



In a nutshell...

Regarding developments on the proposed review of the Solvency II Directive and the proposed Insurance Recovery and Resolution Directive (IRRD), the negotiation phase, the so-called Trilogue, begun on September 19, continues.

On October 10th, EIOPA organized a public online event, on reporting, with the aim of presenting the main developments and future expectations, updating stakeholders on the state of the art of the new taxonomy 2.8.0 and providing more details on the main issues encountered in reference to the new Implementing Technical Standards published on May 5th and in application as of December 31, 2023.

New consultations highlight EIOPA's consultation on the supervision of captive insurance and reinsurance undertakings.

New report and publication include: i) EIOPA's report on the impact of inflation on the insurance sector; ii) EIOPA update of technical documentation on risk-free rate.

Index

Highlights

- *Review 2020: Recent developments*
 - *EIOPA: Workshop on supervisory reporting under Solvency II*
-

New consultations

- *EIOPA: Consultation on the supervision of captive insurance and reinsurance undertakings*
-

Completed consultations and new reports

- *EIOPA: Report on the impact of inflation on the insurance sector*
-

Other reports

- *EIOPA: Update of technical documentation regarding risk-free rate*
-

Appendix

- *Volatility Adjustment: trends and components*

Highlights



Review 2020: Recent developments

Regarding developments on the proposed review of the Solvency II Directive and the proposed Insurance Recovery and Resolution Directive (IRRD), the negotiation phase, the so-called Trilogue, begun on September 19, continues. The meeting held on October 25 has focused on proportionality, cross-border activities, reporting and auditing requirements and group supervision. Meetings will continue on a monthly basis attempting to reach an agreement under the Spanish presidency by December.

EIOPA: Workshop on supervisory reporting under Solvency II

On October 10th, EIOPA organized, on reporting, a public online event with the aim of presenting the main developments and future expectations, updating stakeholders on the state of the art of the new taxonomy 2.8.0 and providing more details on the main issues encountered in reference to the new Implementing Technical Standards published on May 5th and in application as of December 31, 2023 (see [ANIA Trends Solvency May 2023](#)).

During the event, EIOPA: i) described the roadmap it will adopt for the release of the new taxonomies, reporting, in particular, that the 2.8.0 taxonomy used in the period from December 31st, 2023 to December 31st, 2024, will be followed by an "independent 2.8.1 package", in force as of June 31st, 2023, only involving templates related to the Financial Conglomerates Directive (FICOD); ii) explained and discussed the main issues reported by stakeholders in reference to the various new templates; iii) outlined the main aspects of the Digital Operational Resilience Act (DORA) which provides for the harmonization of standards related to operational resilience of the financial sector applicable to, among others, the insurance sector; iv) explained the functions and objectives of the European Commission's new Digital Finance Platform, established to develop closer relations between innovative financial companies and national supervisors; v) emphasized the importance of collecting data related to losses from natural catastrophe events for different market stakeholders given the scarcity of databases, especially public ones, and showed the results of the analysis on insured claims data collected for the [Dashboard on Insurance protection gap for natural catastrophes](#) published in 31 January; vi) commented the DPM Refit and Digital Regulatory Reporting, a tool to be used for organizing business terms and concepts according to a hierarchical order.

The main QRTs and items discussed are: i) the definition and methodologies for calculating risk indicators for investments related to climate change (S.06.04); ii) the compilation of the new template for the analysis of non-life insurance requirements (S.14.01); iii) the degree of detail in the new QRT on cyber underwriting risk (S.14.03); iv) clarifications on the valuation of templates to be completed for financial stability analysis purposes on liquidity risk (S.14.04 and S.14.05); v) the excess of information required in the new QRTs referring to internal models (S.25.05, S.26.01-16, S.27.01); and vi) inaccuracies, lack of clarity and technical inconsistencies in several templates as well as in the documentation produced by the Authority to support the implementation of the new taxonomy.

New consultations



EIOPA: Consultation on the supervision of captive insurance and reinsurance undertakings

On October 6th, EIOPA started a [public consultation on the supervision of captive insurance and reinsurance undertakings](#), with a deadline of January 5th, 2024.

