

DISCUSSION PAPER

# A PROPORTIONALITY TOOLBOX FOR SOLVENCY II



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# Summary

The Dutch Association of Insurers and Insurance Ireland consider the current Solvency II reporting framework disproportionate for non-complex small and medium-sized insurers. In order to address this issue we propose to **increase the threshold of application of Solvency II** from € 5 mln. premium income to € 10 mln. (plus comparable increases in the other Solvency II thresholds). This is in line with the European Commission definition of “small” companies.

In addition, we propose to introduce an **EU-wide toolbox of proportionate measures under Solvency II**, consistently applied. This toolbox is a pre-set proportional application of Solvency II for insurers from € 10 mln. up to € 50 mln. premium income (plus comparable increases in the other Solvency II thresholds) and other conditions as necessary. This ceiling is in line with the European Commission’s definition of a “medium-sized” company.

The proportionality toolbox, which applies proportionality by default to eligible small and medium-sized insurers would have the same capital requirements (Pillar I) but fewer Pillar II and III requirements than the full Solvency II.

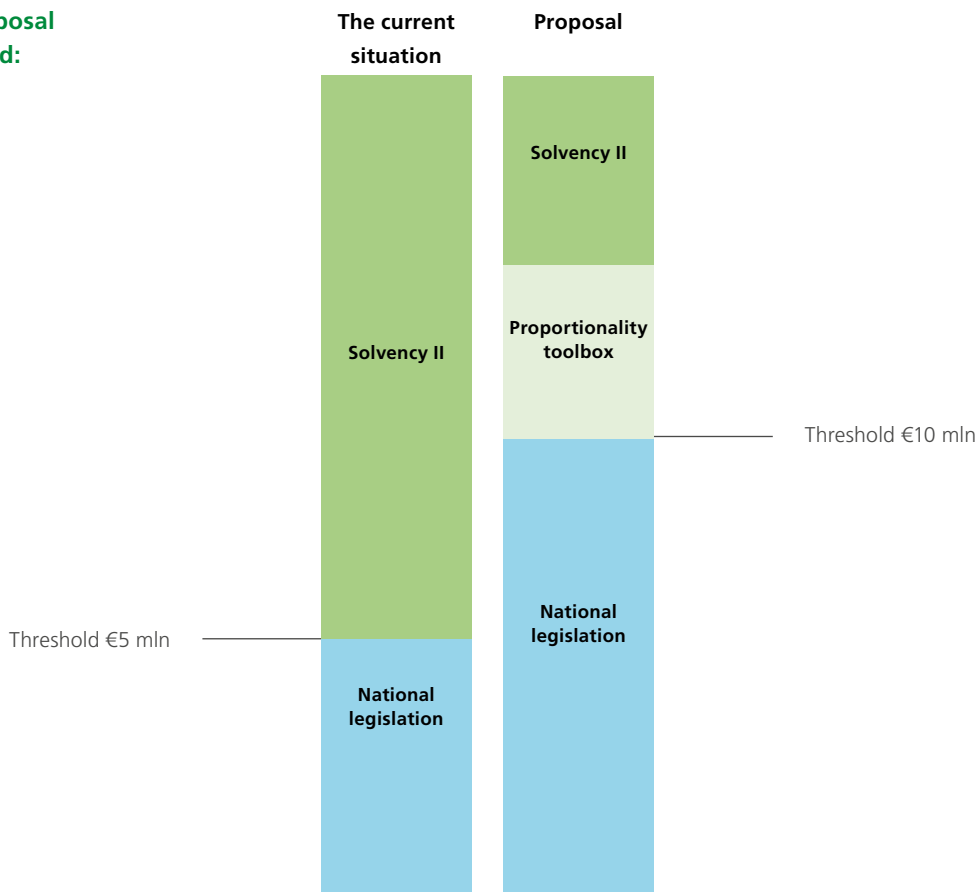
This means for example that the actuarial function is not obligatory under certain conditions, but a proportionate annual Own Risk and Solvency Assessment (ORSA) is required and a limited Solvency and Financial Condition Report (SFCR). Reporting obligations are also limited in relation to the Solvency II Quantitative Reporting Templates (QRTs). But the capital requirements (Pillar I) apply in full.

These changes would offer the following **benefits:**

- a. Maintaining policyholder protection while doing justice to the principle of proportionality and reducing compliance burdens, without losing prudence.
- b. A proportionate simplified approach as a default position rather than the exception.
- c. Consistent application of the principle of proportionality at European level, in contrast to the current situation in which the proportionality of Solvency II mainly depends on national measures.
- d. Facilitating small and medium-sized insurers as well as InsurTechs.

The proposals affect a significant number of small to medium-sized insurers, but, depending on national market structures, a less significant part of the volume of the market (< 1% in the Dutch market and < 2% in the Irish market).

## This proposal visualised:



# Reasons for a proportionality toolbox

The case for a proportionality toolbox which applies by default can be summed up in the following arguments.

