

Solvency II 2020 Review

Summary of EIOPA's Final Opinion on the 2020 Solvency II Review

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Purpose

This presentation was prepared as a background information for discussing potential changes to Solvency II regulations and what impacts they might have on insurance companies. It has been prepared for general informational purposes only and does not purport to be, and is not, a substitute for specific professional advice. While the matters identified are believed to be generally correct, before any specific action is taken, specific advice on the circumstances in question should be obtained.

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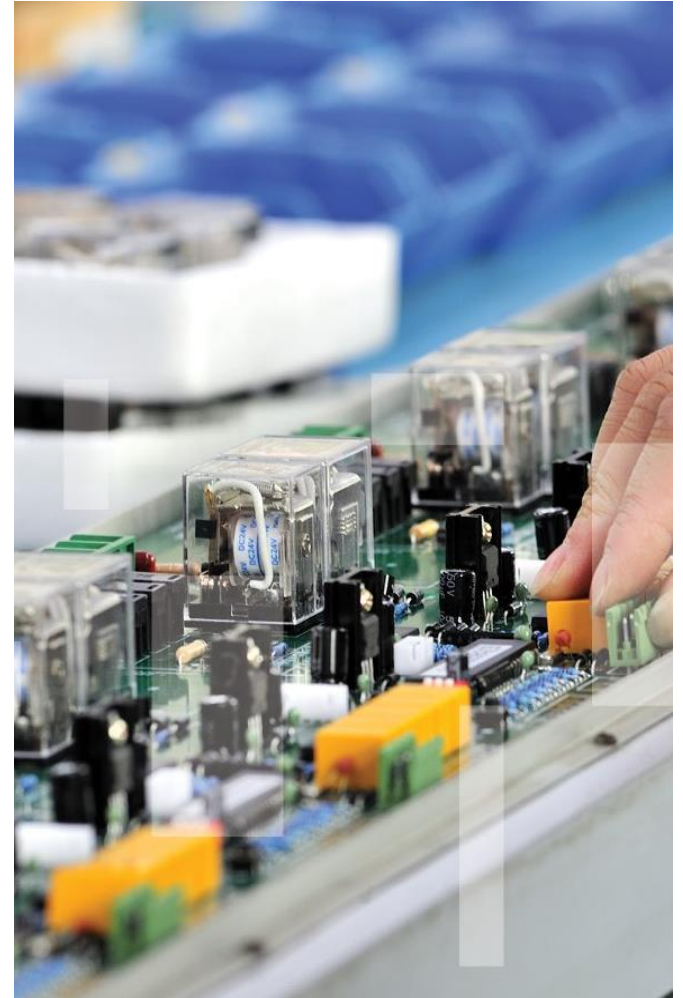
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Limitations

This summarised material has been prepared based on EIOPA Final Opinion on Solvency II review, which forms an advice to European Commission. The final changes to the Solvency II legislation are subject to further expert and political negotiations and might be different from the EIOPA Opinion and the information stated in this material.

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EIOPA Opinion at a glance

Executive summary

EIOPA package as published on 17 December



- Opinion with the advice to the EU Commission
- Background analysis – original options considered in the consultation, their justification
- Background impact assessment – based on information requests made in 2020, summarizing the impacts on solvency position
- Report on QRTs – detailed suggested changes to the reporting templates

Main suggested changes with largest impacts



- Review of LTG measures (new extrapolation method, changes in VA)
- Adjustments to existing framework (change in interest rate risk SCR and risk margin calculation)
- New regulatory tools (resolution and recovery, liquidity risk, IGSs)

