



ACTUARIAL ASSOCIATION OF EUROPE

Solvency II 2020 review

Webinar

Siegbert Baldauf

17 September 2019

Solvency II 2020 review - agenda

- 1) Review process and timeline
- 2) Commission's request for technical advice
- 3) Currently open consultations
- 4) Forthcoming consultation on EIOPA's opinion

Solvency II 2020 review - agenda

- 1) Review process and timeline
- 2) Commission's request for technical advice
- 3) Currently open consultations
- 4) Forthcoming consultation on EIOPA's opinion

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
- Applicable 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)

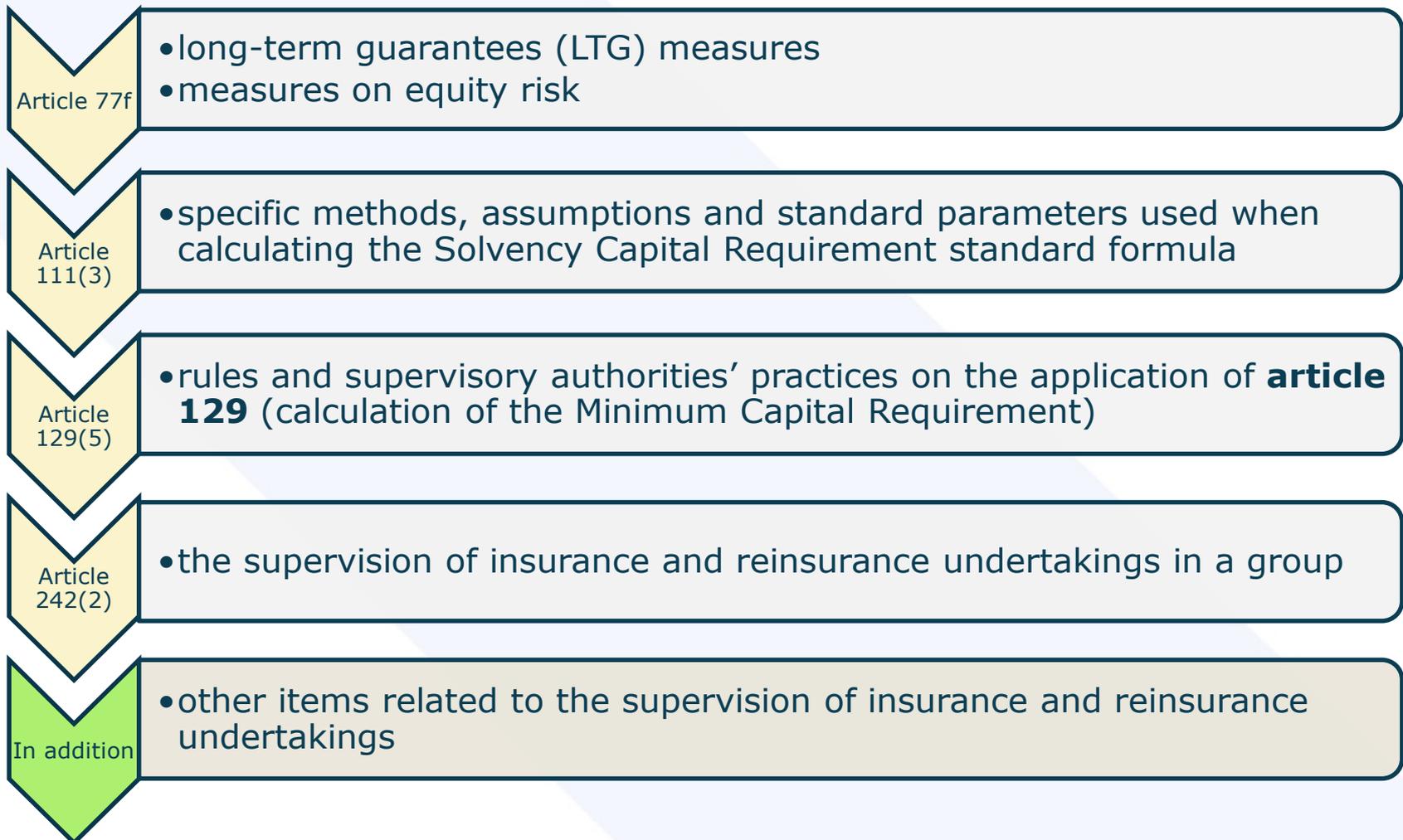
Prescribed steps:

- 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.

