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## *Solvency 2 News, July 2022*

Dear members and friends,

We have the annual report 2021 from EIOPA, with very interesting information.

EIOPA's Board of Supervisors (BoS) takes note of the Consolidated Annual Activity Report (CAAR) 2021, submitted by the Authorising Officer in accordance with Article 48(1) of the Financial Regulation (FR) applicable to EIOPA. Analysing and assessing the CAAR 2021 BoS has made the following observations:

1. The report contains a comprehensive and thorough account of the activities carried out by EIOPA in the implementation of its mandate and programme of work during 2021.

EIOPA has met its obligations under Article 48(1), providing a detailed account of the results achieved in relation to the objectives set in the Annual Work Programme 2021, financial and management information, as well as the risks related to the organisational activities and measures taken to address them.



2. BoS acknowledges that EIOPA delivered a very demanding Annual Work Programme that included work deprioritised in 2020 due to COVID-19 impact on its work.

3. BoS acknowledges the continued challenges EIOPA faces to manage a demanding workload towards monitoring and mitigating risks, supporting the recovery of the economy, assisting in building more resilient insurance and pensions sectors and further strengthening a common supervisory culture. The BoS welcomes EIOPA's efforts to prioritise in order to deal with a demanding workload and a challenging macro-economic environment.

4. BoS welcomes the significant contribution EIOPA has made in the field of conduct of business supervision and its work to address conduct risks for consumers through the use of EIOPA's product intervention powers and a range of supervisory and oversight tools, including the continued consumer trends and market monitoring work, and visits to national competent authorities (NCAs).

Furthermore, BoS welcomes EIOPA's work together with the other ESAs in developing regulatory technical standards for a targeted Level 2 Review on PRIIPs and for the Sustainable Finance Disclosure Regulation and Taxonomy Regulation.

Finally, the BoS welcomes the work initiated in 2021 on providing input to the Commission's call for advice on Retail Investor Protection and the review of the PRIIPs Regulation where a short deadline of 9 months is envisaged to complete the work by end of April 2022.

5. BoS welcomes EIOPA's continued contribution to building an effective and consistent level of supervision across the EU.

In particular, the ongoing focus on cross-border business, particularly with regards to EIOPA's cross-border cooperation platforms and work on cross-border cases with possible detriment to consumers. At the same time, the BoS acknowledges the limitation of EIOPA's toolbox and impact of the current European supervisory architecture.

6. BoS supports EIOPA's supervisory convergence plans and acknowledges the comprehensive set of objectives and activities established in these plans to achieve supervisory convergence.

In particular, BoS welcomes EIOPA's criteria for the independence of supervisory authorities, which is crucial for the legitimacy and credibility of the supervisory process.

7. BoS welcomes EIOPA's work on the monitoring of Solvency II. In particular, the report on the use of limitations and exemptions from reporting 2019-2020, on the use of capital add-ons during 2019 and 2020, on long-term guarantees measures and measures on equity risk 2020, and the report on European Insurance Overview (solo undertakings).

8. BoS welcomes EIOPA's technical advice on the development of Pension Tracking Systems providing a set of principles, good practices and recommendations, aiming to facilitate citizens' digital access to personal pension information.

BoS also welcomes EIOPA's technical advice on pensions dashboard with an aim to strengthen the monitoring of pension developments in the EU by presenting a complete set of indicators that allow for enhanced analysis and comparison and are also easy to comprehend.

9. BoS welcomes EIOPA's continued monitoring and analysis of vulnerabilities in the market and financial stability risks and in particular, EIOPA's quarterly risk dashboard and semi-annual financial stability reports.

BoS welcomes the 2021 stress test exercise that focused on a prolonged Covid-19 scenario targeting European (re)insurance groups and covering 75% of the EU-wide market based on total assets under Solvency II.

Furthermore, BoS welcomes additional areas of financial stability work such as the liquidity monitoring framework, the methodological framework for stress-testing IORPs setting out theoretical and practical rules, guidance and possible approaches to support future IORP stress test exercises.

10. BoS welcomes EIOPA's activities following the entry into force of the PEPP, including an efficient IT infrastructure and the development of a supervisory framework.

11. BoS welcomes EIOPA's achievements in the area of sustainable finance to support the European Commission's Sustainable Finance Agenda, including the Renewed Sustainable Finance Strategy, in striving for greater protection against climate and environmental risks through insurance coverage, and integrating sustainability risks to the prudential framework for insurers.

In particular, the BoS welcomes EIOPA's Opinion on the supervision of the use of climate change scenarios in Own Risk and Solvency Assessment (ORSA).

12. BoS also welcomes EIOPA's work on the use of digital technology identifying ways to better protect consumers without hindering innovation including work on Digital Ethics, open insurance, and the adoption and implementation of Guidelines on information and communication technology (ICT) security and governance.

BoS welcomes EIOPA's work, alongside ESMA and EBA, in preparing a response to the European Commission's Call for the Advice on the Digital Finance Strategy, providing technical input on issues with changing value chains in the insurance sector, the emergence of platforms and the supervision of entities undertaking mixed activities.

13. BoS notes the positive results of successful management of the Authority's tasks and resources, indicated by the high rate of delivery of products and services as planned or within a minor delay, as well as the targets met in terms of EIOPA's key performance indicators on management of its financial resources.

14. BoS notes EIOPA's diligent response to findings from the European Court of Auditors, the Internal Audit Service and the Authority's Quality Control Committee and supports EIOPA's efforts in its transparent implementation of the respective recommendations.

15. BoS considers that EIOPA is running effectively and efficiently and is delivering the expected products and services to high standards of quality.

Petra Hielkema, Chairperson of the Board of Supervisors

## 2021 IN FIGURES

At the end of 2021, EIOPA employed  
193 full-time employees



347  
products and services  
included in the work programme

EUR 32 839 626 budget

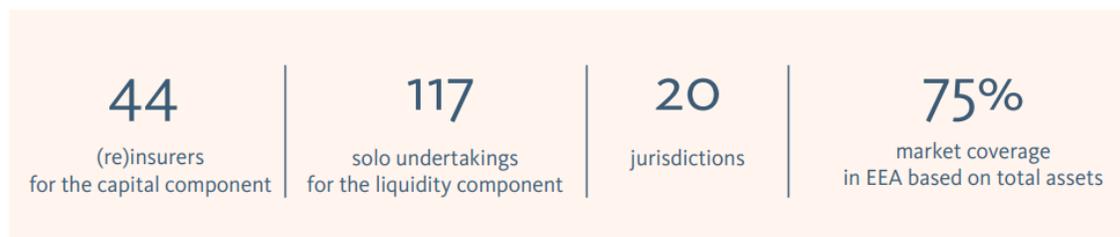
### Interaction with stakeholders



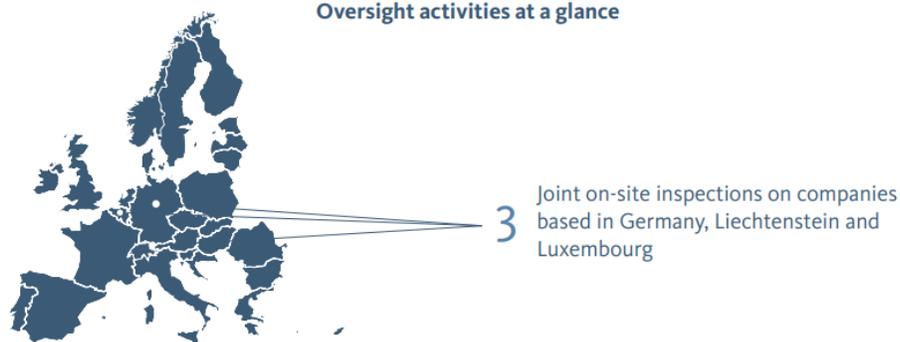
### Publications, outreach and communications activities in 2021



