

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

26 May 2015

Report of Siegbert Baldauf

EIOPA have issued at 7th May a report related to the restriction of their budget. They have listed several activities illustrating that this requirement of the Commission might endanger their ability to provide all information needed for Solvency II. However, it has to be kept in mind that EIOPA have to provide this information based on regulation in the Delegated Acts.

Quote from EIOPA's publication:

This gap, if not addressed, could have unintended negative consequences for the insurance sector, as EIOPA would not be in a position:

- *to perform a timely and sound review of Solvency II standard formula calibrations;*
- *to declare the existence of exceptional adverse situations, which is a pre-condition to extend the recovery period for companies with deteriorating solvency positions;*
- *to continue ensuring a robust process for the calculation of relevant risk free interest rate term structures; and*
- *to deal with unplanned equivalence assessments.*

There have been two stakeholder meetings in Frankfurt (Information has been forwarded to project team):

21. April: Stress Test 2014: Besides the discussion of the past Stress test (results and experiences in the undertakings), EIOPA wanted to speak about the next Stress Test. The stakeholders unanimously proposed to start this exercise not before undertakings have produced first reporting templates under Solvency II regime. Therefore, preferred date was in 2017. Despite ORSA EIOPA is of the opinion that a Stress Test is necessary to check the vulnerability of the industry. The scenarios have to be chosen adequately to allow for relevant conclusions. A great concern seems to be the liquidity and the impact of other institutions on this risk (spillover).

EIOPA want to improve methodology to analyse cashflows delivered by the undertakings and to develop special triggers to create an early warning system. From the perspective of an actuary, there is a lot of additional information to consider when

assessing these cashflows of a life insurance undertaking especially if participating business is affected. AAE might provide information or data.

24 April 2015: Stakeholder meeting on Reporting: Clemens Frey and Siegbert Baldauf have attended this meeting. EIOPA want to have more information related to the comments on the ITS. Concerns of participants have been tight timetable for the reporting requirements and non-availability of final templates.

20 May 2015: Additional short-term telephone conference. Clemens Frey attended as representative of AAE. EIOPA have proposed a simplification resulting in a reduction of the number of templates. This is still under discussion. While EIOPA want to send the ITS to the Commission in June the templates will be finalised in the course of the 3rd quarter. A timetable is available on the website of EIOPA.

26 April 2015: Deadline for answering the questionnaire on infrastructure investments. Mid May, there has started a roundtable discussion on this issue. Christoph Krischanitz and Ad Kok are participating for the AAE. One question is the treatment of such investments under Solvency II. It is discussed e.g. whether the related risk should be captured under default or spread risk, what might be an adequate stress, etc.

New: Discussion on ultimate forward rate has been reopened. This is triggered by the low interest market on the one hand and by tests related to ICS (International capital Standard) on the other hand. ICS field test asks for a Ultimate forward rate of 3.5% for the Eurozone and a starting point for extrapolation after 30 years. According to the delegated act the Last liquid point is fixed (20 years) but the level of UFR is subject to future analysis. Perhaps support by actuarial analysis might be required here.

Others: Quantitative Assessment and Stress Test for IORPs has started 11th May.

Quote from EIOPA's publication:

The stress test will assess the resilience of IORPs and their pension schemes to adverse market scenarios and a longevity scenario. The exercise will be conducted in seventeen European countries with material IORP sectors covering at least 50% of their national market.

The stress test covers both defined benefit (DB) schemes and defined contribution (DC) plans. IORPs providing DB schemes have to calculate the impact of adverse scenarios on a common, holistic balance sheet and their national balance sheet. A dedicated satellite module for DC IORPs analyses the effects of a variety of shocks on future retirement income of three representative plan members, which start to receive pension benefits respectively 5, 20 and 35 years from now.

Next monthly call: 30th June 2015