- **Proportionality principle.** Solvency II determines that the directive shall not be disproportionate for small and medium-sized insurers.<sup>1</sup> We are of the opinion that Solvency II is already too burdensome for both small and medium-sized insurers and InsurTech start-ups with innovative business models. This proposal has been inspired by the [Dutch Basic Regime](#), which has proven to be successful. We believe that such a proportionate toolbox is also suitable for Solvency II insurers, for whom, in view of their size and non-complexity, as well as the nature of the risks they insure, the current directive is disproportionately burdensome.
- **Why these thresholds?** The European Commission has defined Small and Medium-sized Enterprises ([SMEs](#)). Companies with a turnover up to € 10 million qualify as small and companies up to € 50 million turnover qualify as medium-sized. These types of companies often have a special regime under EU directives (cf. Prospectus Regulation and MiFID II). A higher Solvency II threshold would serve that principle.
- **Higher threshold impact.** Research on the Dutch and Irish markets indicates that a significant number of small to medium-sized insurers in the Netherlands and Ireland benefit from the

proposed toolbox (in case of € 10 mln. and € 50 mln. thresholds). However, only an insignificant part of the market-volume in terms of premium income is affected (less than 2% on each market). See annex 2.

- **Other compliance burdens caused by Solvency II.** The disproportionate burdens are not only caused by reporting burdens, but also by the fact that all Solvency II insurers are considered Public Interest Entities (PIEs)<sup>2</sup>, simply because they fall under the scope of Solvency II, irrespective of their nature, scale and complexity. This has led to sharply increased costs of external auditors since the rules on PIEs came into effect on June 17, 2016.

Qualifying small and medium-sized insurers as PIEs is debatable: this label is reserved under the EU accounting directive for organisations with a “significant public relevance [...], which arises from the scale and complexity of their business or from the nature of their business”.<sup>3</sup> This is not the case for the small and medium-sized insurers discussed in this paper, which would not be allowed to sell insurance such as liability insurance (see annex 1 for details).

The PIE status requires involvement of external auditors with special qualifications, which are rare and therefore more expensive. The scarcity leads to a capacity issue and a cost issue. A higher Solvency II threshold or opt-out would solve this issue to a large extent. It would mean that these insurers would still be audited by external auditors, supervised by their national supervisor or regulator.

<sup>1</sup> Recital 19 and 20 Solvency II directive.

<sup>2</sup> Public interest entities are defined in directive [2006/43/EC](#) as amended by directive [2014/56/EU](#) article 2, point (13) as:

(a) entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC [= MiFID I];

(b) credit institutions as defined in point 1 of Article 3(1) of directive 2013/36/EU [= CRD IV ...], other than those referred to in Article 2 of that Directive;

(c) insurance undertakings within the meaning of Article 2(1) of directive [91/674/EEC](#) [= on annual accounts of insurers]; or

(d) entities designated by Member States as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.”

See also the latest [consolidated version](#) of the directive of 16 June 2014.

<sup>3</sup> Recital 2 of directive [2014/56/EU](#).

# Details of the proportionality toolbox

Solvency II has a threshold of € 5 million premium income.<sup>4</sup> There are other thresholds on technical reserves and re-insurance. Below these thresholds, the directive does not apply in principle (there is an opt-in), and national legislation, if it exists, applies. In the Netherlands, this is the Solvency II [Basic Regime](#), which applies to insurers with at least € 2 mln. premium income and at most € 5 mln.<sup>5</sup> The proposal below is inspired by the Dutch Basic Regime, with elements borrowed from the Irish regime.

## 1. What is the proposed new Solvency II threshold?

We suggest changing article 4 of the Solvency II directive (on scope) as follows:<sup>6</sup>

- We suggest a corresponding increase in maximum reinsurance business allowed. The insurer does not do reinsurance business exceeding € 1 mln. (up from the current ceiling of € 0.5 mln.) of its gross written premium income or € 5 mln. (up from the current ceiling of € 2.5 mln.) of its technical provisions gross of the amounts recoverable from reinsurance contracts and special purpose vehicles, or more than 10% of its gross written premium income or more than 10% of its technical provisions gross of the amounts recoverable from reinsurance contracts and special purpose vehicles. We do not propose to double the percentages.
- We suggest that all conditions apply cumulatively. Non-compliance with one condition means that the proportionate toolbox does not apply as a default, but the transitional regime of article 4 of Solvency II remains in place.

Threshold for applying the Solvency II directive	Current	Proposed
Premium income threshold for applying Solvency II	€ 5 mln.	€ 10 mln.
Technical provisions threshold for applying Solvency II	€ 25 mln.	€ 50 mln.
Maximum reinsurance business allowed (premium income), or	€ 0.5 mln.	€ 1 mln.
Maximum reinsurance business allowed (premium income), or	10%	10%
Maximum insurance business allowed (technical provisions), or	€ 2.5 mln.	€ 5 mln.
Maximum insurance business allowed (technical provisions)	10%	10%

- Solvency II currently applies to insurers with premium incomes of € 5 mln. or higher (article 4, directive 2009/138/EC). We suggest doubling that minimum threshold to € 10 mln. for application of Solvency II.
- Solvency II currently applies to insurers with the total of the undertaking's technical provisions, gross of the amounts recoverable from reinsurance contracts and special purpose vehicles, of € 25 million or less. We suggest doubling that figure to € 50 mln.

This means that EU Member States are free to regulate or not regulate insurers that do not fall under Solvency II according to the new thresholds. Several EU Member States have supervisory regimes below Solvency II. These national regimes do not provide an EU passport, of course. The newly provided Solvency II proportionality toolbox does provide a passport, because it is part of the Solvency II directive.

<sup>4</sup> See [article 4 Solvency II directive](#) which sets supplementary conditions and some exemptions. Funeral insurers do not come under Solvency II at all, irrespective of their premium income, unless they work with a Solvency II life insurers license, but they are all caught by the Dutch Basic Regime.

