Association since 1911 of German Public Insurers

Comments by the Association of German Public Insurers[1] on the Request for Advice to EIOPA dated 11 February 2019 and the Consultation Paper dated 15 October 2019

(Request to EIOPA for technical advice on the review of the Solvency II Directive 2009/138/EC)

(EIOPA-BoS-19/465 Consultation Paper on the Opinion on the 2020 review of Solvency II)

General Comments

Since 1 January 1 2016, Solvency II has been in force as a comprehensive supervisory regime. The regulatory framework is intended to make solvency requirements more appropriate to the risks and to strengthen risk management in order to reduce the risk of the insolvency of an insurer. At the same time, the Directive serves to harmonize supervisory law in the European single market. The legal foresees evaluations at various points, which EIOPA carries out on behalf of the European Commission.

Just like the other European insurance companies, the companies in our group implemented the regime with great effort and it is now used consistently. Our association comprises ten public primary insurance groups, which together are the second strongest force in the German insurance industry. They are medium-sized insurance companies that operate regionally and do not use internal models.

In applying Solvency II, we noticed that not all the assumptions of Solvency II are in line with the practices of our member companies. We believe the highly complex three-pillar concept needs to be better tailored to its users and the market conditions. At the same time, a higher level of transparency - especially in the calibration of natural catastrophe risks - is required in order to be able to better assess the appropriateness of modelling the risks, and in a second step to discuss concrete adjustments to the standard formula to map the risks more adequately.

We expressly welcome the comprehensive evaluation process. It is important for us that it provides a real opportunity for the necessary correction of the supervisory regime of the Solvency II framework, accompanied by a holistic and solid impact assessment. For us, it is essential that this process is conducted with the necessary openness and that it offers a real opportunity to analyse the criticisms by the insurance companies concerned, as well as to correct the Solvency II regulatory regime. This is especially true for EIOPA's holistic impact analysis. Individual proposals, which might be contradictory as sum, need to be corrected until EIOPA's final proposal.

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[1] Founded in 1911, the German Association of Public Insurers (VöV) represents Germany's ten regional public primary insurance groups. The second-largest provider in the German primary insurance market with capital of around 140 billion euros invested, the group makes a material contribution to the European economy. It pays out approximately 17.6 billion euros to its customers every year on the basis of almost 52 million insurance policies.

The public insurers together employ around 30,000 people. Operating from 18,000 locations across Germany, including Sparkasse branches and offices co-located with other partners as well as their own facilities, they offer customers advice and insurance protection in virtually all fields, from health, life and pension insurance to automobile, liability and property insurance. The association's member undertakings, which are bound to act in the public interest, serve as a skilled and reliable local partner and contact for private customers of all income groups and for small and mid-size enterprises.

The VöV represents the interests of its members at national and European level from its bases in Düsseldorf and Berlin and its liaison office in Brussels.

Below are our respective criticisms and comments:

A.

Re 2.4. (Matching adjustment), 2.5 (Volatility adjustment) and 2.6 (Dynamic volatility adjustment in internal models). References to the Consultation paper are shown in square brackets, e.g. [2.588].

The matching adjustment (section 2.4) is not relevant for the entire German market. Equally, the public insurers do not use any internal models for life insurance, so the issue of using the DVA in internal models (section 2.6) is not relevant.

By contrast, the volatility adjustment (VA) itself is highly relevant for the German market and hence for the public insurers. This tool is designed to counter the risk of procyclical effects: if there is an exaggerated reaction on the capital market to the spreads on sovereign and corporate bonds, this will lead, in the market value perspective of Solvency II, to a sharp fall in the market value of capital investments and hence to a sharp fall in the SCR coverage ratio. Both effects are merely temporary, but they may result in the insurer feeling it has to sell the risky securities, for example to avoid a looming shortfall in the solvency capital requirement. This pressure to sell would put further pressure on the market values and thus make the situation even worse.

Use of the VA must be approved by the national competent authority (BaFin in Germany). In contrast to the "transitional provisions", it can be used permanently if certain requirements are met. In particular, the individual insurer must demonstrate periodically that the amount of the VA (calculated by EIOPA) is appropriate.

Technically, the VA corresponds to an interest-rate premium when technical cash flows are discounted. A high VA thus leads to a lower present value of the technical liabilities and hence to higher own funds and a higher SCR coverage ratio.

