073778/EU XXVII. GP
Eingelangt am 23/09/21

Council of the
European Union

Brussels, 23 September 2021
(OR. en)

11992/21

EF 281
ECOFIN 884
SURE 34

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	23 September 2021
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2021) 580 final
Subject:	COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the review of the EU prudential framework for insurers and reinsurers in the context of the EU's post pandemic recovery

Delegations will find attached document COM(2021) 580 final.

Encl.: COM(2021) 580 final

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Brussels, 22.9.2021
COM(2021) 580 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the review of the EU prudential framework for insurers and reinsurers in the context of the EU's post pandemic recovery

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1. SOLVENCY II AND THE CONTEXT OF ITS REVIEW

Insurance policies form an integral part of the daily life of European citizens. For many social and economic activities, holding an insurance policy is necessary as a protection against potential risks. An insurance contract can also be a savings product, which will determine the long-term welfare of the holders while insurers channel these savings via financial markets into the real economy. Insurance and reinsurance companies also play an essential role in the real economy as they cover risks for individuals and businesses in exchange for the payment of premiums. By pooling premiums from a multitude of clients and diversifying across a large number of individual risks, private insurance provides protection at an affordable price for individuals and businesses against otherwise potentially financially devastating events, thereby contributing to the resilience of our economies and societies.

Insurers' investment capacity is geared towards the real economy and contributes to the economic recovery and the long-term financing of European businesses, including SMEs, and infrastructure, that create jobs and growth in the Union. According to data from the European Insurance and Occupational Pensions Authority (EIOPA), in 2020 EU insurers collected more than €1 trillion in premiums and incurred claims of around €800 billion[1].

At the end of 2020, overall, EU insurers and reinsurers had reserved more than €7 trillion to be able to pay for expected future claims and held assets worth more than €10 trillion, making the sector one of the largest among institutional investors. The sector remained well capitalised during the Covid-19 pandemic with an average ratio of regulatory capital to capital requirements of 235% at the end of 2020, albeit 7 percentage points lower than at the end of 2019.

Given their crucial role, insurers' financial resilience is of paramount importance. Prudential rules for this sector are set out in Directive 2009/138/EC (Solvency II)[2], which has applied since 1 January 2016. The principal objectives of Solvency II are to protect policyholders and beneficiaries, as well as to preserve financial stability.

The Directive contains several mandates for the Commission to review the functioning of key elements of the prudential rules:

- The Commission is required to assess the functioning of measures covering the particular situation of insurers supplying **long-term guarantees**, which are relevant for many life insurance products. These "long-term guarantee measures" aim to mitigate the impact of short-term market fluctuations on insurers' solvency positions. More stable solvency ratios avoid undue competitive disadvantages for business

[1] The figures for premiums and claims are presented gross of reinsurance and aggregated for direct business in the EU27.

[2] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (OJ L 335, 17.12.2009, p. 1)

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models based on offering long-term guarantees and, ultimately, increase financial stability.

– The Commission has to review the calculations of **capital requirements.** These calculations are expected to be sensitive to the risks insurers and reinsurers are exposed to, and the review aims at verifying the adequacy of this risk sensitivity.

– The legal mandate covers the rules related to **capital management** within insurance and reinsurance groups.

– The Commission is required to assess the case for further aligning insurance rules on **crisis management** and **insurance guarantee schemes**.

Beyond the legal mandates, the review is an opportunity to reflect more broadly on the lessons learned since the rules have been in force.

Given the significant volume of investments managed by insurers and reinsurers, the review also assessed whether the sector could contribute to the EU's political priorities – especially the Capital Markets Union[3] as well as the climate and environmental targets under the European Green Deal[4].

For instance, the EU climate targets for 2030 will require €350 billion of additional annual investment just to finance transition in the energy sector. The role of private investment has also become even more prominent given the need for economic recovery following the COVID19 pandemic. While the insurance sector can contribute to those financing needs with private investments, it can also have an important role in protecting individuals and businesses against climate risks and thereby help our society to adapt to climate change as underlined in the strategy on climate adaptation[5].

