Solvency II Review

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Independent actuary

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Solvency II Review

- The way to Solvency II
- The Solvency II review process
- Proposed amendments of the Directive
- Considered changes of Delegated Regulation
- Impact assessment
- Others
1957: Six countries signed the **Treaty of Rome** setting up the European Economic Community (EEC)
1973: Expansion to nine member states
1979: First direct elections to the European Parliament
1981: Mediterranean enlargement
1992: European single market
1993: **Treaty of Maastricht** establishes the European Union (EU)
2002: Euro comes into circulation
2007: EU expands to 27 member states
2009: **Lisbon treaty**, changes functioning of the EU
2013: Croatia becomes 28th member
2020: UK leaves the European Union
The way to Solvency II

1997: Müller Report
2002: Start of Solvency II (KPMG-Study)
   2005 – 2008: 4 Quantitative Impact Study QIS1 – QIS4
2009: **Solvency II Directive**
   2011: 5th Quantitative Impact Study QIS5
   2013: Long-term Guarantee-Assessment (LTGA)
2014: **Omnibus II-Directive**
2016: Solvency II in force

External factors affecting the development:

**Political:**
- Lisbon-treaty of the EU → Establishing of EIOPA, replacing CEIOPS

**Market:**
- Financial crisis 2007-2008
- Decline of interest rates
Decline of interest rates

https://www.finanzen.net/zinsen/cms-swap-satz-eur
Solvency II required huge efforts

**Solvency I** developed over decades: rules-based system
- aimed at harmonizing insurance supervision across EU
- static system, based on results of statutory accounting
- different valuation methods for assets and liabilities
- not risk-sensitive

**Solvency II:** principles-based system (inspired by Basel framework for banks)
- Total balance sheet approach, going-concern basis, stochastic valuation
- Pillar 1: Quantitative requirements
  - Market consistent valuation of assets and liabilities
  - 99.5% Value-at-risk over a one-year horizon ...
- Pillar 2: Governance system, risk management, ORSA
- Pillar 3: Reporting, disclosure, transparency

Still used in entities not in the scope of Solvency II

Analysed in the review process
Complexity of SII-framework

  - Transposition into national law required
  - SII-Review 2020!

- **Level 2**: Delegated regulation 2015/35 from 10. October 2014 taking up these empowerments
  - Implementing technical standards (ITS) and Regulatory Technical Standards (RTS)
  - Especially reporting issues
    - Applicable immediately
    - mandatory
  - SCR-Review 2018

- **Level 2,5**: Guidelines for further clarification
  - Issued by EIOPA
  - Addressing NSAs
  - “Comply or explain”

- **Level 3**:
Solvency II review process
Evolution not revolution!

Main Solvency II-principles should remain unchanged
- Remain risk-based
- Market consistent valuation
- 99.5% VaR of own funds within a one-year horizon
- Going-concern principle

Commission’s expectation and frame conditions

The framework needs to take into account the political priorities of the EU; notably
- the European Green Deal,
- the completion of the Capital Markets Union, and
- the strengthening of the single market.

It should be flexible enough to cope with any economic and financial developments (including the unprecedented protracted low – and even negative – interest rate environment).
Solvency II review process

To review:

- long-term guarantees (LTG) measures and measures on equity risk – mandatory!
- specific methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement standard formula – mandatory!

To consider:

- Extension of the microprudential framework by macroprudential elements
- ESG-issues (Environmental, social and governance), sustainable finance

To answer the questions:

- Is Solvency II still fit for purpose?
- Is proportionality considered appropriately?
- Are there obstacles that impede the role of insurers as long-term investors?
1. EIOPA provided requested technical advice to the EU-Commission on 17 December 2020 substantiated by extensive background analysis and impact assessment

2. After analysing EIOPA’s advice, the EU-Commission published on 22 September 2021
   - Concrete proposals for amendments of the Solvency II-Directive (Level 1)
   - Proposed empowerments for the Commission to amend the Delegated Regulation or to draft ITS (Level 2- or Level 2.5-documents)
   - Extensions of EIOPA’s impact assessment to consider proposed modifications
   - New! Directive establishing a framework for recovery and resolution of insurance undertakings
**Next steps**