Although the VA is highly relevant for the public insurers, they do not play any special role in the German market: The public insurers' capital investments do not differ systematically from those of the other market participants.

Nevertheless, the focus in the following will be on two points that EIOPA discusses in its Consultation Paper, but then ultimately decides against: an increase in the general application ratio (GAR) and the use of the DVA for the standard formula as well. Both points would have a significantly positive impact for all the public life insurance undertakings, as well as for all other insurance undertakings that use the VA and the standard formula – in other words the majority of small and medium-sized life insurance undertakings in Germany.

I. Increase in the general application ratio (GAR)

The VA is calculated in several steps, some of which are highly complex. In a final step, a flat-rate allowance of 35% is applied in order to reflect the uncertainties associated with the modelling (model risk). Technically, this is implemented by introducing a general application ratio (GAR) of 0.65.

In the Consultation Paper, EIOPA describes very well (see [2.558]) that the calibration of the GAR at 0.65 did not have any mathematical basis, but was the result of political negotiations.

EIOPA states that the GAR is fundamentally appropriate in order to take account of certain methodological risks (see [2.561] in conjunction with [2.562]). These risks are analysed and critically assessed in the following.

Risk from EIOPA's perspective: The insurance undertaking cannot "earn" the VA.

VöV assessment: In Germany at least, the insurance undertaking must periodically demonstrate that it actually earns the VA. If this is not necessary in other countries, the principle of Europe-wide harmonisation means that it should be required consistently.

Even if there is no EU-wide requirement, it is not appropriate to compensate the risk by a flat-rate allowance of 35%. This can lead both to a significant overestimation of own funds (if the insurance undertaking earns less than 65% of the VA) and to a significant underestimation (if the insurance undertaking earns more than 65% of the VA).

Risk from EIOPA's perspective: The VA is applied to all of the technical liabilities, regardless of whether the undertaking is exposed to bond spread exaggerations and whether or not the liabilities are sufficiently illiquid to withstand sales of capital investments in such a situation and prevent realising hidden liabilities.

VöV assessment: We agree. However, this situation should be countered by a suitable modification to the methodology (e.g. the application ratio on illiquidity proposed by EIOPA) and not using a flat-rate allowance that is not appropriate for the portfolio in question.

Risk from EIOPA's perspective: The assessment of which part of the spread increase is due to market exaggerations is subject to estimation uncertainty.

VöV assessment: Uncertainties like this are to be found in the derivation of most parameters. Following the Solvency II principle, a best estimate approach is followed in all of these cases, i.e. an attempt is made – particularly for parameters that are relevant for determining economic own funds – to find a best estimate that neither over- nor underestimates the "correct" value systematically. When calculating the VA, this principle is abandoned and the uncertainty is – unilaterally – reflected by a flat-rate 35% allowance.

Q2.8 What is your view on the general application ratio? Should it be changed in case approach 1 or approach 2 to the VA design would be adopted?

Answer: *The general application ratio should be set to 100% (option 2). Any systematic shortcomings of the VA should be fixed by changing the methodology and not by reducing the final result by a general share, which was admittedly being set as the result of a political process rather than a mathematical derivation (2.558). The current - and proposed future - approach can lead to an overestimation as well as to an underestimation of the own funds and hence of the SCR ratio.*

Dynamic VA for the standard formula as well

Users of internal models – typically large international insurance groups – have the option to modify the VA within the next 12 months in their risk analysis. Specifically, an associated

increase in the VA can be implemented in the spread risk for which the scenario of a general spread increase (with the negative consequences for the market value of the capital investments and hence for the economic own funds described under I.) is analysed. This leads to lower market values of the technical provisions and hence dampens the decrease in economic own funds.

Due to the methodology for deriving the VA, a general spread increase would, in reality, lead to a higher VA, i.e. this involves an actually observable interdependency. For this reason, consideration in internal models is appropriate.

This option is not available to users of the standard formula – which include the public insurers, as well as a large majority of small and medium-sized insurance undertakings in Germany. They must calculate spread risk using the same VA as in their initial balance sheet, with the result that the dampening effect described above is missing and spread risk therefore typically constitutes the largest single risk under Solvency II.

EIOPA has understood this and assessed the advantages and disadvantages of a DVA for the standard formula (see [2.588]). This is analysed and critically assessed in the following:

Advantages:

EIOPA estimation: Leads to consistent treatment of the VA in internal models and the SCR standard formula.

