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December 2023

TECHNICAL NOTE ON INSURANCE REGULATION AND SUPERVISION

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TECHNICAL NOTE

INSURANCE REGULATION AND SUPERVISION

Prepared By
Monetary and Capital Markets Department

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program in Belgium, led by Padamja Khandelwal. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at http://www.imf.org/external/np/fsap/fssa.aspx

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Glossary

ALM	Asset Liability Management
BGAAP	Belgium Generally Accepted Accounting Principles
ComFrame	Common Framework for Internationally Active Insurance Groups
DORA	Digital Operational Resilience Act
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Management
EU	European Union
FSAP	Financial Sector Assessment Program
FSMA	Financial Services and Markets Authority
Gov.	Government of Belgium
IAIG	Internationally Active Insurance Group
IAIS	International Association of Insurance Supervisors
ICS	Insurance Capital Standard 2.0 of the IAIS
ICPs	Insurance Core Principles
IFRS	International Financial Reporting Standards
ICT	Information and Communications Technology
IRRD	Insurance Recovery and Resolution Directive
MA	Matching adjustment
MCR	Minimum Capital Requirement
MoE	Minister of Economy
MoU	Memorandum of Understanding
NBB	National Bank of Belgium
ORSA	Own Risk and Solvency Assessment
SCR	Solvency Capital Requirement
TN	Technical Note
VA	Volatility adjustment

EXECUTIVE SUMMARY[1]

The Financial Sector Assessment Program (FSAP) conducted a focused review of insurance regulation and supervision in Belgium. This technical note (TN) provides an update on the insurance sector and highlights risks and vulnerabilities. It analyzes key aspects of regulatory and supervisory oversight: supervisor; the solvency framework; supervision (micro and macro); changes in control and portfolio transfer, reinsurance; conduct of business and group supervision and supervisory co-operation and co-ordination.[2] Belgium has adopted a twin peaks model of regulatory oversight and supervision. The National Bank of Belgium (NBB) is responsible for prudential supervision at both a micro and macro level whilst the Financial Services and Markets Authority (FSMA) is mandated with conduct of business supervision. The analysis focuses on supervision within the scope of the NBB's and the FSMA's mandates. The TN comments on progress in respect of the implementation of recommendations made by the previous FSAP and offers further recommendations to strengthen the regulatory and supervisory regime.

The insurance industry has assets of 59 percent of GDP, making Belgium one of the larger insurance markets within the EU. The insurance industry has generally been stable and has performed well in the face of adverse conditions. The market is diverse by size and type of insurer. In terms of premium income, the top ten companies in the sector together hold a market share of 70 percent. Premium growth for the life sector has been steady whilst the non-life sector has noted a substantial increase mainly because of Brexit. The life insurance sector does face a challenge as to growth and it is expected that investment guarantee saving products with higher guaranteed rates could be sold more actively.

Products with guarantees still dominate the life insurance market, although there has been a shift towards unit linked policies in recent years. Non-life insurance is also dominated by traditional lines of business, but there is an increase in specialist risk such as cyber insurance products. Distribution channels are mostly traditional, with most sales being transacted through independent brokers. Bank—insurance linkages and interconnectedness with other parts of the financial sector are limited, compared with neighboring countries. There is only a small number of significant insurers which are part of banking groups. The industry remains profitable with high solvency ratios. Insurers generally invest conservatively.

The insurance sector faces diverse risks, including risks related to increased interest rates and persistent high inflation rates. The life sector in general is not as sensitive as the non-life sector to inflation but does face inflation pressure on its expenses and for certain benefits that are inflation linked, like pension payments. The non-life sector, in particular long-tail business lines, is particularly exposed to high and or rising inflation.

[1] This Technical Note was prepared by Suzette Vogelsang, Senior Financial Sector Expert MCMFR, IMF.

[2] The analysis was based on the laws, regulations and other supervisory requirements and practices in place as at the date of the mission.

The challenging macro environment, the emerging risks, and new regulatory changes are expected to increase the supervisory obligations of the NBB. The heightened risk brought by the current macroeconomic conditions coupled with the emerging risks would require additional and dedicated focus by the insurance supervision team. The Solvency II Review, the Insurance Recovery and Resolution Directive (IRRD) and the Digital Operational Resilience Act (DORA) are all regulatory changes that are to be introduced in the short- to medium term. These challenges and changes will not only impact the industry but also the NBB. It is important that the NBB assesses its resource needs to be fit for purpose for the future. The NBB should also ensure that the industry is ready for the implementation of these regulatory changes. It is therefore recommended that the NBB conducts various assessments and readiness surveys.

The prudential supervisory framework has been significantly strengthened since the last FSAP but can benefit from further enhancements. This includes:

- Issuance of various Circulars being worked on by the NBB to clarify its expectations and to address new requirements introduced in the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs).
- The significant exposure to mortgage loans and real estate should continue to be a supervisory focus. The NBB should continue to focus on matters such as the valuation of mortgages across insurers, potential scope for regulatory arbitrage between insurers and banks and, the quantity and quality of mortgage loans (including any transfers from affiliated banks).
- Build on work already done for emerging risks.
- For sustainability specifically, the NBB should develop initiatives to assess environmental and social risks and governance.
- Minister of Economy to finalize the proposed legislation changes on the natural catastrophe funding model.
- In relation to cyber risk, follow-up work on the findings of the 2022 cyber survey should be performed.
- Enhance the risk-based supervisory model by considering conduct risk where it can translate into prudential risk in the risk assessment.
- For group supervision and supervisory co-operation and co-ordination further work should be done to co-operate and collaborate with third country supervisors and conduct joint on-site inspections.

The conduct of business supervision is aligned with EU requirements with national add-ons but can also benefit from further enhancements. This includes strengthening the legislative powers to enable pre-emptive conduct supervision, including cross-border data sharing. Continued engagement at the European level would help. Increasing reporting requirements on conduct data, including complaints, would not only enhance supervision but would also assist the industry and consumers if such conduct data is published.

Table 1. Belgium: Main Recommendations on Insurance Regulation and Supervision

Recommendations and Responsible Authorities	Addressee	Timing*	Priority**
Minister of Economy to finalise the proposals to adapt the legislation on natural catastrophes to ensure certainty (22).	MoE	NT	H
Identify initiatives to address environmental and social risk, and governance (23).	NBB	NT	H
Identify the appropriate supervisory measure(s) to address potential under-pricing and or capitalization for cyber underwriting (24).	NBB	NT	M
Conduct a follow-up review to establish if the non-articulated cyber cover has been removed from the insurance policies (25).	NBB	I	H
The Authority to assess its resource needs to meet supervisory obligations (both in terms of number and skill set) (33).	NBB	NT	M
Independent assessment (internal audit) of the overall state of the internal control of insurance supervision's critical processes (34).	NBB	NT	M
An assessment and or readiness survey of the impact on the insurers of the new regulatory changes i.e., Solvency II review and DORA (43 and 45).	EIOPA/NBB	I	H
Provide guidance to enhance the consistency in the valuation of mortgage loans (67).	NBB	NT	M
Address shortcomings on Enterprise-wide Risk Management in the Governance circular (68).	NBB	I	H
Finalize and issue the updated Onsite Inspection Circular (79).	NBB	I	M
NBB's risk assessment framework should include those conduct risk that can translate into prudential risk (80).	NBB	NT	M
Finding ways to further shorten the formal feedback time on on-site inspections (where possible) (81 and 105).	NBB/FSMA	I	M
Deep-dive assessment and comparison of the quality of insurers' and banks' mortgage loan books (82).	NBB	C	H
Contact third country supervisors to assess the basis for sharing and collecting information (94).	NBB	NT	H
Conduct joint on-site visits with involved supervisors where the NBB is the group-wide supervisor (95).	NBB	I	M
Engage with European Insurance and Occupational Pensions Authority (EIOPA) and the Prudential Regulatory Authority, UK (PRA) to set up a platform for supervisory co-operation for Lloyd's (96).	NBB	NT	M
Take the necessary initiatives at EIOPA level to ensure changes in the conduct rules to allow for a more pre-emptive approach to supervision (106).	FSMA/EIOPA	NT	M
Publish an aggregate report of selective information of the annual submission of the conduct of business survey (107).	FSMA	NT	M
FSMA to engage Government to obtain legal powers to introduce regular complaints reporting by insurers. (108).	Gov./FSMA	I	H

* C = Continuous; I = Immediate (within one year); NT = Near Term (within 1-2 years); MT = Medium Term (within 3-5 years).
** H = High; M = Medium; L = Low.

INTRODUCTION AND BACKGROUND

A. Scope and Approach

1. **This technical note (TN) provides an update on the Belgium insurance sector and an analysis of certain key aspects of the regulatory and supervisory regime.** The TN has been prepared as part of the 2023 Financial Sector Assessment Program (FSAP). This note is based on a review of regulations, market analyses, and meetings with the Belgium authorities. The FSAP team also met with representatives from insurers, industry associations, and other professional bodies.

2. **This note does not include a detailed assessment of observance of the Insurance Core Principles.** This technical note refers to the Insurance Core Principles (ICPs) and Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) which were issued by the International Association of Insurance Supervisors (IAIS) in November 2019.[3] The ICPs selected for review are broadly those with macrofinancial relevance and with material regulatory changes. They include the ICPs on solvency requirements (valuation, investments, capital adequacy and enterprise-wide risk management), supervisory approach (including supervisory authority[4], supervisory review, and macroprudential supervision), conduct of business, as well as group supervision and cross-border co-operation. With respect to the 12 ICPs analyzed in the note, the authorities provided a full self-assessment[5], supported by examples of actual supervisory practices and assessments. The most recent detailed assessment, conducted based on the 2011 version of the ICPs (as amended in 2013), was carried out in 2013.

3. **The focus of the TN is on recent developments in the sector and key vulnerabilities, including a high-level focus on emerging risks and the regulatory and supervisory approach.** The first section summarizes the market structure, insurance products, and industry performance, whilst the second section deals with regulation and supervisory oversight and covers supervisory powers, independence and resources, the solvency framework, supervision, changes of control and portfolio transfer, reinsurance, conduct of business, group supervision and supervisory co-operation and co-ordination. The analysis was informed by a detailed self-assessment prepared by the NBB and the FSMA in respect of selected ICPs, along with anonymized examples of actual supervisory practices and assessments.[6] ICPs selected for review were broadly those with financial stability relevance.

[3] The IAIS ICPs apply to all insurers, whether private or government controlled. Specific principles apply to the supervision of intermediaries. The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) was adopted in November 2019. ComFrame is presented in blue boxes within the ICP Introduction and Assessment Methodology as well as within the following ICPs: 5, 7, 8, 9, 10, 12, 15, 16, 23, and 25.

[4] Belgium has adopted a Twin Peaks model of supervision. The NBB is responsible for the prudential supervision on both a micro and a macro level whilst the FSMA is mandated with conduct of business supervision.

[5] Where the ICPs (including ComFrame) selected were also included in the 2018 FSAP, the Authorities only provided updates and or a full assessment on the changes to the ICPs (including ComFrame).

[6] The following ICPs (including ComFrame) were selected for review: 2, 6, 9, 13, 14, 15, 16, 17, 19, 23, 24, and 25.

4. The 2018 FSAP identified recommendations for improvement, including the following that it suggested should receive high priority:

- NBB to engage with the insurance industry to gradually improve the quality of capital.
- NBB to seek to impose appropriate measures to address increasing liquidity risk of the sector, with due consideration of policyholders' protection and benefits.
- NBB to consider imposing more detailed reporting requirements on insurers with large exposures to mortgage loans.
- NBB to continue analyzing the business growth of reinsurance operations and enhance supervisory resources as needed.
- NBB to strive to retain staff with high expertise in the implementation of Solvency II.

5. The comments on progress in respect of the recommendations made in the previous assessment are included under the relevant headings. The NBB has implemented all the recommendations made.

