



ACTUARIAL ASSOCIATION OF EUROPE

Non-Life Working Group Update

INSURANCE COMMITTEE, VIENNA

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General Update

- We had a couple of conference calls over this session.
- Three main activities:
 1. Non-life SII topics prioritized for 2020 review
 2. USPs
 3. Risk Mitigation Techniques
- **Call for volunteers**

NON-LIFE SII TOPICS FOR 2020 REVIEW

Declan Lavelle

Non-life SII topics prioritised for 2020 review

- Focus of EIOPA's 2020 SCR review is mainly on issues that affect life insurers.
 - NLWG has considered which non-life issues the AAE might seek to promote as part of the review.
 - Decided to prioritise two topics:
 - 1) Alignment of TP Contact Boundary and SCR / Expected Profits on New Business
 - 2) Premium Volume Measure
- and to propose **practical and simple adjustments**

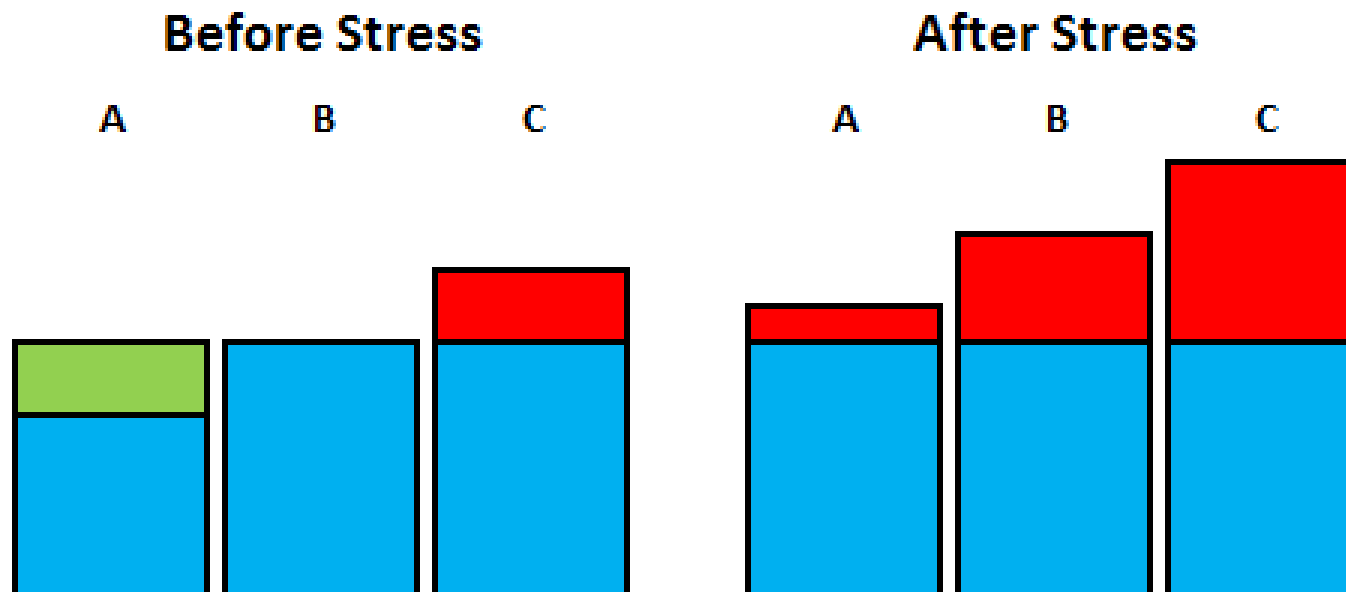
Alignment of TP Contact Boundary and SCR

- The SCR for Underwriting Risk for Non-Life includes a component for “Premium Risk”*
- A key component of the calculation is the Earned Premium over the next 12 months
- Typically c50% of next year Earned Premium is not yet written at the SCR calculation date
- The Standard Formula calculation requires capital for **unexpected losses** on this unwritten business but does not recognise the **expected profits** on this business
- NLWG has developed an adjustment to allow for this.

**note this is very different to the approach to Life Underwriting Risk*

Alignment of TP Contact Boundary and SCR

Next Year's Business



Claims and Expenses

Expected Profit

Expected Loss

Under current rules all 3 companies are required to hold the same capital (based on Company B) but the risks are very different

Alignment of TP Contact Boundary and SCR

π = expected % profit/loss
for business written in next 12 months

σ = existing volatility parameter

$$\sigma_{\text{future prem}} = \max((3\sigma - \pi)/3, 0),$$

$$\sigma_{\text{adjusted}} = (\sigma * V_{\text{prem existing}} + \sigma_{\text{future prem}} * V_{\text{prem future}}) / V_{\text{prem total}}$$