### The 2021 insurance stress test involved



### Oversight activities at a glance



243  
questions on regulation  
were closed in 2021

**Q&As**  
on regulation

143  
questions were sent  
to EIOPA

To read more:

[https://www.eiopa.europa.eu/sites/default/files/publications/annual\\_reports/2021-eiopa-annual-report.pdf](https://www.eiopa.europa.eu/sites/default/files/publications/annual_reports/2021-eiopa-annual-report.pdf)

## Staff paper, an overview of the proposal for an Insurance Recovery and Resolution Directive (IRRD)



The disorderly failure of an insurer or a group of insurers may pose risks to financial stability and to policyholders.

Insurance undertakings provide important services to other actors in the financial system, policyholders and companies. Studies document that the insurance sector contribution to overall systemic risk has been increasing.

Due to their interconnectedness, a failure of a large insurer or the simultaneous failure of several insurers, may have negative repercussions on other parts of the financial system.

Equally, it is key to ensure that at the moment of failure the insurer continues to function as good as is possible in order to prevent policyholder detriment e.g. by continuing to pay out claims and pensions.

A regular insolvency procedure might be cumbersome and unable to manage a failure of an insurer in an orderly fashion.

For example, the settlement of policyholders' claims could be considerably delayed possibly by several years, undermining the wider public's trust in the insurance sector as whole.

Therefore, an authority that is specialised in the insurance business, is familiar with the challenges of resolution, and is equipped with a set of specific tools, would be best placed to deal with situations of distress and default of insurers.

Finally, an important objective of a recovery and resolution regime is to prevent the use of public funds i.e. taxpayers' money.

The ultimate goal is therefore to prevent failure - and if this is not possible - facilitate an orderly market exit.

The proposal put forward by the European Commission (COM) in September 2021, which will be briefly explained in the following paragraphs, is very much welcomed by EIOPA. This goes, in particular, with regard to the focus on the preventive approach, the fact that it addresses all relevant building blocks of a recovery and resolution framework, and the focus on cooperation and coordination among authorities.

Although there are several technical issues that could be subject to debate (e.g. on how the tools will work in practice), EIOPA is generally in agreement with the proposal, which is fully aligned with the international standards. From that point of view, EIOPA believes that the approach and the main elements should broadly remain as they are.

**Resolution tools.** One of the fundamental elements of the proposed Directive are the set of resolution powers it includes. It goes from the more traditional ones, like the run-off or the portfolio transfer (where there is a lot of experience by authorities), to others that are newer.

|                                      |  |
|--------------------------------------|--|
| Bail-in                              | <ul style="list-style-type: none"> <li>• Write-down of liabilities or conversion to shares – policyholders cannot receive shares</li> </ul>  |
| Solvent run-off                      | <ul style="list-style-type: none"> <li>• Withdrawal of authorisation and run-off</li> </ul>  |
| Sale of all or part of the business  | <ul style="list-style-type: none"> <li>• To third party / parties</li> </ul>   |
| Bridge undertaking                   | <ul style="list-style-type: none"> <li>• Public controlled entity where assets and liability are temporarily managed</li> </ul>              |
| Asset and liability separation       | <ul style="list-style-type: none"> <li>• Impaired or problem assets and/or liabilities can be transferred to a management vehicle</li> </ul> |
| Additional national tools and powers | <ul style="list-style-type: none"> <li>• If consistent with framework</li> </ul>   |

To read more: [https://www.eiopa.europa.eu/document-library/other-documents/eiopa-staff-paper-proposal-insurance-recovery-and-resolution\\_en](https://www.eiopa.europa.eu/document-library/other-documents/eiopa-staff-paper-proposal-insurance-recovery-and-resolution_en)

## Solvency II - striking the balance

Sam Woods, Deputy Governor for Prudential Regulation of the Bank of England and Chief Executive of the Prudential Regulation Authority (PRA).



### *Introduction*

The UK's post-Brexit review of insurance regulation is entering a critical phase, with important decisions shortly to come for us, government and Parliament.

With that in mind I thought it would be useful to highlight some of the key points from the Prudential Regulation Authority's (PRA's) perspective, while HM Treasury's current consultation on Solvency II is ongoing, with a particular focus on the main point of contention between us and parts of the industry.

My main message is this. Following Brexit we have a once-in-a-generation opportunity to reshape insurance regulation to work better for the UK.

We can do this while loosening parts of the regime which were over-calibrated by the EU and making it easier for insurers to invest in a wider range of assets, but we also need to strengthen it in one area in order to avoid risks to the millions of current and future pensioners who rely on insurers for their retirement income.

The combined effect of these changes should support the government's objectives for competitiveness, growth and investment in the economy.

### *Overview*

Following our exit from the EU, we have been examining the main bit of prudential insurance regulation (Solvency II) to see how it can be tailored to work better for the UK, working with the Treasury.

The Treasury has set three objectives for the review, which we support: a competitive insurance sector, investment to support growth and policyholder protection.

While the details of the review can appear technical and abstract, the stakes are real. A stable insurance sector backstops the livelihoods of

millions of policyholders, in particular current and future pensioners who rely on insurers for their retirement incomes.

The insurance sector is also a major part of the wider financial sector, and an important source of finance for the real economy including productive and green investment.

Brexit gives us an opportunity to rewrite the insurance regulations we inherited from the EU – and in doing so help drive further investment in the economy. But we need to be clear that this is not a free lunch.

If changes simply loosen regulations which were over-cooked by the EU, without tackling other areas where regulations are too weak, then we are putting policyholders at risk.

The interests of pensioners and other insurance policyholders can get lost in these debates, but Parliament has given the PRA a primary objective to protect policyholders, and it is a central part of our job to highlight risks and propose ways to deal with them.

While pursuing our primary objectives of safety and soundness and policyholder protection, we also have regard to a number of important considerations, including the competitiveness of the sector and the contribution it can make to long-term economic growth.