6. The author is grateful to the authorities and private sector participants for their excellent co-operation. The author benefited greatly from the inputs and views expressed in meetings with the insurance regulators and supervisors, insurance companies and industry and professional organizations.

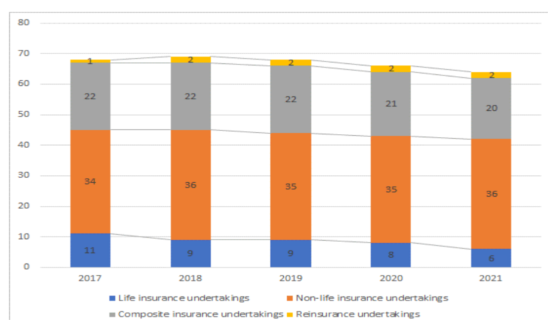
B. Market Structure, Insurance Products, and Industry Performance

7. There were 72 insurance companies operating in the Belgian market at the end of 2022. The number of insurers has been declining from 80 in 2018. The main reasons for the decline were due to mergers or takeovers, with only a few insurers suspended by the NBB in some of the years and none closed by the NBB during this period. The Belgian insurance market is dominated by composite insurers but also has some smaller specialized insurers. In 2021, the total amount of premiums was approximately EUR 41.5 billion, about 60 percent non-life and 40 percent life business. Belgium ranked 7th among the European Economic Area (EEA) countries as it relates to gross written premiums for non-life business, at the end of 2022Q3, and 9th for life business. In terms of premium income, the top ten companies in the sector together hold 70 percent of the market's share.

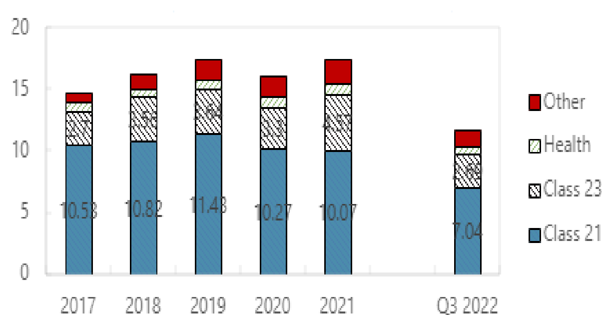
Figure 1. Number of Insurers and Premiums per Type of Business

The number of insurers is steadily declining. Non-life insurance has seen a significant increase mainly due to Brexit, with some UK firms deciding to set-up insurance undertakings in Belgium. Life insurance premiums have been stable.

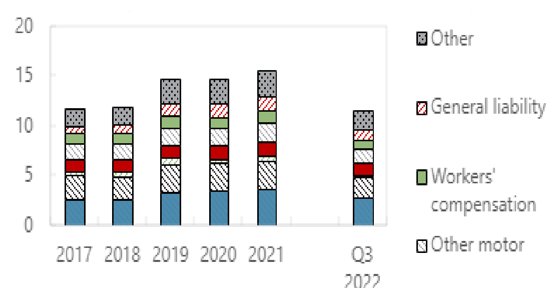
Number of Insurers



Life Business
Non-life Premiums by Line of Business (LoB)
(SII data, in € billion)



Non-life Business
Life Premiums by LoB
(SII data, in € billion)



Source: NBB

8. The relatively slow growth in premiums and the decline in the number of insurers in the life sector was mainly caused by the long period of low interest rates and consolidation. Life insurance products are sensitive to a low interest rate environment. The low interest rates forced life insurers to reduce the guarantees they offered. Further, the low interest rates and the material fixed cost structures of the life insurers placed pressure on some life insurers, which led them to either stop underwriting certain products, transfer their portfolios, or exit the market. The introduction of the Solvency II requirements in 2016 led to certain life products becoming more expensive to underwrite. Lastly, in Belgium, changes to the tax regime applicable to savings products also had a negative impact on the attractiveness of these types of products.

9. For life insurance, the most common insurance products underwritten are the guaranteed rate products[7] and for non-life, the traditional products are the most common. These life products are characterized by a guaranteed return on the accumulated values and a discretionary profit-sharing scheme. The maximum guaranteed interest rates in insurance contracts and the minimum rates that should be offered by employers offering a complementary 2nd pillar pension are prescribed in separate pieces of legislations (see Box 1 below). As for non-life insurance, products offering liability coverage and property insurance policies (covering the construction or more generally damage to the property) are the most common. In Belgium there are some (mainly liability) insurances that are legally compulsory. The most common is motor liability insurance.

Box 1. Minimum Return and Maximum Guaranteed Rates

In Belgium the minimum investment return for complementary pensions[1]and maximum guaranteed interest rate for savings through life insurance[2] are prescribed. In terms of the maximum guaranteed interest rate, the NBB uses the formula as prescribed in Article 216, § 1 of the Insurance Supervisory Law to determine the proposed **maximum** technical interest rates for life insurance contracts longer than 8 years. For these contracts insurance companies may not guarantee a technical interest rate higher than the prescribed guaranteed rate.

The maximum guaranteed interest rate, as calculated by the NBB, is equal to 85 percent of the last 24 months average of the yields of 10-year linear Belgian government bonds, with the result rounded to the nearest 25 bps. The maximum guaranteed interest rate is also bound by an absolute minimum of 0.75 percent and an absolute maximum of 3.75 percent. The rate is calculated on the 1st of June of each year. The NBB then submit a proposal to the MoE[3] to adopt the maximum guaranteed rate in line with the outcome of the prescribed formula (for 2022 equaling the absolute minimum of 0.75 percent). On several occasions the MoE did not approve the NBB's proposed maximum guarantee rate. The Minister's decline was based on the potential social impact of the proposal. It was argued that employers would no longer be willing to offer their employees' pension fund benefits as they will not be able to transfer the risk (guaranteed minimum return for complementary pensions) to an insurance company (see also next paragraph). At the time of the FSAP, the technical interest rate **was thus fixed at 2.00 percent[4].** Insurance companies are thus not allowed to guarantee a technical interest rate higher than this prescribed guaranteed rate.

The FSMA determines the minimal guaranteed return for complementary pensions that are set-up under the form of defined contributions or cash balance.[5] The level of the minimum guaranteed return is recalculated every year by the FSMA based on the formula set out in Article 24 of the Law of 22 April 2003 on the occupational pensions. The interest rate for the calculation is linked to the interest rate on 10-year government bonds. From a pure legal point of view, this **rate of return** is not, as such, mandatory for the insurance undertakings. It must, however, be guaranteed by the sponsors of occupational pensions schemes and only at the time when an affiliate leaves the pensions scheme (e.g., resignation, retirement or death). The sponsors are managing their obligations by obtaining insurance contracts which offer at least the minimum guaranteed rate.

[7] Also referred to as Branch 21 products.

Box 1. Minimum Return and Maximum Guaranteed Rates (Concluded)

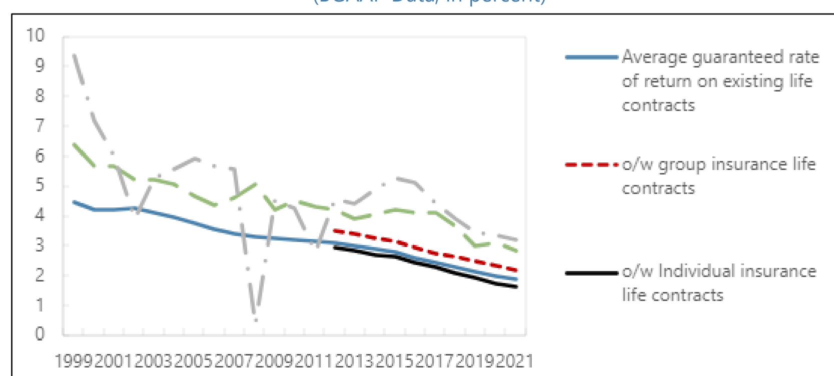
The minimum rate of return for the following year is set on the 1st of January each year. Since 2016, this rate is 1.75 percent, which is the absolute minimum set out by the law on occupational pensions.

A high investment guarantee rate on life insurance contracts can have a detrimental impact on the profitability and solvency of insurers if not properly matched. Life insurers offering investment guarantees higher than what they earn can erode their surplus funds. It can further force insurers to exit this type of products and leave a protection gap. The NBB requested the reduction in the maximum guaranteed rate to protect the financial soundness of the life insurers and the managing of a potential systemic risk. For the next years, given the formulas as depicted in both laws, it can be expected that the maximum interest rates, as stipulated in the Supervisory Law, would remain in line with the minimum rate of return of the Law on occupational pensions.

Insurers have been able to bring down their average guaranteed rate over time (See Figure 1). This was possible for individual insurance contracts but the average guaranteed rate for group insurance life contracts (employee benefits obligations) remained higher and in some years higher than the investment returns earned by insurers.

Figure 1. Life Insurance Guaranteed Rates and Investment Returns

(BGAAP Data, in percent)



The MoE could better balance considerations of consumer protection and financial stability in Belgium. If the low interest rate environment had continued and insurers were pressured in setting their maximum guaranteed interest rate (up till the maximum allowed), it could have had a detrimental impact on the financial stability of the life insurance sector in Belgium. In this regard, interventions for consumer protection should be principles-based and predictable.

[1]/ This minimum return is an obligation for the employers offering complementary pensions to their employees.

[2]/ This includes complementary pensions that is underwritten through life insurance contracts.

[3]/ The Ministry of Economics has a mandate on consumer protection.

[4]/ The rate has been fixed at 2 percent since the start of Solvency II (2016).

[5]/ https://www.fsma.be/nl/wat-de-wettelijke-rendementsgarantie.

10. In Belgium various options and initiatives are being explored to close protection gaps. These initiatives can create potential growth opportunities but may also increase risks for the insurance industry. The Government of Belgium is exploring several public private initiatives to close the protection gap. These initiatives include amongst others the protection against terrorism. An example of a public private partnership in place in Belgium is around the cover of natural catastrophe events (see Box 2 below). It is critical that these public private partnerships be developed according to the principles of insurance (premium paid is linked to the risk cover) and that adequate risk mitigations are available to manage significant exposures. These initiatives should also be developed in partnership with the insurance sector to ensure that they do not threaten its sustainability.