The review was an opportunity to ensure that the regulatory framework is conducive to long-term investment by the insurance sector.

In addition, there is a consensus among stakeholders that the proportionality principle enshrined in Solvency II, i.e. the application of rules in a manner that is proportionate to the nature, scale and complexity of the risks inherent in the business of an insurer, could be improved. While Solvency II is generally perceived as a success, due to the closer alignment of prudential rules with state-of-the-art risk management practices, this may have resulted in undue complexity for some business models.

Finally, Solvency II, unlike the prudential framework for credit institutions, currently has no specific macro-prudential tools to explicitly address the build-up of systemic risks, and there

[3] Communication from the Commission: A Capital Markets Union for people and businesses - new action plan (COM(2020)590)

[4] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions: The European Green Deal (COM(2019)640)

[5] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Forging a climate-resilient Europe -the new EU Strategy on Adaptation to Climate Change (COM(2021)82)

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is so far no dedicated common framework for crisis preparedness and resolution for failing insurers, in the interests of policyholders and the public at large.

Against this background, the present review aims to:

- provide incentives for insurers to contribute to the **long-term sustainable financing** of the economy;
- improve **risk-sensitivity**;
- mitigate excessive **short-term volatility** in insurers' solvency positions;
- improve **proportionality**;
- enhance quality, consistency and coordination of **insurance supervision** across the EU, and improve the protection of policyholders and beneficiaries, including when their insurer fails;
- better address the potential build-up of **systemic risk** in the insurance sector;
- improve **preparedness for extreme scenarios** that may make recovery or the resolution of a failing insurer or reinsurer necessary.

For its work on the review, the Commission was able to build on contributions from stakeholders (mainly submitted during the public consultation) and EIOPA's opinion published on 17 December 2020[6].

On sustainability, the Commission also took into account a separate opinion from EIOPA, published in September 2019[7]. In line with that opinion, the Commission proposes to amend risk management requirements for insurers and reinsurers by adding an obligation to conduct long-term climate scenario analysis. At a later stage, the Commission may consider extending this requirement to other environmental risks. This will contribute the European Green Deal's objective that climate risks are managed and integrated into the financial system and the strategic areas of action set out in the 2021 Strategic Foresight Report[8]. In addition, further work will be launched to assess the suitability of the existing Solvency II capital requirements for green assets.

Following the conclusion of its review, the Commission is putting forward legislative proposals to amend Directive 2009/138/EC[9] and to create an EU framework for the recovery and resolution of insurers and reinsurers[10]. The revision of the Solvency II directive is explained in the next section.

[6] EIOPA: "Opinion on the 2020 review of Solvency II", December 2020 (EIOPA-BoS-20/749)
[7] EIOPA: "Opinion on Sustainability within Solvency II", September 2019 (EIOPA-BoS-19/241)
[8] COM(2021)750, see strategic area of action 6 ("building resilient and future-proof economic and financial systems")
[9] COM(2021)581
[10] COM(2021)582

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2. IMPLICATIONS OF THE REVIEW FOR SOLVENCY II AND ITS SUPPLEMENTING DELEGATED ACTS

The review aims to achieve its multiple objectives by targeting specific elements of the regulatory framework:

- Improving risk sensitivity and better mitigating undue volatility will be achieved through changes to the **long-term guarantee** measures as also explained in section 4, in particular extrapolation of risk-free interest rates and volatility adjustment which are used in the valuation of insurance liabilities.
- Making prudential rules more **proportional** will be possible by allowing more small insurers to be exempted from Solvency II rules and by creating a more suitable framework for insurers identified as insurers with a low risk profile.
- Refining the rules on **transparency** will be achieved by better adapting disclosures required from insurers to the information needed by recipients, differentiating between the information for policyholders and analysts.
- Improving the quality of **supervision** and levelling up the playing field will be brought about through several changes, in particular as regards ongoing compliance with prudential rules, cross-border insurance business and insurance groups.
- Ensuring that **climate and systemic risks** are better managed and supervised will be attained by introducing new requirements on long-term climate change scenario analysis.

