E. Insurance undertakings

During the year under review, the Bank continued to exercise closer supervision over insurance undertakings with the highest risk profile, within the framework of its ongoing (off-site) supervision. In some cases, the Bank imposed measures which occasionally led to cessation of all or part of an undertaking's business. The Bank's operational supervision over insurance undertakings also focused in particular on the adequacy of the "best estimate" of technical provisions in the life insurance portfolios. The quarterly reports which undertakings submitted to the Bank also formed the subject of a transversal analysis. Finally, particular attention focused on applications made to the Bank in connection with Brexit, the supplementary individual health insurance market, ORSA assessments and the accredited auditor's duty of cooperation.

Inspection missions (on-site) concerned such matters as pricing in the "industrial accidents" branch and the independent audit functions. Various applications concerning internal models were approved and monitored, and benchmarking work continued.

Furthermore, the legal framework for insurance and reinsurance undertakings was supplemented. Work focused in particular on revision of the standard Solvency II formula and the long-term guarantee measures, and on preparations for the entry into force of IFRS 17. Also, a new Bank Communication clarified the regulatory framework concerning governance. New field tests were also conducted with a view to devising a common prudential framework for international insurance groups, and stress tests were conducted jointly with EIOPA. Finally, work on prudential reporting concerned the introduction of new validation tests and simplification of some types of report.

1. Mapping of the sector and supervision priorities

1.1 Insurance undertakings

At the end of 2018, the Bank exercised supervision over 82 insurers, reinsurers, surety companies and regional public transport companies which insure their fleet of vehicles themselves. On the one hand, the steady decline in the number of supervised undertakings evident in previous years continued, owing to a degree of consolidation in the sector. On the other hand, a new trend emerged in the year under review, with new players coming under the Bank's supervision because of Brexit. Of all the undertakings subject to the Bank's supervision, only two are reinsurance undertakings in the strict sense [1].

New players came under the Bank's supervision because of Brexit

1 The number of reinsurers subject to supervision increased considerably in 2017 owing to a technical adjustment to the regulatory framework. As a result of the entry into force of the new prudential supervision regime, direct insurers which also engaged in reinsurance activities before 2016 were recorded as reinsurers.

Table 22

Number of institutions subject to supervision [1]

(end-of-period data)

	2014	2015	2016	2017	2018
Active insurance undertakings	80	75	72	67	67
Insurance undertakings in run-off	4	3	2	2	1
Reinsurance undertakings	1	1	1	29	31
of which: undertakings also operating as insurers	–	–	–	28	29
Other [2]	12	12	12	12	12
Total [3]	97	91	87	82	82

Source: NBB.

1 At the end of 2018, the Bank also exercised prudential supervision over nine branches of undertakings governed by the law of another EEA member country, but that prudential supervision was confined to verifying compliance with the money-laundering legislation.

2 Surety companies and regional public transport companies.

3 For 2017 and 2018, the total only takes account once of undertakings active as both insurers and reinsurers.

1.2 Insurance groups

At the end of 2018, 11 Belgian insurance groups were subject to the Bank's supervision, the same number as in 2017. Seven of those groups only have holdings in Belgian insurance undertakings (national groups), while four groups have holdings in at least one foreign insurance undertaking (international groups). In that respect, too, the situation is the same as at the end of 2017. Under Solvency II, the Bank is the group supervisory authority for each of those groups, and in that capacity, it receives specific reports which form the basis of prudential supervision at group level.

Table 23

Belgian insurance groups subject to the Bank's supervision

Belgian national groups	Belgian international groups
Belfius Assurances	Ageas SA/NV
Cigna Elmwood Holdings	Navigators Holdings (Europe)
Credimo Holding	KBC Assurances
Fédérale Assurance	PSH
Groupe Patronale	
Securex	
Vitrufin	

Source: NBB (situation at the end of 2018).