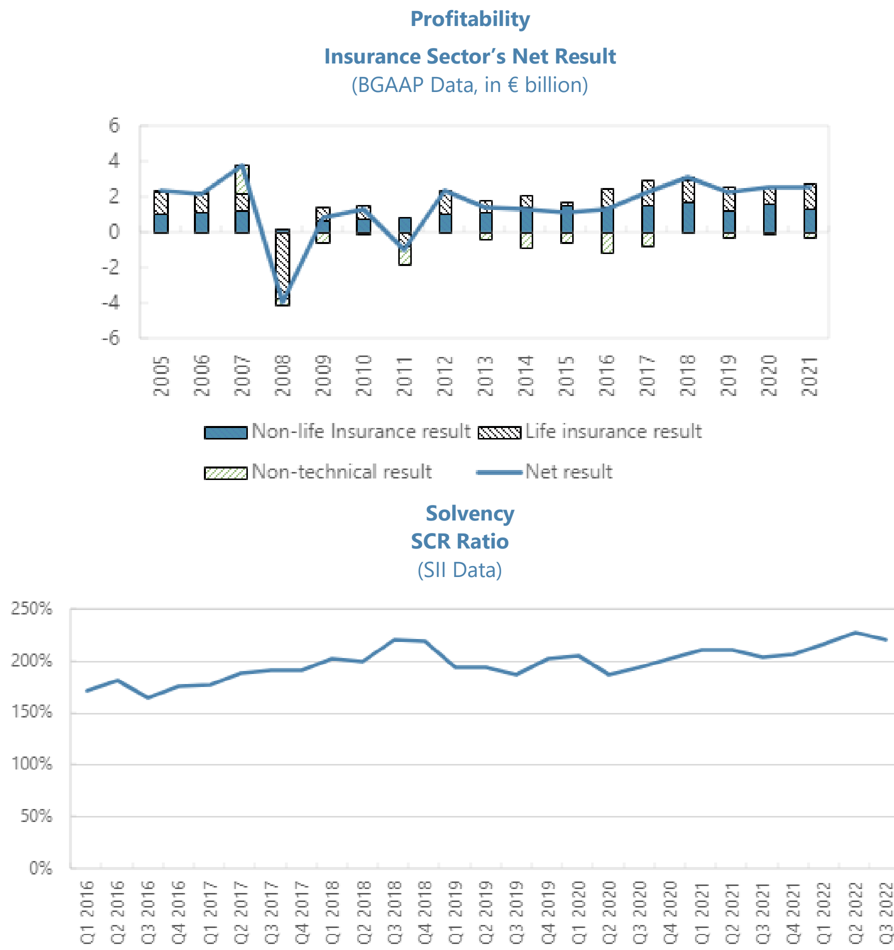
11. Distribution channels are mostly traditional, with most sales being transacted through independent brokers. The broker distribution channel has steadily gained market share from just over 40 percent in 2010 to nearly 53 percent in 2021. Most of the non-life insurance products (61 percent) are distributed through brokers. A very limited number of non-life products are distributed through bancassurance tied channels (about 8 percent). In the life sector, brokers also distributed most of the products except for unit linked products. Bancassurance was the highest distribution channel for unit linked products (about 53 percent). The growth in the broker channel came mainly at the expense of the tied agent channel. The FSMA has noted a sharp decrease in the total number of insurance intermediaries from just under 22,900 in 2008 to just under 9,500 in 2022. The main reasons why intermediaries stop their activities are consolidation in the sector, retirements, and reorganization in distribution models. Other reasons for the decrease in intermediaries are the increasing operational and compliance costs related to regulatory requirements, as well as the rising costs of digitalization.

12. The insurance industry remains profitable with robust solvency ratios (Figure 2). The average return on equity (based on Belgium Generally Accepted Accounting Principles (BGAAP)) in the last 10 years was 10 percent. The weighted average of the Solvency Capital Requirement (SCR) ratio for all EEA countries as at the end of 2022Q3 was 261 percent, with the lowest being 159 percent and the highest being 325 percent. For this period Belgium's weighted average SCR ratio was 221 percent.

13. Belgian insurers invest conservatively with a big focus on asset liability management (Figure 3). The largest invested asset classes (excluding unit linked business) for the insurers are government bonds (40 percent) and corporate bonds (20 percent).[8] Exposure to real estate makes up 12 percent of the total invested assets, with the biggest exposure being to direct property investments. Loans and mortgages are also a material asset class for the life insurers. Equity and other risky assets are limited. The use of derivatives is limited, with exposure mainly to interest rate swaps. The investments backing unit linked products are mainly investment funds. Insurers often outsource their investment and asset management activities. These outsourcing arrangements are often done intragroup for efficiency and centralization of functions at a group level.

[8] All ratios in this paragraph are on a Solvency II basis, against total assets unless mentioned specifically. This excludes assets backing unit linked policies.

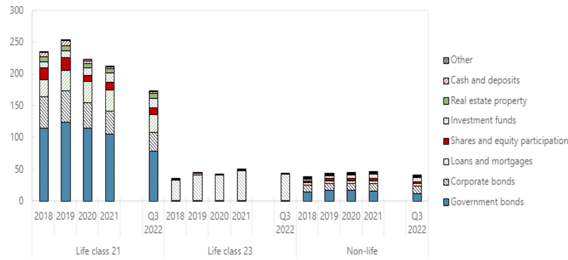
Figure 2. Profitability and Solvency



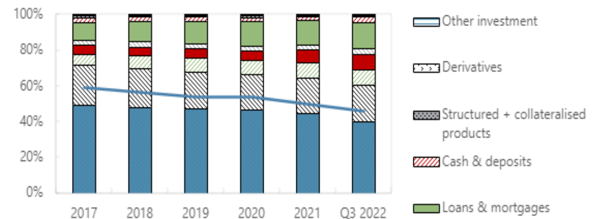
Source: NBB

Figure 3. Investment Portfolio

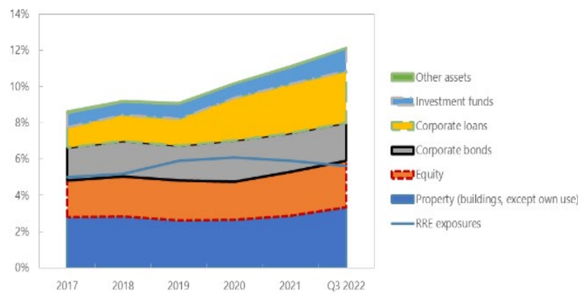
Composition of the Covering Assets per Insurance Activity
(in € billion)



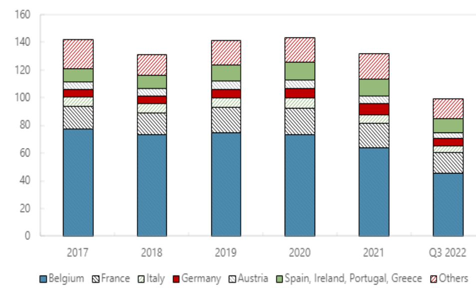
Composition of the Investment Portfolio by Asset Types
(In Percent of Total Investment, Excluding Unit-linked)



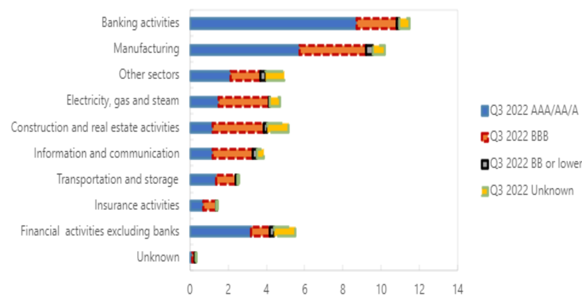
Exposures to CRE (by Asset Types) and to RRE
(In Percent of Investment Portfolio, Excluding Unit-linked)



Sovereign Bonds Exposures
(in € billion)



Corporate Bonds Exposures – Q3 2022
(in € billion)



Source: NBB

14. Some changes in the investment portfolio for insurers have been observed in recent years. The shifts in assets resulted in a decrease in government bonds partly due to valuation changes but also due to bonds maturing or bonds sold because of the increase in interest rates. The growth in equities was largely due to changes in valuation due to market performance (between 2021 and 2022) rather than new investments. The growth in loans and mortgages reflects certain insurers' increased risk appetite for riskier and or less liquid assets. The growth in investment funds reflects the shift to unit linked business.

15. Bank—insurance linkages and interconnectedness with other parts of the financial sector are limited compared with neighboring countries, but some concentration is observed in Belgium. The exposure to banks is only about 7 percent of the total investments. There is only a small number of significant insurers which are part of a group that also includes significant banking. These insurers are interconnected with the banking sector through banc-assurance models, intragroup outsourcing arrangements and investment activities, with the biggest relating to deposits followed by loans. Accordingly, a collapse of the Belgian banking system would have significant effects on certain Belgian insurers. The exposure to the banking sector decreased slightly between December 2018 and June 2022, from EUR 42 billion to EUR 40 billion. Concerning country exposures, these also remain broadly stable: exposure to the United Kingdom declined (7.5 percent of total banking exposure in 2022 compared to 11 percent in 2018), while exposure to French banks increased slightly to 18 percent (of total banking exposure) in 2022.

C. Risks and Vulnerabilities

16. An assessment of the risks and vulnerabilities of the Belgian insurance sector will be done in the insurance stress tests performed as part of this FSAP. A separate technical note will cover this. This part will only focus on a few specific areas.

17. Global macroeconomic conditions, with persistent high inflation and increasing interest rates, pose new challenges to insurers. Macroeconomic stresses are addressed under the insurance stress test exercise. Inflation is of particular importance as Belgium is one of a small group of euro area countries that maintains indexation of wages to inflation as part of its wage setting framework. The surge in inflation coupled with the indexation of wages can have an impact on the insurer’s solvency positions, in particularly the long-tailed non-life business, such as workers’ compensation insurance. In the medium-term, insurers can adapt to higher inflation, for instance through changes in product design and pricing.

18. The Belgian insurers overall have over the last few years shown a slight increase in the exposures to real estate, mortgage loans and some lower rated bonds. There is a difference between insurers with some insurers showing higher increases. Belgian insurance companies are major investors in commercial real estate. The increase has been mainly driven by higher investments in corporate bonds and commercial loans that are invested in commercial real estate. A more pronounced worsening of an already easing market, driven by weaker economic activity and/or structural changes, may put some strain on the commercial real estate exposures. Insurers’ exposures to residential real estate basically consist of mortgages granted to households, in Belgium

and the Netherlands, representing 6.8 percent of the investment portfolio at the end of 2021. Riskier segments of mortgage lending with elevated LTV and DSTI ratios may become vulnerable should the macro-financial environment deteriorate.

Emerging Risks: Technology

19. Risks from InsurTech operators in Belgium are limited as the number of operators is small. To date, only one InsurTech operates as a licensed insurer. In 2021-22, the NBB conducted an insurance focused survey on InsurTech and digitalization. The insurance FinTech industry is dominated by InsurTech players building partnerships with existing insurers. The currently known 17 InsurTech players mainly act as insurance intermediaries or as service providers on claims management. Insurers are budgeting more for digitalization of operations and have obtained quick wins in cloud services and robotic process automation. Both the NBB and the FSMA, nationally and in co-operation at European level, are developing SupTech supervisory tools.

20. A platform has been provided for InsurTech or FinTech operators to engage with the authorities. The FSMA has launched a FinTech contact point, which the NBB is also linked to, on its website. Through this portal, FinTech entities can contact the authorities to provide information, ask a question, or request a meeting. As from 2023, the NBB's focus is on further development of the innovation hub. This is aimed at identifying the existing prudential measures that can be applied in a proportional manner to InsurTech operators, clarifying the process to obtain an insurance license (non-technical application guide) and further clarifying the NBB's expectations to the sector. This work will be done in co-operation with the FSMA and the Belgium Government.

Emerging Risks: Climate

21. Climate change and other sustainability risks are also receiving considerable attention. The NBB has set up a cross-departmental Climate Hub. The mission of the climate hub is around information sharing, bringing together expertise and disseminating information. The work of the climate hub also involved the implementation and update of a climate risk dashboard. The work on climate risk has mainly been focused on creating awareness and gathering data. Currently, the focus is on increasing the quality and quantity of the data, developing disclosure frameworks, and starting to assess the risks within the current regulatory framework. This includes both physical and transition risks. Although physical risk is the largest component of the risk insurers are exposed to, transitional risk is equally important and directly and indirectly linked to the housing market. Insurers have exposure directly through their investments in mortgage loans but also indirectly through the insurance cover provided on the properties.

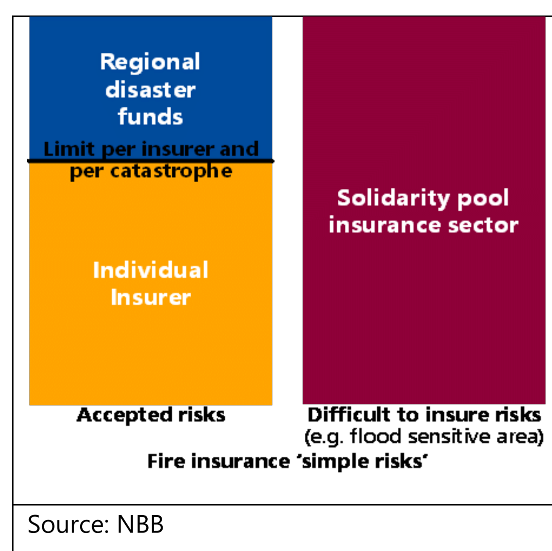
Box 2. Floods of July 2021

In July 2021, heavy rainfall and mass flooding in southern Belgium (Wallonia) resulted in multiple deaths and thousands of houses being damaged or collapsed. The floods resulted in material losses for the insurance sector. The floods impacted the property class of business the most.