<table>
<thead>
<tr>
<th><strong>SII-Directive</strong></th>
<th>SII-Directive is a Level 1-document. Adaptations have to be approved by the trilogue parties.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>After approval it has to be transferred to national law in all member states.</td>
</tr>
<tr>
<td>Delegated Regulation, Regulatory and Implementing Technical Standards are subordinated and have to consider the final version of the Directive</td>
<td></td>
</tr>
<tr>
<td>Entry into force of the amended framework possible in 2024 at the earliest!</td>
<td></td>
</tr>
</tbody>
</table>
Proposed amendments of Directive
Long-term guarantee (LTG) measures

LTG-measures have been introduced via the Omnibus II-Directive in order to facilitate an adequate treatment of long-term business. Review required.

<table>
<thead>
<tr>
<th>Article</th>
<th>Name of the measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>77a</td>
<td>Extrapolation of the risk-free interest rate</td>
</tr>
<tr>
<td>77b, 77c</td>
<td>Matching adjustment (MA)</td>
</tr>
<tr>
<td>77d</td>
<td>Volatility adjustment (VA)</td>
</tr>
<tr>
<td>106</td>
<td>Symmetric adjustment to equity capital charge</td>
</tr>
<tr>
<td>138(4)</td>
<td>Extension of the recovery period</td>
</tr>
<tr>
<td>304</td>
<td>Duration-based equity risk sub-module (DBER)</td>
</tr>
<tr>
<td>308c</td>
<td>Transitional measure on the risk-free interest rates (TRFR)</td>
</tr>
<tr>
<td>308d</td>
<td>Transitional measure on technical provisions (TTP)</td>
</tr>
</tbody>
</table>
Annual LTG-Reports on the use of LTG-measures provided by EIOPA (2016 -2020)
Importance of LTG – measures differs significantly across Europe
VA and the transitional measure on technical provisions are of highest importance

<table>
<thead>
<tr>
<th>Type of undertaking</th>
<th>Total number of undertakings</th>
<th>VA</th>
<th>TTP</th>
<th>MA</th>
<th>TRFR</th>
<th>DBER</th>
<th>No measure</th>
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<td>84</td>
<td>2</td>
<td>2</td>
<td></td>
<td>196</td>
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<tr>
<td>Non-Life</td>
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<td>193</td>
<td>10</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>1.127</td>
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<tr>
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<td>178</td>
<td>42</td>
<td>12</td>
<td>2</td>
<td>0</td>
<td>203</td>
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<tr>
<td>Reinsurance</td>
<td>305</td>
<td>24</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>281</td>
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<tr>
<td>Total</td>
<td>2.458</td>
<td>631</td>
<td>136</td>
<td>14</td>
<td>8</td>
<td>1</td>
<td>1.807</td>
</tr>
<tr>
<td>Number of countries</td>
<td>21</td>
<td>11</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1) **Extrapolation of the risk-free interest rate term structure (RFR)**

   The RFR has to be applied by all users of Solvency II. The RFR affects directly
   
   a) the calculation of the best estimate technical provision
   b) the risk margin
   c) the solvency capital requirement (SCR) – especially via interest rate risk

   The RFR is extrapolated to allow the valuation of long-term insurance business (especially with guaranteed interest rates).

2) **Volatility adjustment (VA):**

   Asset allocation of insurers is liability-driven. Assets can be hold long-term. Short-term changes in credit spreads can be mitigated. The VA can reduce short-term volatility.
   
   VA is depending on the risk-corrected spread of a currency-specific reference portfolio.
   
   Compatible with own portfolio? Use of VA requires consideration in risk management.

3) **Transitional measures on technical provision or on the RFR**

   Introduced to facilitate a gradual phasing-in from Solvency I to Solvency II.
   
   Applicable to portfolio 31 December 2015 (prior approval by supervisor required)
LTG-measures: Use and impact

LTG-measures are of high importance, and significantly dependant on the particular business model.

The AAE will concentrate on proposed amendments of the LTG-measures.

Source: LTG-Report 2020
Extrapolation process

**Requirement:** Market-consistent valuation of liabilities. Discounting of cash flows with a risk-free rate term structure (RFR) required (if hedging not possible).

