



In a nutshell...

New Implementing Technical Standards (ITS) on reporting and disclosure were published last May 5.

Both regulations will apply, for both annual and quarterly disclosures, in 2024 with a reference date of December 31, 2023.

Regarding developments in the work on integrating sustainability principles into Solvency II, note EIOPA's launch **on May 16** of a new **open-source tool for modeling and managing climate change risks in stress scenarios** and the unveiling of other initiatives to promote similar tools.

Publications include (i) IVASS Regulatory Order No. 131, on amendments regarding the integration of sustainability risks in the investment strategies and governance of insurance companies; and (ii) the EIOPA Risk Dashboard based on Solvency II data for the fourth quarter of 2022.

The main changes to reporting introduced by the new ITS are explained in the in-depth analysis.

Index

Highlights

- Review 2020: Publication of new ITS in reporting and disclosure
- Sustainability and Solvency II updates

New reports

- IVASS: Publication of Regulatory Order No. 131, making changes and in investment and system of governance
- EIOPA: Risk Dashboard as of Q4 2022

In-depth analysis

- Solvency II Pillar III and the new Implementing Technical Standards in reporting and disclosure

Appendix

- Volatility Adjustment: trends and components

Highlights



Review 2020: Publication of new ITS in reporting and disclosure

On May 5, new Implementing Technical Standards (ITS) on reporting and disclosure were published in the Official Journal of the European Union.

They **will apply**, for both annual and quarterly disclosures, **in 2024 with a reference date of December 31, 2023**, and repeal Implementing Regulation (EU) 2015/2450 and 2015/2452, with regard to the templates for the submission by insurance and reinsurance undertakings, respectively, to their supervisory authorities (Regular Supervisory Reporting, RSR) and to the market (Solvency and Financial Condition Report, SFCR) (see In-depth analysis).

Sustainability and Solvency II updates

Last May 16, EIOPA organized an **event dedicated to the presentation of a new open-source tool (the CLIMADA App) for modeling and managing climate change risks in Solvency II stress scenarios** in ORSA and other initiatives to promote similar tools.

New reports



IVASS: Publication of Regulatory Order No. 131, making changes and in investment and system of governance

Last May 10, IVASS Regulatory Order No. 131 on **amendments and integrations on sustainable finance was published** (which came into force the following day).

Among the four areas regulated by the Regulatory Order are those dedicated to the introduction of **amendments to IVASS Regulations laying down provisions on investments and assets covering technical provisions and on the system of governance**.

EIOPA: Risk Dashboard as of Q4 2022

On May 15, EIOPA published the Risk Dashboard based on Solvency II data for the fourth quarter of 2022.

The report underlines that the **main concerns for the European insurance industry continues to be exposures to macro and market risks**, due to high consumer prices, deteriorating fiscal balances and contractionary Central Bank monetary policy, on the one side, and high levels of volatility in bond and equity markets, on the other.

All other risk categories remain at medium level; increased trend have been observed for **liquidity and funding risks** and **substantial stability for profitability and solvency** ones.

In-depth analysis

Solvency II Pillar III and the new Implementing Technical Standards on reporting and disclosure

The **third pillar of Solvency II** defines the reporting requirements to the public and to the Supervisory Authority and requires that, at both the individual and group level, **insurance companies prepare two qualitative reports** (Solvency and Financial Condition Report - SFCR; Regular Supervisory Reporting - RSR) **together with quantitative templates** (Quantitative Reporting Templates - QRTs).

Both reports must include information on:

- ✓ **activities and results:** a description of the company's activities and performance;
- ✓ **system of governance:** a description of the governance system and an assessment of its adequacy to the enterprise's risk profile;
- ✓ **risk profile:** an account of each risk category;
- ✓ **assessments for solvency purposes:** a description of the basis and methods used for their assessment.
- ✓ **risk management:** a description of capital management.

The **technical standards** for implementing these obligations are regulated through two Implementing Technical Standards (ITS) Regulations; they **cover the following areas: balance sheet, assets, capital requirements, technical provisions, information for financial stability purposes**, etc.

