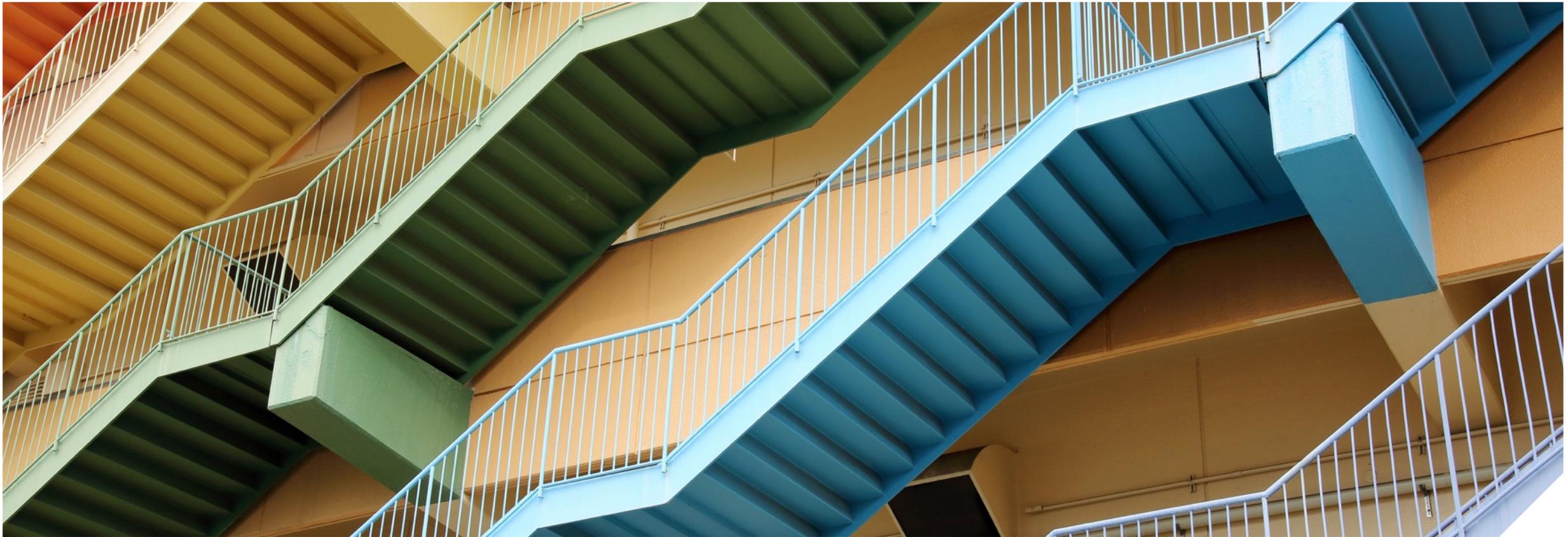


Milliman Breakfast Briefing

22nd January 2020



Solvency II 2020 review - overview

Eoin King

22 JANUARY 2020

Background

Solvency II Directive requires that, by 1 January 2021, the Commission shall review:

LTG measures and
equity risk
measures

Methods,
assumptions &
parameters used in
calculating standard
formula SCR

Calculation of the
MCR

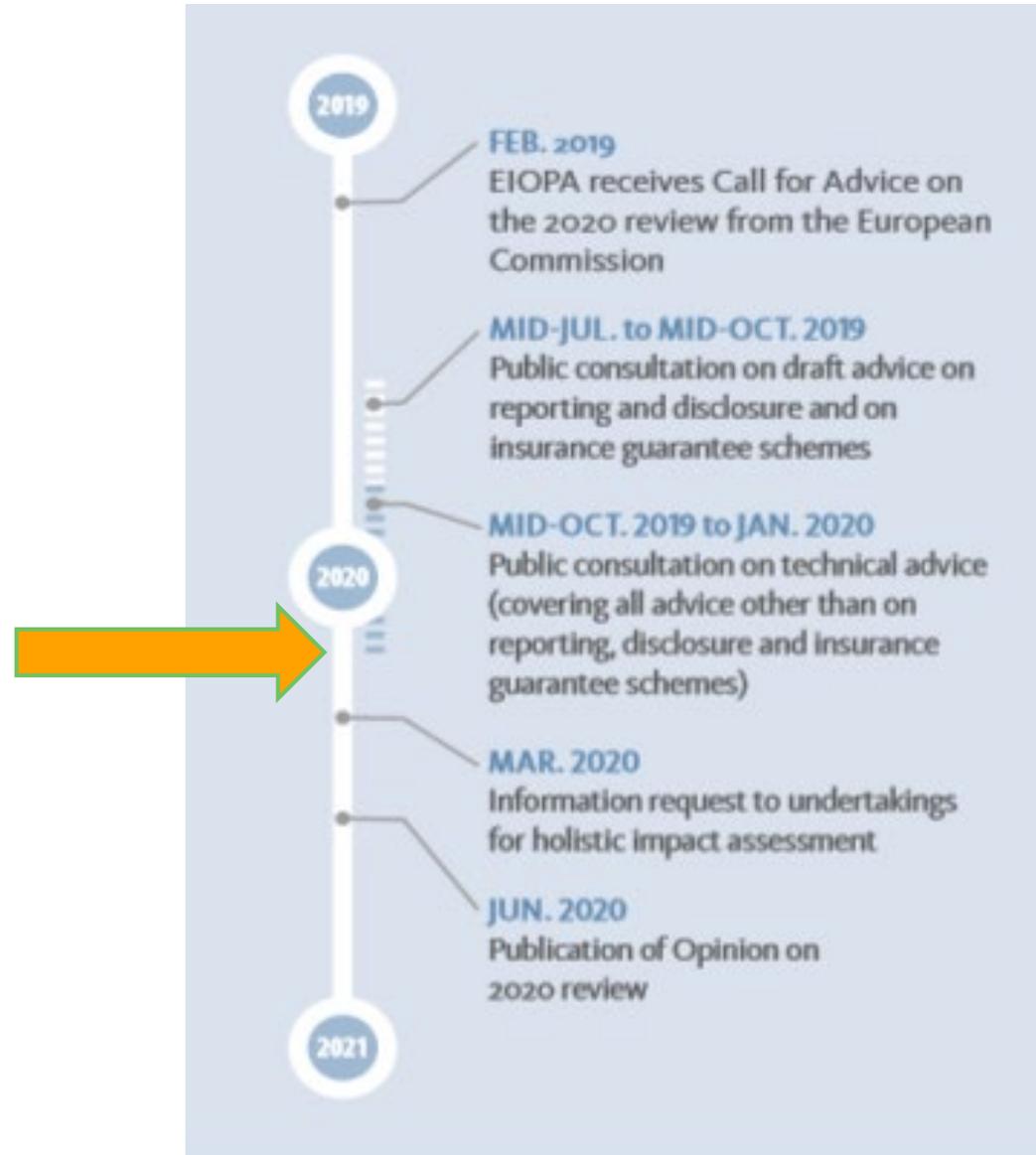
Group supervision &
capital management

Background

11 February 2019 – Commission call for Advice to EIOPA:

- Risk margin
- Capital Markets Union aspects
- Macro prudential issues
- Recovery and resolution
- Insurance guarantee schemes
- FoS/FoE supervisory powers
- Reporting and disclosure
- Proportionality and thresholds
- Best estimate
- Own funds
- Reliance on external ratings

Timeline



EIOPA Consultation Papers – First Set

Reporting & Disclosure

- General Issues on Supervisory Reporting and Public Disclosure (55 pages)
- QRTs (131 pages + Annexes)
- SFCR (60 pages)
- Financial Stability Reporting (9 pages)

To be reviewed later in 2019:

- Group QRTs
- RSR
- Technical aspects of the reporting and disclosure process
- Data quality aspects
- Issues linked to other areas of the Solvency II 2020 review, including long-term guarantees templates.