For **simple risks** (mostly retail) the insurance cover for natural disaster-related losses to property is limited by law. This cover is included in fire policies. It is a compulsory cover within the fire and other damage to property insurance products. However, fire insurance products are not compulsory for homeowners to purchase. In practice, the NBB observes that a large percentage of homeowners do have protection against fire and other damages to property.

To guarantee financial stability, the legislator put in place a **public-private partnership** based on specific mechanisms:

- A **solidarity pool for greater risks** where the insurance sector as a whole co-insures these greater risks e.g., in more flood prone areas.
- An **intervention limit on the coverage of normal risks** per insurance company and per catastrophe, above which the regional disaster funds intervene.



Source: NBB

Costs

The application of the existing legislation would have resulted in claims cost for the insurance sector limited to EUR 320 million. Of the damage 90 percent was insured risk and only 10 percent was related to uninsured risk. However, in view of the unprecedent and unanticipated scale of losses and considering the level of funding of the regional disaster funds, the insurance sector and the Belgian Regions agreed to a one-time solution. This one-time solution resulted in the insurance industry doubling its intervention limits and advancing all payments on behalf of the Regions. The payments on behalf of the Regions are to be reimbursed by means of a government guaranteed loan.

Based on available estimates, the total cost can be split as follows:

Estimated Claims cost (mio EUR)	Insurance sector	Reinsurance sector	Belgian Regions	Total
Fire 'Simple risks'	367	317	1.131	1.815
Other than Fire 'Simple risks'	84	240	0	324
Total	451	557	1.131	2.139

Source: NBB

Box 2. Floods of July 2021 (Concluded)

The protocol however contained a rendezvous clause[1] in case the economic damages rose above 1.7 bn EUR. This implies that uncertainty exists currently on whether the Belgian insurance sector or the Walloon region will reimburse the excess beyond this threshold.

Adjustment of the legislation

In parallel to the negotiations on the July 2021 floods, negotiations also started to **adapt the natural catastrophe legislation** to put in place a new and robust system. The aim of this is to distribute the burden of potential future losses between insurers and the public authorities in an undisputable way. This new system is critical for the continuous confidence in the Belgian insurance sector by the reinsurers and to decrease the risk of a potential protection gap.

1/ Rendezvous clause means the parties will need to re-negotiate the terms of the agreement.

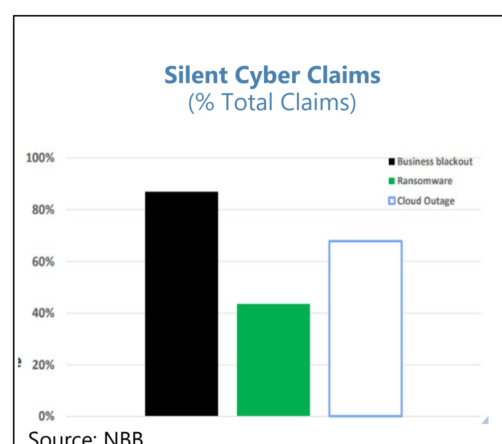
Emerging Risks: Cyber

22. The Belgian insurance sector is the third largest cyber insurance market in the European Union (EU). Although still a small market segment, the NBB noted a substantial increase of 60 percent between 2019 and 2021 in cyber underwriting. Currently, cyber underwriting is only done by a limited number of insurers in Belgium. In 2021, the NBB issued a questionnaire on cyber risk covering both aspects of operational and underwriting risk. For cyber operational risk, the NBB found that there has been an increase in the number of cyber incidents, and systemic or international undertakings are most often the victims. The top 3 cyber-incidents are phishing, ransomware and business email compromise. For cyber underwriting risk, it was observed that only twelve Belgian insurers provide explicit cyber coverages, but 62 percent of insurers (non-life and composite) have no explicit exclusion of cyber risk in their policies and could therefore cover it implicitly (also referred to as silent cyber).

Box 3. Cyber Risk Assessment

The NBB developed an insurance stress-test to analyze the financial resilience of insurers under various scenarios. The NBB tested three different scenarios:

- A business blackout scenario with a countrywide power outage.
- A systemic ransomware attack on 10 percent of policyholders.
- A cloud outage of the largest cloud service provider leading to a bursting of the tech bubble. The cloud outage scenario also contained a downturn in the financial markets.



Source: NBB

The results show that the impact on average SCR ratio is -5 percent at sector level, but with a variance between 0 percent to 20 percent depending on the volume of cyber insurance.

It was also observed that for the black-out scenario, the silent cyber component accounts for 80 percent of the claim costs.

The NBB further noted that reinsurance tends to mitigate the shock less than expected. This might be an indication that cyber reinsurance arrangements are not yet fully developed. Lastly, the NBB concluded that pricing for cyber underwriting does not seem to reflect the possible tail risk and might not be sufficient to generate adequate capital for cyber.

Recommendations

23. **The NBB should continue building what has already been put in place for climate risk.** This includes the work done in the Climate Hub, collecting of data, and improving the quality of data and reviews of the climate stresses in the Own Risk and Solvency Assessment (ORSA) reports. The NBB should also identify initiatives to address other environmental risks, social risks, and governance risks.

24. **The legal framework of the natural catastrophe public-private partnership should be finalised**. This will enhance the predictability of the insurance cover for natural disaster-related losses and ensure the availability of public funds. Climate risk uncertainty can prove challenging for the sector's sustainability and can be addressed.

25. **On cyber risk the NBB should identify the appropriate supervisory measure(s) to address potential under-pricing and/or capitalization.** The NBB should internally agree on supervisory measures to be introduced when the underwriting of cyber risk becomes material and

can pose a risk to the financial soundness of those insurers that underwrite cyber risk, to address the potential under-pricing and/or capitalization.

26. The NBB should conduct a follow-up review /assessment to establish if the non-articulated cyber cover has been removed or changed to be explicit in the insurance policies. As highlighted in the NBB cyber assessment a significant portion of insurance policies in the market includes non-articulated or silent cyber cover. A recommendation was made by the NBB that insurers that do not explicitly exclude cyber risk coverage should reconsider the wording of their contracts as well as the pricing and if necessary, adapt them because silent cyber risk coverage might generate significant financial losses if the risks materialize. To ensure that this was done and to prevent any future impact of non-articulated or silent cyber cover the NBB should conduct a follow-up review or assessment. The NBB should also take the necessary supervisory measures where it is found that insurers have not taken actions as recommended.

REGULATION AND SUPERVISORY OVERSIGHT

A. Supervisory Powers, Independence, and Resources[9]

27. In Belgium, the supervision of the insurance sector is exercised according to a twin peaks model involving two autonomous supervisory authorities. The National Bank of Belgium (NBB) is responsible for the prudential supervision of insurance and reinsurance undertakings on a micro-prudential as well as a macro-prudential level. The Financial Services and Markets Authority (FSMA) has as part of its mission the protection of consumers of financial products. The FSMA is responsible for the supervision of insurance and reinsurance intermediaries, as well as for the supervision of insurance contracts (supervision which covers both rules of conduct and products) and market conduct and prudential supervision of pension funds.

28. The FSMA and the NBB have concluded a General Memorandum of Understanding[10] for collaboration between the NBB and the FSMA. This MoU is to ensure the coordination of the supervision of the institutions under their respective supervision. According to this MOU, the FSMA and the NBB commit to cooperate to the best of their ability to ensure the exercise of their respective supervisory powers. This cooperation includes amongst others (i) sharing of information, either on their own initiative, or upon request, (ii) consulting each other when drafting legislation, circulars or any other form of communication to the insurance industry, and (iii) discussing matters where there is no clear separation of responsibilities.

29. The NBB and the FSMA have operational and financial independence to carry out their supervisory tasks without political interference. Both authorities have transparent processes and a sound governance structure. The funding of both authorities is obtained by contributions payable

[9] The analysis in subsection A has been made with reference to ICP 2 Supervisor.

[10] https://www.fsma.be/sites/default/files/legacy/sitecore/media%20library/Files/fsmafiles/samenwerkingsaccord/en/2013-03-14_nbb_fsma.pdf.

by the undertakings subject to supervision. The contributions collected cover all the budgeted operating costs of the authorities, respectively.

30. Both authorities operate in a transparent and accountable manner. The two supervisory authorities publish their requirements, policies, and supervisory procedures. They also consult publicly on new or significant changes in requirements, policies, and supervisory procedures. The NBB and the FSMA also publish in an Annual Report their activities, including their financial information.

31. The two supervisory authorities and their staff have the necessary legal protection from legal action against them for actions taken in good faith. The costs of defending their actions and/or omissions made while discharging their duties in good faith is protected via insurance agreements.

32. Both the NBB and the FSMA have clear requirements to address any potential conflict of interest. For the FSMA, the Chairman and the members of the Management Committee are prohibited from exercising any function or mandate in a company subject to the permanent supervision by the FSMA or whose operations are subject to the supervision by the FSMA. These provisions persist for a year after the end of their term of office. The NBB also has a policy in place that clearly addresses any conflict or potential conflict of interest.

33. Since the previous FSAP, the NBB underwent a reorganization process for its insurance supervision, which was implemented in two stages. Changes include the establishment of a department responsible for the on-site supervision and prudential policy, and reorganization of the off-site supervision department. The changes were firstly driven by aligning the insurance supervision to banking supervision. The other reasons for the changes were to enhance off-site supervision, and adjust to new challenges, amongst others originating from Solvency II, as well as to align the distribution of activities with the enhancements to the supervisory toolkit.

34. As of December 2022, NBB had 115 staff (full-time equivalent) in insurance supervision, compared with 112 at the end of 2018. The organization explicitly provides the flexibility to smoothly deploy the necessary resources and expertise where additional supervisory activities are required. Insurance supervision also draws on cross-sector expertise. The NBB has been successful in attracting and retaining staff, with more than half of its insurance supervisors having ten or more years of supervisory experience and 72 percent of its insurance supervisors having five or more years of supervisory experience. However, regulatory changes and increasing emerging risks will put additional strain on the current resources, not only in terms of number but also in terms of skillset. The 2018 FSAP recommended that the NBB continue analyzing the business growth of reinsurance operations and enhance supervisory resources as needed as well as striving to retain staff with high expertise in the implementation of Solvency II. *These recommendations remain relevant considering new risks and challenges.*

Recommendations

35. The NBB should perform an assessment of resources required to ensure that they are adequate (both in terms of number and skill set) to meet its supervisory obligations. New legislative requirements like the proposed Insurance Resolution and Recovery Directive (IRRD) and the Digital Operational Resilience Act (DORA) could require additional resources. The rapidly changing environment in which insurers operate and the challenges and risks associated with these changes could impact resources required, not only in number but also in skillset. It is therefore recommended that the NBB do an assessment of the resources it requires to be fit for purpose in the future versus its current resources (considering both numbers and skills) to identify any shortcomings. This will allow the NBB to develop a strategic workforce plan.

36. The NBB should do an independent assessment of the overall state of the internal control of insurance supervision's critical processes. As mentioned, the NBB insurance supervision went through a reorganization. The NBB has to date not performed an audit on the new structure and the processes linked to this. To establish the effective working of this new operational structure and confirm that the state of its internal controls of critical processes are at an acceptable level, it is recommended that an independent assessment be performed. The independent assessment can be performed by the NBB's internal audit function in compliance with its framework. The outcome of this independent assessment can provide input into the assessment of the resources as recommended in paragraph 33 above, as well as providing the senior management and the audit committee of the NBB with a view on the overall state of internal control for insurance supervision's critical processes.

