

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

12 October 2017

### SCR–Review: Second set of advice

**Although the consultation paper on EIOPA’s second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation is not yet available, the project team should start preparatory investigations.**

The next consultation concerning the second set of advice is scheduled for November / December 2017. In preparation for this exercise, EIOPA had scheduled a roundtable meeting in Frankfurt at 27 September 2017. The number of participants per organisation was limited to three. ((IRSG, AAE, AEIP, AMICE, CFO Forum, CRO Forum, IE, RAB).

Lauri Saraste, Clemens Frey and Siegbert Baldauf participated in this meeting.

The slides presented by EIOPA during the roundtable meeting in Frankfurt (27 September 2017) and the described policy options can be used as a starting point for a goal-oriented preoccupation with the issues under discussion.

- 1) Loss absorbing capacity of deferred taxes
- 2) Risk Margin
- 3) Volume measure for premium risk and premium and reserve risks recalibration
- 4) Interest rate risk
- 5) Longevity and mortality risks
- 6) Simplifying the look-through approach
- 7) Counterparty default risk module: simplifications envisaged, exposures to CCP and possible adjustments to reflect EMIR

Using the example of longevity and mortality risk Siegbert Baldauf had prepared some slides containing relevant questions to be answered in order to achieve a common understanding of the issue. This is assumed a necessary precondition to develop an AAE comment.

Comparable investigations might be helpful for all issues contained in the expected consultation process in order to identify most relevant tasks for the working groups.

Although we still don’t know the final consultation paper, it is recommendable to alert working group members at this early stage. Lauri Saraste and Clemens Frey are scheduling telephone conferences with their working groups. Clemens will also invite Kartina Thomson to these calls to include the views of the AAE -non-life working group.

Concerning the impact, the interest rate risk is of high importance. The AAE answer to the discussion paper contained the proposal of a shift approach in order to find an adequate stress factor also for negative interest rates. Because of their backtesting, EIOPA concluded that the shifted approaches are not sufficiently prudent to measure the 1 in 200 year event. The shifted approaches would therefore not be considered in the planned impact assessment.

It is now necessary to understand and check the backtesting methodology and the shift parameters chosen for the backtesting. Especially German actuaries are trying to analyze this process aiming at a reassessment of these approaches.

As long as there are such open questions, the shifted approach should also be included in this impact assessment.

### **25 September 2017: EIOPA workshop on the public disclosure on LTG measures and measures on equity risk of Solvency II**

Stakeholders had been asked to present their assessment of the quality and transparency concerning the treatment of LTG – measures in the Solvency and Financial Condition Report (SFCR). It was acknowledged that this was the first time undertakings had to file this report.

Consumer protectors (Germany) required more information. They want to be able to assess the stability of an undertaking on their own. Other participants did not support this far-reaching and perhaps unrealistic demand. As undertakings have to apply for the use of LTG – measures it was recommended to rely on the supervisor.

Siegbert Baldauf, participating for the AAE, described the difficulties for external readers of the reports to come to a reliable assessment of the financial strength of an undertaking. This is not astonishing and comparable to the well-known situation relating to the introduction of the market-consistent embedded value (MCEV). A description of management actions and policyholder behaviour cannot be included in the SFCR. Nevertheless, these assumptions can influence the value considerably. SFCR and solvency ratio do not allow reliable conclusions concerning the financial situation of the undertaking.

However, concerning the mandatory disclosure, there is room for improvement. E.g., the narrative part and especially the executive summary should mention the use of LTG – measures and not publish only the solvency ratio achieved when using these measures.

It would be helpful if the mandatory templates disclosed in the SFCR were easily available for the public. (The Netherlands have published these templates for each solo entity).

EIOPA announced a first analysis of the SFCR towards end of 2017.



Solvency II Project Team Update

**Next call: Thursday, 9 November 2017, 9:30 – 10:30**