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## Introduction

The global economy remains stable but is clearly slowing down, with the situation accentuated by continuing trade tensions. The macroeconomic environment is reflected by the behavior of insurance markets in both developed and emerging economies, although its effect on the growth of the sector is uneven. The articles included in this edition of the magazine address these and other current issues in the field of economics and insurance, and will provide readers with a general overview of them. Subsequently, readers will have access to more comprehensive studies on topics that they are interested in.

The “Global economic outlook” and “Industry outlook for the insurance market” articles are excerpts from the quarterly update of the “2019 Economic and Industry Outlook,” published by MAPFRE Economics, that analyze current economic issues. The articles provide macroeconomic forecasts for a number of countries, as well as prospects for those countries’ insurance industries. Also featured in this edition are articles which discuss the behavior of the insurance markets in Spain and Latin America, which summarize the main findings of the two recurring MAPFRE Economics reports relating to those insurance markets.

The special collaboration in this edition is entitled “2020 Reform of Solvency II” by Francisco Carrasco Bahamonde, and gives an overview of the work being carried out within the European Union to reform Solvency II.

These and other published studies can be accessed on the [MAPFRE Economics website](#).

**MAPFRE Economics**

# The Spanish Insurance Market in 2018

Author: MAPFRE Economics

Summary of the report's conclusions:  
MAPFRE Economics

[\*The Spanish Insurance Market in 2018\*](#)  
Madrid, Fundación MAPFRE, July 2019

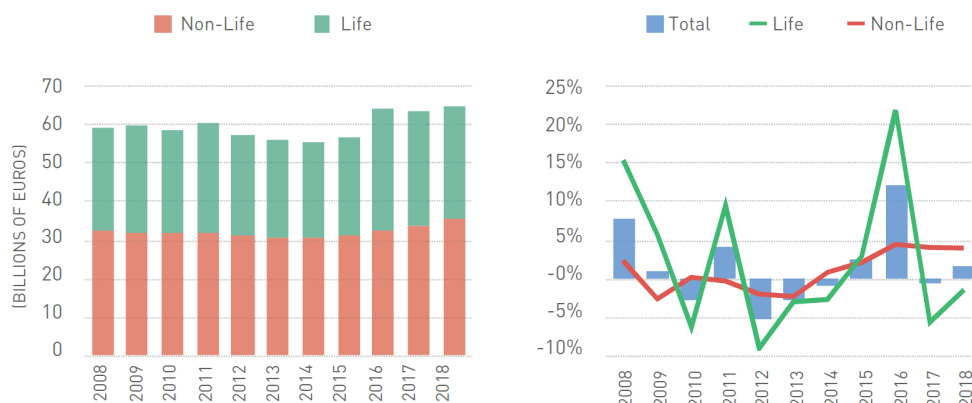
In 2018, global insurance activity was positive for the seventh consecutive year, reaching 5.2 trillion US dollars in direct insurance premiums, or growth of 1.5% in real terms vs. the previous year. The main stimulus came from the Non-Life line of business, driven by the sustained dynamism of the global economy, mainly in the first half of the year, with 3.6% growth for the whole of the year. However, it is estimated that in 2019 the sector may drop by about 3%.

Spain registered 2.4% economic growth in 2018 (after the methodological review by the INE), with a gradual deceleration of the economy, which is expected to continue in the upcoming two years.

In this context, the premium volume in the Spanish insurance market during 2018 totaled 64.4 billion euros, 1.5% higher than the previous year, thanks to the 4% growth in the Non-Life lines of business, as well as the excellent performance of Life Risk insurance, which grew 12.3%. However, the latest data from the ICEA point to a slowdown in these lines of business in the first nine months of 2019, in line with the slowdown in the Spanish economy.

For their part, Life Savings insurance premiums retracted in 2018, which caused the total Life segment to close out the year with a drop of -1.4% (29 billion euros in premiums). This trend is still strongly influenced by a persistent environment characterized by low interest rates, as is the case in the rest of the eurozone (see Chart 1-a). Until September 2019, the fall in Life Savings premiums continued to increase, by approximately -4% compared to the same period in the previous year.

**Chart 1-a**  
Trends in direct insurance in Spain, 2008-2018.  
(learned direct insurance premiums, billions of euros; annual change, %)



Source: MAPFRE Economic Research (using ICEA data)

Despite the above, in terms of managed savings, positive growth continued its course thanks to a 2.6% increase in technical Life insurance provisions in 2018. Moreover, including the data recorded in September 2019, this growth has risen to 3.7%. These developments are explained by the profitability of existing portfolios, which were acquired at a time when interest rates were at higher levels, and the effect on their valuation after the new rate cuts.

Additionally, in 2018, Non-Life insurance maintained its growth at 4.0%, up to 35.4 billion euros—the fifth consecutive year in which the premiums of this segment of the insurance market have grown. In the first nine months of 2019, a slowdown was observed, with growth of around 2.9%, in line with the economic slowdown.