VöV assessment: We agree.

EIOPA estimation: Leads to consistency between risk measurement on the one hand and the measurement of technical liabilities for calculating economic own funds on the other.

VöV assessment: We agree.

EIOPA estimation: Encourages investment in sovereign and corporate bonds.

VöV assessment: Irrelevant from our perspective. Risk measurement should not be derived from possible public policy incentives.

Disadvantages

EIOPA estimation: Might favour standard formula users because (in contrast to users of internal) they do not have to back European sovereign bonds with risk capital in spread risk.

VöV assessment: We do not agree. Offsetting any systematic overestimation of risk at one point (DVA) with the systematic underestimation of risk at another (European sovereign bonds) is not appropriate: depending on the undertaking, the level of both risks may differ sharply, which will then lead to either an overestimation or an underestimation of spread risk.

Besides, standard formula users are already required today to measure the spread risk from European sovereign bonds in their own risk and solvency assessment (ORSA) and to back them accordingly with risk capital.

EIOPA estimation: The spread risk no longer reflects the full risk of spread widening.

VöV assessment: Unclear, what is meant.

EIOPA estimation: A reduction in spread risk could weaken policyholder protection.

VöV assessment: Inaccurate. It is not the goal of Solvency II to maximise the solvency capital requirement of the insurance undertakings, but to align it with a 200-year event. This is the case if spread risk is calibrated appropriately, also resulting in adequate protection for policyholders.

EIOPA estimation: A lower spread risk could provide incentives for investments in junk bonds.

VöV assessment: Inaccurate. Reflecting the principle-based approach in Solvency II, insurance undertakings are largely free to make their own investments provided that they have the associated risks "under control". The investment decisions reflect a large number of factors, including – but by no means limited to – the risk factors under Solvency II.

Appropriate modelling of spread risk therefore never leads to inappropriate incentives. Inappropriate incentives may arise if individual risks are systematically over- or underestimated.

EIOPA estimation: Increases the complexity of the calculations for standard formula users that wish to apply the DVA.

VöV assessment: Inaccurate. This would not noticeably increase complexity for the insurance undertakings. All other things being equal, the level of the VA in the spread risk would be stipulated by EIOPA.

EIOPA estimation: Reduces incentives for investing in equities.

VöV assessment: Irrelevant. Risk measurement should not be derived from possible public policy incentives. (see above)

In light of this, EIOPA question Q2.9 should be answered as follows:

Q2.9 Should the dynamic VA be allowed for in the SCR standard formula? If yes, how should it be implemented?

Answer:

Yes. The VA applied in the spread risk scenario has to be consistent with this scenario (dynamic VA). This holds for both internal models and the standard formula. Moreover, the introduction of a dynamic VA in the standard formula would lead to a level playing field versus internal model users.

Reasoning:

For all versions of a VA, its concrete value depends on the level of spreads. Therefore, the VA used for the balance sheet valuations, which is calculated with spread values currently observed at the market, does not fit to the different spread values assumed in the spread risk scenario.

In order to overcome this defect, the VA should be applied dynamically in both internal models and the standard formula. Dynamical application ("dynamic VA") means to calculate a special value of the VA for the spread risk scenario. It should be calculated with the same method as for the balance sheet, and for the standard formula it should be calculated and published by EIOPA. The only difference to the VA for the balance sheet is that first the spread risk factors are applied to the assets of the reference portfolio before then the resulting spreads of these assets are used as input for the VA calculation.

Moreover, the dynamic VA is a possibility to mitigate the effect of the massive overestimation of spread risk for long-term investors (such as life insurance undertakings).

Re sections 2.2. Extrapolation of risk-free interest rate term structure and 5.1. Interest rate risk in the standard formula

I. Summary

The public insurers welcome the fact that, in light of the persistently low interest rate environment, EIOPA is addressing the appropriate modelling of interest rate risk in the standard formula and seeks to ensure greater transparency and a stronger empirical grounding with regard to interest rate risk modelling by means of the Request for Advice.

It is therefore very important for the public insurers that the approaches adequately reflect the business models of public insurers and are methodologically verifiable and robust, and are not driven by politically chosen parameters or models.

In the context of the available options to extrapolate the risk-free interest rate term structure, this means that the LLP should continue to be left at a 20-year maturity because a large number of empirical studies show clearly that the criteria for a *deep, liquid and transparent market* (DLT criteria) no longer apply beyond a maturity of around 20 years.