Last **May 5** - after a review process that began in July 2019 - **the new Implementing Technical Standards on reporting (Reg.(EU) 2023/894) and disclosure (Reg.(EU) 2023/895) were published** in the Official Journal of the European Union, repealing, respectively, the previous Regulations (EU) 2015/2450 and 2015/2452. **They will apply**, for both annual and quarterly disclosures, **in 2024 with a reference date of December 31, 2023**.

The process just ended was part of the overall Solvency II review process but followed an independent path due to the need, according to EIOPA, to implement some important changes already in the current regulation without waiting for the completion of the whole process **with the aim**, in particular, **to: i) reduce reporting costs for undertakings; ii) enrich QRTs with new information on emerging risks** and areas for which data gaps have been identified; and **iii) strengthen the implementation of the proportionality principle**.

The final texts **confirm the draft amendments published on March 31, 2022** and submitted for evaluation and approval to the European Commission, the European Parliament and the Council. The draft was in turn based on the Report on quantitative reporting templates released on December 17, 2020, when the EIOPA Opinion was published, the subsequent public consultation conducted during 2021, and public workshops organized by EIOPA itself to receive input from all stakeholders.

In more detail, **we highlight**, in particular:

- ✓ the elimination of QRTs **on premiums, claims and expenses for cross-border activities** and their replacement with **new QRTs containing a higher level of detail of information on the location of activity**
- ✓ a **new QRT on the share of investments exposed to physical and transition risks from climate change**

- ✓ **new information on the share of non-life premiums covering climate-related risks and the possible presence of preventions measures** for such risks
- ✓ **a new QRT containing information by lines of business for non-life products** (similar to what is already provided for life products)
- ✓ **a new QRT on non-life products exposed to cyber risk**
- ✓ **ten new QRTs on SCR for internal model users**
- ✓ **new QRTs on infragroup transactions** (in alignment with the FICO Directive for financial conglomerates)
- ✓ **changes to the area of reporting for financial stability purposes** (including the removal of annual reporting, new liquidity indicators, additional information on the duration of technical provisions).

Volatility Adjustment: trends and its components

On **May 26**, the **Volatility Adjustment** applicable by European companies was **20 bps** (according to ANIA elaborations), slightly higher than the value recorded at the end of April (18 bps) (fig. 1).

The increase was driven by higher levels in the value of **internal rates of return for portfolios**, both government and corporate, representative of the **average portfolio of European companies** (fig. 3), and the resulting increase in the risk-corrected currency spread from 28 bps to 31 bps (fig. 2).

Fig. 5 shows the impact, at 10 and 20 years, of the rise in the risk-free rate curve over the same period (fig. 4) on a cash flow amount of 1,000 euros.

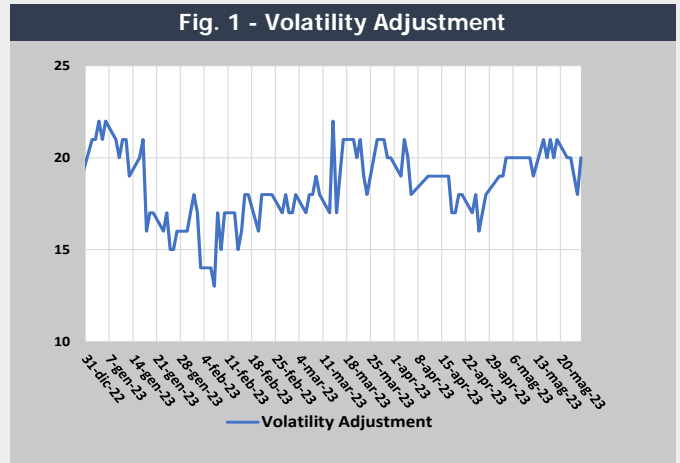


Fig. 1 - Volatility Adjustment

Volatility Adjustment and tassi risk-free				
month	VA euro	VA Italy	RFR 10y (+VA)	RFR 20y (+VA)
26/05/2023	20	20	3,27%	3,10%
28/04/2023	18	18	3,06%	2,92%

Source: ANIA calculations on EIOPA and Refinitiv data (basis points where no specified)

