procyclicality should be addressed.

With a view to the current discussion, we particulary consider a potential supervisory intervention before SCR breach, counter-cyclical capital buffers, capital surcharge for systemic risk or concentration limits as excessive and counterproductive.

In addition, It is important that the following aspects are duly considered:

- Do not undermine the Own Risk and Solvency Assessment (ORSA) at the expense of comparability: The ORSA is a central tool of the supervisory process and we believe that the ORSA as per definitionem should remain an individual assessment.
- Rely on the Prudent Person Principle (PPP): the industry strongly supports the PPP and does not believe any changes are necessary, i.e. changes or enhancements which would result in rules and restrictions.

- Consider that any liquidity risk management & reporting measures must apply proportionate, focussed on a limited number of insurers and be duly justified. It is generally accepted that liquidity risk is not a primary risk for the wider insurance sector.
- Even where specific circumstances apply, a systematic application of measures across all (re)insurers is not justified. At the very least, local entities should not be required to provide for recovery plans where an EU parent group plan exists.
- Acknowledge that Insurers are not able to identify and address the systemic risk they may pose to the financial system by requiring a systemic risk management plan (SRMP).

Section 2: Proportionality of the European framework and transparency towards the public

Question 13: From the point of view of policyholders, should the scope of small insurance companies, which are not subject to Solvency II be extended?

- *Yes*
- *No*
- *Don't know/no opinion*

Please explain your reasoning for your answer to question 13 (if needed):

Ireland is a small, open economy and a hub for international insurance. As such regulatory consistency and convergence are indispensable for the further integration of the EU single market for insurance, fair competition in the EU and the competitiveness of EU insurers at global level.

We agree with the general industry position as expressed by Insurance Europe that exempting very small companies from costly and overly complex regulation is necessary in the interest of policyholders and in order to preserve their access to a diversified insurance market.

The industry would like to highlight the following benefits for policyholders:

- It lowers the costs of market entriesies for new insurance companies and promotes market and product heterogeneity. In consequence, stronger competition incentivises innovation, fosters the quality of products and lowers prices.
- It reduces the regulation costs for very small companies that can use the additional resources for investments and innovations. Increasing the investment rate will secure the future solvency of very small companies, which will finally benefit policyholders.
- Very small insurance companies are subject to national regulation which might be better tailored to the needs of small, regional insurance companies and their specific policyholders.

Consequently, the industry supports an increase of the thresholds for the application of SII. The thresholds set in Article 4.1.a and 4.1.b of the SII Directive should be changed as follows:

  - €10m for the undertaking's annual gross written premium income [currently €5m].
  - €50m for the total of the undertaking's technical provisions [currently €25m].

Insurance Ireland emphasises the importance that the thresholds are consistent across all Member States and no further national discretion is foreseen.

Further consideration might also be given to an assessment if additional thresholds can be developed reflecting different legal forms and functions, e.g. captives.

Question 14: Should public authorities have less discretion when deciding whether insurers may apply simplified approaches and/or implement Solvency II rules in a more proportionate and flexible way? Please explain your reasoning (if needed).

- *Yes*
- *No*
- *Don't know/no opinion*

Please specify the criteria that should be introduced in the European legislation, in order for an insurer which meets them to be automatically granted the use of simplified approaches and/or a more proportionate and flexible application of the rules:

Consistency is particularly important with regards to the proportionate application of SII. In its report on the proportionate application of reporting requirements, EIOPA noted that only 13 Member States make use of the existing empowerments for exclusions. Furthermore, EIOPA recognises great inconsistency in the extent to which other provisions of the regime are applied proportionately.

Already in July 2019, Insurance Ireland, together with its Dutch sister association, VVN, suggested a toolbox-approach which allows for a more consistent and reliable application of the proportionality principle. The only determining factors for the proportionate application of SII should be nature, scale and complexity of risk, and particularly not the location of the headquarters or the willingness/capacity of the NCA responsible to approve measures.

Together with other industry bodies, VVN and Insurance Ireland made efforts to redefine the Dutch Irish suggestion. With regards to the proposals made, Insurance Ireland particularly wants to highlight the reliability of the application of the measures of the toolbox. While the efforts necessary to apply for the use of a simplified measure often disincentivise the application, the toolbox provides for an automated application. It is important to note that the proposals do not prohibit a justified supervisory intervention.

The toolbox should be a non-exhaustive list of existing and proposed proportionality measures and should not preclude any application of other simplifications or waivers based on supervisory dialogue. The examples of criteria already proposed by EIOPA in the supervisory statement "Application Proportionality Solvency Capital Requirement" could be used as the basis for setting the automatic criteria. Finally, the regulation should make clear that it is a duty for NCAs to always consider nature, scale and complexity of the risks when enforcing regulation to make proportionality work in practice.

