

## **6.2 Report to Insurance Committee**

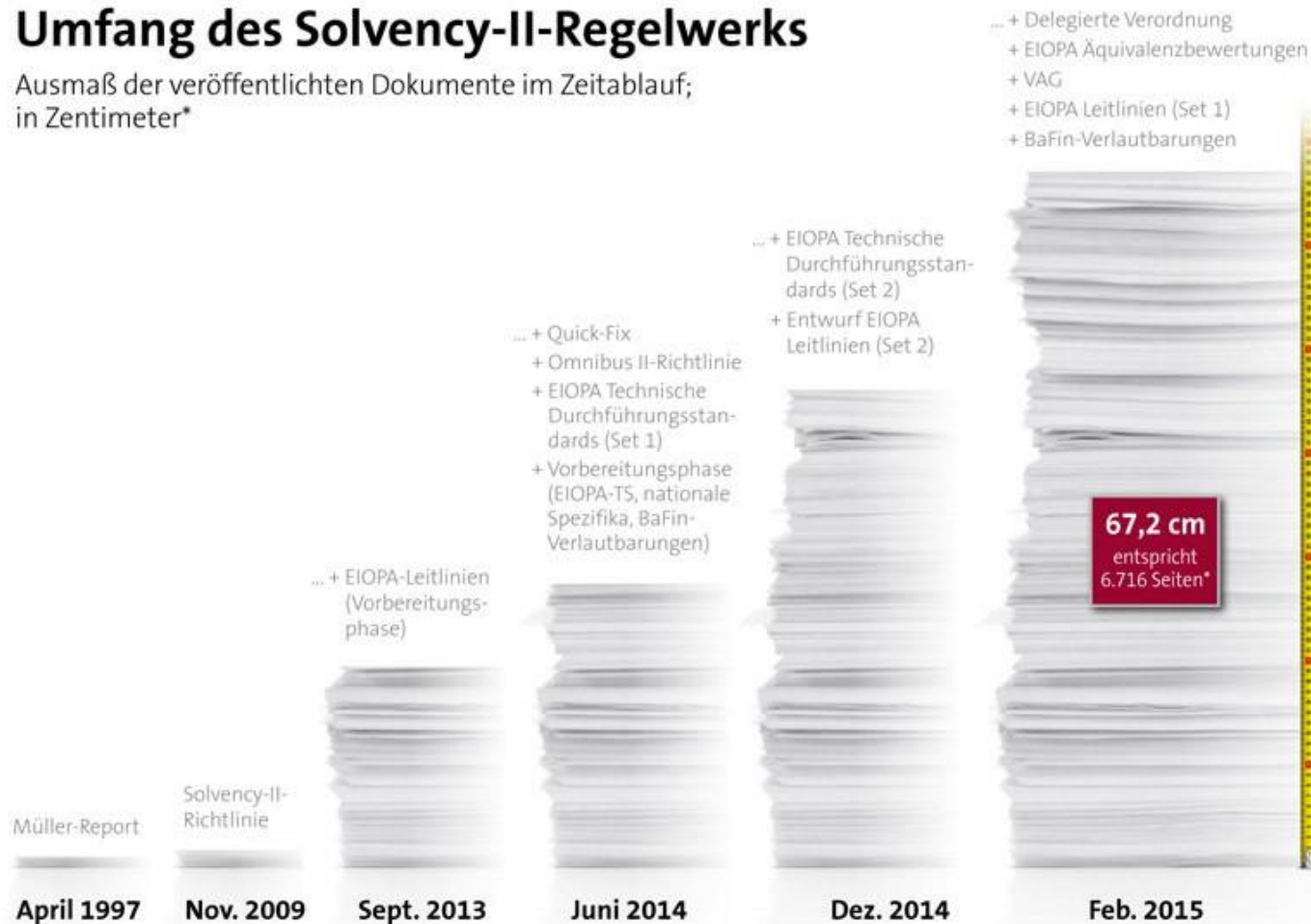
Siegbert Baldauf

**11 March 2016**

**Nicosia**

## Umfang des Solvency-II-Regelwerks

Ausmaß der veröffentlichten Dokumente im Zeitablauf;  
in Zentimeter\*



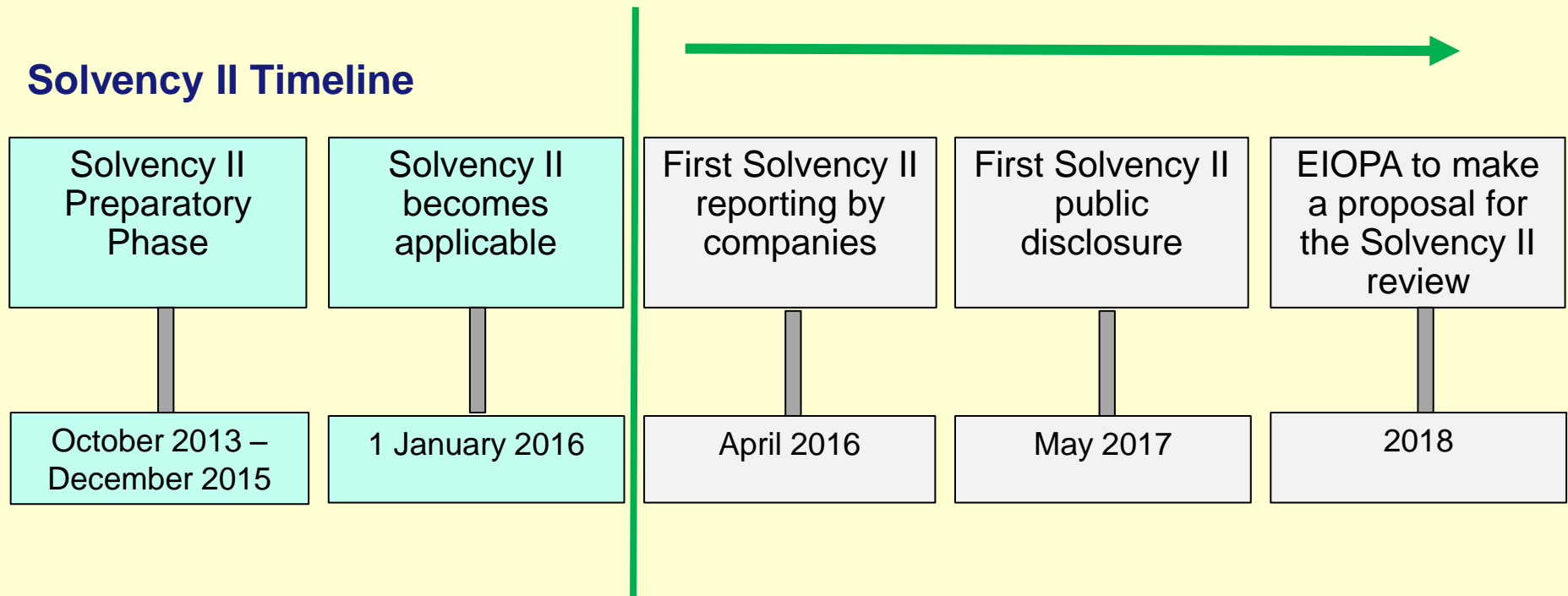
\* einseitig bedruckt; Annahme: 1 Seite = 0,1 mm

# EIOPA: “Solvency II Going Live”

## Solvency II - Going Live!

On 1 January 2016, the new supervisory framework for insurance and reinsurance companies – Solvency II - has become applicable.

### Solvency II Timeline



# Solvency II is effective. Transposition in national law incomplete



Not all Member States have yet transposed the directive(s) into national law.  
End date of national transposition has been 31 March 2015

19.11.2015 – Insurances The European Commission has requested **Bulgaria, Greece, Luxembourg, Slovenia and Sweden** to transpose the Solvency II Directive (Directive 2009/138/EC) into their national legislation (MEMO/15/6006)

10.12.2015 – Insurances The European Commission requests **Cyprus** to transpose the Solvency II Directive (Directive 2009/138/EC) into its national law (MEMO/15/6223)

The Commission has addressed letters to these countries regarding the non-compliance with the end date.

## Level 2 - Delegated Regulation: amended delegated regulation

The Commission has adopted a Commission delegated regulation *amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings* on 30 September 2015.

- The Council did not object.
- The European Parliament still holds its 'non-objection' under consideration and announced an extension of the investigation period until 30 March 2016.
- The ECON members have concerns both about the form and the content of the new delegated regulation. The EP has addressed a letter to the Commission on the concerns of some ECON members that need further clarifications.

**Calculation of SCR for infrastructure investments (allocation to risk modules and stress calibration) is one of the objectives. Correction of typographical errors also included.**

# Solvency II is effective. What's next?



Gabriel Bernardino, Chairman of EIOPA :

“As of 1 January 2016, the new European Union supervisory framework for insurance – Solvency II – is going to be implemented.

