

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

10 August 2017

EIOPA publication

17 July 2017:

EIOPA submits Implementing Technical Standards on reporting and disclosure and publishes the final Taxonomy version 2.2.0

The announced changes in reporting and disclosure are now reflected in the ITS. EIOPA had discussed the changes and the reason for the changes of the taxonomy in a public event in April.

SCR – Review:

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 ends	31 August 2017

According to the proposed timeline, working groups should send their comments to Siegbert Baldauf until 16 August 2017.

Participants reported the status of their occupation with the Consultation Paper.

Declan had sent some comments from the Irish actuaries. Siegbert will integrate these in the comment template. There might be more non-life issues in the expected second response for the Call for Advice (premium and reserve risk).

The LAC DT issue is identified as the perhaps most important issue in the current Consultation Paper. Although EU-Commission had only asked for a report on the different methods currently applied and on their impact regarding LAC DT, EIOPA announced a continued work on supervisory convergence (paragraph 457) that might lead to a proposal for changes of the Delegated Regulation.

The cross-sectorial working group of Lauri Saraste has already collected first comments. Simon Cureton reported the status. Additional input is expected from members of the Insurance Committee participating in a telephone conference at 31 July 2017 organized by Lauri.

Conditions affecting the treatment of deferred taxes differ considerably in the particular countries. EIOPA published an analysis based on the Day One templates for the situation per 1 January 2016. EIOPA will surely repeat this analysis using also the templates for the business year 2016. Nevertheless, they mostly investigated correlations and did not assess the causality sufficiently. Especially the fiscal regime in the countries, the accounting requirements, the treatment of future profits, etc. differs considerably and has to be reflected to achieve an adequate treatment and as far as possible a level playing field. The cross-sectorial working group will continue to work on this issue.

Carmela Calvosa participated as a substitute for Dylan. She informed the team about the status of this topic in France. French actuaries have already prepared comments. The project team would appreciate to receive and reflect these comments in an AAE – template.

In addition to LAC-DT, the cross-sectorial working group plans to deal with risk mitigation issues and - especially from the perspective of internal models - with USP.

Timeline:

It is necessary to have all comments by 16 August 2017 to comply with the proposed timeline below:

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|--|-----------------------|
| ➤ Consolidation of answers | 18 August 2017 |
| ➤ Draft response sent to the IC | 21 August 2017 |
| ➤ <u>Teleconference to discuss the draft (optionally)</u> | 24 August 2017 |
| ➤ Final draft to member associations and officers | 28 August 2017 |
| ➤ Sign off by officers and submission on | 31 August 2017 |

Siegbert Baldauf will organize a conference call for 24 August 2017 to discuss the draft comment template. The final draft should be available and sent to member associations and officers by 28 August 2017.

Second set of advice

EIOPA has announced a roundtable meeting on 27 September 2017, were they want to discuss issues contained in their second set of advice. To build an agenda, stakeholders are asked to indicate those items with highest priority from the list below.

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)

According to EIOPA’s planning and timeline, responses to these items will be part of a Consultation paper to be published early November. The results of the data request concerning Nat Cat have not been published. Depending on the outcome, there might be a need to adapt the calibration of the stress parameters.

A very important issue is the calibration of the interest rate shock. To my knowledge, there are several approaches under discussion with a preference for a minimum downward shock. The initial calibration was based on the history of GBP and Euro only. EIOPA has now data for all currencies. Taking into account all of these might lead to a higher volatility and an overestimation of the downward stress.

EIOPA is also working on a methodology to define the Cost of Capital rate. This rate – like UFR - reflects a long term estimation of the capital market.

Next call: Thursday, 14 September 2017, 9:30 – 10:30