We are also mindful that as part of its review of the Future Regulatory Framework, the Government has proposed to give the PRA a new secondary objective to promote long-term economic growth and international competitiveness, alongside our existing secondary competition objective.

With all of those factors in mind, we think we can deal with the risks we are worried about while also supporting the government's wider objectives.

Specifically, some in the insurance industry have the impression that we are opposed to any release of capital requirements for insurers.

I want to be very clear that that is not the PRA's position – indeed, following a lot of work and examination of the evidence over the last year or so we think that a substantial capital release should be possible while continuing to protect policyholders adequately.

This could occur as part of a reform package comprising three main components:

- first, a large cut to the “Risk Margin”, which is an extra liability that firms have to carry in order to make it more likely that another firm will agree to take on their insurance policies if the firm gets into trouble, to ensure policyholders are still protected in that scenario;
- second, a package of measures to remove unnecessary bureaucracy from the regime and enable insurers to invest in a wider set of assets; and
- third, measures to put one part of the regime (the “Matching Adjustment”) onto a more sustainable footing.

While there are important issues to debate on the first two elements, it’s on the third of these that there is the main current difference of view between the PRA and parts of the life insurance sector and I will focus mainly on that element in my remarks today.

*What is the “Matching Adjustment” and why does it matter?*

The main point of contention in the review is what, if anything, to change about the calibration of a part of the regime called the “Matching Adjustment” (or “MA” for short).

It’s usually at this point in any speech about insurance regulation that most people switch off, but bear with me while I try to bring the issue to life.

First, what is this “MA” and what does it do? It allows insurance companies to recognise as capital up-front a part of the income they expect to earn on their assets in the future, but only as long as they can show that the cashflows they expect to receive from those assets closely match the payments they have undertaken to make to their insurance policyholders (hence “matching” adjustment).

This is therefore most relevant for the annuity business, where insurance companies promise to pay individuals’ pensions far into the future.

You might ask why the regulator favours such an arrangement, which is not common in other bits of regulation, when perhaps it would be more prudent to make insurance companies wait until those returns (for instance, interest payments on corporate bonds) are actually paid to them before recognising them as capital which could be paid out to shareholders.

The reason is that we think it protects policyholders if insurance companies are incentivised to invest in assets which will produce cash at the right time, so that insurance companies are not scrabbling around for the right assets when they have to make payments to pensioners in the future.

However, you would be right to think that if we allow such an arrangement we must operate it with a very high degree of confidence that those future returns will in fact materialise – in other words that insurance companies do not recognise up-front returns which then later don't show up.

Second, why does the MA matter?

For me there are two reasons.

First, the nature of the business for which it is primarily used: pensions provided by insurance companies.

When an individual puts their life savings into an insurance company in return for a promise that the company will pay their pension right up until their death (potentially decades later), we need to be very confident that the company is going to be able to make good on that promise.

The same is true when companies of all sorts pass their pension liabilities over to an insurance company, which is happening in very high volumes – for those pensioners too we need take care that the foundations of that insurer are robust. We estimate that over 8 million policyholders are served by this sector.

And second, the MA is a vital part of those foundations simply because it is so large – on the most recent figures, the total assets in MA portfolios amount to around £380 billion, and the MA confers a capital benefit on insurers of around £80 billion – up from around £60 billion when the regime was introduced.

To put that £80 billion figure in context, the entire capital base of the life insurance industry is around £112 billion, and for a number of insurers the MA by itself makes up the bulk of their capital.

In short, millions of pensioners rely on their insurer for their livelihood, and in turn those insurers rely very heavily on the MA.

It is true that people who get their pension from an insurance company which fails should have some protection from a compensation scheme which spreads the cost of failures across the industry, but we should not underestimate the risks to them, the industry and the public purse of a major failure – we need to be sure that the basis on which pension promises are made is solid.

To read more: <https://www.bankofengland.co.uk/speech/2022/july/sam-woods-speech-given-at-the-bank-of-england-solvency-ii-striking-the-balance>

## Annual Report 2021/22



The Annual Report highlights the steps the BIS has taken to deliver on its Innovation BIS 2025 strategy and to respond to the challenges facing central banks: the effects of the Covid-19 pandemic, higher than expected inflation and the impact of the war in Ukraine.

### *Promoting global monetary and financial stability*

The global financial system is increasingly complex and interdependent, which makes the policymaking environment in which central banks operate ever more multifaceted.

Against this backdrop, the work of the BIS in supporting central banks and promoting global financial stability has never been more relevant.

The Bank achieves this by focusing on developments in financial markets, monetary policy and technological innovation.

### *Promoting international cooperation*

The BIS acts as a global forum for dialogue and cooperation among central banks and financial supervisory authorities from around the world.

In the aftermath of the Covid-19 pandemic, central banks are assessing how robust growth is while addressing inflation which has been unleashed in most of the world.

In addition to an exacting macroeconomic environment, digitisation is changing the structure of the financial and monetary system globally and demanding central banks' attention.

The BIS is committed to fostering international cooperation among central banks and financial supervisory authorities from around the world, with a view to supporting their efforts to ensure monetary and financial stability.

Innovation BIS 2025 has allowed us to increase our global outreach by further deepening our engagement with central bank committees and hosted organisations in the context of the Basel Process. The BIS convenes high-level meetings of central bank Governors and financial supervisory authorities to enable dialogue and knowledge-sharing.

These meetings are coordinated at a global level in Basel and complemented by regional discussions through the Bank's Representative Offices for Asia-Pacific and the Americas.

The offices serve as centres for BIS activities in their respective regions and are uniquely positioned to understand the needs of the central banks in those regions and anticipate the changes affecting them.