- The regulatory phase of Solvency II has been completed.
- Thus one journey comes to an end, but a new journey just starts. It is a journey towards consistent and convergent application of the new risk-based regulatory framework.
- It will be challenging not only for industry and supervisors.“

# EIOPA: “Solvency II is going live”

## SOLVENCY II IS GOING LIVE

- *All stakeholders including consumers will benefit from the new risk-based regime.*
- *Solvency II is a modern, robust and proportionate supervisory framework.*

*“Also on the side of the insurance and reinsurance companies hard work was done and the good level of preparedness for Solvency II is a sign of their success.*

*However, this is **not a time for complacency**. The regulatory phase of the journey is ending. Now EIOPA starts a new journey - towards consistent and convergent implementation of Solvency II across Europe”.*

<https://eiopa.europa.eu/Pages/Supervision/Insurance/Solvency-II-Going-Live.aspx>

<https://eiopa.europa.eu/Publications/Press%20Releases/2016-01-04%20Solvency%20II%20implementation.pdf>

# EIOPA: “Solvency II is going live” Solvency II comes under scrutiny



## Will Solvency II be reviewed?

**Yes**, as of 2016 EIOPA will start collecting evidence and experiences with the application of Solvency II, pending a review of the capital requirements in 2018. **It will submit its advice to the European Commission in 2018.**

*EIOPA will make full use of the experience gained in the first two years of the Solvency II application and propose the introduction of further simplifications wherever deemed appropriate.*

*Separately EIOPA will provide an annual report to the European Council, Parliament and Commission on the implementation of the so-called long term guarantees package.*



# Solvency II implementation - beyond compliance (Speech of Bernardino)



## IVASS Conference 2016 “The Launch of Solvency II”, Rome, 4 March 2016

### ***The review of Solvency II***

*Now that Solvency II is in place we need a period of stability of the regulatory framework. But financial regulation and supervision cannot exist independently from economic reality.*

*A sound process of post-evaluation of the new regime is an integral part of good regulation. Therefore, the foreseen review is a logical and reasonable way forward. EIOPA is already preparing the relevant project plans in order to ensure a rigorous, evidence-based and transparent review of the framework.*

*Our work will assess possible cumulative effects and unintended consequences, privileging principles like simplicity and proportionality. Special attention will be given to procyclicality and effects on insurance investment behaviour and product availability to consumers.*

***From this year till 2020 EIOPA will perform a yearly assessment of the implementation of the long-term guarantee measures.***

*By 2018 we need to revisit the calibration of different asset classes under Solvency II, **and this should include sovereign bonds**. The recent financial crisis has demonstrated to all of us that sovereign bonds are not always risk-free. So, a risk-based regulatory framework should take this into account.*

# Solvency II Directive, Article 77f

## Defines an agenda for review processes



### 1) On an annual basis

**EIOPA shall until 1 January 2021**, report to the EP, the Council and the Commission about the impact of the application of LTG – measures

**Supervisory authorities shall** provide EIOPA with the following information:

- (a) the availability of long-term guarantees in insurance products in their national markets and the behaviour of undertakings as long-term investors;
- (b) the number of undertakings applying LTG - measures
- (c) the impact on the undertakings' financial position of the measures listed in (b) , at national level and in anonymised way for each undertaking;
- (d) - (f) .....

# Solvency II Directive, Article 77f

## Defines an agenda for review processes



2.

**EIOPA** shall submit to the Commission an opinion on the assessment of the LTG – measures

That assessment shall be made in relation to the availability of long-term guarantees in insurance products, the behaviour of insurance and reinsurance undertakings as long-term investors and, more generally, financial stability.

3.

**Commission** shall submit a report to the EP and to the Council by 1 January 2021, or, where appropriate, earlier.

The report shall focus on the issues covered by the annual submissions

4.

**The Commission report shall be accompanied, if necessary, by legislative proposals.**

# Solvency II Directive, Article 77f

## Reporting chain during review process

**Supervisory authorities shall** provide EIOPA with information:

**EIOPA shall until 1 January 2021**, report to the EP, the Council and the Commission about the impact of the application of LTG – measures

**EIOPA** shall submit to the Commission an opinion on the assessment of the LTG – measures

**Commission** shall submit a report to the EP and to the Council by 1 January 2021.  
Focus on the issues covered by the annual submissions

**The Commission report shall be accompanied, if necessary, by legislative proposals.**

## Delegated Regulation

Citation 150)

Review should make use of the experience gained by undertakings during the transitional period and the first years of application of these delegated acts, and **be performed before December 2018**

The Commission will review the methods, assumptions and standard parameters used when calculating the SCR with the standard formula,

- in particular the **methods, assumptions and standard parameters used in the market risk module**, including a review of the standard parameters for fixed-income securities and long-term infrastructure,
- the standard parameters for **premium and reserve risk**,
- the standard parameters for **mortality risk**, as well as
- the subset of **standard parameters that may be replaced by undertaking- specific parameters** and
- the standardised methods to calculate these parameters.

