Top 7.2: Status of Solvency II

Siegbert Baldauf

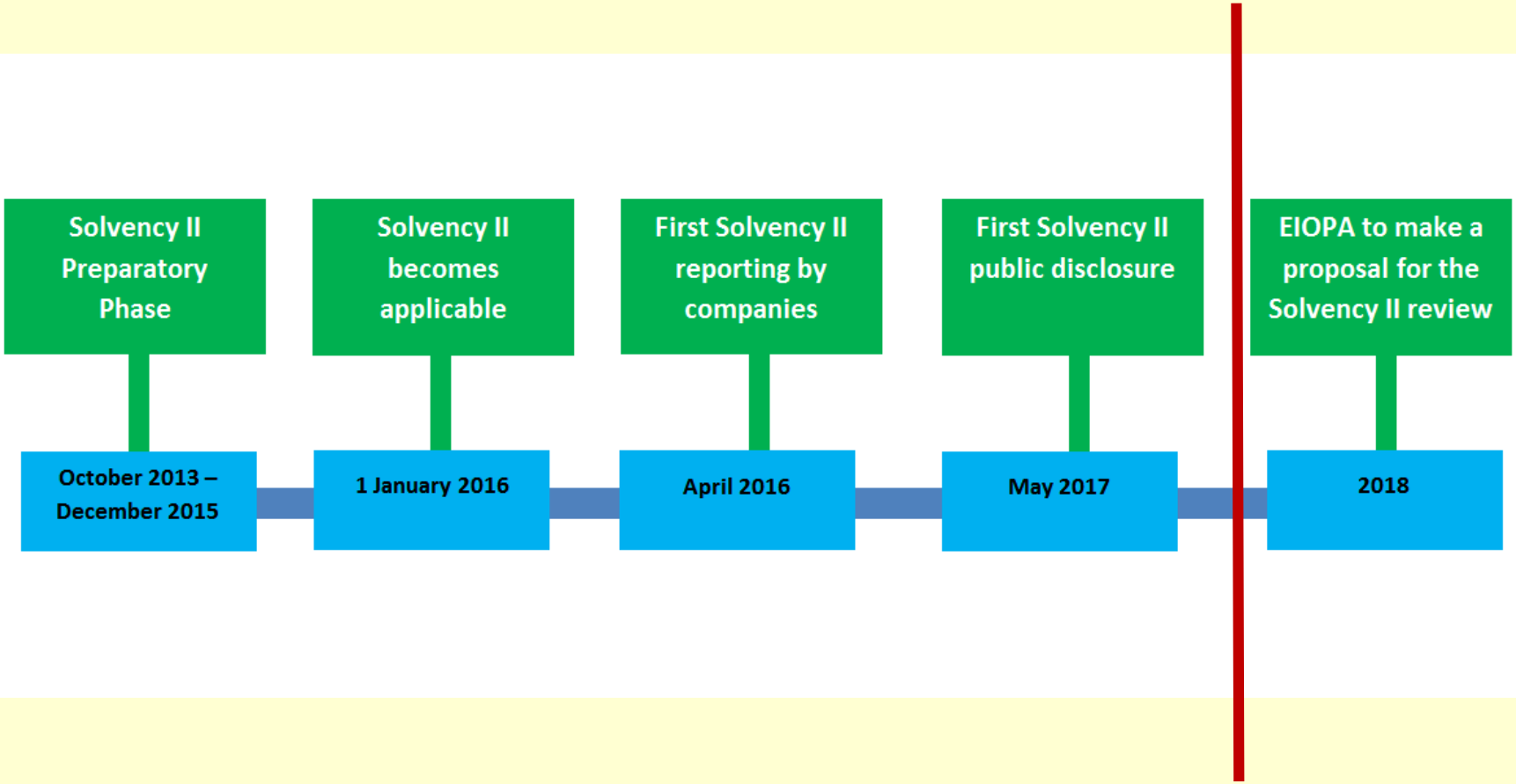
21 /22 September 2017

Copenhagen, IC meeting

Agenda

1) **Applying Solvency II**
2) Review standard formula
3) Recovery and Resolution
4) ESA - Review