<sup>5</sup> The very smallest non-life and funeral insurers (less than € 2 mln. premium income) fall outside the scope of this regime too, and are not supervised at all by a prudential supervisor. See article 1e and 1f of the Dutch *Vrijstellingsregeling*. According to the Dutch Basic Regime, insurers below this threshold of € 2 mln. are not allowed to offer insurance cover above € 12.500 per insured object or death. They also have to explicitly notify their clients that they are not supervised by DNB.

<sup>6</sup> This implies that we suggest to leave the exemptions of articles 5 -10 of Solvency II unchanged.

## 2. To which insurers does the proportionate toolbox apply?

### 2.1. Which type of insurers?

- The proposed proportionality toolbox applies to insurers that do not sell complicated<sup>7</sup> types of insurance, namely class 10 (Motor vehicle liability), liability in class 3 (Road transport liability), class 11 (Aircraft liability), class 12 (Liability for ships), class 13 (General liability), class 14 (credit) and class 15 (suretyship), unless these are ancillary risks.<sup>8</sup> We suggest an exemption if it can be proven to the insurer's supervisor that the risks coming from these products are sufficiently mitigated through reinsurance or other risk mitigating techniques. Sufficiently mitigated means that the tail risk is completely ceded to another party.<sup>9</sup>
- Solvency II does not apply to funeral insurers (irrespective of the size of their premium income), except for life insurers who use a Solvency II life insurance license to sell funeral insurance. Therefore, this proposal does not apply to funeral insurance.
- Insurers applying the proportionality toolbox must have uncomplicated investments. Based on this fact, fewer QRTs on investments are required when applying the proportionality toolbox than in the full Solvency II regime. It is perhaps necessary to define "uncomplicated" investments.

### 2.2. Which financial size?

- We propose a proportionate toolbox from € 10 mln. premium income up to € 50 mln. These are "medium-sized" enterprises in the European

Commission's SME policy.

- We propose to set the maximum ceiling for technical provisions in the proportionate toolbox at € 250 mln. (a factor 10 above the minimum for Solvency II to apply).<sup>10</sup> We propose the same increase in the ceiling for group technical provisions (from € 25 mln. to € 250 mln.).
- We propose an increase in maximum reinsurance business allowed. The insurer does not do reinsurance business exceeding € 5 mln. (instead of the article 4 threshold for Solvency II of € 0.5 mln.) of its gross written premium income or € 25 mln. (instead of the article 4 threshold for Solvency II of € 2.5 mln.) of its technical provisions gross of the amounts recoverable from reinsurance contracts and special purpose vehicles, or more than 10% of its gross written premium income or more than 10% of its technical provisions gross of the amounts recoverable from reinsurance contracts and special purpose vehicles. We do not propose to change the percentages.
- All conditions apply cumulatively, meaning non-compliance with one condition is enough to not apply the proportionate toolbox. Of course all items in the proportionality toolbox could also apply when insurers do not fulfill the conditions of the proportionality toolbox. But then they do not apply automatically.

This proposal affects a significant number of small to medium-sized insurers in the Dutch and Irish markets, but an insignificant part of the volume of the Dutch and Irish markets in terms of premium income or technical provisions. (See annex 2.)

Ceilings for the proposed proportionate toolbox within Solvency II	Proposed
Premium income ceiling for applying proportionate toolbox	€ 50 mln.
Technical provisions ceiling for applying proportionate toolbox	€ 250 mln
Maximum reinsurance business allowed (premium income), or	€ 5 mln
Maximum reinsurance business allowed (premium income), or	10%
Maximum insurance business allowed (technical provisions), or	€ 25 mln.
Maximum insurance business allowed (technical provisions)	10%

<sup>7</sup> Note that "complicated" insurance is not the same as insurance of "large risks". Large risks are defined in art. 13(27) of Solvency II and they are risks classified under classes 4 (Railway rolling stock), 5 (Aircraft), 6 (Ships), 7 (Goods in transit), 11 (Aircraft liability) and 12 (Liability for ships) and business-to-business insurance in classes 14 (Credit) and 15 (Suretyship). Large risks are also classes 3 (Land vehicles except railway rolling stock), 8 (Fire and natural forces), 9 (Other damage to property), 10 (Motor vehicle liability), 13 (General liability) and 16 (Miscellaneous financial loss) where the policy holder has (i) a balance-sheet total of € 6,2 million or more; (ii) a net turnover of € 12,8 million or more; (iii) an average number of 250 employees or more. Note that this Solvency II size-of-enterprise definition does not correspond to the [European Commission's definition of Small and Medium-sized Enterprises \(SMEs\)](#).

<sup>8</sup> Ancillary risks are risks that (according to art. 16(1), Solvency II directive), are connected with the principal risk, or concern the object which is covered against the principal risk, and are covered by the contract insuring the principal risk. The risks in classes 14 (Credit insurance), 15 (Suretyship) and 17 (Legal expenses) are not ancillary risks. Legal expenses insurance as set out in class 17 may, under certain conditions, be regarded as a risk ancillary to class 18 (Assistance, i.e. travel insurance).

<sup>9</sup> There is a risk in both the amount of claims and the loss severity. Non-proportional reinsurance products must be bought to cover future XL claims and to offer a frequency protection (stop loss). For liability insurance the reinsurance cover must be bought up to the legal limit of the insurance product in question (per occurrence/ event or aggregate), if existent.

<sup>10</sup> See [article 4 Solvency II directive](#).



