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EUROPEAN INSURANCE  
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# The 2020 Solvency II Review

FSC  
6 November 2019

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1. The review of Solvency II was always foreseen
2. EIOPA's position is evolution not revolution
3. Nonetheless there are areas for which change is justified.
4. The review comprises both micro and macro prudential aspects
5. Process and timetable

## Call for Advice of the European Commission

### Advice requested on ...

- Long-term guarantees (LTG) measures
- Transitional measures
- Risk margin
- Capital Markets Union
- Dynamic volatility adjustment
- SCR standard formula
- Risk-mitigation techniques
- MCR
- Macro-prudential issues
- Recovery and resolution
- Insurance guarantee schemes
- FoS and FoE insurance
- Group supervision
- Reporting and disclosure
- Proportionality
- Best estimate
- Own funds
- Reducing reliance on external ratings

**Deadline: 30 June 2020**

### EIOPA deliverables for 2020 review:

- Annual LTG reports 2016 to 2020
- Response to COM's Call for Information on asset-liability management
- **Opinion on 2020 review**

## **Key themes of the review**

1. Treatment of insurance products with long-term guarantees and treatment of long-term investments
2. Take into account supervisory experience with the application of Solvency II provisions since 2016, for example with regard to cross-border insurance, group supervision, reporting and disclosure – refinements to the framework.
3. Potential introduction of new regulatory tools to Solvency II, notably on macro-prudential issues, recovery and resolution, and insurance guarantee schemes.

# Key topics: Extrapolation of risk-free interest rates



## **Extrapolated discount rates for the euro significantly different from market rates**

- Results in underestimation of technical provisions
- Provides wrong risk management incentives
- However: May contribute to stability of technical provisions

### Options for consultation:

- No change (i.e. extrapolation starts at maturity of 20 years)
- Pillar 2 and 3 measures to mitigate issues
- Start extrapolation at 30 years
- Start extrapolation at 50 years
- Alternative extrapolation method that takes into account market information beyond the start of the extrapolation

## Two approaches to the calculation of the VA specified for consultation

- Both approaches include:
  - Application ratios to avoid over-/undershooting effects and to account for degree of illiquidity of the liabilities
  - Risk correction as percentage of spread rather than a constant
- Approach 1: Clearer split between permanent VA and macroeconomic VA
- Approach 2: Calculation is based on undertaking-specific asset allocation, not a portfolio of assets representative for the market
- Quantitative impact of both approaches will be tested during the consultation period
- Several options to address cliff effect of country-specific increase to VA considered

## **Review of the capital requirements for equity risk**

- Duration-based equity risk sub-module can be phased out – it is rarely used and overlaps with newly introduced treatment of long-term equity investments.
- Analysis does not confirm lower volatility for long-term equity investments.
- Continue analysis on how illiquidity of liabilities can be reflected in capital requirements in a prudentially sound way.

## **Review of the risk margin calculation**

- Draft advice includes in particular analysis of:
  - o actual transfer values
  - o volatility of the risk margin
  - o relation between matching adjustment and volatility adjustment and risk margin calculation
- Draft advice does not include a proposal to change the calculation of the risk margin
- Analysis expected to continue, in particular based on stakeholder feedback

## **Consultation paper confirms earlier advice to change the calibration of capital requirements for interest rate risk**

- In reality interest rate movements have been much stronger than reflected in current calibration.
- Currently negative rates are not stressed, although reality has proven that rates can continue to decrease.
- The way internal models measure interest rate risk significantly deviates from the current standard formula.
- Capital requirement underestimates the risk. Policyholders are not sufficiently protected.

Quantitative impact of proposed calibration will be tested during the consultation period.

# Review considers both micro and macro prudential aspects



- The insurance sector plays a relevant role in achieving a stable financial system, supporting long-term sustainable economic growth.
- Thus, mitigating the likelihood and the impact of a systemic crisis in insurance should be an important policy objective.
- For example, the existing fragmented landscape of national recovery and resolution frameworks could cause significant barriers to the resolution of (re)insurers, particularly of cross-border groups.

## Timeline

April 2018	EIOPA receives Call for Information on asset-liability management from the European Commission
Mid-July to mid-Oct 2019	Public consultation on draft advice on reporting and disclosure and insurance guarantee schemes
<b>Mid-Oct 2019 to mid-Jan 2020</b>	<b>Public consultation on draft Opinion (covering all advice other than on reporting and disclosure and insurance guarantee schemes)</b>
<b>Mid-Oct to beginning of Dec 2019</b>	<b>Information request to NSAs and industry on impact of single proposals</b>
Dec 2019	Publication of response to call for information and of LTG report 2019
March 2020	Information request on combined impact of proposals
June 2020	Publication of Opinion on 2020 review



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**Thank you**

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