



AAE

ACTUARIAL
ASSOCIATION
OF EUROPE

Top 10.1: Solvency II

**Insurance Committee
Edinburgh**

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Completion of the SII framework: open issues

S II Directive & IRRD:

- Publication in the Official Journal of the EU on 8 January 2025
- Entering into force on 28 January 2025
- Transposition to national law by 29 January 2027
- Applicable from 30 January 2027

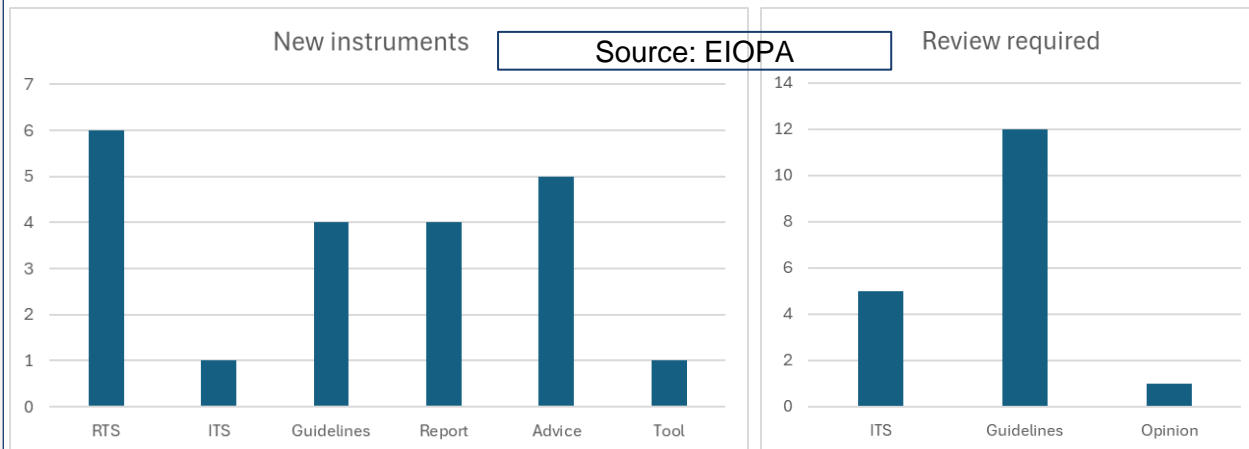
Commission: Amendment of L2: Consultation papers expected end of Q2

EIOPA: Drafting of new Guidelines, Technical Standards (RTS, ITS) and Reports

Review of existing instruments to ensure consistency with the new Directive

EIOPA's assessment:

- 21 new instruments required (RTS, ITS, Guidelines, Reports, ..)
- 18 need to be adapted



Directive Article 77f: Completion of the required review

LTG-measures and measures on equity risk introduced in 2014 (Omnibus II-Directive)	
Equity risk	Valuation of liabilities
Art. 106 Symmetric adjustment to equity capital charge (SA)	Art. 77a Extrapolation of the risk-free interest rate
Art. 304 Duration-based equity risk sub-module (DBER)	Art. 77b, 77c Matching adjustment (MA)
	Art. 77d Volatility adjustment (VA)
In exceptional adverse situations	
Art. 138(4) Extension of the recovery period	
Transitional measures (Phasing-in)	
Art. 308c	Transitional measure on the risk-free interest rates (TRFR)
Art. 308d	Transitional measure on technical provisions (TTP)



Empowerment regarding extrapolation

Source article 86

Delegated acts requested to lay down the methodologies, principles and techniques for the determination of the relevant RFR, in particular

- i. the formula for the extrapolation, including parameters determining the convergence speed

Already specified: Extrapolated forward rates shall be equal to a weighted average of liquid forward rate and the UFR. For maturities of at least 40 years past the FSP **the weight of the UFR shall be at least 77.5%.**

EIOPA's proposed formula $f_{FSP, FSP+h} = \ln(1+UFR) * (1 - B(a,h)) + LLFR * B(a,h)$

Weight of the UFR = $(1-B(a,h))$, with $B(a,h) = (1-e^{-ah})/ah$, h = duration post FSP

Weight of **77.5%** → **minimum of alpha = 10.975%**

- ii. the method for the determination of the depth, liquidity and transparency of bond markets
- iii. the **percentages** below which the share of bonds with maturities longer than or equal to a given maturity among all bonds shall be regarded as low (Residual volume: Currently 6%)
Recital 43: FSP for the euro at the date of entry into force shall be 20 years.
- iv. the phasing-in mechanism introduced in Article 77a(2) (starting 30 January 2027)



Empowerment regarding volatility adjustment

Proposed change: $VA = 85\% \cdot CSSR \cdot RCS$

- Risk-correction RCS de-coupled from fundamental spread, current spread shall be considered
- Undertaking-specific credit spread sensitivity ratio (CSSR) with $0 \leq CSSR \leq 1$.