Table 24

Colleges for insurance undertakings subject to the Bank's supervision

The Bank is the group supervisory authority	The Bank is one of the supervisory authorities involved	
Ageas SA/NV KBC Assurances Navigators Holdings (Europe) PSH	Allianz	Allianz Benelux Euler Hermes
	AXA	AXA Belgium Inter Partner Assistance Touring Assurances
	Assurances du Crédit Mutuel	Partners Assurances
	Generali	Generali Belgium Europ Assistance Belgium
	Munich Re	D.A.S. DKV Belgium Ergo Insurance
	NN	NN Insurance Belgium
	Baloise Group	Baloise Belgium Euromex

Source: NBB (situation at the end of 2018).

The supervisory authorities of cross-border groups facilitate group supervision by working together in colleges of supervisors. These colleges ensure that the collaboration, exchange of information, and mutual consultation between the supervisory authorities of the EEA member countries actually takes place in order to promote decision-making and the convergence of supervisory activities. The establishment and operation of the colleges are based on coordination arrangements between the supervisory authorities concerned, for which the principles are laid down in the legislation.

1.3 Supervision priorities and operational aspects

1.3.1 Ongoing supervision (*off-site*)

During the period under review, the Bank continued to step up its supervision of undertakings with the highest risk profile. In parallel with the initiatives taken by the undertakings themselves, the Bank imposed measures which, in some cases, led to cessation of some or all of the undertaking's activities.

The new prudential rules (Solvency II framework) continued to make their mark on the supervision of insurance undertakings. Insurers made substantial progress in the correct application of the new rules. Reporting quality remains a point for attention, although further improvements were apparent during the period under review.

The transversal analyses conducted in 2017 were followed up in 2018 and new analyses were initiated.

Brexit

For insurers and reinsurers with their registered office in the United Kingdom, Brexit may have significant implications. With that in mind, a number of British insurers and reinsurers have set up companies, including some under Belgian law, from which to manage and develop their

Prudential supervision over the new undertakings formed in the context of Brexit will present a major challenge for the Bank

European activities. The Bank dealt with four cases of this type during the year under review. It involved close consultation with the undertakings concerned in order to gain an understanding of the activities and plans of their Belgian companies. These cases have now been dealt with, but the prudential supervision of these new Belgian insurers and reinsurers will present a major challenge for the Bank in the future. At the time this Report went to press, some companies were still considering setting up a subsidiary in Belgium on account of Brexit.

Best estimate of the technical provisions for the life insurance portfolio

The analysis of the impact of profit-sharing on the best estimate of the technical provisions for life insurance continued during the year under review. Particular attention focused on how a sudden interest rate rise would affect profit sharing. The insurers surveyed had to state the estimated likelihood of their products being surrendered in the event of such an interest rate rise. In some cases, policy-holders may in fact secure a financial gain from surrendering their contract, despite the associated costs, but in other cases, insurers are well protected against such behaviour, in particular by the tax penalty associated with the surrender of certain contracts. The Bank also gained a better understanding of the link between a possible interest rate rise, the profit shares that insurers may pay, and the expectations of the policy-holders in that respect.

Cost projections in the best estimate

During the year under review, the Bank completed the horizontal analysis of the cost modelling in the technical provisions (for seven insurers). The analysis resulted in a Communication[1] which, alongside the analysis conclusions, also clarifies the existing regulations; this should lead to uniform application of the regulatory provisions.

The horizontal analysis showed that the ways in which insurers allocate and project the costs when calculating the best estimate differ in twelve significant respects, and that they often do not comply with all the regulatory provisions. The main quantifiable finding is that there are gaps and differences in practice on the following five aspects: the overhead expenses attributed to acquisition costs; the adjustments for non-recurring costs; the adjustments concerning contract boundaries established according to Solvency II; the need to coordinate cost-related cash flows with those of the underlying claims in the projections, and the explicit modelling of fixed costs. The Bank analysed the firms' action plans and informed them of its observations in cases where the plans did not entirely conform to its recommendations.

Horizontal analysis of non-occupational health insurance

In order to analyse the fair competition conditions in regard to supplementary individual health insurance, the Bank conducted a horizontal analysis of the Belgian market. The study showed that the profitability of the products depends on their characteristics. On the basis of the product characteristics, it is possible to estimate the risk that the future profitability of the portfolio will deteriorate if the medical index does not adequately reflect the trend in claims paid out.