Given the close links between Solvency II and its Delegated Regulation (EU) 2015/35, amendments to both acts will be needed to reach all the objectives of the review.

The Solvency II directive empowers the Commission to adopt certain rules through delegated acts. In a number of areas, the Commission is proposing adjustments to those empowerments in order to better achieve its objectives under this review. In such cases, the Commission will have to wait for the finalisation of the legislative process before enacting the necessary changes to the Delegated Regulation[11]. Therefore, in order to ensure a consistent delivery of the review of the Solvency II framework and in view of the close interaction between different topics, the Commission will not introduce changes to the Delegated Regulation at this stage.

In view of the importance of the topics that will require changes to the Delegated Regulation, the Commission is committed to engage with the Member States, the European Parliament and other stakeholders in order to start, without delay, discussions about the possible content of these changes. Such discussions will take place in parallel to the legislative process for amending Solvency II. The Commission will convene meetings of the Expert Group on Banking and Payments, Insurance and Resolution.

[11] Examples of areas listed in section 4 where a coordination of changes to the Solvency II Directive and the Delegated Regulation are necessary: volatility adjustment, matching adjustment and extrapolation.

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3. RECOVERY AND RESOLUTION

The recovery and resolution proposal aims to ensure that (re)insurers and relevant authorities are better prepared to address instances of significant financial distress in the sector to mitigate their fall-out. It will also give national authorities the necessary tools to help maintain insurance coverage for policyholders and protect the real economy, financial stability and taxpayers through an orderly resolution process for insurers who fail.

Despite the robust prudential framework created by Solvency II, situations of financial distress cannot be completely excluded. The disorderly failure of (re)insurers can have a significant impact on policyholders, beneficiaries, injured parties or affected businesses, especially where critical insurance services cannot be substituted in a reasonable amount of time and at a reasonable cost. The management of a near-failure or the failure of certain (re)insurers, particularly large cross-border groups, or the simultaneous failure of multiple (re)insurers can also lead to or amplify financial instability.

The proposal has been developed in full consistency with the Solvency II framework and is proportionate to the specificities of (re)insurance business. It will complement the revised Solvency II framework and strengthen the trust in the EU's insurance sector so that it can fully play its role in the economic recovery following the COVID-19 crisis, in line with the political objectives of the Capital Markets Union and the European Green Deal.

4. THE UPCOMING DELEGATED ACTS

Future amendments to the Delegated Regulation will significantly contribute to achieving the objectives of the Solvency II review. As regards the review topics not covered in this section, the Commission intends to amend the delegated regulation broadly in line with EIOPA's Opinion.

Equity investments

The intention to improve the long-term financing of the economy as part of the Solvency II review is mentioned in the new Capital Markets Union plan adopted on 24 September 2020[12].

More specifically, as announced in the plan, the Commission intends to assess the appropriateness of Solvency II rules concerning the criteria for long-term equity investments, the risk margin calculation and the valuation of insurers' liabilities – with the aim both of avoiding undue pro-cyclical behaviours and better reflecting the long-term nature of the insurance business[13].

[12] Communication from the Commission: A Capital Markets Union for people and businesses - new action plan (COM(2020)590)

[13] The objectives on the Solvency II review set out in the new CMU plan are captured under the two objectives "provide incentives for insurers to long-term sustainable financing of the economy" and "mitigate excessive short-term volatility in insurers' solvency position" mentioned in section 2 of this Communication.

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The Commission will consider revising the eligibility criteria for the long-term equity asset class that were introduced through Delegated Regulation (EU) 2019/931[14] (which amended the original Solvency II Delegated Regulation).