Determination of the RFR has to take into account the availability of financial instruments in deep, liquid and transparent (DLT) markets.

For longer duration: Mark-to-model approach required.

1. Step: DLT-analysis of capital markets
2. Step: Identification of the last liquid point → starting point of extrapolation
3. Step: Risk-free interest rates derived from financial instruments available in DLT markets
4. Step: Determining a long-term expectation → Ultimate forward rate (UFR) (mean reversion level)
5. Step: Deciding on a convergence process towards UFR
Swap markets analysed for years 2016-2019

Swap market for the Euro in these years is DLT for maturities 1 to 12, 15, 20, 25, 30, 40 and 50 years. In 2017 and 2018 also for maturities 13, 14 years.

Bond markets: data missing for the Euro-countries (“With regard to the euro a particular obstacle to the assessment is that there are no consistent data across the euro area countries.”)

Matching criterion: Analysed with and without unit-linked and index-linked business (value in brackets)
- Maximum LLP:
  - 2016: 10 years (10 years)
  - 2017: 15 years (15 years)
  - “probably not complete data”:
    - 2018: 15 years (23 years)

Residual volume criterion with threshold 6%
- LLP:
  - 2016: 21 years
  - 2017: 22 years
  - 2018: 22 years
  - 2019: Q1 2020: 22 years
  - Q2 2020: 22 years

“The rationale for using the residual bond criterion is that it indicates the relative availability of bonds.”

Source: BACKGROUND DOCUMENT ON THE OPINION ON THE 2020 REVIEW OF SOLVENCY II Analysis Annex 2.2, 2.5
Extrapolation: Ultimate forward rate

\[ \text{UFR} = \text{expected inflation rate} + \text{expected real rate} \]


Changes limited to steps of 15bps

- UFR (2017) = 4.2%
- UFR (2018) = 4.05%
- UFR (2019) = 3.9%
- UFR (2020) = 3.75%
- UFR (2021) = 3.6%
- UFR (2022) = 3.45%

Source: EIOPA-BoS-20/090 17 July 2020

Risk-free interest rate term structures Report on the Calculation of the UFR for 2021
Extrapolation of the RFR (Euro)

**Current methodology**

For Euro: treatment specified in the Omnibus II-Directive, Recital 30):
- Last liquid point (LLP) = 20
- Convergence point = 60 years
- Convergence tolerance = 3 bp
(at convergence point: difference of extrapolated curve from effective UFR)

Chosen technique:
Smith-Wilson method

**Alternative methodology**

First smoothing point (FSP) = 20
(residual bond criterion used)

Last liquid forward rate (LLFR): based on volume and forward rates for maturities identified as DLT on and beyond FSP

Effective Ultimate forward rate

Methodology:
Forward rates after FSP: weighted combination of LLFR and UFR
Mean reversion factor alpha=10%
Neither convergence point nor convergence tolerance prescribed
Alternative methodology (1):
How swaps rates for maturities longer than FSP = 20 shall be considered:
DLT markets identified for maturities 1 to 12, 15, 20, 25, 30, 40, 50.
Information condensed in a newly introduced last liquid forward rate (LLFR)

Calculation of the LLFR:

\[ LLFR = w_{20} \cdot f_{15,20} + w_{25} \cdot f_{20,25} + w_{30} \cdot f_{20,30} + w_{40} \cdot f_{20,40} + w_{50} \cdot f_{20,50} \]

\( f_{t_1,t_2} \) forward rates between maturity \( t_1 \) and \( t_2 \) (one-year forward rate) and \( w_x \) weighting factors derived from average notional amount \( V_x \) traded for maturity \( x \)

e.g. \( x = 20 \):

\[ w_{20} = \frac{V_{20}}{V_{20} + V_{25} + V_{30} + V_{40} + V_{50}} \]

Source: BACKGROUND DOCUMENT ON THE OPINION ON THE 2020 REVIEW OF SOLVENCY II Analysis Annex 2.6
EIOPA’s proposed formula and parameters

