

# Consultation Document on the amendments to Chapter 5 of the Insurance Rules

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NOTE: The documents circulated by the MFSA for the purpose of consultation are in draft form and consist of proposals. Accordingly, these proposals are not binding and are subject to changes and revisions following representations received from Licence Holders and other involved parties. It is important that persons involved in the consultation bear these considerations in mind.

## 1.0 Introduction

1.1 Directive (EU) 2019/2177 of the European Parliament and of the Council which amends Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) was issued on the 18th December 2019. The said Directive amends Article 77(d)(4) of the Solvency II Directive, amongst other Articles. The provisions of Article 77(d) of the Solvency II Directive were transposed in Chapter 5 of the Insurance Rules on Valuation of assets and liabilities, technical provisions, own funds, Solvency Capital Requirement, Minimum Capital Requirement and Investment Rules of the Insurance Rules.

1.2 This purpose of this Consultation Document is to highlight the changes proposed to be carried out to Chapter 5 of the Insurance Rules on Valuation of assets and liabilities, technical provisions, own funds, Solvency Capital Requirement, Minimum Capital Requirement and Investment Rules of the Insurance Rules as a consequence of the amendments carried out by Directive (EU) 2019/2177.

## 2.0 The Amendments to Chapter 5: Valuation of assets and liabilities, technical provisions, own funds, Solvency Capital Requirement, Minimum Capital Requirement and Investment Rules of the Insurance Rules

2.1 The MFSA is proposing to amend 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.

2.2 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.

2.3 It is being proposed to amend the current paragraph 5.3.30 of Chapter 5 of the Insurance Rules 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.

## 3.0 The Way Forward

3.1 Any comments and feedback in relation to the attached draft legislations are to be addressed to the Insurance and Pensions Supervision Unit and submitted in writing on [ipsu\\_legal@mfsa.mt](mailto:ipsu_legal@mfsa.mt), by not later than 24 June 2020.