The best estimate seems extremely sensitive to the assumptions concerning future claims inflation and future premium indexation. In order to ensure fair competition conditions, firms were asked, when calculating the best estimate and setting its parameters, to conduct a number of sensitivity analyses which will permit identification of the points mentioned above.

The sensitivity analyses will make it possible to assess the best estimates notified by the firms and, if necessary, to impose corrective measures.

Analysis of periodic reporting

During the year under review, the Bank received, for the second time, annual reports produced in accordance with the new prudential regime, and conducted transversal plausibility checks on them, covering key elements of the firms' financial situation.

The Bank is totally committed to establishing a set of instruments enabling more detailed analysis of the data. The emphasis here will be on key factors in the financial health of firms. The Bank will

1 Communication NBB_2017_32 on the results of the horizontal analysis of the costs used in valuing the technical provisions.

accord priority to monitoring the technical provisions, the quality of the capital requirement calculations and the nature of the firms' asset portfolios.

Insurers with a low solvency ratio were a priority for analysis in 2018. The solvency calculations are based on a multitude of technical specifications and require proper interpretation of the regulations in order to guarantee correct application. In addition, correct calculation of the parameters used is essential in order to ensure the quality of solvency reporting. The analysis includes a detailed examination of the valuations in the balance sheet, and calculation of the required and available capital. This exercise is conducted by applying the principle of proportionality.

In 2017, firms had, for the first time, submitted a Regular Supervisory Report (RSR) to the Bank. This document is intended for the Bank for supervisory purposes, and its content is not made public. The descriptive report, supplemented by predefined quantitative reporting templates, contains both qualitative and quantitative information. It forms part of the information which is mandatory for supervision purposes. The information obtained from the RSR is used to establish the firm's overall risk profile. This information is examined alongside the information obtained from the Own Risk and Solvency Assessment (ORSA)[1], the Solvency and Financial Condition Report (SFCR), and the governance memorandum. The RSR could be a useful instrument for the supervisory authority in that it enables accurate interpretation of the large volume of figures submitted in the regular reports. Meetings have been held with large firms on the consistency of the various documents mentioned above, and on points which the Bank wished to examine more closely during the year under review. The discussions continued in 2018 for large firms on the basis of the information available on the prudent person principle, the EPIFP[2] (expected profit in future premiums), and the effects of the risk attenuation concerning reinsurance and derivatives. The intention is to give the firms feedback on the Bank's expectations concerning these points.

ORSA

In addition, detailed appraisals of the 20 guidelines relating to the ORSA and 17 good practices concerning stress tests, sensitivity analysis and scenario analysis, included in a Bank Circular[3], were conducted for the main insurance groups in 2018. Their appraisal and the main findings of the risk assessment were discussed with the firms.

Accredited auditor's duty of cooperation

In accordance with their duty of cooperation, accredited auditors explained their approach to the best estimate at a workshop. In connection with the expectations concerning their duty to cooperate in prudential supervision, the auditors drew up a detailed report for the first time and discussed its findings with the Bank. This work will continue on a structured basis in 2019.

1.3.2 Inspections (*on-site*)

Since the introduction of the Solvency II prudential rules in January 2016, insurance company inspections have centred mainly on the aspects most affected by the new regulations. The calculation of the best estimate of the technical provisions and mortgage loan valuations formed the subject of several specific missions which were completed in 2018. They produced significant findings. In 2018, other subjects more closely linked to economic business models and operating processes were also addressed.

Pricing

Owing to the persistently low interest rate environment, mixed insurance undertakings have stepped up their marketing of non-life insurance products on which profitability is less sensitive to movements in the yield curve. That triggered fiercer competition in some branches of activity. In that context, inspections were conducted in order to analyse the pricing and profitability of the "industrial accident"

1 The ORSA enables the insurer to assess its risks and solvency itself. In that connection, there is particular attention to the overall solvency need, continuous conformity with the set capital requirements and technical provision requirements, and assessment of the degree to which the insurer's risk profile deviates from the assumptions underlying the calculation of the solvency capital requirement ("adequacy of the standard formula").

