REPORT ON LIMITATIONS AND EXEMPTIONS FROM SOLVENCY II REPORTING DURING 2020 AND Q1 2021

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EXECUTIVE SUMMARY

This annual report focuses on the limitations and exemptions from regular supervisory reporting under Solvency II, as granted by the national competent authorities (NCAs) in the European Economic Area (EEA)[1] to the 2020 year-end and to the first quarter of 2021 reporting.

Compared to the previous report[2], one NCA less, in total 11, granted limitations to 669 individual ("solo") undertakings for first quarterly reporting in 2021 (compared with 12 NCAs and 670 solo undertakings in Q1 2020).

Regarding annual reporting as of 2020 year-end, three NCAs, the same as in the previous report, granted limitations and/or exemptions from reporting item-by-item templates to 113 solo undertakings in 2020 (112 in 2019).

With regards to the reporting requirements at group level, three NCAs (three in Q1 2020) granted limitations and exemptions to 27 groups for the quarterly reporting of Q1 2021 (compared to 26 in Q1 2020) and two NCAs (one in 2019) granted limitations and exemptions from annual reporting to seven groups in 2020 (six groups in 2019).

Information in terms of average number of templates submitted by small, medium-sized or large insurance undertakings varies substantially, indicating that the proportionality embedded in the design of reporting requirements delivers a good result. Concerning quarterly reporting, nearly ten templates are reported on average from large undertakings as opposed to slightly more than five templates reported by smaller undertakings. On an annual basis, the ten largest undertakings by total assets had to fill in on average almost 37 templates, while the ten smallest undertakings had to complete 28 templates (i.e. one quarter less). However, it should be noted that this number of reported templates does not take into account the complexity of the business, such as different currencies or different countries. If considered, it would increase the gap in the number of templates to fill even further, reflecting an even lower administrative burden for small undertakings.

Similarly to 2019, the majority of NCAs reported in 2020 no major changes in granting the authorisation to use limitations and exemptions from reporting. Formal policies are not in place and NCAs confirmed to continue granting limitations and exemptions on a case by case basis.

Regarding the possibility to exempt information on credit rating in the assets templates, the survey confirmed that only a few exemptions for assets and derivatives reporting were granted.

[1] The European Economic Area comprises 27 European Union (EU) countries together with the 3 European Free Trade Association (EFTA) countries of Iceland, Liechtenstein and Norway. The United Kingdom (UK) is not included in this report after the UK Brexit final decision. The UK transition period according to the Withdrawal Agreement ended on 31 December 2020. Following this date, all Union primary and secondary law will no longer apply to the UK, including the Solvency II Directive.

2 Report on the use of limitations and exemptions from reporting during 2019 and Q1 2020. Reporting requirements as of 31 December 2020 are no longer applicable to the UK and hence have been excluded for comparison purposes for the previous quarter Q1 2020 and year-end 2019 throughout the report.

I. BACKGROUND

1. For solo undertakings, the limitations and exemptions foreseen in Article 35 of the Solvency II Directive are:
   - Limitation: undertakings can be authorised to submit quarterly reporting information of reduced scope, where this information is reported at least annually. Any template, except for the minimum capital requirement (MCR)[3], can be subject to a limitation (Article 35(6)).
   - Exemptions: undertakings may be exempted from both quarterly and annual reporting in case of reporting templates on an item-by-item basis when some conditions are met (Article 35(7)).[4]
2. The limitation to regular supervisory reporting shall be granted only to undertakings that do not represent more than 20% of a Member State's life, non-life insurance and reinsurance market respectively, where the non-life and reinsurance market share is based on gross written premiums and the life market share is based on gross technical provisions.
3. Supervisory authorities shall give priority to the smallest undertakings when determining the eligibility of the undertakings for those limitations.
4. Groups, under Article 254(2)[5], paragraphs 2 and 3, can benefit from limitations or exemptions from reporting only in cases in which all insurance or reinsurance undertakings within the group would benefit from the limitation or exemption.
5. A third-country insurance undertaking should be granted a limitation or exempted from any regular supervisory reporting requirement where the submission of the reporting information would be unduly burdensome in relation to the nature, scale and complexity of the risks inherent to the business of the branch.[6]
6. According to the Regulation (EU) 2015/2450, undertakings reporting information on their list of assets (S.06.02) and their open derivatives (S.08.01) may be exempted from reporting of credit rating information when some conditions are met (see the relevant section VII of this report).
7. In the context of the reporting requirements foreseen in Article 35, the following proportionality measures are embedded in the reporting framework:
   - Embedded proportionality: the extension of reporting is directly connected to the nature, scale and complexity of the risks inherent to the business. As an example, the types of investments or the lines of business have a direct impact on the type and extension of reporting to be submitted to NCAs.
   - Risk and size-based thresholds: the risk profile is the main trigger for proportionality reporting, as a number of thresholds were included in different templates as included in the relevant regulation (Commission Implementing Regulation (EU) 2015/2450 laying down

