GDV German Insurance Association

SOLVENCY II

Position Paper

of the German Insurance Association (GDV)
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on changes in the delegated acts
in the context of the Solvency II review

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Executive summary

In the view of the German insurance industry, the agreement reached in the trialogue on the Solvency II review will help to adapt European insurance regulation even better to the key challenges of today and tomorrow. GDV therefore welcomes the package of amendments to the Solvency II Directive at level 1.

However, there are still a high number of open technical issues that need to be solved at level 2. The Commission Delegated Regulation (EU) 2015/35 should be amended accordingly. In the rest of the paper, various issues that should be solved at level 2 are described in more detail. We would like to highlight the following ones:

- A main concern has always been the **extrapolation** of the risk-free interest rate term structure. To avoid artificial volatility, the starting point for the euro is initially set to the maturity of 20 years again. Now, the two general applicable criteria for deep, liquid, and transparent markets as well as for a sufficient bond volume for hedging the liabilities should also be specified in a consistent way, i.e., that they deliver the same result of 20 years for the euro at first.

- In the calculation of the **volatility adjustment** (VA), the risk correction of spreads is revised. However, the absolute cap and the percentages still have to be specified. They should be chosen so that they ensure the volatility adjustment is sufficiently effective in major crises like the 2008 Financial Crisis or the Covid 19 crisis.

- As expected profits included in future premiums (**EPIFP**) are the result of a valuation based on economic principles and part of the reconciliation reserve, there is no reason for a further burdensome assessment. Consequently, EPIFP should not be included in the group's regular availability assessment.

- The requirements for a classification of equity investments as **long-term equity** (LTE) should be practicable and not result in disproportionate effort that makes the use of the category unattractive. Besides, the risk factor for **property risk** which is calibrated with exceptionally volatile UK data is too high given the evidence in the Union and should be reduced to meet the Solvency II requirement of a 99.5 VaR.

- The approval procedure for granting **proportionality** measures to undertakings not formally classified as small and non-complex undertakings (Non-SNCU) should be simple and unbureaucratic. The denial of the use of proportionality measures should only be possible if there are defined serious concerns.

- → The division of the solvency and financial condition report (**SFCR**) into two separate parts should be done in a sensible way. The part for policyholders and beneficiaries should be restricted to two pages, the part to market professionals should be restricted to necessary minimum and public QRTS.

- → Further provisions regarding the effective risk transfer by traditional reinsurance seem unnecessary as the existing regulatory framework offers sufficient instruments to deal with potential problems. The discussed amendment only causes the risk to exclude commonly used traditional risk mitigation techniques and should not be implemented.

1. LTG measures and other pillar 1 issues subject to level 1 changes

1.1 Extrapolation

The amending directive of the Solvency II review reiterates the significance of an effective extrapolation method for the risk-free interest rate term structure to "*balance the use of information derived from relevant financial instruments with the ability of insurance and reinsurance undertakings to hedge interest rates derived from financial instruments*" (Rec. 34). To ensure this, the start of the extrapolation (FSP) for the Euro is set at a maturity of 20 years for the date of entry into force of the amending directive (Art. 77a (2a)). In general, extrapolation starts at the maturity where markets are no longer sufficiently deep, liquid, and transparent (DLT) to provide reliable data, and where the percentage of outstanding bonds of that or a longer maturity among all outstanding bonds denominated in that currency is sufficiently high (residual volume criterion).

In general, the use of market data for the valuation of technical provisions should, in particular, incentivise good risk management. **This requires that the market depth of the financial instruments is sufficient for insurers to be able to hedge their liabilities against value changes caused by market data.** If the market depth is insufficient, the use of market parameters inevitably leads to volatile solvency positions that provide incentives for procyclical behaviour.

Insurers primarily use bonds and loans to hedge their liabilities. However, the bonds held by the ECB are no longer available for this purpose. As the proportion of bonds held by the ECB has risen sharply since Delegated Regulation 2015/35 came into force, the residual volume criterion should be revised upwards.