2 The EPIFP is the expected profit included in future premiums on existing contracts. That expected profit reduces the best estimate and therefore increases the net assets.
Correct assessment of this element is therefore important.

3 Circular NBB_2017_13 of 19 April 2017 on the Own Risk and Solvency Assessment (ORSA).

branch for which the statistics reveal downward pressure on prices. These analyses show that a significant proportion of insurers operating in these business segments are defending their market share or aiming to expand it, often at the expense of their profitability. The inspections highlighted the importance of robust pricing and the formalism necessary in the pricing process. In the current market circumstances, shortcomings in those respects may lead to inappropriate continued activity and a discrepancy between the profitability targets and the actual results.

In view of the market competition, some firms slash their margins, damaging the profitability of the "industrial accident" branch as a whole. The Bank seeks to ensure healthy competition on this market segment, but that also entails robust and transparent pricing processes for all the insurers concerned.

Independent audit functions

Further qualitative inspection missions were carried out in 2018, permitting detailed examination of three independent audit functions: the actuarial function, the internal audit function and the risk management function.

It emerged that some firms do not yet provide sufficient resources for their independent audit functions. These functions need to be allocated the necessary time and resources so that they can fulfil their missions properly. In order to ensure their independence and objectivity, those responsible for the said audit functions obviously cannot (continue to) receive variable remuneration related to the performance of the operating entities and spheres over which they exercise supervision.

It was also apparent that the status of the independent audit functions within the organisation – and that does not only mean the organisation chart – did not always reflect the independence requirement. Even if the people performing these functions have the necessary skills, in practice they still do not have the required experience and often do not have the time for further development in their role, since they have to combine it with operational activities.

Internal models

During the year under review, an undertaking which had previously used the standard method was granted approval for its full internal model, following a two-year pre-application period. Pre-application work also began for two other undertakings wishing to set up an establishment in Belgium on account of Brexit.

The monitoring of the previously approved internal models of four companies continued in 2018. Various aspects were covered, such as monitoring of the firm's remedial plan, the "terms and conditions" imposed by the supervisors and general checks on the models' performance. A number of significant changes to these models were also examined during the year under review. Measures were taken where the Bank considered that the quality of the internal models was inadequate.

Apart from the work relating to the solvency capital requirement (SCR), the Bank continued its benchmarking of the economic scenario generators developed by insurers, and the monitoring of aspects relating to the asset-liability management of the models used to value the life insurance liabilities. The internal development of challenger models also continued.

BOX 16

Flashing-light reserve

The Royal Decree[1] on the annual accounts of insurance and reinsurance undertakings states that the additional reserves formed under Solvency I should be retained in the statutory annual accounts when switching to Solvency II and must then be topped up for as long as interest rate risks persist.

Since the new Solvency II framework imposes specific regulatory capital requirements to cover the interest rate risk, the said Royal Decree contains simplified provisions on exemption from the obligation to form additional reserves. The mechanism for granting such exemptions has been aligned more closely with Solvency II.

All the regulatory capital requirements must be covered in order to qualify for exemption from the obligation to form additional reserves. To claim exemption, firms must also conduct stress tests on their exposure to interest rate risk, and the test results must be satisfactory.

Cases are assessed as follows. Exemption is granted if the following two conditions are met and there are no other factors precluding exemption: the firm must first have a solvency ratio of over 100 % in the baseline scenario and must then maintain that ratio above 100 % after application of an adverse scenario.

For 2018, the Bank received exemption applications from 24 firms. Nine firms did not claim exemption and will therefore form additional reserves to cover the interest rate risk in their balance sheets.

1 Royal Decree of 1 June 2016 amending the Royal Decree of 17 November 1994 on the annual accounts of insurance and reinsurance undertakings.