Status Solvency II



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

Status Solvency II

Solvency II became applicable 1 January 2016

- 20 May 2016: Day-one reporting in 2016 (valuation basis year-end 2015)
- 20 May 2017: SFCR for business year 2016 required
  (valuation basis year-end 2016) -→ public disclosure
- 5 April 2017: EIOPA published methodology to calculate the Ultimate forward rate
- 16 December 2016: First LTG – Report published December 2016

Solvency and Financial condition report (SFCR)

Solo undertakings had to be publish this report by 20 May 2017 based on year-end data 2016.

To comply with the requirements of the Delegated Regulation undertakings have to disclose the following information (structure set out in Annex XX):

- Business and performance (art. 293)
- System of Governance (art. 294)
- Risk profile (art. 295)
- Valuation for Solvency purposes (art. 296)
- Capital management (art. 297)

EIOPA announced a first analysis of these reports by end of 2017.

EIOPA's position concerning LTG review

Long-term Guarantees (LTG)

- *EIOPA's report on the LTG review for 2017 will include a thematic focus on public disclosure on the use and impact of the LTG measures.*
- *EIOPA described its mandate covering all aspects of LTG including the sensitivity aspect, which is an important parameter of the risk-free rate mechanism.*
- *EIOPA explained that the LTG annual report will be based this year on more precise data.*
- *The 2017 exercise focusses on gathering data while the 2020 report will give recommendations.*

https://eiopa.europa.eu/Publications/Meetings/EIOPA-IRSG-17-11_Summary_of_conclusions_mtg_07.06.2017.pdf

Commission adopted amendment of Delegated Regulation

8 June 2017

European Commission adopts Delegated Regulation amending Solvency II Delegated Regulation on infrastructure corporates

The European Commission has adopted a Delegated Regulation amending the Solvency II Delegated Regulation ((EU) 2015/35) concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates) (C(2017)3673 final).

EIOPA submitted ITS on reporting and disclosure

17 July 2017:

EIOPA SUBMITS IMPLEMENTING TECHNICAL STANDARDS ON REPORTING AND DISCLOSURE AND PUBLISHES THE FINAL TAXONOMY VERSION 2.2.0

- Commission has to endorse these proposals
- After publication in the Official Journal the amendments will enter into force and become applicable.
- ITS have to be applied for the disclosures at the end of 2017.

Effect:

- Amendment of existing ITS without substantial changes
- Mostly clarifications and corrections
- Taxonomy changed accordingly

Agenda

1) Applying Solvency II
2) **Review standard formula**
3) Recovery and Resolution
4) ESA - Review

Review of specific items in the Solvency II Delegated Regulation

actuarial association of europe

IC meeting in Reykjavik

5 December 2016: EIOPA publishes Discussion Paper on the review of specific items in the Solvency II Delegated Regulation (EIOPA-CP-16/008)

3 March 2017: Deadline for comments

In addition:

December 2016 to March 2017: Call for data (concerning esp. Calibration of stresses for natural catastrophe risks and for some lines of business)

EIOPA defined **2 buckets** for response to the Commission:

Bucket 1: Part 1 of their advice to Commission delivered by end of October 2017

8 weeks consultation planned July and August 2017

Bucket 2: Part 2 to be delivered by end of February 2018

8 weeks consultation planned November and December 2017

Next steps: 23 May 2017: Roundtable on SCR – Review

Consultation of EIOPA's first set of advice

Consultation Paper on EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation (EIOPA-CP-17/004 04 July 2017)

Consultation paper launched	4 July 2017
Consultation period ended	31 August 201

Table of Contents

1. Introduction
2. Simplified calculations
3. Reducing reliance on external credit ratings in the standard formula
4. Treatment of guarantees, exposure guaranteed by a third-party and exposures to regional governments and local authorities (RGLA)
5. Risk-mitigation techniques
6. Look-through approach: investment related vehicles
7. Undertaking specific parameters
8. Loss-absorbing capacity of deferred taxes (LAC DT)
9. Draft Impact Assessment

