

**Opinion of the European Financial Congress¹
in relation to
the European Commission's consultation on Delegated Regulation
for the insurance and reinsurance sector
as regards technical provisions, long-term guarantee measures, own funds,
equity risk, spread risk on securitisation positions, other standard formula
capital requirements, reporting and disclosure, proportionality,
and group solvency²**

Methodology for preparing the answers

The opinion was prepared in the following stages:

Stage 1

A group of experts from the Polish financial sector were invited to participate in the survey and present their opinions on the EC proposed legislative act. The experts were guaranteed anonymity.

Stage 2

All the responses received were anonymised and the survey project coordinators prepared a synthesis of opinions submitted by the experts.

Step 3

The final version of the European Financial Congress' opinion was translated into English and submitted to the EC.

¹ The European Financial Congress www.efcongress.com is an independent think tank focusing on economic and financial issues. Its goal is to engage in debate on the security and stability of the financial systems as well as sustainable economic growth of the European Union and Poland. The EFC is run by the Centrum Myśli Strategicznych. The EFC Project dedicated to insurance is EFC Insurance <https://www.efcongress.com/ekf-ubezpieczenia/>

² <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13690-Insurance-and-reinsurance-firms-review-of-technical-rules-Solvency-II- en>

Area	Comments
Risk margin	<p>Positive: A reduction in the Cost-of-Capital rate from 6% to 4,75% in the calculation of the risk margin, coupled with the consideration of an additional factor that exponentially reduces the impact of future SCR on the risk margin over time will allow undertakings to increase their available capital, which may contribute to increased investment in line with EU objectives. Both changes should have a positive impact on the amount of own funds of Polish undertakings.</p>
Extrapolation of risk-free curve	<p>Positive: The modification in the method for the extrapolation of risk-free interest rate curve will enable better smoothing of the curve and the inclusion of market data outside the standard 10-year calibration period used for PLN.</p>
Volatility adjustment	<p>Positive: Changes regarding the calculation of the volatility adjustment (VA) will allow for better reflection of the characteristic features of a given undertaking's asset portfolio in the calculation.</p> <p>Mixed: Conversely, these modifications introduce additional complexity into the calculation.</p> <p>However, it is worth noting that most Polish undertakings do not use VA in their Solvency II calculations.</p>
Treatment of foreseeable dividends	<p>Positive: The lack of precise methodology for calculation of foreseeable dividends for the purpose of establishing the value of available own funds resulted in differences in the method of calculation between insurance undertakings. The proposed amendment to Article 70 of the Delegated Act, clarifying the method of calculating the foreseeable dividend, will increase the comparability of results. The proposed methodology is widely used in the insurance market, does not cause operational difficulties, and should provide sufficiently accurate approximation of the value of foreseeable dividends. This amendment will ensure a more appropriate representation of insurers' capital positions in quarterly reporting.</p>
Matching adjustment	<p>Positive: Changes related to the calculation of the matching adjustment, namely, removing the need to calculate a separate capital requirement for the portfolio of assets and liabilities for which this adjustment applies, may increase the popularity of this method and, consequently, lead to increase in own funds.</p> <p>It is worth noting that most Polish undertakings do not use matching adjustment in their Solvency II calculations.</p>
Look-through approach	<p>Negative: Article 84(4) is updated in such a way, that investments in related undertakings are no longer exempt from the look-through requirement unless all of the following conditions are met:</p> <ul style="list-style-type: none"> (a) The main purpose of the undertaking is to manage assets on behalf of a Group entity (b) The operations follow a specific and documented investment mandate. (c) The undertaking does not carry on any significant business other than investing for the benefit of the Group <p>Article 171 is updated so that it clarifies that the look-through approach is not applied to strategic participations only if specific criteria are met.</p>

