

Meeting of project team in London, 3 November 2016

Next steps:

- Chairs should check which issues they want to be allocated to their working group
- Chairs should involve members of working groups to contribute to the allocated issues asap.
- Ideally first feedback is available to be discussed during the next conference call.

Next conference call of the SII project team: 13 December 2016

Next meeting of AAE – officers with EIOPA: 19 December 2016

According to the agenda the most important objective of this meeting was a discussion on Commission's request for advice on the review of specific items of solvency II delegated regulation from 18 July 2016. EIOPA is asked to deliver advice by 31 October 2017.

In this document you will find again the requests and again a classification which hopefully reflects results of our discussion.

EIOPA's activities:

Gabriel Bernardino has announced to prepare a discussion paper on this issue until December 2016. EIOPA have listed their main goals on their website (copy see below).

AAE activities

Despite the missing discussion paper the narrow time frame requires an early discussion on the issues addressed in this request. AAE has to decide to which questions and to what extent they want to contribute.

EIOPA's Project on the Review of the SCR Standard Formula Under Solvency II

EIOPA supports a sound process of post-evaluation of the new insurance supervisory regime. One of EIOPA's key objectives is to ensure a rigorous, evidence-based and transparent review of Solvency II.

As part of this process, EIOPA has launched the project dedicated to the review of the Solvency Capital Requirement (SCR) standard formula. This project will answer the two current priorities of the call for technical Advice from the European Commission (EC):

First, on simplifications and proportionate application of the SCR requirements.

Second, on removal of technical inconsistencies, i.e. recalibration of certain risks and other technical issues.

Main goals:

- *To ensure proportionate and technically consistent supervisory regime for (re)insurance undertakings.*
- *To look for possible simplifications in the SCR standard formula and to ensure the proportionate application of the requirements.*
- *EIOPA will suggest changes in methods, assumptions and standard parameters as well as additional policy options.*

<https://eiopa.europa.eu/regulation-supervision/insurance/scr-standard-formula-review>

Based on some slides containing a very first attempt to classify the questions, participants discussed the issues requiring actuarial input and the possible contribution of their working groups. First assessment indicated in bold underlined text

1) **Simplifications (3.1.1 to 3.1.3):**

Participants have not been aware of the extent of the usage of such simplifications. It would be helpful to know more about the use in different countries.

2) **Removal of unintended technical inconsistencies 3.2.1 – 3.2.14**

a) **Identified issues for the non-life insurance**

3.2.2 Standard parameters to be used when calculating specific underwriting risk modules for **non-life** premium and reserve risk, and for medical expense risk

3.2.3 The methods and assumptions to be used when calculating the **non-life** catastrophe risk sub module

3.2.10 The subset of standard parameters in the life, **non-life** and health underwriting risk modules that may be replaced by undertaking-specific parameters, and standardised methods to be used to calculate those parameters

b) **Identified issue for the life insurance**

3.2.2 Standard parameters to be used when calculating specific underwriting risk modules mortality and longevity risk in the **life and health** underwriting modules

c) **Risk mitigation**

3.2.7 With respect to risk mitigation techniques, which have significantly developed in recent years, the methods and assumptions to be used to assess the changes in the risk profile of the undertaking concerned and to adjust the calculation of the Solvency Capital Requirement, and the qualitative criteria that the risk mitigation techniques must fulfil in order to ensure that the risk has been effectively transferred to a third party.

EIOPA is asked to:

Provide information on recent market developments as regards risk mitigation techniques, in particular embedded derivatives and longevity risk transfer.

Especially UK - undertakings make use of longevity swaps. No full overview on the use in other countries available. Still unclear how far there has been a development in the recent years.

d) **Risk margin**

3.2.11 The methods and assumptions to be used when calculating the risk margin, In particular the cost-of-capital rate

Investigation needed. Methods and assumptions (discounting with risk-free rate ...) and the cost of capital rate need should be analysed further considering the impact on the value of technical provisions.

e) **Market risk module**

A lower priority was assigned to the following two tasks

3.2.1 Methods, assumptions and standard parameters to be used when assessing the **credit risk** in calculating the spread risk submodule, **the market risk** concentration submodule and the counterparty default risk module with respect to references to external credit ratings

3.2.5 The methods, assumptions and standard parameters to be used when calculating the **market risk** module with respect to related undertakings

f) Tasks dealing with comparison of insurance and banking regulation

Not to be considered:

3.2.6 The differences between Delegated Regulation (EU) 2015/35 and Directive 2013/36/EU and Regulation (EU) No 575/2015 as regards exposures guaranteed by a third party and as regards exposures to regional governments and local authorities

3.2.12 Where inconsistencies with Directive 2013/36/EU and Regulation (EU) No 575/2013 exist, the features determining the classification of own funds items (under the empowerment in Article 97 of Directive 2009/138/EC).

g) Own funds, group issues

3.2.13. The list of **own-fund items**, deemed to fulfil the tier 1 eligibility criteria, which contains for each own-fund item a precise description of the features which determine its classification (under the empowerments in Articles 97(1) and 99(a) of Directive 2009/138/EC).

3.2.14. The application of the **accounting consolidation based method** to calculate the Solvency Capital Requirement under the standard formula with respect to the calculation of currency risk (under the empowerment in Article 234 of Directive 2009/138/EC).

Working groups should check how far they are able to contribute to these questions.

h) Only report required

-

No contribution from stakeholders necessary

3.2.4 Assumptions used when calculating the **market risk** concentration submodule

3.2.9. The method to be used when calculating the adjustment for the loss absorbing capacity of deferred taxes (under the empowerment in Article III(I)(i) of Directive 2009/138/EC).