Methods and assumptions for the calculation shall be laid down in delegated acts including:

- a formula for the calculation of the **spread** (weighted sum of the average spread on government bonds (S_{gov}) and on other bonds (S_{corp}) in reference portfolio).
- a formula for the calculation of the **CSSR**
- Calculation of the risk correction as percentage of spreads. This percentage shall decrease as spreads increase and shall at least differentiate the following three cases:
 - spreads \leq their LTAS;
 - their LTAS $<$ spreads \leq twice their LTAS;
 - twice their LTAS $<$ spreads

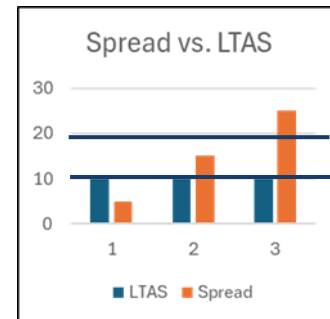
Amendment
of macro-VA?

RCS **shall never exceed an appropriate percentage of LTAS**

EIOPA's proposal can be taken as a starting point:

$$RC_{gov} = 30\% \cdot \min(S^+, LTAS^+) + 20\% \cdot \max(S^+ - LTAS^+, 0)$$

$$RC_{corp} = 50\% \cdot \min(S^+, LTAS^+) + 40\% \cdot \max(S^+ - LTAS^+, 0)$$





Interest rate risk sub-module

Current regulation:

- no stress on negative interest rates.
- Stress parameters applied to the extrapolated RFR

Open issue: Parameters for risk of increase not sufficient in 2022!
Review of EIOPA's proposal needed?

Requirements resulting from Article 111 of the Directive:

- Determination of an appropriate stress even for low or negative interest rates
Commission considered to build on EIOPA's advice. EIOPA proposed the shift-approach developed for SCR –Review: a proportional Stress + additive component, **linearly decreasing after FSP to 0 after 60 years.**
- Specified in the Directive: the calculation of stressed RFR shall be consistent with the extrapolation of interest rates (!) → first stress – then extrapolate!
- Determination of a negative floor: likelihood of interest rates falling below this floor is sufficiently small.

Adjustments concerning risk of decrease **may be phased in over a transitional period of up to five years.** Such phasing-in shall be mandatory and apply to all undertakings.

Risk margin: exponential and time-dependent element

Possible modification (EIOPA's proposal)

$$RM = CoC \cdot \sum_{t \geq 0} \frac{SCR(t)}{(1+r(t+1))^{t+1}} \times \max(\lambda^t, \text{floor})$$

- SCR(t): SCR after t years;
- r(t+1): RFR for maturity of t+1 years
- CoC = **4.75%** (as of 30/01/2027)

To determine:

Factor λ

EIOPA's proposal: 0.975
„exponential and time-dependent element“

Floor

EIOPA's proposal: 0.5
Floor would be effective for maturities of 27 years
Commission considered a floor of 0

The Commission will consider building on the lambda approach proposed by EIOPA

Source: Communication from the Commission to the European Parliament and the Council on the review of the EU prudential framework for insurers and reinsurers in the context of the EU's post pandemic recovery (Brussels, 22.9.2021).

CoC: result of a political discussion between trilogue parties
Final parametrisation will take into account possible impact on solvency position



Proportionality measures

Source Articles 13 (43), 29c, 29d

SNCUs may use all the proportionality measures provided for in

- Article 35(5a) Information for supervisor (RSR every 5 instead of every 3 years)
- Article 41 Governance (combination of key functions)
- Article 45(1b), (5) ORSA (macroeconomic analysis not required)
- Article 45a(5) Climate risk (scenarios not required)
- Article 51(6) SFCR (disclose only quantitative part)
- Article 51a(1) Audit (in general no audit required)
- Article 77(7) Calculation of TP (prudent deterministic valuation)
- Article 144a(4) Liquidity risk management plan (exemption for SNCU)
- and any proportionality measure provided for in related delegated acts

Blue colour: Not available for non-SNCUs Source Article 29

The Commission shall adopt **delegated acts**, specifying:

- (a) the criteria for the identification of SNCU
- (b) the methodology to be used when classifying undertakings as SNCU;
- (c) the conditions for granting or withdrawing approval for proportionality measures to be used by undertakings not classified as SNCUs.

