

**ACTUARIAL ASSOCIATION OF EUROPE (AAE)**  
**COMMENTS ON EIOPA'S CONSULTATION PAPER CP 19-006 ON THE OPINION**  
**ON THE 2020 REVIEW OF SOLVENCY II**

EIOPA's advice has been requested by the European Commission on a variety of issues relating to Solvency II which are highly relevant to the actuarial profession. This consultation paper analyses the ongoing adequacy of core elements of the Solvency II framework which relate to the evaluation of technical provisions, the risk margin and some other elements of the Solvency Capital Requirement (SCR)-review from 2018. In addition, EIOPA proposes the extension of the framework to incorporate macroprudential elements. The AAE comments on the consultation are predominantly related to issues which have actuarial relevance.

To substantiate our comments, we have provided an in-depth analysis of some issues in the comment templates. Some of the main issues which we have raised are:

**1) Extrapolation of the risk-free interest rate curve**

Our analysis indicates that the current methodology to extrapolate the risk-free interest rate curve after the last liquid point should not be changed. The last liquid point of 20 years for the Euro should remain unchanged.

**2) Volatility adjustment**

Volatility adjustment should be based on company-specific assets instead of those of a reference undertaking. Dynamic volatility adjustment should be allowed for users of the standard formula.

**3) Stress on risk-free Interest-rate**

We acknowledge the weakness in the Delegated Regulation with regard to the down-stress. We support the shifted approach to calibrate the down-stress. The resulting stress parameters should reflect the market risk with a one-year horizon. The stress should therefore be applied only to the liquid part of the risk-free rate curve.

**4) Risk margin**

With regard to the risk margin and especially an adequate cost of capital rate, we consider that further analysis is required. We refer to the paper "[A Review of the Design of the Solvency II Risk Margin](#)", published on December 2019 on the website of the AAE. This paper contains a broad discussion concerning all aspects of the risk margin-calculation.

We suggest a change of Article 77 (5) of the Solvency II Directive to allow for a Cost of Capital rate which can be specific to lines of business.

**5) Illiquidity of liabilities**

We are of the opinion that illiquidity of liabilities should be considered not only in the determination of the volatility adjustment. It is not a spread-dependent feature of long-term insurance business.

Further aspects of the consultation are considered in our full paper and all of the opinions referenced above are fully supported in that paper.

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