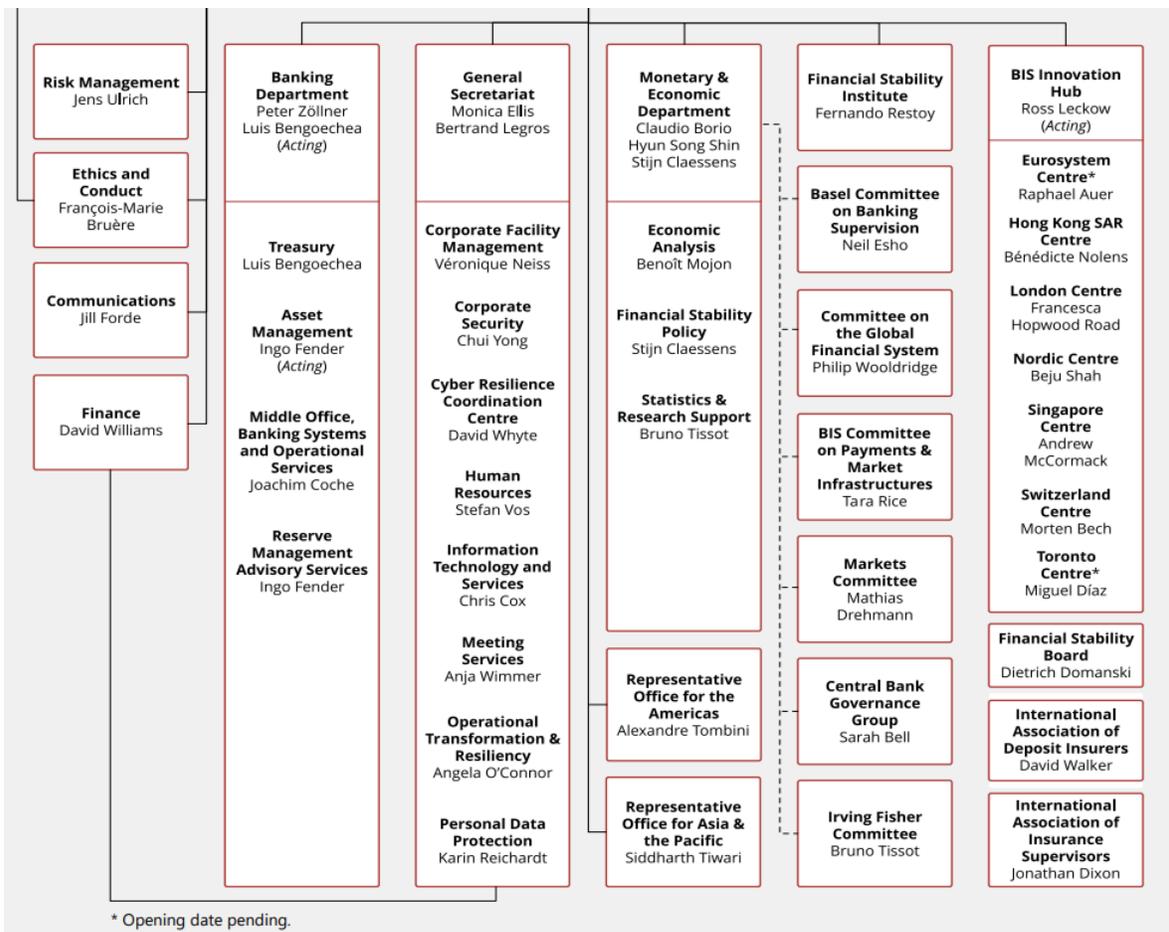
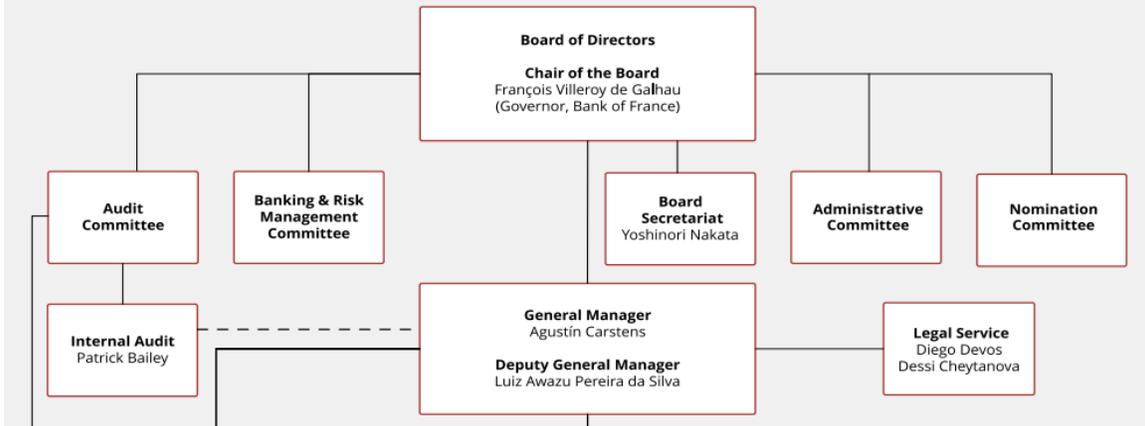
The Bank's Financial Stability Institute assists central banks and financial regulatory and supervisory authorities worldwide in strengthening their financial systems, by supporting the implementation of global regulatory standards and sound supervisory practices. It does so through policy work, knowledge-sharing activities and capacity-building.

## BIS committees



- The **Basel Committee on Banking Supervision** develops global regulatory standards for banks and seeks to strengthen micro- and macroprudential supervision.
- The **BIS Committee on Payments and Market Infrastructures** establishes and promotes global regulatory/oversight standards for payment, clearing, settlement and other market infrastructures, and monitors and analyses developments in these areas.
- The **Committee on the Global Financial System** monitors and analyses issues relating to financial markets and systems.
- The **Markets Committee** monitors developments in financial markets and their implications for central bank operations.
- The **Central Bank Governance Group** examines issues related to the design and operation of central banks.
- The **Irving Fisher Committee on Central Bank Statistics** addresses statistical issues relating to economic, monetary and financial stability.

## Organisation of the BIS, June 2022



## *International associations at the BIS*

### *Financial Stability Board*



The Financial Stability Board (FSB) promotes international financial stability by coordinating the work of national financial authorities and international standardsetting bodies as they develop regulatory, supervisory and other policies. It fosters a level playing field by encouraging consistent implementation of these policies across sectors and jurisdictions.

The FSB is chaired by Klaas Knot, President of the Netherlands Bank, who succeeded Randal K Quarles, Vice Chair of the US Federal Reserve, in December 2021.

In 2021/22, the FSB continued its efforts to address the strains to the financial system resulting from the Covid-19 pandemic.

The FSB set out key lessons for financial stability made apparent by the pandemic, which require further attention from policymakers, including work to enhance the resilience of non-bank financial intermediation.

These lessons define a path forward on financial stability policy and lay the foundation for a more efficient and resilient financial system in the future.

Looking beyond the pandemic, the FSB also coordinated international work on addressing the financial stability implications of key structural changes, including climate change and digital innovation.

To this end, the FSB took forward the roadmap to address climate-related financial risks and the roadmap to enhance cross-border payments.

In the light of the war in Ukraine, the FSB stepped up its surveillance of market developments, with a focus on the resilience of critical nodes in the global financial system.

The FSB is also conducting in-depth analysis and assessment of specific potential vulnerabilities, with a particular focus on commodity markets, margining and leverage.

In addition, ensuring that cryptoasset markets are properly regulated is a key priority for the FSB.

## *International Association of Deposit Insurers*



The International Association of Deposit Insurers (IADI) is the global standardsetting body for deposit insurance systems.

It contributes to the stability of financial systems by advancing standards and guidance for effective deposit insurance systems and promoting international cooperation among deposit insurers, bank resolution authorities and other safety net organisations.

The Acting President and Chair of IADI's Executive Council is Alejandro López, Chief Executive Officer of Seguro de Depósitos Sociedad Anónima, Argentina.