Question 15: Should the exemptions and limitations always be subject to the discretion of the public authorities? Please indicate the statements with which you agree.

at least 1 choice(s)

- *The current system of exemptions and limitations is satisfactory*
- *The framework should also include some clear criteria for automatic exemption and limitation*
- *The 20% limit should be increased*
- *The 20% limit should be reduced*
- *There should be no discretion at all*
- *I have another answer*
- *Don't know/no opinion*

Please specify your answer to question 15 (if needed).

As already highlighted in our answer to question 14, Insurance Ireland believes that a consistent and proportionate application of SII is a prerequisite for the integration of the EU single market for insurance. The current limitations and exemptions are set in relation to the national market. The only determining

factors for the proportionate application of SII should be nature, scale and complexity of risk, and particularly not the location of the headquarters or the willingness/capacity of the NCA responsible to approve measures.

EIOPA confirmed the existing inconsistency in its report on the use of limitations and exemptions from reporting 2019 which shows that only 13 member states make use of the potential exemptions. Therefore, Insurance Ireland strongly advocates for a deletion of the exemptions. Instead, Insurance Ireland suggests that objective criteria for the exemption from the respective reporting requirements are defined.

Question 16: Should the European framework take into account the specific features of not-for-profit insurance companies (e.g. democratic governance, exclusive use of the surplus for the benefit of the members, no dividend paid to outside shareholders)?

- Yes
- No
- Don't know/no opinion

Please specify the areas of the framework, which should be adapted (quantitative requirements? governance requirements? etc.):

[The format does only allow for elaborating this answer.]

Question 17: How can the framework facilitate policyholders' and other stakeholders' access to the SFCRs?

	Agree	Disagree	Don't know / no opinion
The current framework is sufficient, as it already requires insurers to publish their SFCR on their website if they own one	x		
The framework should clearly require that insurers' publication on their website is easily accessible for the public		x	
Insurers should be required to send (electronically or by mail) on a regular basis a summary of the SFCR to each policyholder		x	
Insurers should be required to send (electronically or by mail) the SFCR to each policyholder who explicitly requests for it	x		
Other options	x		

Please specify your answer to question 17 (if needed). In particular, if you identified other options, please elaborate:

Insurance Ireland support the joined industry position as expressed by Insurance Europe that the existing provisions as specified in Art. 301 Delegated Regulation are appropriate. Therefore, the industry agrees with the statement that '*the current framework is sufficient, as it already requires insurers to publish their SFCR on their website if they own one*'.

At the same time however, undertakings are already required to publish the SFCR on their website if they own one. Most, if not all undertakings provide the SFCR on their website in an easily accessible manner, often on the same page as annual reports or similar publications. As such there is no need for requiring a change in legislation.

The industry disagrees with the suggestion to require insurers by default to send (electronically/by mail) a summary of the SFCR to each policyholder, as this would trigger costs, would be environmentally unsustainable by mail and put an additional administrative burden on insurers, with little or no benefit for the policyholder. Indeed, the policyholder can easily access the SFCR on the website of the insurer. At the same time, the industry highlights that policyholders already receive numerous documents and information when concluding an insurance policy.

Regarding the statement that '*Insurers should be required to send (electronically or by mail) the SFCR to each policyholder who explicitly requests it*', the industry highlights that Art. 306 (5) Delegated Regulation already requires insurers to send the SFCR to each policyholder who explicitly requests it within two years of the disclosure date, and as such the industry believes there is no need to modify the existing article.

In terms of other options, the industry would support the idea to request undertakings to provide the direct links to the SFCRs in the regulatory reporting and to have these SFCR-links published on the websites of EIOPA/NCAs, as this would be helpful for finding the reports.

Question 18: If you have already consulted a SFCR, did you find the reading insightful and helpful, in particular for your decision making on purchasing (or renewing) insurance, or investing in/rating an insurance company? Please indicate the statement(s) with which you agree.

at least 1 choice(s)

- The reading was insightful
- The information provided was in the right level of details
- The information provided was too detailed
- The information provided was redundant with what can be found in other public reports by insurers
- No, the reading was not insightful I have never consulted a SFCR
- Don't know/no opinion.

Question 19: Which information should be provided to policyholders on insurers' financial strength, business strategies and risk management activities? What should be the ideal format and length of the SFCR?

Insurance Ireland supports the joined industry position as expressed by Insurance Europe. The low level of public interest in the SFCR is significantly surpassed by the enormous effort put into preparing the information. Indeed, the level of detail of the current SFCR is excessive and is not helpful in understanding the actual financial strength of the insurer for the normal policyholder.