B. Regulatory Framework

Prudential

37. Since the 2018 FSAP, a few legislative amendments were introduced either at EU or Belgian level. At the EU level, minor updates were made to the Solvency II Directive and the Solvency II delegated Acts. At the Belgian level, the main changes were triggered by the Solvency II Directive amendments. A change that had an impact on the Belgian insurance sector was the removal of a requirement to set-up a branch in case of third-country reinsurance. This change did not remove the requirement for risk reduction measures. The other change was the introduction of the possibility to stop surrenders of life insurance contracts plus the introduction of the possibility to simultaneously transfer the corresponding reinsurance contracts when an insurance portfolio is transferred.

38. A wide variety of changes were also made to the NBB circulars. These changes were made either to align with EIOPA guidelines or because of changes made in the Belgian legislation or to cater for certain Belgian specificities. These circulars, to mention only a few, covered topics like reporting, capital adequacy and valuations, ORSA and governance.

39. The NBB has also developed some specific circulars introducing non-Solvency II topics or adding certain elements above and beyond the Solvency II requirements. To mention a few, these circulars cover topics including stress testing, liquidity risk management, reporting on

mortgage loans, expectations regarding investments in crypto assets, and the collection of information on the energy efficiency of real estate exposures.

40. In Belgium, there are also other national specificities that apply to insurance companies. These national requirements relate to, amongst others, an initiative to update the legal framework to: introduce the notion of systemically significant insurers linked to the introduction of a requirement to set-up recovery plans for these insurers, the flashing light provision[11], and the policy around profit sharing which is done in two stages (i) the distribution phase which determines the amount of profits available for dividends to be shared with policyholders, and (ii) the allocation phase where the amount determined under (i) is released to individual contracts as policyholder dividends (at least 80 percent of the disbursed amount should be allocated to the policyholders).

41. The NBB is in the process of updating various circulars as well as finalizing a new one. The NBB is updating its circular on governance to cater for the new requirements introduced in ICP 16 and to align with international standards. Several jurisdictions have or are in the process of updating their requirements to align with the updated ICPs adopted in November 2019. A new circular relates to run-off portfolios and risk mitigations. This dedicated circular on run-off and risk-mitigation is based on the NBB's internal policy and on EIOPA's supervisory statement on supervision of run-off undertakings. It also includes a dedicated chapter on best practices for risk management of run-off companies.

42. The 2020 Solvency II review, conducted by EIOPA, has the objective of keeping the regime fit for purpose. The Solvency II review is still under consideration and the legal process is expected to be completed in 2023. The measures proposed are intended to provide balanced updates, reflecting better the economic situation, and completing the missing elements from the regulatory toolbox. Several amendments are required to ensure that the regulatory framework continues as a well-functioning risk-based regime. The amendments include changes to the long-term guaranteed measures, in particular the Volatility Adjustment (VA)[12], a new extrapolation method for risk free interest rate term structures and a new macro-prudential toolkit. The timing for implementation is still unclear.

43. The Insurance Recovery and Resolution Directive (IRRD) currently under consideration can see a minimum EU harmonized recovery and resolution framework. The objective of a recovery and resolution regime is to prevent the use of public funds. The goal is therefore to prevent failure - and if this is not possible - facilitate an orderly market exit. The timing for implementation is still unclear. It would however be important, once there is legal certainty, that consideration be given on the practical application of the different recovery and resolution frameworks that will apply to a financial conglomerate.

[11] The Flashing light provision or reserves are extra provisions that the NBB requires life insurers in Belgium to set up to assure that sufficient funds are always available to fulfill guarantees given to clients within their contracts. The flashing light provision is a purely BGAAP concept.

[12] See paragraph 50 below on an explanation of what the VA entails.

44. The Digital Operational Resilience Act (DORA) (Regulation (EU) 2022/2554) will apply to all financial institutions once in-force. DORA requires financial institutions to follow rules for the protection, detection, containment, recovery and repair capabilities against information and communications technology (ICT)-related incidents. DORA explicitly refers to ICT risk and sets rules on ICT risk-management, incident reporting, operational resilience testing and ICT third-party risk monitoring.

Recommendations

45. The NBB should perform an assessment of the impact on the insurers under the current economic conditions of the proposed Solvency II review requirements. Ideally this should be done at EIOPA/EU level. If not such an assessment should be done by the NBB as it is needed to focus on those aspects relevant to the Belgian market, such as the behavior of the VA.

46. The NBB should finalize and implement the various Circulars it is currently working on. The implementation should only start once the consultation process has been completed. The finalization and implementation of the various Circulars, in particular the governance and the run-off and risk mitigation Circulars, are critically important not only to clarify expectations but also to ensure alignment with the international standards as set out in the ICPs.

47. The NBB should perform a survey of insurers on their readiness for the implementation of DORA. Ideally this should be done at EIOPA level. If not, it is recommended that the NBB does its own readiness survey. It is acknowledged that the technical details are not yet finalized. It will be important to perform such a readiness survey to not only identify areas for clarification but also to assist the smaller insurers in the market to prepare.

C. Solvency Framework[13]

Valuation of Assets and Liabilities

48. The ICPs focus on valuation for solvency purposes and Solvency II applies to all insurers except for four. The exceptions include one non-life insurance undertaking which has fully reinsured its risks arising under the policies that they have concluded. This non-life insurance undertaking is subjected to compliance with a light regime, which includes the rules governing the transfer of portfolio, reporting and sanctions. The other exceptions are three very small insurers, fully supervised by the NBB, under a light supervisory framework (Solvency I like framework).

49. Insurers also prepare valuations for reporting under various other bases. Insurers are required to prepare their annual financial statements on the local valuation basis, Belgium GAAP (BGAAP). The common rule of BGAAP is amortized cost. This remains an important measurement, particularly for dividends to shareholders and policyholders and for tax purposes. As Solvency II reporting does not include an income statement, BGAAP reporting supports the NBB's assessment

[13] The analysis in subsection B has been made with reference ICPs 14 Valuation, 15 Investments, 16 Enterprise Risk Management for Solvency Purposes, and 17 Capital Adequacy.

of insurers' earnings. For consolidation purposes insurers are required to prepare their published annual financial statements according to International Financial Reporting Standards (IFRS)[14]. There are about 20 insurance undertakings that this will apply to. The one Internationally Active Insurance Group (IAIG)[15] is also preparing its valuation and solvency for the ICS (Insurance Capital Standard 2.0 of the IAIS) (currently in a 5-year monitoring period), which are discussed at the supervisory colleges. Although the NBB considers the results of the BGAAP, IFRS and ICS valuations for the relevant insurers, such valuations are not the basis for solvency assessments and supervisory intervention. Therefore, this TN does not specifically address these frameworks.

50. Under Solvency II, both assets and liabilities are valued on a market-consistent basis. The Solvency II regime stipulates a fully economic, market-consistent, and realistic valuation of assets and liabilities, which fully reflects the risk-adjusted present values of the cash flows. An insurer's own credit standing cannot be recognized in the valuation of liabilities. In most cases an explicit risk margin, determined via a cost of capital approach, must be added to the best estimate.

51. The Solvency II best estimate corresponds to the probability-weighted average of the present values of the future cash flows associated with insurance liabilities, discounted using a specified risk-free yield curve to derive a present value. The criteria for the derivation of the risk-free interest rate curves are set out in the Solvency II regulation and yield curves are regularly provided by EIOPA. The cash flow projections consider all the cash in- and out-flows required to settle the insurance obligations over the lifetime thereof. This includes current estimates of all expenses, inflation and all payments to policyholders and beneficiaries, including future discretionary bonuses.

52. For each currency and maturity, the basic risk-free interest rates are derived based on interest rate swap rates[16], adjusted to take account of credit risk. The yield curves are determined by referring to market rates up to a last liquid point (LLP), which in this case is 20 years. Beyond the LLP, interest rates are extrapolated to an ultimate forward rate, which is currently set at 3.45 percent. The speed of convergence is 40 years. These data are regularly published by EIOPA. With the approval of the NBB, insurers may use:

- ***A matching adjustment (MA)*** in the yield curves for the valuation of predictable liabilities which are cash-flow matched using fixed income assets. The predictability of the portfolio means that matching assets can be held to maturity and that the insurer is consequently not exposed to price movements, only to the risk of default. No Belgium insurer is using the matching adjustment. The MA is not used in the Belgian market as the insurance products underwritten do not meet the strict conditions to be eligible for an application to use the matching adjustment.

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[14] The new accounting standard applicable to insurance contracts came into effect on 1 January 2023.

[15] An IAIG is determined after considering whether it is internationally active by premiums written in three or more jurisdictions and gross premiums outside of the home jurisdiction are at least 10% of the group's total gross written premiums; has total assets of at least USD 50 billion, or total gross written premiums are at least USD 10 billion.

[16] If swap markets are not deep and liquid, government bonds are used.

- ***A volatility adjustment (VA)***, which aims to avoid pro-cyclical investment behavior of insurers when bond prices deteriorate owing to low liquidity of bond markets or exceptional expansion of credit spreads. The adjustment has the effect of stabilizing the capital resources of insurers and is calculated by EIOPA. Insurers using volatility adjustments are required to disclose two solvency ratios, with and without the adjustment. As at year end 2021, 36 insurers were using the volatility adjustment. The aggregated Solvency ratios of the VA users with and without the VA, respectively, were 210 percent and 190 percent.

53. To address the 2018 FSAP recommendation, the NBB has performed various analyses over the past years on the use of the VA. The 2018 FSAP recommended that the NBB monitor the long-term guaranteed measures in particular the VA. The analyses performed focused on different aspects relating to the use of the VA. The first industry wide analysis that was done aimed to map the market practices with respect to the risk management requirements related to the use of the VA (2018). In 2020 the NBB did a thematic analysis of the potential overshooting effects of the VA. The outcomes and findings of these analyses were communicated to EIOPA, which did take them into account in its Solvency II Review proposals.

54. One insurer applies the transitional measure on technical provisions. The insurer using the transitional arrangement is required to disclose two Solvency ratios, with and without the transitional arrangement. The Solvency ratio of this undertaking without the transitional measure remained stable and above an SCR of 100 percent.

55. The NBB has issued several circulars to clarify certain requirements which may lead to misunderstandings or misinterpretations. The circulars issued covered contract boundaries, the application of the long-term guaranteed measures, the valuation of technical provisions under Solvency II, the valuation of assets and liabilities other than technical provisions and the valuation of assets traded on inactive markets.

Investments

56. The requirements of Solvency II are based on the Prudent Person Principle and do not prescribe quantitative limits on investments. Insurers can only invest in assets and instruments for which the insurer can properly identify, measure, monitor, manage, control, and report the underlying risks. The use of derivative instruments is allowed only if they contribute to a reduction of risks or facilitate efficient portfolio management. Most insurers are not actively using derivatives, although a few groups use them for hedging. Some insurers in financial conglomerates have made intragroup transactions with the parent banks not only through deposits but also through repos, securities lending, and participations in mortgage loans.

57. Solvency II requires that all assets, including those covering the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR), shall be invested in such a way as to ensure the safety, quality, liquidity, yield and consistency of the portfolio. In addition, the assets should be freely available and without encumbrance. The assets covering the

technical provisions are also invested in a manner that is consistent with the nature and term of the insurance or reinsurance obligations.

58. The NBB has implemented additional reporting for insurance companies to closely monitor the underlying risks in their mortgage loan portfolio. This addressed the 2018 FSAP recommendation. *The 2018 FSAP recommended a consideration by the NBB to impose more detailed reporting requirements on insurers with large exposures to mortgage loans.* The first reporting was based on 2018 year-end data. The reporting includes both micro- and macroprudential components. The micro-prudential reporting covers exposures of Belgian insurance companies to residential mortgage loans both domestically and internationally. It is applicable to insurers for which exposures to residential mortgage loans exceed 5 percent of their investment portfolio or EUR 650 million. Some of the key elements included in the micro-prudential reporting relate to characteristics of the loan and the new annual production, default risk and interest rate characteristics. The NBB has also done further analysis on the difference between the valuation basis used in valuing the mortgage loans between insurers and banks. The valuation basis used for insurers is based on Solvency II market valuation principles and therefore much more complex and judgement based. This different measurement between the insurance sector and the banking sector could make the comparability difficult.