## *Article 30*

### **Supervisory authorities and scope of supervision**

1. The financial supervision of insurance and reinsurance undertakings, including that of the business they pursue either through branches or under the freedom to provide services, shall be the **sole responsibility of the home Member State**.
  
2. Financial supervision **shall include verification**, with respect
  - to the entire business of the undertaking,
  - of its state of solvency,
  - of the **establishment of technical provisions**,
  - of its assets and
  - of the eligible own funds,in accordance with the rules laid down or practices followed in the home Member State under provisions adopted at Community level.

## *Article 36* **Supervisory review process**

2. The supervisory authorities shall in particular **review and evaluate compliance** of the following with the specific rules set out in the Directive:

- (a) the system of governance, including the own-risk and solvency assessment,
- (b) the technical provisions
- (c) the capital requirements
- (d) the investment rules
- (e) the quality and quantity of own funds
- (f) where the insurance or reinsurance undertaking uses a full or partial internal model, on-going compliance with the requirements for full and partial internal models

# EIOPA Annual Work Program 2016 picks up review requirements



The annual work program 2016 is aligned with these review requirements. EIOPA has set up the following priority objectives ( "Strategic objectives")

- 1) to ensure transparency, simplicity, accessibility and fairness across the internal market for consumers.
- 2) to lead the development of sound and prudent regulations supporting the EU internal market.
- 3) to improve the quality, efficiency and consistency of the supervision of EU insurers and occupational pensions.
- 4) to identify, assess, mitigate and manage risks and threats to the financial stability of the insurance and occupational pensions sectors.
- 5) EIOPA to act as a modern, competent and professional organisation, with effective governance arrangements, efficient processes and a positive reputation.



**Strategic Objective 2: to lead the development of sound and prudent regulations supporting the EU internal market.**

**Strategic Activity Area 2.1:** To develop high quality and timely regulatory instruments, remove scope for regulatory arbitrage and safeguard effective consumer protection.

**Strategic Activity Area 2.2:** To ensure rigorous assessment of advice, standards, guidelines and opinions via impact assessment, peer review, public consultation and other tools.

**Strategic Activity Area 2.3:** To ensure revision and continuous improvement of the regulatory instruments.

**Strategic Activity Area 2.4:** To foster a continuous dialogue with key stakeholders, both within the EU and internationally, in favour of sound and prudent regulation supporting the EU internal market.

# EIOPA Annual Work Program 2016

## Strategic Objective 2.1 (extract)



**Operational Activity:** Design, establish, implement and test relevant Solvency II processes based on Omnibus II (OMDII) empowerment of EIOPA

**Operational Objective:** EIOPA to calculate and publish key information fundamental to effective application of Solvency II.

### **High Priority:**

The determination of the risk-free interest rate structure, the fundamental spread and the volatility adjustment determine the value of the liabilities of the undertakings and, to a large degree, the amount of capital that European insurers need to hold against their liabilities. It is mandated as a legal requirement within Omnibus II that EIOPA provides this information.

In 2016, in addition to the regular monthly publications, EIOPA will monitor the appropriateness of the methodology. **The Risk Free Rate and Equity Dampener feature as projects within the Solvency II Program.**

**2. Quarter 2016: Consultation on risk free rate, especially ultimate forward rate expected**

### **Strategic Activity Area 2.3: To ensure revision and continuous improvement of the regulatory instruments.**

**Operational Activity:** Annual EIOPA Report to EU Parliament, EU Council and EU Commission on the impact of long-term guarantee measures (LTG) and measures on equity risk (ER)

**Operational Objective:** report the impact of the application of long-term guarantees measures and measures on equity risk to the European Parliament, Council and Commission, and prepare an opinion on the assessment of the application of the measures and the implications on the availability of long-term guarantees in insurance products, behaviour of undertakings as long-term investors and, more generally, financial stability, as set out in Article 77f of the Solvency II Directive.

