Ref: Review of prudential rules for insurance and reinsurance companies (Solvency II)

Link to consultation: https://ec.europa.eu/info/files/2020-solvency-2-review-consultation-document_en

BETTER FINANCE Feedback on Review of prudential rules for insurance and reinsurance companies (Solvency II)

Executive Summary

BETTER FINANCE mainly relied on the work done by its German Member Association Bund der Versicherten.

Long-termism and sustainability of insurers' activities and priorities of the European framework	We fully support EIOPA's fundamental approach of preventing as well from "green-washing" as from "green bubbles". ESG-conform investments must be submitted to the same unequivocal risk assessment procedures (ORSA) as any other investment by insurers. In addition, under the ongoing conditions of the low, or even zero and **negative interest rate period**, classical concepts of capital return guarantees of life insurers are no longer valid.
Proportionality of the European Framework and transparency towards the public	There are strong differences with regard to the data quality, transparency and understandability among **Solvency and Financial Condition Reports** (SFCRs) published by the life insurers. BdV in cooperation with the independent analyst Carsten Zielke has published since 2017 an extensive yearly evaluation on the transparency and understandability of SCFRs of German life insurers. [1] Therefore, we fully support EIOPA's proposal of a new short section in the SFCR with information specifically aimed at policyholders. This new section (a two-pages document) should be sent obligatorily to policyholders in common with the annual pension benefit statements. For consumer organisations like BETTER FINANCE or BdV the **SFCRs constitute the essential basic information tool for an additional analysis of capital and solvency requirements**.
Improving trust and deepening the single market in insurance	We continue to support EIOPA's objective to develop principles of a minimum degree of harmonisation in the field of **Insurance Guarantee Schemes (IGS)**[2]. Therefore, minimum harmonisation should entail the definition of a common

[1] **For 2020**: https://www.bundderversicherten.de/presse-und-oeffentlichkeitsarbeit/pressemitteilungen/explodierende-zinszusatzreserve-zehrt-solvenz-der-lebensversicherer-weiter-aus

BaFin as well had strictly required quality improvements of these reports: https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2018/fa_bj_1809_SolvencyII_en.html

[2] (*cf. BdV's comments on EIOPA's consultations on Insurance Guarantee schemes (IGS) in February 2017, October 2018 and October 2019*[2]):

services	approach of the fundamental elements of recovery and resolution (e.g. resolution objectives and powers, and common set of early intervention powers) which the national frameworks should implement, while leaving room for Member States to adopt additional measures at the national level, if needed, to better address the specificities of their national markets. The ongoing and even enhanced "*low for long interest rate"* phase constitute a tremendous challenge for life insurers and their long-term liabilities and will continue to have a severe, more risky impact on their search for yield behaviour. The increasing number of run-offs shows that not all life insurers are willing or even able to cope with this situation. Obviously, recovery and resolution and IGS are very closely linked. An EU-framework of RRPs, i.e., a kind of common "toolkit" available to all NCAs, constitutes the necessary complementary element to the proposed harmonisation of national IGS - due to the two current main macroeconomic drivers, "low for long" interest rate phase and enhanced cross-border offers of financial services (like PEPP), which call for a more equal and effective protection of policyholders.
New emerging risks and opportunities	Recently, the German NCA **BaFin** has published in its monthly Journal (October 2020) the results of the **first supervisory examination of IT-structures of insurers and pension funds.** This examination was based on BaFin's Circular on "Supervisory Requirements with regard to IT" ("VAIT")[3] of July 2018 (stressing cyber risk analysis, management responsibilities, user identity controls, cloud services, external service providers etc.). BaFin now clearly states that the requirements outlined in this circular have NOT been fulfilled by the vast majority of the insurers, pension funds ("Pensionskassen") and even reinsurers. Therefore, BaFin urges the insurers for enhanced efforts of strong improvements of their own IT structures and internal control mechanisms. Detailed supervisory examinations will be continued during the next two years.

About BETTER FINANCE

BETTER FINANCE, the European Federation of Investors and Financial Services Users, is the European public interest non-governmental organization solely dedicated to the interests of European citizens as savers, individual investors and financial services users at the European level to lawmakers and the public in order to promote research, information and training on investments, savings and personal finances.