[3] Template S.28.01 or S.28.02
[4] Information to be provided for supervisory purposes | Eiopa (europa.eu)
[5] https://www.eiopa.europa.eu/rulebook/solvency-ii/article-2480_en
[6] Guidelines on the supervision of branches of third-country insurance undertakings | Eiopa (europa.eu)

Implementing Technical Standards (ITS) with regard to the templates for the submission of information).

II. DATA SOURCES

8. This report is based on the Solvency II quantitative reporting templates (QRTs) with reference date 2020 year-end and first quarter of 2021, as submitted to EIOPA by solo undertakings or insurance groups from the EEA, including the comparison with last year's report.
9. In addition, EIOPA launched a survey based on quantitative and qualitative information among national supervisors to gain a better understanding of information across Member States and to check the correctness of data extracted from the templates.[7]
10. The quantitative information to calculate the market share of undertakings/group using limitation/exemptions from reporting is obtained from the following reporting templates:
    - Solvency capital requirement (SCR): from the 'Own funds' template (S.23.01);
    - Gross written premiums (GWPs): from the 'Premiums, claims and expenses by line of business' template (S.05.01);
    - Technical provisions (TPs): from the 'Balance sheet' template (S.02.01);
    - Total assets: from the 'Balance sheet' template (S.02.01).
11. The reporting information was converted to EUR based on the European Central Bank (ECB) exchange rates on the relevant dates, when necessary.

[7] All NCAs submitted the survey.

III. PROCESS FOR GRANTING LIMITATIONS AND/OR EXEMPTIONS FROM REPORTING TEMPLATES

12. The answers provided by NCAs confirmed that also in 2020 and Q1 2021 limitations and/or exemptions continued to be quite limited. Hence, the findings of last year's report are still valid.

- INTERNAL FORMAL POLICIES AND PROCESSESS

13. As mentioned in last year's report, undertakings tend to complete all quantitative templates and not ask their NCAs to receive limitations/exemptions for a variety of reasons, namely:
    - Smaller undertakings might be unaware of the possibility to receive limitation and exemption from reporting;
    - Undertakings have already implemented processes/procedures to report all templates. Furthermore, data is needed for management control anyway and consequently they don't consider the reporting requirement burdensome.
14. With regard to the attitude of NCAs to grant limitations from reporting, NCAs indicated that a proportionate supervision is only possible when full reporting (with no exemptions/limitations allowed) is available. Furthermore, markets are comparatively small and a coverage of 80 per cent of the market share would result in the exemption of only a few undertakings.
15. EIOPA takes note of these reasons and will follow up in the next annual report on any new developments, if any. The reasons as evidenced in this and previous reports were also used to feed EIOPA Opinion on Solvency II review.

- AUTOMATIC VERSUS CASE-BY-CASE ASSESSMENT

16. In addition, the vast majority of NCAs confirmed they continued granting limitations and/or exemptions on a case-by-case basis, depending on the risk the undertaking faces.
17. This approach is not considered to be burdensome by the NCAs and explains that setting an automatic process to grand limitation/reporting is not considered a better approach.
18. In addition, granting limitations and/or exemption on a "case-by-case" basis allows NCAs to grant limitation/exemptions to the cases where it is really worth it.

