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## **REGULATORY SCRUTINY BOARD OPINION**

### **Review of the Solvency II Directive**

COM(2021) 581

COM(2021) 582

SWD(2021) 260

SWD(2021) 261



Brussels,  
RSB

## **Opinion**

**Title: Impact assessment / Review of Solvency II Directive on taking up and pursuit of insurance and reinsurance business**

**Overall opinion: POSITIVE**

### **(A) Policy context**

The Solvency II Directive entered into effect on 1 January 2016. It introduced a harmonised framework for the supervision of insurance and reinsurance companies in the Union. Solvency II introduced risk-based capital requirements, stricter governance and risk management rules, and enhanced supervisory reporting and public disclosure. As such, it aims to protect insurers' clients ('policyholders') and preserve the stability of the financial system.

Solvency II contains review clauses requiring the Commission to assess and, where necessary, propose changes to four areas of the framework. These areas concern: long-term guarantees and measures on equity risk; the standard formula for solvency capital requirements; minimum capital requirements; and group supervision and capital management within a group of insurance or reinsurance undertakings, as well as insurance guarantee schemes (IGSs).

Moreover, this review extends to additional issues that the Commission services have identified in other parts of the Solvency II framework as deserving an assessment.

### **(B) Summary of findings**

**The Board notes the useful additional information provided in advance of the meeting and commitments to make changes to the report.**

**The Board gives a positive opinion. The Board also considers that the report should further improve with respect to the following aspect:**

- (1) The report does not sufficiently develop the problem analysis and narrative in a consistent way. It does not sufficiently present the overall simplification potential.**

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This opinion concerns a draft impact assessment which may differ from the final version.

### **(C) What to improve**

(1) The report should explain why it does not analyse digital transition challenges. It should indicate whether other existing or planned legislation tackles this issue.

(2) The problem description should better explain the trade-offs between prudential objectives and more general economic objectives, especially for equity and green investments. To provide a clearer basis for the intervention logic, it should explain better where existing requirements could be relaxed without endangering prudential objectives.

(3) The report could further clarify to what extent the options are future-proof, including through a qualitative assessment of why they are considered fit for purpose when taken in a combined way.

(4) The report should elaborate on the reasons for deviating from EIOPA's advice under policy dimension 'Insufficient proportionality of prudential rules', including by further clarifying the potential negative effects of the EIOPA option and the added value of the preferred option.

(5) On the resolution part, the report should discuss possible alternative options and why these were discarded. It should also better explain how incremental costs and benefits increase as a result of complementary options building up on each other. It should clarify why the preferred set of combined options overall performs best in terms of effectiveness and efficiency.

(6) The report should provide an overall overview of costs and benefits of the combination of options it recommends. It should also further clarify the overall impact of the simplification measures.

The Board notes the estimated costs and benefits of the preferred option(s) in this initiative, as summarised in the attached quantification tables.

*Some more technical comments have been sent directly to the author DG.*

### **(D) Conclusion**

**The DG may proceed with the initiative.**

**The DG must take these recommendations into account before launching the interservice consultation.**

**If there are any changes in the choice or design of the preferred option in the final version of the report, the DG may need to further adjust the attached quantification tables to reflect this.**

Full title	Review of measures on taking up and pursuit of the insurance and reinsurance business (Solvency II)
Reference number	PLAN/2019/5384
Submitted to RSB on	19 March 2021
Date of RSB meeting	21 April 2021

## **ANNEX – Quantification tables extracted from the draft impact assessment report**

*The following tables contain information on the costs and benefits of the initiative on which the Board has given its opinion, as presented above.*

*If the draft report has been revised in line with the Board’s recommendations, the content of these tables may be different from those in the final version of the impact assessment report, as published by the Commission.*

### **1.1. Problem 1: Limited incentives for insurers to contribute to the long-term financing and the greening of the European economy**