Insurance Guarantee Schemes

- Harmonisation of National Insurance Guarantee Schemes (67 pages)

**Deadline:
Was 18 October
2019**

**Covered in a
previous
Breakfast Briefing**

EIOPA Consultation Papers – Second Set

One 878 page paper covering:

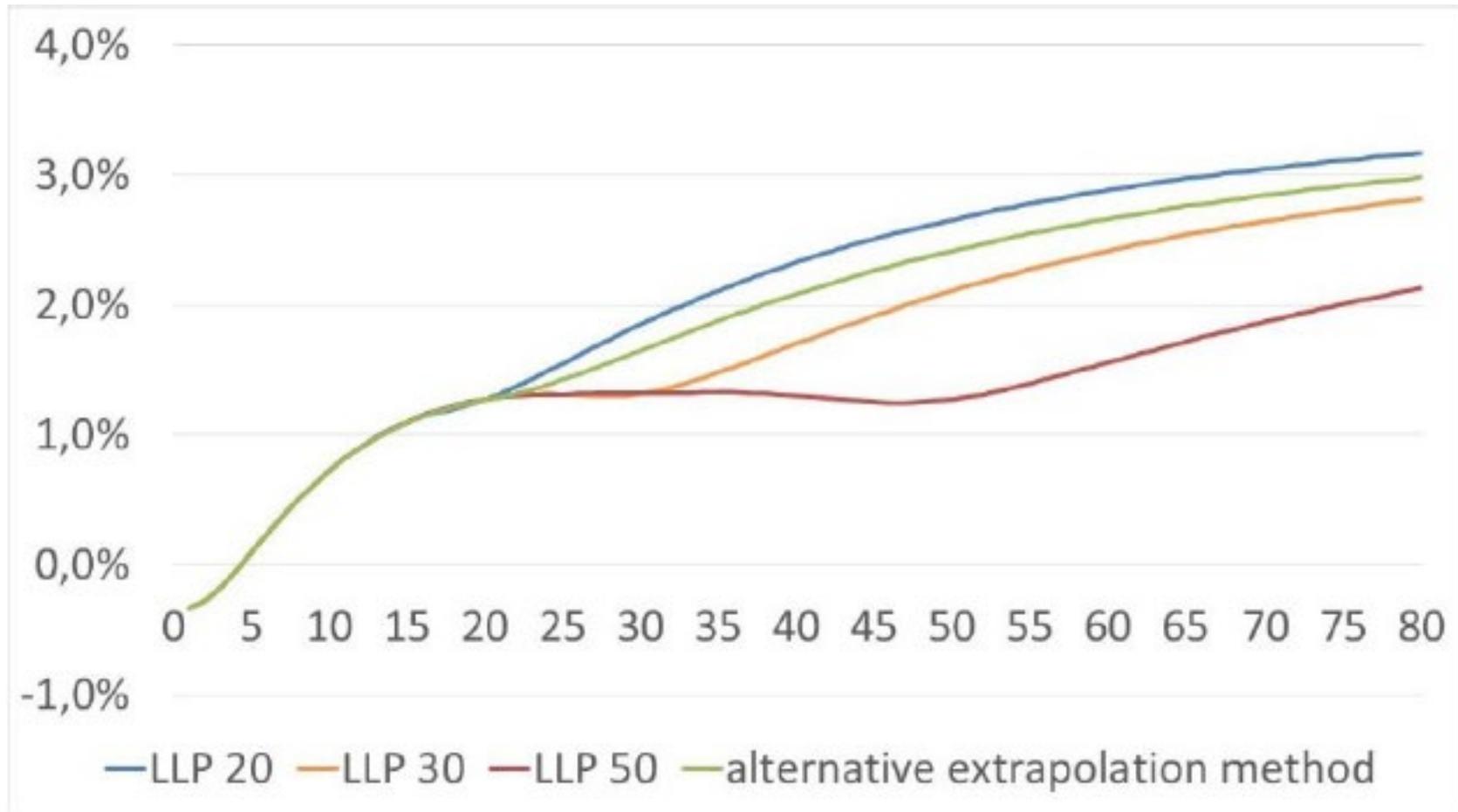
- LTG measures and measures on equity risk (258 pages)
- Technical provisions (43 pages)
- Own funds (27 pages)
- Standard Formula SCR (76 pages)
- MCR (14 pages)
- Reporting and disclosure (34 pages)
- Proportionality (37 pages)
- Group supervision (106 pages)
- FoS/FoE (11 pages)
- Macroprudential policy (41 pages)
- Recovery and resolution (48 pages)
- Insurance Guarantee schemes (1 pages)
- Other topics (16 pages)
- Annex with additional info on some of the above (151 pages)

**Deadline:
Was 15 January
2020**

**Bridget will cover aspects of
these topics**

Long Term Guarantees

- Changes in LLP (or at least sensitivity testing and disclosure) being considered for Euro



Long Term Guarantees

Matching Adjustment

- Remove limitations on diversification benefits
- Clarification on eligibility of restructured assets

Volatility Adjustment

- Other changes including undertaking specific VA being considered
- Consistent approach on need for supervisory approval proposed

Others

- Possible strengthening of disclosures in relation to transitionals
- Restrictions on new uses of transitionals
- Some changes in risk management and disclosure requirements

Technical Provisions

- Some changes to wording in relation to contract boundaries, FMAs and EPIFP
- Change in relation to expenses proposed
 - Suggestion that companies should consider Board's decisions in relation to writing new business whereas as previously Delegated Regulation said to assume new business would be written
- No changes proposed for risk margin despite lobbying efforts and views on a number of potential improvements
 - But, stakeholders have been asked for views on alternative approaches not already considered

SCR

Interest Rate Risk SCR

- Relative shift approach proposed
- e.g.
$$r_t^{up}(m) = r_t(m) \cdot (1 + s_m^{up}(\theta m)) + b_m^{up}$$
- Works better with low/negative interest rates