**Table 1-a**  
Trend in Automobile insurance average premium, 2008-2018  
(million euros, annual change, %)

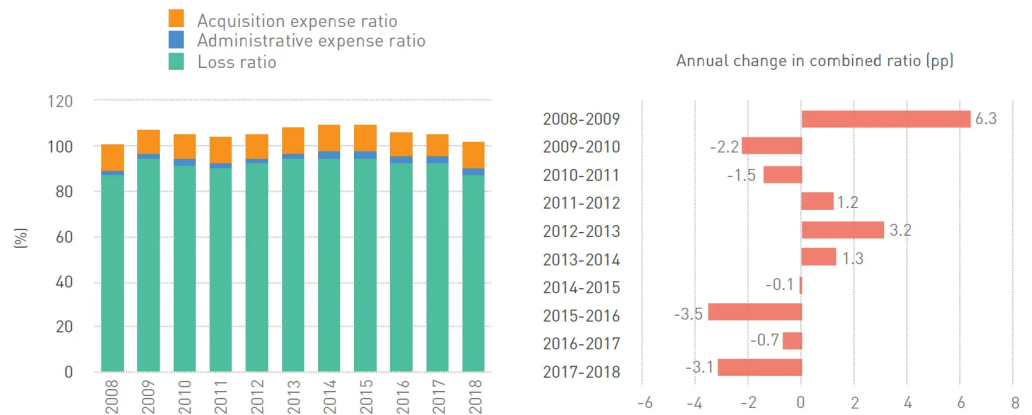
Year	Insured vehicles <sup>(1)</sup>		Direct insurance premiums <sup>(2)</sup>		Average premium		
	(millions)	Annual change	(millions of euros)	Annual change	In euros	% variation	
						Year	(millions)
2008	28.8	1.7%	12,357	-1.9%	428.5	-3.5%	-4.9%
2009	28.8	-0.2%	11,662	-5.6%	405.2	-5.4%	-6.2%
2010	28.7	-0.3%	11,553	-0.9%	402.5	-0.6%	-3.5%
2011	28.9	0.8%	11,285	-2.3%	390.1	-3.1%	-5.4%
2012	28.7	-0.7%	10,622	-5.9%	369.8	-5.2%	-7.9%
2013	28.6	-0.4%	10,033	-5.5%	350.8	-5.1%	-5.4%
2014	28.8	0.7%	9,891	-1.4%	343.4	-2.1%	-1.1%
2015	29.1	1.1%	10,061	1.7%	345.4	0.6%	0.6%
2016	29.8	2.4%	10,574	5.1%	354.4	2.6%	1.0%
2017	30.6	2.6%	10,932	3.4%	357.1	0.8%	-0.3%
2018	31.5	2.7%	11,144	1.9%	354.3	-0.8%	-2.0%

Source: MAPFRE Economic Research (using FIVA, ICEA and Insurance Compensation Consortium data)

(1) Information Database for Insured Vehicles (FIVA)

(2) Direct Insurance premiums for insurance companies & CCS

**Chart 1-b**  
Trend of the total combined ratio, 2008-2018  
(total combined ratio, %; annual change in combined ratio, pp)



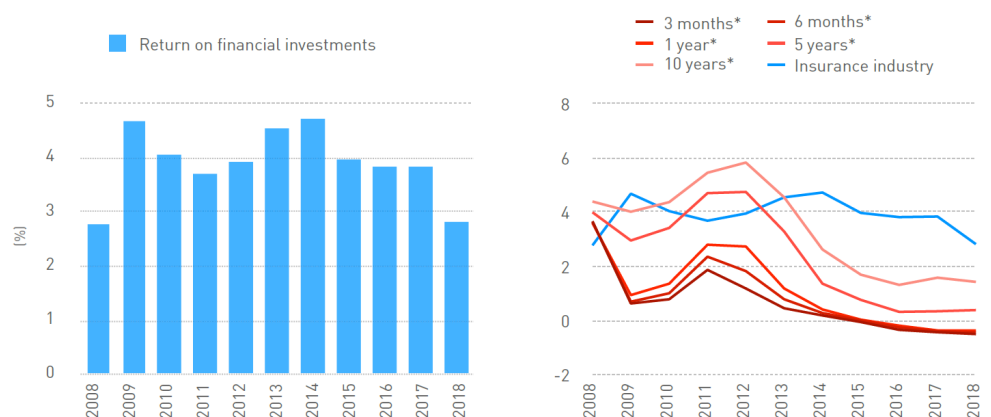
Source: MAPFRE Economic Research (using ICEA data)

Automobile insurance continued to be the line of business accumulating the greatest premium volume within the Non-Life insurance segment, accounting for 31.5%. With the figures as on September 2019, the growth in automobile business premiums was 1.4%, compared to the same period last year, so growth continues to slow down, in line with what happened in 2018 (see Table 1-a).

Regarding profitability, the combined ratio for the Non-Life insurance segment in 2018 continued along the path of improvement experienced in recent years, reaching 93.7% (see Chart 1-b).

This improvement in technical profitability is allowing the Spanish insurance industry to largely compensate for the loss of profitability of the investment portfolios due to low interest rates (see Chart 1-c).