Box 4. Mortgage Loan Investments by Insurers Versus Banks

Insurers in Belgium invest in mortgage loans mainly for asset liability matching. Investments in mortgage loans have increased to 6.8 percent of total assets (excluding unit linked business) at the end of 2021. The mortgage loans are about equally split between mortgage loans on property in Belgium and mortgage loans on property in the Netherlands.

The valuation basis and capital requirements applying to mortgage loans are different between banks and insurance companies. For banks mortgage loans are valued in terms of IFRS 9.[1] In the case of insurance companies, the valuation is based on fair-value principles in line with Solvency II and may therefore require the inclusion of expert judgement in absence of quoted market prices. As to the capital charges for banks that is either done on a standardized basis as prescribed in Basel III or through an Internal Rating Based model approved by the supervisor. For insurers the capital requirements for mortgage loans will fall under the counterparty default risk model of Solvency II. The insurance capital requirements also allow for diversification benefits between the different risk modules.

A concern was the possibility of regulatory arbitrage between the banks and the insurers as it relates to mortgage loans. As most of the insurers investing in mortgage loans are part of banking groups, the NBB has done a detailed analysis on all the elements to demonstrate the differences between the mortgage loans on a bank balance sheet vs that of an insurer.

1/ IFRS 9 and expected loss provisioning - Executive Summary (bis.org).

Box 4. Mortgage Loan Investments by Insurers Versus Banks (Concluded)

The table below summarizes the findings:

Table 1. Belgium: Comparison Between Banks and Insurers

Elements	Banks	Insurers
Average maturity at origination	19 years (2020) 19 years (2021)	22 years (2020) 21 years (2021)
Average Loan to Value at origination.	73% (2020) 71% (2021)	78% (2020) 74% (2021)
Average Debt Servicing to Income Ratio at origination	40% (2020) 40% (2021)	36% (2020) 35% (2021)
Interest rate type	Majority fixed (just over 70%)	Majority fixed (just under 60%)
Regulatory capital as % of outstanding mortgage loan[1]	1.85%	3.56% before diversification 1.59% after diversification
Regulatory capital as % of outstanding mortgage loan[2]	1.28%	2.26% before diversification 1.11% after diversification

1/ An example of a bank and an insurance company.

2/ Example of another bank and an insurance company.

The NBB has introduced additional reporting and macroprudential requirements on insurers who invest in mortgage loans. Following from the 2018 FSAP recommendations the NBB has introduced additional reporting requirements. As from January 1, 2020, new supervisory expectations applying to both Belgian banks and insurance companies that grant mortgage loans were introduced. These requirements apply on a comply or explain basis. See below for details.

Table 2. Belgium: Macroprudential Requirements on Mortgage Loans

Limits[1]	Type of loan	Threshold	Tolerance margin (production allowed above threshold
Loan to value limits (LTV)	Buy-to let loan	80%	10% (with 0% >90%)
	Owner occupied loan	90%	First time buyers: 35% (of which max: 5% > 100%)
			Other 20% (with 0% > 100%)
Limits for pockets of risk	All loans	LTV > 90% and Debt Service to Income > 50%	5%
	All loans	LTV > 90% and Debt to income ratio >9	5%

1/ Limits apply to the yearly new production, excluding renegotiations without new drawing credit. Renegotiations with new drawing of credit have to be included.

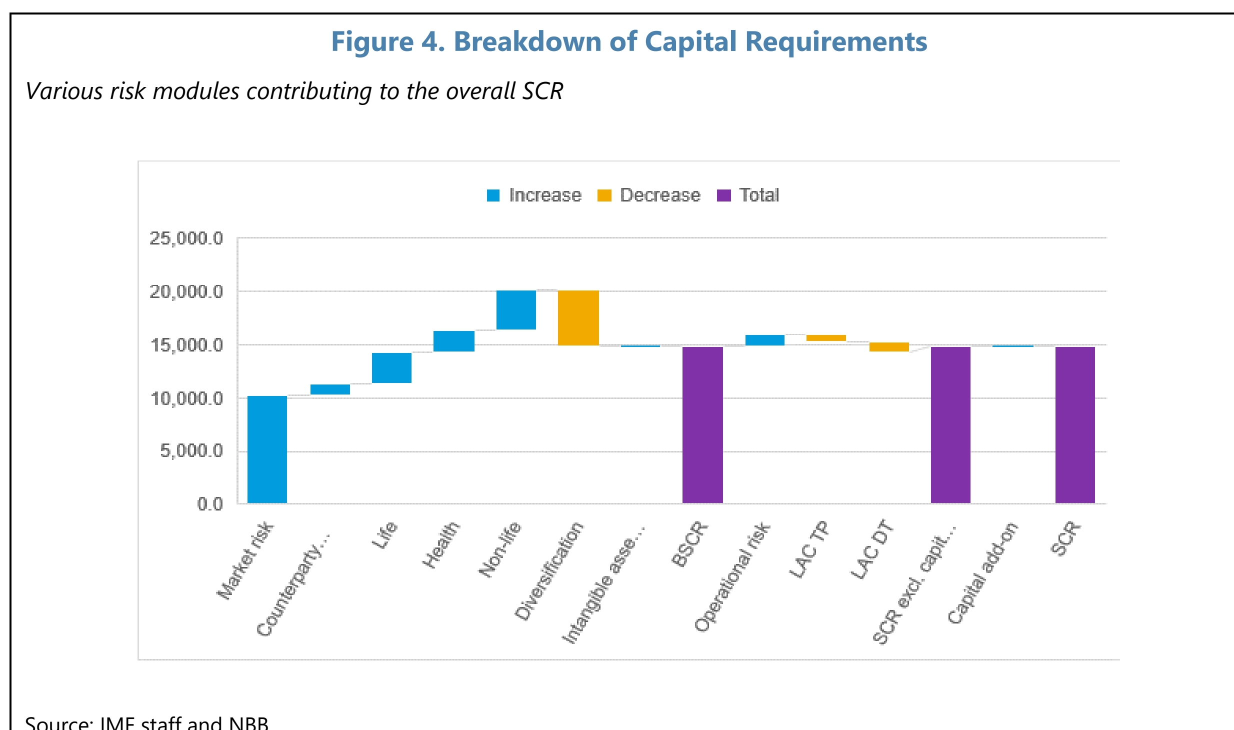
59. The use of derivatives is concentrated among a very limited number of insurers but with high exposures. Insurers mainly invest in interest rate derivatives (44 percent), such as swaps. Their use has continuously increased. Interest rate swaps are mainly used to protect against a decrease in interest rates. 80 percent of outstanding derivatives are traded over the counter (OTC) and around 70 percent of these derivatives are concentrated with 5 counterparties.

Capital Adequacy

60. The capital requirements of Belgium insurers are calculated in line with Solvency II. The largest component of the capital requirements is market risk.

Figure 4. Breakdown of Capital Requirements

Various risk modules contributing to the overall SCR



Source: IMF staff and NBB

61. As at the end of 2021 seven solo insurance undertakings and two insurance groups make use of an approved internal model for calculating their Solvency Capital Requirements. Four of the solo undertakings make use of a full internal model. The other three solo undertakings and two insurance groups make use of partial internal models. This mainly applies to Non-Life and Health underwriting risks. Seven insurers use undertaking specific parameters (USPs) to calculate their SCR: these parameters are used to determine capital charges for non-life underwriting risk. Currently, only the premium risk and reserve risk sub-modules of the standard formula are affected by the use of USP.

62. The quality of capital has improved since the 2018 FSAP. The 2018 FSAP recommended that the NBB engage with the insurance industry to gradually improve the quality of capital. *This recommendation has been addressed.* Only one insurer is still applying the transitional measures for

technical provisions as provided for in Solvency II. The loss absorbency capacity of technical provisions makes up 12 percent of the gross Basic Capital Solvency Requirement. This is a feature of Solvency II.

Enterprise Risk Management

63. The enterprise risk management (ERM) activities of insurers and groups, including ORSAs, are subject to extensive regulation and guidance. The regulation and guidance cover matters like a sound, modern and extensive risk management system, including a Risk Appetite Framework, ORSA, including scenario analysis and stress testing and specifications on liquidity risk.

64. The NBB has issued guidance about the expected content of the ORSA. *This addresses the 2018 FSAP recommendation.* The 2018 FSAP recommended that the NBB challenge the stress tests in the ORSA. The NBB has included in its guidance best practises in Stress Testing. This applies to both solo insurers and insurance groups. It is expected that companies assess sustainability risks (if they are material for them) in the ORSA with very long-term stress tests (up to the year 2100).

65. The NBB is also updating its Governance Circular to address remaining shortcomings. The updates to the Governance Circular will address the remaining gaps relating to changes in ICP 16 on Enterprise-wide risk management that were introduced with the ICPs adopted in November 2019. The changes included additional requirements placed on IAIGs in the ComFrame standards.

66. The NBB has issued a new circular on liquidity risk management. *This addresses the 2018 FSAP recommendation.* The 2018 FSAP recommended that the NBB address liquidity risk. All insurers should have a liquidity risk management policy and should develop and implement an effective system for the governance and management of liquidity risk. It also requires insurers to establish a regular report on liquidity risk management. The circular further requires insurers to implement liquidity stress tests and liquidity scenarios to identify potential sources of stress. This aligns with international best practices and would enhance the level of supervision of liquidity risk. The full application of this circular will be in 2023.

67. As to recovery planning there is still a limited set of circumstances under which the NBB can officially require recovery plans from insurers. The NBB is working on a legislative proposal to integrate the requirement to set-up pre-emptive recovery plans (during normal circumstances) for all insurers which are considered systemically relevant at local level.

Recommendations

68. The NBB should provide guidance to the insurers as to the prudent valuation of mortgage loans to enhance consistency in the insurance sector.

69. The NBB should also include in the update of the Governance Circular the following requirements as set out in the ICPs:

- the independent review of the group wide ERM framework at least once every three years.

- ERM framework to include an explicit asset-liability management (ALM) policy which specifies the nature, role, and extent of ALM activities and their relationship with product development, pricing functions.

D. Supervision[17]

70. The NBB's restructuring of its supervision team was also complemented by further development of its financial analysis toolkit in 2018. The NBB's approach to supervision is a risk-based approach. Core supervisory processes are off-site analysis based on extensive reporting and on-site inspection work driven by a risk classification system. The NBB has adequate documentation to guide the application of its framework. The processes and documentation are regularly reviewed and revised where necessary to reflect changes, such as in legislation or internal organization.

71. The risk-based approach followed is based on an internal classification of insurers using three dimensions. The first dimension relates to the systemic importance of the insurer; this is supplemented by the second dimension, which is the insurer's risk rating (insurance scorecard); and lastly the third dimension is a judgment-based assessment as to whether the insurer requires increased or more intrusive supervision. The final classification is the basis for determining supervisory priorities. The NBB also makes use of cross-sector or thematic reviews to complement its risk-based approach.

72. A baseline for supervisory actions is developed based on the classification of an insurer. For each classification, i.e., significant, close watch, specific watch and other, a timeline has been assigned to the various supervisory actions. The supervisory actions include analyses of regulatory reporting, engagements with senior management and control functions of the insurer, engagement with the external auditor, on-site inspections and specific or event driven requests.

73. Off-site supervision involves several activities that can be used as an early warning tool to identify potential financial distress in an individual insurance company. The first activity is the analysis and follow-up of the regular regulatory reporting. The NBB also, on an annual basis, performs stress tests. The first set of stress tests are aligned to any EIOPA stress tests the NBB is required to participate in. The NBB has also developed its own low yield scenario stress test. The results of this provide an input to the process to grant the exemption from the obligation to build up the "flashing light" provision under BGAAP. In addition, an annual combined risk analysis is also performed covering risks like sovereign, liquidity, and interest rate risks. This annual combined risk analysis is based on information gathered using specific reporting tools introduced by the NBB. The NBB also makes use of ad-hoc thematic reviews where needed.