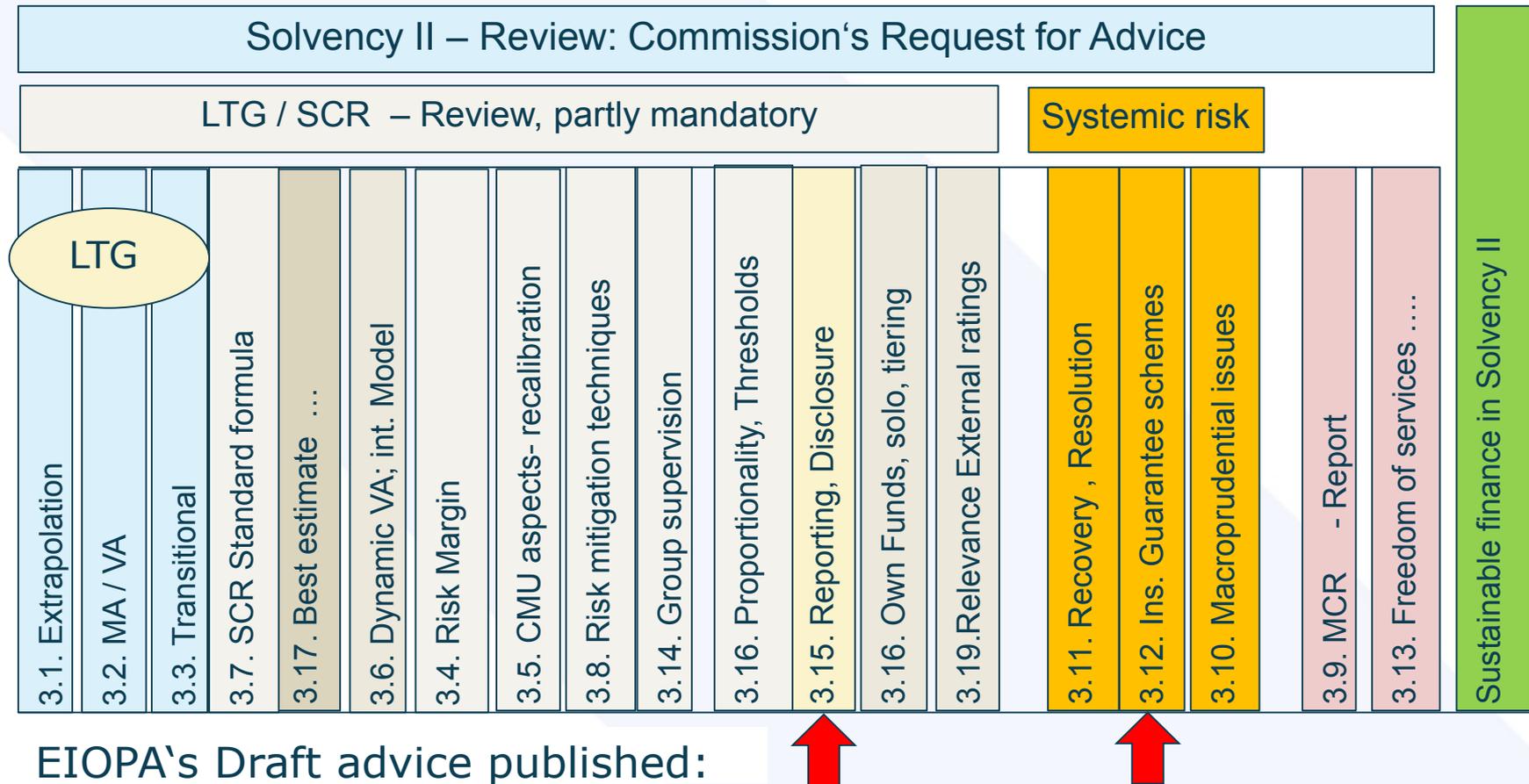
Solvency II 2020 review - agenda

- 1) Review process and timeline
- 2) Commission's request for technical advice**
- 3) Currently open consultations
- 4) Forthcoming consultation on EIOPA's opinion

Request to EIOPA for Technical Advice on the Review of the Solvency II Directive



Request to EIOPA for technical advice



Solvency II 2020 review - agenda

- 1) Review process and timeline
- 2) Commission's request for technical advice
- 3) Currently open consultations**
- 4) Forthcoming consultation on EIOPA's opinion

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

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

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

The AAE commented on these consultations

The AAE will comment on open and expected consultation papers

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

QRT – Review: Number of templates reduced

Quarterly templates – Out of 10 business templates (i.e. excluding S.01.01, S.01.02 and one S.28)

Proposed change	Templates affected
Deletion	1 template
Simplifications	4 templates
Additions	1 templates
New templates	1 template
TOTAL	10 templates

Source: EIOPA-BoS-19-305:
EIOPA proposals template by template

Annually templates

Proposed change	Templates affected
Deletion	9 template
New/increased thresholds	16 templates
Simplifications	8 templates
Additions	8 templates
New templates	2 template
TOTAL	
Current:	62 templates
Proposed:	55 templates

Changes described in 29 Annexes to the consultation package

Reporting template S.29.05, S.29.06

In 2018 EIOPA published a paper on “Other potential macroprudential tools and measures to enhance the current framework”.