**Chart 1-c**  
Return on the insurance industry's financial investments, 2008-2018  
(financial income / average investment, %; risk-free interest rate, %)

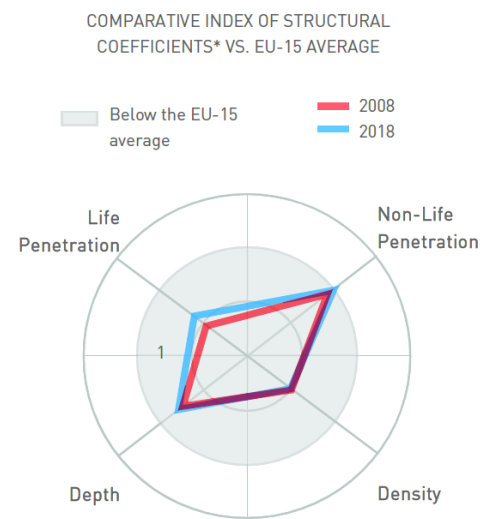


Source: MAPFRE Economic Research (using DGSFP data)  
\*Average annual Spanish Government bond yield of specified tenor.

Moreover, the indices of insurance penetration, density and depth registered slight falls in relation to the previous year, remaining below the average of said indices for the 15 main economies in the European Union (see Chart 1-d).

A detailed analysis of the different lines of business and structural trends over the last decade can be found in the report [The Spanish Insurance Market in 2018](#), prepared by MAPFRE Economics and available at the following [link](#).

**Chart 1-d**  
Spain: structural performance market aspects,  
2008 and 2018



Source: MAPFRE Economic Research

\* Indices calculated as the quotient between country values for the structural coefficient in question, and average values for the overall EU-15 market during the year indicated. The unit represents a performance equivalent to the EU-15 average.

## The Latin American Insurance Market in 2018

Author: MAPFRE Economics

Summary of the report's conclusions:  
MAPFRE Economics

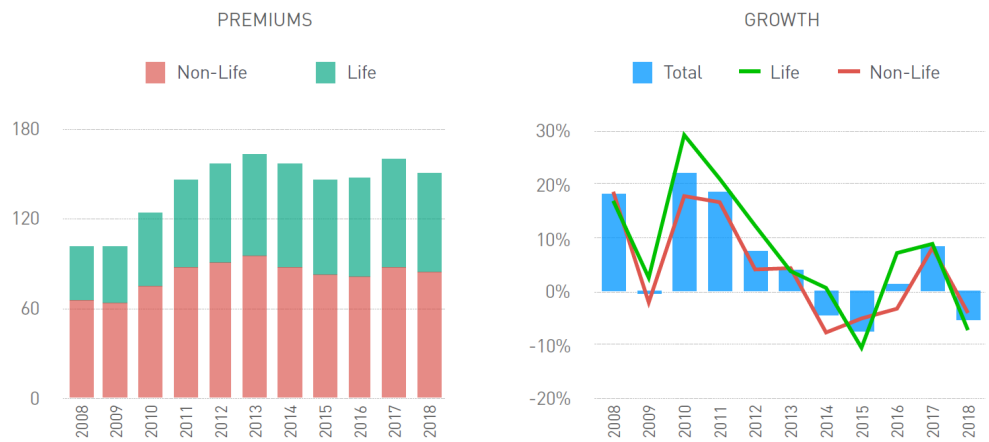
[\*The Latin American Insurance Market in 2018\*](#)  
Madrid, Fundación MAPFRE, September 2019

Latin America continues along the path of economic slowdown which began in the last few months of 2018, a year that ended with 1.0% growth in real terms (1.2% in 2017). However, this economic situation is not affecting all of the region's economies and insurance markets in the same way.

In 2018, Andean and Central American countries (with the exception of Nicaragua) maintained solid economic growth. Currently, the majority of countries in the Andean region are undergoing internal socio-political problems which have an impact on their growth, as is the case in Chile, Bolivia, Ecuador, Peru and lately Colombia. These problems are expected to extend to their respective insurance markets. Colombia's economy had shown the greatest stability and continues to maintain strong economic growth. The region's two biggest economies, Brazil and Mexico, both experienced a slight slowdown in 2018, which has become more pronounced in 2019, although forecasts for next year are more promising. Argentina fell into recession and required financial assistance from the International Monetary Fund (IMF), while in Venezuela the situation of deep recession has intensified.

The insurance market in Latin America and the Caribbean amounted to 150.59 billion dollars in premiums last year, down -5.5% compared to a growth of 8.6% in 2017. The economic slowdown in certain countries, the performance of exchange rates and the impact of various monetary policies have contributed to an unbalanced and less dynamic growth scenario, which has primarily affected the Life insurance segment (see Chart 1-a).