In addition, the public insurers believe it makes sense to validate the DLT criteria by reference to the bond market rather than the swap market, because the insurance undertakings are normally active on the bond market.

With regard to the calibration of the relative interest rate risk stresses, the derivation of a relative stress factor for the consistent derivation of an interest rate shock in the euro area must necessarily be based on EUR data. When back-testing the results, it is of minor importance if the calculated downward interest rate shocks are also valid for the other currencies in the European Economic Area. Additionally, it is necessary to extrapolate the term structure in the illiquid range in the interest rate shock scenario as well. If not,

inconsistencies could arise in the measurement of the best estimate of the technical provisions in the stress scenario, which could lead to an overestimation of the risks.

II. Position on EIOPA's proposed changes to extrapolating the risk-free interest rate term structure

EIOPA offers several options for extrapolating the risk-free interest rate term structure for discussion: starting with leaving the LLP at 20 years through flanking measures in the ORSA down to possible LLPs of 30 or 50 years.

The public insurers advocate leaving the LLP at a maturity of 20 years. A large number of empirical studies show clearly that the criteria for a *deep, liquid and transparent market* for bonds no longer exist beyond a maturity of around 20 years. If the LLP is shifted to 30 or 50 years, the criteria for the DLT assessment are therefore no longer met. Even EIOPA realises in the analyses in the Consultation Paper that in the bond market, the DLT criterion of 6% defined in the Solvency II Framework Directive[2] will lead to an LLP of around 20 years that remains highly stable in the period observed from 2006 to 2018.[3]

A review of the DLT criteria based on the swap market in order to justify any possible LLP beyond a maturity of 20 years appears to be inappropriate for insurers because insurance undertakings – in contrast to banks and credit institutions – are mostly active on the bond market. The swap market does not constitute a typical asset class for insurance undertakings. Politically mandated stronger activities by insurance undertakings on the swap market would distort the market, i.e. price discovery on the swap market would no longer be in line with market conditions. There is a specific risk that it would make it difficult or even impossible for the insurance undertakings to collect an appropriate term premium in this maturity range, with the result that the return on the fixed-rate portfolio would be still further reduced over decades.

Evidence of the DLT criteria should therefore be based on the EUR bond market.

III. Position on EIOPA's proposed changes relating to interest rate risk

As a general principle, the public insurers welcome the relative shift approach and EIOPA's intention to improve the calibration of interest rate shocks on the basis of extended time series. As EIOPA emphasises, the shift approach is a purely data-driven approach.[4] The choice of the underlying data for determining the relative interest rate shock factors is therefore of critical importance. Essentially, it should be self-evident that underlying data in EUR should be selected for a standard model for European insurance undertakings whose assets and liabilities are denominated in EUR. In the opinion of the public insurers, the underlying data must be based on EUR.

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[2] See Article 77a of EU Directive 2009/138/EC.
[3] See EIOPA (2019), Consultation Paper on the Opinion on the 2020 review of Solvency II, sections 2.69-2.71.
[4] See EIOPA (2019), Consultation Paper on the Opinion on the 2020 review of Solvency II, section 5.6.

When back-testing the results, it is therefore of minor importance if the calculated downward interest rate shocks are also valid for the other currencies in the European Economic Area.

Use of the shift approach for determining stressed interest rate term structures should be limited to the liquid range of the term structure. In the case of maturities beyond the LLP, the stressed interest rates should be calculated by extrapolating the stressed interest rates in the liquid range to the UFR. The economically derived ultimate forward rate (UFR) should not be changed by the assumed instantaneous shock. This approach means that the shocked interest rate term structure resulting from the shock would also be applicable to the best estimate.

The public insurers also criticise the fact that EIOPA does not put forward any further alternatives for discussion, but is only proposing a single option. Additionally, no questions are directed to the stakeholders regarding the entire interest rate risk complex, so no comments on this can be made in the template provided.

Re 5. Simplified calculations of the standard formula

I. Summary

We welcome the proposed methodological modification because of the heavy exposure of public insurers to man-made fire catastrophe risk.

II. Comments

As a rule, the public insurers are heavily exposed to man-made fire catastrophe risk. Calculation using the maximum exposure in accordance with Article 90c) of Implementing Regulation 2019/981 can therefore mean a simplification of the calculation. We therefore welcome the systematic extension of this simplification to hypothetical SCR and the resulting risk mitigation, as described in Option 2 (largest gross risk concentration) in section 5.183, EIOPA-BoS-19-465_CP_Opinion_2020_review.pdf.