We agree with EIOPA's suggestion that, in order to increase its impact, the SFCR should be split in two sections, with clearly defined target stakeholders, namely a policyholder section and a professional section, containing the following information:

- A brief narrative report for policyholders, comparable to the executive summary of maximum 2 pages, which would enable the average policyholder to acquire an overview of an insurer's key information. It should include an overview of an insurer's risk appetite, key risks and solvency and financial situation and it should not require expert knowledge to fully understand the information provided.

- A detailed quantitative report without narrative explanations for the professional public consisting of the set of public QRTs, disclosed already. Limiting the SFCR for professionals to quantitative information would facilitate report comparison, and would also enable cross-border analysis, which is currently complicated due to the language barriers arising from the narrative content. Nonetheless, where specific data requires narrative elaboration, insurers should be allowed to do so.

While we widely agree with EIOPA on the policyholder section, the professional section requires further adjustments. We also agree with EIOPA's suggestion that captives and reinsurers might not be required to produce the policyholder section.

Question 20: Some insurers belong to wider insurance groups, which also have to publish a Solvency and Financial Conditions Report at group level (so-called "group SFCR"). Do policyholders (current or prospective) need to have access to information from group SFCRs?

- Yes
- No
- Don't know/no opinion

Please specify the format and content of the information that should be disclosed to policyholders in group SFCRs, and what would be the appropriate frequency of publication of such reports:

[The format does only allow for elaborating this answer.]

Question 21: Should all insurers publish a SFCR on a yearly basis? Please indicate if you agree or disagree with the following statements.

- *Yes, all insurers should publish a SFCR on a yearly basis*
- *Yes, but some insurers should only be required to publish a summary of their SFCR on a yearly basis*
- *No, a yearly publication of the SFCR should not be required for some insurers*
- *No, a yearly publication of the SFCR should not be required for any insurer*
- *Don't know/no opinion*

Please indicate what you consider the appropriate frequency of publication of the SFCR (or of its summary) and whether all insurers or only some types should publish them (if the latter, please specify which types):

[The format does only allow for elaborating this answer.]

Question 22: Some insurers use their own internal models to calculate their solvency requirements, after approval and ongoing supervision by public authorities, and not the prescribed standard approach defined by the legislation. For those insurers that use an internal model, should European legislation require them to also calculate their solvency position using standard methods for information purposes, and to disclose it to the public?

- *Yes*
- *No, insurers that use their own internal models should not be required to publicly disclose their solvency position using standard methods, although they should be required to calculate it and to report it to public authorities*
- *No, insurers that use their own internal model should not be required to calculate their solvency position using standard methods*
- *Don't know/no opinion*

Please explain the issues stemming from such a disclosure:

Insurance Ireland believes that the requirement to calculate both internal model (IM) and standard formula would be misleading for stakeholders. It would also lead to suboptimal decisions being taken by insurers using IM to the detriment of consumers and shareholders. There is neither a benefit for policyholder protection or financial stability as the core objectives of SII. In contrast, the additional regulatory requirements can harm the competitiveness of insurers.

IM are designed and calibrated to reflect a company's specific risk profile and to meet supervisory expectation to ensure policyholder protection. Any changes to IM are subject to supervisory monitoring or approval.

The standard formula is designed for a hypothetical average insurer. Where an insurer applies for the use of an IM, deviations have two well-founded sources: i) the adaptation to individual risk profile; ii) the on-going revision of the appropriateness of the IM against the latest usable science and dataset

IM are fully integrated in the decision-making of firms and their risk management, as per the use test prescribed in Article 120 of the SII Directive. A requirement to disclose standard formula figures might deteriorate from the most approapriate decision-basis, the IM figures.

Based on the aforementioned, we consider the requirement to disclose standard formula users to be irrelevant for stakeholders. In accordance with Recital 115 of the SII Delegated Regulation, insurers should be protected from such irrelevant information requests, unless there is a specific and justified supervisory request in accordance with the proportionate application of standard formula reporting of Art. 112 SII Directive.

The preservation of IM in SII is important to ensure the global competitiveness of EU insurers. Undermining internal models will require AMSB to reconsider their strategic and business plans in a way that may limit the provision of insurance cover and investing long-term.

Section 3: Improving trust and deepening the single market in insurance services

Question 23: When the Home authority does not take the necessary measures to prevent excessive risk taking or non-compliance with the European rules by an insurer for its cross-border activities, should the Host authority be provided with additional powers of intervention, in order to protect policyholders?

- *Yes*
- *No*
- *Don't know/no opinion*

Please specify the additional powers needed:

Insurance Ireland strongly believes that more consistency in supervision and better cooperation between NCAs is the way ahead rather than one-sided empowerments. The SII review is an opportunity to make crucial steps towards fair competition, a regulatory level playing field, consistent supervision and consumer protection. We agree with the EC that failures of insurers operating cross-border are often linked to failures of supervisors in fulfilling their duties. This must be avoided.