The purpose of the consultation is to set out an Opinion on **supervisory expectations in several areas, including intra-group transactions** (especially for so-called "cash-pooling"), **consistent application of the prudent person principle**, and **governance issues** in relation to key functions and outsourcing requirements.

Completed consultations and new reports



EIOPA: Report on the impact of inflation on the insurance sector

On October 5th, EIOPA published a [Report on the impact of inflation on the European insurance Sector](#).

The Report highlights how in the current macroeconomic context **one of the major concerns** for the insurance market **is the significant increase in inflation experienced** since spring 2021 and **analyses its impact** both from a retrospective perspective and in terms of potential risks and vulnerabilities in the short, medium and long term.

According to the Authority's analysis, **the shift from a prolonged period of low inflation and low interest rates has led to significant implications for European insurers** in terms of insurers' capital position, profitability, and liquidity with varying levels depending on factors such as exposure to interest rate-sensitive assets, duration of liabilities, and sensitivity of claims to the rate of inflation.

The Report, in particular, **highlights**: i) a **weakening of the capital position** due to an increase in costs for the non-life sector and a decline in new business for the life sector; ii) a **decrease in profitability**, both for non-life insurers, forced to increase reserves and gradually adjust premiums, and for life insurers, due to increased expenses and the consequent reduction in profits; and iii) a **decline in the liquidity position** due to a decline in the value of fixed-rate assets (because of rising interest rates) and potential losses from asset sales.

Other Reports



EIOPA: Update of technical documentation regarding the risk-free rate

On October 2nd, EIOPA published [updated technical documentation for the calculation of the risk-free rate](#) (RFR) maturity structure starting from January 1, 2024.

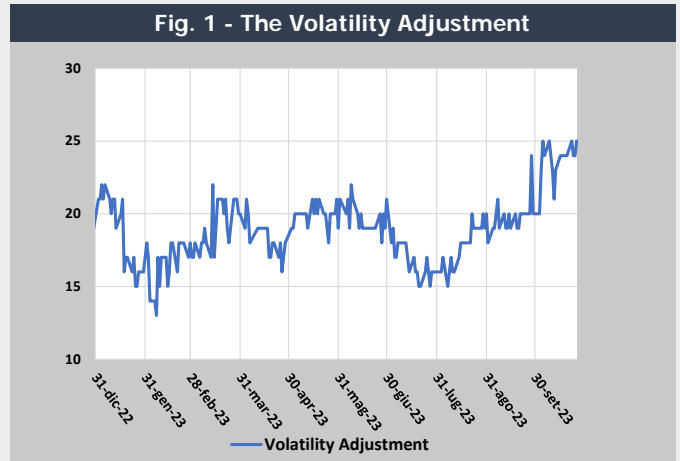
The main updates compared to the documentation currently in force **include changes to the financial instruments** used to calculate the curve, **to take into account** i) **the change to OISs** (Overnight Indexed Swaps) for some currencies (Swiss franc (CHF), British pound (GBP), Japanese yen (JPY), Singapore dollar (SGD), U.S. dollar (USD)) **or the new DLT** (Deep, Liquid and Transparent) assessment; ii) **the Peer Country Review for 2023**; and iii) **the change in the calculation of Credit Risk Adjustment** for some currencies.

Volatility Adjustment: trends and components

On **October 26**, the **Volatility Adjustment** applicable by European companies was **25 bps**, up from the value recorded at the end of September, which was 20 bps (fig. 1; ANIA elaborations).