Re 3.7.e) and 5.7. Catastrophe risk in the standard formula

I. **Summary**

The public insurers welcome the fact that the Request for Advice is designed to create greater transparency with regard to the market average conditions for contractual limits and deductibles that underlie the calibration of the natural catastrophe risk submodule.

A comparison with the modelling results of other recognised models in the insurance market shows that the catastrophe risk exposure of the public insurers is significantly overestimated in the standard formula. The risk factors should therefore be subjected to further examination with the aim of a (further) reduction of these factors.

The public insurers hold the view that greater transparency about the data and assumptions for calibrating the natural hazards of storms, hail, floods and earthquakes is necessary in other areas. This is a condition for being able to examine the modelling of natural

catastrophe risk in a first step, and in a second, for discussing concrete adjustments to the standard formula in order to model the risks more appropriately. The modelling of man-made risk is also disproportionately high and should be adjusted.

As a general rule, the use of undertaking-specific parameters should be allowed for modelling catastrophe risk in the standard formula.

Natural hazards are calibrated at the level of CRESTA zones. For storms and in particular for floods, this level of granularity is too coarse and does not allow the risks to be modelled appropriately. In the case of floods, results of the "HQ Kumul" model developed by the German Insurance Association (GDV) for Germany for non-commercial purposes should be used.

We would also appreciate it if more could be made known about the members and work of the Technical Expert Network on Catastrophe Risks established by EIOPA in early 2019. We would welcome greater transparency. As undertakings that are particularly exposed to natural hazards and have very long-standing expertise in this area, it would also be desirable from our perspective if a representative of our undertakings could become a member of this Network in order to ensure the flow of information for our undertakings and provide expert advice.

II. Introduction

Because of their above-average market exposure in residential building insurance and property insurance, which are particularly exposed to natural catastrophe risk, the area of natural catastrophe insurance is critical for the public insurers. The public insurers therefore have particular expertise in this area. For many years, they have been using the modelling results of reinsurance brokers and other natural catastrophe risk models that are generally accepted in the insurance market for reinsurance purchasing and for corporate management.

Compared with other generally accepted models in the insurance market, the risk factors assumed in the standard formula for modelling natural catastrophe risks appear to be too high and should therefore be reviewed again; the public insurers would welcome an opportunity to contribute their expertise to the discussions. This also applies to man-made risks. We are therefore requesting the relevant assumptions in the standard formula to be described transparently and reviewed.

In addition, we are commenting on the specific request by the Commission to EIOPA to provide the market average conditions relating to the average contractual limits and average deductibles.

III. Request for Advice

In the second report on reviewing the standard formula in the Delegated Regulation, EIOPA advised a method to capture specific insurance policy conditions (in particular contractual limits and deductibles) that deviate significantly from national market average conditions. In the Request for Advice, EIOPA is now being asked to provide the national market average conditions that underlie the calibration of the natural catastrophe risk submodule.

EIOPA has emphasised that the risk weights and risk factors for natural catastrophe risks have been calibrated by taking account of national market average contractual limits and

national market average deductibles. The intention was to capture risks in such a way that they are calibrated appropriately for each country.

Over and above this, the Request for Advice does not address any general review of catastrophe risk modelling. Please add this point.

IV. Comments

The public insurers would welcome greater transparency by EIOPA by providing the market average conditions relating to average contractual limits and average deductibles.

In addition to this aspect of market average conditions, we are seeking a review of the assumptions used to model catastrophe risk in the standard formula.

In a first step, transparency should be created about the relevant assumptions in the standard formula. Only this will enable the undertakings to undertake the appropriateness assessment required as part of the ORSA. The reason for this is that it is only possible if all assumptions applied to calibrating the natural catastrophe risk submodel are known and transparent. Additionally, the technical discussion process about the appropriateness of the assumptions in the course of the review process can only be launched on this basis.

The public insurers welcome the fact that EIOPA set up an Expert Network on Catastrophe Risks in early 2019 to strengthen and complement EIOPA's expertise with regard to the modelling and mitigation of (natural) catastrophe risks and climate change risks. We are seeking greater transparency here; among other things, the members of this Expert Network and the appointment process are not known. We are proposing expanding this Expert Network to include members of insurance undertakings that have significant expertise in modelling natural catastrophe risks. The public insurers are offering to support this Expert Network through their own expertise.