Consultation of EIOPA's first set of advice

Solvency II project team had proposed the following

Timeline:

- Solvency II project team identifies sections of consultation paper attributable to working groups (monthly call) **13 July 2017**
- and informs officers on the outcome **14 July 2017**
- **Comments from working groups** **16 August 2017**
- Consolidation of answers **18 August 2017**
- Draft response sent to the IC **21 August 2017**
- Teleconference to discuss the draft (optionally) **24 August 2017**
- Final draft to member associations and officers **28 August 2017**
- Sign off by officers and submission on **31 August 2017**

The Comment Template has been sent to EIOPA on time.

Roundtable on the SCR review – second set of advice

EIOPA has invited stakeholders to a roundtable on the second set of advice. Number of participants limited to maximum 3 participants per organisation. (IRSG, AAE, AEIP, AMICE, CFO Forum, CRO Forum, IE, RAB)

Date:	27 September 2017, 9:00 to 18:00
Goal:	Early discussion on issues of the consultation paper for the second set of advice
Timeline:	8 weeks consultation period planned for November / December

Advice to Commission due by 28 February 2018

Agenda will be built based on indicated priorities of stakeholders

Participants: Clemens Frey, Lauri Saraste, Siegbert Baldauf

Roundtable: List of issues for second set of advice

1. Premium and reserve risks (recalibration and volume measure for premium risk)
2. Mortality and longevity risks (recalibration)
3. Counterparty default risk (simplifying and modifications for qualifying counterparties, EMIR and cleared derivatives)
4. Simplifying the look-through approach
5. Currency risk at group level
6. Interest rate risk
7. Unrated bonds and loans and unlisted equities
8. Market risk concentration
9. Loss-absorbing capacity of deferred taxes
10. Risk Margin
11. Own funds (restricted Tier 1 and comparison with banking framework)

Indicated priorities in red colour

Consultation of EIOPA's second set of advice

Scheduled consultation period (8 weeks): November/December 2017

But:

- EIOPA will prepare meeting documents for the roundtable meeting.
- Documents might already allow an insight in EIOPA's planned advice.
- Second set of advice will deal with some important actuarial issues (see list before).
- AAE should aim for high-quality comments

For our work:

- Early start in October based on the meeting document of EIOPA
- Consultation period includes year-end holidays
- Agreeing on a timeline immediately after consultation paper Is published
- Reliable commitment to support the consultation process is necessary
- Face-to-face meetings towards end of November and mid-December might be necessary.

Agenda

1) Applying Solvency II
2) Review standard formula
3) **Recovery and Resolution**
4) ESA - Review

EIOPA published Opinion on Recovery and resolution

actuarial association of europe

Backup: Legal basis

1. This Opinion is issued on the basis of Article 34 of the EIOPA Regulation1, which lays down that EIOPA "*may, […] on its own initiative, provide opinions to the European Parliament, the Council and the Commission on all issues related to its area of competence.*"

2. Furthermore, the following articles are of relevance:

- Article 8(1)(i) of the EIOPA Regulation sets out EIOPA's tasks and powers in the area of recovery and resolution of insurers by providing that EIOPA is responsible for "*[…] the development and coordination of recovery and* resolution *plans, providing a high level of protection to policy holders, to beneficiaries and throughout the Union, in accordance with Articles 21 to 26*".
- Article 24(2) of the EIOPA Regulation bestows on EIOPA the responsibility to contribute to ensuring coherent and coordinated crisis management and resolution regime in the EU.
- Article 25(2) of the EIOPA Regulation provides that "*[EIOPA] may* identify *best practices aimed at facilitating the resolution of failing institutions and, in particular, cross-border groups, in ways which avoid contagion, ensuring that appropriate tools, including sufficient resources, are available and allow the institution or the group to be resolved in an orderly, cost-efficient and timely manner*."