PREFERRED OPTION: FACILITATE LONG-TERM INVESTMENTS IN EQUITY

<b><i>I. Overview of Benefits (total for all provisions) – Preferred Option</i></b>		
<b><i>Description</i></b>	<b><i>Amount</i></b>	<b><i>Comments</i></b>
<b><i>Direct benefits</i></b>		
Improved ability to contribute to the long-term financing of the economy	By facilitating the use of the long-term equity asset class that is subject to a preferential capital treatment, insurers will find it less costly to make long-term investments in equity. As a minimum EUR 22 billion of additional equities would be eligible to the preferential treatment according to EIOPA’s impact assessment.	Insurers are the main recipients of this benefit. The quantification of the impact by EIOPA was complex due to limited feedback from stakeholders. As there are still conditions attached to the benefit of using the long-term equity asset class, the extent of its use depends on the willingness of insurers to comply with the criteria (notably the willingness to invest for the long-term). The additional equities that are eligible would imply a lower total capital charge for equity investments (see next row) which may be further invested in equity).
Reduction in overall capital requirements	By facilitating the use of the long-term equity asset class, all else equal, the measure would reduce capital requirements by at least € 3 billion (all else equal).	Insurers would be the main recipients of this benefit. Even if insurers do not invest more in equity, they would benefit from a decrease in capital requirements by extending their use of the long-term equity asset class.
More effective supervision	Clearer and simpler criteria to be met to use the long-term equity asset class	More legal certainty for supervisors in supervising the use of the long-term equity asset class.
International competitiveness	Reduced capital charges on long-term investments in equity improves the excess capital over capital requirements of EU insurers, which facilitates international expansion (either by selling new products with guarantees in foreign markets or by acquiring new foreign subsidiaries)	The main recipients of this benefit are insurance companies.
<b><i>Indirect benefits</i></b>		
More incentives to	As green investments require more long-	Insurers are the main recipients of this

contribute to the greening of the economy	term financing, and capital financing is more effective than debt financing in achieving a reduction of greenhouse gas emissions <sup>1</sup> , the incentives for insurers to make more long-term investments in equity also provides indirect incentives in long-term and green investments in the form of equity.	benefit.
More access to capital financing by SMEs	As capital charges on unlisted equity (i.e. including those from SMEs) are higher than those on listed equities (few SMEs are actually listed), the benefit of being classified as long-term equities is even bigger for unlisted equities. Therefore, this will provide additional incentives for insurers to invest in unlisted equity.	SMEs will be indirect beneficiaries of the revised criteria for long-term investments.

## **II. Overview of costs – Preferred option**

		Citizens/Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Review the eligibility criteria for long-term investments in equity	Direct costs		Slight reduction in the level of policyholder protection compared to current rules <sup>2</sup>	Compliance costs to ensure eligibility criteria for long-term equity investments are met		Supervision of insurers' compliance with new criteria for long-term equity investments	
	Indirect costs						Monitoring of the impact of the new rules on insurers' risk taking activities and on financial stability risks by supervisors

PREFERRED OPTION: STRENGTHEN “PILLAR 2” REQUIREMENTS IN RELATION TO CLIMATE CHANGE AND SUSTAINABILITY RISKS

## **I. Overview of Benefits (total for all provisions) – Preferred Option**

<sup>1</sup> See e.g. European Central Bank, Research Bulletin No. 64, “Finance and decarbonisation: why equity markets do it better”, 27 November 2019 ([link](#)).

<sup>2</sup> This is due to the fact that according to EIOPA, the 22% capital charge is not supported by evidence. However, the reduction in policyholder protection is deemed limited as the revised eligibility criteria for long term investments in equity would be broadly in line with EIOPA’s general approach on this issue.

<i>Description</i>	<i>Amount</i>	<i>Comments</i>
<b>Direct benefits</b>		
More robust risk management requirements concerning climate and sustainability risks	Increased understanding of climate and environmental risks by insurance companies and decisions by insurers will have to reflect those risks.	Stakeholders who benefit: <ul style="list-style-type: none"> <li>• Policyholders;</li> <li>• Beneficiaries;</li> <li>• Investors in insurance companies</li> </ul>
Harmonised approach to management and supervision of climate and environmental risks	Clarified “Pillar 2” rules would provide a harmonised set of rules for the integration of climate and environmental risk across the EU and avoid diverging practices in implementation and supervision.	Stakeholders who benefit: <ul style="list-style-type: none"> <li>• insurance companies, in particular those that are part of an insurance group with insurers in several Member States;</li> <li>• supervisory authorities.</li> </ul>
<b>Indirect benefits</b>		
Indirect incentives for an increase in sustainable investments	More robust risk management requirements concerning climate and sustainability risks provide indirect incentives for sustainable investments and for divestments from environmentally harmful assets. This may result in a reduction of greenhouse gas emissions;	Stakeholders who benefit: <ul style="list-style-type: none"> <li>• investees with sustainable activities;</li> <li>• policyholders with sustainable activities;</li> <li>• any parts of society that might be affected by the negative impacts of climate change.</li> </ul>
Positive contribution to financial stability	By strengthening “Pillar 2” requirements in relation to sustainability risks, insurers would be more resilient to climate and sustainability risks, which may materialise over the long run and impact significant parts of the sector at the same time.	A better prevention and management of the systemic nature of climate change would benefit the society and the economy at large and thereby also insurers.