**Alternative methodology (2):**

Extrapolation of forward rates

\[ f_{20,20+h} = \ln(1+UFR) + (LLFR - \ln(1+UFR)) \cdot B(a,h) \]

\[ B(a,h) = \frac{1 - e^{-ah}}{ah} \]

- \( h \) = maturity after FSP
- \( a \) = convergence factor (10% proposed)

Zero-coupon rates post FSP extrapolated:

\[ z_{20+h} = \exp \left( \frac{20 \cdot z_{20} + h \cdot f_{20,20+h}}{20+h} \right) - 1 \]

To specify in upcoming delegated acts: Methodologies, principles and techniques like:

- **formula for the extrapolation**, including the parameters that determine the convergence speed;
- **method for the determination of the depth, liquidity and transparency** of bond markets;
- **percentage** below which the share of bonds with maturities longer than or equal to a given maturity among all bonds shall be regarded as low (residual volume criterion);
“No unequivocal evidence can be found in the economic empirical literature for the convergence factor and the existence of a convergence factor greater than zero is also often called into doubt.”

EIOPA: Background document A.90
Starting point for the extrapolation: The AAE appreciates the clarification concerning the role of fixed-income instruments in the determination.

The AAE does not support the proposed change of the methodology.

The proposed methodology is not suitable to mitigate excessive short-term volatility in insurers’ solvency positions – contradicting Commission’s assessment.

Due to the chosen methodology, short- or mid-term volatility as well as turmoil in capital markets will be carried forward to the entire RFR (observable in EIOPA’s impact assessment)

Increased risk of procyclical behaviour in particular in a low or in a high interest rate environment – thus contributing to systemic risk.

Main reason: Missing convergence process towards the UFR with a given convergence period and a given precision to reach a fixed mean-reversion level (the UFR)

Frame conditions of the convergence process should be included in the Directive.

- Current proposal: Methodologies, principles and technique shall be laid down in delegated acts. This weakens the role of politics. It is an additional source of uncertainty.

- Country specific condition should be considered: Interest rate swaps cannot be used in all countries uniformly. No LLFR should affect the starting value of the extrapolation.
## Volatility adjustment (VA)

### EIOPA’s advice:

Calculation of the VA for currency $c$:

\[
V_{A_{\text{perm}}} = G A R \cdot AR_4 \cdot AR_5 \cdot Scale_c \cdot RC\_S_c
\]

Where:
- $AR_4$, to correct mismatches in fixed income assets and liabilities
- $AR_5$, to account for the illiquidity characteristic of liabilities
- $G A R$ is the general application ratio → proposed ratio 85%
- $Scale_c$ scaling-factor for currency $c$
- $RC\_S_c$ risk-corrected spread of the representative portfolio for currency $c$

### Commission’s proposal

Calculation of the VA for currency $cu$:

\[
V_{A_{cu}} = 85\% \cdot CSSR_{cu} \cdot RCS_{cu}
\]

where:
- $V_{A_{cu}}$, VA for currency $cu$;
- $CSSR_{cu}$ “credit spread sensitivity ratio” of an undertaking for currency $cu$
- $RCS_{cu}$ risk-corrected spread of the representative portfolio for currency $cu$

### Dynamic volatility adjustment

Limited to users of internal models. Floor proposed.
Volatility adjustment (VA)

Commission’s proposal

\[ VA_{\text{Euro,macro}} \] is the macro VA for a country \( co \);
\[ VA\text{ }_{\text{Euro,macro}} = 85\% \cdot CSSR_{\text{Euro}} \cdot \max (RCS_{co} - 1.3 \cdot RCS_{\text{Euro}} ; 0) \cdot \omega_{co} \]

(a) \( CSSR_{\text{Euro}} \) “CSSR” of undertaking for Euro;
(c) \( RCS_{co} \) risk-corrected spread for country \( co \)
(d) \( RCS_{\text{Euro}} \) risk-corrected spread for the euro;
(e) \( \omega_{co} \) country adjustment factor for country \( co \).