Equity SCR

- Discussion but no proposals in relation to long term equity SCR – effectively saying stress is too lenient
- Proposal to phase out duration based equity stress
- Some proposals in relation to proving lower volatility to justify use of strategic equity SCR

Other SCRs

- Counterparty Default: some changes e.g. simplification for risk mitigating effect
- Some proposals in relation to reinsurance and other risk mitigation techniques
- Other areas looked at but no changes proposed

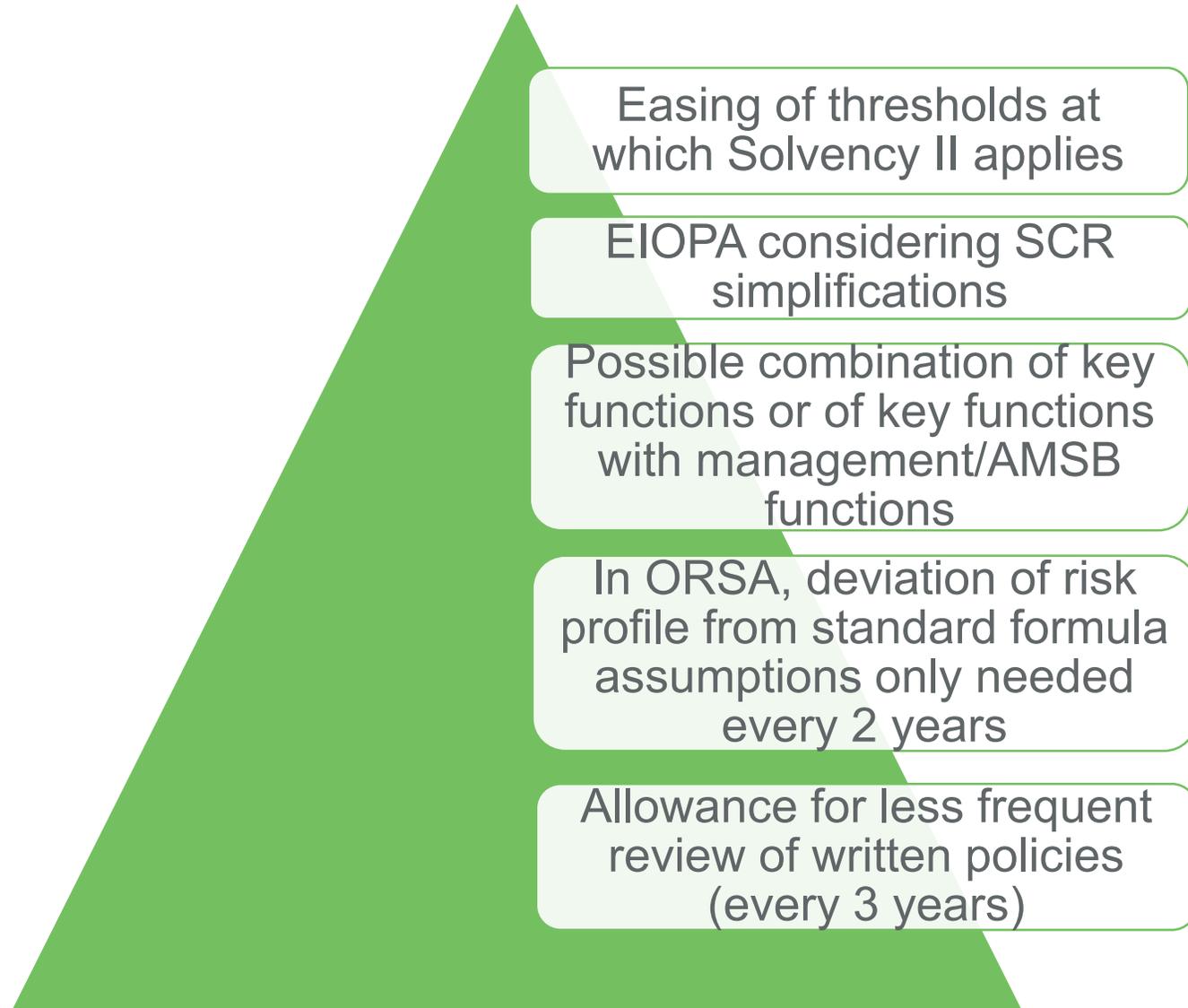
MCR

- Some changes in non-life factors

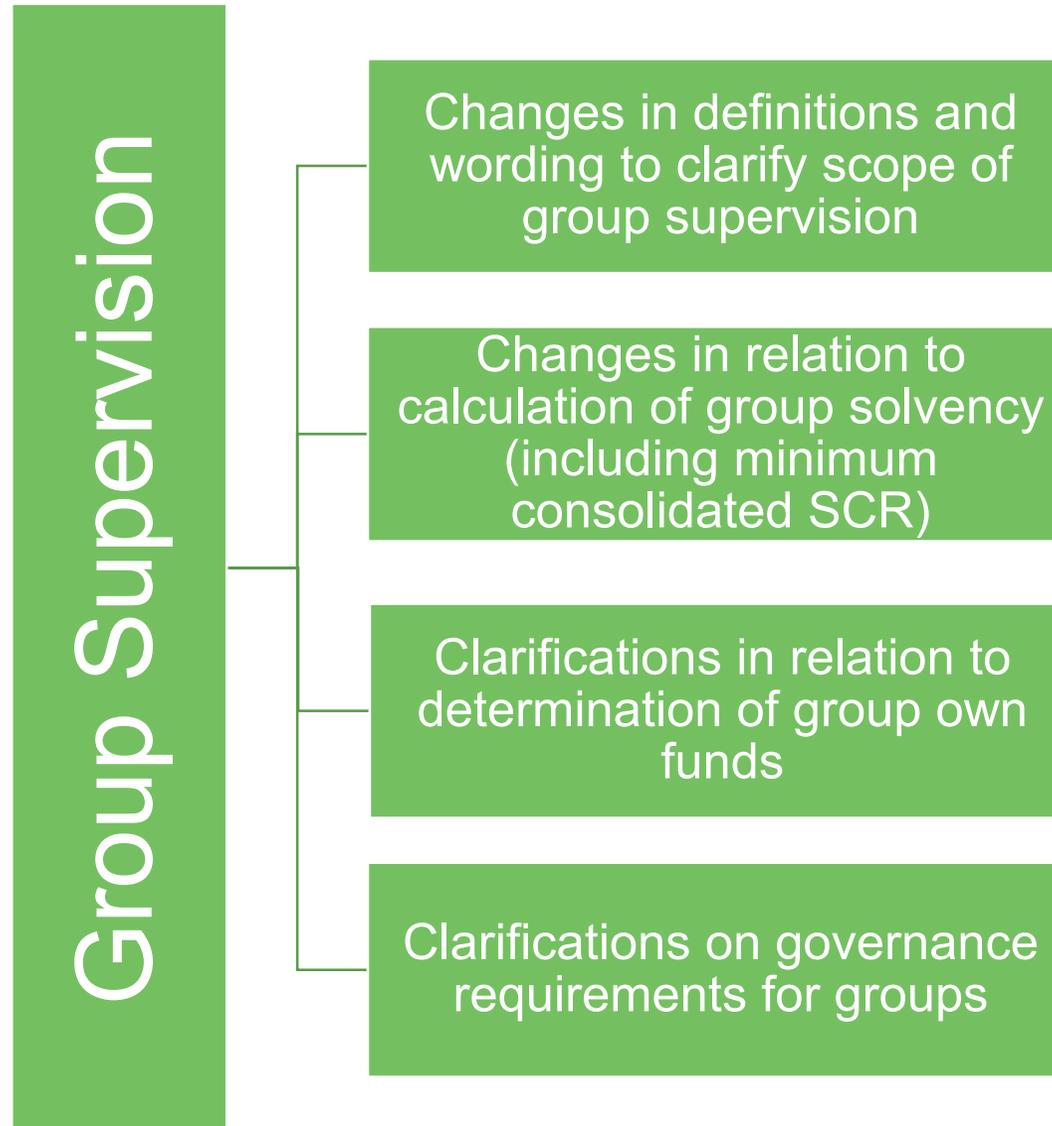
Segment	Old TP Factor	Old Written Premium Factor	New TP Factor	New Written Premium Factor
Credit and suretyship	17.7%	11.3%	16.0% 	17.7% 
Legal expenses	11.3%	6.6%	5.2% 	7.8% 
Assistance	18.6%	8.5%	20.3% 	6.0% 
Accident	4.7%	4.7%	5.4% 	No change 
Sickness	13.1%	8.5%	No change 	8.0% 
Workers' Compensation	10.7%	7.5%	10.3% 	9.0% 
NPR Health	18.6%	15.9%	15.9% 	No change 