	<p>This effectively reduces the scope of exemptions from look-through approach and may lead to operational complexities.</p>
<p>Simplified calculation of risk mitigation effect</p>	<p>Positive: Introduction of an additional simplified calculation of the risk-mitigating effect for derivatives, reinsurance arrangements or insurance securitization may have a positive impact on the amount of own funds in small undertakings.</p>
<p>Special reinsurance agreements</p>	<p>Positive: Consideration of reinsurance agreements such as adverse development cover in a simple manner in the standard formula should contribute to a better reflection of the impact of such agreements on the capital requirement among undertakings that have them.</p> <p>In the meantime, it would be worth considering clarifying in the Delegated Regulation how reinsurance arrangements which operate on aggregated risk modules should be reflected in the calculations of the standard formula.</p>
<p>Correlations within market risk module</p>	<p>Positive: Reducing the correlation coefficient between credit spread risk and interest rate risk in the interest rate downward scenario from 50% to 25% should better reflect the nature of the interdependence between these risks and reduce the capital requirement in some insurance and reinsurance undertakings.</p> <p>It would be worth considering whether other correlation pairs should also be reviewed, e.g. between interest rate risk and property risk.</p>
<p>SCR within interest rate risk submodule</p>	<p>Mixed: The proposed amendment to Article 167 modifies the method of determining the interest rate downward shock by allowing negative interest rates. The amendment will enable capital requirements to be determined in a manner that better reflects reality. In some cases, it may increase capital requirements, but this effect is partially mitigated by the proposal to introduce minimum values that interest rates may take after the shock. The change is particularly relevant in an environment of very low or negative interest rates.</p> <p>Mixed: The change in the calibration of interest rate risk (introduction of a multiplicative and additive component) in both interest rate change scenarios may lead to an increase in the impact of the shock and, consequently, in the capital requirement.</p> <p>Mixed: The additive component in the calculation of the solvency requirement for interest rate risk is the same for all currencies regardless of the level of interest rates. This leads to relatively higher shock values for currencies with low interest rates.</p> <p>Article 166(2a) and Article 167(2a) stipulate that for maturities beyond first smoothing point, the interest rate curve after the shock is to be determined by extrapolation using the stressed forward rate. This means that the shock values for long maturities (beyond the first smoothing point) presented in Article 166(2) and Article 167(2) would not be used in practice.</p>
<p>Long-term equity investments</p>	<p>Positive: Introducing specific requirements for undertakings to meet in order to justify the long-term nature of investments in order to reduce the capital requirements will increase transparency and consistent treatment of institutions, including those operating in different markets.</p>
<p>Symmetric adjustment</p>	<p>Positive: Increasing the limits for symmetric adjustment from 10% to 13% will allow undertakings to benefit from reduced shock for equity risk during a crisis following major stock market declines. The current limit restricted the ability to reduce the shock at the beginning of the</p>

	COVID-19 pandemic. The change may therefore have a positive impact on the condition of companies in the event of future crises.
Investments made under legislative programmes	Positive: Allowing reduced shocks for investments covered by special legislative programs may increase the popularity of such investments among undertakings and make it easier for governments to raise funds from the market. It will also lead to consistent treatment of such investments in the banking and insurance sector.
Securitisations	Positive: Changes concerning the calculations of capital requirements for securitisations should increase the consistency of treatment of these instruments in the credit spread risk sub-module compared to bonds. This may result in greater attractiveness of these instruments for undertakings.
Inflation adjustment of some nominal amounts	Mixed: Increasing the nominal amounts in EUR included in the Delegated Act by the cumulative impact of inflation leads on the one hand to these amounts becoming more realistic, but on the other hand, it may lead to a sharp increase in capital requirements among the smallest undertakings.
SCR for mortgage loans	Mixed: The introduction of a lower limit on the loan-to-value on mortgage loans will increase consistency with the banking sector but may lead to an increase in capital requirements.
Reinsurance as risk mitigation technique	Mixed: The proposed amendment to Article 210 is intended to ensure that the effect of applying risk mitigation techniques on SCR is consistent with effective risk transfer. The aim of the change is to avoid situations where, for example, a reinsurance agreement results in a significant reduction in SCR with little effective risk transfer. It is worth noting that the nature of many reinsurance agreements and risk mitigation techniques is such that they mainly operate in situations of extreme losses and may remain inactive in the event of profits or moderate losses. However, this does not mean that the purpose of such agreements is only to cover the standard formula scenario. Currently, in many markets, including Poland, the possibility of using reinsurance agreements as risk mitigation techniques is already subject to assessment by the supervisory authority, and undertakings must demonstrate that the technique entails an effective transfer of risk. From this perspective, the proposed changes should not have a significant impact on Polish undertakings. We understand that the requirements in Article 210 paragraph 6 are intended to clarify the expectations for insurance undertakings in the context of justifying effective risk transfer. However, it is worth noting that these are not precise criteria and therefore the regulator may have some latitude in assessing whether a given technique actually involves an effective transfer of risk or not, which in turn may lead to differences in approach between countries.
Solvency and Financial Condition Report (SFCR) - general	Negative: The SFCR is infrequently consulted with the public. Its preparation remains burdensome due to significant effort required relative to its limited practical application.
SFCR – possibility to use internet links	Article 290 stipulates that an undertaking may use internet links as references in the report while ensuring that these links remain valid for at least five years after publication date. This applies to the presentation of quantitative and qualitative information. Positive: Authorization to utilize references (Article 290) and limiting the SFCR section for policyholders to a maximum of five pages (Article 292(5)).