BETTER FINANCE acts as an independent financial expertise and advocacy center to the direct benefit of European financial services users. Since the BETTER FINANCE constituency includes individual and small shareholders, fund and retail investors, savers, pension fund participants, life insurance policy holders, borrowers, and other stakeholders who are independent from the financial industry, it has the best interests of all European citizens at heart. As such its activities are supported by the European Union since 2012.

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https://www.google.com/search?q=EIOPA+consultation+IGS&rlz=1C1CHZL_enBE831BE831&oq=EIOPA+consultation+IGS&aqs=chrome..69i57j69i60l2.6050j0j7&sourceid=chrome&ie=UTF-8

[3] file:///C:/Users/User/Downloads/dl_rs_1710_ba_BAIT_en.pdf

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Introduction

Solvency II which entered into application in 2016, introduces for the first time a harmonised, sound and robust prudential framework for insurance firms in the EU. It is based on the risk profile of each individual insurance company but still ensures comparability, transparency and competitiveness. The Solvency II framework consists of three 'pillars':[4]

- *quantitative requirements, including the rules to value assets and liabilities (in particular, technical provisions – liabilities towards policyholders), to calculate capital requirements and to identify eligible own funds to cover those requirements (referred to as "Pillar 1");* [5]
- *requirements for risk management, good governance, as well as the details of the supervisory process with competent authorities ("Pillar 2");* [6]
- *requirements on transparency, reporting to supervisory authorities and disclosure to the public ("Pillar 3").*[7]

As confirmed by stakeholders' statements at the recent conference organised by the European Commission on the review of Solvency II on 29 January 2020, the general perception is that the European framework as a whole functions well. At the same time, the experience gained from the first years of application of the Solvency II framework and the feedback received from industry stakeholders and public authorities have identified a number of areas, which could deserve a review. Furthermore, the framework also needs to take into account the political priorities of the European Union (notably the European Green Deal, the completion of the Capital Markets Union, and the strengthening of the single market) and should also be flexible enough to cope with any economic and financial developments (including the unprecedented protracted low – and even negative – interest rate environment).[8]

[4] https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2020-solvency-2-review-consultation-document_en.pdf
[5] Ibid.
[6] Ibid.
[7] Ibid.
[8] Ibid.

The results of the present consultation will complement the one resulting from EIOPA's technical consultations. They will all feed into the European Commission review process of the Solvency II framework.[9]

Long-termism and sustainability of insurers' activities and priorities of the European framework

Objectives of the framework and priorities of the review

Q1: 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									X	

[9] Ibid .

stable single market									X	

Q 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 option
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 contribute to the investment needs of the European Green Deal, i.e. fostering insurers' investments that help the transition to carbon neutrality by 2050						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	

Capital requirements for investments in SMEs (both in equity and debt), for long-term investments and for sustainable investments

Q3. Have the recent changes to the prudential framework regarding equity investments appropriately addressed potential obstacles to long-term investments?

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

Q4: 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).

- ✓ <u>Yes, and the framework provides the right incentives</u>
- 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 safeguards9
- 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

Insurers' contribution to the objective of a sustainable economic growth and policyholder protection Solvency II is a risk-based and evidence-based framework.

Q 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	X		

therefore provide disincentives) to invest in activities and associated assets that are detrimental to the objective of a climate-neutral continent (so-called “brown penalising factor”)			

Comment: We fully support EIOPA's fundamental approach of preventing as well from "green-washing" as from "green bubbles". ESG-conform investments must be submitted to the same unequivocal risk assessment procedures (ORSA) as any other investment by insurers.

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

- ✓ <u>Yes</u>
- No
- Don’t know/no opinion

Q 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
- ✓ <u>No</u>
- Don’t know/no opinion

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

- Yes
- ✓ <u>Yes, but it is not the most important driver</u>
- No
- Don’t know/no opinion

Q 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
From the point of view of policyholders			

In terms of financial stability			

Comment: It is quite obvious that under the ongoing conditions of the low, or even zero and negative interest rate period, classical concepts of capital return guarantees of life insurers do not make sense anymore. Product innovations are strongly necessary which offer reduced or even no capital guarantees under the fundamental condition that full participation at any surplus is guaranteed and performance disclosures and cost charges are reliable and transparently outlined to potential customers.