Expected next steps



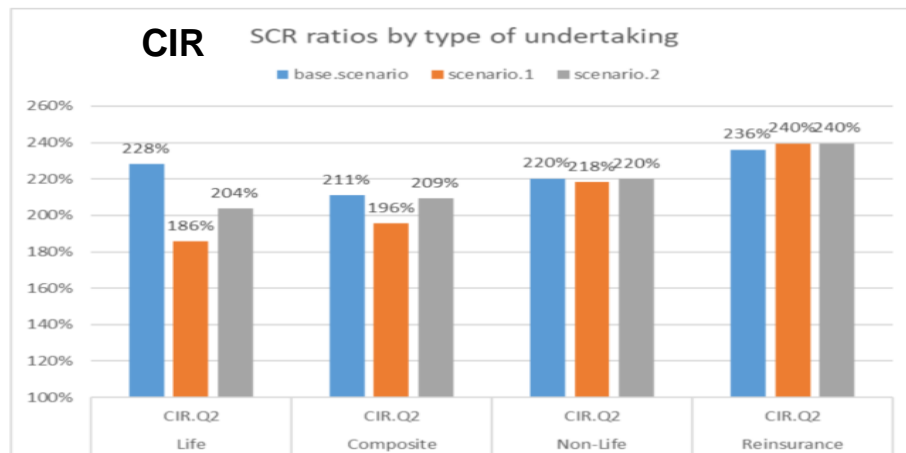
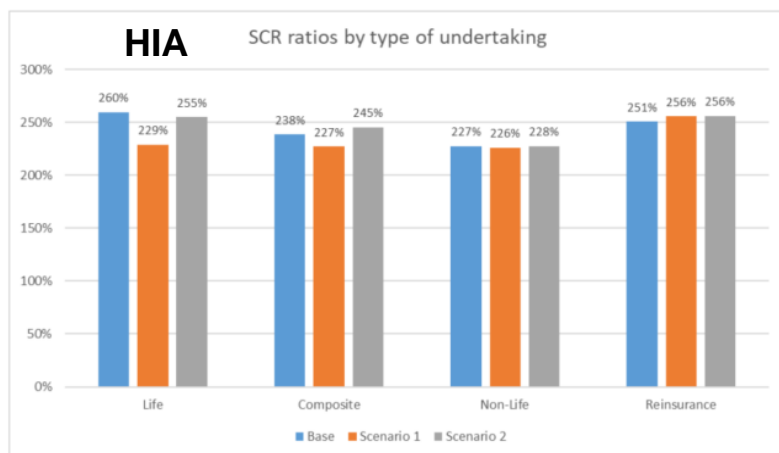
- EU Commission proposal expected in Q3 2021, starting the legislative procedure
- Implementation date expected probably during 2024-2025