SFCR – new structure

Negative:

The proposed amendments to the Regulation introducing a division of the information provided in the Solvency and Financial Condition Report (SFCR) into simplified information for policyholders and beneficiaries and information for market professionals are not likely to significantly improve the readability of the SFCR. The division of information itself is not very intuitive, e.g. categories of information considered irrelevant to “non-professionals” include the undertaking’s significant lines of business and significant geographical areas in which the undertaking operates, as well as any significant economic and other events that occurred during the report period and had a significant impact on the undertaking. Such information may be relevant to any recipient of the SFCR, not just professionals.

The introduction of an additional document addressed to policyholders and beneficiaries may represent a significant operational effort for insurance undertakings and may not necessarily bring added value to policyholders and beneficiaries. In addition, the proposed changes significantly modify the structure of SFCR, which may make it challenging to adapt the form and process of the SCFR to the new format.

It is worth considering focusing only on changes aimed at shortening and increasing the readability of the SFCR while maintaining a single document, without significantly changing its structure.

Article 292 stipulates that SFCR targeted at policyholders and beneficiaries must be concise – it cannot exceed five pages, it shall be written in clear language, it shall contain vital information about the undertaking (its financial results, capital and risks), and it shall be available in the official language of the undertaking’s Member State at the request of policyholders and beneficiaries. A link to a transition plan shall be provided as well.

Negative:

The SFCR part for policyholders is excessively extensive and detailed, thereby exceeding its intended scope. In particular, the language requirements (Article 292(1)) as well as the provisions outlined in Article 292(2)(d) and (e) and Article 292(3)(c) and (e), given that such information is typically already accessible to the public through financial statements. The disclosures required in Article 292(2)(f) and (3)(a–c) are overly complex and not relevant to policyholders; simple coverage indicators would be sufficient. Language requirements are very burdensome for insurance companies.

Articles 293-297 present new guidelines affecting SFCR by introducing separate parts for beneficiaries and policyholders, and market professionals with specific reporting requirements for each of these groups.

Reporting for market professionals now requires that an undertaking presents its: financial and investment results, corporate governance (remuneration policies and the outsourcing of key operational functions), asset, liabilities, and technical provisions valuation methods (including sustainability risks and factors), and capital management.

The amendment combines sections about capital management and risk profile, and extends the reporting requirements considering transitional funds, use of long-term stock investments (article 105a), and duration-based stock risk submodule.

Standard stress scenarios for significant undertakings are required.

For internal model users, more detailed information about the scope, methods and integration with the standard formula are required.

