



ACTUARIAL ASSOCIATION OF EUROPE

Status of Solvency II

Spring Meeting in Sofia – Joint Meeting

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11 April 2019

Agenda

Overview of current activities:

- 1) Solvency II SCR – Review / LTG - Review
- 2) Sustainability
- 3) Request for technical advice
- 4) Risk Margin
- 5) EIOPA work programme

Status of SCR - Review

SCR – Review (due date was 31 December 2018)

- EIOPA had submitted their advice to the Commission (28 February 2018, ECON had proposed some adaptation (18 September 2018)
- Commission had published a draft of the Delegated Regulation (November 2018), including some of ECON's proposal, others shifted to next review
- ECON asked Commission not to shift requested issues to the 2020/2021 – review. (e.g. Cost of capital rate, country component of the volatility adjustment, long-term equity,...)
- Commission adapted the initial text and adopted the Delegated Regulation on 8 March 2019
- If European Parliament and European Council don't raise objections within a three months period, the Delegated regulation can enter into force.

Draft Delegated Regulation

Commission followed EIOPA's proposals included in the first and second set of advice. Adaptation of the Delegated Regulation published November 2018, including some of ECON's proposal

Not included: Interest rate stress

A considerable number of Articles is amended or newly inserted. Most of the changes are in line with EIOPA's proposals. Wording and sometimes structure is modified.

Not proposed by EIOPA:

Commissions initiative: Significant extension of Article 43, concerning changes of the basic risk-free interest rate term structure.

Proposed by ECON: Introduction of a new equity class: long-term equities (Article 169 extended, Article 171a inserted)

Draft Delegated Regulation: Long-term equity investment

Upon request of ECON the new asset class long-term equity investment has been introduced with reduced stress factor:

- Article 169 amended; Included: 22% decrease for long-term equity investment
- Article 171a inserted to describe the conditions that have to be met in order to meet the requirements. (duration more than 12 years, ring-fencing)

Upon request of ECON the preconditions have been weakened (duration more than 5 years, no ring fencing).

AAE comments on first draft (excerpt):

- 2) The proposed change of the Delegated Regulation has not been part of earlier consultations. A reliable assessment of the related risk resulting from this lowered stress is missing. An impact assessment is not available.
- 3) We consider that a deviation from the required one-year period for the Value-at-risk calculation is not technically enabled by current regulation.

Draft Delegated Regulation – Art. 43

Current Regulation

The rates of the basic risk-free interest rate term structure shall meet all of the following criteria:

a) insurance and reinsurance undertakings are able to earn the rates in a risk-free manner in practice;

(b) the rates are reliably determined based on financial instruments traded in a deep, liquid and transparent financial market.

The rates of the relevant risk-free interest rate term structure shall be calculated separately for each currency and maturity, based on all information and data relevant for that currency and that maturity.

They shall be determined in a transparent, prudent, reliable and objective manner that is consistent over time.

Draft version – significant extension

1. a), b) unchanged

The rates of the relevant risk-free interest rate term structure shall be calculated separately for each currency and maturity, based on all information and data relevant for that currency and that maturity.

5. A technique, data specification or parameter, including the ultimate forward rate, the last maturity for which the basic risk-free interest rate term structure is not being extrapolated and the duration of its convergence towards the ultimate forward rate, shall be modified by EIOPA at the request of the Commission to ensure that the rates of the relevant risk-free interest rate term structure are determined in a transparent, prudent, reliable and objective manner that is consistent over time.

Sustainable finance (1)

Formal request to EIOPA and ESMA for technical advices on potential amendments to, or introduction of, delegated acts under i.a Directive 2009/138/EC with regard to the integration of sustainability risks and sustainability factors (24 07 2018)

The Commission requests that and ESMA deliver their respective advices by 30 April 2019.

4. Issues on which EIOPA and ESMA are invited to provide technical advices

4.1. Organisational requirements

4.2. Operating conditions

4.3. Risk management

4.4. Target market assessment

Consultation Paper on Technical Advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and IDD (26 November 2018)

Proposed changes of Delegated Regulation (extract):

Organisational requirements: Extension of the task of the risk management function (Article 269)

Operating conditions: Extension of the prudent person principle (including new Article 275bis)

Extension of the task of the actuarial function (Article 272)

Risk management: Extension of Article 260 (risk management areas)

Extension of Article 262 (Overall solvency needs)

Sustainable finance (2)

28 August 2018

Request to EIOPA for an opinion on sustainability within Solvency II

EIOPA is asked to provide this opinion by 30 September 2019 in order to allow the Commission to consider any follow-up actions including in the context of the review of Solvency II.