<b>II. Overview of costs – Preferred option</b>							
		Citizens/Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Strengthen “Pillar 2” requirements in relation to climate change and sustainability risks	Direct costs	None	Increase in insurance premiums due to implementation cost that insurers eventually pass on to consumers	Need to build up capacity on climate and environmental risk management	Less than EUR 200 000 per annum and entity for compliance <sup>3</sup>	Need to build up capacity on supervision of climate and environmental risk management	Need to maintain capacity on supervision of climate and environmental risk management

<sup>3</sup> See SWD(2018) 264, page 47 ([link](#)) and explanations provided in section 6.1.3.

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	Indirect costs	None	None	None	None	None	None

## 1.2. Problem 2: Insufficient risk sensitivity and limited ability of the framework to mitigate volatility of insurers' solvency position

PREFERRED OPTION: ADDRESS ISSUES OF RISK SENSITIVITY AND VOLATILITY WHILE BALANCING THE CUMULATIVE EFFECT OF THE CHANGES

<i>I. Overview of Benefits (total for all provisions) – Preferred Option</i>		
<i>Description</i>	<i>Amount</i>	<i>Comments</i>
<i>Direct benefits</i>		
Improved ability to contribute to the long-term financing of the economy	The reduced volatility of the framework would incentivise long-termism in underwriting and investment decisions by insurers. In addition, as the overall impact of the review in terms of quantitative requirements would be balanced (limited decrease in capital surplus), there would no longer be any hindrance to further investments by insurance companies.	Insurers would be the main recipients of this benefit.
Reduced volatility in solvency position of insurance companies	Short-term volatility would be significantly mitigated, and the framework would address the issues of overshooting and undershooting as described in the evaluation annex. Solvency ratios would become more stable	Insurers would be the main recipients of this benefit.
Enhanced risk sensitivity	The framework would better capture the protracted low and even negative interest rates environment in standard formula capital requirements and in the valuation of insurers' liabilities towards policyholders	The main recipients are policyholders who would benefit from enhanced policyholder protection. This would also benefit insurers, which would have stronger incentives for robust risk management in relation to interest rate risk.
Improved international competitiveness	The reduced volatility of the framework would foster long-termism in investment and underwriting activities. More stable solvency ratios also facilitate business planning and strategic planning (notably for international expansion).	Insurers would be the main recipients of this benefit
Lower capital requirements in the short term	Due to the phasing-in of the changes on interest rates which have a negative impact over at least 5 years, as changes with a positive impact would apply from day 1, this would lead to a short term improvement in insurers' solvency position.	Insurers would be the main recipients of this benefit
<i>Indirect benefits</i>		
Positive contribution to	The reduced volatility of the framework would avoid procyclical behaviour by insurance	Recipients of this benefit are citizens and businesses at large as well as

financial stability	companies in stressed situations. Similarly, by better capturing the low interest rate environment, the framework would reduce the risk of excessive risk taking by insurers which would be incentivised to have robust risk management and asset-liability management strategies.	national governments (less likelihood to involve taxpayer's money to address the consequences of a financial crisis).
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<b>II. Overview of costs – Preferred option</b>							
		Citizens/Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Adapting the framework to address volatility	Direct costs			More complexity to comply with new calculation approach of the volatility adjustment. Still, limited implementation cost		Increased complexity will require resources to supervise the appropriate application of new rules	
	Indirect costs						
Adapting the framework to improve risk sensitivity	Direct costs			Need to adapt IT systems every year in the short term in view of the progressive implementation of new rules during the phasing-in period.	Increase in capital requirements in the long term when rates are low (as the framework would be more risk sensitive in relation to interest rates)	During the phasing-in period where capital requirement do not fully reflect the actual risks from the protracted low-yield environment, need to monitor insurers' behaviour to ensure that there is no excessive risk-taking	
	Indirect costs						

### 1.3. Problem 3: Insufficient proportionality of the current prudential rules generating unnecessary administrative and compliance costs