- Some changes in wording in relation to non-compliance or risk of non-compliance

Proportionality



Group Supervision



FoS/FoE

- Requirement as part of authorisation to disclose if application rejected or withdrawn elsewhere
- Requirement for FoS insurers to inform home supervisor immediately of material change in business and for home supervisor to notify host supervisor without delay
- New wording to facilitate collaboration between home and host supervisors:
- Host member states to be given power to request information in a timely manner



Other Topics

- **Fit and Proper Requirements**

- Changes in wording to harmonise assessments of Board members and qualifying shareholders in SRP

- Allowance for EIOPA to become involved in assessing propriety in complex cross border cases

Summary



Risk Management Developments

Solvency II 2020 Review

Bridget MacDonnell

22 JANUARY 2020



Risk Management Developments

Solvency II 2020 Review

Recovery and
Resolution

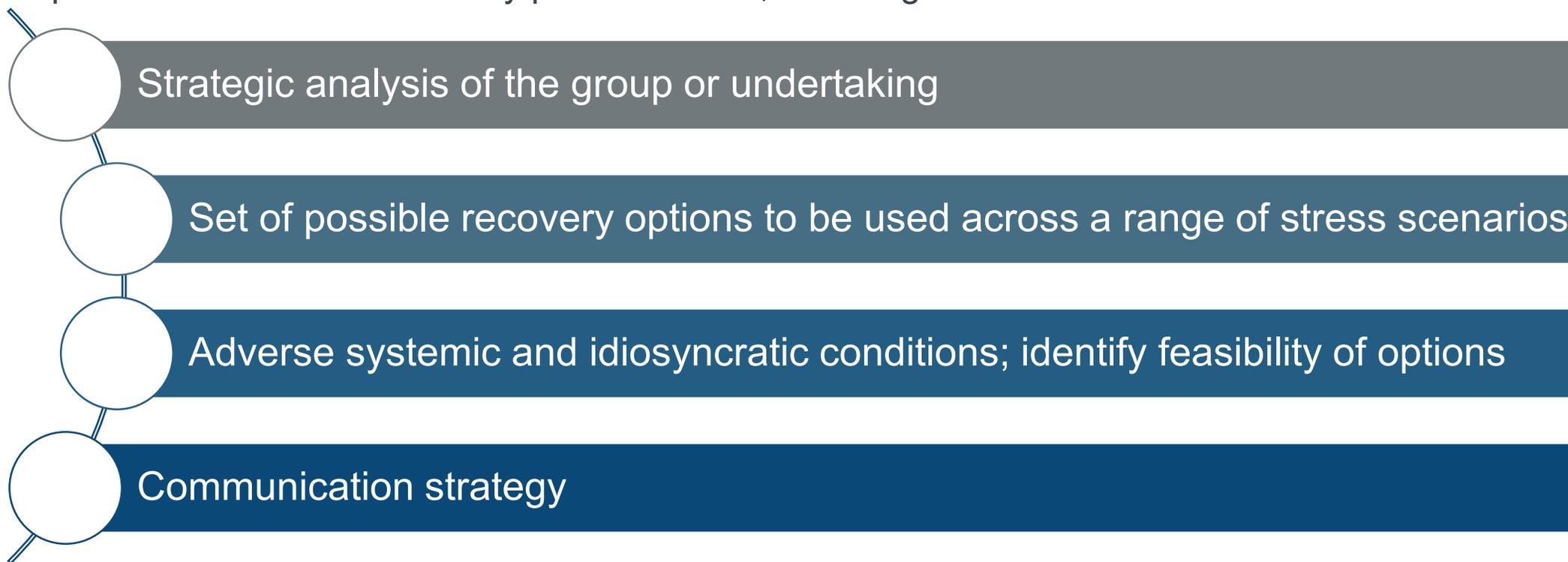
ORSA

Systemic Risk
Management
Plans

Liquidity Risk
Management
Plans

Recovery and Resolution Framework

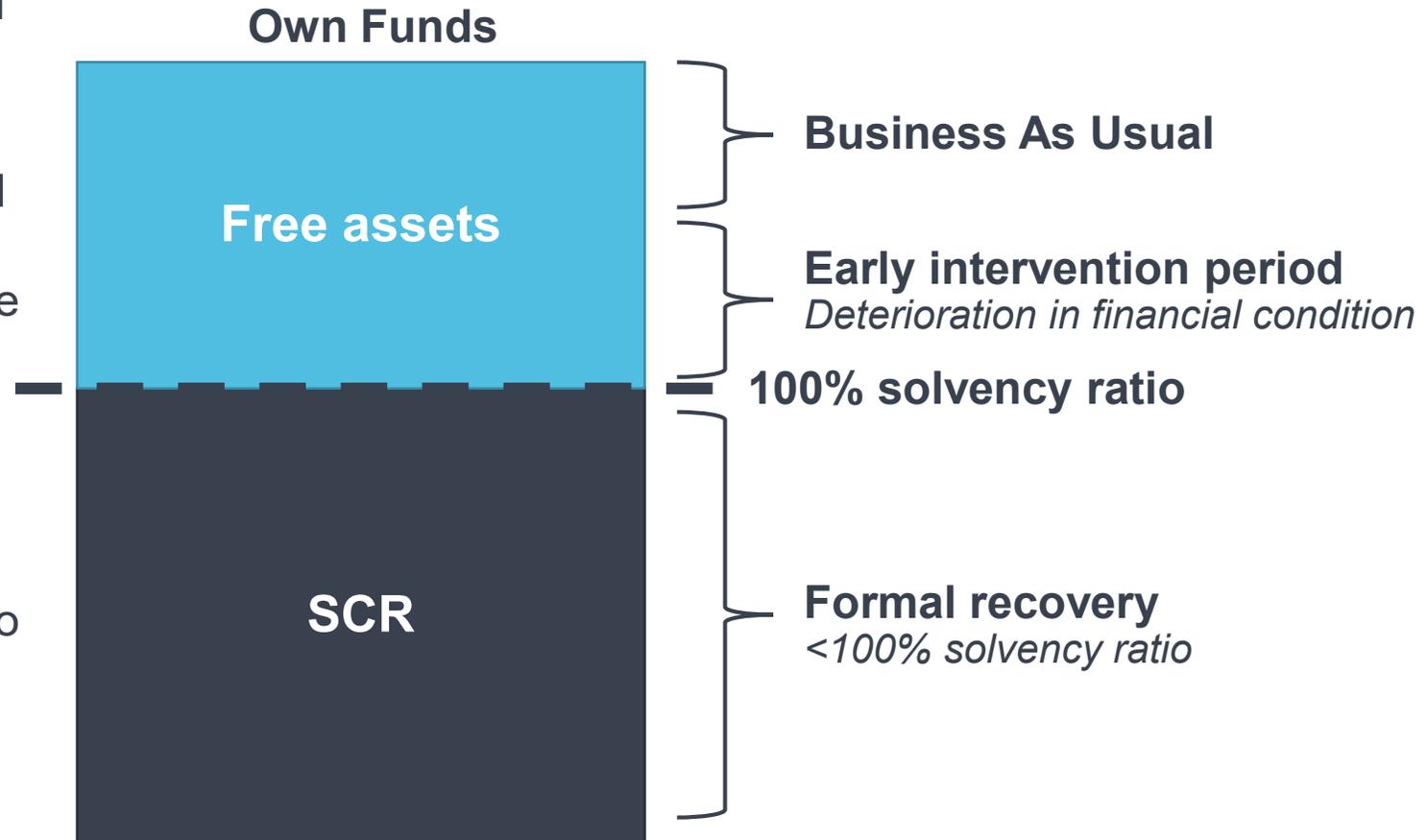
- Proposal to incorporate recovery planning requirements into Solvency II
- Expected contents of a recovery plan reiterated, including



- Confirmation that **reinsurers** will also be required to produce recovery plans

Point of entry into Recovery

- Entry into **'recovery'** defined as breach of 100% SCR
- Entry into **early intervention** defined as the stage of a deterioration in the financial condition of the Company in accordance with Article 136 of the Solvency II Directive
- Can be required to implement recovery plan during early intervention period, i.e. before breach of 100% SCR
- Regulators to have **additional powers** during early intervention period, such as to require companies to limit variable remuneration and bonuses



Resolution Powers for Regulators

Supplementing normal insolvency procedures

Prohibit/recover
variable
remuneration

Force closure to new
business

Sell or transfer
shares to third party

Sell or transfer
assets/liabilities to a
third party or bridge
institution

Override restrictions
to transfer assets /
liabilities

Create and operate
a bridge institution
where to transfer
assets / liabilities

Temporarily Restrict /
Suspend surrenders

Suspend rights of
reinsurers to
terminate or not
reinstate due to
cedant's resolution

Suspend early
termination rights of
derivatives and
securities lending

Suspend payments
to unsecured
creditors and creditor
actions

Require other Group
entities to continue
to provide essential
