ACTUARIAL ASSOCIATION OF EUROPE

Solvency II – Review: Consultations
Joint Meeting in Vienna

Siegbert Baldauf

10 October 2019

Agenda

1) Review process and timeline
2) Commission’s request for technical advice
3) Currently open consultations
4) Forthcoming consultation on EIOPA’s opinion
5) Discussion paper insurance stress test
6) Solvency II Working Group

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Solvency II review in a two-staged process

Review required by Solvency II Directive and Delegated Regulation

The Review has to be performed as a two-stage process:

- 1st Step: Review of SCR standard formula until December 2018

  Result:

  - Delegated Regulation adapted based on EIOPA's advice
  - Published Official Journal 18 June 2019 applicable as of 8 July 2019
  - Parts relating to LAC DT as of 1 January 2020.
- 2nd Step: *A second and more comprehensive revision is due in 2020-21. In that revision, we will look at the whole regime and among other things, review long-term liabilities.* (quotation: Gabriel Bernardino)

5. Juni 2018: **Interview with Gabriel Bernardino with Pensioner & Förmåner and Dagens Industri**

Timeline for 2nd step of SII - review

Solvency II Directive: Review of the **LTG–measures** required in Article 77f. Detailed prescription of process and timeline.

Due date: 1 January 2021 (relevant for the whole review process)

Prescribed steps:

- Until 2020 EIOPA reports to European Parliament, European Commission and the Council annually on use and impact of the LTG –measures (Reports 2016, 2017, 2018 are available)
- EIOPA shall submit an **opinion** on the assessment of the application of the LTG –measures to Commission by **30 June 2020**
- Based on this opinion, Commission shall submit a report to the European Parliament and to the Council by 1 January 2021
- This report shall be accompanied, if necessary, by legislative proposals.

Solvency II - Review: Zeitplan

Apr 18	EIOPA receives Call for Information on asset and liability management from European Commission
Nov 18	Publication of LTG report 2018
Feb 19	EIOPA receives Call for Advice on the 2020 review from the European Commission
Mid July to mid Oct 2019	Public consultation on draft advice on reporting and disclosure and insurance guarantee schemes
Nov 2019 to Jan 2020	Public consultation on draft Opinion (covering all advice other than on reporting and disclosure and insurance guarantee schemes)
Dec 2019	Publication of LTG report 2019
	EIOPA response to Call for Information on asset liability management
June 2020	Publication of Opinion on 2020 review
December 2020	Publication of LTG report 2020

Source: EIOPA

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Request to EIOPA for Technical Advice

Article 77f
- long-term guarantees (LTG) measures
- measures on equity risk

Article 111(3)
- specific methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement standard formula

Article 129(5)
- rules and supervisory authorities' practices on the application of **article 129** (calculation of the Minimum Capital Requirement)

Article 242(2)
- the supervision of insurance and reinsurance undertakings in a group

In addition
- other items related to the supervision of insurance and reinsurance undertakings

Request to EIOPA for technical advice

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

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Consultations related to SII - review

1) Request for Feedback on Methodological Considerations regarding Illiquid Liabilities
29 October 2018 – 7 December 2019

2) Discussion Paper on Systemic Risk and Macroprudential policy in Insurance
29 March 2019 – 30 April 2019

The AAE commented on these consultations

3) Consultation Paper on proposals for Solvency II 2020 Review Package on Supervisory Reporting and Public Disclosure 12.Juli 2019 – 18 October 2019

4) Consultation Paper on proposals for Solvency II 2020 Review Harmonisation of National Insurance Guarantee Schemes 12.Juli 2019 – 18 October 2019

The AAE will comment on open and expected consultation papers

5) Expected: Consultation paper on EIOPA's opinion
Mid-October 2019 – January 2020

Reporting and Disclosure – first wave

Consultation Paper on proposals for Solvency II 2020 Review Package on Supervisory Reporting and Public Disclosure 12.Juli 2019

1) General issues on Supervisory Reporting and Public Disclosure	2) EIOPA proposals template by template plus Annexes	3) Solvency and Financial Condition Report Financial Stability Reporting	4) Financial Stability Reporting

Solvency and Financial Condition Report

Proposed adaptation of SFCR

One report – Two sections

Amendment of Directive and Delegated regulation required

Dedicated to policyholders ("Two-pager"-type):

. Information in simple language and in the language of the policyholder (on request);

• Standard tables to provide required standardized information (e.g. on MCR/SCR coverage);

• The document must include a disclaimer that more detailed information can

be found in the second section of the SFCR and a link to that section.

Dedicated to professional users:

Text including QRTs needs to be machine-readable and processable

• No repetition of legal requirements

• Relevant undertaking-specific information

• More structured formats (graphs, tables) could be prescribed

• Four areas: Business and performance, System of Governance, Valuation for solvency purposes and Risk and capital management

Financial stability reporting

No change of deadlines: Quarterly financial stability reporting is key to the timely production of the Risk Dashboard quarterly

Amendments to table S.23.02 requiring detailed information by tiers on own funds.

S.38.01.10 (Duration of technical provisions) request

- the "modified duration" in order to achieve direct comparability with the reported asset durations and
- make the template a quarterly template instead of annual.

Open Question to stakeholders:

Would requesting the effective duration of both assets and liabilities in addition to modified duration be feasible for groups/undertakings?

Reporting and Disclosure

EIOPA is planning a field test to test the proposed changes of the templates.

Field test will start short-term.