EIOPA Opinion at a glance

Cumulative impacts of all changes as proposed by EIOPA

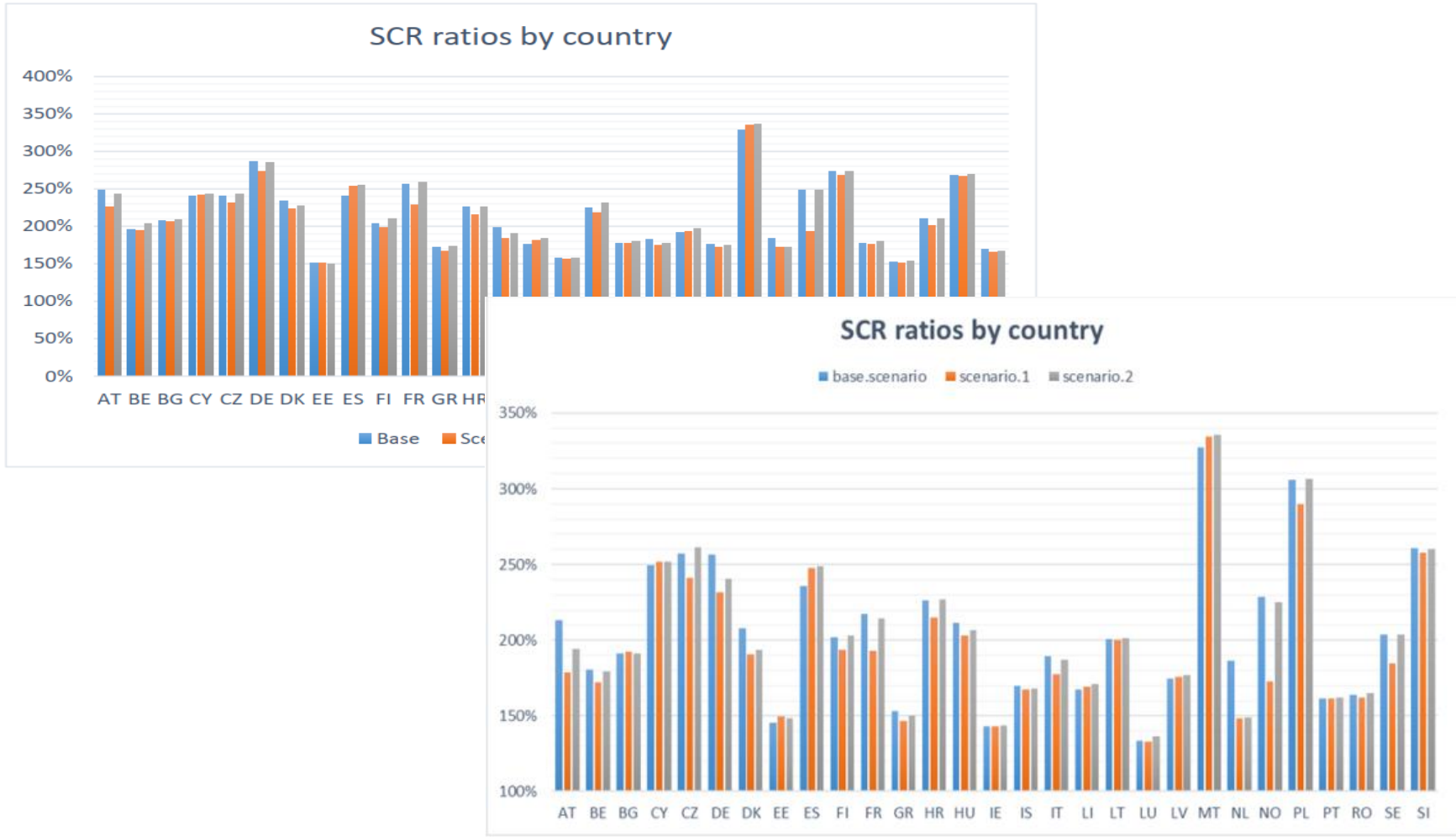
- Holistic Impact Assessment (HIA) – base scenario as at end of 2019
- Complementary Information Request (CIR) – base scenario as at Q2 2020
- Both included two scenarios – Scenario 1 with all proposed changes and Scenario 2 which excluded the interest rate risk calibration

	Participation	Impacts
HIA	392 undertakings (covering 73% of EEA life TP and 52% of NL GWP)	Scenario 1: Average solvency ratio decreased from 247% to 234% Scenario 2: Negligible effect
CIR	278 undertakings (covering 68% of EEA life TP and 45% of NL GWP)	Scenario 1: Average solvency ratio decreased from 226% to 204% Scenario 2: Average solvency ratio down to 216%



EIOPA Opinion at a glance

Cumulative impacts of all changes as proposed by EIOPA



EIOPA Opinion at a glance

Detailed changes

Review of Long-term guarantee measures

- Extrapolation – **alternative method** introduced, based on a weighted average of forward rates before and after the first smoothing point. **Phasing-in mechanism until 2032** (specifically designed for low or negative interest rates environment).
- Matching Adjustment – **diversification between portfolios**, additional requirements on eligibility of restructured assets
- Volatility Adjustment – **permanent VA and macro-prudential VA** (for crisis periods with widened spreads) introduced. Application ratio increased to **85%**
- Changes in long-term equity risk calibration
- New requirements on LTGM disclosure and risk management measures