74. On-site inspections are also focused on the riskier insurers as well as insurers of systemic relevance. Additionally, results of previous on-site inspections are also considered. The NBB is planning on introducing a formal cycle for on-site inspection to ensure all insurers are covered. From 2018 to 2022, 45 insurers have undergone an on-site visit. On average the time

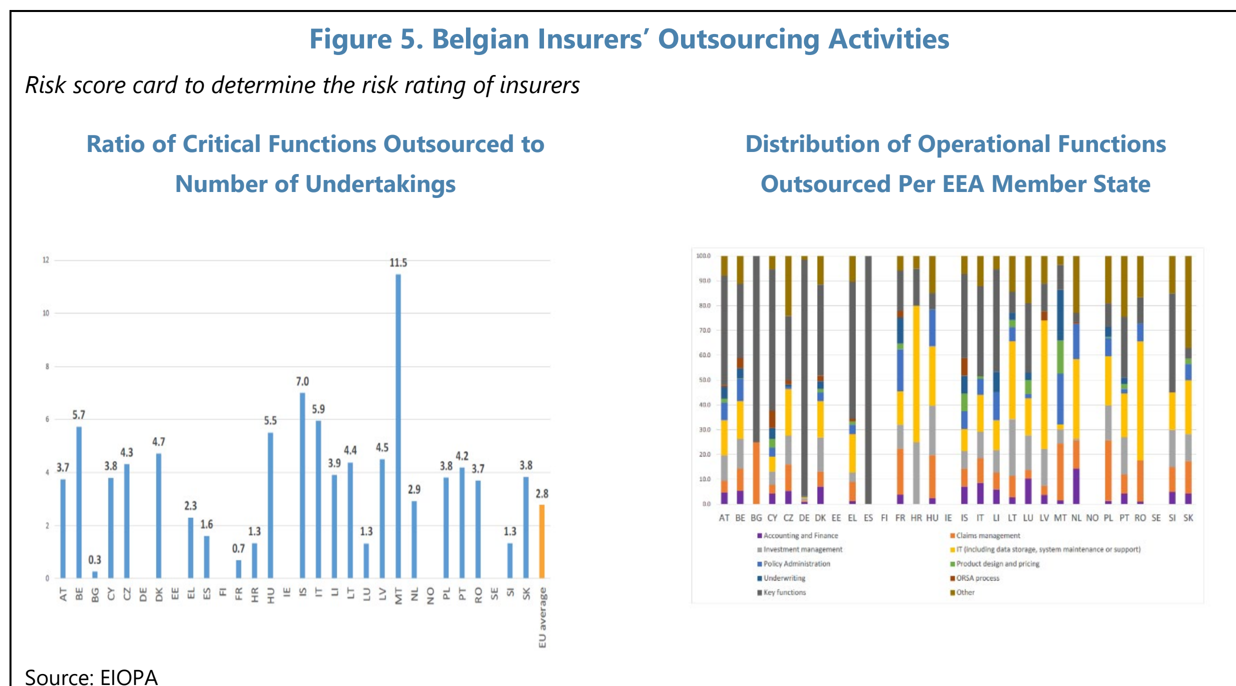
[17] The analysis in subsection D has been made with reference to ICPs 9 Supervisory Review and Reporting and 24 Macroprudential Supervision. The focus is only prudential.

between on-site inspections conducted and the final report back to the insurer seems to be long. A documented insurance inspection manual is in place which describes each step in the process. The NBB has also issued a Circular on On-site Inspections to communicate its expectation to the industry. This Circular is in the process of being updated.

75. The NBB performed an analysis across the insurance sector on outsourced activities. A high number of outsourced activities are present. Insurers in Belgium outsource more critical functions than the average for EU insurers. The largest outsourcing is done for information technology and document storage, followed by the outsourcing of independent control functions. It was also found that 70 percent of Belgian insurers outsource at least one critical function intragroup. Of the total 617 outsourced functions 37 percent related to intragroup outsourcing. The NBB performs both off-site and on-site supervisory reviews to monitor outsourced activities. The NBB also clarified its expectations through its circular on governance.

Figure 5. Belgian Insurers' Outsourcing Activities

Risk score card to determine the risk rating of insurers



Source: EIOPA

76. The NBB is the macroprudential authority in Belgium. The NBB's Board also acts as the Macroprudential Board. The insurance sector is strongly embedded in the NBB's macroprudential supervision. The NBB integrates its micro- and macroprudential supervision of the insurance sector into a wider cross-sectoral analysis. A semi-annual macroprudential risk assessment is conducted. This risk assessment is based on inputs from various teams within the NBB. The micro- and macroprudential analysis framework covers a comprehensive set of quantitative and qualitative analyses and stress testing exercises, allowing the NBB to monitor and manage both inward and outward (systemic) risks, activities, and exposures. The outcome leads to a risk synthesis and risk dashboard.

77. The NBB collects a wide range of information from insurers. Data collected includes the regulatory reporting under the Solvency II framework and additional data collected by the NBB. The NBB has introduced additional regular reporting by insurers on liquidity risk, interest rate risks and mortgage loans. The NBB also collects data on an ad-hoc basis when required. Over the years, NBB has developed a cross-sectoral macroprudential analysis framework. The insurance sector is integrated in the cross-sectoral semi-annual and annual risk reviews that sets the priorities for micro- and macroprudential supervision.

78. NBB has an established process for identifying systemically important insurers and insurance groups. However legal requirements linked to this process are still being implemented. The NBB has set up an informal internal process to identify systemically important insurers and insurance groups. The NBB is refining its methodology and implementing related legal requirements. This is work in progress.

79. The NBB publishes relevant data and statistics on the insurance sector. The NBB not only publishes relevant data and statistics on its website, but Solvency II data is also published on EIOPA's website. The NBB further publishes the aggregated results of the annual stress test exercises. Further data and statistics on the insurance sector are also published in the Financial Stability Report and the Annual Report of the NBB.

Recommendations

80. The NBB should finalize and issue the updated Onsite Inspection Circular. This updated Circular will ensure that it is relevant and that insurers have clarity on the NBB's expectations towards them at the time when the NBB carries out an on-site inspection. The main changes to this Circular will be to update the legal basis, the basis (in-person vs virtual) through which onsite inspections will be conducted, redefine the scope, restructuring of circular and removing certain outdated elements. This will update the circular that was issued in 2013.

81. NBB's risk assessment framework should consider conduct risk that can translate into prudential risk. The risk assessment on conduct of business for insurers is done by the FSMA (refer to paragraph 4 above). Conduct risk can in the long run translate into prudential risk. It is therefore important that the NBB and FSMA find a way of incorporating the conduct risk assessment into its risk assessment.

82. The NBB should find ways to improve the turnaround time from on-site inspections to insurers. The process and allocation of resources does sometimes lead to several on-site inspections or tasks linked to on-site inspections being conducted in parallel. The on-site inspectors are also responsible for the start-to-end process of an on-site inspection. It however remains important that the final report feedback to the insurer following an on-site inspection is done without any undue delays after a draft report was issued. It is important to have the final version of the report to facilitate corrective action in the case of high-risk entities and where the recommendations could result in material changes to the financial position of an insurer or its governance structures.

83. For Macroprudential supervision, the NBB should continue with its detailed analyses of the quality of the mortgage loans on the banking book vs mortgage loans on the insurance balance sheets. The NBB should also continue its exercise to determine the extent to which valuation basis and the capital requirements for mortgage loans on insurers' balance sheet differ from that of mortgage loans on the banking books, and the scope for regulatory arbitrage.

E. Changes of Control and Portfolio Transfer and Reinsurance[18]

84. The legislation empowers the NBB to be notified of changes in control (as defined) and portfolio transfers and to prevent transactions that could place policyholders at risk. In respect of changes in control the thresholds which must be passed for the supervisory authority to be notified include qualifying holding (10 percent), significant influence over the management, thresholds of 20, 30 or 50 percent or undertaking becoming/no longer being a subsidiary. If the NBB is not satisfied as to the qualifications of the shareholders, it may take appropriate measures to put an end to that situation or oppose the acquisition of participating interests. Any portfolio transfer must be authorized by the NBB. The NBB assesses the operation considering the ability of the transferor and the transferee to comply with the prudential framework, to maintain a sound and prudent management of the undertakings and not to endanger the stability of the financial system. The NBB must also inform the FSMA about the request for a transfer for the FSMA to verify the information to be communicated to the policyholders about the transfer as well as its decision.

85. In some situations, NBB can order the transfer of a portfolio to another insurance undertaking. It is envisaged that this power will only be used in limited situations and where an insurer is under distress. Not only can the NBB impose a transfer of business, but it can also change benefit structures, including guarantee rates, when a transfer is imposed.

86. The legislation and regulation in Belgium provide the necessary framework to manage the risks related to and resulting from reinsurance. This requires the insurers to implement an adequate system of internal controls, as part of the system of governance, and the actuarial function should form an opinion on the appropriateness of the reinsurance structure and the risks resulting from it. A stress test requirement is included in the ORSA. Furthermore, the Insurance Supervisory Law[19] allows the NBB to ask for collateral for third-country reinsurance and allows the disregarding of the impact of reinsurance for SCR purposes if the reinsurer has a low credit quality. Furthermore, a circular is being drafted to include explicit recommendations to manage these risks in the case of run-off and in case of complex or material risk-mitigating techniques.

87. The NBB has observed that insurers make less use of traditional reinsurance and more use of non-traditional structures. Reinsurance is not or not solely used as a risk-mitigating technique, but also for capital management purposes. For both life and non-life insurance, new proportional reinsurance structures (e.g., asset intensive reinsurance and loss portfolio transfers)

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[18] The analysis in subsection E has been made with reference to ICPs 6 Changes in Control and Portfolio Transfers and 13 Reinsurance.

[19] The Law of 13th March 2016.

result in a strong decrease of the capital requirements and the creation of a material reinsurance recoverable to support own funds. New reinsurance structures aimed at SCR relief without necessarily reducing the underlying risk, by targeting specifically the scenarios underlying the Standard Formula (so-called SCR hedging), have also been noted. The NBB therefore complemented the ORSA circular based on EIOPA's opinion to ask undertakings to analyze more deeply the balance between the SCR relief and the risk reduction and perform scenario analyses on concentration, counterparty, basis, and liquidity risks.

88. Recently, it was also observed that Private Equity players are more active in the European life insurance market. Due to decreasing profitability of legacy portfolios under the low-yield environment which persisted until 2022, traditional insurance companies transferred their life portfolios with high guaranteed rates to other, sometimes Private Equity-owned insurers. These often used more aggressive techniques to optimize the solvency position such as the use of material proportional reinsurance. This allows Private Equity-owned players to transfer any released capital to other entities within the group located in third countries. Due to the much lower capital requirements in these third countries, reinsurance is therefore mostly used as a tool for regulatory arbitrage. The number of cases related to capital management and to private equity players remains limited in the Belgian market. Although regulatory arbitrage is observed, the NBB is managing the risk through its powers to authorize portfolio transfers and adding conditions to its approvals for heavily reinsurance run-off portfolios. The NBB has also observed changes in the capital requirements of some third countries that can further impact the risk of regulatory arbitrage.