- DOMESTIC AND CROSS-BORDER GROUPS

19. Checking on the limitations or exemptions from solo undertakings belonging to cross-border groups, as in the previous years, most NCAs did not receive any requests for limitations or exemptions from solo undertakings belonging to cross-border groups.
20. This situation also explains that no communication with the group supervisor and the College of Supervisors was needed in this regard.

IV. STATISTICS ON LIMITATIONS AND EXEMPTIONS AT SOLO LEVEL[8]

21. A total of 2447 solo undertakings and 326 groups were supervised under Solvency II as of year-end-2020.

QUARTERLY LIMITATIONS FOR SOLO UNDERTAKINGS

22. For the first quarterly reporting in Q1 2021, 11 NCAs granted limitations to 669 solo undertakings. This number corresponds to 28% of the total number of undertakings in the EEA and to undertakings representing between 2% to 5% of the market, using some volume measures (see Table 1.1).
23. Even if 28% of the EEA undertakings is seen as an adequate number of undertakings receiving a proportionate treatment in quarterly reporting, the limitations granted by the national competent authorities from France, Luxembourg and Germany, who make the most use of this measure, account for almost 85% of the total numbers in Q1 2021, showing an unbalanced use of this power.
24. The total numbers are similar to the ones from the first quarter of 2020 where 12 NCAs granted limitations to 670 solo undertakings (Table 1.1).

[8] Undertakings that are solely exempted from reporting credit rating information, but need to fulfil all other reporting obligations, are not included in this quantitative chapter. They are treated separately in chapter VII of this report.

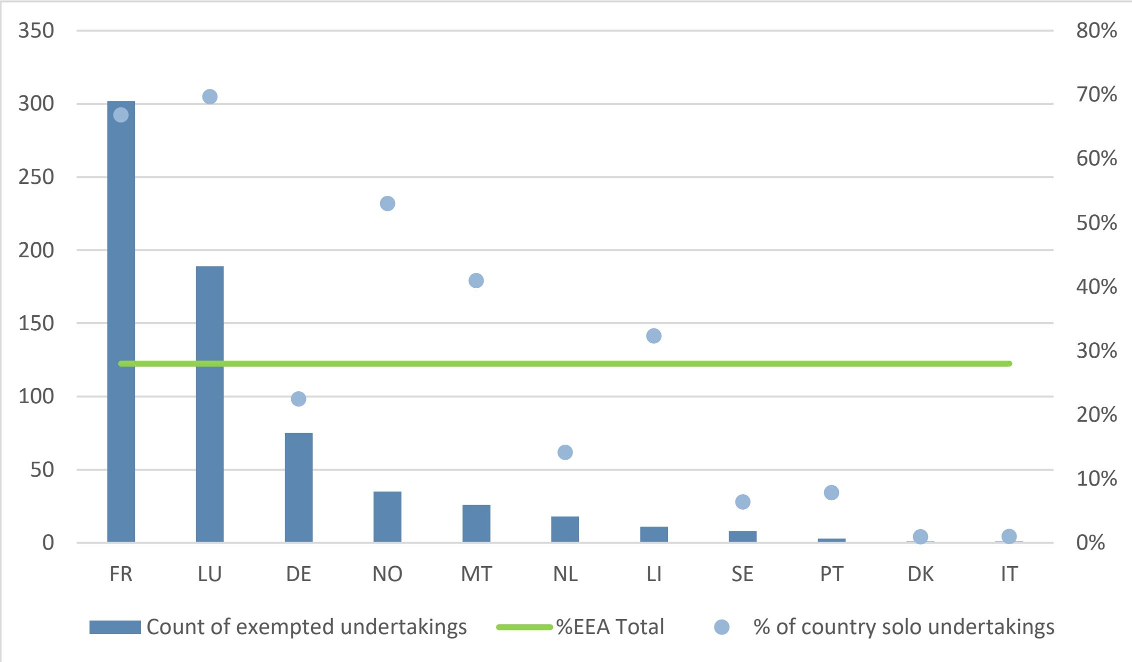
Table 1.1 — Summary of limitations to quarterly reporting in number for solo undertakings in Q1 2021 (compared to Q1 2020)[9]