2. Legal framework and prudential supervision

2.1 Revision of the Solvency II legal framework

Revision of the Solvency II standard formula

During the period under review, the European Commission revised some aspects of the standard formula for calculating the solvency capital requirement[1]. Between September 2015 and January 2016, the European Commission had held a public consultation on the advantages, undesirable effects, consistency and cohesion of the financial regulations, including the Solvency II legislation. Over 50 respondents had taken part in this public survey, including players in the insurance sector, public authorities and non-governmental organisations. On the basis of the feedback received by the Commission, three areas were identified in which the Solvency II framework could be improved.

The first area concerns the proportionate, simplified application of the Solvency II requirements. The Solvency II legislation replaced 28 national regimes with a harmonised, risk-based legal framework. The Solvency II Directive[2] specifies that the rules and implementing technical standards drawn up by the Commission should take account of the principle of proportionality, ensuring the proportionate application of the Directive, particularly in the case of small insurance undertakings. Although the legislation contains numerous provisions on proportionality, the public consultation showed room for improvements to ensure that the legal requirements are proportionate to the risks. Specific points where more simplifications are possible include the provisions on calculation of the capital requirements for counterparty default risk and catastrophe risk.

The second area concerns removing unintended technical inconsistencies. The public consultation showed that the Solvency II framework could be made more consistent with the legislation on other financial sectors, such as on the prudential treatment of derivatives and local authority guarantees. In this connection, differences in the business models of financial institutions ought to be taken into account. The legislation should also enable European insurers to use the latest financial products. Finally, it is necessary to avoid undesirable effects such as excessive dependence on credit rating agencies.

The third and final area for revising Solvency II concerns the removal of unjustified barriers to insurers' investments. In the public consultation, respondents pointed out that the Solvency II framework could create undesirable restrictions on long-term investment. The Solvency II Delegated Regulation was already amended in 2015[3] to support investment in infrastructure projects and European long-term investment funds (ELTIFs). The 2018 revision of the legislation provides for further refinement of the standard formula for calculating the capital requirements, in order to improve risk sensitivity for certain types of investment. For instance, in the case of investment in firms which do not currently have a credit rating issued by a rating agency, it would be possible to envisage a refined risk weighting based on these firms' financial figures.

On the subject of these three areas for revision, the European Commission sent two letters to the European Insurance and Occupational Pensions Authority (EIOPA) in July 2016 and February 2017, requesting a technical opinion on the specific components of the standard formula. EIOPA conveyed its technical opinions to the Commission in October 2017 and February 2018. They concern a number of questions of particular interest to the Belgian insurance sector, such as the treatment of local authority guarantees, the look-through approach for investment in related undertakings, and the provisions on the loss-absorbing capacity of deferred taxes.

Revision of the long-term guarantee measures

In order to ensure the efficient operation and stability of Europe's insurance markets, a number of long-term guarantee measures were introduced under the Solvency II regulatory framework. This concerns

1 As specified by recital 150 in Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 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 (Solvency II).

2 In accordance with Article 29(4) of 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 (Solvency II).

3 See the Bank's Report 2017.

more particularly a technique for extrapolating the risk-free yield curve, thus establishing rates which are stable enough to attenuate the artificial volatility of the capital and technical provisions, various adjustments aimed at discouraging procyclical behaviour, and a number of transitional measures permitting a phased switch from the previous prudential regime (Solvency I) to the new regime.

Introduction of these measures is accompanied by close scrutiny of their effectiveness. To that end, EIOPA was instructed to report annually to the European Parliament, the Council and the Commission up to 1 January 2021 on the impact of the application of these measures. The national supervisory authorities are working closely with EIOPA to enable it to bring this project to a successful conclusion.

Since 2016, EIOPA has published three reports on the application of the long-term guarantee measures and their influence on the financial position of the undertakings concerned, as well as, more generally, on their economic impact in the European Union.

For example, EIOPA's 2018 Report shows that the solvency ratio of the Belgian sector as a whole is 192 % if all the long-term guarantee measures are taken into account, but drops to 174 % if those measures are disregarded. This 18-percentage-point impact is smaller than the European average, which is around 38 percentage points, with the solvency ratio dropping from 239 % to 201 %. It should also be noted that in Belgium, 39 firms use the volatility adjustment for risk-free yield curves, and only one applies the transitional measure for the technical provisions. At European level, 737 insurers and reinsurers out of a total of 2912 use at least one measure.