**Article 4: Exclusion from scope of SI due to size:
Adapted thresholds**

- annual GWP income:	5 Mio. €	→	15 Mio. €
- TP:	25 Mio. €	→	50 Mio. €



Implementing the new proportionality framework

On **30 January 2025** EIOPA submitted the advice requested by Commission on 30 April 2024

***Technical advice** on the implementation of the new proportionality framework under Solvency II
(EIOPA-BoS-24-590 30 January 2025)*

As to (a, b): the methodology for the classification **is clear and comprehensive**.

As to (c): Proportionality measures are analysed separately. **18 conditions** shall ensure an appropriate application of the proportionality principle, according to the nature, scale, and complexity of the risks faced by the undertakings.

Article 86: EIOPA shall develop draft ITS specifying the methodology to determine the set of scenarios to be used for the **prudent deterministic valuation** by 29 January 2026

Expectation: Small number of scenarios can be processed iteratively with deterministic models
→ Value of options and guarantees calculated by means of pseudo-stochastic best estimate
EIOPA prepared a draft ITS consulted until 2 January 2025

*Consultation paper on the proposal for **Implementing Technical Standards** specifying the methodology to determine the set of scenarios to be used for the prudent deterministic valuation of the best estimate for life obligations with options and guarantees EIOPA-BoS-24/324 1 October 2024*

Extension of SII: Macroprudential supervision

New Chapter VIIa **Macroprudential tools** (Articles 144a – 144d)
(and Chapter IIa: **Macroprudential rules at group level** (Articles 246a – 246b))

Recital 25

Insurance activities can trigger or amplify risks for financial stability. Undertakings should incorporate macroprudential considerations and analysis in their underwriting, investment, and risk management activities.

Source: Recital 28

Bodies or authorities with a macroprudential mandate are in charge of the macroprudential policy for their national market. The macroprudential policy can be pursued by the supervisory authority or by another authority or body entrusted with that purpose.

Recital 29

Good coordination between supervisory authorities and the relevant bodies and authorities with a macroprudential mandate is important for identifying, monitoring and analysing possible risks to the stability of the financial system that could affect undertakings, and for taking measures to effectively and appropriately address those risks.

Cooperation should also aim to avoid any form of duplicative or inconsistent action.

RTS: Liquidity risk management plan (LRMP)

Source Article 144d:

Which undertakings should be requested to draw up LRMPs covering medium and long term?
EIOPA shall also specify the content and frequency of updates of LRMPs and submit the draft RTS to the Commission by 29 January 2026.

*Consultation paper on the proposal for **Regulatory Technical Standards** on liquidity risk management plans
(EIOPA-BoS-24/320 1 October 2024)*

- Undertakings should have in place and keep up to date a set of liquidity risk indicators to identify, monitor and address potential liquidity stress.

Example: liquidity coverage ratio, the value of liquid assets over the net outgoing cash flows under stressed conditions.

- Short term analysis covers a time-period of up to 3 months,
- Criteria for medium- and long term-analysis (≥ 1 year): total assets exceed 12 bln. €
- Update: short-term LRMP every 3 months, others at least annually
- LRMP shall follow a prescribed structure (set out in Annex I)

Taxonomy: Environmental objectives considered in SII

Environmental objectives Taxonomy Regulation (EU) 2020/852

1) Climate change

2) Climate change adaptation

3) Sustainable use and protection of water and marine resources

4) Transition to a circular economy

5) Pollution prevention and control

6) Protection and restoration of biodiversity and ecosystems

Budapest Declaration on
the New European
Competitiveness Deal (8
November 2024)

Goal: significant
reduction of
administrative burden
Possible impact on CSRD
(Corporate Sustainability
Reporting Directive),
CSDDD (Corporate
Sustainability Due
Diligence Directive) and
Taxonomy

**First Omnibus-batch
published on
26 February 25**

Environmental objectives

Article 44: **Sustainability risk management and sustainability risk plans**

To further specify in draft RTS: minimum standards and reference methodologies for identification, measurement, management and monitoring of sustainability risks;
content of the requested plans. Due date 29 January 2026

Consultation paper on the proposal for Regulatory Technical Standards on management of sustainability risks including sustainability risk plans (EIOPA-BoS-24-458 4 Dezember 2024)

Artikel 304c: **Biodiversity loss**

EIOPA shall evaluate whether and to what extent undertakings assess their material exposure to risk related to biodiversity loss as part of the ORSA.
Subsequently assess how a duly consideration can be ensured.
EIOPA shall submit a report with its findings to the Commission by 30 June 2025.

