

Actuarial Association of Europe Solvency II Project – Monthly Report for Insurance Committee

10 May 2016

EIOPA Stress Test 2016

Siegbert Baldauf participated in the EIOPA workshop on the Stress Test 2016, held in Frankfurt, 13 April 2016. EIOPA had published the Technical Specifications for this exercise. Written comments on these have been sent to EIOPA at 21 April 2016. The short time to prepare the expected results is a real challenge for participants. Only 6 weeks are foreseen for the calculation. Only life insurance companies are in the scope of this stress test. NSAs should make sure that a market coverage of at least 75% (relating to technical provisions) is achieved.

According to EIOPA the basis for the required reporting is the Day-1 reporting of the undertakings. But they ask for additional information that might not be easily available (e.g. cash flow – data for 60 years). The required breakdown of assets and liabilities might cause additional work for companies. Relevant decisions concerning the chosen scenarios could not be discussed. This decision had been taken earlier by EIOPA and ESRB.

The stress test will be launched 31 May 2016. Undertakings should only act as solo entities. Group issues remain basically out of scope. Internal models can be used if applicable. The stress test report will be published in December.

EIOPA will perform additional top-down analysis using the information provided by undertakings. We raised our concerns over this issue already contained in the AAE – paper on the limitations of such an exercise. Communication of results will be crucial. If EIOPA want to publish results they should bear in mind the restrictions resulting from the limited significance of this exercise.

IBER: Insurance Block exemption regulation

The exemption for insurance business will end in 2017. Siegbert has attended a meeting with Commission on 26 April in Brussels. According to the Commission this exemption is no longer needed. The Horizontal Guidelines work indistinctly for all kinds of business. After a lapse of the IBER in 2017 the demands of the insurance industry can be covered based on the Horizontal Guidelines. This might prove to be not true if an assessment of such activities will become subject to national regulations in the future with perhaps different outcome. Solvency II is a regulation that aims cross-national for a harmonized treatment and makes Insurance undertakings

distinct from other business. Risks resulting from this should be assessed and quantified. Though the consultation has been finished, Commission will consider additional comments until the beginning of 2017. This issue should be discussed in September meeting.

Ultimate Forward Rate

The consultation paper on the methodology to derive an UFR has been published 20 April 2016. Deadline for comments is 18 July 2016. A basis for the discussion during the call was the following proposal of EIOPA.

The core principles for the identification of an UFR proposed by EIOPA are the following (3.6):

$$UFR = \text{expected real rate} + \text{expected inflation rates}$$

- *The expected real rate:*

- *is a single real interest rate for all currencies*
- *is based on a widening window average of historical data obtained using the public AMECO and OECD databases,*
- *includes time-dependent weights following a geometric series with a control parameter of 0.99,*
- *excludes the term premium by using short-term interest rates.*

- *The expected inflation rates:*

- *are based on central banks' inflation targets,*
- *are allocated to four buckets of 1%, 2%, 3% or 4%.*
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Annual changes of the UFR cannot exceed 20 basis points and annual changes of the real rate component are discarded when the updated value does not differ from the previous one by more than 5 basis points.

Besides the effect that a long term rate might change yearly the impact on ORSA and the on mean reversion level of ESG has been discussed. The impact on the financial position of such a change has to be considered. It would be helpful to check the data contained in the consultation paper.

Siegbert reminded the project team that the comments of the working groups should be ready by 26 June. This early date is necessary to compile / merge the comments of the working groups. AAE should have the opportunity to discuss the result and agree on a final version.

It was considered helpful to have first feedback on particular points even earlier to enable a discussion.

Infrastructure Corporates

The Consultation paper has been published in April. Deadline for comments is 16 May. AAE is interested in commenting on this consultation. Christoph Krischanitz and Florin Gingham are expected to prepare comments.

Working Groups

Clemens Frey and Declan Lavelle had a first conference call with the Nonlife working group with good participation. They discussed several issues that are expected to be under review by the regulator (e.g. Calibration of Standard Formula). Questions with regard to validation of data, undertaking specific parameters and the supervisory activities in the particular countries have also been identified as subject for a more detailed analysis. A survey shall help to gain an overview over these issues.

Lauri Saraste had two conference calls with the cross-sectoral working group with a good participation. They have also discussed how actuaries could be supported in their daily business by AAE.

Siegbert Baldauf will contact separately Dylan Brooks and Collin Murray, who had not been able to participate in this call.