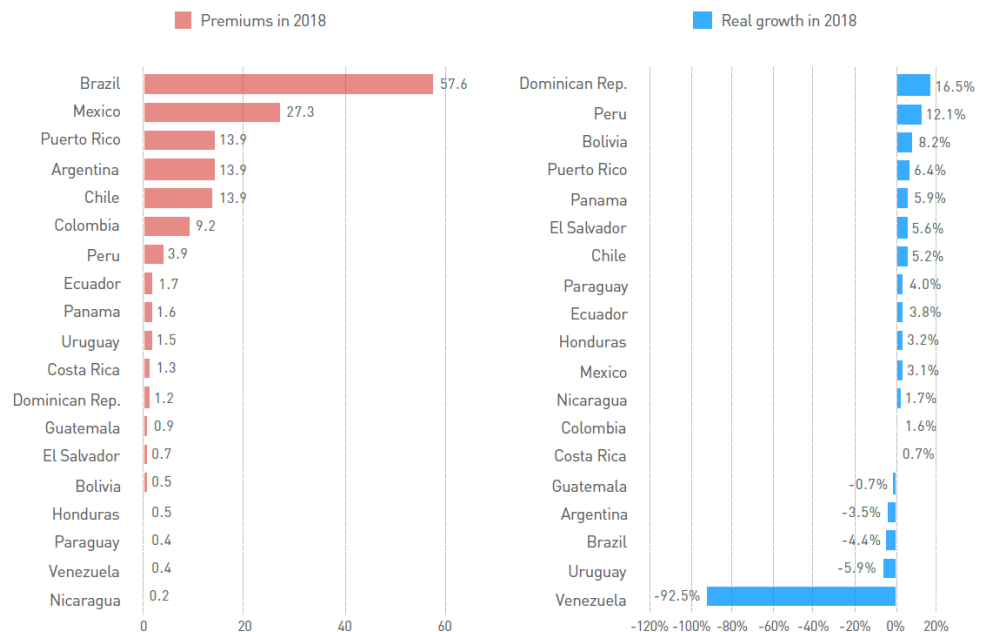
**Chart 1-a**  
**Latin America: growth developments in the insurance market, 2008-2018**  
 (premiums, billions of USD; nominal annual growth rates (%))



Source: MAPFRE Economic Research (based on data from supervisory bodies)

If we isolate the effect of the depreciation of some Latin American currencies (particularly the Argentine peso and the Brazilian real), we can see that most of the region’s insurance markets registered real growth (after inflation was corrected) in their respective currencies (see Chart 1-b). Brazil was affected by the easing of monetary policy to boost economic growth, with an interest rate reduction which hindered the development of the Life insurance segment.

**Chart 1-b**  
**Latin America: premiums and real insurance market growth, 2018**  
 (billions of USD; real growth in local currency, %)



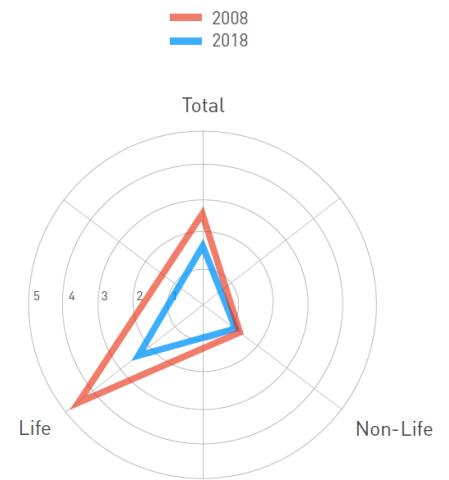
Source: MAPFRE Economic Research (with data from supervisory bodies in the region)



Currently the yield curve is maintaining a positive slope and interest rates seem to be stabilizing, which is helping to improve Brazil's Life insurance segment.

A positive note in the region is the aggregate net result for the insurance industry, which experienced a growth of 35.8% compared to the previous year, amounting to 12.06 billion dollars. The majority of markets experienced growth in profits compared to the previous year, when measured in dollars, with the exception of Bolivia, Chile, Colombia, Ecuador, Mexico, Puerto Rico, and Uruguay.

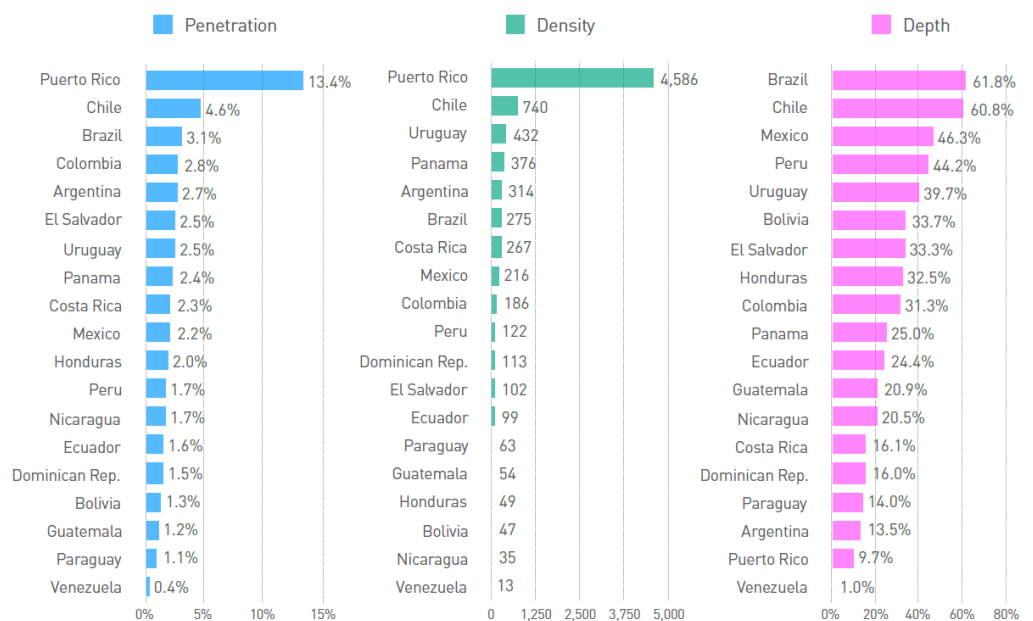
**Chart 1-c**  
Latin America: the IPG as a multiple of the actual market, 2008 and 2018