Consultation paper on a Report on Biodiversity Risk Management by Insurers (EIOPA-BoS-24-455 4 Dezember 2025)



Mandate for EIOPA related to ESG objectives

Source: Article 304c

Justification of a dedicated prudential treatment of exposures related to assets or activities associated with environmental or social objectives possible?

What could be a prudential treatment for market- and default risk?

EIOPA shall submit a report on its findings to the Commission by 1 March 2025.

The report was already been submitted on 7 November 2024

Report *Prudential Treatment of Sustainability Risks, (EIOPA-BoS-24-372, 7 November 2024)*

EIOPA proposed adaptations for capital requirement of some fossil-fuel related investments.

Equities: 17%, in additive terms to current charges

Bonds: up to 40%, in multiplicative terms, to current charges

EIOPA's cover letter to Commission: no unanimous support by Board of Supervisors

Commission has to decide on the implementation of these proposals.

(Re)assessment of Nat Cat standard formula

EIOPA published on 30 January 2025 an

Opinion on the 2023/2024 (re)assessment of the Nat Cat standard formula (EIOPA-BoS-24/462 30 January 2025)

Reassessed: Parameters relating to perils/regions which are already in SII but need to be reviewed. Opinion contains proposals for an adaptation of parameters for some of the perils: Earthquake, flood, storm, hail, subsidence

Assessed: Parameters relating the perils/regions which are currently not covered for inclusion in SII. If these prove to be material, they should also be considered in the standard formula.

EIOPA identified perils/countries to be considered for the monitoring
Currently no change proposed

Peril	Countries to be monitored
Wildfire	Main countries identified by NCAs/Call for evidence: IT, PT and IE but additional relevant countries will be considered in the analysis
Coastal flood	All relevant EU countries with a coast
Droughts	Main countries identified by NCAs/Call for evidence: BE, FR, IT and UK but additional relevant countries will be considered in the analysis.

Reference to: [Methodological paper on potential inclusion](#)

Table 2: Perils/countries to be considered for the monitoring.

Insurance Recovery and Resolution Directive (IRRD)

Pre-emptive recovery plans (Source: Article 5, for solo undertakings)

Undertakings shall draw up pre-emptive recovery plans:

- Market coverage: **60%** (Life undertakings: TP, Non-life: gross written premium)
- The drawing up, keeping up-to-date and application of pre-emptive recovery plans shall be part of the system of governance
- Plans shall contain measures to be taken to restore its financial position where that position has significantly deteriorated
- Framework of qualitative and quantitative indicators (used to identify points at which remedial actions should be considered or taken).
- Consider a range of scenarios of severe macroeconomic and financial stress
- Approval by AMSB
- Regular monitoring of indicators, update of plans at least every two years ...
- SNCUs basically not subject to pre-emptive recovery planning

Recovery plan SII vs. pre-emptive recovery plan

SII: Article 138: Non-compliance with SCR
Submit a „realistic“ recovery plan, within 2 months after breach of SCR to supervisor for approval.

Article 142: Content recovery plan:

- a) Estimation of expenses, in particular general expenses and commissions;
- b) Estimates of income and expenditure
- c) Forecast of balance sheet;
- d) Estimates of financial resources intended to cover technical provisions, SCR and MCR;
- e) Overall reinsurance policy

IRR: Article 5: Pre-emptive recovery plan
Shall contain a framework of quantitative and qualitative indicators with criteria relating to, inter alia, capital, liquidity, asset quality, profitability, market conditions, macro-economic conditions and operational events.

Indicators relating **to the capital position shall contain any breach of the SCR.**

Remedial actions shall be assessed against scenarios of severe stress events likely to materially affect their asset and liability profile,

Update at least every two years

Pre-emptive recovery plans are exceeding requirements of SII-requirements significantly

IRRD: first batch of consultation papers expected

EIOPA will develop 19 RTS/ITS/guidelines and a framework for a cooperation agreement.
Three batches of consultation papers planned.