In November 2021, the new IADI Strategic Plan, for 2022–26, was approved at the Annual General Meeting, which set the goals to:

- promote the Core Principles for Effective Deposit Insurance Systems (Core Principles) and deposit insurance compliance;
- advance deposit insurance research and policy development;
- provide Members with technical support to modernise and upgrade their systems; and
- enhance IADI's governance by improving efficiency and transparency.

In 2021/22, IADI produced research, guidance and briefing papers on topics including deposit insurance coverage, the resolution of financial cooperatives and emerging issues such as fintech and climate change.

It also initiated a new programme for conducting thematic assessments of compliance with the Core Principles and began a process to review and update the Core Principles.

On capacity-building efforts, IADI conducted numerous international conferences, webinars and training and technical assistance activities virtually.

It worked closely with the FSB, the FSI, the IMF, the World Bank and other international financial organisations in conducting conferences and meetings on deposit insurance and bank resolution issues.

## *International Association of Insurance Supervisors*



The International Association of Insurance Supervisors (IAIS) is the global standardsetting body for insurance supervision.

The Association is chaired by Victoria (Vicky) Saporta, Executive Director of Prudential Policy Directorate at the Bank of England.

During the past year, the IAIS 's key focus areas included:

*Risk assessment:* 2021 was the first year of full implementation of the IAIS's annual Global Monitoring Exercise, which covers over 90% of the worldwide insurance sector and monitors key trends and the possible build-up of systemic risk.

Results published in the 2021 Global Insurance Market Report focused on the low-yield environment and the related growth in private equity ownership of insurers, increased credit risk and heightened cyber risk.

*Finalising and implementing key reforms:* the IAIS's global Insurance Capital Standard entered the third year of a five-year monitoring period ahead of its adoption in 2024, marked by strong participation by volunteer insurance groups across all regions.

The IAIS also began in-depth assessment of implementation of supervisory measures related to its Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector in 10 jurisdictions, covering the major global insurance markets.

*Promoting peer exchange and guidance* on supervisory approaches to key accelerating trends and risks, such as climate change, digital transformation and cyber risk.

On climate risk, the IAIS undertook a global assessment of the impact of climate change on insurers' investment exposures and published a guide to supervisory practices in addressing climate risk in the insurance sector.

### *Other areas of international cooperation*

The IAIS participates in international forums such as the G20 and collaborates with key international financial institutions. It also contributes to the activities of central banks and regional central bank organisations by participating in their events as well as hosting joint events.

During the past year, the Bank co-organised events or collaborated with the following organisations:

- Arab Monetary Fund (AMF)
- Asian Forum of Insurance Regulators (AFIR)
- Association of Insurance Supervisors of Latin America (ASSAL)
- Association of Supervisors of Banks of the Americas (ASBA)
- Center for Latin American Monetary Studies (CEMLA)
- European Banking Authority (EBA)
- European Commission
- European Money and Finance Forum (SUERF)
- European Stability Mechanism (ESM)
- Eurostat
- Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)
- Group of Banking Supervisors from Central and Eastern Europe (BSCEE)
- Group of International Finance Centre Supervisors (GIFCS)
- International Journal of Central Banking (IJCB)
- International Monetary Fund (IMF)
- International Organization of Securities Commissions (IOSCO)
- Joint Vienna Institute (JVI)
- Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)
- Network of Central Banks and Supervisors for Greening the Financial System (NGFS)
- Organisation for Economic Co-operation and Development (OECD)
- South East Asian Central Banks (SEACEN)
- World Bank Group

### *Cyber Resilience Coordination Centre*

Innovation is a key component of the digital transformation journey that enables organisations to modify existing or create new business processes, corporate cultures and customer experiences to meet ever changing business and market requirements.

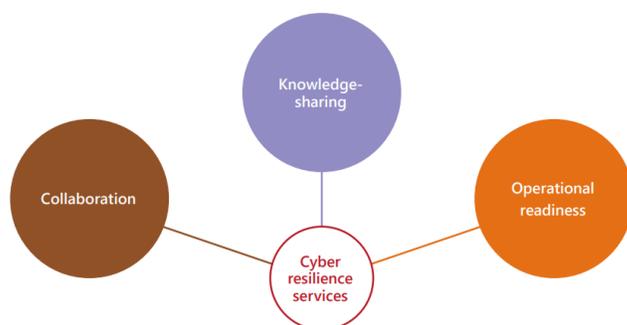
However, the rapid adoption of technology used to accelerate this transformation introduces complexity and exposes organisations to an expanding and increasingly diverse cyber risk landscape.

Accordingly, it is imperative for organisations to manage the related cyber resilience risks that are introduced into their environment.

The Cyber Resilience Coordination Centre (CRCC) helps to strengthen the collective cyber resilience of central banks by providing a structured approach to knowledgesharing, collaboration and operational readiness. The CRCC carries out its mandate as one of the BIS's key entities to

support the central bank community by delivering cyber resilience services in three main activity areas:

- **Knowledge-sharing:** The CRCC provides a platform where central banks can share knowledge on strategic and tactical cyber resilience issues and work together on shared initiatives.
- **Collaboration:** The CRCC aims to build relationships between central banks and within the broader financial sector to ensure coordination and to contribute to an accurate and swift response to major cyber threats.
- **Operational readiness:** Realistic hands-on cyber response training exercises and active collaboration by the CRCC with BIS member central banks help strengthen operational readiness.



The report: <https://www.bis.org/about/areport/areport2022.pdf>

## Competitiveness and productive investment - what parts do they play in the reform of insurance regulation?

Ms Charlotte Gerken, Executive Director of Insurance Supervision of the Bank of England, at the JP Morgan European Insurance Conference.



Thank you for your introduction and for inviting me to this conference. Since the Government announced the **Solvency II review**, there has been much emphasis on the desirability of reform to enhance the insurance sector's competitiveness and its capacity to make productive investment.

Today I would like to outline how competitiveness and productive investment relate to the Prudential Regulation Authority's (PRA) approach to the review by focussing on three areas:

1. Investment flexibility
2. The valuation of liabilities
3. Process improvements

To put the review in context, though: the core framework underlying the Solvency II regime and its principles are broadly fit for purpose, and are in line with existing and emerging international standards.

The review does not involve tearing it up and starting again – not least because of the substantial sums invested by industry in the last decade in adopting it.

Industry responses to HM Treasury's Call for Evidence were largely in agreement with this approach.

However, the review does give an opportunity we are seizing, to deal with those areas of Solvency II that we know are not working as well as they could.

Sam Woods and I have both previously discussed the PRA's concerns relating to the current regime.

Taken together, the improvements we want to make represent an important set of reforms and can achieve the objectives of the review.

*Objectives for the Solvency II review*

The Government set three high level objectives for regulatory reforms, namely

1. to spur a vibrant, innovative, and internationally competitive insurance sector;
2. to protect policyholders and ensure the safety and soundness of firms; and
3. to support insurance firms to provide long-term capital to underpin growth, including investment in infrastructure, venture capital and growth equity, and other long-term productive assets, as well as investment consistent with the Government's climate change objective.