PREFERRED OPTION: GIVE PRIORITY TO ENHANCING THE PROPORTIONALITY PRINCIPLE WITHIN TO SOLVENCY II AND MAKE A LOWER CHANGE TO THE EXCLUSION THRESHOLDS THAN WHAT IS PROPOSED BY EIOPA

<b>I. Overview of Benefits (total for all provisions) – Preferred Option</b>		
<b>Description</b>	<b>Amount</b>	<b>Comments</b>

<i>Direct benefits</i>		
Compliance cost reductions by way of exclusion from Solvency II	According to EIOPA's impact assessment, by extending the threshold of exclusion from Solvency II, a maximum of 186 insurers would be excluded from Solvency II. This could represent a reduction in ongoing compliance cost of up to € 500 million	The recipients of this benefit are insurers. Considering that some Member States may decide to keep the current exclusion thresholds, the number of insurers which may be actually excluded could be lower than 186. Besides, some insurers may prefer to continue under Solvency II, notably in order to benefit from the passporting regime.
Compliance cost reductions by way of enhancing proportionality for those insurers subject to Solvency II.	The expected number of insurers concerned would be in the range between 249 and 435, the latter in case the existing exclusion thresholds from Solvency II were not updated by Member States. For those insurers, automatic proportionate rules would apply, which could reduce ongoing compliance costs, up to EUR 50 million, according with the estimations of the Commission Services.	The recipients of this benefit are insurers. Additional firms could benefit from proportionality, but conditioned to approval by the supervisor (case by case analysis).
<i>Indirect benefits</i>		
Improved competition within the Single Market for insurance services.	The high cost of compliance is a barrier for new entries in the sector. By reducing the cost of compliance of the small and less risky insurers, it will be a reduction of the operating costs that will contribute to enhancing the profitability of the SME in the EU	Policyholders will benefit from a well-diversified offer of products coming from traditional firms and from new players.

<i>II. Overview of costs – Preferred option</i>							
		Citizens/Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Increase the thresholds of mandatory application of Solvency II	Direct costs			Compliance cost with national prudential rules, which in principle, should be lower than Solvency II, otherwise, the insurer can continue applying Solvency II	Ongoing compliance cost with national prudential rules.	Preparation of two supervisory teams in case a national regime was not implemented so far, and no insurer was under national regimes.	Ongoing training for supervisors to be knowledgeable about two different regimes.
	Indirect						

	costs						
Enhance the proportionality within the framework	Direct costs			Submission by insurance companies of notification/ applications in order to benefit from proportionality measures.	Submission of regular reporting template to supervisors on the proportionality measures used.	Additional cost for supervisors when assessing the notifications of the low-risk profile insurers and approval process.	Ongoing monitoring of the proportionality measures applied by insurers.
	Indirect costs						

#### 1.4. Problem 4: Deficiencies in the supervision of (cross-border) insurance companies and groups, and inadequate protection of policyholders against insurers' failures

PREFERRED OPTION: IMPROVE THE QUALITY OF SUPERVISION BY STRENGTHENING OR CLARIFYING RULES ON CERTAIN ASPECTS, IN PARTICULAR IN RELATION TO CROSS-BORDER AND TO GROUP SUPERVISION

<i>I. Overview of Benefits (total for all provisions) – Preferred Option</i>		
<i>Description</i>	<i>Amount</i>	<i>Comments</i>
<i>Direct benefits</i>		
Enhance the protection of policyholders	The improvement of the clarity and robustness of the Solvency II framework based on the preferred option would improve the governance and financial robustness of insurance groups. Through the increase in quality in supervision it would also improve the ability of the supervisors to protect policyholders and beneficiaries both, in group and in cross border supervision. On the latter stronger coordination by EIOPA would ensure solutions in case of disagreement between authorities on complex cross-border cases and prevent possible insurer failures with negative effect on the policyholders and beneficiaries. Higher consistency of supervision would also contribute to a more harmonised level of policyholder protection.	Policyholders would be the main recipients of this benefit.
Enhanced risk sensitivity	The framework would better reflect all risks as it would lead to a clearer and more robust regulatory framework in terms of how to assess capital transferability or how entities from different financial sectors (e.g. banks) or countries (e.g. subsidiaries from third countries) should contribute to group risks.	Insurers and indirectly the policyholders would be the main recipients of this benefit.
More effective supervision	The framework will become clearer and more robust, existing gaps and uncertainties would be removed. Due to the stronger focus on cross-border supervision and cooperation between national authorities, the quality of the cross border supervision and the convergence of the supervision of insurance groups would be improved.	Insurers and indirectly the policyholders would be the recipients of this benefit.
International	The preferred option (implying stricter rules governing the supervision of groups headquartered outside Europe) will improve the monitoring	Insurers would be the main recipients