In particular, it will consider simplifying the conditions under which equity investments, including via infrastructure funds, would be treated as "long-term". This would expand the scope of equities that can be subject to the more favourable 22% risk factor (instead of the reference 39% for listed equities and 49% for unlisted equities).

At this stage, it is difficult to assess the amount of equity investments which could benefit from the preferential treatment for long-term investments based on a revised set of criteria. Under a cautious scenario assuming that only 15% of additional equities would qualify as long-term, the reduction in capital requirements for equity risk would reach approximately €10.5 billion (a decrease of more than 6% compared to current levels for insurers using the standard formula). This money can be further invested in the economy.

Therefore, by facilitating access to preferential treatment for long-term equity investments, the review of the eligibility criteria for the long-term equity asset class would help insurers ramp up their contribution to the economic recovery and the long-term financing of European businesses, including SMEs, and infrastructure.

At the same time, the Commission considers that the framework for long-term equity investments should remain prudentially robust, so the review does not harm policyholder protection and financial stability, in line with the new Action Plan for a Capital Markets Union.

Risk margin

The risk margin is part of the value of insurance liabilities. It seeks to ensure that their valuation is in line with what another party would require to accept those liabilities in an arm's length transfer. The formula used for the calculation of the risk margin shows a tendency, for long-term insurance business, of producing more volatile and higher values than expected to be observed in arm's length transactions. EIOPA proposed to amend the risk margin formula with two additional parameters. First, EIOPA considered a time dependent "lambda" parameter that would on its own reduce the value and volatility of the risk margin for long-term business. The reduction would be particularly significant for longer-term business. Second, EIOPA envisaged a floor parameter that would provide a safeguard and ensure that the risk margin does not fall below a certain level compared to the current calculation, notably as regards the risk margin for particularly long-term business.

The Commission will consider building on the lambda approach proposed by EIOPA, but without a floor parameter, to allow for more effective mitigation of volatility than under EIOPA's proposal.

[14] Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (OJ L 161, 18.6.2019, p. 1)

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It will also consider reducing the cost-of-capital rate used in the risk margin calculation from 6% to 5%, in line with the reduction in capital cost for insurance and reinsurance companies over the past years.

Overall, these envisaged changes would reduce the size of the risk margin by more than €50 billion across the sector in the EU, increasing the insurance industry's capacity to invest in EU businesses.

Volatility adjustment

Many insurance companies are willing to hold a significant share of their assets over a long period of time. However, short-term fluctuations in the value of those assets are reflected when calculating their solvency position. This is in spite of the fact that the insurance company may be able to hold those assets in the long term and for this reason may not realise losses in the meantime. The volatility adjustment seeks to mitigate the short-term volatility of insurers' solvency by taking into account the long-term perspective of the insurance company. It reduces the impact of short-term changes in credit spreads on the valuation of insurance liabilities, thereby making capital resources less volatile.

The proposed Directive increases the percentage of the risk-adjusted credit spread that forms the basis of the volatility adjustment. A higher volatility adjustment resulting from this proposed change can more effectively compensate for fluctuations in assets prices in the valuation of insurance liabilities.

At the same time, experience has also shown that the impact of the volatility adjustment on the value of liabilities can exceed the movement of assets prices. Such overshooting of the volatility adjustment artificially reduces insurers' technical provisions so the proposed Directive contains a safeguard addressing the issue.

The safeguard takes the form of an undertaking-specific element in the volatility adjustment, which should be specified in delegated acts. To calculate that element, the Commission will consider EIOPA's advice and possibly change the Delegated Regulation to address overshooting due to differences in the credit spread sensitivity of assets and the interest-rate sensitivity of liabilities.

Matching adjustment

The Commission is also considering possible amendments to the Delegated Regulation in line with EIOPA's advice as regards the rules on diversification benefits and asset eligibility for the matching adjustment.