Moreover, the delegated acts should specify both criteria in a consistent way such that, for the Euro, they result in an FSP of 20 years, too. To this end, the percentage of outstanding bonds with higher maturity should be set at 8%.

→ DLT and residual volume criteria should be specified such that, for the Euro, they result in an FSP of 20 years. Also considering the reduction of available bonds by the ECB, **the percentage of outstanding bonds with higher maturity should be set at 8%.**

1.2 Volatility adjustment

In the calculation of risk corrected spreads for the volatility adjustment (VA) according to Art. 77d (3) of the amended directive, the portion of the spreads that is attributed to expected losses and unexpected risks (risk correction) must not exceed a realistic size in order to ensure the effectiveness of the VA in times of crisis. Thus, in its sectional calculation, the **respective percentages and the foreseen**

cap of the risk correction should be set such that they provide for a significant effect in crises comparable to those which have been observed in the last decades, in particular the short-term spread widening at the beginning of the Covid 19 pandemic and in the 2007 – 2008 Financial Crisis.

Regarding the spread calculation, **it is not supported to remove the zero floors applied to spreads of government and corporate bonds**. Bonds that exhibit a negative spread to the risk-free rates are assessed by the market as extremely safe. Therefore, there should either be no further deduction for risk correction or a zero floor for the spread in the VA calculation.

→ In the relative risk correction of spreads, the percentages and the absolute cap must provide for a VA that is effective in crises (Art. 51 DA).
→ The zero floors in the spread calculation should not be abolished (Art. 50 DA).

1.3 Risk margin

The Commission's announcement in 2021 to implement an exponential and time-dependent adjustment of the Solvency Capital Requirement via the lambda approach with a **lambda of 0.975** and **without a floor** in the risk margin calculation was an underlying assumption in the discussions on the amending directive and its impact. Its implementation is crucial to achieve a balanced outcome in terms of capital requirements.

Regarding groups, **the risk margin should be either diversified or calculated on group level** to be consistent with the reality of how insurance groups are managed in practice and with the treatment of diversification within the solvency capital requirement (SCR).

→ In the risk margin calculation, the adjustment should be implemented with *lambda* = 0.975 and without artificial floor (Art. 37 DA).
→ To better reflect reality, the risk margin should be either diversified or calculated on group level.

1.4 Interest rate risk

To obtain meaningful and consistent results, the extrapolation of interest rates in the stress scenarios must be **consistent with the extrapolation in the baseline case** of the risk-free term structure. Above all, this means to extrapolate the stressed rates of the shorter maturities. However, this also means to **apply the same ultimate forward rate (UFR)** in the extrapolation. If the UFR were to be additionally significantly stressed, this would contradict the nature of the UFR as a very long-term, only very slowly changing target value and would *not* be consistent with the baseline extrapolation as required by Art. 111 (1) of the amended directive.

It is welcomed that according to Art. 111 (1) of the amended directive **there will be an explicit floor for the level of downward stressed interest rates**. This reflects the economic reality that in the long run insurers will not invest for longer term in fixed income assets with significantly negative returns. The floor should reflect realistic costs for the medium-term viable alternative of holding physical cash (comparable to physical gold in ETCs/ETFs) which do not exceed −0.5%. Further, the floor must be term dependent as required by Recital 43a of the amending directive.

Interest rate changes have opposing effects on insurers' assets and liabilities. If there is an excess of the asset effect in one currency and an excess of the liability effect in another currency, this represents a risk-reducing natural hedge against changes in interest rates. **This diversification effect between the net exposures in different currencies should be recognised and the artificial ban for the offsetting of losses be abolished**.

- → As a very long-term target value, the UFR should not be stressed (Art. Art.166, 167 DA).
- → The floor for the level of interest rates in the downward risk scenario should increase by maturity (Art. 167 DA).
- → The diversification of risks between currencies should be recognised by the possibility to offset respective losses (Art. 165 DA).