Source: MAPFRE Economic Research

Regarding structural trend indicators, the penetration index (premiums/GDP) stood at 2.9% in 2018 which was unchanged from the previous year. The indicator also remains unchanged in both the Life (1.3%) and Non-Life (1.6%) segments. In spite of this stagnation, a medium-term analysis (2008-2018) shows that the Insurance Protection Gap (IPG), which reflects the difference between optimal insurance

**Chart 1-d**  
Latin America: penetration, density and depth indexes, 2018  
(premiums/GDP, %; premiums per capita, USD; Life insurance premiums/total premiums, %)



Source: MAPFRE Economic Research (with data from supervisory bodies in the region)

coverage and actual insurance coverage has narrowed when measured in relative terms as a multiple of the actual insurance market (see Chart 1-c).

The comparison of the different countries in the region, in terms of penetration, density and depth – indicators which measure the level of development of their respective insurance markets – is shown in Chart 1-d.

The full analysis of the structural trends and behaviors of the region's insurance industry can be found in the report [The Latin American Insurance Market in 2018](#), prepared by MAPFRE Economics, available via the following [link](#).

## Global Economic Outlook

Author: MAPFRE Economics

Summary of the report's conclusions:  
MAPFRE Economics

[Economic and Industry Outlook 2019: Fourth Quarter Perspectives](#)

Madrid, Fundación MAPFRE, October 2019

The perception that the global economy finds itself in a situation characterized by indicators showing corrections accumulated since the end of 2018 and which resemble those widely observed a decade ago is being reaffirmed. The exception to this is that, for now, these have not fully transferred to consumers or to the service sector, and that there is still no sign of contraction on a global scale.

The world economy remains stable but is clearly slowing down. For the 2019-2020 period, average global growth is expected to be close to, but below, three percent. This figure is noticeably lower than that recorded two years ago but is still far from the figure that is commonly associated with a global recession (below one percent). Developed countries are not expected to make a large contribution, as their individual growth will be around two percent or less. It will be the emerging countries that make a more significant contribution—with growth of around 4.3 percent in both years—thanks to more benign financial conditions, some space for the implementation of fiscal stimulus policies, and an improvement in terms of trade.

The current global economic climate is giving warning signs of a possible recession, which can already be considered a possibility. If one were to occur, it would likely accelerate many of the geopolitical trends that have defined the past five years, including growing nationalism and protectionism, an increasingly fractured international system and the re-emergence of formal and informal trade barriers. Moreover, one of the key risk factors for the global economy, in the current climate, is the variety of ongoing international trade disputes.

Trade wars, or abrupt and poorly negotiated changes in trade relations, are a central consideration given that the intensity of trade disruptions will be a defining element of the slowdown set to continue until the end of 2021. The trade war between the United States and China stands out at the moment, although warning signs of trade conflicts between the United States and the European Union are beginning to appear, as well as between Japan and South Korea. This leads us to the conclusion that the trade and foreign policy style of the Trump administration could be spreading, disrupting the existing world trade order and forcing economic agents to constantly adapt to protectionist measures and arbitrary restrictions imposed by policies that seek immediate responses without considering long-term effects.

The environment described above is all the more worrying as financial institutions and regulators have very few instruments to deal with the effects of a sharp and clear decline in economic activity. The flexible renewal of global monetary policy was recently consolidated by decisions made by both the US Federal Reserve and the European Central Bank, which were backed by a large number of the world's central banks. While it is true that this shift helps contain the financial risks caused by the debt of many countries, it also strengthens the consensus that resolving the current situation will be complex. The effects of monetary policy are becoming increasingly limited, and the average interest rate in the G7 is below one percent, which puts it very close to the Zero Lower Bound, which acts as an asymptote in the rates from which point there is a greater incentive for monetary savings as a precaution rather than credit and investment. Furthermore, such low interest rates have damaging effects on banks' maturity transformation business, on lending, and on the ability to remunerate investors from the non-banking financial system (such as insurance companies).

Against this backdrop, there is a growing consensus that the only viable economic policy is aggressive fiscal expansion. This strategy could benefit from the low interest rates and high fiscal multipliers currently found in both developed and emerging countries, or be supported or supplemented by a public policy strategy to amplify the intermediation in savings. However, governments are reluctant to assume that responsibility.

Global economic confidence is so weak that one or more disturbances could have strong effects and cause disruptions for the financial markets, consumer demand or investment, turning the slowdown into a recession.