EIOPA is expected to give the European Commission its opinion on the long-term guarantee measures, if appropriate after consulting the ESRB and arranging public consultations. The Commission will then present a report on the revision of those measures by no later than 1 January 2021.

2.2 The IFRS 17 accounting standard

Since 1 January 2012, all insurers and reinsurers governed by Belgian law have had to draw up consolidated accounts and a management report on their consolidated accounts if, alone or jointly, they control one or more subsidiaries governed by Belgian or foreign law. That consolidation is carried out in accordance with the set of international accounting standards defined by the International Accounting Standards Board (IASB) which had been adopted by the European Commission by the balance sheet date.

On 18 May 2017, the IASB published a new standard relating to insurance contracts, IFRS 17, replacing the previous standard, IFRS 4. This standard lays down a set of principles governing the valuation of insurance contracts. It is essentially based on a current value method and harmonisation of the presentation of the accounts. The general valuation principles under the new standard are fairly similar to those of the Solvency II prudential regime. For example, in both cases, the expected value of the contractual cash flows has to be projected for each maturity, discounted via a risk-free yield curve, and adjusted for a risk margin.

At global level, the standard is expected to enter into force on 1 January 2022. Before it can apply in the EU, it must first be ratified by the European Commission. Initially, the standard was scheduled to enter into force on 1 January 2021, but in November 2018, the IASB provisionally decided to postpone the implementation date by one year, so that the uncertainty associated with a possible reopening of the standard – which the IASB is examining following requests from a number of sectoral associations – does not make it difficult for firms to be properly prepared.

In connection with this adoption process, the European Financial Reporting Advisory Group (EFRAG), a European panel of advisers on financial reporting, was asked by the European Commission to give an opinion on ratification of the new standard. That opinion is to be accompanied by a detailed impact analysis, including a cost-benefit analysis and a more general analysis of the economic impact of introducing the standard in the European Union. For that purpose, the EFRAG is working with the supervisors and firms concerned, who take part in field studies enabling it to complete its analyses. At the same time, EIOPA has conducted and published an analysis setting out the merits of the standard from a European angle and comparing the common features of the Solvency II regime and the new accounting standard, thus also highlighting the potential efficiency gains that could result. However, it should be noted that the new standard

is considerably more complex than the previous one, and its implementation is currently proving a challenge for the undertakings concerned.

2.3 Modernisation of the regulatory framework concerning governance

The Law on the supervision of insurance undertakings[1] introduced stricter governance quality rules applicable to insurers and reinsurers. Since this new regime came into force, the Bank has handled a large number of cases relating to governance and conducted an initial review of the implementation of the new quality requirements. It thus proved necessary to modernise the regulatory framework in various respects, and that led to the publication, on 13 September 2018, of a Communication[2] updating the Circular on the overarching governance system for the insurance and reinsurance sector[3] in various spheres.

That Communication first clarified the concept of proportionality by using quantitative and qualitative criteria to classify Belgian insurance and reinsurance institutions and groups into two categories: significant institutions/groups and less significant institutions/groups. The practical implications of that classification in regard to governance were spelt out. For example, the frequency of the complete revision of the Regular Supervisory Report (see section E.1.) is three years for less significant institutions/groups (with annual reporting of changes) and one year for significant institutions/groups. Another example is that less significant institutions are authorised to place one person in charge of a combination of independent audit functions or to outsource an independent audit function. Similarly, the rules governing the allocation of tasks among the members of the management board of a less significant institution are less stringent than those applicable in significant institutions.

Next, a number of aspects concerning the concept of the governance system were specified in detail. The missions of management bodies were clarified as regards the validation of prudential reporting and integrity policy. The organisational rules to be respected as regards the preservation of documents relating to insurance and reinsurance business in accordance with Article 76 of the Law, and the Bank's expectations on reporting of the independent audit functions and the combination of functions, were also spelt out.