EIOPA published Opinion on Recovery and resolution

5 July 2017:

OPINION TO INSTITUTIONS OF THE EUROPEAN UNION ON THE HARMONISATION OF RECOVERY AND RESOLUTION FRAMEWORKS FOR (RE)INSURERS ACROSS THE MEMBER STATES
(EIOPA-BoS/17-148 5 July 2017)

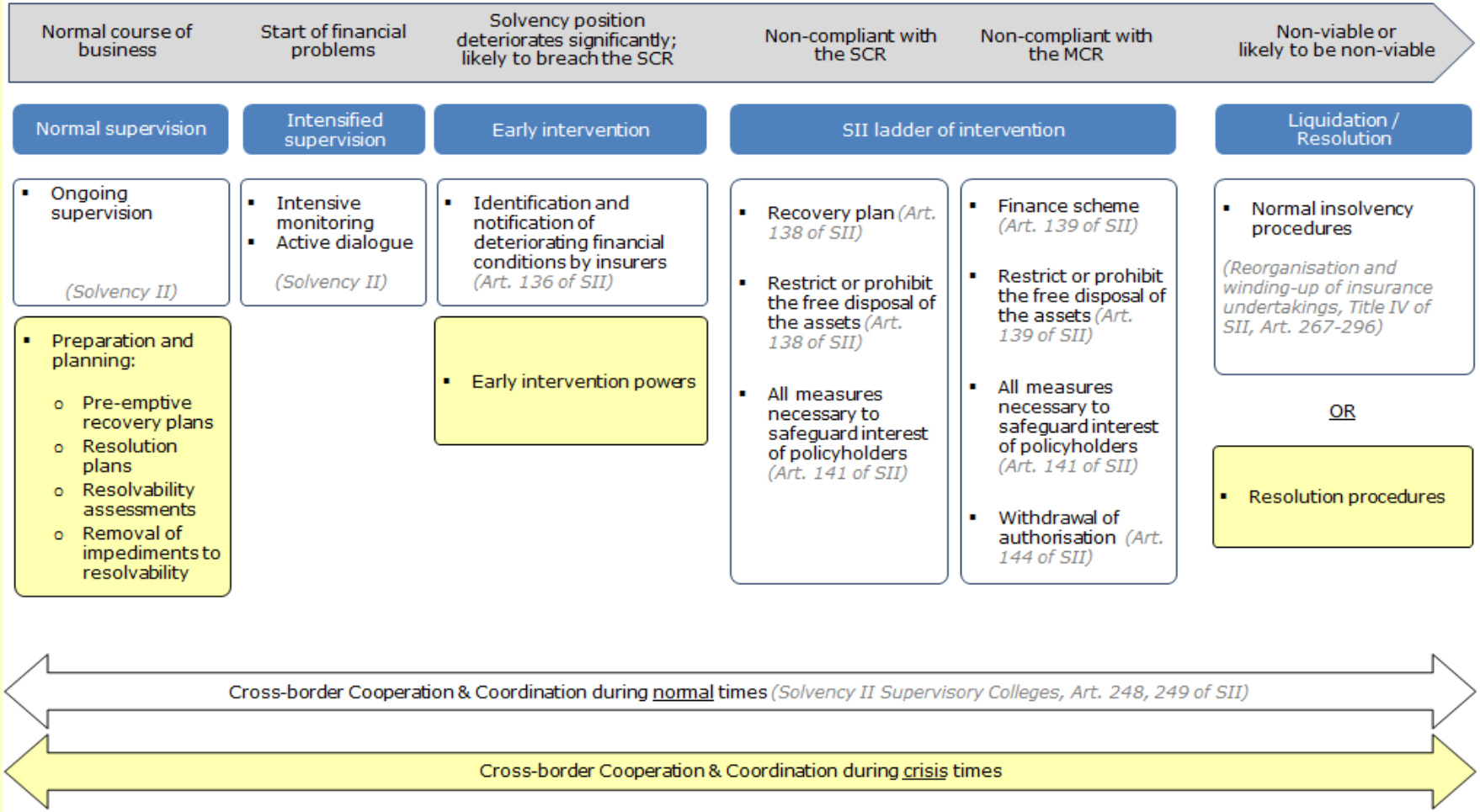
- In this Opinion EIOPA calls for the establishment of a minimum harmonised and comprehensive framework in the area of recovery and resolution of insurers and reinsurers.