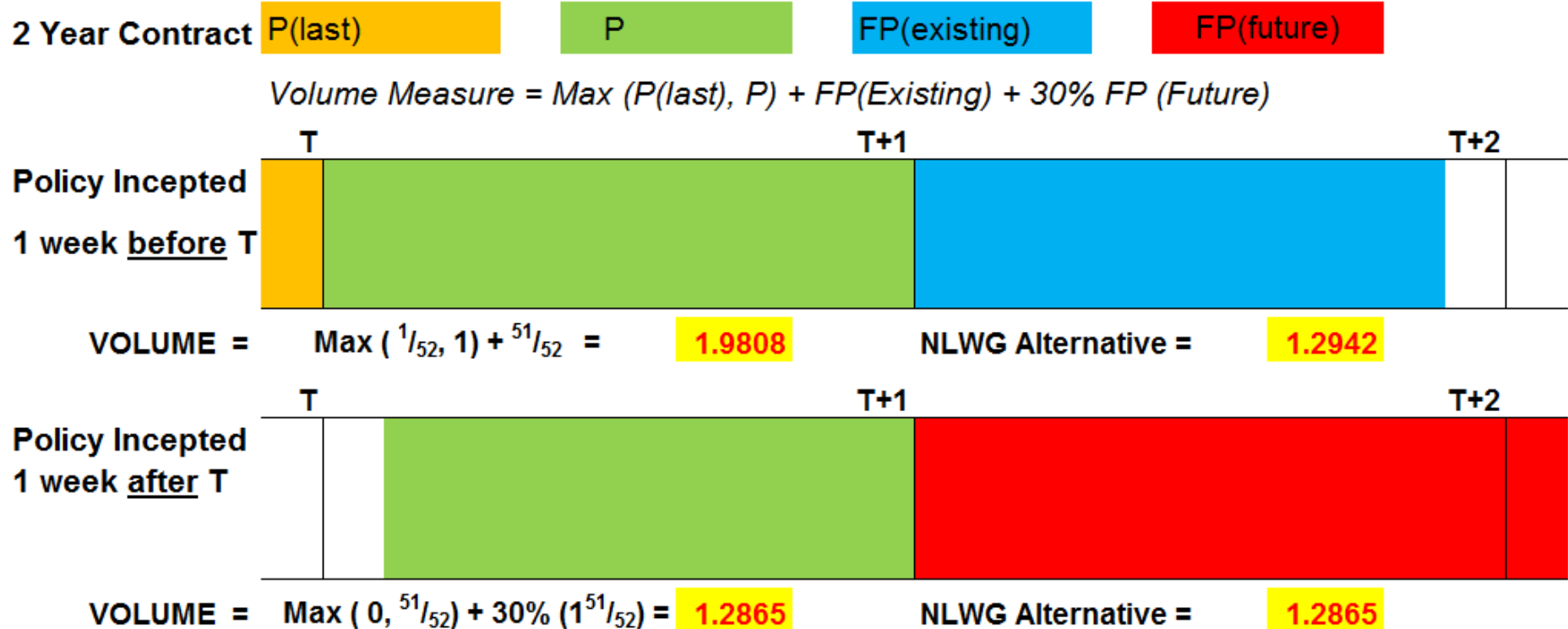
i.e. weighted average of volatility for existing and future business. Volatility for future business is adjusted for expected profits.

Premium Volume Measure

- The SF Premium Volume measure has components for “Future Premium” which is earned after the next 12 months.
- The Future Premium component for multi-year business to be written over the next 12 months was adjusted (multiplied by 30%) by EIOPA in the recent delegated act changes.
- NLWG proposes that the **30% factor is also applied to existing multi-year business.**
- NLWG also proposes that, **for 1-year business the Future Premium component is set to zero.**

Premium Volume Measure

Illustrative example with 2 year contract



**Under current rules, these 2 policies pose very similar risks
but have very different volume measures**

Premium Volume Measure

Rationale:

- 30% factor is intended to allow for the fact that losses **during** the next 12 months are not 100% correlated to losses **after** the next 12 months.
- No Future Premium components for 1 year business means that the volume measure will **always reflect one year's worth of business**. (This is not currently the case where there is a gap between the initial recognition date and the date that business goes on risk).

WORK PLAN 2020

Matthias Pillaudin

Work plan for Spring 2020

- **Solvency II**
 - keep in touch with the Solvency II Project Team – Review 2020
 - Feedback on USPs addressed to the EIOPA including some proposals to tackle identified issues
- **Risk mitigation strategies** : using the results of the survey as starting point to further discussion with EIOPA -> Goal: harmonization and improved applicability of RMTs throughout Europe.
- **Other topics**
 - Climate changes : Actuarial Climate Index / Feedback from MAs
 - AoB with EAs