Q 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

Comment: Although the Covid-19 crisis may surely be considered as a major disruptive event ("black swan event"), it does not create fundamentally new systemic risks. It enhanced all those systemic risks which had occurred already before. All these aspects have clearly been reported by many EU analysis like ESAs Joint Committee Report on Risks and Vulnerabilities in the EU Financial System (September 2020), EIOPA's Financial Stability Report (July 2020), EiOPA's Studies on the Impact of ultra-low yields on the insurance sector, including first effects of Covid-19 crisis (July and February 2020), as well as EIOPA's regular Stress Tests and Risk Dashboards.

On the national level, for example in Germany, this has been reflected by the "Committee of Financial Stability" to which representatives of the Bundesbank, of the NCA (BaFin) and of the Federal Ministry of Finance belong. This Committee publishes its annual report for the Federal Parliament usually in June/July (in 2020 already the seventh report: "Ausschuss für Finanzstabilität: Siebter Bericht an den Deutschen Bundestag zur Finanzstabilität", Juli 2020 - with special reference to Solvency II in chapter 2.3).

Q 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

Q 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 statement(s) with which you agree (at least 1 choice).

- Yes, but only in targeted areas of the framework
- ✓ Yes, a number of gaps in the framework need to be addressed in other areas than those mentioned in the previous answer (for instance, insurers’ significant exposure to specific types of assets)

- No
- Don't know/no opinion

Comment: In its recent "Financial Stability Report" of October 2020, the Bundesbank has clearly pointed out that due to the negative effects of the corona-lockdown of the real economy there is a largely growing risk of downgrading of company loans and debts and any securities linked to them. This could have strongly negative impacts on the asset allocations of insurers as well in 2021 and later. So ORSA of insurers and ORA of IORPs must be on "high alert" by analysing these interdependencies, but this requirement should in fact be obvious for any professional risk-management.

Proportionality of the European framework and transparency towards the public

Scope of Solvency II

Q 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
- ✓ <u>No</u>
- Don't know/no opinion

Proportionality in the application of Solvency II

Q 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?

- Yes
- ✓ <u>No</u>
- Don't know/no opinion

Scope of reporting obligations

Q 15: Should the exemptions and limitations always be subject to the discretion of the public authorities? Please indicate the statement(s) with which you agree (at least 1 choice).

- ✓ <u>The current system of exemptions and limitations is satisfactory</u>
- 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

Specificities of not-for-profit insurers

Q 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

Transparency towards the general public

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

	Agree	Disagree	Don't agree/no option
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		

Q 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)

- 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
- ✓ The reading was not insightful
- I have never consulted a SFCR
- Don't know/no opinion

Comment: It is obvious that there are strong differences regarding the data quality, transparency and understandability among **Solvency and Financial Condition Reports (SFCRs)** published by the life insurers. BdV in cooperation with the independent analyst Carsten Zielke has published since 2017 each year an extensive evaluation on the transparency and understandability of SCFRs of German life insurers. These analyses are all published on BdV's website.[10]

Q 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? [Insert text box]:

We fully support EIOPA's proposal of a new short section in the SFCR with information specifically aimed at policyholders. This new section (a two-pages document) should obligatorily be sent to policyholders in common with the annual pension benefit statements.

Therefore, we agree with EIOPA's proposal (cf. Consultation Paper EIOPA-BoS-19-309 of 25 June 2019) to introduce a **standardized information in the SFCR** addressing other users than policyholders following to page 11 and 12 of the CP (impacts on coverage ratio and on the amount of Own Funds following to the proposed key sensitivity tests). As this information shall be shown via a template, we propose to add it either in section E (Capital Management) or in section C.2 (Business Risk) of the SFCR (following to the current SCFR sections).

Q 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?

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[10] **For 2020**: https://www.bundderversicherten.de/presse-und-oeffentlichkeitsarbeit/pressemitteilungen/explodierende-zinszusatzreserve-zehrt-solvenz-der-lebensversicherer-weiter-aus

BaFin as well had strictly required quality improvements of these reports:https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2018/fa_bj_1809_SolvencyII_en.html

- ✓ Yes
- No
- Don't know/no opinion

Comment: Group SFCRs should be sent on demand (cf. Q 17).