### 3. What is the content of the proposed proportionate toolbox?

#### 3.1 Capital requirements

- We propose for the proportionate toolbox the same Solvency Capital Requirement (SCR) as Solvency II and the same (Absolute) Minimum Capital Requirement ((A)MCR). In calculating the capital requirement for an insurer, Solvency II determines that the highest of the two (SCR or ((A)MCR) applies.
- Currently, Solvency II allows usage of a simplified standard formula for the SCR, when the insurer meets certain conditions (article 109, Solvency II).<sup>11</sup> We propose the simplified standard formula as a default for this proportionate toolbox in Solvency II. Only under certain conditions, to be demonstrated by the supervisor, can the supervisor require the regular standard formula. This is because in the current directive text, the insurer has to determine on its own whether it is allowed to apply the simplified calculation and the risk exists that the supervisor disagrees, causing unnecessary uncertainty and resulting in unnecessary compliance burdens. The recent EIOPA supervisory statement on proportionality in the SCR calculation<sup>12</sup> is a step in the right direction in this respect. The consistent application of the principle of proportionality across Member States is the basis for a common and consistent supervision of insurance undertakings operating under the Freedom of Services (FoS) or the Freedom of Establishment (FoE).
- Because we propose no reduced capital requirements, the level of policyholder protection remains unchanged. This is why we propose that insurers under the proportionate toolbox should have the European passport that the Solvency II directive provides.

Summarized, the existing and proposed capital requirements are:

#### 3.2 Reporting requirements<sup>13</sup>

- Fewer QRTs. The Dutch Basic Regime was designed by DNB. DNB has made sure that no Solvency II QRTs are missing in the Dutch Basic Regime that are material or needed for plausibility checks. See Annex 1 for the QRTs we propose for a proportionate toolbox in Solvency II. Since Solvency II gives a passport we propose conditional QRTs (namely S 4.01.01; S.05.02.01; S 17.02.01; S 19.01.01; S.20.01.01) namely on condition that there actually is cross-border business (if there isn't, these QRTs can be omitted). Similarly, we propose to require QRTs S.30.03.01 and 30.04.01 only on condition that there actually is re-insurance by the insurer. Annex 1 shows an analysis of Solvency II QRTs compared to the Dutch Basic Regime. Approximately half of the 71 QRTs do not apply to the Dutch Basic Regime. The Dutch Basic Regime has 22 Solvency II QRTs, plus 17 QRTs adapted from Solvency II.
- Default exemption from quarterly and semi-annual QRTs unless the insurer has (a) low quality QRTs in the past and (b) a low or unstable solvency position. Article 35(6-8), Solvency II allows this exemption only if the insurer has (a) good quality QRTs in the past and (b) a large and stable solvency position (we propose to invert these conditions for proportionate toolbox insurers).
- No full Own Risk and Solvency Assessment (ORSA), but a proportionate version of the ORSA. See annex 3 for a proposal taken from the website of the Central Bank of Ireland.<sup>14</sup>
- The current Solvency and Financial Condition Report (SFCR) already entails an executive summary. This executive summary should be sufficient for insurers eligible to apply the proportionality toolbox by default.
- Companies which will be eligible to apply the proportionality toolbox by default, are currently writing a Regular Supervisory Report (RSR).

Capital requirement	Current Solvency II	proportionate toolbox
Solvency Capital Requirement (SCR)*	Yes	No change
Minimum Capital Requirement (MCR)*	Life: € 3,700,000	No change
	Non-life liability & credit insurance: € 3,700,000	Allowed under condition of reinsurance
	Other Non-life: € 2,500,000	No change
Simplified standard formula	Under certain conditions (art. 109 Solvency II)	Default

<sup>11-14</sup> Notes 11 to 14 can be found on the next page.

Based on this report, these insurers should be required to report material changes, only.

- No Public Interest Entity (PIE) status under the accounting directives.
- No excessive data/information collection exercises by EIOPA or national supervisors.
- Deadlines for reporting annual data on a solo basis should be 20 weeks (annually) instead of the current 16 weeks (annually) and 6 weeks for quarterly. Group reporting deadlines should be 12 weeks (quarterly) and 22 weeks (annually).

Summarized, the existing and proposed reporting requirements are:

Reporting requirement	Current Solvency II	proportionate toolbox
Solvency II QRTs	71	Approximately half the S II QRTs, plus additional QRT in case of cross-border business and re-insurance. (see annex 1)
Quarterly and semi-annual QRTs	Exemption possible under certain conditions (art 35 (6-8), Solvency II)	Default exemption (unless)
ORSA	Every year	Proportionate version (see annex 3)
SFCR	Annual	A summary only
RSR	Annual	Only material change

### 3.3 Other requirements

- Non-life insurers in the proposed proportionate toolbox are only required to have an actuarial function (either outsourced or in-house) if they sell insurance contracts with a duration of more than 4 years.<sup>15</sup> Life insurers, however, always need an actuarial function.

#### Note

The suggested changes to Solvency II are made on a ceteris paribus basis. In other words on a basis that all other Solvency II rules and regulations remain unchanged. This means, that if certain existing reporting rules are changed to become the same as the ones proposed for this proportionate toolbox, a change to this proposal is necessary to give meaningful contrast between the regular Solvency II regime and the Solvency II proportionate toolbox.

<sup>11</sup> The conditions are provided in articles 88-112 of Delegated Regulation 2015/35.

<sup>12</sup> EIOPA calls for consistent application of the proportionality principle for the supervision of Solvency Capital Requirement.

<sup>13</sup> Source: DNB.

<sup>14</sup> See on the Central Bank of Ireland on [this page](#) the [Low/Medium/Low ORSA Template](#).