Further aspects that the public insurers believe are of particular importance are described in the following.

Natural catastrophe risks are calibrated at the level of CRESTA zones (based on postal codes). At the time of writing, only 99 CRESTA zones are relevant for Germany. This only allows a simplified, non-specific presentation of risks, so that it is not possible to correctly model the actual progress of e.g. a storm, a flood or an earthquake. The question of whether these risks can be modelled based on a finer granularity needs to be addressed.

The risk and CRESTA factors are of particular importance for our regionally positioned undertakings. The values modelled to date are considered to be not tailored and are extremely high, in particular in the case of flood risk. As a general principle, the calibration factors should be reviewed.

In the course of the 2018 SCR review, the storm risk factor was reduced from 0.09% to 0.07% in a first step. On the one hand, we welcome this reduction, but at the same time, we wish to point out that a further reduction in the risk and/or CRESTA factors is necessary in order to calibrate storm risk appropriately for Germany.

For flood risk, the "HQ-Kumul" flood model was developed for Germany in a GDV project by insurers and the IAWG practice (Hydrology, Applied Water Resources Management and Geoinformatics). In contrast to the practice used for other vendor models, this model was not developed by commercial providers, but supported by the GDV. The advantages of "HQ-

Kumul" are firstly that the modelling is based on a very broad range of underlying data. Secondly, the model is transparent and the underlying scientific principles are accessible. The practical relevance of the model is evidenced, for example, by the fact that the zoning system for floods, backwater and heavy rain (ZÜRS) commonly used in Germany for zoning and rate-setting is taken into consideration in "HQ-Kumul". The public insurers advocate incorporating the "HQ-Kumul" modelling results in the parameterisation of flood risks for the German market. Similarly, equivalent models can be used for other countries to parameterise the standard formula.

In addition to the stipulated market-wide standard risk factors, the Solvency II principles allow the use of undertaking-specific parameters (USPs) in the area of "non-life actuarial practice" to adjust the standard deviations in premium and reserve risk if this allows the insurance undertaking's risk profile to be modelled better than using the standard parameters of the standard formula, and this has been approved by the supervisor. As a rule, this approach should also be allowed for modelling catastrophe risk in the standard formula in order to enable a more precise representation of catastrophe risk. On the one hand, this makes sense because of the high relevance of natural catastrophe risk in the risk profile. On the other, precisely for this reason, many insurance undertakings have wide-ranging expertise in this type of modelling, which could flow into the parameterisation of USPs. This would significantly support the appropriate modelling of the risks in the standard formula and increase the level of appropriateness.

The modelling of man-made risk in the standard formula is also extremely conservative. If anything, the assumed loss corresponds to a maximum loss and not – as called for by Solvency II – the 200-year loss. Its recurrence period is therefore considerably higher. Please also add this issue to the review of catastrophe risk.

Re section 7. Reporting and disclosure

Preliminary remarks

The public insurers welcome the efforts to streamline the SFCR and to make the SFCR and the RSR more aligned with the needs of the users.

In the overall context of the first and second waves of consultations, however, there has been a considerable expansion in the scope of reporting, an increase in the complexity, in particular of the SFCR, due to the introduction of comprehensive sensitivity calculations and a potentially significant expansion of the auditors' audit obligations. This runs counter to the goal of making SFCRs more aligned with the needs of the users because the reports will be made much more complex and more technical for the public. In addition, there will be a high one-time expense for implementation and considerably higher subsequent costs for the undertakings. The EIOPA proposals contain additional complexity drivers, such as abandoning uniform SFCRs at solo and group level, which will significantly increase the preparation and coordination effort and expense for these reports in the undertakings.

Overall, we believe that, as public insurers, we will be significantly affected by the new requirements. However, this is not due specifically to our orientation as public insurers, but above all in light of the relative size and heterogeneity of the individual insurance undertakings in the Association and the associated high level of difficult-to-scale effort and expense that might arise from the Review 2020.

I. Position on EIOPA's proposed changes relating to the RSR (in particular the inclusion of matters in the RSR that were dropped from the SFCR, section 7.1 of EIOPA-BoS-19/465)

A clear expansion of the scope of the SFCR was already evident in the first wave of consultation, however (including the addition of sensitivity and scenario calculations, a clear expansion of undertaking-specific commentaries, user-specific form and language). It is now clear from the second wave of consultation that the parts of the report that are to be dropped from the SFCR will be included in full in the RSR.