Q 21: Should all insurers publish a SFCR on a yearly basis?

- ✓ 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

Comment: The SFCRs constitute the only official Solvency II document which has to be published by the insurers for the general public (retail and professional investors, analysts, journalists etc.) and not exclusively to the supervisors. All other information on Solvency II figures is accessible only for the insurers themselves and the supervisory authorities. **That is why we consider any attempt to reduce the importance of SFCR or even to abolish them must clearly be rejected (for ex. due to apparently low online click rates).**

For consumer organisations like BETTER FINANCE or BdV the SFCRs constitute the essential basic information tool for an additional analysis of capital and solvency requirements which BdV uses to publish independent research and assessment – performed by an independent insurance analyst - on the German life insurance market once a year (in 2017, 2018, 2019 and 2020). For this reason, BdV website is an important tool for multiplication / proliferation of information contained in the SFCRs to a wider public.[11]

Q 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?

No, but calculation and report to public authorities.

Improving trust and deepening the single market in insurance services

Supervision of cross-border business

Q 23: When the Home authority does not take the necessary measures to prevent excessive

[11] https://www.bundderversicherten.de/ueber-uns/der-bdv

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

Comment: If the host authority considers that the home authority does not take the necessary measures in order to prevent customer's detriment, the latter has to inform and urge EIOPA for mitigating this conflict.

Q24: 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

Comment: By national authorities, with mandatory European coordination and oversight.

Preventing and addressing insurance failures

Q 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

Comment: We continue to support EIOPA's objective to develop principles of a minimum degree of harmonisation in the field of insurance guarantee schemes (cf. BdV's comments on EIOPA's consultations on IGS in February 2017, October 2018 and October 2019[12]). This objective is clearly consistent with the objectives which are already implemented in other sectors of the financial industry (BRRD, FSB Key Attributes etc.). Therefore, minimum harmonisation should entail the definition of a common approach to the fundamental elements of recovery and resolution (e.g. objectives for resolution and resolution powers, common set of early intervention powers) which the national frameworks should implement, while leaving room for Member States to adopt additional measures at the national level if needed to better address the specificities of their national markets. These measures need to be compatible with the principles and objectives set at the EU level.

The ongoing and even enhanced "low for long" interest rate phase constitute a tremendous challenge for life insurers and their long-term liabilities and will continue to have a severe, more risky impact on their search for yield behaviour. The increasing number of run-offs shows that

[12] https://www.bundderversicherten.de/stellungnahmen

not all life insurers are willing or even able to cope with this situation.

Obviously, recovery and resolution and IGS are very closely linked. An EU-framework of RRPs, i.e. a kind of common "toolkit" available to all NCAs, constitutes the necessary complementary element to the proposed harmonisation of national IGS - due to the two current main macroeconomic drivers, "low for long" interest rate phase and enhanced cross-border offers of financial services (like PEPP), which call for a more equal and effective protection of policy-holders.

Q 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?

- ✓ <u>Yes</u>
- No
- Don't know/no opinion

Comment: We acknowledge that, due to very different supervisory pre-conditions at national level (such the existence or lack of home of global companies, Insurance Guarantee Scheme and pre-emptive Recovery and Resolution Plans.), it appears to be appropriate that the legal structure of policyholder protection schemes should be left to the discretion of Member States. As EIOPA has shown, IGS already exist in more than half of the EU Member States. But based on these examples and combined with a minimum degree of EU harmonisation **the obligation for setting up an IGS on the national level should be introduced.**

In the long run any potential harmonised approach towards IGS should not only trigger a principle-based harmonisation of national insolvency regimes, but a minimum harmonisation with clear qualitative criteria and quantitative thresholds aiming at establishing a more equal protection of policyholders.

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

- ✓ <u>All life insurance products</u>
- Some life insurance products
- No life insurance products
- Don't know/no opinion

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

- Health
- Workers' compensation
- Insurance against Fire and other damage to property
- General liability
- ✓ <u>Accident (such as damage to the driver)</u>
- Suretyship for home building projects
- Other

Comment: All mandatory insurances like motor insurances should be covered at least. The German model of health insurances based on the calculation of life insurances is a special feature which - as far as we know - does not exist in any other EU member state. That is why the model of the national IGS for health insurances "Medicator" cannot be generalized, but it is necessary for Germany.