services

Take control of and
manage the
Company or appoint
administrator

Restructure, limit or
write down liabilities
and allocate losses

Insurance Guarantee Schemes (IGS)

- EIOPA remains of the view outlined in its 2018 consultation paper regarding IGS
- Proposes minimum harmonisation with regards to policyholder protection through the establishment of a European network of national IGSs

EIOPA Summary of Arguments in favour of	
Status Quo	(A) Risk of contagion in insurance industry is less pronounced
	(B) Sufficient protection mechanisms already in place
	(C) Potential costs of IGSs
	(D) Moral hazard effects
European network of national IGSs	(A) More equal and effective policyholder protection
	(B) Distribution of insurance failure costs to the industry
	(C) Increase in consumer confidence and choice
	(D) Level playing field across Member States

Own Risk and Solvency Assessment (ORSA)

Review of the Proportionality Principle and Macroprudential Policy

Standard Formula appropriateness every 2 years

Proportionate stress testing and scenario analysis if less complex risk profile

Inclusion of macroprudential factors within the ORSA

Systemic Risk Management Plan (SRMP)

Macroprudential Policy

- Sources of systemic risk:
 - Excessive involvement in certain activities or products
 - Possessing high concentrations of risk
- EIOPA believes such risk taking should be discouraged, to ensure the stability of the financial sector
- Proposal to require **only certain insurers** to produce a Systemic Risk Management Plan (SRMP)
- SRMP details the measures the company will take to mitigate the systemic risk they pose to the financial system
- Scope to be based on factors such as:

Size

Inter-
connectedness

Substitutability

Nature, scale
and complexity

Liquidity Risk Management Plan (LRMP)

Macroprudential Policy

- Proposal to require **all Solvency II companies** to produce a Liquidity Risk Management Plan (LRMP) – possibility to waive if less exposed to liquidity risk

- LRMP identifies potential liquidity stresses and how firms will address them

EIOPA refers to **IAIS Guidance** on Liquidity Risk and Management Planning:

- Specify risk tolerances
- Identify contingency funding plans
- Liquidity Gap Analysis
 - A projection over time of liquidity sources under current conditions and future stress scenarios
 - Include scenarios such as high rates of surrenders, cancellations or lapses, liquidity issues at the legal entity level and/or acceleration of liquidity needs at the group level
 - Consideration of short and long term liquidity issues
- Early warning indicators specified and regularly monitored