The country adjustment factor shall be calculated as follows:
\[ \omega_{co} = \max (\min \left( \frac{RCS_{co} - 0.6\%}{0.3\%} ; 1 \right) ; 0) \]

EIOPA’s advice:

Macro economic VA for country \( j \):
\[ VA_{\text{macro},j} = GAR \cdot AR_{A} \cdot AR_{S} \cdot \omega_{j} \cdot \max \left( \text{Scale}_{c,j} \cdot RC_{-S_{c,j}} - 1.3 \cdot \text{Scale}_{c} \cdot RC_{-S_{c}} ; 0 \right) \]

- \( \text{Scale}_{c} \) scaling-factor for currency \( c \) - \( \text{Scale}_{c,j} \) scaling-factor for country \( j \) using currency \( c \)
- \( RC_{-S_{c}} \) risk-corrected spread for currency \( c \)
- \( RC_{-S_{c,j}} \) risk-corrected spread for country \( j \) using currency \( c \)

\( \omega_{j} \) for gradual and smooth activation of country component, mitigating cliff effects.

\[ \omega_{j} = \begin{cases} 0 & \text{if } RC_{-S_{c,j}} \leq 60 \text{ bps} \\ \frac{RC_{-S_{c,j}} - 60}{30} & \text{if } 60 \text{ bps} < RC_{-S_{c,j}} \leq 90 \text{ bps} \\ 1 & \text{if } RC_{-S_{c,j}} > 90 \text{ bps} \end{cases} \]
The AAE had advocated the use of own assets instead of a reference portfolio.

Commission’s now proposed treatment leaves relevant question unanswered, as parameters and formulae shall be laid down in delegated acts.

Main impact on the VA will result from the

- formula for the calculation of risk-correction of the spread
- formula for the calculation of undertaking-specific elements (CSSR)

It is unclear how far the comprehensive analyses provided by EIOPA will be considered.

Commission: “will consider EIOPA’s advice and possibly change the Delegated Regulation to address overshooting due to differences in the credit spread sensitivity of assets and the interest-rate sensitivity of liabilities.”
Considered changes of Delegated Regulation
Interest rate risk: EIOPA’s advice

Proposed stress (shift-approach had been proposed by actuaries during SCR Review):

- Proportional Stress
- Additive component, linearly decreasing after FSP to 0 after 60 years.

Lower bound of \(-1.25\%\) for stressed interest rates

Gradual implementation for downward stress recommended: not lasting more than 5 years

Sc1: proposed stress, Sc2: current stress

Reference date 30 June 2020
Interest rate risk – COM’s considerations

Commission consider to build on EIOPA’s advice.

But:
Stress only applies up to starting point of extrapolation. Phasing-in over 5 years.

In line with AAE’s proposed change “first stress – than extrapolate”

UFR-Stress: a reduction of the UFR by 15 bp considered

Reference date 30 June 2020

Own calculation!

https://ec.europa.eu/info/publications/210922-solvency-2-communication_en
Risk margin: changes “considered”

**EIOPA’s advice:** Attenuate the weight of future SCR by application of a factor $\lambda$. Leave CoC-rate unchanged.

$$RM_{\text{scenario}} = \text{CoC} \cdot \sum_{t \geq 0} \frac{\text{SCR}(t)}{(1+r(t+1))^{t+1}} \times \max(\lambda^t, 0.5), \; \lambda = 0.975$$

- SCR(t): SCR after $t$ years;
- $r(t+1)$: basic risk-free rate for the maturity of $t+1$ year
- CoC = 6%

Considerable relief of the risk margin. Floor of 0.5 will be reached after 28 years. The size of the factor $\lambda$ justified by an analysis of the duration of the SCR(t)!

The calculation of the Risk margin is not fixed in the Directive.

**Commission** considers to build on the $\lambda$-approach in upcoming delegated regulation, but
- Remove the floor of 0.5, and
- In addition, reduce the CoC to 5%.

→ Change is expected to contribute to the calculated capital relief (50 bln. Euro)

https://ec.europa.eu/info/publications/210922-solvency-2-communication_en
Revision of the current eligibility criteria for the LTE

The EU-Commission considers simplifying the conditions under which equity investments, including via infrastructure funds, would be treated as “long-term”.

Effect:
A risk factor of 22% can be used (others: 39% for listed and 49% for unlisted equities).