3.1 Impact of prudential rules on insurers' sustainable investments

3.2 Considerations of sustainability factors with particular regard to climate in insurance and reinsurance undertakings' underwriting practice

3.3 Miscellaneous

16 January 2019: EIOPA published a Public Call for Evidence for an Opinion on sustainability within Solvency II (Deadline 8 March 2019)

Market participants are asked to provide evidence on the integration of sustainability risks in investment and underwriting practices

Next steps:

Based on the feedback received, EIOPA will prepare the draft Opinion to the European Commission for consultation during the second half of 2019.

Illiquid liabilities (1)

25 April 2018: REQUEST TO EIOPA
FOR INFORMATION RELATED TO
DIRECTIVE 2009/138/EC

Deadline 16 December 2018

EIOPA is asked to provide detailed
information on the liquidity of
insurance undertakings' liabilities,
taking into

account at least the following:

- Contractual options to (partially)
redeem those liabilities before
maturity;
- The related contractual penalties;
- The related tax incentives;
- The coverage of biometrical risks;
- Their average duration in practice.

29 October 2018: EIOPA published
Consultation paper: Request for
feedback on methodological
considerations regarding Illiquid
Liabilities

Deadline for Comments: 7 December 2018

35 questions to stakeholder relating to

Analysis of the illiquidity of insurance obligations.

- terms and conditions of the contract
- duration of insurance liabilities .
- Measuring illiquidity based on the variation in
cash flows under stresses

Analysis of the investments of insurers

- Analysis of the holding period of assets
- Risks of bonds over longer horizons
- Risk of equity investments

Illiquid liabilities (2)

25 April 2018: REQUEST TO EIOPA FOR INFORMATION RELATED TO DIRECTIVE 2009/138/EC .

- 3.1. Information on insurance liabilities
- 3.2. Information on asset management of insurers
- 3.3. Information on long-term guarantee measures
- 3.4. Information on the market valuation of insurance liabilities
- 3.4. Information on the market valuation of insurance liabilities

Consultation paper: Request for feedback on methodological considerations regarding Illiquid Liabilities

Based on the feedback received and further work, EIOPA will launch a request for information in early 2019

Activities:

Done: 13 December 2018:

EIOPA Stakeholder event in Frankfurt,

Expected:

1st Quarter 2019: Data request

Second stakeholder meeting?

Q3: Integration in LTG –opinion

Commission's call for technical advice to EIOPA

11 February 2019 Call for Advice relating to LTG – measures and a number of other measures as well to EIOPA.

Review requirements (minimum scope) provided by the Directive:

- LTG - measures and measures on equity risk;
- methods, assumptions and standard parameters used when calculating the SCR standard formula;
- Member States' rules and supervisory authorities' practices regarding the calculation of the MCR;
- group supervision and capital management within a group of insurance or reinsurance undertakings.

Others added, identified by stakeholder or Commission

EIOPA's advice is expected by 30 June 2020.

Request to EIOPA for technical advice

3.1. Extrapolation of the Risk-Free Interest Rate term structure (Art. 77a)
3.2. Matching adjustment (Art. 77b, 77c) and volatility adjustment (Art. 77d)
3.3. Transitional measures
3.4. Risk margin
3.5. Capital Markets Union aspects
3.6. Dynamic modelling of the Volatility adjustment
3.7. Solvency Capital Requirement standard formula
3.8. Risk-mitigation techniques and other techniques used to reduce SCR
3.9. MCR

Exemplary:

3.1.-3.3. LTG – Review
3.4. Appropriateness of risk margin
3.5. Market risk: under consideration of long-term nature of insurance business, in particular equity risk and spread risk (Illiquidity!)
3.7. open issues from SCR- Review: interest rate risk
Calibration of underwriting risk
CAT risks in standard formula
3.8. Reinsurance non-life underwriting
3.9. member-states' rules and practises, e.g. use of cap und floor

Request to EIOPA for technical advice

3.10. Macro-prudential issues
3.11. Recovery and resolution
3.12. Insurance guarantee schemes (IGS)
3.13. Freedom to provide services and freedom of establishment
3.14. Group supervision
3.15. Reporting and disclosure
3.16. Proportionality and thresholds
3.17. Best estimate
3.18. Own funds at solo level
3.19. Reducing reliance on external ratings

Exemplary:

3.10. "closed list" of items: Advice on improvement of

- ORSA;
- systemic risk management plan;
- liquidity risk management planning and liquidity reporting;
- prudent person principle.