Key impacts

- Expected impact of **-4,6 bnEUR** on solvency surplus in 2032. Due to phasing-in mechanism positive impacts during first years (+12,7 bnEUR in 2023).
- Minor impacts (only applicable to ES insurers) – **0,9% reduction of SCR**
- **Increasing the SCR surplus** from 87,4 bnEUR to **100,6 bnEUR**, mostly for life and composite undertakings
- Impacts unequally spread among countries
 - Large negative impacts of extrapolation in DE and NL, whereas positive impacts in FR and ES
 - For VA undertakings in DE or IT using standard formula will benefit from better solvency ratio, whereas for NO standard formula users or NL internal model companies with dVA the solvency ratio would be somehow lower.

EIOPA Opinion at a glance

Detailed changes

Review of current framework

- Technical provisions
 - Slight wording changes in contract boundaries, expenses and future management actions
 - **Risk margin – “tapering” approach** (employing a ‘lambda’ factor of 97.5% lowering the projected SCR with a cumulative floor of 50%)
- Solvency capital requirement
 - Interest rate risk – **relative shift approach** considering also **negative rates, significantly increasing the SCR** (will be phased-in over five years)
 - Decrease in correlation parameter between spread and interest rate risk to 0,25 under the downward scenario
- Reporting and disclosure
 - **Mandatory SII balance sheet audit and extended reporting deadlines,**
 - Changes in SFCR and RSR structure, mandatory disclosed sensitivities, amendments to QRTs (some simplified or deleted, new QRTs on cross border business or cyber risk added)

Key impacts

- New approach to Risk Margin should **decrease it by 15%** on an average across the EEA (17 bnEUR)
 - Largest impacts observed in Malta and the Netherlands (more than 20% decrease)
- New interest rate risk calibration **increased total SCR by 23 bnEUR** (12%) – based on HIA.
 - Decrease of solvency ratio by approx. 20% on average (both in HIA and CIR)
 - Mostly affected countries include NO, IT, FR, DE, AT
- Decreased correlation parameter would decrease the SCR by 3%

EIOPA Opinion at a glance

Key points

Review of current framework

- Proportionality
 - Category of **low risk companies** that might benefit from loosened governance requirements, use simplified calculations and may be relieved from some reporting requirements