<sup>15</sup> Non-life Dutch Basic Regime insurers only need an actuarial function if they underwrite policies with a duration of over 4 years (art. 19 (3) and (4) Besluit prudentiële regels).



## Annex 1: proportionate toolbox QRTs vs. full Solvency II regime

(Delegated Regulation 2015/2450)

In this table the QRTs which apply to both the Solvency II regime and the proportionality toolbox

are printed in bold. The additional Basic QRTs are also printed in bold. A question mark (?) means the QRT is conditional in the proportional toolbox on there being cross-border business or on condition that the insurer has taken re-insurance. A blank field means “no”.

S II QRT	QRT Dutch Basic Regime <sup>16</sup>	Content of QRT	Quarterly reporting	Annual reporting non-life	Annual reporting life & funeral insurance
<b>S.01.01.01</b>	<b>Index</b>	<b>Index sheet</b>		<b>yes</b>	<b>yes</b>
<b>S.01.02.01</b>	<b>NAW</b>	<b>General information</b>	<b>yes</b>	<b>yes</b>	<b>yes</b>
S.01.03.01		Basic Information — RFF and matching adjustment portfolios			<b>yes</b>
<b>S.02.01.01</b>	<b>Balance sheet 1</b>	<b>Balance sheet</b>	<b>yes</b>	<b>yes</b>	<b>yes</b>
<b>S.03.01.01</b>	<b>Balance sheet 2</b>	<b>Off-balance sheet items</b>		<b>yes</b>	<b>yes</b>
S.03.02.01		Off-balance sheet items — List of unlimited guarantees received by the undertaking			
S.03.03.01		Off-balance sheet items — List of unlimited guarantees provided by the undertaking			
S.04.01.01		Activity by country		?	?
	<b>Balance sheet 3</b>	<b>Assets and liabilities by currency</b>		<b>yes</b>	<b>yes</b>
S.04.02.01		Information on class 10 in Part A of Annex I of Solvency II Directive, excluding carrier’s liability			
S.05.01.01	<b>PSK</b>	Premiums, claims and expenses by line of business	<b>yes</b>	<b>yes</b>	<b>yes</b>
S.05.02.01		Premiums, claims and expenses by country	<b>yes</b>	<b>yes</b>	<b>yes</b>
S.06.01.01		Summary of assets	<b>yes</b>	<b>yes</b>	<b>yes</b>
S.06.02.01		List of assets	<b>yes</b>	<b>yes</b>	<b>yes</b>
S.06.03.01		Collective investment undertakings — look-through approach			
S.07.01.01		Structured products			
S.08.01.01		Open derivatives			
S.08.02.01		Derivatives Transactions			
S.09.01.01		Income/gains and losses in the period			
S.10.01.01		Securities lending and repos			

<sup>16</sup> Based on rules set out by the Dutch central bank (DNB), entitled “Regeling prudentieel toezicht verzekeraars met beperkte risico-omvang” and published (Dutch language) excel sheets on the DNB website.

S II QRT	QRT Dutch Basic Regime <sup>16</sup>	Content of QRT	Quarterly reporting	Annual reporting non-Life	Annual reporting life & funeral insurance
S.11.01.01		Assets held as collateral			
S.12.01.01		Life and Health SLT Technical Provisions			yes
S.12.02.01		Life and Health SLT Technical Provisions — by country			?
<b>S.13.01.01</b>	<b>TV-3</b>	<b>Projection future gross cash flows life insurance (Best estimate - life, funeral insurance and incapacity for work insurance)</b>			yes
S.14.01.01		Life obligations analysis			
S.15.01.01		Description of the guarantees of variable annuities			
S.15.02.01		Hedging of guarantees of variable annuities			
S.16.01.01		Information on annuities stemming from Non-Life Insurance obligations			
<b>S.17.01.01</b>	<b>TV-2</b>	<b>Technical reserves non-life insurance</b>		yes	
S.17.02.01		Non-Life Technical Provisions — By country		?	
<b>S.18.01.01</b>	<b>TV-4</b>	<b>Projection future gross cash flows non-life (Best estimate – non-life)</b>		yes	
S.19.01.01		Non-life insurance claims		yes	?
S.20.01.01		Development of the distribution of the claims incurred		?	?
	<b>TV-5B</b>	<b>Information payable claims non-life (reporting group B)</b>		yes	
	<b>TV-5C</b>	<b>Information payable claims non-life (reporting group C)</b>		yes	
<b>S.21.01.01</b>	<b>TV-6</b>	<b>Distribution profile losses non-life</b>		yes	
<b>S.21.02.01</b>	<b>TV-8</b>	<b>Non-life technical risks - largest net risks</b>		yes	
	<b>TV-9</b>	<b>Largest net risks life (including funeral insurance and incapacity for work insurance)</b>			yes
S.21.03.01		Non-life distribution of underwriting risks — by sum insured			
S.22.01.01		Impact of long term guarantees measures and transitionals			
S.22.04.01		Information on the transitional on interest rates calculation			
S.22.05.01		Overall calculation of the transitional on technical provisions			
S.22.06.01		Best estimate subject to volatility adjustment by country and currency			