Rather than additional powers for the host authority which would undermine the "home country" principle, we suggest that information exchange, transparency and cooperation are enhanced. EIOPA

established ad-hoc supervisory platforms for struggling insurers. We appreciate these efforts, but we believe that a more general improvement is necessary. Rather than ad-hoc or reactive measures, we propose the establishment of standing digital supervisory platforms.

Such platforms could allow concerned NCAs to share information and coordinate supervisory activity and thereby:

- improve the supervisory process,
- enhance consistency and convergence,
- allow to identify deteriorating financial or market conditions significantly earlier.

To facilitate information exchange and transparency for all involved NCAs and EIOPA, a set of core information indicators can be developed which provide an overview of the insurer's and market conditions.

Further measures to enhance information exchange and cooperation might include:

- Enforcing the mandatory notification mechanism of Art. 148.
- Submitting changes in the nature of the risks or commitments to the notification procedure between NCAs (Art. 149 of SII Directive).
- Obliging the home authority to notify both EIOPA and the host authority if an undertaking's financial conditions is deteriorating or other risks emerge.
- Ensuring NCAs share up-to-date lists of general good provisions with each other and with EIOPA.

Question 24: Should the supervision of cross-border activities by insurers be exercised by national authorities or by a European authority?

- *By national authorities only*
- *By a European authority only*
- *By national authorities, with European coordination where needed.*
- *Other answer*
- *Don't know/no opinion*

Please elaborate on your answer to question 24:

Insurance Ireland believes that the home country principle should be maintained. The system proved its effectiveness. The number of insurers operating cross-borders which fail is low and are often correlated with arbitrary supervisory practices. Therefore, we believe, that rather than fundamentally changing the established supervisory system in the EU, targeted improvements are necessary.

These improvements include measures that increase transparency and allow NCAs and EIOPA to hold each other accountable. As stated under question 23, we believe that a system of enhanced cooperation and transparency between NCAs and EIOPA is the best way ahead. With respect to EIOPA's role in this model, we suggest the following steps to be taken:

- EIOPA could develop a set of key indicators of already reported data which allows concerned NCAs to:
  - Assess the financial condition of an insurer and potential deteriorating developments,
  - Market conditions and potential developments which might have an impact on the insurance market.
- Oversight of compliance of NCAs with their respective duties in terms of cooperation and information exchange, including dispute settlement.
- An early warning system with a list of elements calling for closer scrutiny, such as candidates which were refused fit and proper credentials in another Member State.

- Ensuring the register of insurers active in the EU clearly indicates which markets they are operating in.
- A register of compulsory insurance schemes (as defined in art. 179 SII Directive) and related requirements in force in Member States.
- Other information on market particularities and conditions which the home NCA should be aware of to properly carry-out its duties.
- NCAs (home and host) to be required to share up-to-date list of general good provisions with each other and with EIOPA.
- EIOPA to ensure that its register of general good provisions is up to date.

Question 25: Do you consider that insurers and public authorities are sufficiently prepared for a significant deterioration of the financial position or the failure of an insurer and that they have the necessary tools and powers to address such situations, in particular in a cross-border context?

- *Yes*
- *No*
- *Don't know/no opinion*

Please specify the instruments or harmonised powers that are needed at each stage of preparation (i.e. recovery planning, resolution planning, resolvability assessment) and at various stages of intervention (i.e. during early intervention, recovery or resolution):

Insurance Ireland believes that SII provides for appropriate powers for supervisors to intervene. It embeds a forward-looking view on the compliance with the Solvency Capital Requirement (SCR) and Art. 138 SII Directive provides for situations "where there is a risk of non-compliance in the following three months". The (likely) breach of the Solvency Capital Ratio (SCR) sets a clear level for supervisory intervention well above the Minimum Capital Requirement (MCR). Additional "early-intervention" measures applied at an SCR > 100, must be avoided as they undermine the credibility of the SCR. SII must remain an economic and risk-based regime, performing in a predictable manner, even during crises.

Regulatory consistency, convergence and a proportionate application are crucial where additional measures might be foreseen. For example, local entities should not be required to provide for recovery plans where an EU parent group plan exists or, at the very least, fully acknowledge the group recovery plan and not requiring additional assessments

With regards to the actual resolution of insurance undertakings, we believe that run-offs and portfolio transfers are sufficient to deal with the large majority of insurance failures. In addition, we want to underline the importance of the interplay between resolution mechanisms and IGS. Particularly where the cover/compensation of consumers is considered to be more appropriate based on portfolio-continuity, resolution schemes are better placed. We believe that a minimum harmonisation of key elements of a resolution mechanism (e.g. resolution powers, funding models and scope) is necessary to avoid consumer detriment and competitive disruption.