Where insurance companies hold bonds or other assets with similar characteristics to maturity, changes in spreads on those assets will not realise as losses. The matching adjustment aims to account for the fact that insurance companies are more likely to be able to hold assets to maturity where they identify portfolios of assets and liabilities with matching cash flows ("matching adjustment portfolio") and manage such portfolios separately from the rest of their business. More specifically, the matching adjustment compensates a part of the spread movement-related changes to the value of assets in matching adjustment portfolios with changes to the value of the liabilities in those portfolios. For that purpose, insurance

companies can receive an approval to add the matching adjustment to the relevant risk-free interest rate term structure for the valuation of insurance liabilities in a matching adjustment portfolio.

To account for the low likelihood that all risks will materialise at the same time and gains in some areas may compensate for losses in others, Solvency II capital requirements generally provide for benefits of diversification between different types of risks. Because of the separate management of a matching adjustment portfolio and the rest of the undertaking, the rules currently prohibit the recognition of diversification benefits between the two in the standard formula calculation of the capital requirements. However, EIOPA found that the separate management does not *per se* prevent diversification in practice and the general prohibition of diversification benefits in the standard formula calculation may have resulted in unnecessarily high capital requirements for companies that apply the matching adjustment. The Commission will therefore consider dropping that general prohibition in the context of matching adjustment portfolios as recommended by EIOPA. The resulting additional diversification benefits for companies using the matching adjustment and calculating capital requirements with the standard formula would reduce their capital requirements.

Furthermore, safeguards could be introduced to avoid an excessive relief from the matching adjustment where the corresponding portfolio contains restructured assets that depend on the performance of underlying assets.

Diversification benefits

Another way to support the provision of long-term financing by insurance and reinsurance companies is by improving the recognition of diversification benefits between different categories of market risks via correlation parameters. The Commission will consider amending the Delegated Regulation in line with EIOPA's advice on the setting of the correlation parameter between spread risk and interest rate risk. This will provide more certainty than the current rules where the correlation parameter is dependent on whether the company is exposed to an increase or to a decrease in interest rates. The change will also lead, on average, to higher benefits for diversification between these two risks.

Extrapolation

Interest rates are an important driver for the amounts that insurance and reinsurance companies have to put aside for future claims and benefits. Managing interest rates is therefore crucial for the insurance/reinsurance business, and prudential rules should provide the appropriate incentives in this respect.

Insurance and reinsurance companies have obligations that may result in claims or benefit payments very far into the future. This long-term aspect of the insurance business makes extrapolating interest rates necessary, since rates can be observed on financial markets only up to certain maturities.

Given that insurers rely mostly on bonds, loans or similar fixed-income investments to match their liabilities, it is reasonable to determine the starting point for the extrapolation based on the depth of bond markets. However, information on longer-term interest rates may be observable from financial instruments other than bonds. In order to ensure an appropriate

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level of policyholder protection, the proposed Directive sets out changes to the principles for extrapolating risk-free interest rates. The proposed Directive would empower the Commission to set the formula for extrapolation, so that the extrapolation method, takes into account information on longer-term interest rates, where available, to avoid complacency and ensure appropriate incentives.

For that purpose, the Commission will consider building on the formula and parametrisation proposed by EIOPA.

Given that the new extrapolation method will have a significant impact on insurers' capital resources in several markets, the proposed Directive provides for a phasing in of the method until the end of 2031, which is consistent with the duration of existing transitional provisions in the Solvency II Directive. The phasing in will avoid disruptions, by gradually introducing the impact of the new extrapolation method.

Calculating the capital requirement for interest rate risk

Recent analyses have shown that Solvency II rules do not appropriately reflect the risks related to movements of interest rates, where those rates are low or even negative.

The capital requirement for interest rate risk with the standard formula should therefore be revised to take into account the experience gained in recent years in a low interest rate environment.

Furthermore, the standard formula calculation should also be consistent with the methodology for determining risk-free interest rates for the valuation of liabilities, in particular regarding extrapolation.