Finally, taking account of the fact that growing numbers of undertakings outsource certain critical activities or functions, the Bank reinforced its outsourcing requirements, notably by defining the content of the information file to be submitted to the Bank and the arrangements for reporting by the service provider to the management bodies of the undertaking concerned.

2.4 International Capital Standard

In the context of the global convergence of prudential standards for insurance and the promotion of financial stability, the International Association of Insurance Supervisors (IAIS) is working on a common prudential framework for internationally active insurance groups (IAIG[4]). One feature of this framework is the development of an International Capital Standard (ICS) comprising several sections: the provision concerning the consolidation scope, the valuation of assets and liabilities, the capital elements and the capital requirements.

Over the past four years, field tests have been conducted on this subject. Field testing serves to refine the capital standards mentioned above and to continue developing the qualitative aspects of the regulatory framework. It also offers the benefit of contributions by experts from both the insurance sector and the supervisory authorities. During the period under review, a field test was conducted to specify the capital requirements in more detail according to a standard approach. In addition, data were collected on the internal models used to determine the capital requirements. The International Capital Standard is expected to be finalised by the end of 2019 with a view to its application to all internationally active insurance groups on a consolidated basis after a

1 Law of 13 March 2016 on the legal status and supervision of insurance and reinsurance undertakings.

2 Communication 2018_23 dated 13 September 2018 updating the Overarching Governance System Circular.

3 Circular 2016_31 on the Bank's prudential expectations regarding the governance system for the insurance and reinsurance sector ("Overarching Governance System Circular")

4 IAIGs are insurance groups which meet two criteria, the first relating to the weight of non-domestic activity and the second to the group's size. An IAIG should thus issue premiums in at least three countries, and the share of its non-domestic gross premiums issued should exceed 10 %. In addition, taking an average over three years, it should have assets in excess of $ 50 billion or premiums in excess of $ 10 billion. The supervisory authority has some discretion over the application of these measures when determining whether a particular group should be regarded as an IAIG.

five-year monitoring period. The ongoing discussions aim to ensure, among other things, that the European Solvency II standard is recognised as the practical implementation of the International Capital Standard.

2.5 Stress tests

The Bank's policy on stress testing for insurers specifies that the insurance sector must undergo a stress test at least once a year, and that the tests will be aligned with any European stress test. In 2018, EIOPA conducted one of these European stress tests in which two Belgian insurance groups took part. The Bank also decided to arrange a similar exercise for a number of insurers who together account for a significant share of the Belgian insurance sector. This Belgian stress test specified the same scenarios as those developed for the EIOPA exercise.

In 2018, the European stress test comprised three scenarios. Two scenarios presented a combination of market risks and underwriting risks. These two scenarios had been developed by EIOPA and the ESRB and reflect the ESRB's assessment of the main risks for the European financial system.

The primary aim of the Yield Curve Down (YCD) scenario is to assess the potential vulnerabilities of the insurance sector resulting from a persistently low interest rate environment combined with a small rise in risk premiums and a decline in mortality due to medical progress. The scenario affects both the assets and the liabilities of undertakings owing to an environment featuring declining risk-free yield curves combined with stresses affecting major asset categories in the investment portfolio and a bigger than expected increase in average life expectancy. This scenario not only forms part of the Bank's macroprudential risk assessment framework, it also makes it possible to identify any potential weaknesses at microprudential level. In practice, this means that the results of the YCD scenario are taken into account in in assessing applications for exemption from forming the flashing light provision for interest rate risk (see box 16, section E.1.).

The Yield Curve Up (YCU) scenario tests the sector's resilience in the case of a sudden, sharp rise in risk aversion supplemented by upward revision of the claims burden and an impact on the surrender of insurance contracts. This scenario leads to rising risk-free yield curves, a steep increase in risk premiums for the main asset categories, higher inflation with an impact on non-life technical provisions, and significant cash outflows owing to the increase in surrendered policies.