- The scope of a harmonised recovery and resolution framework should in principle cover all (re)insurers within the scope of Solvency II. However, **proportionality should be a fundamental guiding principle.**

- Member States should have in place a designated administrative resolution authority for insurers.

- A harmonised recovery and resolution framework should include the 4 building blocks depicted in the following table.

EIOPA published Opinion on Recovery and resolution



* *The articles listed here refer to articles in the Solvency II Directive (2009/138/EC).*

https://eiopa.europa.eu/Publications/Opinions/EIOPA-BoS-17-148_Opinion_on_recovery_and_resolution_for_%28re%29insurers.pdf

EIOPA published Opinion on Recovery and resolution

5 July 2017:

OPINION TO INSTITUTIONS OF THE EUROPEAN UNION ON THE HARMONISATION OF RECOVERY AND RESOLUTION FRAMEWORKS FOR (RE)INSURERS ACROSS THE MEMBER STATES (EIOPA-BoS/17-148 5 July 2017)

- EIOPA plans to continue with its work in the field of recovery and resolution for insurers. This refers, in particular, to two relevant and related areas, which are currently left out of scope and which require an in-depth analysis:

  (i) the potential harmonisation of resolution funding and
  (ii) the potential harmonisation of insurance guarantee schemes (IGSs).

https://eiopa.europa.eu/Publications/Opinions/EIOPA-BoS-17-148_Opinion_on_recovery_and_resolution_for_%28re%29insurers.pdf

Agenda

1) Applying Solvency II
2) Review standard formula
3) Recovery and Resolution
4) **ESA - Review**

ESA Consultation– Feedback Statement

Brussels, 20 June 2016

Feedback statement on the public consultation on the operations of the European Supervisory Authorities having taken place from 21 March to 16 May 2017

Content of the paper

- Overview of the contributions received
- Should not be regarded as reflecting the position of the Commission

The consultation will feed into the review of the European System of Financial Supervision (ESFS)

Goal is to strengthen the effectiveness and efficiency of oversight of the financial sector

This task is foreseen in the Commission's Work Programme for 2017.

ESA Consultation– Feedback Statement

Two quotes from the feedback statement:

Internal Models: *The majority of respondents to this consultation are not in favour of granting EIOPA powers to approve and monitor internal models of cross-border groups. Respondents, mostly representing supervisory authorities and the insurance industry, emphasise that for the approval of an internal model, knowledge of the specificities of the insurer and the group, the risk factors and profile, as well as the local market, are required and that national supervisor are best placed in that respect. The vast majority of insurance organisations argued that the division between NSAs and EIOPA should remain as it is, with a focus on supervisory convergence. Stakeholders were broadly supportive of EIOPA continuing to exercise its role within the current framework of its Founding Regulation.*

Extension of role and mandate of the chairperson: *A majority of respondents, mainly regulatory authorities, supervisory authorities and central banks do not support extending the role and mandate of the* ***Chairperson*** *as they consider the current system to be efficient. However, the majority of industry associations agree that the mandate of the Chairperson needs improvement, for instance by giving them a casting vote in the executive board or by foreseeing formally delegating more powers to them and allowing them to take decisions without the approval of the Board.*

ESA Consultation– Commission's conclusions

Brussels, 20.9.2017 COM(2017) 542 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