Enhanced monitoring should help to prevent from market-wide under-reserving. EIOPA consider this in the proposed reporting requirements:

Best estimate assumptions are used in the calculation of technical provisions. They might (will) deviate from actual experience

- Template S.29.05 requires a comparison of best estimate vs. actual experience for relevant parameters in life insurance
- Template S.29.06 requires such a comparison for non-life

This will allow the undertaking and the supervisory authority to understand their profitability by focussing on the variation of the best estimate. (Consultation paper EIOPA-BoS-19-305)

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

Solvency and Financial Condition Report

EIOPA propose standardised information in the SFCR:

Impact on the SCR coverage ratio and impact on Own Funds of key sensitivity tests:

Economic assumptions:

- Equity markets (-25% / +25%)
- Interest rates (-50bps / +50 bps)
- Credit spreads of government bonds (-50bps / +50 bps)
- Credit spreads of corporate bonds (-50bps / +50bps)
- Real estate values (-25% / +25%)

Non-economic assumptions:

- 10% increase in expenses
- 10% increase in gross loss ratio
- 10% increase in lapse rates

Solvency and Financial Condition Report

Proposed adaptation relating to the SFCR

- Information published on website of the undertaking, each year on the same area, with information to stay on the website for five years;
- Some areas moved from SFCR to the RSR
- The format of the SFCR should be **machine-readable**;
- Introduce a minimum harmonised auditing requirement. As a minimum the Solvency II Balance-Sheet is subject in all Member States to external auditing by a qualified auditor.
- The output should be an **audit opinion** published together with the SFCR;
- Extension of the annual reporting and disclosure by 2 weeks to accommodate the audit requirement.

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 – 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.

Solvency II 2020 review - agenda

- 1) Review process and timeline
- 2) Commission's request for technical advice
- 3) Currently open consultations
- 4) Forthcoming consultation on EIOPA's opinion

Preliminary Prioritisation

The AAE Solvency II-Working Group has agreed on a first prioritisation of these issues:

- Extrapolation
- Matching and volatility adjustment
- Transitional measures
- Risk margin
- Capital Markets Union aspects: i.a. Market risk in standard formula
- SCR and Standard formula: i.a. interest rate risk
- Macroprudential issues: Improvement of the ORSA,
- Best estimate: i.a. Economic Scenario Generators, EPIFP

LTG measures

LTG measures were introduced through Omnibus II-Directive to ensure an appropriate treatment of insurance products with long-term guarantees.

Articles	Name of the measure	
➤ 77a	Extrapolation of the risk-free interest rates	
➤ 77b, 77c	Matching adjustment	
➤ 77d	Volatility adjustment	
➤ 106	Symmetric adjustment mechanism to the equity risk charge	
➤ 138(4)	Extension of the recovery period	
➤ 304	Duration-based equity risk sub-module	DBER
➤ 308c	Transitional on the risk-free rate	TRFR
➤ 308d	Transitional on technical provisions	TTP

