



ACTUARIAL ASSOCIATION OF EUROPE

Solvency II – Review: Consultations Joint Meeting in Vienna

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10 October 2019

Agenda

- 1) Review process and timeline
- 2) Commission's request for technical advice
- 3) Consultations on EIOPA's opinion
- 4) Discussion paper insurance stress test

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)

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.

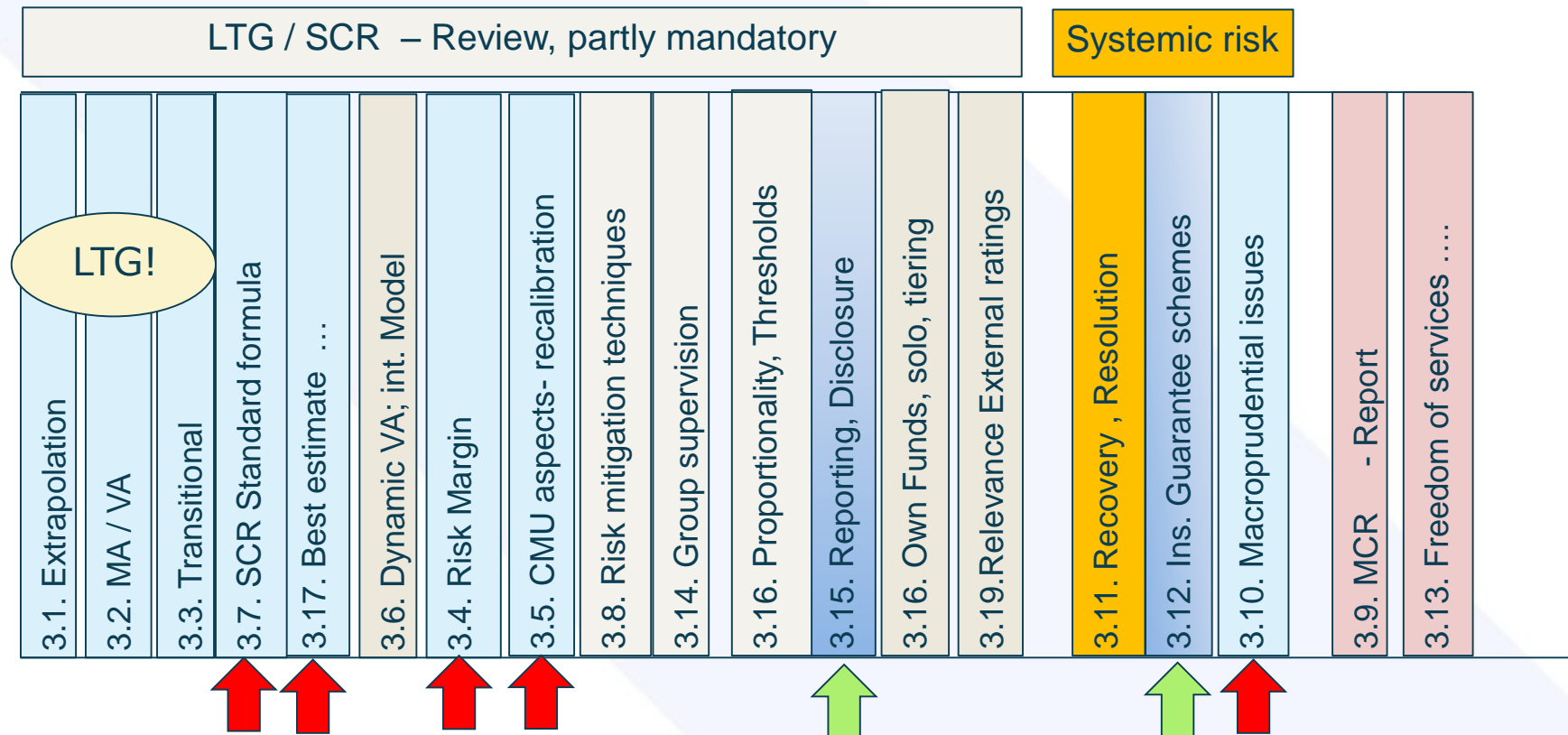
Due date: 1 January 2021 (relevant for the whole review process)

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.

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)



Consultations related to SII - review

1) Request for Feedback on Methodological Considerations regarding Illiquid Liabilities

29 October 2018 – 7 December 2019

The AAE commented on these consultations

2) Discussion Paper on Systemic Risk and Macroprudential policy in Insurance

29 March 2019 – 30 April 2019

3) Consultation Paper on proposals for Solvency II 2020 Review Package on Supervisory Reporting and Public Disclosure

12.Juli 2019 – 18 October 2019

The AAE will comment on open and expected consultation papers

4) Consultation Paper on proposals for Solvency II 2020 Review Harmonisation of National Insurance Guarantee Schemes

12.Juli 2019 – 18 October 2019

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

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

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)

Relevance for Solvency II: 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.

Preparatory activities

EIOPA: Public events relating to Solvency II Review

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

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

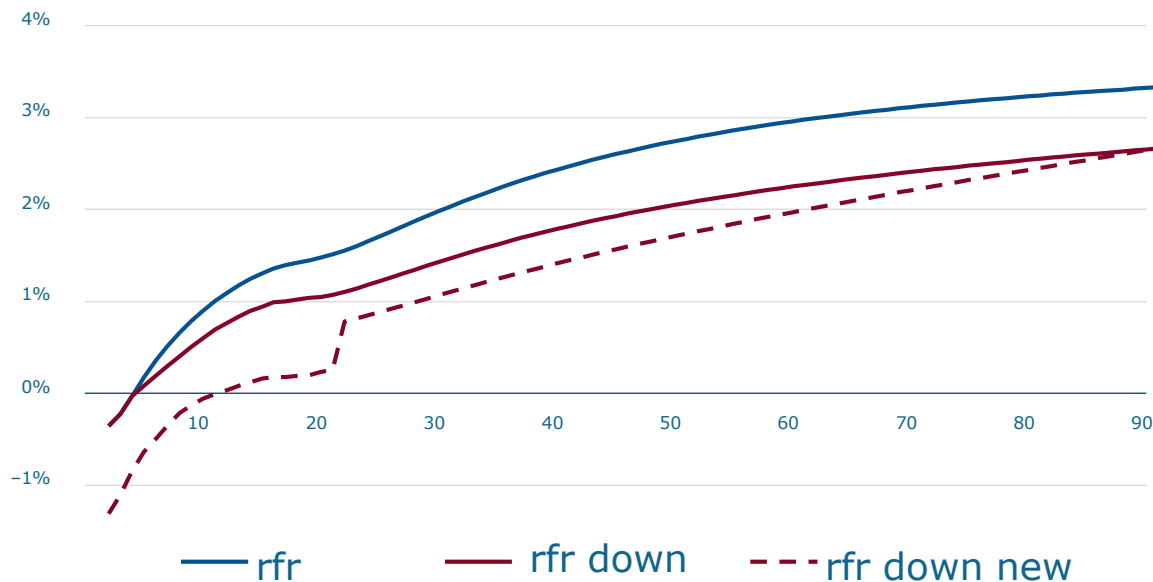
Concerning methodology

- 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

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.

Thank you very much for your attention!

Solvency II review Consultations

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