	Number of under-takings	Incidence in term of:				
		Total number of undertakings (%)	Total assets (%)	SCR (%)	Non-life GWP (%)	Life TP (%)
Total for EEA	**669 (670) ↓**	**28%**	**2.9%**	**4.6%**	**5.3%**	**2.4%**
FR	302 (306) ↓	67%	5.7%	10.2%	16.2%	4.4%
LU	189 (186) ↑	70%	5.0%	24.1%	11.1%	0.2%
DE	75 (77) ↓	23%	3.3%	3.3%	3.5%	3.3%
NO	35 (39) ↓	53%	1.3%	6.1%	6.3%	0%
MT	26 (21) ↑	41%	110.%	16.6%	8.8%	3.5%
NL	18 (10) ↑	14%	0.1%	0.7%	0.6%	0%
LI	11 (11) =	32%	8.1%	20.3%	4.7%	4.7%
SE	8 (14) ↓	6%	4.9%	3.1%	1.1%	6.4%
PT	3(4)) ↓	8%	8.6%	1.7%	0.2%	10.7%
DK	1(1) =	1%	0%	0%	0%	0%
IT	1 (1) =	1%	0%	0%	0.2%	0%
BE	0(1) ↓	0%	0%	0%	0%	0%

9 Reporting requirements as of 31 December 2020 are no longer applicable to the UK and hence have been excluded for comparison purposes for the previous quarter Q1 2020 and year-end 2019 throughout the report.

25. Looking at percentages in terms of numbers of undertakings, Figure 1.1. shows the limitations to quarterly reporting for solo undertakings in Q1 2021.

Figure 1.1 — Summary of limitations to quarterly reporting for solo undertakings in Q1 2021 (% in terms of numbers of undertakings)



26. Looking at the type of templates limited in quarterly reporting for solo undertakings in Q1 2021 (Table 1.2), it is evident that approaches across countries slightly differ. For example:
   - Luxembourg is exempting all quarterly templates to all undertakings benefiting from reporting limitations;
   - Malta exempts most undertakings from the reporting of the balance sheet, premiums, claims and expenses and list of assets templates but exempts less for the other quarterly templates;
   - Denmark, Lichtenstein and Norway never exempt the balance sheet, even for the undertakings exempted of reporting other templates;
   - Netherlands exempts the balance sheet and premiums, claims and expense template as well as the list of assets template; or
   - Germany exempts almost all templates except for the own funds template.
27. The templates exempted vary from undertaking to undertaking in almost all countries indicating a risk-based approach.
28. EIOPA would like to note that the numbers can vary as some undertakings do not request exemptions if the template does not need to be reported according to the definition of the template. For example, this is the case of an undertaking without any derivatives that do not formally ask for an exemption of this template. This leads in some countries to lower numbers of limitations for the derivative templates.

Table 1.2 — Overview of limitations in number for solo undertakings in quarterly reporting in Q1 2021

	Number of under-takings	Balance Sheet	Premiums, claims, expenses	List of assets	Collective investment	Open derivatives	Derivatives Transactions	Life and Health SLT TP	Non-Life TP	Own funds
Total for EEA	**669(670) ↓**	**603**	**626**	**661**	**636**	**599**	**598**	**558**	**595**	**522**
DE	75(77)) ↓	64	74	72	71	72	72	65	72	
DK	1(1) =		1	1	1	1	1	1	1	
FR	302(306) ↓	293	293	294	291	264	263	273	284	289
IT	1(1) =	1	1	1	1				1	1
LI	11(11) =		9	11	4	3	3	4	8	
LU	189(186) ↑	189	189	189	189	189	189	189	189	189
MT	26(21) ↑	25	26	25	13	12	12	7	16	19
NL	18(10) ↑	18	18	18	16	10	10	11	16	17
NO	35(39) ↓			35	35	31	31			
PT	3(4) ↓	2	2	2	3	2	2	2	2	2
SE	8(14) ↓	6	6	6	6	8	8	6	6	6

ANNUAL LIMITATIONS AND EXEMPTIONS FOR SOLO UNDERTAKINGS

29. Three NCAs (three in 2019) granted limitations and exemptions from annual reporting item-by-item templates to 113 solo undertakings for 2020 (112 in 2019) (Table 1.3). This corresponds to around 5% of the total number of undertakings, representing different market shares depending on the weight by the sum of total assets, SCR, non-life GWP or life TP over the total for EEA as volume measure.