In case of cross-border failures, it is important that supervisory interventions are transparent and that the information is shared among concerned NCAs and EIOPA. Colleges of supervisors and the digital supervisory platforms which we suggest facilitate the cooperation.

Question 26: Should it become compulsory for all Member States to set up an IGS, in order to ensure that a minimum level of policyholder protection is provided across the EU?

- *Yes*
- *No*

- *Don't know/no opinion*

Please explain your reasoning for your answer to question 26 (if needed):

As a precautionary note, we would like to emphasise that we neither consider the EC proposal for the treatment of cross-border failures under the Motor Insurance Directive fit-for-purpose nor does the current position of the European Parliament or the Council discussions appropriately address the problem.

IGS are a valuable measure of last resort of policyholder protection in cases of insolvency. We support initiatives to ensure that EU citizens are appropriately covered by IGS. As the measure focuses on consumers, we believe that the most sensible way for an EU measure would be a "host-approach" where a policyholder is covered by the IGS of the Member State of residence. Accordingly, insurers, irrespective of the location of their headquarters, contribute to this scheme in an equitable manner.

Several markets push for a home-approach – requiring insurers to contribute to the IGS in the country where they are headquartered. To allow for a reliable fund and risk management, that automatically means that the compensation of policyholders in case of an insolvency can only be in line with the provisions of that IGS. If not harmonised to a certain minimum, that might leave policyholders with insufficient protection. Furthermore, it could only apply to policies which are covered by the home IGS of the insurer.

In addition to the consumer protection aspect, there might be a competitive issue. An inconsistent system of national IGS might create regulatory arbitrage. Companies, i.e. those with unsound business model, might be incentivised to search for the "cheapest" system. To avoid such a situation and provide for consistent consumer protection, a minimum harmonisation is indispensable.

We urge the EC to present proposals for a minimum harmonisation of, at least, the following:

- Each Member State has to have an IGS in place,
- Products and policyholders in scope,
- Minimum maximum compensation levels,
- Funding mechanism and minimum contribution.

Question 27: Which of the following life insurance products should be protected by IGS?

- All life insurance products
- Some life insurance products
- No life insurance products
- Don't know/no opinion

Please specify which life insurance products should not be covered and explain why:

With regards to life insurance products, Insurance Ireland would like to reiterate the importance of the interplay of resolution mechanism and IGS: for life insurance products, Insurance Ireland and its members agree with the earlier EIOPA assessment that contract continuity is crucial. However, we do not agree that an IGS is the right form. In contrast to the EIOPA consultation of July 2019, we believe that a practicable and efficient resolution mechanism is more appropriate.

If it is considered that certain life insurance products should be covered by IGS, nonetheless, we would like to emphasise the need for a differentiated approach. The risks differ significantly between unit-linked products without guarantees and (traditional) life insurance products with guarantees. In unit-linked life insurance, the investment risk is borne by the policyholder and the insurance company does not provide

any guarantee. Moreover, even if the insurance company would be confronted with financial problems, the units invested in by the policyholder cannot be used for the liquidation of the insurance company but remain with the policyholder. For this reason, unit-linked life insurance should be excluded from IGS.

Further, in occupational pension insurance where the employer acts as a sponsor, the employees benefit from an additional protection on top of the protection already provided by SII requirements. For these reasons, occupational pensions should not be covered by IGS or similar system, regardless if the provider is a life insurance company (applying SII regulations) or a pension fund (applying IORP II regulations). If, however an EU wide IGS would be introduced for occupational pension insurance, it is essential – from a level playing field perspective – that an appropriate IGS is also put in place for similar occupational pensions schemes offered by other providers such as pension funds (IORPs).

Question 28: Which of the following non-life insurance products should be protected by IGS?

	Should be covered	Should not be covered	Don't know/no opinion
Health			**x**
Workers' compensation	**x**		
Insurance against Fire and other damage to property	**x**		
General liability	**x**		
Accident (such as damage to the driver)	**x**		
Suretyship for home building projects	**x**		
Other	**x**		

Please elaborate your answer to question 28.

n/a

In particular, if you consider that other non-life insurance products should be protected please specify which products:

The definition of the products in the scope of an IGS is one of the crucial determining factors. Non-life insurance products are usually short-term contracts and the underlying risk does not depend on the personal condition of the insured (health status, age, etc.). For these products, replacement is, usually, a quick process. The compensation through an IGS can, therefore, focus on current claimants. This makes the determination of eligible people to be covered by the IGS simpler. The scope should further be limited to natural persons for the purpose of the minimum harmonisation. Natural persons are, usually, most vulnerable. Even small companies can normally acquire specialised consultancy services. For the purpose of an EU-wide approach Insurance Ireland strongly believes that the minimum harmonisation should focus on compulsory non-life consumer products, that are consistent across all EU member states, MTPL, being the prime example.