3.11., 3.12. Assessment SII rules on Recovery; Need for harmonisation of resolution; Trigger „early intervention“

3.15 Appropriateness of volume and frequency

3.17. Supervisory practises with regard to calculation of the best estimate

Use of ESG, management actions
(Verwendung ESG, Management actions, options and guarantees

3.18. Tiering banking vs. insurance

Commission's call for technical advice to EIOPA

The proceeding can be expected comparable to the SCR – Review process. EIOPA is asked in a next step to prepare a consultation paper.

This will be the basis for our comments.

Preparatory work has already be done:

- Illiquid liabilities
- Extrapolation of risk-free rate curve
- Reporting and Disclosure
- Recovery and resolution

Consultation
LTG – Report
Consultation
Opinion

Underlying documents can be found under:

<https://eiopa.europa.eu/Publications/Requests%20for%20advice/signed%20note.pdf>
https://eiopa.europa.eu/Publications/Requests%20for%20advice/RH_SRAnnex%20-%20CfA%202020%20SII%20review.pdf

Relevance for the Solvency II working group

To discuss

Preliminary assessment (might change depending on EIOPA's consultation paper)

Actuarial skills and knowledge required

- 3.1 **Extrapolation**
- 3.2 Matching adjustment (Art. 77b, 77c) and
 volatility adjustment (Art. 77d)
- 3.3 Transitional measures
- 3.4 Risk margin
- 3.5 Capital Markets Union aspects
- 3.7 Solvency Capital Requirements and Standard formula
- 3.10 Macro-prudential issues
- 3.15 Reporting and Disclosure

EIOPA's data request

EIOPA announced the expected data request in the context of LTG – Review 2019 and the 2020 Solvency II Review at 18 March 2019

Undertakings are asked to provide the following information

- Information on the Long-Term Guarantees (LTG) measures
- Information on the dynamic volatility adjustment
- Information on long-term illiquid liabilities

NSAs will contact a representative sample of undertakings regarding the provision of information for each information request.

Timeline:

17 May 2019: Deadline for the undertakings to submit results to NSAs

29 May 2019: Deadline for NSAs to report to EIOPA (except group data)

14 June 2019: Deadline for insurance groups (for the dynamic VA)

28 June 2019: Deadline for NSAs to report to EIOPA on groups

EIOPA's data request Extrapolation

Extrapolation

This tab is only relevant for the pre-selected life and composite undertakings from the euro area, from Bulgaria and from Denmark for which the materiality threshold for the impact of extrapolation as defined below is exceeded.

The materiality threshold is defined as follows:

$$\frac{\sum_{t>LLP} CF_t}{\sum_t CF_t} \leq 10\%$$

materiality threshold not exceeded

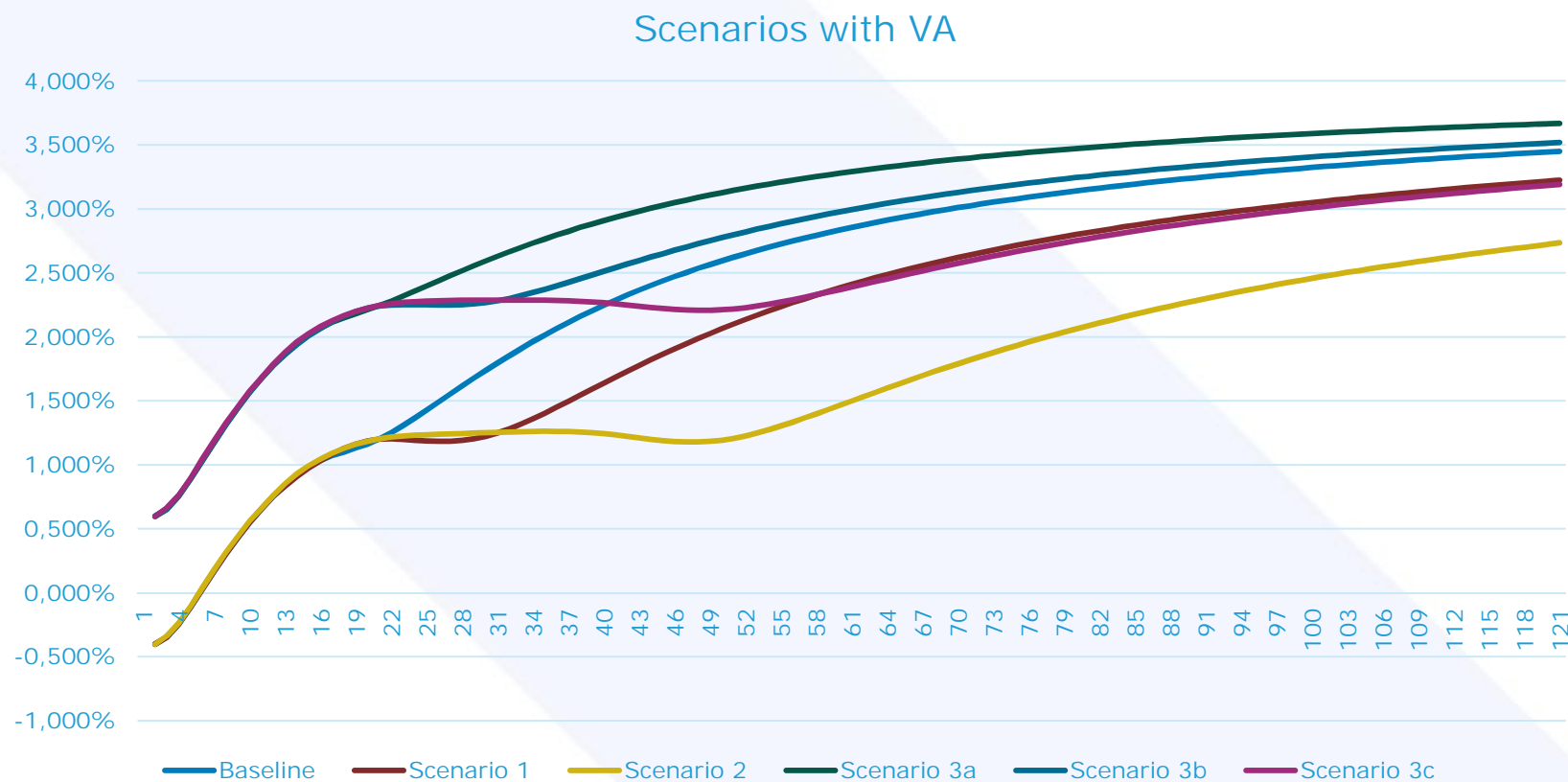
$$\frac{\sum_{t>LLP} CF_t}{\sum_t CF_t} > 10\%$$

materiality threshold exceeded.

Where CF_t represent the best estimate cash flows t years from the reporting date

- Scenario 1: Increase of the LLP for the euro from 20 to 30 years. For all other currencies, the risk-free interest rates are unchanged.
- Scenario 2: Increase of the LLP for the euro, as well as for currencies pegged to the euro, from 20 to 50 years.
- Scenario 3: An increase of swap rates by 100 bps, combined with the following three settings for the LLP:
 - Scenario 3a: maintain an LLP of 20 years for the euro
 - Scenario 3b: Increase of the LLP for the euro from 20 to 30 years; and
 - Scenario 3c: Increase of the LLP for the euro from 20 to 50 years.