S II QRT	QRT Dutch Basic Regime <sup>16</sup>	Content of QRT	Quarterly reporting	Annual reporting non-life	Annual reporting life & funeral insurance
<b>S.23.01.01</b>	<b>EV</b>	<b>Own capital</b>	<b>yes</b>	<b>yes</b>	<b>yes</b>
S.23.02.01		Detailed information by tiers on own funds			
S.23.04.01		List of items on own funds			
S.24.01.01		Participations held			
<b>S.25.01.01</b>	<b>SKV-1</b>	<b>Solvency Capital Requirement</b>		<b>yes</b>	<b>yes</b>
S.25.02.01		Solvency Capital Requirement — for undertakings using the standard formula and partial internal model			
S.25.03.01		Solvency Capital Requirement — for undertakings on Full Internal Models			
<b>S.26.01.01</b>	<b>SKV-2</b>	<b>Solvency Capital Requirement — market risk</b>		<b>yes</b>	<b>yes</b>
<b>S.26.02.01</b>	<b>SKV-3</b>	<b>Solvency Capital Requirement — counterparty credit risk</b>		<b>yes</b>	<b>yes</b>
<b>S.26.03.01</b>	<b>SKV-4</b>	<b>Solvency Capital Requirement — life insurance technical risk</b>			<b>yes</b>
<b>S.26.04.01</b>	<b>SKV-5</b>	<b>Solvency Capital Requirement — health insurance technical risk</b>		<b>yes</b>	
<b>S.26.05.01</b>	<b>SKV-6</b>	<b>Solvency Capital Requirement — non-life technical risk</b>		<b>yes</b>	
<b>S.26.06.01</b>	<b>SKV-8</b>	<b>Solvency Capital Requirement — operational risk</b>		<b>yes</b>	<b>yes</b>
S.26.07.01		Solvency Capital Requirement — Simplifications			
<b>S.27.01.01</b>	<b>SKV-7</b>	Solvency Capital Requirement — catastrophe risk in non-life- and health insurance		<b>yes</b>	
S.28.01.01	<b>MKV</b>	<b>Minimum Capital Requirement — Only life or only non-life insurance or reinsurance activity</b>		<b>yes</b>	<b>yes</b>
S.28.02.01		Minimum Capital Requirement — Both life and non-life insurance activity			
S.29.01.01		Excess of Assets over Liabilities			
S.29.02.01		Excess of Assets over Liabilities — explained by investments and financial liabilities			
S.29.03.01		Excess of Assets over Liabilities — explained by technical provisions			
S.29.04.01		Detailed analysis per period — Technical flows versus Technical provisions			
S.30.01.01		Facultative covers for non-life and life business Basic data			
S.30.02.01		Facultative covers for non-life and life business shares data			
S.30.03.01		Outgoing Reinsurance Program Basic data		?	?
S.30.04.01		Outgoing Reinsurance Program shares data		?	?
<b>S.31.01.01</b>	<b>HVZ-1</b>	<b>Share of reinsurers (including Finite Reinsurance and SPV's)</b>		<b>yes</b>	<b>yes</b>

S II QRT	QRT Dutch Basic Regime <sup>16</sup>	Content of QRT	Quarterly reporting	Annual reporting non-life	Annual reporting life & funeral insurance
	<b>HVZ-2</b>	<b>Reinsurance programme coming reporting period</b>		<b>yes</b>	<b>yes</b>
S.31.02.01		Special Purpose Vehicles			
S.36.01.01		IGT — Equity-type transactions, debt and asset transfer			
S.36.02.01		IGT — Derivatives			
S.36.03.01		IGT — Internal reinsurance			
S.36.04.01		IGT — Cost Sharing, contingent liabilities, off BS and other items			

## Annex 2: estimated impact on insurance markets

Dutch insurance market	number	% (of number)	volume (€ mln.)	% (of volume)
Insurers with premium income under € 5 mln.	4	6.45	10	0.01
Insurers with premium income over € 5 mln.	58	93.50	70,190	99.98
Insurers with premium income under € 10 mln.	6	9.67	25	0.04
Insurers with premium income over € 10 mln.	56	90.32	70,175	99.96
Insurers with premium income under € 50 mln.	29	<b>46.77</b>	569	<b>0.81</b>
Insurers with premium income over € 50 mln.	33	53.23	69,630	99.19
Insurers with technical provisions under € 25 mln.	20	30.77	147	0.04
Insurers with technical provisions over € 25 mln.	45	69.23	392,572	99.96
Insurers with technical provisions under € 30 mln.	21	32.31	174	0.04
Insurers with technical provisions over € 30 mln.	44	67.69	392,545	99.95
Insurers with technical provisions under € 50 mln.	25	38.46	331	0.08
Insurers with technical provisions over € 50 mln.	40	61.54	392,388	99.92
Insurers with technical provisions under € 150 mln.	32	49.23	885	0.23
Insurers with technical provisions over € 150 mln.	33	50.77	391,834	99.77
Insurers with technical provisions under € 250 mln.	34	<b>52.31</b>	1,238	<b>0.32</b>
Insurers with technical provisions over € 250 mln.	31	47.69	391,482	99.68

Source: Dutch Centre for Insurance Statistics (CVS) and DNB data.

### Note

There are 3 insurers in the Netherlands with negative technical provisions. They have been taken into account for the numbers, but for volume they have been put at zero. The number of insurers in the Netherlands for premium income and technical provisions are not the same. This results from DNB data for unknown reasons. It concerns insurers with relatively small volumes. The table includes all sectors (life, non-life and health).

For premium income volume a breakdown by sector is possible, but not for the technical provisions.