Overall, there will thus be a considerable expansion in the scope of reporting and a high one-time expense for implementing it. In the view of the public insurers, the goal of streamlining reporting was not achieved.

The public insurers hold the view that, in light of the disclosures on calculating solvency capital that are in any case contained in the SFCR, adding sensitivity analyses to the annual reporting is obsolete because the solvency capital calculation itself already constitutes a comprehensive sensitivity analysis and is performed for numerous stress scenarios, and thus conveys information about the sensitivity of the solvency statement with regard to the risks covered by the standard formula. These risks already cover the main risks associated with the insurance business. In addition, other scenario analyses that are relevant for the individual undertaking or the market as a whole should not be performed in the SFCR, but within the ORSA. Meeting the needs of users is not increased by introducing additional standardised scenario analyses. The comprehensive form of the SFCRs required today is currently already not understood or used by the users (policyholders and financial sector stakeholders) without the additions proposed by EIOPA – this is shown by studies by the German Insurance Association and the public insurers about the number of downloads, which lies in a very low two- to three-digit range.

In the long term, implementing the new, modified requirements will therefore not lead to any reduction or simplification of the reporting processes – on the contrary, it will lead in the short and mid-term to considerably higher implementation and adaptation effort and expense for processes and systems.

In addition, the proposed introduction of machine-readable formats for all insurance undertakings covered by Solvency II represents a further major driver of effort and expense. In our view, there is no relevant added value proportionate to the implementation effort and expense because publicly traded insurance undertakings are already subject to

Delegated Regulation (EU) 2018/815 and are required to report in accordance with the European Single Electronic Format (ESEF).

The public insurers welcome the two-week extension of the period for submitting the annual reporting. However, we note that this extension would already be inevitable because of the expansion in the scope of reporting.

II. Position on the opening clause to expand the auditing requirement (section 7.137 in EIOPA-BoS-19/465)

The public insurers are not in favour of any expansion of the existing requirements governing the auditing of the solvency statements.

At the public insurers, the audit of the national GAAP annual financial statements generally constitutes a key basis for the audit of the solvency statement.

In particular, in the overall context of the national GAAP auditing requirements and the auditing requirements under Solvency II, there are therefore already comprehensive auditing obligations to be fulfilled by the auditors.

In our opinion, extending the auditing requirement to the SCR and the EOF will lead to a proliferation of the information and key performance indicators exchanged with the auditors and hence to a proliferation of the documentation, coordination and audit effort and expense associated with the audit – at both the insurance undertakings and the auditors. The added value for the users of the SFCR – the policyholders and the financial sector – is not evident and is not proportionate to the costs associated with the expanded audit by the auditors.

In line with our estimates based on existing experience, we are assuming an increase in the effort and expense associated with the audit of at least 100–200%.

Because of the significant increase in the effort and expense if the auditing requirements are expanded – compared with the status quo in the Member State in question – we believe that it is imperative to link this to a further extension of the period for the annual reporting.

The public insurers are not in favour of publishing the audit opinion in the SFCR because the interpretation of the technical comments by the auditor will not generally be understood in particular by the policyholders, which could lead to potential false conclusions on the part of the users.

The public insurers are not in favour of the option for national supervisory authorities to implement additional auditing requirements at national level. Rather, the requirements should be harmonised Europe-wide to ensure a level playing field. It should be noted in this context that there are currently no auditing requirements in certain Member States.

We support EIOPA's project to make the SFCR more aligned with the needs of users. In light of the comprehensive expansion of the content and the expanded auditing requirements proposed by EIOPA, we believe that a mere two-week extension of the submission periods is far too short. Merely introducing an auditing requirement for the SCR and EOF would, as a minimum, double the cost and effort for the auditing processes in the opinion of the public insurers. Moreover, adding numerous comprehensive sensitivity analyses and corresponding commentaries would lead to significant additional effort and expense. In the opinion of the public insurers, the EIOPA proposals would require an extension by 4–6 weeks.

Re section 16. Proportionality and thresholds

I. Comments

The Q4 reporting should be deleted without replacement. Its proximity to the annual reporting creates no added value for the supervisors and thus represents an unjustified additional effort and expense for the undertakings.

Association since 1911 of German Public Insurers

Association of public insurers

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