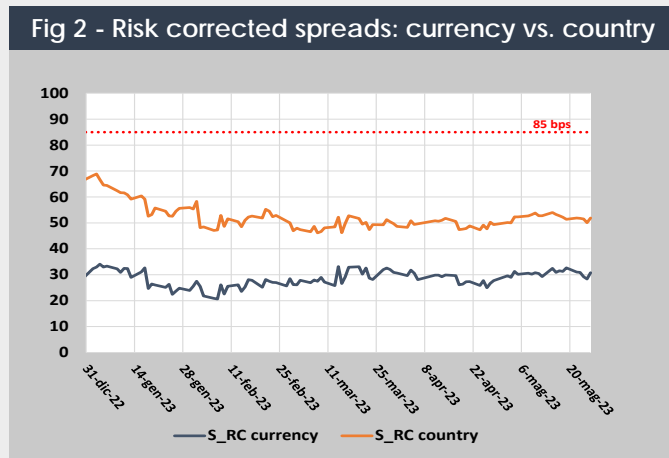


Fig 2 - Risk corrected spreads: currency vs. country

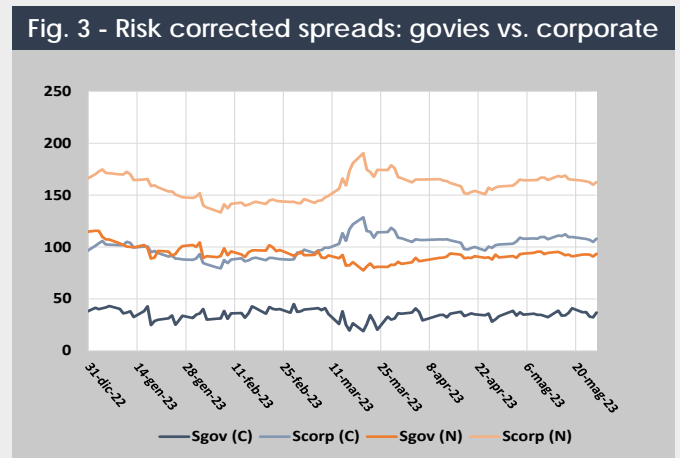


Fig. 3 - Risk corrected spreads: govies vs. corporate

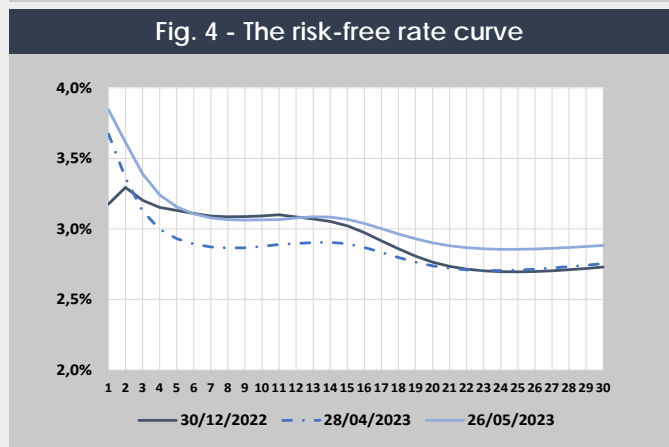


Fig. 4 - The risk-free rate curve

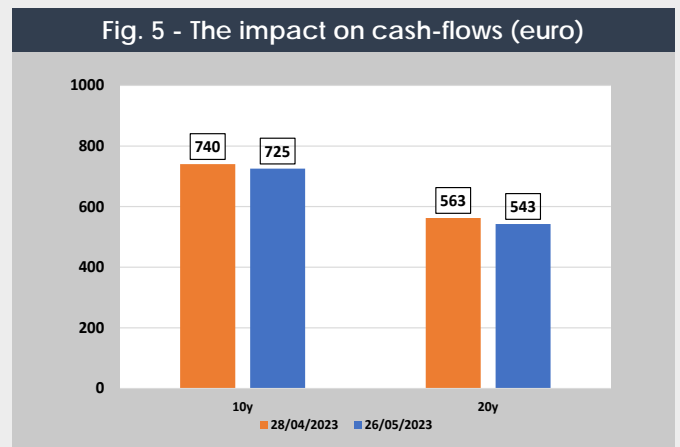


Fig. 5 - The impact on cash-flows (euro)

Source: ANIA calculations on EIOPA and Refinitiv data