



ACTUARIAL ASSOCIATION OF EUROPE

SII in Covid 19 Context Survey proposal

08/10/2020 – Daphné de Leval

Proposed Survey

Background

Introduction

Given the current Solvency II review in a crisis situation, we aim at launching a survey at EU level to assess the appropriateness of the framework following Covid-19 and identify possible areas of development

5 major areas

1. Countercyclical elements
2. Appropriateness of the standard formula
3. Approach on liquidity and default
4. Recovery
5. National supervisors' initiatives

Next steps

Consult the representatives of the different Actuarial Associations to compare the situations among Member States and contribute to Solvency II reflexions

Proposed Survey

Detailed questions (1/2)

I - Countercyclical elements

Q1	How countercyclical are those S2 components in a crisis situation?	Please rank between 7 (highest countercyclical) & 1 (lowest countercyclical)
	Extrapolation & UFR	
	SCR Int	
	VA	
	SA	
	LTE	
	LAC DT	
	RM	
Q2	Do you identify possible deficiencies w.r.t. one or more components? Please explain	

II - Appropriateness of the Standard Formula

Q3	What is your opinion on the current calibration under SII for pandemic crisis: Life/Health/Non-life? Is it appropriate or would suggest some further analyses?	
Q4	Are the stress factors in the different risk submodules still appropriate? Please elaborate on your answer	

Proposed Survey

Detailed questions (2/2)

III - Approach on liquidity and default

Q5	What is your opinion on liquidity risk, risk of default & downgrading (SCR Spread & SCR Counterparty)? Is the current approach under S2 appropriate?	
Q6	Do you think some marked-to-model approach for assets should be allowed in times of illiquidity? Please elaborate on the conditions	
Q7	What would you suggest in case of implied volatilities that cannot be used at closing date because of high bid-ask spread?	

IV- Recovery

Q8	Is recovery plan mandatory in your country? If yes, how has Covid-19 changed the existing plan?	
Q9	Is there any common practice in your country where the national supervisors request a recovery plan for a S2 ratio above 100%?	

V - National supervisors initiatives

Q10	Could you please list all NSA initiatives you have observed in your country over 2020 and indicate whether they are related to Covid-19	
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Proposed survey

Illustration at Belgian level

Countercyclical elements

- Volatility Adjustment and Symmetric Adjustment are the most contributors
- Loss Absorbing Capacity Deferred Taxes is also important but with some limits
- Current Risk Margin design acts procyclical

Areas to be followed up

- Appropriateness of the shocks in the standard formula (SCR CAT seems a priori sufficient, spread risk and correlations could be considered, health lapse mass risk appears too severe)
- Systemic risk factors (e.g. downgrades/default/liquidity) may need to be checked based on recent observations with an increased focus on specific segments
- Recovery and resolution can be interesting to test the feasibility of the strategies
- Mark-to-model based should be an exception in case of illiquid markets and comply with IFRS13
- Art. 138 L1¹ could apply only if a high proportion of companies would approach a low SII ratio, avoiding wrong signals to financial markets

1- Recovery period of 7 years in case of SCR breach under exceptional circumstances

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