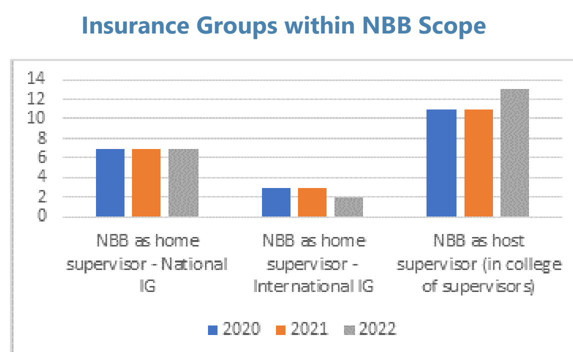
89. The NBB has finalized a circular to clarify its expectations on run-off portfolios and risk mitigation. This circular is based on EIOPA's supervisory statement. The circular aims to reinforce regulation and put forward best practices to manage the credit and liquidity risks and to assure that sufficient funds remain in Belgium to pay out the insurance obligations (e.g., by use of collateral or Fund Withheld mechanisms for reinsurance).

F. Group Supervision and Supervisory Co-operation and Co-ordination[20]

90. The NBB discusses and agrees with the involved supervisors which of them is the group-wide supervisor for cross-border insurance groups operating in Belgium. The NBB is the group-wide supervisor for one Internationally Active Insurance Group (IAIG), the Ageas SA/NV group. The decision to designate Ageas SA/NV as an IAIG was notified to the group, including confirmation that the group fulfilled the criteria and highlighting the consequences, in particular, the contribution to IAIS work like the Global Monitoring Exercise and the ICS monitoring period. The IAIG designation is assessed on an annual basis. The NBB participates in the supervisory colleges of several IAIGs, including Axa, Allianz, Munich Re, Baloise Group, NN Group and QBE Group as a host authority.

[20] The analysis in subsection F has been made with reference to ICPs 23 Group supervision and ICP 25 Supervisory Co-operation and Co-ordination.

Figure 6. NBB's Role as Home and Host Supervisor



Source: NBB

91. The NBB has established a supervisory college for its IAIG which meets at least annually. The membership of the supervisory college excludes host supervisors of entities where the group only has a participating stake. Information within the supervisory college is exchanged regularly. The results of the ICS are also presented and discussed at supervisory college. The NBB has started to set-up a crisis management group (CMG)[21] in phases. A co-operation agreement has been drafted and is signed by the CMG members. The co-operation agreement describes the objectives of the CMG, the role and mandate of the participants as well as the process for co-ordination and co-operation including information sharing. The first CMG meeting was held late in 2022. The implementation of the IRRD transposed into Belgian law would facilitate work on the recovery and resolution planning of the IAIG.

92. As a group-wide supervisor, the NBB works with the college of supervisors to build understanding of the group and lead its supervision. The operations of colleges are supported by individual college coordination arrangements, which generally provide for a free flow of information among members. The NBB undertakes a comprehensive mapping exercise, in co-operation with the group and the other involved supervisors, to identify the group structure and assess the operations. Where relevant, cross-sectoral considerations are also reflected. Other involved supervisors are consulted on the agendas for colleges, and the agreed follow up actions are documented in the minutes. The NBB provides an overall assessment of the risk and solvency of the group, based on the group ORSA and information generated at the solo level. To date, no joint on-site visits with involved supervisors where the NBB is the group-wide supervisor have been conducted.

93. Where another involved supervisor is the group supervisor, the NBB supervises solo insurers operating in Belgium. NBB participates in several supervisory colleges as a host supervisor. The NBB needs to comply with strict professional secrecy with a limited number of

[21] CMG is formed within a supervisory college which can consist of all the involved supervisors or only a selected number of involved supervisors to prepare and facilitate the recovery and or resolution of an IAIG.

exceptions. Exchange of information with foreign supervisors is only allowed if those authorities have an equivalent professional secrecy provision in place. The one challenge the NBB is facing as an involved supervisor is with regards to the development of pre-emptive resolution plans given that the NBB is not yet a resolution authority for insurance. This would be remedied with the implementation of the IRRD.

94. Following Brexit, Lloyd's of London (Lloyd's) established and licensed Lloyd's Insurance Company (LIC), a wholly owned subsidiary in Belgium. LIC operates on a 100 percent reinsurance model. LIC is highly dependent on Lloyd's as shareholder, reinsurer, and main service provider. Currently there is not a platform for supervisory co-operation for Lloyd's.

Recommendations

95. The NBB should make an effort to contact third country supervisors to assess the basis for sharing and collecting information. This is relevant to Belgian's one IAIG where entities within the group are participations and not consolidated under Solvency II but are included in the ICS calculation. The NBB could focus on those foreign entities that could be of systemic relevance in that foreign jurisdiction.

96. The NBB should conduct joint on-site visits with involved supervisors where the NBB is the group-wide supervisor. To enhance its group supervision and better understand any risks to which the group is exposed, it is important the NBB takes the necessary initiatives to try and conduct joint on-site visits with involved supervisors.

97. The NBB should continue to engage with EIOPA and the Prudential Regulatory Authority to set up a platform for supervisory co-operation for Lloyd's. Lloyd's is not designated as an insurance group. LIC in Belgium covers all the business underwritten in the EU. Lloyd's itself operates across the globe. It is therefore important to co-operate and co-ordinate with other involved supervisors through a structured approach.

G. Conduct of Business[22]

98. The regulatory framework for the conduct of business supervision in Belgium is aligned with EU regulations. This is further supported and enhanced by the various circulars, communication, guidance, and feedback statements published by the FSMA. The FSMA also publishes various documentation issued by EIOPA, which are of relevance, on its website. The publication of the various documents supports the FSMA supervision and enhances conduct supervision in Belgium over and above what is required at EU level.

99. The registration of all intermediaries operating in Belgium is mandatory. Insurers in Belgium are only allowed to deal with FSMA-registered intermediaries. As to the relationship between the insurer and the intermediary, the requirements specify that conflicts of interests must

[22] The analysis in subsection G has been made with reference to ICPs 9 Supervisory review and reporting and 19 Conduct of business.

be avoided and place some limitations on the way intermediaries are remunerated. Among other initiatives, the FSMA has developed an Insurance Distribution Directive (IDD) Manual, summarizing all mandatory measures to be taken by insurers and insurance intermediaries in application of IDD.

100. Insurers and intermediaries are required to establish and implement policies and procedures on the fair treatment of customers. It is a legal requirement that insurance distributors shall always act honestly, fairly, professionally, and in the best interest of their customers. The FSMA requires policies and procedures supporting compliance with each kind of rules of conduct. Work programs clarify the FSMA's expectations with respect to these policies and procedures. The IDD Manual also clarifies the FSMA's expectations with respect to these policies and procedures. The FSMA has conducted various supervisory actions to assess compliance with the policies and procedures focusing on duty of care, conflicts of interests and product governance requirements.

101. There are comprehensive requirements regarding the promotion of products and disclosure to customers. The requirements for advertisements includes that they should be understandable, accurately identify the product provider, and be clear on what is offered and what is excluded. Insurers are also required to draw-up a Key Information Document (KID) for each insurance-based investment product. These KIDs contain information necessary for policyholders to make an informed decision and compare products. The FSMA through its supervisory activities regularly monitors compliance with these requirements.

102. The legal framework in Belgium requires insurers to have internal policies and procedures in place for the treatment of complaints. Where customers are not satisfied with how the insurer has treated their complaints, they can inform the FSMA and or request the Belgian Ombudsman to intervene. The Ombudsman provides the FSMA with quarterly data on the number of complaints received, the types of products involved, the subject of the complaint, the entity involved and the outcome.

103. Insurers are also subject to the European General Data Protection Regulation (GDPR) which aimed to make sure that the firms collecting customers' data treat the data honestly, fairly and professionally. A new legislative requirement was introduced in the Law of 4 April 2014. This legislation prescribed that no differentiation may be made in terms of acceptance, pricing and/or scope of coverage based on a condition that the insured agrees that his or her personal data can be requested by the insurer through a connected object that collects personal data on his/her lifestyle or health.

104. The FSMA follows a risk-based approach to its supervision. The FSMA has a formal risk rating model in place for assigning risk ratings to insurers. This risk rating model includes elements such as number of complaints, corrective or remedial actions taken, portfolio transfers, mergers and acquisitions, changes in licensing conditions, growth in premiums and combined ratios. Various sources of information are used to perform a risk assessment of an insurer. This includes information shared by the NBB including Solvency II information, web-scraping, on-site inspections, reports from

the Ombudsman to name a few. The FSMA has introduced an annual reporting for insurers applicable from 2023.

105. The FSMA co-operates and co-ordinates with various other regulators both nationally and internationally. At national level, the FSMA collaborates with the NBB, the Federal Public Service Economy (FPS Economy) (about market practices) and the Office de contrôle des mutualités (Authority responsible for the supervision of mutual societies and their intermediaries). At international level, the FSMA collaborates with other National Competent Authorities (NCAs) (supervisory activities have an international dimension) and is also a signatory to the IAIS MMOU.

Recommendations

106. The FSMA should seek ways to continue to improve its turn-around time to report findings and orders resulting from on-site inspections. The FSMA has over the last year done a lot to improve its turnaround times from on-site inspections. The FSMA should continue to do so. This is particularly important where conduct of insurers can be to the detriment of policyholders and because there is no policyholder compensation in place where an insurer or intermediary acted in non-compliance with the rules.

107. EIOPA should consider legislative changes to enable pre-emptive conduct supervision. The EU level legislation prevents the FSMA from applying a pre-emptive approach to supervision. Pre-emptive supervision could assist the FSMA in identifying harmful practices before any consumer has had any financial losses.

108. Publish an aggregate report of selective information following the analyses of the annual submission of the conduct of business survey. This would contribute to transparency. It would also assist the insurers to have a form of benchmarking. It could also assist the Boards of insurance companies to identify areas for improvements.

109. Develop complaints reporting for insurers. The FSMA should continue to influence the Belgian Government to empower them to introduce policyholder complaints reporting by insurers. This will assist the FSMA to have a detailed and holistic view on the complaints of policyholders.

Annex I. Progress on 2018 FSAP Recommendations

Table 1. Belgium: Recommendations on Insurance Regulation and Supervision				
Recommendations and Responsible Authorities	**Timing**	**Priority**	**Authorities' explanation**	**Status**
1. Engage with the insurance industry to gradually improve the quality of capital. (NBB)	ST	M	6 insurers left with subordinated debt that is grandfathered in under Solvency II (most less than 10% of Eligible Own Funds (EOF) 1 (26% of EOF) Quality of (84% Tier 1) Average SCR > 200% EPIFP Quality of Own Funds is monitored	**Implemented.** At the time of the FSAP there was no insurers left that applied the grandfathering provisions for subordinated debt, There was only 1 insurer left that applied the grandfathering provisions for technical provisions. The insurer met the Solvency II requirements with and without the subordinated debt transition
2. Seek to impose appropriate measures to address increasing liquidity risk of the sector, with due consideration of policyholders' protection and benefits. (NBB)	ST	H	Belgium law allows NBB to temporary forbid lapses Published a circular in 2022 on "liquidity risk management." First reporting due April 2023	**Implemented.** The response by the NBB was evidenced during the FSAP.
3. Consider imposing more detailed reporting requirements on insurers with large exposures to mortgage loans. (NBB)	ST	M	Specific reporting introduced in 2018 (annual submission) Analyses done on micro and macro level Alignment with bank requirements on credit standards (comply or explain)	**Implemented.** The response by the NBB was evidenced during the FSAP.

Table 1. Belgium: Recommendations on Insurance Regulation and Supervision (Concluded)					
4.	Continue analyzing the business growth of reinsurance operations and enhance supervisory resources as needed. (NBB)	C	H	Increase staff complement (8) Communicated expectations to industry (ORSA & Governance circular) Assessment by NBB	**Implemented.** Staff complement has increased. The insurance supervision team was restructured. NBB issued various circulars to the insurance industry.
5.	Strive to retain staff with high expertise in the implementation of Solvency II. (NBB)	C	H	Communicated to HR	**Implemented.** This was communicated to the Human Resource Department. The NBB has been successful in attracting and retaining skilled staff.
Timing: C= Continuous; I = Immediate (within one year); NT = Near Term (1-3 years); MT = Medium Term (3-5 years). Priority: H = High; M = Medium; L = Low.					