Batch 1 Instruments

Start: Second half of April 2025 **Finalisation:** End-July 2025

- RTS on **content of pre-emptive recovery plan** and remedial action → 29 January 2026
- RTS on **market share for recovery planning** → 29 January 2026
- RTS on **contents of the resolution plans** (incl. groups) → 29 January 2026
- Guidelines on the identification of **critical functions** → 29 January 2027
- Guidelines on matter and **criteria for the assessment of resolvability** → 29 January 2027
- Guidelines on removing impediments to resolvability

Start: Second half of July 2025 **Finalisation:** End-October 2025

- RTS on operational functioning of resolution colleges
- ITS on procedures and information (forms and templates)

Challenges for undertakings and supervisors

Challenge: requested analyses

ORSA shall assess overall solvency needs focussing on the business planning period (3-5 years).

To take into account: all risks the undertaking might be exposed to

Depending on materiality undertakings shall analyse particular risks over a short, medium and long time

Requested time horizons differ depending on the respective risk.

Each of these analyses necessitates the choice of scenarios or pathways for risk assessment during the respective projection period.

Time horizons	short-term	medium term	long term
Climate change risk	≤ 5 years	≤ 15 years	>15 years
Loss of biodiversity	≤ 5 years	≤ 15 years	> 15 years
Macro-prudential risk	≤ 5 years	credit cycle	
Liquidity risk	3 months	≥ 1 year	
Pre-emptive recovery plan	to be laid down by EIOPA in RTS		
ESRS	≤ 5 years	> 5 years	

Sustainability risk(s): long-term should go beyond 2050 (European Climate Law)

Challenge: Scenarios might be intertwined (climate risk, biodiversity)

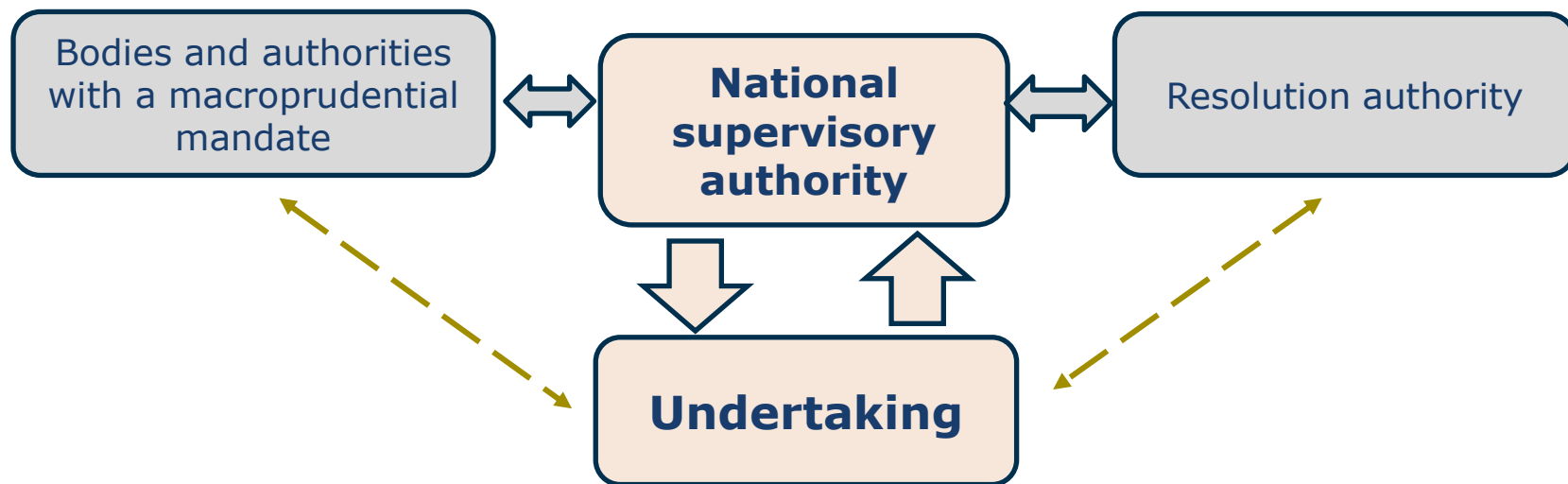


Challenge: Extended supervision

Solvency II has been developed as a microprudential framework

Regular stress tests are used to identify or assess risks for financial system

Supervisory system extended to monitor macro-economic risk and the risk of failures of insurers





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Thank you!

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