competitive ness	of third-country risk exposures for European entities, and more have more focus on capital and financial outflows from the European companies to the wider international part of the group. Reducing the risk of regulatory arbitrage could also have a positive impact on international competitiveness.	of this benefit.
Improved ability to contribute to the long-term financing of the economy	Improved rules on group supervision would incentivise insurance groups to optimise their capital allocation and diversify their risks across the different entities of the group, with potentially positive impacts on the ability to provide funding in long term and sustainable assets across Europe.	Insurers would be the main recipients of this benefit.
<b>Indirect benefits</b>		
Positive contribution to financial stability	The increased risk sensitivity and of governance aspects through clarifying and strengthening the framework in group supervision would increase the resilience of insurance groups and thus the sector, which might lead to a greater resilience in stressed situations.	Recipients of this benefit are citizens and businesses at large as well as national governments (less likelihood to involve taxpayer's money to address the consequences of a financial crisis).
Contribution to a more sustainable and resilient European economy	The preferred option will contribute to the functioning, and therefore the trust in the internal market and optimise the capital allocation of insurance groups. Further integration of the Single Market for insurance services stemming from this option can stimulate the cross-border supply of innovative insurance solutions, including those covering risks related to natural catastrophe, climate change. The improved rules on the group supervision would incentivise insurance groups to diversify their risks across the different entities of the group, with potential positive impact on the ability to provide funding in long term and sustainable assets across Europe.	Citizens and businesses would be the main recipients of this benefit.

<b>II. Overview of costs – Preferred option</b>							
		Citizens/Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Review of deficiencies in the supervision of (cross-border) insurance companies	Direct costs			Higher compliance costs and increased capital requirements for some groups.	Higher compliance costs and increased capital requirements for some groups.	Implementation costs for supervisors of strengthened and more intensive supervision	Extra cost for the supervisory authorities in the Member states where insurers have significant

and groups					Possible extra costs for insurance companies conducting cross border business.	of cross-border activities as well as for some groups.	cross-border activities. Intensified supervision of insurers' compliance with the strengthened and harmonised framework.
	Indirect costs		There is a risk that increased costs to business and administrations will be (partly) shifted to customers through increase of insurance premium.				

PREFERRED OPTION: INTRODUCE MINIMUM HARMONISING RULES TO ENSURE THAT INSURANCE FAILURES CAN BE BETTER AVERTED OR MANAGED IN AN ORDERLY MANNER

<b><i>I. Overview of Benefits (total for all provisions) – Preferred Option</i></b>		
<b><i>Description</i></b>	<b><i>Amount</i></b>	<b><i>Comments</i></b>
<b><i>Direct benefits</i></b>		
Reducing the likelihood of insurance failures	By clarifying the preventive powers and ensuring an adequate degree of preparedness, on both the industry and the supervisory sides, EU action would contribute to increasing the likelihood that an insurer in distress would effectively restore its financial position and continue to perform its functions for society.	Policyholders and beneficiaries, which includes the business sector in general, would be the main recipients of this benefit.
Improving policyholder protection	By reducing the likelihood of insurance failures and implementing a framework that would ensure that important insurance functions of a failing insurer continue to be performed, EU action would contribute to a better protection of policyholders.	Policyholders and beneficiaries would be the main recipients of this benefit.
Foster cross-border cooperation and coordination during crisis	A more coordinated decision-making between different public authorities and courts will contribute to reduce inefficiency costs and preserve the value of the failing entity.	Policyholders and beneficiaries would be the main recipients of this benefit. However, many insurers would also benefit from a more level-playing field in the measures taken by

		authorities to restore their financial conditions or resolve them.
<b>Indirect benefits</b>		
Preservation of financial stability, prevention of systemic risks, protection of the real economy and of public funds	EU action would ensure the continuity of functions by insurers whose disruption could harm financial stability and/or the real economy and to protect public funds (by limiting the risk of needing to “bail-out” failing insurers)	Society at large would be the recipient of this benefit, including taxpayers.
Better consideration of the interests of all affected parties	EU action would ensure that the interests of all affected Member States, including those where the parent company is located as well as those where the subsidiaries and branches of a failing group are located, are given due consideration and are balanced appropriately during the planning phase and when recovery and resolution measures are taken. It would therefore address potential risks of conflicts of interest for local supervisory and resolution authorities to give priority to the protection of “local” policyholders over other stakeholders	Policyholders and beneficiaries would be the main recipients of this benefit.