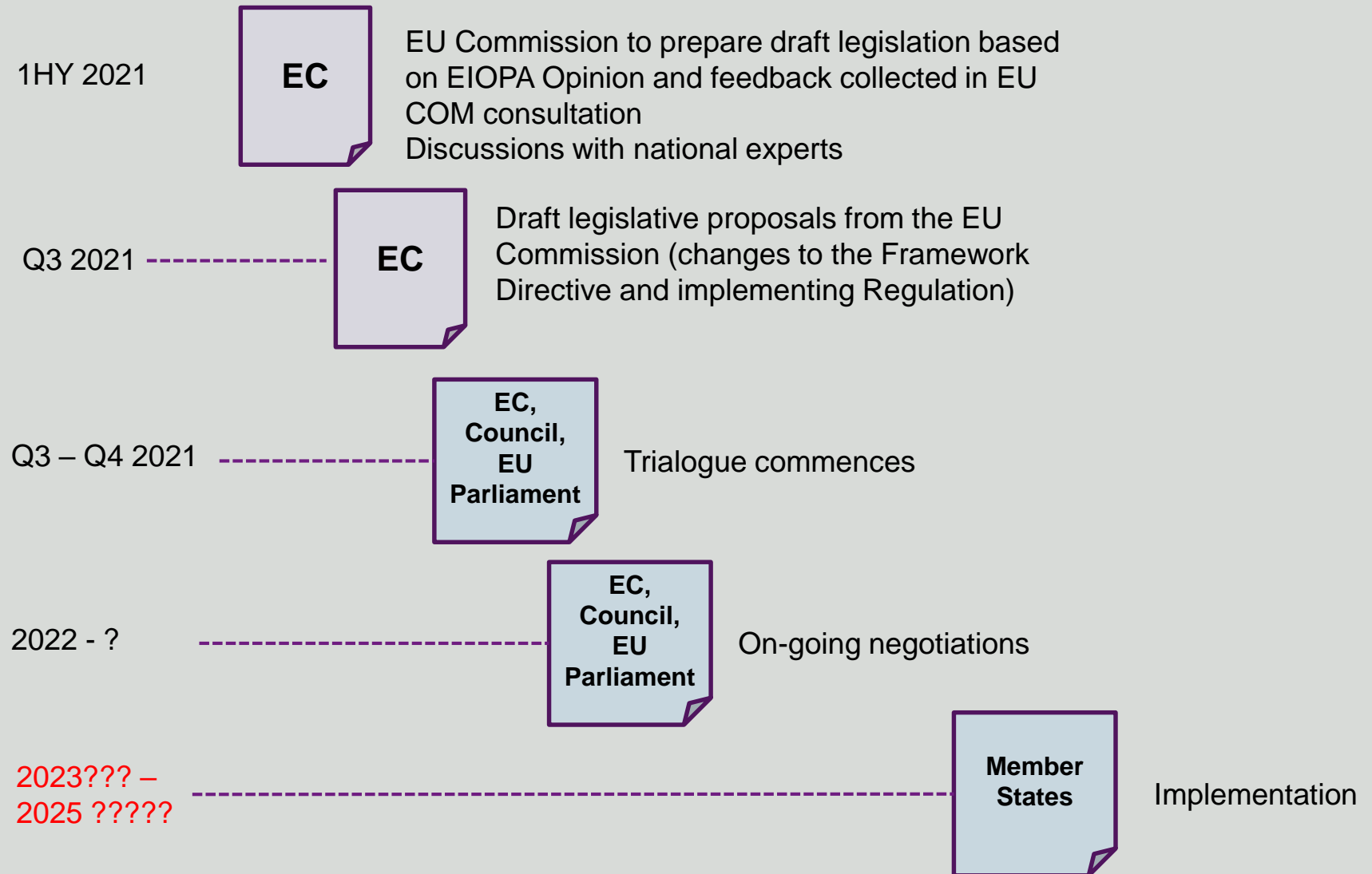
New regulatory tools

- Macro-prudential policy
 - **Capital surcharge for systemic risk**
 - New measures (**restriction of dividends**, liquidity risk management, ORSA to include macroprudential perspective)
- Recovery and resolution
 - **Pre-emptive recovery plans and system of triggers** for pre-emptive measures at EU level
- Other
 - **Insurance Guarantee Schemes to be introduced** across EU under minimum harmonization

Key impacts

- No impacts estimated, as the specific measures will need to be developed and calibrated
- Increased costs for insurance companies can be expected (in particular for financing the IGS, holding capital for systemic risk, etc.)

Next steps



Annex



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

European Commission to EIOPA, 11 February 2019

The Solvency II Directive provides that certain areas must be reviewed by the Commission in 2020. The Commission requests technical advice from EIOPA on the following areas:

- Extrapolation of the risk-free rate (DR 77a)
- MA (DR 77b, 77c) and VA (77d)
- Transitional measures
- Risk Margin
- Capital Markets Union aspects
- Dynamic modelling of VA
- SCR Standard Formula:
 - Interest rate risk
 - Counterparty default risk
 - Simplifications
 - Calibration of underwriting risks
 - CAT risk
- Risk-mitigation techniques used to reduce SCR
- MCR
- Macro-prudential issues – ORSA / systematic risk plan / liquidity risk plan / prudent person principle
- Recovery and resolution
- Insurance Guarantee Schemes (“IGSs”)
- Freedom to provide services and freedom of establishment
- Group supervision
- Reporting and disclosure
- Proportionality and thresholds
- Best estimate
- Own funds at solo level
- Reducing reliance on external ratings

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190211-request-eiopa-technical-advice-review-solvency-2.pdf