The balance of risks is slightly on the upside. There are existing risks that are worth reiterating: that related to the governance of the eurozone, which seems to be increasing; that derived from economic policy in the United States, with respect to which the probability is now lower; that related to macro-financial adjustment in China; and that derived from global leverage levels, the latter two remaining unchanged. In addition to these risks, there is a new one: the consequences of a potential geopolitical crisis.

The complete analysis can be found in the report [Economic and Industry Outlook 2019: Fourth Quarter Perspectives](#), prepared by MAPFRE Economics, available at the following [link](#).

## Industry Outlook for the Insurance Market

Author: MAPFRE Economics

Summary of the report's conclusions:  
MAPFRE Economics

[Economic and Industry Outlook 2019: Fourth Quarter Perspectives](#)

Madrid, Fundación MAPFRE, October 2019

The slowdown in economic growth and the implementation of accommodative monetary policies in an attempt to stimulate the economy is not an isolated phenomenon affecting just some large economies such as Japan or the eurozone, but is beginning to become generalized at a global level and, in particular, in the United States. This situation will end up affecting the growth of global insurance premiums, which tends to slow down in such an economic context.

Emerging economies are also facing a possible slowdown in the growth of their insurance business. In Brazil and Mexico, as it stands, the weakness of economic growth could start to be passed through to their respective insurance markets, but forecasts for next year continue to look better.

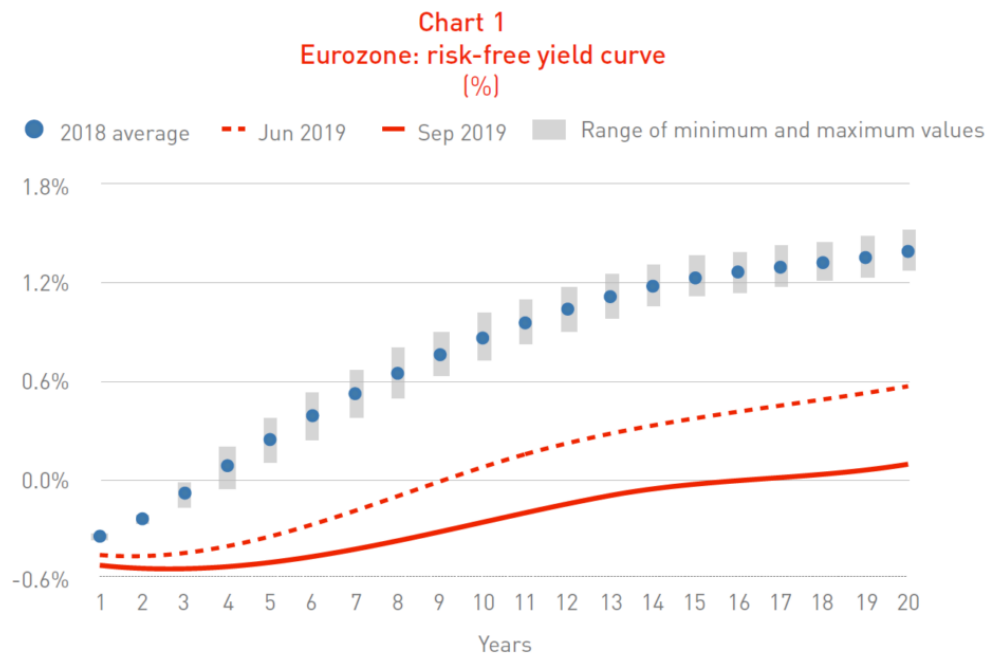
Brazil finally approved a reform of the pension system that will help moderate the high fiscal deficit observed in its public accounts and that is improving the image and prospects of its economy from the standpoint of international financial investors. Moreover, the control of inflation and the lack of pressure to maintain exchange rates, in an international environment of generalized accommodative monetary policies, has allowed the Brazilian central bank to make a slight cut to the monetary policy benchmark interest rate in order to stimulate the economy. In Argentina, the outlook is complicated as its economy is falling into a deeper recession. In Turkey, however, the situation is improving as it has technically emerged from a recession, although growth is still expected to be weak.

The economic slowdown in Spain is beginning to affect employment, consumption and credit use by families and businesses, thereby reducing the

growth expectations for the insurance market's Non-Life and Life risk business lines, which are closely linked to the behavior of the economic cycle. This trend is confirmed by data from ICEA (Investigación Cooperativa entre Entidades Aseguradoras – Spanish Cooperative Research Insurance Association) as of the close of September 2019.

The Life savings business will continue to be hampered by the low interest rate environment affecting the whole of the eurozone and continuing to cause a decline in premiums. However, the volume of savings managed remains stable and is increasing slightly due to the profitability and improved valuation of portfolio investments following the latest fall in interest rates (Chart 1; [click here to access the interactive version of this information](#)).

It should also be noted that the latest report published by the Joint Committee of the European Supervisory Authorities (EBA, ESMA and EIOPA) on risks and vulnerabilities in the financial system of the European Union highlighted that the prospect of a weakened eurozone and world economy, trade tensions, the challenges associated with high levels of debt and a no-deal Brexit (increasingly less likely) are key concerns that may impact financial stability. In addition to these risk factors, there is concern about higher-risk strategies in search of higher yields, implemented as a result of the prolonged low interest rate environment. The Joint Committee also refers to risks related to sustainable financing and environmental, social and governance (ESG) factors.