<b>II. Overview of costs – Preferred option</b>							
		Citizens/Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Implementing pre-emptive recovery planning	Direct costs			Insurance companies would have to develop pre-emptive recovery plans which might entail some staff, IT and consultant costs, unless they already are subject to such requirements on a local basis. An increased synergy with	Insurance companies would have to periodically review, adapt and monitor their pre-emptive recovery plan as a part of their governance framework.	NSAs would have to set-up a framework for reviewing recovery plans. EIOPA estimated the costs to lie between 0.04 and 5 FTE depending on the situation of the concerned NSA.	NSAs would have to review and monitor recovery plans. EIOPA estimated the on-going costs related to these activities to range between 0.06 and 3 FTE.

				existing processes such as the ORSA could contribute to contain costs.			
	Indirect costs						
Implementing resolution planning, including resolvability assessments	Direct costs				Insurers would have to provide information that resolution authorities would require for the purpose of resolution planning.	Resolution authorities would have to set-up a dedicated insurance division that would draft resolution plans, including resolvability assessments. EIOPA estimated that the overall costs could range between 0.3 and 9 FTE and between EUR 21.000 and EUR 450.000	Resolution authorities would have to maintain resolution plans and perform resolvability assessments. EIOPA estimated that the associated costs could range between 0.1 and 6 FTE and between EUR 21.000 and EUR 450.000.
	Indirect costs				In rare cases, insurers may be required to implement measures to address any identified impediments to resolution.		

PREFERRED OPTION: INTRODUCE MINIMUM HARMONISING RULES TO PROTECT POLICYHOLDERS IN THE EVENT OF AN INSURER'S FAILURE

<b><i>I. Overview of Benefits (total for all provisions) – Preferred Option</i></b>		
<b><i>Description</i></b>	<b><i>Amount</i></b>	<b><i>Comments</i></b>
<b><i>Direct benefits</i></b>		
Improved policyholder protection	As presented in Annex 5, the default of insurance companies can expose policyholders to substantial social and financial hardship due to the discontinuation of their policies and the resulting	Eligible claimants, i.e. policyholders and beneficiaries, which would be natural persons and micro enterprises, would be the major recipients of such direct

	absence of protection. These effects would be avoided by the implementation of an IGS. In addition, a minimum harmonisation of IGS design features across the EU would ensure a minimum level of protection throughout the Single Market, thereby ensuring a fair and equal treatment of all policyholders, whatever their place of residence.	benefits.
Protection of taxpayers' money	By transferring the burden of a failure back to the private sector, the need to use taxpayers' resources in the future in case of default of an insurance undertaking is reduced. Estimations of the benefits correspond to the degree of protection offered to policyholders under various assumptions. For further detail, please refer to Annex 5. A rough estimate would be that the introduction of an IGS would save around EUR 21 billion over 10 years of taxpayers' money.	Taxpayers would be the main recipients of such direct benefits. It should be noted however that EU action on IGS will affect taxpayers in Member States in different ways, depending on whether they are resident in a Member State already having an IGS or not.
<b>Indirect benefits</b>		
Improved supervision, in particular for cross-border activities	Following EIOPA's opinion, the implementation of a home country system for insurance guarantee schemes would incentivise supervisory authorities to ensure a better oversight of authorised entities, in particular when making use of their EU passport and performing cross-border activities.	Policyholders and beneficiaries would be the major recipients of such indirect benefits as EU insurance companies would be better supervised overall.
Improved competition in the insurance sector across the EU	The EU action would foster the level-playing field and competitiveness in the insurance industry across the EU. Competitive distortions between domestic and non-domestic insurers will be reduced, thereby contributing to a more efficient Single Market for insurance. The harmonisation of the geographical scope would also eliminate overlaps of existing IGSs as well as the associated costs.	The insurance industry would be the main recipient of these indirect benefits as they would be facing a more open and fair competitive environment. As a consequence, policyholders could also enjoy the effects of increased competition on their premiums and benefit from increased choice from the cross-border provision of services.
Better risk management practices and market discipline	Through an appropriate design (see Annex 5), EU action would create incentives for better risk management practices and would foster market discipline.	Policyholders and beneficiaries would be the main recipients of such benefits as insurance companies would have a reduced risk profile overall and consequently see a reduction in their probabilities of default. This element would also benefit insurance companies as this would foster competitiveness on sound grounds.