Table 1.3 — Summary of annual limitations and exemptions in number for solo undertakings in 2020 (compared to 2019)

	Number of undertakings	Incidence in term of:				
		Proportion of total number of undertakings (%)	Total assets (%)	SCR (%)	Non-life GWP (%)	Life TP
Total for EEA	**113 (112) ↑**	**5%**	**1%**	**1%**	**1%**	**1%**
DE	66 (64) ↑	24%	3%	4%	4%	3%
LI	11(9) ↑	32%	21%	5%	12%	32%
NO	36 (39) ↓	55%	1%	6%	6%	0%

30. As referred before, for some undertakings some templates are not applicable (e.g. derivatives) and hence no limitations and exemptions may be granted in these cases.
31. Table 1.4 shows how many undertakings are exempted to report these specific templates from annual reporting.
32. The templates exempted vary from undertaking to undertaking indicating once more a risk-based approach being taken.

Table 1.4 — Overview of countries with limitations and exemptions from annual reporting for solo undertakings in 2020

	Number of undertakings	List of assets	Collective investment	Structured products	Open Derivatives	Derivatives Transactions	Securities lending and repo	Assets held as collateral
Total for EEA	**113 (112)) ↑**	**46**	**38**	**70**	**102**	**102**	**4**	**101**
DE	66 (64) ↑		2	66	66	66	2	66
LI	11(9) ↑	11	2	2	2	2	2	1
NO	36 (39) ↓	35	34	2	34	34	2	34

V. STATISTICS ON LIMITATIONS AND EXEMPTIONS AT GROUP LEVEL[10]

QUARTERLY LIMITATIONS AND EXEMPTIONS FOR GROUPS

33. Three NCAs (three in Q1 2020) granted limitations to quarterly reporting to 27 groups in Q1 2021 (26 in Q1 2020) (Table 1.5).

Table 1.5 — Summary of quarterly limitations and exemptions in number for groups in Q1 2021

	Number of groups	Proportion to total number of groups under their group supervision in %
Total for EEA	**27(26) ↑**	**10**
DE	7 (7) =	14
FR	20 (18) ↑	45
LU	0(1) ↓	

ANNUAL LIMITATIONS AND EXEMPTIONS FOR GROUPS

34. Two NCAs (one in 2019) granted limitations and exemptions to annual reporting to seven groups in 2020 (six groups in 2019) (Table 1.6). Although the number is similar for both years, in reality it can be observed that one NCA started exempting groups from annual reporting in 2020 while another NCA reduced the number from 6 to 1.

Table 1.6 — Summary of annual limitations and exemptions for groups in 2020

	Number of groups	Proportion to total number of groups under their group supervision in %
Total for EEA	**7 (6) ↑**	**3**
DE	6(0) ↑	13
FR	1(6)) ↓	2

[10] Reporting requirements as of 31 December 2020 are no longer applicable to the UK and hence have been excluded for comparison purposes for the previous quarter Q1 2020 and year-end 2019 throughout the report.

VI. PROPORTIONALITY PRINCIPLE IN REPORTING

35. The scope of reporting also depends in part on the type of business the undertaking conducts.
36. To evidence how proportionality is implemented in quarterly reporting, EIOPA updated one example included in last years' report. The example still evidences the previous conclusions, i.e. that proportionality requirements deliver the intended results.
37. At solo level, quantitative reporting in principle includes 68 annual reporting templates and 12 quarterly templates. Information in terms of the average number of templates to be submitted by small, medium-sized or large insurance undertakings is shown in Table 1.8. In particular, the table shows that more quarterly templates are reported from large undertakings than from smaller ones, namely:
    - In Q1 2021, large undertakings had to fill in on average almost ten templates (nine in Q1 2020), nearly twice as many as small undertakings;
    - On an annual basis, the 10 largest undertakings by total assets, had to fill in on average almost 37 templates, while the 10 smallest undertakings had to complete almost 28 templates.
38. However, it should be noted that the number of reported templates do not take into account the complexity of the business. For smaller undertakings, for example, with very limited lines of business or only domestic business, the level of complexity of some templates is much lower than for undertakings with broader business structures.[11]