Source: MAPFRE Economic Research (with EIOPA data)

The full analysis of the economic and industry prospects can be found in the report [Economic and Industry Outlook 2019: Fourth Quarter Perspectives](#) drawn up by MAPFRE Economics, which is available via the following [link](#).



## The 2020 Review of Solvency II

Author: Francisco Carrasco Bahamonde

"All difficult things have their origin in that which is easy,  
and great things in that which is small"  
*Lao Tzu*

Solvency II is made up of an extensive regulatory package of which the key components are Directive 2009/138/EC, the Level 1 standard, and the Delegated Acts based on the above, which are given definitive form in the Delegated Regulation (EU) 2015/35, the Level 2 standard. These two texts are accompanied by Regulatory technical standards and Implementing technical standards, both directly applicable, and also by the Guidelines issued by EIOPA, which require supervisors either to comply or to explain themselves should they fail to do so. Finally (although this list is not exhaustive), we find other softer measures which, while their objective is essentially to harmonize, have, in practical terms, a remarkable influence on ensuring that things are done so that they can be understood in line with the SII requirements.

Taking into account that the Level 1 standard had already been amended before it even came into force, through Directive 2014/51/EC (a comprehensive text that involved the inclusion of such transcendental concepts as volatility adjustment and matching adjustment), it should be no surprise to learn that it prescribes a date to launch the process of its own review.

Likewise, the Delegated Acts, by virtue of their status as their "founding standard," were also amended before their entry into force (through the Delegated Regulation (EU) 2016/467) so as to provide for their future readjustment, to be conducted independently and prior to that of the directive. This was presented very recently, in June 2019, restricting itself to the calculation of the solvency capital requirement (SCR) through the standard formula. Although this may seem like a relatively straightforward

undertaking, it consists of 70 pages, together with a further 80 pages of amendments to the annexes. These address items of such importance to the standard formula as deferred tax assets, recalibrations of insurance risks (with disaster risk being particularly spotlighted in the Spanish case), debt without credit rating, capital investment for non-listed companies, clarifications and specific details for long-term investments in shares.

Before the publication of this innovation, work was already under way, and still continues today, on the so-called 2020 Review of Solvency II. The Directive in fact requires that by January 1, 2021 the European Commission propose to the co-legislators, i.e. the Council and the European Parliament, an analysis of the operation of various aspects of the Directive, providing, where appropriate, recommendations for its improvement. To this end, the Commission has issued a request for advice to the European Insurance and Occupational Pensions Authority (EIOPA) in which it sets out, in 19 points, the matters on which it requires its opinion. It is a major project, not only because of the large number of sections it contains, but because this is further compounded by the great weight and scope of some of them. By way of example, one section alone examines every aspect of matters as far-ranging and complex as the matching adjustment and the volatility adjustment.

To respond to this request, national supervisors, through EIOPA, have spent months analyzing the subtleties of each of the various disciplines, collecting data and assessing different alternatives and their impacts. A crucial part of this process is transparency and participation, seeking to gather the opinions of different stakeholders in order to make well-founded decisions. This is achieved through different mechanisms, the most prominent being the Consultation Papers, in which EIOPA sets out its provisional position for comments. To this end, the "Consultation Paper on the Opinion on the 2020 Review of Solvency II" was published on the EIOPA website on October 15, and can be commented on by those who wish to do so until January 15, 2020.

The report consists of almost 900 pages, providing the vision of supervisors to meet the Commission's request for advice. It should be stressed, however, that some issues are the subject of a specific document, and that there are others in which the opinion, intentionally, goes somewhat farther than what was requested.

This process of renewal, which is mandatory in part, has been used by the European Commission to assess the effectiveness of a number of additional aspects of Solvency II and to incorporate some ingredients that were not initially considered (or were envisaged only to a very limited extent) into the framework.

Among the existing elements that are reviewed are long-term guarantees, the improvement of which was already foreseen and which have been the subject of an annual study ever since the entry into force of Solvency II. This heading reflects on such essential issues as matching adjustment, volatility

adjustment (especially its calculation), and what should be the last degree of liquidity of the euro for extrapolation of the risk-free interest rate curve.

While the standard formula was refined in June 2019 as mentioned, it is now addressed once again, with particular emphasis on the capital burden of the interest rate submodule. EIOPA has already pointed out, when it examined the standard formula, the deficiencies detected in relation to this stress, related to low and negative interest rates, which derive, in all logic, from a capital requirement designed in an economic situation and an interest rate context that were far removed from the current situation. Other factors, such as the calibration of real estate risk, which could be enriched by additional data sources, or correlation matrices, which were not addressed in the recent review, are also worthy of consideration. In addition to the SCR, the behavior of the MCR during this period is analyzed including, as a horizontal factor, all aspects relating to reporting.

One of the most novel approaches introduced by Solvency II was the organization of groups. This regulation has had a certain amount of success in attracting supervisors' attention to groups of insurance companies, since until then surveillance focused almost exclusively on individual companies. The time has come to review how this new paradigm has operated, trying to overcome weaknesses that are quite comprehensible in such an ambitious and complex initiative. This, therefore, constitutes one of the areas to which the Consultation Paper devotes greatest attention.