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

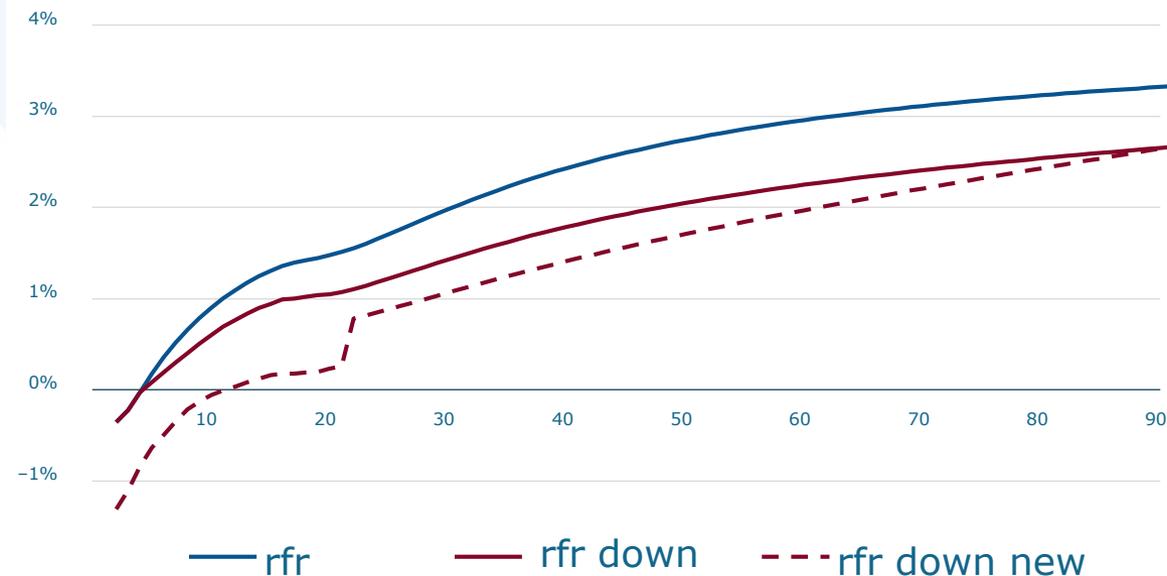
Concerning methodology

- 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

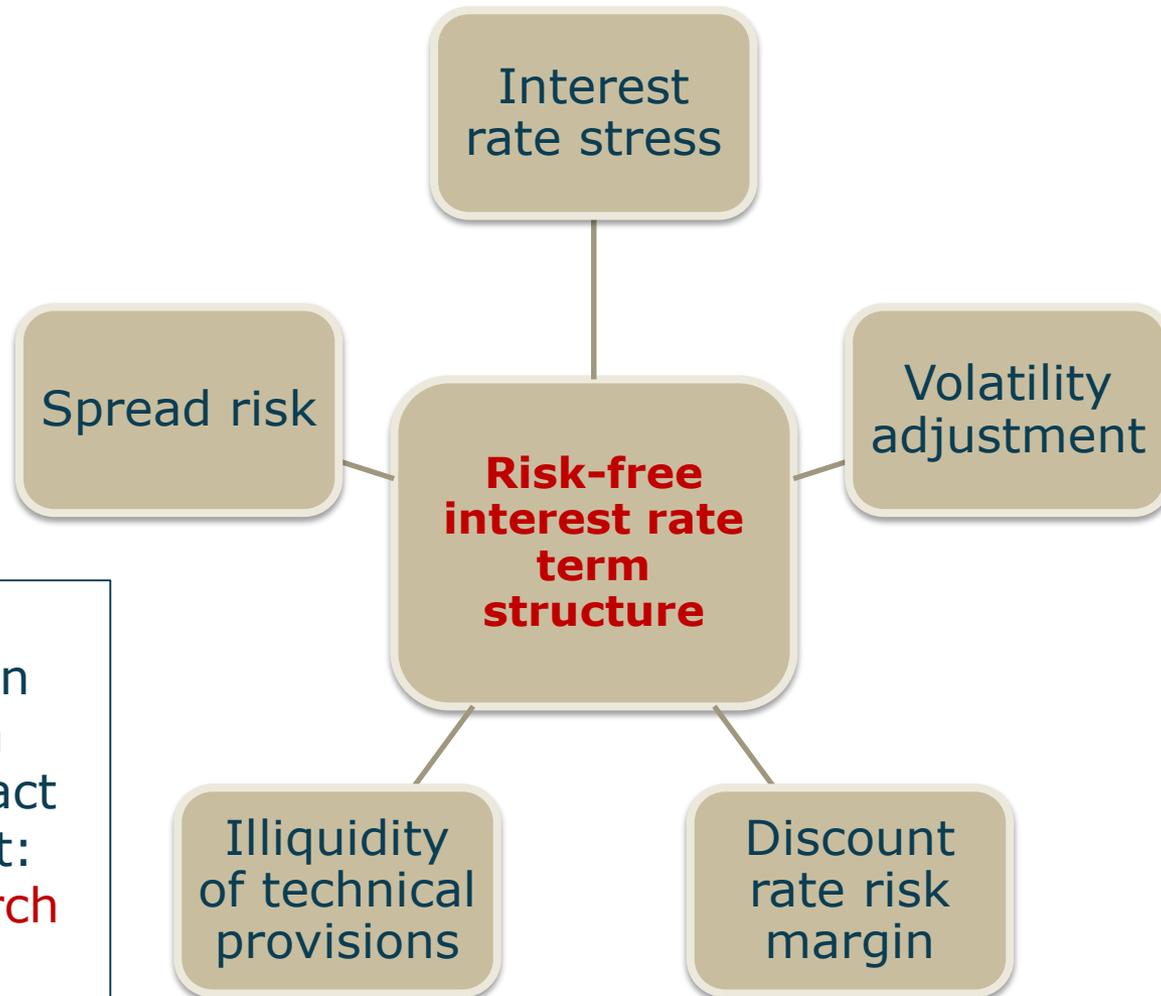
Remainder from SCR – Review: EIOPA’s proposed advice relating to interest rate down stress



Proposed stress:
Proportional stress
+
Additive component for the liquid part

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

Interrelation of issues has to be considered



Multiple interrelation requires a holistic impact assessment:
planned March 2020

Thank you very much for your attention!

Solvency II 2020 review

Contact details:

Siegbert Baldauf

phone: +49 (0) 1711154650

mail: siegbert.Baldauf@aktuar.de