The Commission therefore will consider reflecting EIOPA's advice on the calculation of the capital requirement for interest rate risk with the standard formula, with the exception of an allowance for extrapolation for long-term interest rates.

To that end, for each currency, the stressed risk-free interest rates for maturities up to the starting point of the baseline extrapolation will be derived on the basis of the approach and parametrisation proposed by EIOPA[15] in its Opinion. The remaining rates could be extrapolated in the same manner as the risk-free rates of the baseline, however, towards a stressed ultimate forward rate[16].

Similar to the amendments to the extrapolation rules, the Commission will consider phasing in the changes to the standard formula calculation for interest rate risk over a period of five years after the adoption of the amendments as proposed by EIOPA in its Opinion.

Further recognition of risk-mitigation techniques within the standard formula

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[15] In its Opinion to the Commission, EIOPA advised to review the calibration of interest rate risk in the standard formula and proposed a new methodology (i.e. "relative shift approach) in order to better model interest rate shocks in a low interest rate environment.

[16] In line with the one-year time horizon for calculating the solvency capital requirement and the methodology for determining and updating the ultimate forward rate, the Commission will consider stressing the ultimate forward rate in a way it will be 15 basis points lower or – as applicable – higher than the 'ordinary' ultimate forward rate in the "stressed" scenario.

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The Commission will consider extending the recognition, within the standard formula, of innovative forms of non-proportional loss-sharing between insurers and their reinsurers, in line with EIOPA's Opinion. In this context, introducing specific safeguards would help exclude possible cases of underestimating risks.

Effect of State aid compatible guarantees or reinsurance

The Commission will also consider providing clarity on recognition of the risk-mitigating effect of guarantees or reinsurance provided by Member States, in line with EU state aid rules, in the context of insurance underwriting and market risks.

For instance, several Member States provided such schemes during the COVID-19 crisis[17], to ensure credit insurers were able to continue supplying protection to businesses despite the exceptional economic circumstances.

Mortgage loans

Finally, further work on risk assessment related to mortgage loans originated by insurers is needed, to avoid any risk of cross-sector regulatory arbitrage. In this context, the Commission will consider amending the delegated acts to better align the calibration of the standard formula counterparty default risk for mortgage loans with the credit risk framework for the banking sector.

5. ONGOING WORK BEYOND THE SOLVENCY II REVIEW

Beyond the review work described in the previous sections, the Commission has been assessing the case for potential alignment of rules on insurance guarantee schemes and has been monitoring the role of insurance in the context of business interruption during pandemics. The Commission will continue that work with a view to possible future initiatives.

5.1. Insurance Guarantee Schemes

Insurance guarantee schemes (IGSs) use contributions raised by the insurance industry to provide last-resort protection for policyholders, beneficiaries and injured parties when their insurers cannot meet their contractual commitments in case of failure.

There is currently no harmonised framework for these schemes in the EU[18]. Most Member States have established one or more schemes, often in response to past failures by insurers, but these differ in terms of scope, features and design. In its opinion on the 2020 review of

[17] Belgium (State aid case SA.57188, as amended by SA.58045, SA.59113 and SA.60548), Denmark (SA.57112, as amended by SA.59637), France (SA.56903, as amended by SA.59571 and SA.63316; and SA.57607), Germany (SA.56941, as amended by SA.60071), Italy (SA.57937 as amended by SA.59681), Lithuania (SA.58540), Luxembourg (SA.57708, as amended by SA.59682), the Netherlands (SA.57095, as amended by SA.60287), Poland (SA.59800), Portugal (SA.58082), Romania (SA.58531), Spain (SA.58458, as amended by SA.63690), all adopted measures to support the credit insurance supply during the COVID-19 crisis.

[18] In June 2021, the co-legislators agreed a revision of the Motor Insurance Directive (2009/103/EC) that requires Member States to designate an administrative body to compensate accident victims insured by an insolvent undertaking. This legislative text is not affected by the decision to postpone the work on IGSs.

