

Solvency II

The Actuarial Association of Europe (AAE) is a strong supporter of the European risk-based solvency framework, Solvency II. We also think that Solvency II is a construction where one must be careful with changing any detail in isolation. We favour a holistic approach to S II and think that certain elements will be better addressed in the 2020 review, which will also allow for changes in pillar I.

The AAE recently submitted a letter to the Commission covering its view on the EIOPA recommendations submitted to the Commission on the Solvency II SCR review earlier this year. The letter is attached. Specific aspects covered include:

- Alterations covering interest rate stresses should not be piecemeal and should reflect a full impact analysis. The elements of work to be reflected in this consideration include the UFR review and the LTG review. Each regulatory change in the meantime will affect the risk management of the undertakings. Hedging, pricing, and offering of products are affected. There is no reliable basis for investment decisions, especially those relating to long-term sustainable investments.
- On the calculation of the risk margin, EIOPA has advised a cost of capital rate of 6% but has simultaneously advised to postpone the review of other relevant aspects of the risk margin calculation. AAE sees that a suitably holistic assessment should be performed together with the LTG review and justified by a quantitative impact study and ideally by a market impact analysis at the appropriate level of granularity, allowing for all possible modifications.

Fundamentally, the AAE is of the view that Solvency II will not be well served by alterations to the regime which are made without holistic consideration of impacts.

LTG review

This review is scheduled to be completed in 2020. Following on from earlier comments, the work of the review should include a full consideration of the impact of any changes proposed as a consequence of the review. For instance, proposed changes to the risk free interest rate term structure package should be analysed alongside changes already introduced to Ultimate Forward Rate parameters.

For further information, please contact:

Ad Kok, AAE Chief Executive
Tony O’Riordan, Chairperson AAE Insurance Committee

aamkok@actuary.eu
tony.oriordan@newireland.ie