1.5 Long-term equity

The current eligibility criteria to classify equity exposures as long-term equity (Art. 171 a DA) have proven too restrictive. The new provisions in Art. 105a of the amended directive are a step into the right direction. The revised requirements, particularly regarding liquidity management, must be practicable and must not result in disproportionate effort. Regarding the specification of types of collective investment undertakings referred to in paragraph 2 it would be desirable if all alternative investment funds were included. At least, those should be specified, to which reference has already been made (funds within the meaning of Art. 168 (6) a–d DA).

- → The requirements with regard to liquidity management, must be practicable. In particular, the duration of life insurance liabilities should be sufficient proof of liquidity for life insurance undertakings.
- → Regarding the specification of types of collective investment undertakings all alternative investment funds should be included.

2. Other pillar 1 issues

2.1 Life / health SLT underwriting risk

The provisions on standard formula life and health SLT expense risk should be clarified such that **expenses that are contractually fixed and cannot change should not wrongly be subject to the expense stress** in the according risk scenarios.

In the different standard formula lapse risk scenarios for life insurances, the risk factors are currently only selectively applied to those contracts for which the changed lapse rates increase the obligations. In practice, however, movements in lapse rates are largely homogeneous over all contracts. Therefore, **the assumed changes in lapse option exercise rates should apply to all contracts in each scenario.** Such an amendment is missing up to now.

Moreover, the risk factors for the life and health mass lapse scenarios appear to be unreasonably high. Even in extreme situations of individual life insurers, lapse waves of 40% or 70% did not occur in Germany by far. In health insurance, the German PKV statistics – covering a large part of the European market – speak for a risk factor of 25%. **The mass lapse risk factors for life and SLT health should therefore be significantly lowered** (or at least be replaceable by undertaking specific parameters). Such a revision is also missing up to now.

→ Fixed life / health SLT expenses should not be artificially stressed (Art. 140, 157 DA).
→ Assumed life / health SLT lapse stresses should relate to all contracts and not be arbitrarily selective (Art. 142, 159 DA).
→ The unrealistic high life / health SLT mass lapse risk factors should be lowered (Art. 142, 159 DA).

2.2 Market risk other than interest rate risk and long-term equity

The standard formula **correlation parameter between spread risk and interest rate down risk** is unrealistic high and should best be reduced at least to 0.25. However, there is no sufficient evidence for complex two-sided correlations in the market risk module, in particular between interest rate risk and spread risk, at all. Although the envisaged reduction of this correlation in the downward scenario is a step in the right direction, this two-sided correlation should best be replaced by a uniform correlation of zero.

A reduction of the **correlation parameter between equity and interest rate down risk** would in our perspective also be justified. Analyses on this issue should be made available by EIOPA.

Standard formula equity risk type 2 includes all assets that do not fit anywhere else in the standard formula (among others, funds for which no look-through is possible, commodities and alternative investments). For these assets as well as for the two equity risk types for infrastructure – unless they are exchange-traded companies – the following holds: If their valuation does not rise during a bull market, there is no reason to assume higher stress afterwards. The reverse is of course also true for a bear market. This only creates artificial volatility in the SCR. The application of the (now even larger) **symmetrical adjustment** should, thus, **be restricted to type 1 equity risk** (mainly OECD exchange-traded equities). It should be noted that the directive does not require that the adjustment is applied to all exposures subject to the standard equity risk sub-module: As precedents, strategic investments and long-term investments are already excluded from the application of the symmetric adjustment.

The standard formula **property risk factor** which is calibrated solely with exceptionally volatile UK data is too high given the evidence in the Union and **should be reduced** to meet the Solvency II requirement of a 99.5% VaR. A revised capital requirement for property risk could foster insurers' contribution to the financing needs of economic recovery, to the Capital Markets Union and to the decarbonisation targeted by the European Green Deal. In any case, the revision of this parameter is due to recital 83a of the amending directive.

Dynamic modelling of the volatility adjustment (VA), which means that it is not artificially ignored that the VA changes with the underlying spreads, is risk sensitive and follows from the logic of the modular standard formula. Thus, **a dynamic VA should not only be possible in internal models but also regarding standard formula spread risk**.