In order to ensure, that people are appropriately compensated notwithstanding where they are domiciled in the European Union, a minimum level for the maximum cover should be mandatory for all national guarantee schemes. Prices, costs of living and replacement costs differ significantly across the Union. A

policyholder residing in a Member State with higher costs of living should not face financial hardship due to the location of the head offices of the insurer.

The crucial factor for fair competition of insurers across the Union is the funding mechanism and the funding level. In order to not distort competition and ensure swift payments to consumers a certain minimum level of pre-funding might be defined (ex-ante funding). In addition, a certain minimum contribution as share of the business written or be some other risk-based contribution by an insurer might be defined. These two factors will ensure that incentives for forum shopping and regulatory arbitrage are limited.

Question 29: Should all mandatory insurance be covered by IGS?

- *Yes*
- *No*
- *Don't know/no opinion*

Please specify your answer for your answer to question (if needed):

There is a logic to including compulsory non-life insurance in a national IGS, the reality is that the types of insurance that are compulsory vary greatly across member states. Therefore, including all compulsory non-life products under the scope of minimum harmonisation would lead to a lack of harmonisation. Moreover, since life and non-life insurance contracts differ significantly and are handled differently in the event of insolvency, it could be preferable that life and non-life insurance are treated and administered by separate IGS entities.

Nonetheless, Insurance Ireland believes that similar products which are marketed across Member States, like MTPL, are the best starting point for an EU system of IGS.

In addition, Insurance wants to highlight the importance of the link between resolution mechanisms and IGS. As per our answers to the previous questions, we believe that life insurance policies should rather be subject to a resolution mechanism aimed at continuity of policies rather than a compensation based IGS.

Question 30: If your insurer fails, what would you prefer?

- *Receiving compensation from the IGS*
- *That the IGS ensures that your insurance policy continues, for example by transferring it to another insurer*
- *It depends on the type of insurance policy*
- *Don't know/no opinion*

Please explain your answer to question 30:

Insurance Ireland considers it important that the EC is particularly seeking opinions from policyholders and their representative groups. We would like to stress the importance of providing more information to policyholders to encourage differentiated feedback.

Question 31: The coverage level of IGS determines the level of protection provided to policyholders. Should the European legislation set a minimum coverage level at EU level?

- *Yes*
- *No*
- *Don't know/no opinion*

Please specify up to which amount claims should be fully guaranteed as a minimum:

Insurance Ireland believes that the interplay of resolution mechanisms and IGS is important and that resolution mechanisms are better placed to deal with policies where portfolio continuity is better placed than a compensation scheme, i.e. life insurance. Based on this assumption, our answer focusses on the products which are subject to a compensation based IGS. For resolution mechanisms, we believe that the "no-policyholder-is-worse-off" requirement, which is foreseen by some national regimes (e.g. in the Netherlands) should be respected.

As already mentioned in answer to question 26, we believe that the minimum harmonisation of IGS based on the home country principle requires certain harmonisation of central parameters including a minimum-maximum compensation level. Where IGS of a Member State are required to compensate policyholders in another jurisdiction, a reliable and sustainable fund and risk management, that automatically means that the compensation of policyholders in case of an insolvency can only be based on the compensation applicable in the home jurisdiction of the insurer. If not harmonised to a certain minimum, that might leave the policyholder with insufficient compensation. The same holds actually true for the definition of the scope of cross-border coverage (see question 28).

In addition to the consumer protection aspect, there might be a competitive issue with respect to the definition of compensation levels in conjunction with the funding method of an IGS. An inconsistent system of IGS might create regulatory arbitrage. Companies, i.e. those with unsound financial positions, might be incentivised to search for the "cheapest" system. To avoid such a situation and create a certain consistency in this safety-net for consumers, a minimum harmonisation is indispensable.

Minimum and maximum compensation levels need to be harmonised. Values might depend on products in scope.

Question 32: In order to limit the risk of insurance failures and protect financial stability, should public authorities have the power to temporarily prohibit redemptions of life insurance policies? Please indicate the statement(s) with which you agree.

at least 1 choice(s)

- *Yes, at sectoral level, to the extent that such a measure is absolutely necessary to address major threats to the insurance sector*
- *Yes, in cases where a specific insurer is in a weak financial position*
- *Yes, in cases where a specific insurer is in financial distress, and as long as policyholders would be better off than in the event of the insurer's failure*
- *No*
- *Don't know/no opinion*

Question 33: In order to limit the risk of insurance failures and protect financial stability, should public authorities have the power to reduce entitlements of a life insurer's clients (e.g. reducing the right for bonuses that policyholders were initially entitled to receive)? Please indicate the statement with which you agree.

at least 1 choice(s)

- Yes, if the insurer is in deteriorated financial position
- Yes, as a last resort measure, and as long as policyholders would be better off than in the event of a failure
- No
- *Don't know/no opinion*

Question 34: Please specify whether other exceptional measures than those mentioned in Question 32 and Question 33 should be introduced in order for public authorities aiming to preserve insurers' solvency and financial stability to intervene timely and in an efficient manner during exceptional adverse situations.