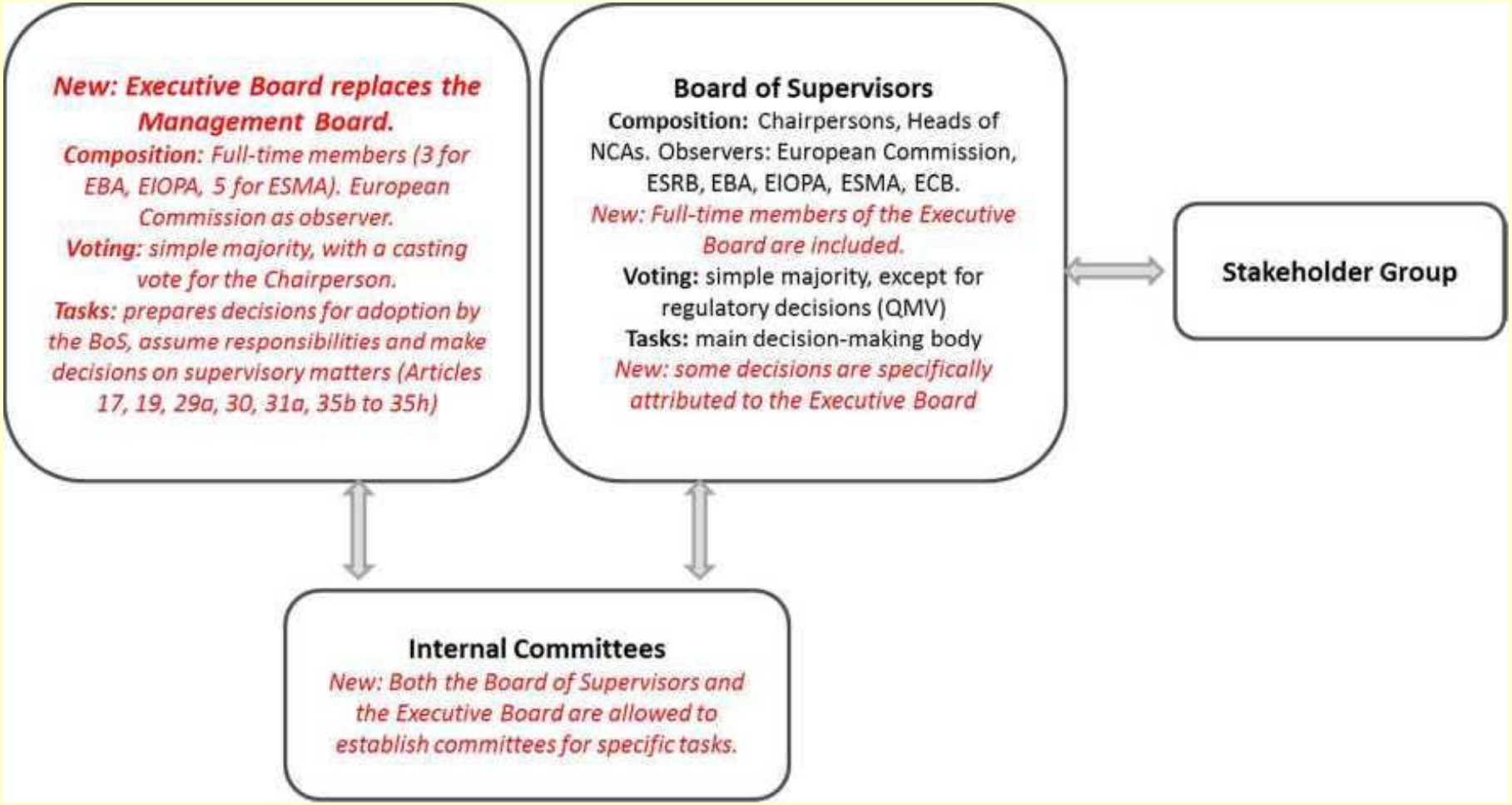
- **EIOPA will have a greater role in coordinating the authorisation of insurance and reinsurance companies' internal risk measurement models** so as to avoid the risk of divergent supervisory standards and outcomes.
- In parallel with these measures, the Commission proposes that the **ESA's procedures to issue guidelines and recommendations will be enhanced to reflect the importance of these instruments.** This reflects a consistent demand from many stakeholders. To this end, the ESAs will be required to conduct cost-benefit analysis and the relevant stakeholder groups will have the right to seek action by the Commission if they consider that the instruments exceed the competences conferred on the European Supervisory Authorities by EU law.