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

- ✓ Yes
- No
- Don't know/no opinion

Comment: At least all mandatory insurance liability should be covered by the IGSs at national level. If there are any limits, the amounts covered for these liabilities should correspond to the highest level of amounts already fixed in each of the member states.

Q 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

Comment: No generalized answer is possible. Providing compensation to policyholders for their losses in case of a liquidation of an insurer is the worst-case scenario and will surely not work – at least not for life insurers. Effective protection of policyholders must therefore already start by ensuring the continuation of insurance policies. In Germany this has been the case in 2003 with "Mannheimer Lebensversicherung" and the takeover of its portfolio by the national IGS "Protektor". Therefore, for each insurance class a separate solution has to be found. For life insurances the continuation of contracts is prevalent as outlined. For motor insurances the compensation of occurred indemnity claims is prevalent.

Q 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

Comment: Unfortunately, in the EU strong differences of living standards and therefore of insurance premiums (and in consequence their level of coverage) continue to subsist among the Member States. Therefore, a minimum coverage level should be determined at each national level. But of course a minimum coverage level at EU level should be a long-term objective to be elaborated by EIOPA (based on the experience of motor insurances for example).

Preventing financial stability risks and ensuring policyholder protection

Q 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).

- 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
- ✓ <u>Yes, in cases where a specific insurer is in financial distress, as long as policyholders would be better off than in the event of the insurer's failure</u>
- No
- Don't know/no opinion

Comment: In Germany the national IGS ("Protektor") is entitled to reduce the guaranteed sums of life insurance contracts up to 5%, if its accumulated assets are not sufficient in order to fulfil its long-term pay-out liabilities. This provision seems to be appropriate (cf. article 314 of national insurance supervisory law - VAG).

Q 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(s) with which you agree (at least 1 choice).

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

Comment: In Germany, the national IGS ("Protektor") is entitled to reduce the guaranteed sums of life insurance contracts up to 5%, if the accumulated assets are not sufficient to fulfil its long-term pay-out liabilities. This provision seems to be appropriate (cf. article 314 of national insurance supervisory law - VAG).

Flexibility of the framework under crisis situations

Q 34: Please specify whether other exceptional measures than those mentioned in Q32 and Q33 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. Please also clarify if those measures should apply at the level of individual insurers or widely to the whole sector. [Insert text box]

No dividends to shareholders in exceptional adverse market conditions.

Q 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

Comment: In 2020 due to the Covid-19 crisis the supervisory authorities at European and national level provided flexibility with regard to short-term capital requirements and reporting obligations by insurers and pension funds. This seems to be an appropriate example on how to react during exceptional adverse situations.

New emerging risks and opportunities

A. European Green Deal and sustainability risks

Q 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

Use of historical data

Q 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, with medium importance
- 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

Q38: 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 important
- No
- Don't know/no opinion

Q39: 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
- <u>Yes, and climate scenarios analyses are of medium importance</u>
- Yes, but climate change scenario analyses is of low important
- No
- Don't know/no opinion

Challenges arising from digitalisation and other issues

Q 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")?

- ✓ <u>Yes</u>
- No
- Don't know/no opinion

Comment: Recently, the German NCA **BaFin** has published in its monthly Journal (October 2020) the results of the **first supervisory examination of IT-structures of insurers and pension funds**. This examination was based on BaFin's Circular on "Supervisory Requirements with regard to IT" ("VAIT")[13] of July 2018 (stressing cyber risk analysis, management responsibilities, user identity controls, cloud services, external service providers etc.). BaFin now clearly states that the requirements outlined in this circular have NOT been fulfilled by the vast majority of the insurers, pension funds ("Pensionskassen") and even reinsurers. Therefore, BaFin urges the insurers for enhanced efforts of strong improvements of their own IT structures and internal control mechanisms. Detailed supervisory examinations will be continued during the next two years.

Q 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?

- ✓ <u>Yes</u>
- No
- Don't know/no opinion

Comment: For business B2B contracts, NO for private customers.

Q44 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

[13] file:///C:/Users/User/Downloads/dl_rs_1710_ba_BAIT_en.pdf

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