The standard formula spread risk factors for **securitisations** are too high and should be reduced in line with actual risk. Too high capital requirements for securitisations, especially in comparison to the capital requirements for loan pools or covered bonds, limit their attractiveness for insurers. When reviewing the securitisation regulations, consideration should be given to equal treatment vis-à-vis similar asset classes. In addition, the differences in capital requirements between senior and non-priority tranches of a securitisation are also high and should be adjusted. For example, a senior 5-year AA STS securitization has a capital requirement of 6%, while the subordinated tranche with the same AA rating has a capital requirement of 17%.

- → The correlation of spread risk and interest rate down risk should be significantly reduced (Art. 164 DA).
- → The correlation of equity and interest rate down risk should be analysed in more detail and presumably also be reduced (Art. 164 DA).

- → The symmetric adjustment of the equity risk factors should only be applied to equity risk type 1 (Art. 172 DA).
- → The property risk factor should be recalibrated without all-dominating effect of UK data as it is the case so far (Art. 174 DA).
- → A dynamic calculation of the volatility adjustment should be allowed in standard formula spread risk, too (Art. 176 DA).
- → Spread risk of securitisations should be reduced in line with actual risk (Art. 176 DA).

2.3 Counterparty default risk

The introduction of a **simplified calculation of the risk mitigating effect** of derivatives, reinsurance arrangements, special purpose vehicles and insurance securitisations as proposed by EIOPA is welcomed.

Clarifying that the **hypothetical SCR for the fire, marine and aviation risk** when determining the risk-mitigation effect in the counterparty default risk module should be **calculated on basis of the largest net risk concentration** for the fire, marine and aviation risk is supported. The identification should be determined once and remain unchanged.

- → Regarding counterparty default risk, a simplified calculation of the risk mitigating effect should be introduced (Art. 196 DA).
- → The hypothetical SCR for fire, marine and aviation should be based on the largest risk concentration (Art. 196 DA).

2.4 Mortgage loans and further alignment with banking regulation

Banks and insurers have different business and funding models as well as very different regulatory frameworks. Further alignments of their regulatory capital requirements are only possible to a limited extent. **A general adoption of provisions from banking regulation is neither sensible nor justified as it would fail to capture these differences.** European insurers are subject to a sophisticated, risk orientated prudential regulation with high capital requirements based on a total balance sheet approach. The prudential standard is by no means lower or less up to date compared to the differently designed banking regulation. Insurance regulation ensures a solvency capital requirement in line with the 99.5% VaR. In general, it is not possible that capital requirements meet both this Solvency II target and similarity with the completely different capital requirements in the banking sector.

There is no indication that there is any excessive risk-taking or harmful regulatory arbitrage of insurance undertakings regarding mortgage loans. Mortgage lending of insurers does not result in any higher micro- or macro-prudential risk. **The risk mitigation by the risk-adjusted value of mortgage must continue to be**

adequately recognised in the SCR. This must not be undermined by an arbitrary floor for the loss given default of the mortgage loan as it was brought into discussion by the ESRB. Such a floor would be inappropriate and not risk sensitive.

Mortgage loans are an important asset class with a plenty of small individual exposures with low risks and without short-run market value fluctuations. However, currently not all mortgage loans are subject to the best suitable counterparty default risk module but instead to the – inadequate – spread risk module. Therefore, **the criteria for the application of the counterparty default risk module on mortgage loans should be relaxed**. In particular, the limit of 1 million euro for mortgage loans neither accounts for the local property market nor is it risk sensitive. Therefore, it should be deleted or at least adjusted. Moreover, not only mortgage loans to natural persons but also to communal and cooperative housing societies should be eligible as they are also subject to low risk.

Partial guarantees for mortgage loans lower the risk of respective exposures. They should thus be recognised as risk mitigation technique (as it is also the case in banking regulation).