The experience acquired during the years that the system of free provision of services and the right of establishment has been in use makes it advisable to make some adjustments that maintain and refine the existing system of control by the home Member State, with the triple purpose of avoiding regulatory arbitration, addressing systemic weaknesses in cross-border supervision, and ensuring an adequate level of protection for insured persons and beneficiaries, regardless of the location of the company's headquarters. With a view to achieving all of the above, a number of adjustments to some of the articles of the Directive are suggested.

As a transversal and structural axis of Solvency II, the principle of proportionality, is subjected to intense scrutiny. While it must be clear that it is operational even if it is not expressly cited, past experience leads us to think that it is an opportune moment to make some corrections that will allow us to further analyze its implementation.

In this way, the study proposes raising the limits for some of the exclusion criteria in the scope of the directive, so that more companies would be positioned outside it. In addition, a thorough study is carried out, for each of the three pillars, of particular facets that could benefit from the application of this principle. It examines their potential benefits in the field of calculating technical and SCR provisions, reporting, key functions, risk and solvency self-assessment (ORSA), or written policies, among others.

As noted above, the Consultation Document also proposes the introduction of a number of highly novel subjects into the context of Solvency II.

In this regard, the section on the macroprudential dimension should be highlighted. It is remarkable that the European Commission asked for guidance in relation to possible improvements to a well-defined and very specific list of items: ORSA; the preparation of a systemic risk management plan; a liquidity risk management plan and liquidity reporting; and the “prudent person” principle. However, EIOPA has expanded its response to these and many other macroprudential policy elements, judging that there are not enough tools in the current regime and that, according to scientific doctrine, it is crucial to have multiple instruments to address this risk. In this way it could be attacked from different angles, reducing the possibilities of evasion and increasing efficiency.

Increasing attention is being paid to this subject at a global level, and in fact EIOPA has already published three dossiers in this respect. In Spain, the Macroprudential Authority Financial Stability Board (AMCESFI) has recently been established by Royal Decree 102/2019 of March 1, 2019, which not only establishes the Macroprudential Authority Financial Stability Board, but also establishes its legal regime and develops certain elements related to macroprudential tools. Chaired by the Minister for the Economy and Enterprise, it brings together representatives of the three financial supervisors (the Central Bank of Spain, the National Securities Market Commission and the General Directorate of Insurance and Pension Funds), together with the Ministry of Economy and Enterprise itself.

This section of the report contains ample explanations to underpin the position adopted by EIOPA. The potential systemic risks in the insurance sector and its transmission channels are discussed, as are the various measures to achieve operational objectives that will enable the achievement of intermediate objectives. Two are discussed here: how to mitigate the likelihood of a systemic crisis and how to mitigate its impact, which in turn determine achievement of the ultimate objective: financial stability.

It is important to note that the study recognizes that features already exist in the current system that can have an impact on stability:

- in general, discouraging attitudes of excessive risk through:
  - a capital requirement against specific risks (equity, interest rate, concentration, etc.);
  - consideration of the absorption capacity of deferred losses and taxes;
  - the constitution of reserves;
  - proactive risk management
- on an indirect basis, with:
  - the “prudent person” principle;
  - ORSA;

- capital additions under certain circumstances
- with direct impacts such as:
  - matching adjustment;
  - volatility adjustment;
  - symmetrical adjustment of share-related risk;
  - extension of the recovery period;
  - transitional measures for technical provisions

This being the case, the text postulates the introduction of a set of tools that include the following:

- capital charges for systemic risk under certain circumstances;
- "soft" concentration limits;
- the extension of the use of ORSA for these purposes;
- the broadening of the "prudent person" principle;
- the formulation of preventive recovery and resolution plans;
- the possibility of requiring systemic risk management plans;
- liquidity risk management policies;
- a new supervisory capacity to suspend or temporarily limit rescue rights to all or part of the market;
- strengthening reporting

The desirability of defining a counter-cyclical buffer is discussed, although it is considered that this approach would not be in line with the foundations of Solvency II.

Another of the main developments outlined is the aspiration to a minimum harmonized framework for guarantee funds. In this respect, EIOPA began its consultation on July 12, 2019, and concluded it on October 18, so we will not examine this subject in detail at this time.

As a final new feature, it is important to outline the introduction of a more uniform "playing-field" in relation to recovery and resolution. The Commission's request for technical advice already anticipated a significant interest in this subject, and proposed an open scenario in the different environments to be explored. The resolution objectives would be, in addition to protecting the insured parties and maintaining financial stability, to strengthen the continuity of the functions of companies whose interruption of activity could damage financial stability or the real economy and thus to safeguard public funds. Briefly, and in order not to extend this article further, action is recommended to provide supervisors with a range of powers for early intervention, accompanied by the appointment of a resolution authority that would also enjoy a wide range of powers.

As can be deduced from this document, Solvency II is very much in the forefront of activity at the present time. Far from being considered perfect

and complete, it is still open to a wide spectrum of changes that will allow for its improvement in terms of providing protection to policyholders, beneficiaries and insured parties in general, and contributing to the stability of the financial system as a whole.

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