ESA Consultation– Conclusions Governance

In order to fulfil their mandates and ensure supervisory convergence within the EU, the ESAs must be equipped with a solid governance structure. On the one hand, it is appropriate to maintain the important role of national authorities who will continue to set the overall direction and decide on regulatory matters. On the other hand, the ESAs should also have an **independent Executive Board with full-time members** that will ensure effective, impartial and EU-oriented decisions with regard to the coordination of supervisory practices.

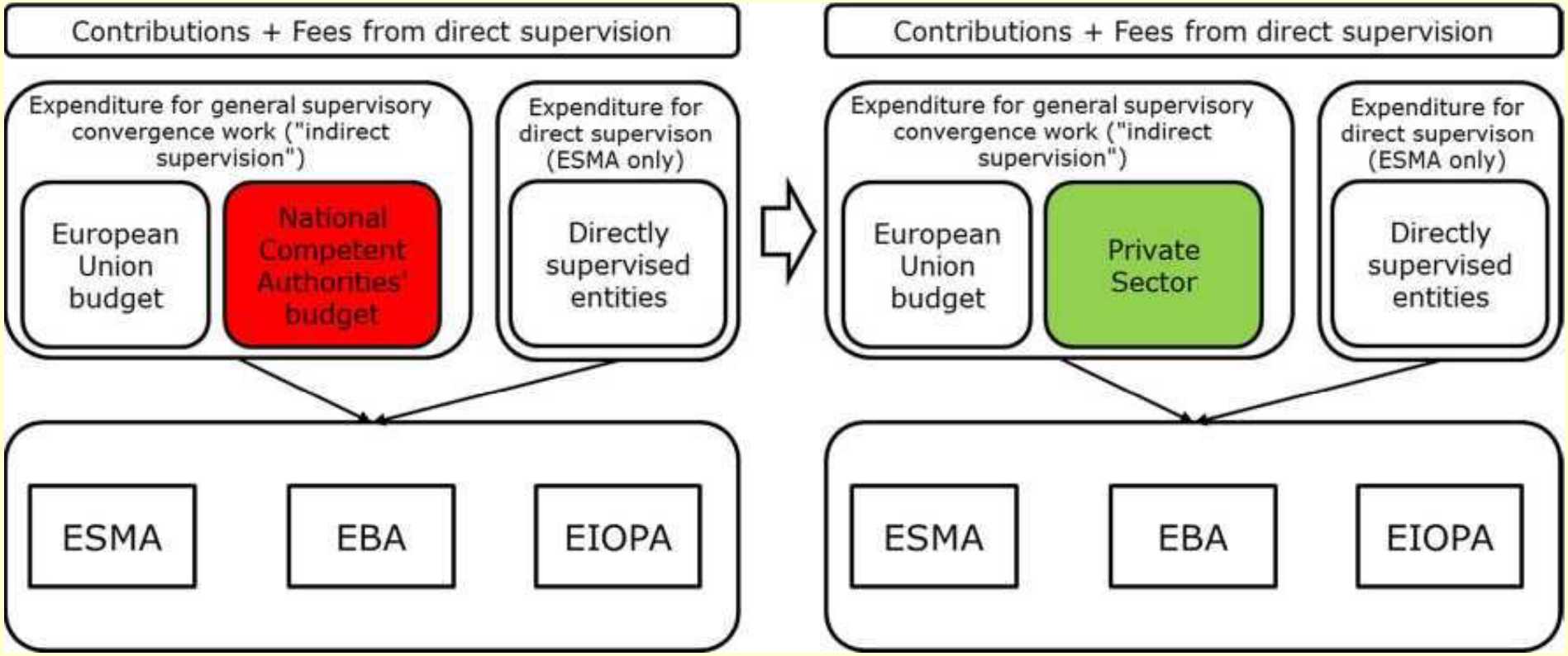
ESA Consultation– Conclusions Governance

Proposed new governance



ESA Consultation– Conclusions Funding

Changes to the funding of the ESAs



ESA Consultation– Conclusions
Next steps

The Commission invites the European Parliament and the Council to discuss and agree these proposals as a matter of priority, in order to ensure their entry into force before the end of the current legislative term in 2019. At the same time, the Commission will continue its close dialogue with all relevant stakeholders in this important area.