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Actuarial Association of Europe (AAE) inputs its comments on EIOPA discussion paper on systemic risk and macroprudential policy in insurance (EIOPA-BoS/19-220)

AAE considers that Solvency II as a regulatory regime is currently well positioned to address the different risks run by insurers and to ensure that insurers are sufficiently capitalised to withstand substantial shocks. EIOPA's work should target identification and assessment of potentially systemically risky activities and behaviours, seeking to limit and monitor such activities and behaviours so that insurance remains a stabilising element when it comes to mitigating systemic risk for society. EIOPA should abstain from raising the bar with regards to solvency, risk management or liquidity requirements for insurers as this would result in more expensive insurance for customers within a more rigid framework.

We consider that, across the insurance industry as a whole, the level of systemic risk is at a lower level than for banking. Examples of drivers of systemic risk in insurance include guarantees provided by insurance companies, the impact of catastrophes, specific product types carrying risks which cannot easily be hedged, and reinsurer aggregation of risks. Insurers generally have significant mitigants in place for these risks, e.g. claims reserves supported by appropriate assets, reinsurance and reinsurance retrocession. Additional security provided by insurance guarantee schemes, which are potentially a strong mitigant of systemic insurance risk, should be considered. In addition, many of the risks run by insurers are local in nature which acts as a limitation to systemic impact.

Any addition of new tools to Solvency II should respect the coherence of the whole framework, especially the required confidence level of 99.5% over a one-year horizon. Adding new requirements might require a modification or adaptation of existing requirements.

The objectives of EIOPA in relation to financial stability and systemic risk are also in the scope of microprudential supervision, and are implicitly part of the tasks of the key functions. As such, they fall to be considered within the ORSA of the undertakings. It remains unclear how microprudential and macroprudential supervisory activities could be separated, and separation has the potential to introduce undue complexity in the sphere of supervision.

The current text and assessment do not adequately consider the full power of the ORSA and the Prudent Person Principle. There might be room for some specific explicit guidance within the existing Solvency II requirements (Pillar 2) in order to direct undertakings and function holders at particular issues likely to drive systemic risk. AAE would be happy to support the preparation of such guidance, which should reflect the requirement for proportionality.

AAE believes that Solvency II in general operates effectively through the application of its direct and indirect tools. Supervisory convergence is needed before introducing additional requirements. Making maximum use of already available supervisory tools, reporting and disclosure can help to address systemic risks. We consider that the valuation and solvency capital adjustments, i.e. symmetric adjustment, Volatility Adjustment and Matching Adjustment, do contribute to limiting pro-cyclicality and encourage EIOPA to ensure that they are not used to incentivise inappropriate exposures due to their mitigating impact.

For more information please contact

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