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Solvency II, EIOPA recommended aligning national guarantee schemes at EU level, based on a set of minimum principles.

Creating consistent last-resort safety nets could promote trust in the single market for insurance.

However, introducing a minimum common framework for these schemes in Europe might entail important implementation costs for insurers, in particular for Member States that do not currently have such a scheme or where changes would need to be made to existing schemes to comply with the new framework.

The Commission has assessed all these impacts in its review of Solvency II[19] and considers that, given the economic uncertainties created by the COVID-19 pandemic, as well as the need to focus on economic recovery, action to align rules for insurance guarantee schemes is not appropriate at this juncture.

However, as such action would constitute a major improvement in protection for policyholders across the EU, the Commission is committed to reassess the appropriateness and timing of alignment in the future.

5.2. Role of insurance during pandemics and other large-scale disruptive events

The COVID-19 **pandemic** has highlighted some issues in relation to the role that insurers and reinsurers can play to provide protection against the consequences of systemic events that are disruptive for the economy, especially when governments decide to shut down public activity and private business.

This experience should allow drawing lessons and identifying ways to better prepare society for future large-scale disruptive events.

The pandemic has highlighted the need for clearer and simpler information on the terms of insurance cover and the guarantees offered to consumers, especially as regards business interruption and travel insurance, and for constantly verifying that insurance products continue to be in line with consumer needs. For this reason, the Commission intends to work closely with EIOPA to intensify insurance product oversight and analyse consumer needs and expectations in the post-pandemic environment.

In the longer term, the Commission will consider the viability of potential ways of increasing both our preparedness and resilience to pandemics and similar events, including via the use of foresight capacities. To this end, it is involved in discussions with all stakeholders to explore mechanisms and incentives for increased awareness and coverage of pandemic-related risks in insurance contracts, including "non-damage business interruption" risks, and to increase the resilience of the economy to various large-scale events.

This is a complex debate requiring an assessment of the insurability of various types of systemic risks. It also needs to consider several challenges, including an evaluation of the

[19] SWD(2021)260

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availability of financial resources in the post-pandemic environment, and in the general context of the recovery phase, to improve resilience to future uncertain events.

This also requires to assess the ability of the insurance sector to supply enhanced insurance cover against pandemic-related risks, and to form, also based on foresight capacities, a good understanding of the needs of businesses (of various sizes) for insurance products in the post-pandemic environment.

EIOPA has gained relevant expertise in this field and has already initiated exploratory work to assess options and measures regarding the insurability of pandemic losses, including mechanisms for pandemic risk prevention and forms of insurance coverage for business interruption risks during pandemics.

The Commission will continue to work closely with EIOPA and all relevant stakeholders on some of the elements concerning business interruption insurance during pandemics mentioned above.

Apart from the experience during the Covid-19 pandemic, the floods and fires in Europe during the summer months of 2021 demonstrated, yet again, the intensifying impacts of the climate crisis and underlined the importance of raising awareness of the benefits of **insurance coverage for climate risks**. While insurers paid considerable compensations, the overall damage for property owners was much higher with many properties not being insured against the damage suffered.

Insurance coverage of climate risks varies between Member States and the average insurance compensation for losses from climate risks has been as low as 5% or less in some parts of Europe. Climate change may aggravate the problem due to additional hazards such as severe seasonal water shortage.

In order to analyse the problems and intensify efforts for narrowing the climate protection gap, the Commission will set up a Climate Resilience Dialogue by 2022, bringing together insurers, reinsurers, public authorities and other relevant stakeholders.

6. CONCLUSIONS

To conclude, the insurance and reinsurance sector has a key role to play to achieve several high priority EU objectives. The review of Solvency II is instrumental in that respect, as it makes the sector more resilient and efficient as well as boosting its capacity for investment.

The Commission therefore calls on the European Parliament and the Council to advance swiftly in inter-institutional negotiations on the amendments to Directive 2009/138/EC – and the creation of a resolution framework for insurers.

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