

25 June 2020

## Circular on the amendments of Chapter 5 of Part B of the Insurance Rules

### 1.0 Introduction

On the 18 December 2019 Directive (EU) 2019/2177 of the European Parliament and of the Council amends Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) ("the Solvency II Directive") was issued. Article 2(1) of the said Directive amends Article 77(d)(4) of the Solvency II Directive. The provisions of Article 77(4) of the Solvency II Directive were transposed in Chapter 5 of the Insurance Rules. On the 12 June 2020, the MFSA issued a [Consultation Document](#) on the said amendment and no feedback from the market was received.

The purpose of this circular is to notify the market on the amendments to Chapter 5. It is to be noted that the said amendment will commence to apply as from the 1 July 2020.

### 2.0 Amendment of the current paragraph 5.3.30 of Chapter 5 of the Insurance Rules

The MFSA is amending the current paragraph 5.3.30 of Chapter 5 of the Insurance Rules. The said paragraph states that in order to ensure that this country component mitigates exaggerations of bond spreads in the relevant country effectively, an appropriate threshold for the risk-corrected country spread should be set for the activation of the country component.

The current paragraph 5.3.30 of Chapter 5 of the Insurance Rules states that for each relevant country, the volatility adjustment to the risk-free interest rates referred to in paragraphs 5.3.28 and 5.3.29, for the currency of that country, shall before the application of the 65% factor, be increased by the difference between the risk-corrected country spread and twice the risk-corrected currency spread, whenever that difference is positive and the risk-corrected country spread is higher than 100 basis points.

The current paragraph 5.3.30 of Chapter 5 of the Insurance Rules is being amended so that for each relevant country, the volatility adjustment to the risk-free interest rates referred to in paragraphs 5.3.28 and 5.3.29 of Chapter 5, for the currency of that country, shall before the application of the 65% factor, be increased by the difference between the risk-corrected country spread and twice the risk-corrected

currency spread, whenever that difference is positive and the risk-corrected country spread is higher than 85 basis points.

Conclusion

Any queries or requests for clarifications in respect of the above should be sent by email on [ips\\_legal@mfsa.mt](mailto:ips_legal@mfsa.mt).