These Government objectives are aligned with the PRA's two primary statutory objectives of safety and soundness of regulated firms, and protection of policyholders.

The PRA's statutory objectives are reflected directly in one of the Government's review's objectives, and they underpin the other two: only a financially sound insurance sector can provide sustainable contributions to long-term investment.

Similarly, the sector's competitiveness depends on its operating under a robust prudential regime.

The first and third of the Government review objectives are also mutually supportive: breadth of investment is essential to the business model of a large part of the UK industry, so by removing unnecessary barriers to investment we further both objectives.

So why focus on competitiveness and productive investment today? Apart from being front of mind in most of my discussions with the insurance sector, they feature amongst the principles the PRA 'has regard to' when making rules or designing policy.

Matters that PRA 'has regard to' serve to focus the decision-makers' minds in weighing up how best to advance the PRA's objectives given to us in law.

To put this more colloquially, the PRA does not make rules or design policy solely in pursuit of a secondary objective or the goals underlying a 'have regard'.

Rather, the existing secondary competition objective, and also the principles underlying our 'have regards' shape how we go about advancing our primary objectives.

We have thought carefully about the impact of our potential reforms in these areas. So, I want to explain how we're having regard to competitiveness and productive investment as we develop reform proposals.

### *Investment flexibility and productive investment*

Looking first at investment flexibility. UK insurers manage almost £890bn of investment assets, and it is an objective of regulatory reform to support the productive investment of those funds.

In the UK, we have a strong flow of defined benefit pension liabilities to insurers, which provides a further incentive to ensure the regulatory regime can facilitate productive investments within the bounds of appropriate risk management of those funds.

To read more:

<https://www.bankofengland.co.uk/speech/2022/june/charlotte-gerken-keynote-speaker-at-the-jp-morgan-european-insurance-conference>



## The digital euro and the evolution of the financial system

Fabio Panetta, Member of the Executive Board of the European Central Bank, at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels



I am pleased to join you here today to discuss the progress we have made in our digital euro project.

A digital euro would enable Europeans to use public money for digital payments throughout the euro area – just like they can use cash for physical payments.

Bringing central bank money into the digital era is a logical step as payments become increasingly digitalised. And this is critical for two main reasons.

First, we need to preserve the role of public money as the anchor of the payments system in order to ensure the smooth coexistence, the convertibility and the complementarity of the various forms that money takes. A strong anchor is needed to protect the singleness of money, monetary sovereignty and the integrity of the financial system.

Second, a digital euro would contribute to our strategic autonomy and economic efficiency by offering a European means of payment that could be used for any digital payment, would meet Europe's societal objectives and would be based on a European infrastructure.

We will design the digital euro in a way that makes it attractive to users, who would like to use it to pay anywhere.

Giving legal tender status to the digital euro would make this possible, and it will be decided by you, the co-legislators. It would also help to achieve the network effects that are key to the success of payment solutions.

We will also strive for the highest standards of privacy and aim to contribute to financial inclusion and foster digital innovation, including as regards the programmability of payments.

As for implementation, we are working to minimise the time to market, costs, risks and ecological footprint associated with the digital euro.

In particular, we will make sure that the digital euro builds on the experience of financial intermediaries in consumer-facing services, does not crowd out private means of payment, and preserves financial stability. And this is the aspect that I will focus on today: the potential impact of a digital euro on the financial system.

### *The digital euro and the evolution of the financial system*

As we explore the design of the digital euro, we are not only looking at the payments landscape of today – we are in fact also considering how it might evolve in the future.

Imagine a world in which the central bank continues to offer only cash, but people increasingly prefer to pay digitally and the only digital forms of money available to them are private ones. In such a world, central bank money would lose its key role in payments, and it would not be possible to ensure the complementarity and convertibility of public and private money.

The entire monetary and financial sector would be deprived of its anchor – central bank money – and would be exposed to potential instability.

It is also conceivable that non-European digital payment solutions and technologies operated abroad might dominate our payments market, as we are already seeing in some segments like cards and online payments.

This risk would be exacerbated by the expansion of means of payment offered by big techs, which could use their very large customer base to their advantage.

This would raise questions about our autonomy and privacy in payments. It could even endanger European sovereignty.

Moreover, the international monetary system may see the emergence of central bank digital currencies (CBDCs) in large economies. Such CBDCs would offer benefits in terms of efficiency, scalability, liquidity and safety that would support their attractiveness internationally.

And they would have the potential to facilitate cross-border payments, which may enhance their role as a global payment unit. In such a context, not issuing a digital euro could undermine the international role of the euro and create additional risks to sovereignty.

This scenario is not imminent, but it could potentially materialise in the future if we do not start acting today. And if we don't act, we will also see increasing confusion about digital money. Crypto-assets are a

case in point.

Unbacked crypto-assets, for example, cannot perform the functions of money. They are neither stable nor scalable. Transactions are slow and costly. And, in some forms, they pose a danger to the environment and to other societal objectives.

Stablecoins, meanwhile, are vulnerable to runs, as we have recently seen with algorithmic stablecoins. In this context, it is vital that any remaining regulatory gaps in the crypto-asset ecosystem are closed.

I count on the work of this Parliament to ensure that an ambitious regulatory framework emerges from the current negotiations on the EU Regulation on Markets in Crypto-Assets (MiCA) and on the current legislative proposals on anti-money laundering and countering the financing of terrorism, especially in relation to information accompanying transfers of funds and certain crypto-assets (FCTR).

To avoid this confusion about what digital money is and what it is not, we need the central bank to provide one of its own, responding to the demand for digitalisation and providing an anchor of stability in the world of digital finance.

### *Protecting the stability of the financial system*

For the digital euro to play this role, we need to carefully evaluate its potential impact on monetary policy, financial stability and the provision of services by financial intermediaries.

A digital euro would of course be issued by the central bank. And unlike potentially dominant private actors in tomorrow's digital payments market – such as big techs – the central bank would pay close attention to financial stability considerations and to preserving a diverse and vibrant ecosystem.

This does not imply that the status quo must be maintained. It means that any potential risks emerging from the introduction of a digital euro should be contained in both normal times and times of financial stress. We have been discussing these aspects in detail over the past few months.

We are looking very closely at the risks to monetary policy transmission and financial stability that could be associated with the conversion of large parts of euro area bank deposits into digital euro.

Deposits represent the main source of funding for euro area banks today. If not well designed, a digital euro could lead to the substitution of an excessive amount of these deposits.

Banks can respond to these outflows, managing the trade-off between funding cost and liquidity risk.

The attractiveness of commercial bank deposits will also influence the degree of substitution.

But any undesirable consequences that may result from the issuance of digital euro for monetary policy, financial stability and the allocation of credit to the real economy should be minimised in advance by design.

And it is indeed possible to design a digital euro with effective tools to prevent it from being used as a form of investment rather than solely as a means of payment.