Possible Liquidity Indicators

Liquid assets / technical provisions

Liquid assets / liquid liabilities

Unencumbered assets / total assets

Lapse ratios

Liquidity sources / liquidity needs

Short term liquidity resources / needs

SFCRs

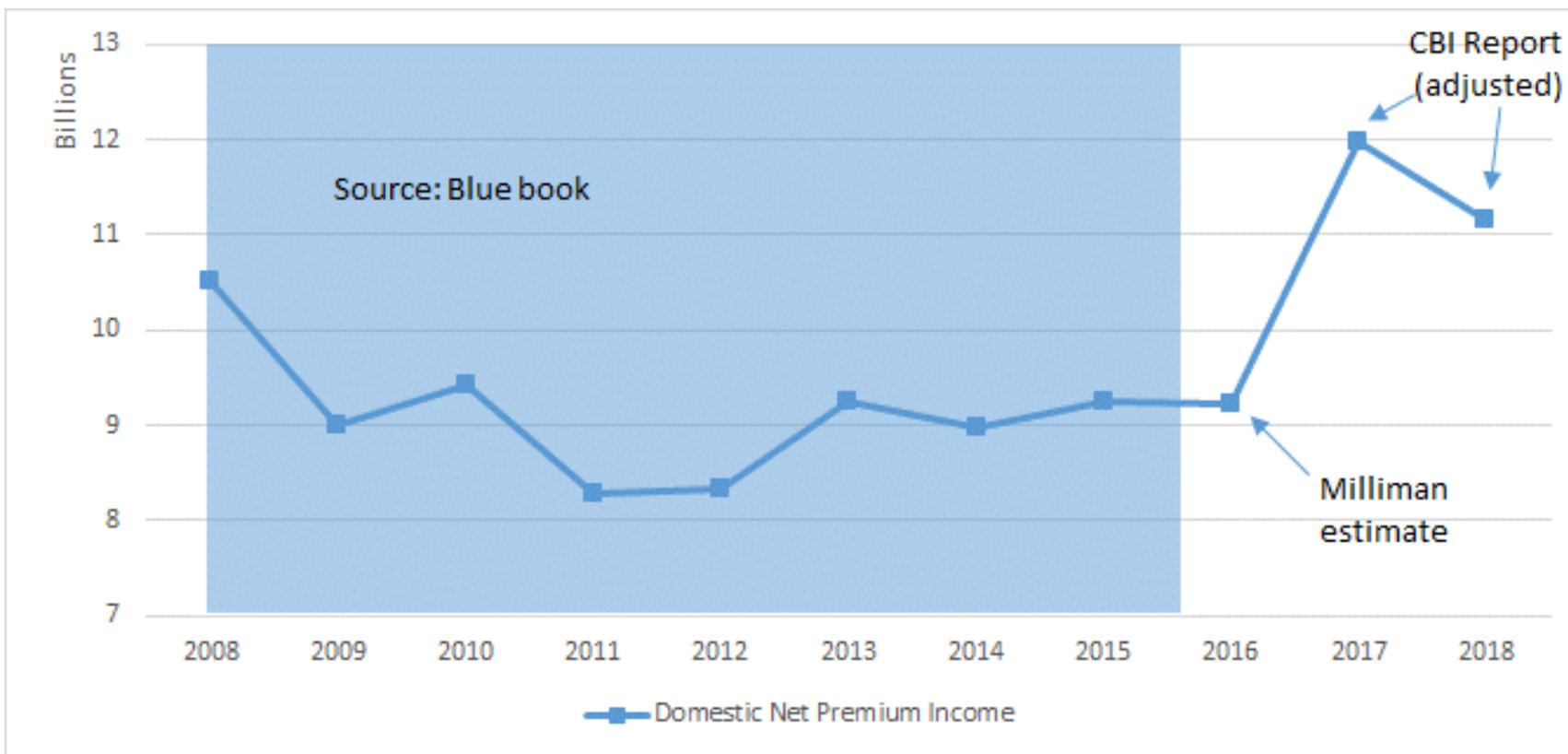
Year End 2018

Aisling Barrett

22 JANUARY 2019

Net Premium Income

Domestic Life Insurance Business



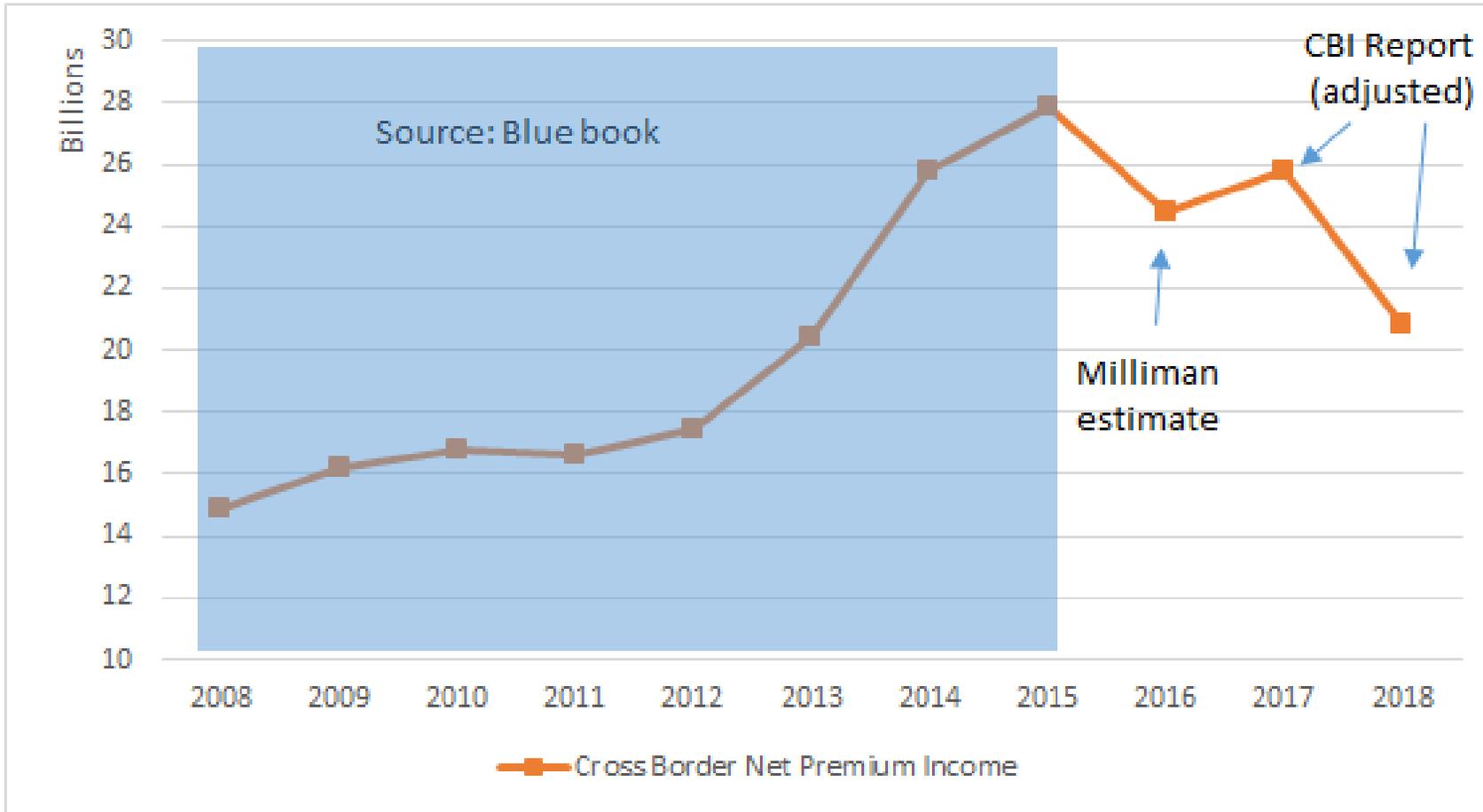
- 2016 estimate based on sample companies
- 2017 and 2018 figures based on CBI report (with some adjustments)