- Participants: all undertakings
- Developed for solo entity entry points
- Submission to NCA not needed
- Timeline: no prescribed deadline; preferably shortly after the end of consultation of EIOPA's opinion

Taxonomy extended for this purpose
The package with all necessary information will be provided on the website of EIOPA

"Field test thus offers an additional chance to go through the templates"

Reporting and Disclosure – second wave

Upcoming: Solvency II 2020 Review Package on Supervisory Reporting and Public Disclosure - Second wave October (?) 2019

Group Reporting and Disclosure	Technical aspects of the reporting and disclosure processes	Data quality aspects	Individual QRTs linked to other areas of the SII 2020 Review, in particular) the Long-Term Guarantee templates

Not considered in Opinion

National Insurance Guarantee Schemes (IGS)

- IGS should provide protection to policyholders when an insurer can no longer meet its contractual obligations
- EIOPA: Every member state should have a national IGS (Currently 11 member states are without an IGS)

<u>Relevance for Solvency II:</u> Avoid impairing coherence of the framework!

- Adding new tools to solvency II has to respect especially the required confidence level of 99.5% VaR over a one-year horizon.
- An extension by new tools needs due consideration of the effects on this basic requirement of the Solvency II framework.
- Adding new requirements might require a modification or adaptation of those already existing.

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Preparatory activities started early

EIOPA: Public events relating to Solvency II Review			
5/6 June 2019 Workshop on 2020 Review of Solvency II	15 July 2019 Public event Reporting and Disclosure – 1st wave	16 July 2019 Public event on various topics of Solvency II review	30 September 2019 Public event Reporting and Disclosure – 2nd wave

Country-specific use of LTG measures

Number of undertakings using the measures							
Type of undertaking	Total number of undertakings	VA	TTP	MA	TRFR	DBER	No measure
Life	596	273	110	20	4	0	293
Non-life	1.620	220	11	0	0	1	1.398
Both life and non-life	402	179	40	13	2	0	213
Reinsurance	294	24	1	1	1	0	271
Total	2.912	696	162	34	7	1	2.175
Number of countries		23	11	2	4	1	

Source: EIOPA; LTG – Report 2018

Risk-free interest rate curve

Change of volatility adjustment several options discussed
Example:
- Split in permanent volatility adjustment and an extraordinary adjustment

Extrapolation of the risk-free rate

Options concerning last liquid point (LLP) for the Euro
- unchanged
- LLP = 20, additional safeguards in Pillar2, Pillar3
- LLP = 30
- LLP = 50

Concerning methodology
- Alternative: Considering liquid points beyond LLP
  replace Smith-Wilson

Comparable to the methodology proposed by UFR–Committee in the Netherlands for pension business

Interest rate down stress

Remainder from SCR – Review: EIOPA's proposed advice relating to interest rate down stress

Proposed stress:

Proportional stress
+
Additive component for the liquid part

Possible changes of extrapolation methodology have to be considered; specially changes of the LLP

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Insurance Stress Test: Discussion paper

EIOPA BoS-19/274 22 07 2019

Discussion Paper on Methodological principles of insurance stress testing

Deadline for comments: 18 October 2019

The paper contains 69 questions concerning the methodology of stress testing.

Content:

- Stress test process and objectives
- Scope of stress tests
- Scenario design of a stress test
- Shocks and their application in a stress test
- Data collection and validation

Reduction of frequency considered: Every 3rd instead of every 2nd year

Focussed sensitivity analysis and assessment in between

Insurance Stress Test: Discussion paper

Some topics:

- Microprudential vs. macroprudential stress tests
- Recalculation of the baseline for stress test? Currently based on SII
- Change of time horizon for stress test?
- Management rules in stress-scenarios
- Historical vs forward-looking scenarios?
- Underwriting risk: recalibration of shocks (Biometry, lapse,..)

Several issues had already been discussed in conjunction with the determination of parameters to be used in the standard formula and are now fixed in the Delegated regulation.

Identified Risk: Separate model for stress test purposes diverging from Solvency II.(Reinventing the wheel!)
→ We will comment on this paper too.

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Solvency II Working Group

Solvency II Working Group

Current list of members

Chair:	Siegbert Baldauf
Vice Chair:	Daphné de Leval
Members:	Lauri Saraste
	Declan Lavelle
	Nils Dennstedt
	Matthias Pillaudin
	Frank Schiller
	Debbie Ramdien-Sonai
	Lutz Wilhelmy

S II Working Group: Tasks and Capacity

Identified tasks for the Solvency II Working Group

1) Remainders from SCR – Review ✓
2) LTG – Review (extrapolation, VA/MA, transitional) ✓
3) Systemic risk and macroprudential tools ✓
4) Risk margin ✓
5) Funding of insurance guarantee schemes **done**
6) Reporting and disclosure (1st wave) **done**
7) Reporting and disclosure (2nd wave) **(✓)**
8) Sustainable Finance **done**
9) Macroprudential issues **(✓)**
10) Best estimate **(✓)**

✓: Recognised as task **(✓): priority has to be assessed**

Relevance for the Solvency II working group

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

Next steps

- Consultation paper on EIOPA's opinion expected mid-October

- Meeting of Solvency II Working Group scheduled for
  7 November 2019 in Brussels

Planned agenda:

- First analysis of the consultation paper available.
- Tasks for the working group are identified
- Assignment of tasks to members
- Fixing timeline

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Thank you very much for your attention!

Solvency II review Consultations

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