<b>II. Overview of costs – Preferred option</b>						
/	Citizens/Consumers		Businesses		Administrations	
	One-off	Recurrent	One-off	Recurrent	One-off	Recurrent

Introduce a minimum harmonised framework for IGS in all Member States	Direct costs		Assuming pre-funding, while the costs are primarily borne by insurance companies, a proportion of them will likely be passed on to policyholders. Therefore, a maximum estimate is that, during the build-up phase (assumed to be 10 years), the costs could be around EUR 2.33 for a yearly premium of EUR 1,000.		If we consider that the costs are not passed on to policyholders, the maximum cost estimate for the insurance industry could be around EUR 21 billion over a transition period of 10 years for example. This would represent a yearly capital cost of 0.12% of gross written premiums.	Member States where no IGS is in place would face set-up costs. For Member States where an IGS is already in place, the costs would depend on the elements of design and scope that would need to be adapted.	
	Indirect costs						

### 1.5. Problem 5: Limited specific supervisory tools to address the potential build-up of systemic risk in the insurance sector

PREFERRED OPTION: MAKE TARGETED AMENDMENTS TO PREVENT FINANCIAL STABILITY RISKS IN THE INSURANCE SECTOR

<i>I. Overview of Benefits (total for all provisions) – Preferred Option</i>		
<i>Description</i>	<i>Amount</i>	<i>Comments</i>
<i>Direct benefits</i>		
Prevention of risks for the financial stability	Improvement of the ability of supervisors to prevent systemic risks stemming from or affecting the insurance sector	Recipients of this benefit are citizens and businesses at large as well as national governments (less likelihood to involve taxpayer's money to address the consequences of a financial crisis).
Better policyholder protection	The requirement for insurers to integrate macro-prudential considerations in their underwriting and investment activities would reduce incentives for excessive risk-taking behaviours.	Policyholders would be the main beneficiaries
Consistency with the risk-based nature of the framework	Supervisory intervention on dividends policies would be possible only when justified by the application of risk-based criteria.	Supervisors would continue to operate according to their legal mandates
Reduced liquidity risk which may not be	Improvement of the ability of supervisors to intervene in case of liquidity vulnerabilities not addressed	In Solvency II there is no quantitative requirement for liquidity risk as in the banking sector. Those additional tools would ensure

appropriately captured under current rules	by insurers	that no standardised liquidity metric is specified in light of the variety of insurers' business models.
<b>Indirect benefits</b>		
Incentives for improved risk management by insurers, beyond capital requirements	Enhanced tools for insurers to assess own risks and their capacity to determine market-wide risks	Policyholders would be among the beneficiaries, but also insurers in the long run which would implement strengthened risk management system.
Minor impact on insurers' international competitiveness.	New requirements are in line with the international framework for systemic risk (e.g. no capital buffers to prevent the building up of possible future risks).	Measures would be applied to improve insurers' risk management systems while not implying tighter rules than their international competitors. Therefore, insurers would be the main recipients.

<b>II. Overview of costs – Preferred option</b>							
		Citizens/Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Integration of macro-prudential considerations in insurers' underwriting and investment activities	Direct costs			Costs for developing (or reinforcing) new underwriting or risk management systems	Costs for maintaining such new systems	Costs developing (or reinforcing) macro-prudential competences and services to assess macro-prudential risks in insurance	Costs for maintaining such new competences and services
	Indirect costs			Increased complexity in the risk management requirements for insurers			

Enhanced liquidity risk management by insurers	Direct costs			<p>Costs for developing (or reinforcing) new liquidity risk management systems for insurers</p> <p>According to EIOPA, average one-off cost would be: 0.46 full-time equivalent (FTE) = 0.06% of total employees</p>	<p>Costs for maintaining such new systems</p> <p>According to EIOPA, average annual costs would be: 0.41 full-time equivalent (FTE) = 0.05% of total employees</p>	Costs for developing (or reinforcing) supervision of liquidity management of insurers	Costs for maintaining such new competence
	Indirect costs						