Irish insurance market	number	% (of number)	volume (€ mln.)	% (of volume)
Insurers with premium income under € 5 mln.	57	29.84	62	0.10
Insurers with premium income over € 5 mln.	134	70.16	64,888	99.90
Insurers with premium income under € 10 mln.	73	38.22	175	0.27
Insurers with premium income over € 10 mln.	118	61.78	64,775	99.73
Insurers with premium income under € 50 mln.	121	<b>63.35</b>	1,254	<b>1.93</b>
Insurers with premium income over € 50 mln.	70	36.65	63,697	98.07
Insurers with technical provisions under € 25 mln.	122	51.69	55	0.02
Insurers with technical provisions over € 25 mln.	114	48.31	278,259	99.98
Insurers with technical provisions under € 30 mln.	124	52.54	109	0.04
Insurers with technical provisions over € 30 mln.	112	47.46	278,205	99.96
Insurers with technical provisions under € 50 mln.	136	57.63	602	0.22
Insurers with technical provisions over € 50 mln.	100	42.37	277,712	99.78
Insurers with technical provisions under € 150 mln.	166	70.34	3,012	1.08
Insurers with technical provisions over € 150 mln.	70	29.66	275,302	98.92
Insurers with technical provisions under € 250 mln.	179	<b>75.85</b>	5,516	<b>1.98</b>
Insurers with technical provisions over € 250 mln.	57	24.15	272,798	98.02

## Annex 3: proportionate ORSA

Derived from the Central Bank of Ireland on [this page](#) the [Low/Medium/Low ORSA Template](#).

### Regular ORSA or non-regular ORSA:

#### 1. Frequency of the ORSA

##### 1.1. What triggered this non-regular ORSA?

- start-up of new lines of business
- major changes in business volume
- major changes in risk tolerance limits
- major amendments to re-insurance arrangements
- changes to the asset mix
- portfolio transfers
- other (please specify)

#### 2. Link to strategic decision-making

##### 2.1. How are the results / outcome of ORSA and insights gained from the ORSA process used? (Please select all that apply.)

- not applicable
- capital management
- business planning
- product development and design
- setting risk limits
- evaluation of capital adequacy
- reinsurance purchase
- determination of investment policies and strategies
- improving credit ratings
- meet regulatory capital requirements
- others (please list)

##### 2. Has the undertaking made strategic decisions impacting the risk profile and regulatory capital requirement and overall solvency needs over the last financial year?

##### 3. If yes, briefly describe these key strategic decisions (and their impact on the risk profile).

#### 3. Role of Board of directors

##### 3.1. Did the board of directors review and approve the ORSA Policy?

##### 3.2. Briefly describe the role of the board in the ORSA assessment.

##### 3.3. How is the review/challenge of the ORSA by the board documented or evidenced? (Please select all that apply.)

- Minutes of the Board of directors on discussions on ORSA
- Board sign off on internal report on ORSA
- Others (please list)

#### 4. Documentation

##### (a) ORSA policy

##### 4.1. Does the undertaking have a documented ORSA Policy?

##### 4.2. Does the ORSA Policy include at least the following (yes/no, if no, provide comment):

- (a) A description of the processes and procedures in place to conduct the ORSA including how the forward-looking perspective is addressed
- (b) Consideration of the link between the risk profile, the approved risk tolerance limits and the overall solvency needs
- (c) Information on stress tests to be performed and the frequency of the stress tests
- (d) Information on data quality standards
- (e) The frequency of the ORSA and the justification of its adequacy taking in to account the risk profile and the volatility of its overall solvency needs relative to its capital position
- (f) The timing for the performance of the ORSA and the circumstances which would trigger the need for an ORSA outside the regular timescales

##### (b) Record of each ORSA

##### 4.3. Is the ORSA process and outcome internally documented?

##### 4.4. Does the record of the ORSA include the following? (yes/no, if no, provide comment)

- (a) The individual risk analysis (quantified and non-quantified risks), including a description and explanation of risks
- (b) The links between the risk assessment and the capital allocation process and an explanation of how the risk tolerance limits were taken into account
- (c) A description of how risks not covered with own funds are managed (e.g. the risk mitigation techniques applied)
- (d) A technical specification of the approach used for the ORSA assessment, including a detailed description of the key structure, together with a list and justification of the assumptions underlying the approach used, the process used for setting dependencies, if any, and the rationale for the confidence level chosen, if any, a description of stress





tests and scenario analysis employed and the way their results were taken into account, and an explanation concerning how parameter and data uncertainty were assessed

- (e) An amount/range of values for the overall solvency needs over a one-year-period as well as for a longer period and a description of how the undertaking expects to address the needs.
- (f) Action plans arising from the assessment and the rationales for them e.g. strategies for raising own funds
- (g) Details on conclusions and the rationale for them from the assessment of continuous compliance with regulatory capital requirement and technical provisions
- (h) For undertakings that would use an internal model to calculate the SCR, a description of the changes made to the internal model during the application process
- (i) The identification and explanation of the differences established from the comparison of the undertaking's risk profile and the assumptions underlying the calculation of SCR, including details on how significant deviations are addressed
- (j) A description of the internal and external factors that were taken into consideration in the forward-looking perspective
- (k) Details of any planned relevant management actions, including an explanation and a justification for these actions, and their impact on the assessment
- (l) A record of the challenge process performed by the board

**(c) Internal Report on ORSA**

- 4.5. Did the board review and approve the results and conclusions of the ORSA (internal report on ORSA)?
- 4.6. If yes, when did the board approve the results and conclusions of the ORSA?
- 4.7. Please list all the personnel/units to whom the internal report on ORSA was communicated.

**5 Overall Solvency needs**

- 5.1. Which method(s) and main assumptions were used to quantify the overall solvency needs?