	<p>Negative: The part of the SFCR for market professionals has been reorganized and expanded, including information on sustainability, long-term equity, and sensitivities. For the purposes of sensitivity analysis, it is expected that the volatility adjustment shall remain constant.</p> <p>Negative: Expansion of requirements pertaining to firms subject to financial stability reporting, specifically sensitivity analyses (Article 297(2)). These requirements extend considerably beyond Level 1. A separate quantitative analysis must be carried out for each individual scenario (a)–(h). In practice, implementing this obligation may involve significant workload. Combined with the publication requirement, this implies an additional increase in capital requirement.</p>
<p>SFCR – sustainability disclosures</p>	<p>Article 297a (new) stipulates that undertakings are now required to report particular sustainability-related information:</p> <ul style="list-style-type: none"> • Elements and goals from sustainability risk management plans (art. 44 SII), • Information if transition plans according to CSRD have been published, • Relevant exposure to climate risks and any relevant taken actions (art. 45a), • If needed – information used to meet the disclosure requirements of SFDR or Taxonomy. <p>Negative: A review of this issue is necessary considering the omnibus package and the proposed deferral of the RTS for SRP. There is no need to include transition plans in the SFCR, especially since, under the omnibus package, few insurers will be obligated to maintain such plans.</p>
<p>SFCR – languages</p>	<p>Article 298a – languages</p> <p>Part of the SFCR for policyholders and beneficiaries shall be, upon request, provided in the official language of that Member State as chosen by the policyholder. If machine translation is used, it needs to be clearly disclosed. The translated report shall be provided within 10 working days.</p> <p>Negative: The language requirements are very burdensome for insurers.</p>
<p>SFCR – publication</p>	<p>Article 301 stipulates that both parts of SFCR shall be disclosed on the undertaking’s website, or, if needed, provided to a trade association for at least five years, or delivered, upon request, within 10 working days.</p> <p>Both parts of SFCR shall also be submitted to supervisory authorities in an electronic form allowing for application of search function for relevant information. The exact location of both parts on the website shall also be submitted. Submitted data may be used by supervisory authorities and EIOPA for extraction and analysis (Article 301(7)). The responsibility for the accuracy of submitted information rests with the undertaking.</p> <p>Mixed: Although some publication requirements are rather burdensome, it is beneficial for insurance companies that the obligation to send printed copies has been removed (Article</p>

	<p>301). Nevertheless, the requirements within Article 301(6) concerning the updating of location modifications are excessively restrictive and may cause unnecessary implementation complexity. In addition, the empowerment envisaged in paragraph 7 raises concerns, as it may lead to insurers losing control over the publication of their data.</p> <p>Negative: The requirements outlined in paragraph 6, second sentence, are excessively restrictive. The authorization envisaged in paragraph 7 is negatively assessed, because insurance companies could lose control over the publication of their data.</p>
<p>Regular supervisory report (RSR)</p>	<p>According to Article 304, RSR covers 4 components; if reporting of significant changes in RSR is unclear, a more detailed explanation of particular sections might be required.</p> <p>According to Articles 304-311, RSR reflects the structure of SFCR, with additional projections, assumptions, justifications and sensitivities. Significant elements contain: forecasts related to insurance activities, investments and own funds; detailed explanations related to liquidity and concentration risk; widened requirements toward actuarial, audit and compliance functions as well as dedicated reporting of long-term equity investments according to Article 105a.</p> <p>The supervisory authorities may require additional explanations if the reported changes are unclear.</p> <p>Mixed: Although the structure seems feasible, the scope and complexity of the reporting requirements remain burdensome for insurance companies.</p> <p>Negative: Article 312: The current phrasing should be clarified to ensure that the obligation to submit information in years without a Regular Supervisory Report applies only where significant changes occurred. In the absence of such changes, an interim report should not be required. This would prevent unnecessary reporting burdens and ensure proportionality.</p>
<p>Proportionality measures</p>	<p>Positive: The introduction of a closed list of criteria that can be used by the regulator to deny an undertaking's application for simplification arising from the proportionality principle should facilitate the use of simplifications, particularly by small undertakings, thereby reducing effort and saving time.</p>
<p>Catastrophe risk – flood risk</p>	<p>Negative: No reduction in weights or risk factor for flood risk for Poland. As part of the work for Risk Management Committee, Polish Chamber of Insurance (PIU) is reviewing, inter alia, the document published by the European Insurance and Occupational Pensions Authority (EIOPA): „Reassessment of the natural catastrophe standard formula”, which concerns a reevaluation of natural catastrophe risk within the standard formula. According to EIOPA, the parameter review aims to better estimate the risk arising from perils such as earthquakes, floods, hails and windstorms, based on new observations, new data, and new models that have emerged since the last assessment in 2018. PIU has analyzed the EIOPA document and has resolved to petition for recalibration of the parameter for the</p>

	<p>flood risk sub-module (after consultation with reinsurance brokers Aon and Guy Carpenter, who provided market-wide risk calculations for the aggregate sum insured. According to the models provided, the flood risk parameter provided by EIOPA is overscaled by approximately 50%. Consequently, a letter was prepared in which PIU petitioned for its reduction.</p>
Catastrophe risk – other perils	<p>Mixed: Updating the parameters used in calculating the capital requirement for natural disasters should lead to better reflection of the frequency of these events. In the case of Poland, the frequency of hurricanes has been reduced, but the hail scenario has been added. This may have a sudden impact on significant changes in the solvency requirement for some companies.</p>