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Financial Services Risk and Regulation

European Commission finalises changes to Solvency II standard formula SCR

AT A GLANCE

March 2019

What's new?

- On 8 March 2019 the European Commission adopted amendments to Solvency II Delegated Act, which will change the design and/or calibration of elements of the standard formula solvency capital requirement (SCR).
- The adopted Delegated Act reflects certain changes to the previous draft published in November 2018 (see our previous At a glance for a summary of the original proposals).
- The amendments are now subject to scrutiny by the European Parliament and Council before coming into force. It is not yet certain that this process will be completed before the European Parliament elections in May 2019.

What does this mean?

- The Commission has taken forward without substantive changes the majority of the proposals consulted on in November 2018.
- However, in certain areas the Commission has responded to feedback from stakeholders, including the European Parliament, by making certain changes including:
  - relaxing the criteria for long-term equity investments to receive a lower capital charge
  - deferring the application of the new provisions on calculating the loss-absorbing capacity of deferred taxes (LACDT) until 1 January 2020
  - reducing the threshold in the co-investment criterion for using internal models for unrated debt from 50% to 20%.
- Despite significant stakeholder pressure, no changes have been made to the volatility adjustment or risk margin.

What do firms need to do?

- Firms that use the standard formula to calculate their SCR should familiarise themselves with the changes and understand what these will mean for them.
- The Commission intends for the amendments to make investments in unlisted equity and unrated debt meeting certain conditions more attractive; firms may wish to review their investment portfolios in light of these changes.
- Firms may find the LACDT provisions more prescriptive than current requirements. Firms should ensure that their calculation methodologies comply with the new requirements.

Next steps

The amendments are now subject to a three-month period of scrutiny by the European Parliament and Council. This period may be waived, allowing immediate adoption, or extended by a further three months.

Most of the changes will take effect 20 days after publication in the Official Journal of the EU. However, changes in the calculation of the non-life and health premium and reserve risk modules and LACDT will not apply until 1 January 2020.

Contacts

Andy Moore
Partner

T: +44 (0) 7702 677654
E: andy.moore@pwc.com

Mike Vickery
Director

T: +44 (0) 7808 573882
E: mike.p.vickery@pwc.com

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