

PRESS RELEASE

AAE publishes commentary paper 'A Review of the Design of the Solvency II Risk Margin'.

Brussels, 18 December 2019:

The Actuarial Association of Europe publishes its commentary paper "[A Review of the Design of the Solvency II Risk Margin](#)".

In this paper we review the current design of the Solvency II risk margin. The aim of the risk margin is to provide an estimation of the cost a hypothetical third party would expect to charge (in addition to the Solvency II 'best estimate liability') to take on a book of insurance liabilities. We make suggestions that respect this principle. We also explore assumptions that would be most appropriate for the reference undertaking assumed to be taking on the relevant liabilities.

The modifications we propose should help to make the end calculation more robust and stable for individual firms, whilst retaining an appropriate level of responsiveness to capital needs and an underlying structure that is actuarially sound. Our findings include

- The currently discussed methods to estimate is cost of capital rate are not well suited to conclude whether the risk margin it too high, too low or about right. New methods will need to be developed to inform a decision for a rate change.
- Multi-year dependencies can lead to situations that can be capture by a falling (mass lapses) or raising (asbestos like liability) capital cost rate, if and only if they are material and the risk is dominant for the undertaking.
- The interest sensitivity of the risk margin is an economic reality. AAE is currently investigating to classify the cases which can be addressed simply by a change in the assets backing the risk margin
- Corporate taxes influence the risk margin in proportion to the interest rate. This effect mitigates the overall interest sensitivity to some extent.

- End of press release -

Notes for editors

1. For further information please contact Cecilia Thorn, Chief Executive (tel. +32 2 201 60 21), ceciliathorn@actuary.eu
2. Copies of all AAE press releases are available on the AAE website (www.actuary.eu)
3. The Actuarial Association of Europe (AAE) was established in 1978 under the name Groupe Consultatif to represent actuarial associations in Europe. Its primary purpose is to provide advice and opinions to the various organisations of the European Union - the Commission, the Council of Ministers, the European Parliament, the European Supervisors and their committees – on actuarial issues in European legislation. The AAE currently has 36 member associations in 35 European countries, representing over 25,000 actuaries. Advice and comments provided by the AAE on behalf of the European actuarial profession are totally independent of industry interests. The Actuarial Association of Europe is registered in the EU Transparency Register under number 550855911144-54