Figures exclude:

- Aviva (2014 – 2018)
- Standard Life
- Royal London

Net Premium Income

Cross Border Life Insurance Business



- 2016 estimate based on sample companies
- 2017 and 2018 figures based on CBI report (with some adjustments)

2018 Gross Written Premiums – Top 10 Irish insurers

Life and Non-Life Premiums

Total Gross Written Premiums € million		2018	2017	Type
Zurich Insurance		7,738	7,671	Non-Life (Domestic)
Irish Life Assurance		6,132	7,268	Life (Domestic)
Intesa Sanpaolo Life		5,748	7,941	Life (Cross Border)
SCOR *		4,103	4,179	Reinsurer
Zurich Life Assurance		3,383	3,233	Life (Domestic)
Hannover Re		3,023	2,766	Reinsurer
Partner Re		2,600	2,485	Reinsurer
Darta Saving Life Assurance		2,304	3,075	Life (Cross Border)
New Ireland Assurance		2,175	1,792	Life (Domestic)
Allianz Re		1,885	1,937	Reinsurer

* SCOR Global Life Reinsurance and SCOR Life Ireland (established in 2018)

2018 SCR – Top 10 Irish insurers

The total solvency ratio for all undertakings **INCREASED** from **176%** in 2017 to **187%** in 2018
(**179%** to **189%** for Life undertakings)

Company	SCR 2018	Ratio 2018	SCR 2017	Ratio 2017	Type
Zurich Insurance	1,704	 143%	1,933	135%	Non-Life (Domestic)
SCOR Life Ireland	1,602	222%			Reinsurer
Partner Re	1,321	 144%	1,374	135%	Reinsurer
SCOR Global Life Re	1,314	 230%	1,654	174%	Reinsurer
Irish Life Assurance	1,019	 175%	1,189	160%	Life (Domestic)
MetLife Europe	702	 171%	813	148%	Life (Cross-Border)
Allianz Re	639	 184%	487	181%	Reinsurer
Beazley Insurance	573	 247%	542	246%	Non-Life (Cross-Border)*
New Ireland Assurance	572	 147%	583	154%	Life (Domestic)
Zurich Life Assurance	565	 138%	705	129%	Life (Domestic)

* Beazley Insurance converted from a reinsurance company to a non-life insurance company in 2017

Solvency Ratio distribution by country

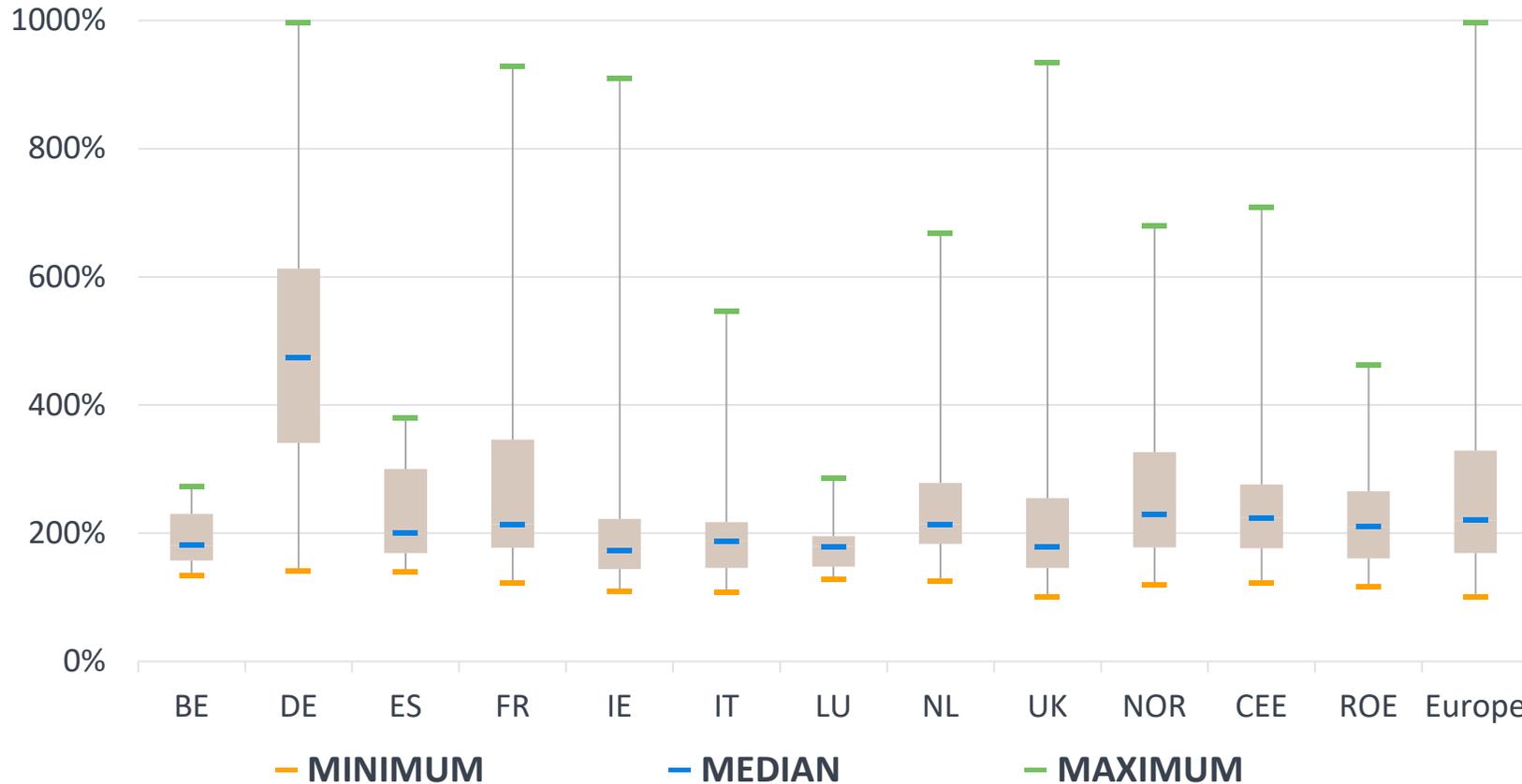
Life insurance companies (sample only)