→ Further alignment with banking regulation is only partially possible and must not contradict the principles of Solvency II and its sophisticated risk measurement.
→ Risk mitigation by mortgages must remain taken adequately into account without imposing an arbitrary LGD floor (Art. 192, 198 DA).
→ The restriction that only mortgage loans to natural persons up to 1 million euro can be assigned to the default risk module should be relaxed (Art. 191 DA).
→ Partial guarantees for mortgage loans should be recognised as risk mitigation technique (Art. 192 DA).

2.5 Risk mitigation techniques

Regarding non-life catastrophe risk for non-proportional property reinsurance (LoB 28), **it should be clarified that geographical diversification is recognised** in the calculation of the capital requirement. The formula already takes into account geographical diversification by a factor “*DIV*”. However, by an incorrect reference to Annex III, this factor is set to a fixed value of one. This means that geographical diversification always must be ignored. This error should be fixed.

In the non-life premium risk, **adverse development covers (ADC) should be recognised** as risk mitigation technique (RMT). While further optional recognition of **non-proportional reinsurance in the non-life premium risk** calculation would be welcomed, it is positive that the lump-sum approach to recognizing certain segments remains in place.

Further provisions regarding the effective risk transfer by traditional reinsurance seem to be problematic and unnecessary. The existing regulatory framework offers sufficient instruments to deal with potential problems mentioned by EIOPA. The discussed amendment causes the risk to exclude commonly used traditional risk mitigation techniques.

Tightening the criteria for recognition of risk mitigation technique for **non-equivalent third country reinsurers** (possibly including requirements for an insurer to prove to the supervisory authority the enforceability of the contract and\or the level of risk transfer and\or report about the possible retrocession of risks) is unnecessary as Solvency II already provides tools to assess the risk exposure adequately. It would likely impair the functioning of the global reinsurance market and the competitiveness of European reinsurers.

Further, **finite reinsurance should also be eligible as risk mitigation technique** in the SCR standard formula calculation. The actual extent of risk transfer should be decisive for this. Such an amendment is missing up to now.

The considered clarification on **extending the recognition of risk-mitigating effect of State guarantees or State reinsurance** to underwriting and further market risks where they are not explicitly mentioned so far **is supported**.

The consideration to integrate EIOPA Guidelines on basis risk into the Delegated Regulation is not supported. **Basis risk requires individual consideration on a case-by-case basis**. Flexibility should be ensured to be able to select an appropriate approach.

- → The reference error that prevents the recognition of geographical diversification in the cat risk of non-proportional property reinsurance should be fixed (Art. 127 DA).
- → ADCs should be recognised as risk mitigation technique (RMT) in non-life premium risk (Art. 117 DA).
- → The adjustment factors for non-proportional reinsurance in the premium risk should remain unchanged (Art. 117 DA).
- → There should be no further provisions for effective risk transfer in traditional reinsurance (Art. 210 DA).
- → The criteria for third country reinsurance as RMT should not be tightened (Art. 210).
- → Finite Reinsurance should be recognised as RMT (Art. 208 DA).
- → State guarantees and state reinsurance should be recognised (Art. 211 DA).
- → Existing EIOPA guidelines on basis risk should not be integrated in the delegated acts (Art. 210 DA).

2.6 Miscellaneous

The definition of 'future management actions' is welcomed. In contrast, **the concept of 'expected profits in future fees for servicing and management of funds' is not supported**. The calculation is burdensome for the undertakings and regarding its solvency, there is no additional insight for the supervisor.

The recognition of overhead costs to be incurred in servicing insurance and reinsurance obligations and realistic new business assumption is supported.

As there is no credit risk from overnight index swaps, it should be clarified that if the risk-free interest rates are derived from these overnight index swaps, they need no longer be adjusted for credit risk.

The proposal to include the result of stress tests and scenario analysis into the overall solvency needs is not supported. The requirements of Art. 262 (1) DA to include risks the undertaking is or could be exposed to is sufficient.