Insurance Ireland agrees to the joined industry position as expressed by Insurance Europe.

The industry believes that no further exceptional measures are needed if the shortcomings of the framework are addressed, making it fit for purpose to overcome crisis situations.

Indeed, while the SII framework works well overall, it does not correctly capture the real economics and risks of insurers' long-term business. This leads to an underestimation of solvency strength and excessive volatility in the solvency measures. This is of particular relevance in times of stress since, during periods of high market volatility, these flaws can push insurers into unnecessary procyclical behaviour. The industry has highlighted the need for the SII review to result in focused improvements, including increasing the volatility adjustment and significantly reducing the risk margin, while keeping the euro risk-free rate calibration and methods unchanged.

Additionally, the possibility to provide an extension of the recovery period allows for flexibility in times of exceptional adverse situations.

Question 35: In your view, should the framework provide for flexibility to alleviate certain regulatory requirements during exceptional adverse situations?

- *Yes*
- *No*
- *Don't know/no opinion*

Section 4: New emerging risks and opportunities

Question 36: Are there additional types of natural catastrophes that might become relevant to the broader insurance sector in the next years and therefore warrant an inclusion in the standard approach for the calculation of capital requirements (e.g. drought or wildfire)?

- *Yes, and sufficient data is available for the calibration of capital requirements for the additional types of natural catastrophes*
- *Yes, but the calibration of capital requirements is not possible at this stage, as the data will only become available over the next years*
- *No, additional types of natural catastrophes will continue to have lesser relevance for insurers, and they can be addressed by internal models and qualitative requirements ("Pillar 2").*
- *Don't know/no opinion*

Please elaborate your answer to question 36:

Insurance Ireland supports the joined industry position as expressed by Insurance Europe.

The SII standard formula provides a basis for measuring the most material risks to which insurers are exposed across Europe. It is not intended to, and should not be changed to, quantify every risk. Although no evidence has yet been presented to support the inclusion of new risks in the standard formula, the industry recognises that the materiality of risks may change in the future and that there may be

justification for the future inclusion of new risks. Indeed, it would be good practice to review the list of perils included in the standard formula periodically, noting that a sufficiently long period of time between reviews would be necessary for any data signals to be distinguishable from random variation.

The justification for the future inclusion of any risks needs to be assessed with respect to 1) the significant operational challenges of sourcing data and calibrating the natural catastrophe risks parameters for the standard formula and 2) the existing SII provisions for dealing with idiosyncratic risks (eg internal models and Pillar II requirements).

The 2018 Review of SII included the revision of a number of natural catastrophe parameters. This was carried out by the EIOPA CAT working group which consisted of EIOPA, nat cat modellers, brokers as well as supervisory and industry representatives. The process demonstrated that there is often limited data available to calibrate these parameters.

The industry further highlights that the materiality and calibration of several of the existing standard formula natural catastrophe risk parameters remains questionable. These include the Italian Earthquake risk and Greece Earthquake risk country factors.

Question 37: Beyond the general rules on the use of data, should Solvency II rules explicitly require insurers to assess whether the data used in the valuation of liabilities to policyholders captures sufficiently trends caused by climate change?

- *Yes, and requiring this assessment is of high importance*
- *Yes, and requiring this assessment is of medium importance*
- *Yes, but requiring this assessment is of low importance*
- *No*
- *Don't know/no opinion*

Question 38: Beyond the general rules on the use of data, should Solvency II rules explicitly require insurers to assess whether the data used in an internal model captures sufficiently trends caused by climate change?

- *Yes, and requiring this assessment is of high importance*
- *Yes, and requiring this assessment is of medium importance*
- *Yes, but requiring this assessment is of low importance*
- *No*
- *Don't know/no opinion*

Question 39: Should Solvency II rules for insurers explicitly require climate scenario analyses as part of the qualitative rules ("Pillar 2")?

- *Yes, and climate scenario analyses are of high importance*
- *Yes, and climate scenarios analyses are of medium importance*
- *Yes, but climate change scenario analyses is of low importance*
- *No*
- *Don't know/no opinion*

Please explain what opportunities and challenges you foresee for the insurance industry when it comes to climate scenario analyses including, for example, whether standardisation of these scenarios would be useful:

[The format does only allow for elaborating this answer.]

Question 40: In your view, does Solvency II contain rules that prevent the practice of impact underwriting by insurers?