EIOPA's data request Extrapolation



EIOPA's work programme 2019

Strategic Objective 2: Leading convergence towards high-quality prudential supervision throughout the EU

EIOPA has the following priorities for 2019:

- Further development of the regulation and eventually authorisation of PEPP (Commissions legislative proposal)
- Preparing the ground for EIOPA's Opinion due in 2020 on the LTG Measures - on the basis of robust evidence on their effectiveness, testing ideas for improvement and considering impact on existing regulation.
- Further refinement of the International Capital Standard (ICS) 2.0 as reference ICS and starting confidential reporting to international colleges
- Achieving proportionate and relevant application of IORP II throughout Europe

EIOPA's work programme 2019

Planning priority for 2019: SII review context: Preparing the ground for EIOPA's Opinion due in 2020 on the LTG Measures

ID	Products Due Date	Due date
2/1101	Review of Reporting and Disclosure Commission Implementing Regulations following amendment of Delegated Regulation and regulatory feedback loop	Q2 (2019 review) + (general review (2020))
2/1102	Long term guarantees review (thematic focus for 2019 to be specified): - Full Impact Assessment - EIOPA opinion to be delivered by 1/1/2021 at latest	Q2 Q4
2/1103	Follow up as required to advice provided in 2018 on Solvency Capital Requirements standard formula including on health risk	Q1-Q4
2/1104	Ongoing work on wider environmental, social and governance issues as required and on natural catastrophes ("climate change")	Q1-Q4
2/1105	Development/annual update of Risk Free Rate Methodology - in respect of representative portfolios, deep/ liquid transparent criteria, and ultimate forward rate	Q4
2/1106	Ongoing work stemming from Calls for Advice and Opinion on Sustainable Finance on the basis of corresponding EIOPA Action Plan	Q4
2/1107	Response to Commission Call for information on illiquid liabilities	Q3
2/1108	Potential additional Calls for Advice from the European Commission in the context of the wider Solvency II 2020 Review	Contingent on demand
2/1109	Solvency II Rule Book on website	Q4

Annex

Draft Delegated Regulation – Art. 43 new

2. The techniques, data specifications and parameters used for determining the technical information on the relevant risk-free interest rate term structure referred to in Article 77e(1) of Directive 2009/138/EC, including the ultimate forward rate, the last maturity for which the relevant risk-free interest rate term structure is not being extrapolated and the duration of its convergence towards the ultimate forward rate, shall be transparent, prudent, reliable, objective and consistent over time.

3. EIOPA shall inform the Commission of any substantial change in the data used for determining the technical information on the relevant risk-free interest term structure. A substantial change shall mean any change which renders the techniques, data specifications or parameters invalid, including the ultimate forward rate, the last maturity for which the basic risk-free interest rate term structure is not being extrapolated and the duration of its convergence towards the ultimate forward rate, .

Draft Delegated Regulation – Art. 43 new

4. In the event of a substantial change in the data as referred to in paragraph 3, EIOPA may submit to the Commission a proposal containing such modifications to the techniques, data specifications or parameters as are needed to address the invalidity and are proportionate to the substantial change in question. That proposal shall be accompanied by an assessment of the appropriateness and impact of those proposed modifications.

5. A technique, data specification or parameter, including the ultimate forward rate, the last maturity for which the basic risk-free interest rate term structure is not being extrapolated and the duration of its convergence towards the ultimate forward rate, shall be modified by EIOPA at the request of the Commission to ensure that the rates of the relevant risk-free interest rate term structure are determined in a transparent, prudent, reliable and objective manner that is consistent over time.

Commission's call for technical advice to EIOPA

7 February 2019 Commission sent to EIOPA the

Request to review the methodology for the activation of the
“country component” of the volatility adjustment under Solvency II

This request was initiated by a letter from ECON (Mr. Gualtieri) to Commission (Mr. Dombrovskis). ECON referred to a shortcoming of the current functioning of the country component.

Although a review is part of the 2020 review, EC invites EIOPA now to immediately start thinking of improving the functioning and efficiency of the country VA.

Underlying document can be found here:

https://eiopa.europa.eu/Publications/Requests%20for%20advice/signed_letter_08_02_19.pdf

Reporting and Disclosure

EIOPA launched a

Call for input on the Solvency II reporting and disclosure review 2020 (19 December 2018) with deadline 21 February 2019)

Comments submitted before 31 March 2019 considered on a best effort basis

https://eiopa.europa.eu/Publications/Consultations/Call%20for%20input_reporting_disclosure%20review%202020.pdf

Goal: EIOPA want to assess if the requirements remain fit-for-purpose and in particular if the requirements allow a risk-based and proportionate approach.

The paper consists of a comprehensive questionnaire covering all aspects of supervisory reporting and public disclosure – content and timing as well.

The AAE has submitted comments on 28 March 2019