- → It should be clarified that loss-making homogeneous risk groups have to be included in EPIFP.
- → There should be a definition of 'future management actions' but not of 'expected profits in future fees for servicing and management of funds' (Art. 1 DA).
- → Overhead costs to be incurred in servicing insurance and reinsurance obligations and realistic new business assumption should be recognised (Art. 31 DA).
- → Loss-making homogeneous risk groups should be included in EPIFP. There should be offsetting in homogenous risk groups, but no setting to zero (Art. 260 (4) DA).
- → It should be clarified that rates derived from overnight index swaps need not to be adjusted for credit risk (Art. 44/45 DA).
- → There should be no further provisions for the overall solvency needs. In particular, there is no need to explicitly require the inclusion of results of stress tests and scenario analysis into the calculation (Art. 262(2) DA / RTS).

3. Proportionality

3.1 Criteria for SNCUs

According to Art. 29 (5) lit a and b of the amended directive, delegated acts shall specify the criteria for small and non-complex undertakings (SNCU) laid down in Art. 29a(1) and the methodology to be used when classifying undertakings as small and non-complex. As the scope of application for SNCU is already very narrowly defined in the Directive, it is important to specify the criteria and methodology in such a way that the **scope of application is as broad as possible**. Under no

circumstances additional requirements should be included in the delegated acts.

→ The specification of criteria and methodology for classifying SNCU should allow for a broad scope of SNCU.

3.2 Conditions for granting proportionality measures for Non-SNCUs

According to Art. 29d of the amended directive, Member States shall ensure that insurance and reinsurance undertakings that are not classified as SNCU may use certain proportionality measures, but only to prior approval of the supervisory authority. According to Art. 29 (5) lit c, delegated acts shall specify the conditions for granting or withdrawing supervisory approval for proportionality measures to be used by undertakings not classified as SNCU. The approval procedure should be simple and unbureaucratic and the approval of corresponding proportional measures should be the rule. This should apply particularly to insurers that do not meet all SNCU criteria in full, but largely meet them or are only slightly above the relevant thresholds. It must also be ensured that the **denial of the use of proportionality measures should only be possible if there are defined serious concerns**, similar to the catalogue in Art. 29c (2). Any negative decision of the supervisory authority shall be done in writing, and state the reasons for decision and be linked to the risk profile of the undertaking,

→ The approval procedure for granting proportionality measures to a broad scope of Non-SNCU should be simple and unbureaucratic. Denial of approval should only be possible in the event of defined serious concerns regarding the insurer's risk profile.

3.3 Criteria for SNCGs

According to Art. 213a (7) of the amended directive, delegated acts shall specify the criteria and the methodology to be used when classifying groups as small and non-complex groups (SNCG) and the conditions for granting or withdrawing supervisory approval for proportionality measures to be used by groups not classified as a SNCG. As the requirements for SNCU shall apply mutatis mutandis for SNCG, the delegated acts should also ensure a broad scope, simple and a unbureaucratic approval for classification as SNCGs and for using proportionality measures of Non-SNCGs. Denial of approval should only be possible in the event of defined serious concerns regarding the insurer's risk profile.

→ The approval procedure for classification as SNCG should be simple and unbureaucratic.
→ Proportionality measures should be granted to a broad scope of Non-SNCU. Denial of approval should only be possible in the event of defined serious concerns regarding the insurer's risk profile.

4. Reporting and disclosure

4.1 SFCR

We welcome the new Art. 51 (1) of the amended directive which states that the solvency and financial condition report **(SFCR) will be divided into two parts** – one for policyholders and beneficiaries and one for market professionals. However, it must be to ensure that the content of each part of the SFCR, as outlined in Art. 51 (1a)–(1c), effectively aligns with the information needs of the intended audience. Hence, the part for policyholders and beneficiaries should only contain information relevant for this group and should be **limited to two pages**. The narrative part for market professionals should be reduced to the necessary minimum as the **public QRTs** have proven to be the most relevant part for market professionals. Therefore, we welcome the exception for small and non-complex undertakings to only disclose the SFCR for market professionals every three years. Otherwise, the public QRTs are considered sufficient.