To read more: <https://www.bis.org/review/r220616a.pdf>

## The landscape in 2030 - Central Bank Digital Currencies (CBDC) or private digital payment solutions?

Burkhard Balz, Member of the Executive Board of the Deutsche Bundesbank, at the Central Bank Payments Conference, Athens.



### *1. High activity among central banks on CBDC*

Ladies and gentlemen,

It is a pleasure for me to be here in Athens and to speak to you about central bank digital currency (CBDC) in the vicinity of the ancient Agora where – if I am not mistaken – Aristotle discussed questions of ethics, economics and politics with his disciples while walking in the shade of the Peripatos.

Now I know full well that philosophers from antiquity cannot provide us with any immediate input on CBDC. But take it from me: even in our discussions about a digital euro Aristotle does play a role from time to time. I will come back to this at the end of my speech.

CBDC is a digital form of money, issued by the Central Bank, and in its retail version accessible for the general public. According to the latest BIS survey, more than two-thirds of central banks worldwide will possibly issue, or are likely to issue, a retail CBDC in either the short or medium term. As a result, retail CBDC, as a new means of payment for everyday transactions, may exist in at least some countries at the end of the decade, so by 2030.

At the moment, there are only two countries where a retail CBDC has actually been launched: the Bahamas launched their digital Sand Dollar in October 2020, and Nigeria issued an eNaira in September 2021. Meanwhile, the Eastern Caribbean Currency Union is piloting DCash, and China is running extensive pilots with its eYuan.

All these countries had very different motivations for these endeavours: logistical issues concerning the proper supply of cash across a widely spread archipelago in the Bahamas, support for financial inclusion in Nigeria, and in China the eYuan ranks as a state-run alternative to the two quite dominant private payment solutions.

In many other jurisdictions, for example in the United States and the United Kingdom, central banks have also initiated public debates on the possible launch of a CBDC. I am looking forward to the results and the conclusions that will be drawn from them.

In the euro area, we are one step ahead. We published a report on the groundwork for a digital euro in October 2020 and launched our Eurosystem project eight months ago. The aim is to investigate whether we should introduce a digital euro and what it might look like.

As in all the other countries the question arises, why are we doing this? If you asked the average consumer on the street, the majority would probably not see an immediate need for something called the “digital euro”. But would the response have been any different if Steve Jobs had asked whether we needed a thing called the “iPhone” at the beginning of this century?

## *2. Good reasons to come up with CBDC*

As I said, central banks have different reasons to consider the introduction of CBDC a worthwhile undertaking. In the euro area, we are seeing decreasing demand for physical cash which, up to now, is the only form of central bank money that is available to the general public. But cash isn't suitable for payments in the digital world, like in e-commerce.

Therefore, it could be beneficial to additionally offer a digital version of cash to support digitalisation in the European Union. Let me clarify: the digital euro would complement cash, not replace it. We will stick to our current practice of market neutrality: consumers should choose their means of payment at their own discretion.

Some also take the view that a digital euro is not needed because other innovative means of payment like stablecoins, already exist. But the recent turmoil has clearly illustrated that not everything that glitters is gold. And even if stablecoins were properly regulated, like “e-money” in the European Union today, there would still be issues such as the risk of fragmentation along with a lack of interoperability and broad acceptance. Issues, ladies and gentlemen, that a digital euro would, in any case, remedy from the start.

Moreover, there are further reasons that might be unique in Europe compared with other jurisdictions.

Since the single market for cashless payment solutions in the euro area currently only exists for credit transfers and direct debits, both the Eurosystem and the European Commission see the need for a pan-

European payment solution, running on European infrastructures. As of now, payment cards and online payments, too, are still based on national structures. And the competitors are big and financially potent: international card schemes as well as BigTech firms with their global offerings.

Against this background, the digital euro goes hand in hand with the political idea of supporting pan-European infrastructure and protecting European sovereignty. However, we need to stop regarding the digital euro and private payment solutions as rivals. Quite the opposite: both could be integral and important parts of a sound future ecosystem in payments:

- The digital euro would be offered alongside private payment solutions.
- There needs to be full interoperability between the digital euro and private payment solutions.
- Both segments will have to allow for instant payment processing, 24 hours a day, 365 days a year.

Banks and payment service providers will also have to play an important role in the distribution of the digital euro. In that respect, they can build add-on services on top of the digital euro.

According to the BIS survey mentioned before, more than 70 per cent of central banks – engaged in some form of retail CBDC work – think the private sector needs to play a role in the CBDC ecosystem. This includes various aspects of the client-facing interface, especially client onboarding (including “know your customer procedures”) and the handling of retail payments.

To read more: <https://www.bundesbank.de/en/press/speeches/the-landscape-in-2030-cbdcs-or-private-digital-payment-solutions--893650>

## EBA updates the list of Other Systemically Important Institutions



The European Banking Authority (EBA) updated today the list of Other Systemically Important Institutions (O-SIIs) in the EU, which, together with Global Systemically Important Institutions (G-SIIs), are identified as systemically important by the relevant authorities according to harmonised criteria laid down in the EBA Guidelines. This list is based on end-2020 data and also reflects the O-SII score and the capital buffers that the relevant authorities have set for the identified O-SIIs. The list is available also in a user-friendly visualisation tool.

