EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Understanding the Solvency II Balance Sheet

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Objective of the Solvency II balance sheet

Protection of policyholders

↑

Insurers are able to fulfil insurance contracts, also under adverse circumstances

↑

Insurers hold sufficient assets to pay expected insurance benefits and bear unexpected losses

Balance sheet under Solvency II

Assets

(*Investments: government bonds, corporate bonds, shares, real estate*)

Own funds

Liabilities

("*Technical provisions", i.e. provisions for insurance obligations*)

Free own funds

SCR

MCR

SCR - Solvency Capital Requirement

MCR - Minimum Capital Requirement

Capital requirements and own funds

SCR

- Risk-based and prospective
- Insurance risks, Investment risks, Credit risks and Operational risks
- Calculated with standard formula specified in the law or internal model developed by the insurer and approved by the supervisor

MCR

- Minimum level of security
- Calculated in simple manner

Own funds

- Insurers need to hold own funds to cover the SCR and the MCR.
- Own funds should absorb losses and be of sufficient quality (permanently availabile, subordinated, sufficient duration)
- Based on market-consistent valuation of assets and liabilities

What if SCR or MCR are breached?

The SCR corresponds to the amount of own funds needed to withstand the worst annual loss expected to occur over the next 200 years …

Breach of the SCR → intensified supervision, undertaking required to take measures to meet SCR again within 6 months

The MCR reflects the minimum level of protection of the policyholders and beneficiaries; breaching the MCR would amount to an unacceptable level of risk…

Breach of the MCR → leave the market unless MCR is met again within short period of time

Finally, two more Solvency II concepts

Solvency ratio: Own funds / SCR

- Ratio 100% or higher ⇨ SCR is met
- Comparisons of solvency ratios should be handled with care, in particular with Solvency I and banks

Long-term guarantee measures

The measures affect the Solvency II balance sheet

"Volatility adjustment" "Matching adjustment"	Short-term volatility of financial markets is only reflected in the balance sheet to the extent meaningful.
Transitional measures	Smooths transition to Solvency II