The third scenario, devised by EIOPA, simulates the impact of various natural catastrophes on the insurers' financial situation. This scenario was not used in the Belgian stress test.

The reference date for this exercise had been set as 31 December 2017. For each scenario, firms were asked to calculate the impact on the balance sheet, their own resources and the capital requirement. The stress test results were published on the EIOPA website [1].

2.6 Developments in reporting

During 2018, in regard to prudential reporting in the insurance sector, the emphasis was on data quality and on simplification of certain narrative and quantitative reports.

The data quality in the quantitative reports remains a matter for concern both for the sector and for the supervisors. As well as contributing to the introduction of new validation tests at European level, the Bank conducted its own validation tests at the Belgian level. Systematic tests on the list of assets were introduced to verify consistency between the Solvency II reporting information and that contained in the annual accounts. The Bank also continued to involve the auditors in the process of checking the quality of the prudential reporting and will pursue its dialogue with them in order to share its experience and specify its expectations.

A new Communication [2] modifies the narrative reports that insurers and reinsurers have to submit to the Bank from 2019 onwards. These changes mainly concern: (i) integration of the governance memorandum in the Regular Supervisory Report (RSR), (ii) revision of the frequency of collecting the RSR, with differentiation according to whether an institution is classed as significant or less significant, (iii) structured authorisation to refer to internal documents in the RSR, and (iv) adjustment of the arrangements for submitting certain reports. Apart from these fundamental

1 https://eiopa.europa.eu/Publications/Surveys/EIOPA%202018%20Insurance%20Stress%20Test%20Report.pdf

2 Communication NBB_2018_24/Insurance and reinsurance sector – regular reports to be submitted via the eCorporate platform from 2019 onwards.

revisions, the Communication also specified the report collection dates for 2019 and listed on the Bank's website the reporting templates to be used.

In its risk analysis, the Bank conducts a series of horizontal analyses each year of the risks to which the insurance sector is exposed. Belgian insurers' interest rate risk, liquidity risk and spread risk are examined in more detail. For the analysis of interest rate and liquidity risks, specific reports had been devised before the introduction of Solvency II. In 2018, on the basis of the new data supplied by Solvency II reporting, the Bank examined whether reporting on interest rate and liquidity risks could be streamlined.

In 2014, to obtain a more complete and detailed picture of the insurance sector's exposure to interest rate risk, the Bank decided to devise a specific standard annual report for monitoring that risk. The data were generally requested for both the undertakings' portfolio as a whole and for the main product segments. Thanks to the information in the Solvency II reporting, it has now been possible to simplify the interest rate risk reports. For instance, the cash flow projections for the technical provisions and yields are no longer requested. In addition, the duration of the technical provisions and of their covering assets and the asset cash flow projection now only have to be stated at the portfolio level. The section concerning the composition of the guaranteed interest rates on the insurance portfolio is retained in full. The date for supplying this report is being brought forward by two months from 2019.

In view of the downward trend in the volumes of traditional life insurance premiums and the increasing share of illiquid assets on the Belgian insurance market, the Bank specifies separate quarterly reporting on liquidity risk for all insurers providing life insurance. That reporting focuses on monitoring inward and outward cash flows, the trend in the liquid assets and liabilities, and finally, the trend in exposures to instruments and derivatives with a potential liquidity risk. That enables more systematic analysis of an insurer's liquidity risk, at both individual and sectoral level. The Solvency II reporting now offers the opportunity to derive a series of similar indicators, either directly or indirectly. In order to foster the efficiency of the two reporting systems, the liquidity reporting was therefore brought more into line with the Solvency II reporting requirements. For example, the data on the liquidity of the investment portfolio are no longer requested but are derived from the Solvency II reports on the list of assets. The date for delivering these reports is unchanged.

At European level, EIOPA has also announced its plan to initiate discussions on reporting from 2019 onwards. Revision of the reporting will aim to review the relevance of the content, structure and standardised formats of the Quantitative Reporting Templates (QRTs). However, the objective is not to reduce or increase the number of data items to be submitted, but to improve the reports and publications as a whole in relation to the aim in view.