- *Yes*
- *No*
- *Don't know/no opinion*

Please specify which rules (ideally with legal references) and rate their importance (high, medium, low):

[The format does only allow for elaborating this answer.]

Question 41: Do you have proposals for changes others than those provided in your answers to Question 5 and Questions 36 to 40 that would make Solvency II a more conducive framework for sustainable activities by insurance and reinsurance companies?
***3000 characters** maximum* for this question

Insurance Ireland appreciates the efforts of the EC to improve the treatment of different investments under SII. Already during the development of these measures, Insurance Ireland expressed the need for a more holistic approach. The prescriptive and very focused approach taken for the issues of SME funding and sustainable finance is insufficient to counter the unnecessary burden which SII puts on insurers' investments.

In line with earlier efforts on the review of the treatment of Simple, Transparent and Standardised (STS) Securitisation, positive steps are acknowledged, while the main goals of avoiding disincentives for insurers to invest in the real economy are not fully met.

We believe that this review presents the opportunity to review investment obstacles holistically and in conjunction with the aims of the Capital Markets Union, the Green Deal and the Next Generation EU initiatives. We would particularly highlight the wide impact which the current miscalibration of the risk margin has in this respect. A review of the current calibration will have a significant impact on insurers' ability to invest, not just in equity, but across the whole spectrum.

As already demonstrated by the industry during the 2018 review, the 6% cost of capital alone overestimates the risk margin by 100 bn euros at EU-market level in a protracted low-yield environment. Economically, these 100 bn euros should be recognised in own funds and doing so would provide the insurance sector with a potential additional investment capacity in equity of at least 250 bn euros *(as an illustrative figure based on a simplified approach where 100% of the additional own funds are invested in equity type 1 with a 39% capital requirements and no diversification and loss-absorbing capacity is assumed)* and possibly much more if part of this additional own funds are invested in fixed-income instruments.

The EC should investigate how SII could be adapted to facilitate further long-term investment while maintaining its strong risk-based nature. In this respect, it is essential that SII remains risk-based and does not attempt to artificially support green assets or penalise brown ones via artificially adjusted capital requirements.

Apart from SII, a uniform European company database could be useful to broaden the investor base for SMEs through more accessible company information.

Question 42: Should the European legislation introduce enhanced requirements for insurers to monitor and manage information and communication technology (ICT) risks, including cyber-risks as part of their risk management practices ("Pillar 2")?

- *Yes*
- *No*
- *Don't know/no opinion*

Please specify your answer to Question 42:

[The format does only allow for elaborating this answer.]

Question 43: Should the European legislation consider that cyber-insurance is a distinct class of insurance, which would need to be subject to its own authorisation process by public authorities?

- *Yes*
- ***No***
- *Don't know/no opinion*

Please specify your answer to question 43:

[The format does only allow for elaborating this answer.]

Question 44: Should the legislation differentiate intragroup and extra-group outsourcing, and introduce "lighter" requirement in the former case?

- *Yes, but the lighter requirements should be conditioned to the satisfaction of some criteria at the level of the group, for instance appropriate centralised risk management processes and internal control mechanisms of the group*
- *Yes, and those lighter requirements should not be conditioned to any additional criterion*
- *No*
- *Don't know/no opinion*

Please specify which requirements should be alleviated in the case of intra- group outsourcing, and the criteria to be satisfied at the level of the group to benefit from the "lighter" requirements:

SII outsourcing requirements apply to each outsourcing agreement notwithstanding if the receiving company is controlled by the group of the insurer or a fully external service provider. We believe that the same treatment of intra-group and external outsourcing is not justified. The service provider, as part of a group, is part of the regulated organisation which is responsible for the implementation and execution of the internal control and management functions across the group.

As a result, the potential risks of outsourcing of a function or a service differs significantly between intra-group outsourcing and the outsourcing to external partners. SII provides for strict requirements for the internal control, risk management and reporting for the regulated group. The group-wide systems are applied consistently across the group – including internal service providers and the outsourcing company. The group-wide application of a group-wide management system includes aspects which are in focus of the existing outsourcing requirements, e.g. IT security or data protection. Automatically, this leads to a consistent data protection or contingency planning. By principle, the strategy of the outsourcing company and the service provider are subject to the same coordinated group strategy. As a result, unilateral arbitrary behaviour and the risk of such behaviour are eliminated.

The consistent group supervision under direct SII supervision, or SII equivalence, ensures regulatory compliance with the standards of SII. This lowers the risk associated with an outsourced activity even

further as not only the outsourcing entity's compliance with the outsourcing requirements but also the service provider is included in the SII group supervision or equivalent regimes.

Requirements that should be removed include:

- The cost/risk/benefit assessment currently required prior any outsourcing,
- The notification to supervisors,
- Requirements relating to contractual clauses.

Brussels/Dublin, 20th October 2020