According to Art. 256 (4), delegated acts shall further specify the information which must be disclosed in the **Single SFCR** referred to in paragraph 2 of this article and the **SFCR at the level of the group**. Here, it is important to ensure that the content of each part of the group level SFCR as well as the Single SFCR effectively meets the information needs of the intended audience.

→ The SFCR part for policyholders and beneficiaries should be restricted to two pages (Art. 290–297, 359, 365 DA).
→ The SFCR part to market professionals should be restricted to necessary minimum and public QRTS (Art. 290–297, 359, 365 DA).

4.2 RSR

We welcome the introduction of a **Single Regulatory Supervisory Report (RSR)** for groups. According to Art. 256b (6) of the amended directive, delegated acts shall further specify the information which shall be reported in the Single Regular Supervisory Report. It needs to be ensured that the Single RSR is designed in a practicable manner.

It is necessary to thin down the **content of the RSR**. One measure for this should be to avoid overlaps with ORSA and QRTs. This is applicable for RSR for individual undertakings, group RSR and Single RSR.

→ The practicability of Single RSR should be ensured (Art. 372–375 DA).
→ Overlap between RSR, ORSA and QRTs should be avoided (Art. 304–311, 372–375 DA).

4.3 Reporting Deadlines

We welcome the **increased timelines** for annual reporting. It needs to be ensured that the increased timelines are harmonized with the reporting deadlines for the ECB add-ons, i.e., the timeline for annual reporting for ECB add-ons needs to be increased accordingly. As the deadlines for reporting are already clarified in the Solvency II Directive, the current provisions in Art. 300 (1), Art. 312 (1) lit. a, c, d, Art 312 (2) and (3), Art. 362, 368 and 373 of the Delegated Regulation can be discontinued.

→ Due to increased timelines for SFCR and RSR in the amended directive, current provisions in the Delegated Regulation should be deleted (Art. 300, 312, 362, 368, 373 DA).

5. Group supervision

5.1 Own funds

In line with EIOPA's opinion, the Commission has announced that **expected profits included in future premiums (EPIFP) are to be included in the group's regular availability assessment.** However, EPIFP are the result of a valuation based on economic principles and part of the reconciliation reserve. They are fully recognised as unrestricted tier 1 items, and there is no justification apparent for burdensome continuous assessment.

→ EPIFP should not be included in the group's regular availability assessment (Art. 330 (1) DA).

5.2 SCR

We welcome the relief of reducing the contribution of the ultimate parent company to the group SCR by discarding the equity risk charge related to participations in insurance undertakings. This allows the inclusion of further non-available own funds from subsidiaries, since their contribution to the diversified group SCR would improve group solvency.

→ The equity risk charge for insurance participations should be removed from the group SCR (Art. 330 (6) DA).

6. Remuneration

We welcome the proposal to limit the scope of the mandatory deferral of a substantial portion of the **variable remuneration** component in Article 275(2)(c) of the Delegated Regulation, considering the absolute and relative amount of variable remuneration received by the staff member. We understand that EIOPA's recommendation assumes that the mandatory deferral would not apply if one of the following criteria are met:

- The undertaking is an SNCU, or the supervisory authority approves the use of the proportionality measure in accordance with Art. 29d of the amended Directive.
- The variable portion of the staff member's remuneration exceeds neither 50,000 euro or one third of the total remuneration.

Only the alternative application of the relative and absolute threshold would be consistent with EIOPA's opinion on the supervision of remuneration principles in the insurance and reinsurance sector (EIOPA-BoS-20/040). Paragraph 3.1 explicitly states that the non-application on variable remuneration components which do not exceed 50,000 euro and represent not more than 1/3 of that staff member's total annual remuneration is already in line with a proportionate and risk-based supervisory approach. A cumulative application of an entity-based threshold would undermine this statement.

→ There should be a waiver of the deferral of variable remuneration (Art. 275 DA).

Berlin, 7th March 2024