Table 1.8 — Average number of templates provided by undertakings

	Q1 2021 (Q1 2020)	Annual 2020 (2019)
Large (10% largest by total assets)	9.5 (9.2) ↑	36.9((36.3) ↑
Rest (80%, medium-sized by total assets)	7.0 (6.8) ↑	33.7(33.3) ↑
Small (10% smallest by total assets)	5.4(5) ↑	27.6(26.8) ↑

[11] For instance, template S.19.01 (Non-life insurance claims) is counted as one template and no consideration is given to the potential multiple reporting by lines of business or currencies (when material); if this was to be considered it would increase the gap in the number of templates even further.

VII. PROCESS FOR GRANTING LIMITATIONS FROM CREDIT RATING INFORMATION

39. This section focuses on limitations from reporting the credit rating information in the assets templates S.06.02. (list of assets) and S.08.01 (open derivatives).
40. The information regarding the external rating and nominated External Credit Assessment Institutions may be limited (not reported) in the following circumstances:
    - through a decision of the national competent authority under Article 35 (6) and (7) of the Directive 2009/138/EC; or
    - through a decision of the national competent authority in the cases where the insurance and reinsurance undertakings have in place outsourcing arrangements in the area of investments that lead to this specific information not being available directly to the undertaking. According to Article 44 (4a) of the Solvency II Directive, in order to avoid overreliance on external credit assessment institutions, insurance and reinsurance undertakings shall assess the appropriateness of those external credit assessments (when used in the calculation of technical provisions and the Solvency Capital Requirement) as part of their risk management by using additional assessments, wherever practicably possible.
41. The implementing technical standards of Commission 2015/2015[12] states that insurance undertakings should have procedures for assessing external credit assessments in place.
42. Based on Q1 2021 data, the findings of last year’s study can be confirmed with the granting of limitations and exemptions for the reporting of credit rating information being relatively limited (Table 1.9).

12 There are outstanding changes not yet made to Commission Implementing Regulation (EU) 2015/2015

Table 1.9 — Overview of limitations for assets and derivatives based on Q1 2021 regarding credit rating information

Type of exemptions	**% (in terms of numbers)**
Exemption for assets	1% (1%) =
Of which: based on Article 35(6) and (7)	*0.1%*
Of which: based on outsourcing	*0.9%*
Exemption for derivatives	5.4% (7%) ↓
Of which: based on Article 35(6) and (7))	*5.2%*
Of which: based on outsourcing	*0.2%)*
Exemption for assets and derivatives	8.2% (8%) ↑
Of which: based on Article 35(6) and (7)	*6.3%*
Of which: based on outsourcing	*1.9%*
Not exempted	85.3% (82%) ↑

43. Only 8.2% of the total number of undertakings were exempted of the reporting of the credit rating information both in assets and derivatives templates in Q1 2021 (8% in Q1 2020), 6.3% based on Article 35 (6) and (7) of the Solvency II Directive and 1.9% based on outsourcing reasons.
44. The percentage of undertakings exempted only in the derivatives template is 5.4% in Q1 2021 (7% in Q1 2020) and only 1% were exempted of such reporting in the list of assets.
45. The majority of NCAs do not grant limitations to reporting credit rating information as they consider credit rating information as an important information, with easy access and available data.
46. In addition, in some jurisdictions insurance undertakings are part of a group and hence applications for solo undertakings are simply not received.
47. Furthermore, the fact that investments are usually held until maturity and that many undertakings may rely on the centralised services of the group to which they belong, may result in less burden to report this information, as there is no need for a frequent change to the processes (although the credit rating may change over time and should be regularly monitored).

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