| A       | B                     | C   | D                  | E  | F           |
|---------|-----------------------|---|--------------------|--|-------------|
| Country | LEI                   | Name of institution identified as O-SII (at country's highest consolidation level)                            | Final O-SII buffer | Identified through supervisory judgement | O-SII score |
| AT      | 529900CA8XQYGKR372    | BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft              | 0.50%              |  | 564         |
| AT      | PD0HJ6WDFJCG10L9792   | Erite Group Bank AG   | 1.00%              |  | 2512        |
| AT      | 92HR1M6F4375QJ0UG95   | Raiffeisen Bank International AG  | 1.00%              |  | 1835        |
| AT      | 5299005XEWPI1MRRX537  | RAIFFEISEN-HOLDING NIEDERÖSTERREICH-WIEN registrierte Genossenschaft mit beschränkter Haftung                 | 0.50%              |  | 293         |
| AT      | 165527Q1Q3385V753550  | Raiffeisenlandesbank Oberösterreich Aktiengesellschaft  | 0.50%              |  | 522         |
| AT      | D1HE8BVUE6D9M8ZUXG17  | UniCredit Bank Austria AG   | 1.00%              |  | 1172        |
| AT      | 529900MCD6D8B3C904    | Volksbank Wien AG (on consolidated basis of Volksbanken Verbund pursuant to Article 30a Austrian Banking Act) | 0.50%              | Y  | 199         |
| BE      | LSGM84136ACA92XCN876  | Axa Bank Belgium  | 0.75%              | Y  | 220         |
| BE      | AS6WLFH3KM7YV25FQ8    | Bellius Banque SA/NV  | 1.50%              |  | 1361        |
| BE      | KGCEPHLVVVRZY01T647   | BNP Paribas Fortis SA/NV  | 1.50%              |  | 2671        |
| BE      | 549300CBNW05DLT6870   | Euroclear SA/NV   | 0.75%              |  | 789         |
| BE      | 15568RAMYJZCFU72044   | ING België NV   | 1.50%              |  | 1410        |
| BE      | 549300BQDCPS8OLEN998  | Investeringsmaatschappij Argenta  | 0.75%              | Y  | 330         |
| BE      | 213800X3QJLSAKRUW91   | KBC Groep   | 1.50%              |  | 2414        |
| BE      | MMYX0N4ZEZ13Z4XCG897  | The Bank of New York Mellon SA/NV   | 0.75%              |  | 464         |
| BG      | 549300615CPXQ052J309  | Bulgarian Development Bank EAD  | 0.50%              |  | 426         |
| BG      | 529900214ZD550NT5540  | Central Cooperative Bank AD   | 0.50%              |  | 392         |
| BG      | 529900GEH0DAUTAUA94   | DSK Bank AD   | 1.00%              |  | 1661        |
| BG      | 549300IRGNL8Q308Y413  | Eurobank Bulgaria AD  | 0.75%              |  | 831         |
| BG      | 549300U781ESCJ0GR95   | First Investment Bank AD  | 1.00%              |  | 1168        |
| BG      | 5299009KALAKO7584196  | Raiffeisenbank (Bulgaria) EAD *   | 0.75%              |  | 722         |
| BG      | 54930027V2W0FMJLUEK50 | UniCredit Bulbank AD  | 1.00%              |  | 1991        |
| BG      | 5299000PCY1EP8QJFV48  | United Bulgarian Bank AD  | 0.75%              |  | 872         |
| CY      | 549300VBGUM9TUOCYW67  | Astrobank Ltd   | 0.25%              |  | 508         |
| CY      | P00RAP85KX9Z750NZW93  | Bank of Cyprus Public Company Ltd   | 1.50%              |  | 3197        |
| CY      | 5493004KSNEM4U7L8714  | Eurobank Cyprus Ltd   | 0.75%              |  | 1473        |
| CY      | CUHEGU3MAD2CEV7C11    | Hellenic Bank Public Company Ltd  | 1.00%              |  | 2552        |
| CY      | 253400EBCBBV89TUHN50  | RCB Bank Ltd  | 0.50%              |  | 1029        |
| CY      | 529900V50F7BA91P460   | Alpha Bank Cyprus Ltd   | 0.25%              | Y  | 342         |
| CZ      | 9K0GWZ2CFIC0IQ7FF485  | Česká spořitelna, a.s.  | 2.00%              |  | 1564        |
| CZ      | Q58F2UEQ48R75B0TCB92  | Československá obchodní banka, a.s.   | 2.50%              |  | 2250        |

The EBA Guidelines define the size, importance, complexity and interconnectedness as the criteria to identify O-SIIs.

They also provide flexibility to relevant authorities to apply their supervisory judgment when deciding to include other institutions, which might have not been automatically identified as O-SIIs.

This approach ensures a comparable assessment of all financial institutions across the EU, whilst still not excluding those firms that may be deemed systemically important for one jurisdiction on the basis of certain specificities.

The EBA acts as the single point of disclosure for the list of O-SIIs across the EU, while each relevant authority discloses information for its respective jurisdiction, along with further details on the underlying rationale and identification process.

This additional information is relevant to understanding the specific features of each O-SII and get some insight in terms of supervisory

judgment, optional indicators used, buffer decisions and phase-in implementation dates.

The list of O-SIIs is disclosed on an annual basis, along with any Common Equity Tier 1 (CET1) capital buffer requirements. Higher capital requirements will become applicable once relevant authorities decide to set institution-specific buffer requirements following the O-SII identification.

For each O-SII, the list includes the overall score in terms of basis points resulting from the EBA scoring methodology.

You may visit: <https://www.eba.europa.eu/eba-updates-list-other-systemically-important-institutions-o>  
<https://www.eba.europa.eu/risk-analysis-and-data/global-systemically-important-institutions>

## FSB proposes key performance indicators for measuring progress toward the G20 cross-border payments targets



The Financial Stability Board (FSB) published for public feedback an interim report on the approach for monitoring progress toward meeting the targets for the G20 Roadmap for Enhancing Cross-border Payments.

The report provides preliminary recommendations about key performance indicators (KPIs) that could be used to monitor progress over time and identifies existing and potential sources of data for calculating those KPIs.

In October 2021, the FSB set quantitative global targets for addressing the four challenges faced by cross-border payments (cost, speed, access, transparency) as a key foundational step in the G20 Roadmap.

These targets were set for each of the three main segments of the market (wholesale, retail and remittances). The targets define the Roadmap's ambition and create accountability. However, measuring progress toward these targets will not be straightforward because no comprehensive data sources currently exist.

For the wholesale segment, the FSB views private-sector network providers as the most promising data sources for monitoring speed and access, while the use of surveys and proxies are being evaluated for monitoring progress towards meeting the transparency target.

The retail payments segment is highly varied in terms of end-users, service providers, and payment mechanisms. The FSB proposes differentiated KPIs for the various use-cases, which would allow a better understanding of how progress toward meeting the targets differs among those use-cases.

The enormous variety of end-users and payment service providers in this segment make collecting comprehensive data infeasible. The FSB is, therefore, evaluating the feasibility of collecting representative samples, for instance from private-sector data aggregators.

For the remittances segment, the public sector's long-standing goal of improving conditions in this segment has led to the establishment of multiple high-quality databases, most notably the World Bank's Remittance Prices Worldwide database and Global Findex database. The FSB is proposing to leverage these, and similar, public-sector databases to calculate KPIs.

The FSB invites feedback from the public on the preliminary proposals in this report. In particular, feedback is appreciated on the following questions:

Has the FSB identified appropriate potential sources of data for efficiently monitoring progress toward the Roadmap's targets? What, if any, additional or alternative public or private data sources should the FSB also consider and for what KPIs?

Has the FSB defined the KPIs appropriately, such that they are closely and meaningfully tied to the relevant target? What, if any, additional considerations should inform the calculation of the KPIs so that they provide sufficiently representative measurements of progress toward the targets without being overly burdensome?

The FSB is evaluating the use of proxies for monitoring progress toward some of the targets. Are the proxies proposed appropriate? What, if any, additional or alternative proxies should the FSB consider that are sufficiently representative and simplify monitoring?

The responses will help to inform the FSB's report in October 2022 to the G20 setting out further details of the implementation approach and the KPIs. Feedback should be sent to [fsb@fsb.org](mailto:fsb@fsb.org) by 31 July 2022 with the title "Monitoring progress toward cross-border payments targets".

To read more: <https://www.fsb.org/2022/07/fsb-proposes-key-performance-indicators-for-measuring-progress-toward-the-g20-cross-border-payments-targets/>

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