EIOPA publishes second annual report on the use of capital add-ons under Solvency II

The European Insurance and Occupational Pensions Authority (EIOPA) published today its second annual report on the use of capital add-ons by national competent authorities (NCAs) under Solvency II. The objective is to contribute to a higher degree of supervisory convergence in the use of capital add-ons between supervisory authorities in the different Member States and to highlight any concerns regarding the capital add-ons framework. The analysis is based on 2017 year-end Solvency II data.

Albeit a slight increase in the use of capital add-ons can be seen, the overall usage remains extremely limited. During 2017 six NCAs have set capital add-ons to 23 solo insurance and reinsurance undertakings. This limited usage might be due to the negative image that is attributed to capital add-ons or to the level of judgement that is associated to the decision and calculation of the capital add-ons which in turn inhibits supervisors from using it.

Even if the capital add-ons are not used often, when used they have indeed a material impact on the Solvency Capital Requirement (SCR) of some of the entities. The weight of the capital add-on ranges from a low 1 % to a high 83 % respectively with an average of 30 % of the total SCR.

The capital add-on seems to be a good and positive measure to adjust the SCR to the risks of the undertaking, when the application of other measures is not adequate – such as the development of an internal model – as in 18 cases the capital add-on was already set in 2016.

EIOPA will continue to analyse the development on the use of capital add-ons in the years to come to monitor whether more experience will encourage NCAs to make more efficient use of this tool, which seems to have been hampered by various difficulties until today.

The report can be obtained via [EIOPA's Website].