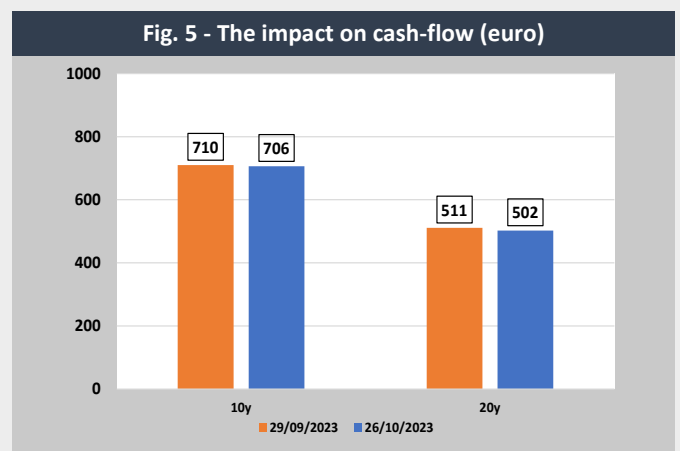
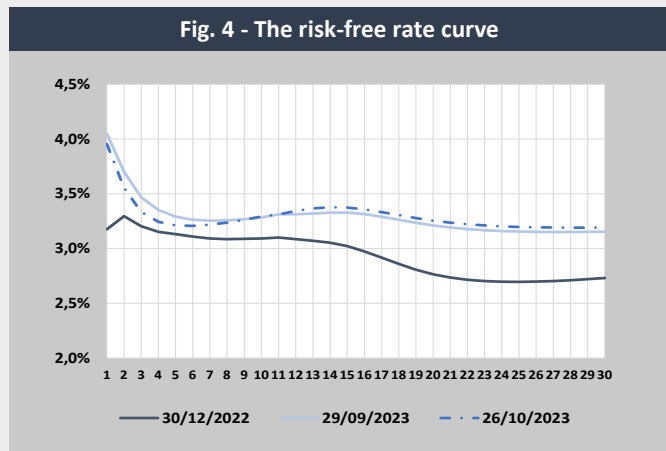
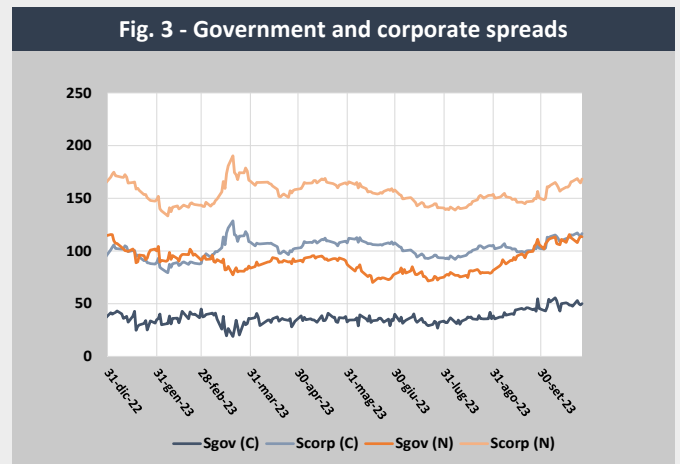
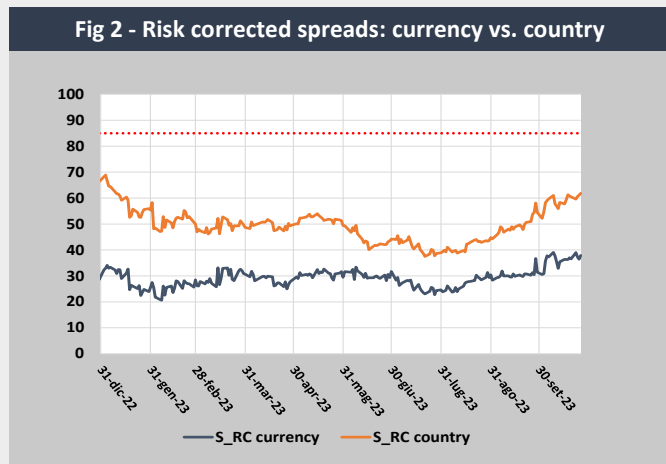
The **increase can be attributed to the increase in yields on government (euro-denominated) and corporate bonds** held by the average European company (fig. 3); the **euro risk-corrected currency spread thus increased from 31 to 38 bps** (fig. 2).

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.



Volatility Adjustment and risk-free rates				
month	VA euro	VA Italy	RFR 10y (+VA)	RFR 20y (+VA)
26/10/2023	25	25	3,54%	3,50%
29/09/2023	20	20	3,48%	3,41%

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



Source: ANIA calculations on EIOPA and Refinitiv data