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

13 April2017

Ultimate forward rate (UFR)

EIOPA has set out the methodology for the calculation of the UFR at 5th of April. The methodology published now is quite close to that discussed in the consultation paper.

The approach remained unchanged: UFR is calculated as the sum of an expected inflation rate and an expected real rate using the widening window approach (like proposed in the consultation paper). The real rate is the same for all countries.

- Instead of the initially proposed weighted geometrical average of real rates it is now a simple average (this is in line with our comments)
- The annual change of the UFR is limited to 15 bps (10 bps and 20 bps had been discussed as stepwise approach to the calculated UFR)
- A change in calculated UFR below 15 BP will not lead to a change in the relevant ultimate forward rate. (5 bps had been the proposal in the consultation paper).

The UFR calculated with this methodology would be 3.65% for the year 2018.

Because of the stepwise approach the value (for the EURO) for 2018 would be 4.20% - 0.15% = 4.05%. The UFR of 4.2% is still to be used for the calculation at the end of year 2017.

The new UFR will be first used in the published risk-risk-free rate curve in February 2018.

Discussion paper on the review of specific items in the Solvency II Delegated Regulation

EIOPA is now analysing the comments received on this discussion paper. They are planning a roundtable with stakeholders for 23 May 2017 in Frankfurt. They want to discuss their proposals before consulting on these during summer. A detailed agenda will follow.

Expected issues to be discussed: simplified calculations, exposures guaranteed and exposures to RGLA, risk-mitigation technique, reducing reliance on external ratings, USP, LAC DT and risk margin.

Depending on the final agenta AAE will decide upon participants. If a more detailed agenda were available in time the relevant issues could already be discussed during spring meeting of the Insurance Committee in May.

EU-Commission's Request to EIOPA for technical advice

22 February 2017: EU – Commission has issued
REQUEST TO EIOPA FOR TECHNICAL ADVICE ON THE REVIEW OF SPECIFIC ITEMS IN THE SOLVENCY II DELEGATED REGULATION AS REGARDS UNJUSTIFIED CONSTRAINTS TO FINANCING (Regulation (EU) 2015/35**)**

This technical advice shall be delivered by 28 February 2018.
EIOPA is invited to provide advice on the following three issues:
Methods and assumptions to be used

3.1. .when assessing the credit risk in calculating the spread risk submodule, with respect to criteria that could be used to identify certain unrated bonds and loans
3.2. …when calculating the equity risk submodule, with respect to criteria that could be used to identify certain portfolios of unlisted equity
3.3. …when calculating the equity risk submodule with respect to strategic equity investments

A publication of EIOPA with regard to this request is expected in the course of April.

Public Event on Reporting and Disclosure

EIOPA has organized a public event on reporting and disclosure for 19 April 2017 in Frankfurt.

They have received input addressing mistakes found in

- **Commission Implementing Regulation (EU) 2015/2450** with regard to the templates for the submission of information to the supervisory authorities and
- **Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015** laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report (ITS on Reporting and ITS on Disclosure), mostly on the Instructions (Annexes 2 and 3).

As these ITS are binding it is crucial to have, legal certainty and correctness of the legal texts are crucial in the area of reporting.

Ideally corrections of mistakes can be already considered in the next **release of version 2.2.0 of the Taxonomy** which is scheduled for July 2017.

Siegbert Baldauf will participate in this meeting.

Data process NatCat and some lines of business

In conjunction with the SCR – Review NSAs had been asked to collect data concerning some predefined risks (natural catastrophe) and data concerning LoBs were only a small data basis had been available when the stress parameters had been fixed.

Until now there has been no result available.

Lauri Saraste raised an issue concerning risk parameter for real estate risk – currently 25% for European countries. Current MSCI report came to other results:

> MSCI report is now based on a more comprehensive data basis. The appropriate real estate SCR need be no more than 15% for all of Europe. In addition a new calculation of volatility that excludes the UK is 12% based on European composites.
>
> *https://www.inrev.org/public-affairs/90-dossier-solvency-2/4995-updated-study-of-real-estate-volatility-challenging-solvency-ii-scrs-released-2*

Such developments should be observed further.

Next call: Date for next call has to be rescheduled because of a clash with the meeting of the Insurance Committee at that day.

Thursday, 18 May 2017, 9:30 – 10:30