**Outcome:** report of Long Term Guarantees and Equity Risk and opinion as set out in Article 77f.

### High Priority:

based on the experience related to Long Term Guarantees and Equity Risks during the year 2016, EIOPA must report to European Parliament, Council and Commission for their review, and an opinion will need to be delivered on the assessment of the application of the measures (date to be defined).

EIOPA must fulfil this legal requirement relating to long-term guarantees on undertakings, products, consumers and supervision as set out in Article 77f. **The Long Term Guarantee Review is a project within the Solvency II Program.**

**Operational Activity: Assessment of the appropriateness of the methods, assumptions and standard parameters for the calculation of the Standard Capital Requirements (SCR) standard formula**

**Operational Objective:** to

- Prepare for the Commission's assessment of the SCR standard formula
- Prepare the review of the methods, assumptions and parameters for the calculation of the Solvency Capital Requirements standard formula, including a (methodology for the) impact assessment of eventual changes in the calibration of the SCR standard formula.

**High Priority:**

Expectation: Due to the sensitivity of the area and the complexity of the matter EIOPA will be called to provide advice to the Commission in this area;

Commission should perform the review before December 2018.

Therefore work should start early in 2016 to prepare the grounds for this review.

**The SCR standard formula review is a project within the Solvency II Program.**

**Evolution (New Tasks):** based on the experience related to the calculation and performance of the SCR, EIOPA is expected to collect further evidence and perform reviews of certain risk modules of the standard formula.

**The review of the SCR standard formula will be staged into methodological and evidence gathering phases; the end result will be delivered between 2018-2020 (the timeframe needs to be defined based on the texts of the Solvency II Directive and Delegated Regulation and Commission's Call for Advice).**

Products	Due Date
Impact assessment methodology	Q2
Advice on the review of the SCR standard formula, based on e.g. assessment/analysis, data collection etc	To be confirmed

**9 December 2015**

EIOPA publishes report on financial stability and announces stress test 2016

*Gabriel Bernardino, Chairman of EIOPA, said: "In line with its mandate to preserve financial stability in the European Union, in 2016, EIOPA will launch the third biennial EU-wide stress test for insurers. Particularly taking into account the macroeconomic reality, this exercise will focus on **two adverse scenarios, namely: the prolonged low yield environment and the "double-hit" scenario**. I am confident that the shocks included in this exercise will allow EIOPA and national supervisors to elaborate on appropriate measures to mitigate these key risks and define areas for further investigation".*

# EIOPA Stress test 2016

## AAE discussed “some observations”



*EIOPA: “This exercise will assess the sector's vulnerability to the prolonged low yield environment as well as to the potentially harmful effect of a risk reversal scenario combining low risk free rates with an increase in risk premiums. I am confident that the design and magnitude of the shocks included in this exercise will allow EIOPA and national supervisory authorities once again to devise appropriate measures to mitigate key risks and define areas for further investigation”*

AAE pointed to a crucial issue in this announcement:

The stress test aims at assessing the vulnerability of the whole (life) insurance industry.

- An adequate judgement of the individual risk for companies is indispensable.
- The intended recommendations for companies to mitigate their risks cannot be given without a deeper understanding of the particular exposure of an undertaking.
- The stress test of 2014 showed some weaknesses resulting from an inappropriate interpretation of cash flows and an analysis that left out of scope some important aspects e.g. of local GAAP measures already undertaken.



## Objective:

Stress tests represent one of the regular supervisory tools that help to assess the resilience of the insurance sector to potential adverse market developments and to extract valid conclusions to support the stability of the financial system.

The Stress Test aims at an assessment of the insurance sector's vulnerabilities to a combination of market risk adverse scenarios. It will be based on

- a **sample of solo insurance undertakings** most vulnerable in a persistent low interest rate environment and
- a **double hit scenario** where, in addition to the low interest rates, the assets prices are also stressed.

NSAs will identify and contact prospective participants in the test

Consultations with industry participants are planned to start in March 2016.

# EIOPA Stress test 2016: Timeline

Date	Activity
April 2016 (1st half)	Workshop with industry participants
May 2016 (2nd half)	Launch of a Europe-wide stress test specifications and templates for the insurance sector
July 2016 (1st half)	Submission deadline for industry participants to the national supervisory authorities (NSAs)
August 2016	Collection and validation of undertakings' data by the national supervisory authorities (NSAs)
September 2016	Centralised validation by EIOPA of all the submitted results
December 2016	Disclosure of the results of the stress test analysis