Estimation: Amount of equity investments which could benefit from changed criteria:
“Cautious scenario”: Reduction in SCR would reach approximately **€10.5 billion** (for insurers using the standard formula.
This money can be further invested in the economy.

Challenge: The framework for LTE should remain prudentially robust. The review should not harm policyholder protection and financial stability.


AAE’s view: same risk should always require same capital
Impact assessment
**Significant differences from HIA to CIR**

Holistic impact assessment (HIA)
- **Base scenario:** Current SII at end of 2019
- **Scenario 1:** Combined impact of EIOPA’s advice
- **Scenario 2:** Combined impact of EIOPA’s advice other than interest rate risk calibration

Complementary information request (CIR)
HIA repeated with reference date 30 June 2020

<table>
<thead>
<tr>
<th>Approximate impact on capital surplus</th>
<th>HIA</th>
<th>CIR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volatility adjustment</td>
<td>+16 bn</td>
<td>+13 bn</td>
</tr>
<tr>
<td>Risk margin</td>
<td>+16 bn</td>
<td>+18 bn</td>
</tr>
<tr>
<td>Extrapolation</td>
<td>-34 bn</td>
<td>-61 bn</td>
</tr>
<tr>
<td>Correlations</td>
<td>+ 5 bn</td>
<td>+ 5 bn</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>-21 bn</td>
<td>-20 bn</td>
</tr>
</tbody>
</table>

Main changes during first half year 2020:
- Lower interest rates
- UFR reduced 3.90% to 3.75%
- Swap curve inverse after 20 years

<table>
<thead>
<tr>
<th>Solvency ratio</th>
<th>all</th>
<th>life</th>
<th>life and composite</th>
<th>non-life &amp; reinsurer</th>
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<tbody>
<tr>
<td></td>
<td>HIA</td>
<td>CIR</td>
<td>HIA</td>
<td>CIR</td>
</tr>
<tr>
<td>Baseline</td>
<td>247%</td>
<td>226%</td>
<td>260%</td>
<td>228%</td>
</tr>
<tr>
<td>Scenario 1</td>
<td>234%</td>
<td>204%</td>
<td>229%</td>
<td>186%</td>
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<tr>
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<td>248%</td>
<td>216%</td>
<td>255%</td>
<td>204%</td>
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<tr>
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<td>1%</td>
<td>-10%</td>
<td>-5%</td>
<td>-24%</td>
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<tr>
<td>Scenario 1-Baseline</td>
<td>-13%</td>
<td>-22%</td>
<td>-31%</td>
<td>-42%</td>
</tr>
</tbody>
</table>

Source: BACKGROUND DOCUMENT ON THE OPINION ON THE 2020 REVIEW OF SOLVENCY II IMPACT ASSESSMENT
EIOPA’s proposed remedial measure

**Inherent assumption: balancing achieved end of 2019!**

**Phasing-in mechanism** proposed for very low interest rates, phasing-out until 2032. Phasing-in steered by modifying the convergence parameter Alpha. The risk-free interest rate at the FSP determines the relevant Alpha → RFR (20)

\[
\text{Alpha} = \begin{cases} 
10\% & \text{RFR (20)} \geq 0.5\% \\
X\% & -0.5\% \leq \text{RFR (20)} \leq 0.5\% \\
20\% & \text{RFR (20)} \leq -0.5\%
\end{cases}
\]

in first year of application, decreasing linearly to 10\% in year 2032

\[
\text{RFR (20)} = \begin{cases} 
0.5\% & \text{31 December 2019} \\
-0.027\% & \text{30 June 2020} \\
0.316\% & \text{31 October 2021}
\end{cases} \quad \Rightarrow \text{Alpha} = \begin{cases} 
10\% \\
15.3\% \\
11.8\%
\end{cases}
\]

“Mechanism” triggered by interest rate
Commission proposes a transition period until 2032
Transition should be steered by adequate choice of parameters determining the speed of convergence towards UFR:

Those may be chosen such that on first application date the RFR is “sufficiently similar” to the RFR in line with current extrapolation methodology one day before this date.
They shall be decreased linearly each calendar year.
The final parameters shall be applied as of 1 January 2032.
To consider: Formula and these parameters are not specified in the proposal!