**5.2. Please provide the quantitative outcome of the Overall Solvency Needs Calculation:**

Breakdown of the overall solvency needs by category (where available)	Amount (one year)	Amount Medium or Long Term (as appropriate)
Totals OSN		
Total SCR (last financial year end)		
Total eligible own funds to meet the SCR (last financial year end)		

**5.3. What is the reference date at which the above overall solvency needs values were calculated?**

**5.4. Please list other material risks considered in the ORSA that were not quantified (capital was not allocated for these risks). Briefly explain how these risks are addressed by the undertaking (in the table below).**

	Risk classification	Briefly describe how these risks are addressed by undertaking

**5.5. Does the undertaking apply any asset and liability valuation basis that is different from Solvency II?**

**5.6. Does the undertaking apply any asset and liability recognition basis that is different from Solvency II?**

**5.7. If yes to either 5.5 or 5.6, briefly explain how the recognition and/or valuation basis applied by the undertaking ensure better consideration of its risk profile, approved risk tolerance limits.**

**6 Forward looking perspective**

**6.1. What is the time horizon of the business plans and financial projections that were taken into account in the determination of overall solvency needs?**

**6.2. Does the undertaking's ORSA take into account the internal and external factors that could potentially affect the undertaking's overall solvency needs? (Yes, No, Not applicable)**

Please select the applicable responses below.

Please note that the list below is not exhaustive.

Internal factors

- Change in business plan
- Management actions
- Change in business volume and mix (lines of business)
- Shareholder actions e.g. dividend policy

Please list other internal factors with potential negative effects that were considered.

External factors

- Deterioration in economic conditions
- Unexpected large claims/ unexpected increase in claims reserves
- Downgrading of a reinsurer's rating
- A sharp decline in market value of assets

Please list other external factors with potential negative effects that were considered

**6.3. Which of the following does the undertaking perform as part of its business and capital planning process?**

- Stress tests
- Reverse stress test
- Sensitivity analysis
- Scenario analysis
- Not applicable
- Others (please list)

**6.4. Briefly describe the stress tests/ reverse stress test/ sensitivity and/ or scenario analyses carried out.**

(Please note these can range from simple to complex tests depending on proportionality).

Description	Impact on own funds	Does the undertaking have sufficient own funds to meet its overall solvency needs throughout the projection period?

**7. Compliance on a continuous basis**

- 7.1. Has the undertaking held sufficient eligible own funds to meet the minimum capital requirement (MCR) and solvency capital requirement (SCR) at all times?
- 7.2. If no, did the undertaking notify the Central Bank?
- 7.3. Has the undertaking performed a recalculation of its SCR and eligible own funds since the last full solvency calculation?
- 7.4. If yes, what triggered the recalculation of SCR and/or eligible own funds?
- 7.5. If the undertaking has applied the Matching Adjustment, Volatility Adjustment, or the transitional measures described in Article 308c-d, has it performed an assessment of compliance with the SCR with and without taking into account those adjustments and transitional measures?
- 7.6. If yes, what has been the primary impact of these measures?

Measure (where applicable)	Impact
Matching Adjustment	
Transitional Risk Free Rate	
Transitional Technical Provisions	
Volatility Adjustment	

**7.7. Did the undertaking consider the following when evaluating its future own funds requirements? (yes/no)**

- (a) Capital management including, at least issuance or repayment of capital instruments, dividends and other distributions of income or capital, and calls on ancillary own fund items. Including projected changes and contingency plans in stressed situation.
- (b) The interaction between the capital management and its risk profile.
- (c) Its ability to raise own funds of an appropriate quality and in an appropriate timescale.
- (d) How the average duration of own fund items (contractual, maturity or call dates), could impact the average duration of its insurance liabilities and future own funds needs.



7.8. What contingency plans are in place to ensure own funds of sufficient quality are available in stressed situations?

- Issue ordinary shares
- Issue preference shares
- Issue subordinated debt
- Capital injections from parent
- Letters of credit
- Not applicable
- Others (please list)

7.9. Does the undertaking have processes and procedures relating to regular review of the calculation of technical provisions? If no, please explain.

7.10. Does the actuarial function provide inputs to the assessment of compliance with the requirements of calculating the technical provisions? If no, please explain.

9. Undertaking's conclusions and actions from the ORSA

9.1. Briefly describe the undertakings' conclusions from the ORSA and proposed action plans (where applicable). Actions may include; strategies to raise additional own funds, actions to improve the undertaking's financial condition and the proposed timings, etc.

Issue/item	Proposed action and timeline

8. Deviations from assumptions underlying the standard formula

8.1. Does the risk profile of the undertaking materially deviate from the assumptions underlying the SCR calculation? If yes to (8.1) please provide details on the quantification of the significant deviation.

Qualitative description of the deviation	Own quantification of the risk	Standard formula quantification

8.2. What are the primary reason(s) for the deviation between the undertaking's risk profile and the assumptions underlying the SCR calculation?

- Risks considered by the undertaking but not included in the standard formula
- Risks not adequately captured by the standard formula
- Standard formula calibration is not suitable for undertaking's risks
- Others – please describe



The **Dutch Association of Insurers** is the trade association for non-life and life insurers. The Dutch insurance sector employs some 42,000 people. More than 95 percent of all insurers in the Netherlands are represented through the association as well as reinsurers, InsurTechs, premium pension institutions and companies involved with bank savings. We represent the interests of these members and respond to social developments. In this way we connect the insurance sector with society.

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