The proposed transition process is independent of market conditions at starting date.
The “mechanism” introduced in EIOPA’s advice was developed to compensate for low interest rate environment (triggered by interest rate on 31 December 2019).
## Commission’s impact assessment

<table>
<thead>
<tr>
<th></th>
<th>Reference date end of 2019</th>
<th>Reference date mid-2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Combined effect on quantitative rules of all recommendations by EIOPA</strong></td>
<td>Change in solvency ratio compared to under current rules -13 percentage points (from 247% to 234%)</td>
<td>Change in solvency ratio compared to under current rules -22 percentage points (from 226% to 204%)</td>
</tr>
<tr>
<td></td>
<td>Change in excess own funds compared to current rules - EUR 15 billion (sample) - EUR 18 billion (whole market)</td>
<td>Change in excess own funds compared to current rules - EUR 40 billion (sample) - EUR 55 billion (whole market)</td>
</tr>
<tr>
<td><strong>Combined effect on quantitative rules of all preferred options</strong></td>
<td>Change in solvency ratio compared to under current rules -2 percentage points (from 247% to 245%)</td>
<td>Change in solvency ratio compared to under current rules -3 percentage points (from 226% to 223%)</td>
</tr>
<tr>
<td></td>
<td>Change in excess own funds compared to current rules +EUR 16 billion (sample) +EUR 30 billion (whole market)</td>
<td>Change in excess own funds compared to current rules +EUR 8 billion (sample) +EUR 16 billion (whole market)</td>
</tr>
</tbody>
</table>


**Expected result:**
- Increase of up to **30 billion Euro** in capital surplus (depending on market conditions).
- Gradual implementation of changes over several years would also gradually affect solvency ratios of insurers.
- In the short term up to 90 billion Euro of capital could be released (and could be used to support the economic recovery).
Commission’s impact assessment

Following reasoning can be found in footnote:
- Negative impact is more significant for contracts with higher interest rates.
- Such contracts are usually older – extinction over time will reduce long-term impact of changes on interest rates. This is not considered in the table.

Therefore: The overall impact is expected to be even more positive than what the table suggests.

Criticism
- Impact assessment is based on EIOPA’s impact assessment.
- Only global message concerning overall effects on insurer’s own funds provided
- Question: How can impact be assessed with important parameters not specified?
- Granularity not sufficient: Exposure of countries or lines of business to the proposed changes differ
  - Highest capital relief resulting from risk margin \(\rightarrow\) beneficial for all undertakings.
  - Increased capital need resulting from extrapolation \(\rightarrow\) long-term business affected.

\(\rightarrow\) robust and comprehensive impact assessment necessary!
Others
Further relevant proposals

**Proportionality:**

Higher thresholds could waive the mandatory application of Solvency II for up to 186 insurers.

**Proposed change:**
- Annual gross written premium not higher than **15 Mio. Euro** (old **5 Mio. Euro**)
- Technical provisions not higher than **50 Mio. Euro** (old **25 Mio. Euro**)

In addition, at least 249 insurers within the scope of Solvency II would benefit from simpler and more proportionate rules.

New Articles 29a-29e: Category of low risk undertakings (LRU) introduced, amongst others with simplified rules for the valuation of financial options and guarantees ("prudent deterministic valuation" – based on a predefined set of scenarios)
Art. 45a: Climate change

Undertakings with material exposure to climate change risks shall specify at least two long-term climate change scenarios, including

- a long-term climate change scenario where the global temperature increase remains below two degrees Celsius;
- a long-term climate change scenario where the global temperature increase is equal to or higher than two degrees Celsius.

Art. 304a: Sustainability

Contains two mandates to EIOPA concerning sustainability risks:

- to explore by 2023 a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives (EIOPA shall submit a report on its findings to the Commission by 28 June 2023), and
- to review regularly (at least every three years) the scope and the calibration of parameters of the standard formula pertaining to natural catastrophe risk.
Documents provided by the EU-Commission on the SII-Review can be accessed via:


Documents published by EIOPA on 17 December 2020 (related to the Opinion) can be accessed via:

Thank you