The average European
SCR Coverage ratio
for year-end 2018 is

226%

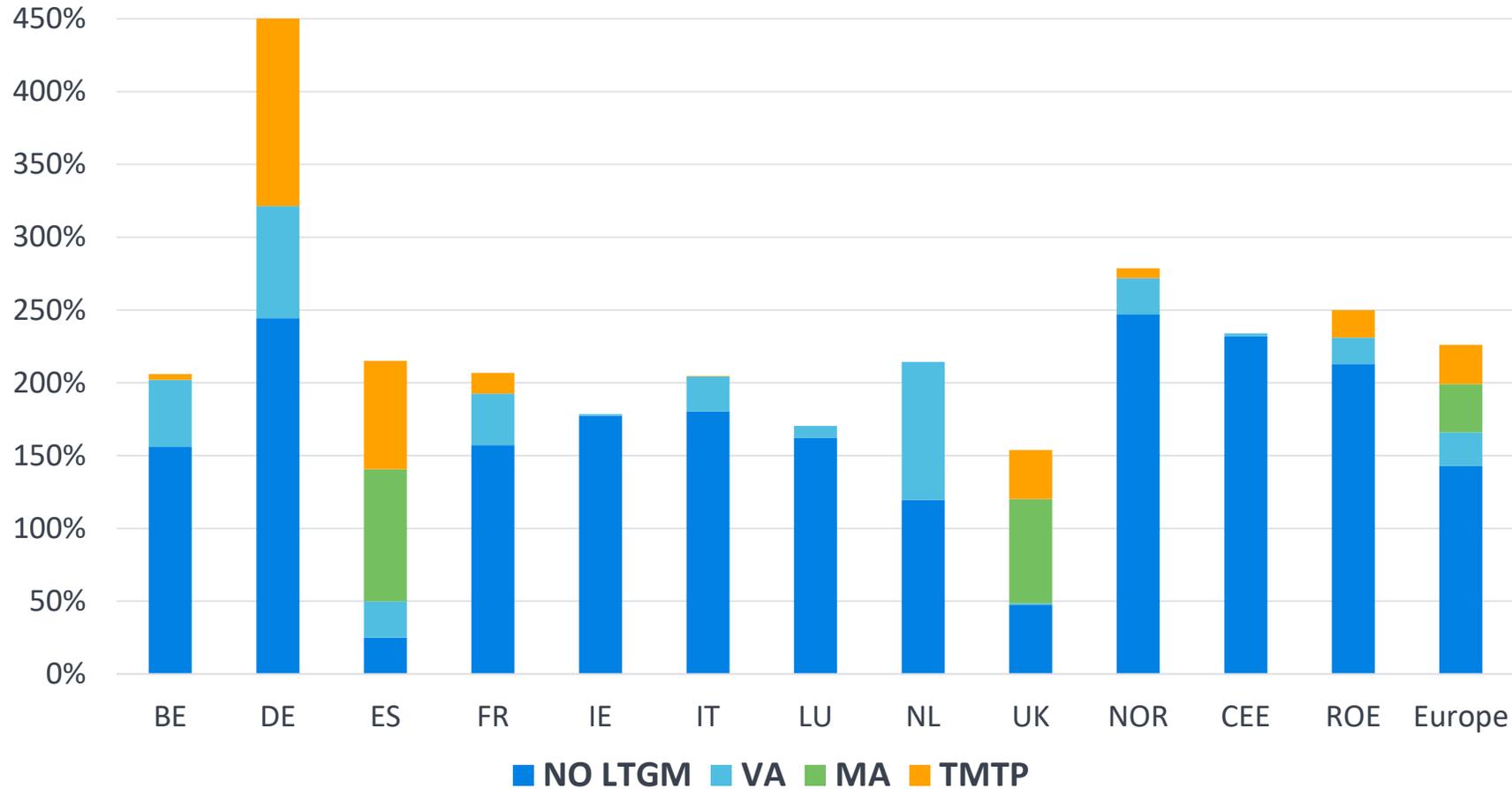


The average
European SCR
coverage ratio has
IMPROVED
over the year
**from 218% to
226%**



Impact of LTG Measures on Solvency Ratio

Life insurance companies (sample only)



Over

50%

of **German**
companies

in our report apply the

TMTP

Harmonisation

Solvency II 2020 review

Aisling Barrett

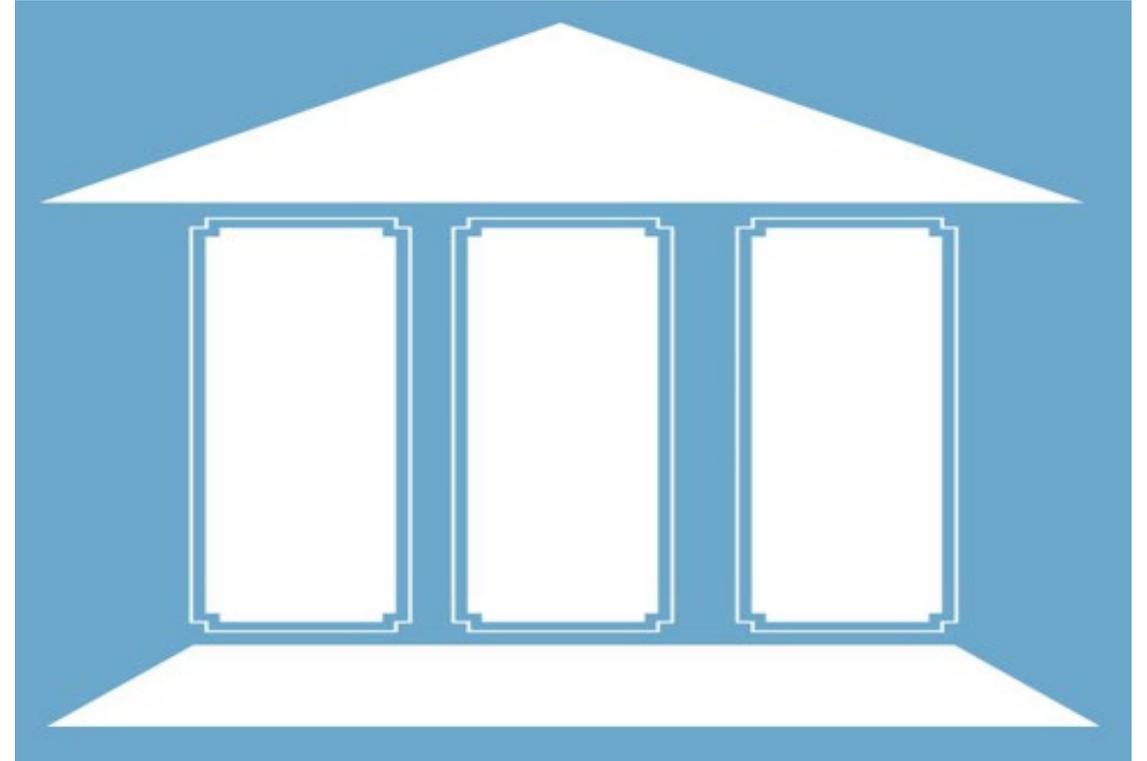
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Solvency II regime

Solvency I



Solvency II



Harmonisation?

- Ireland



- Head of Actuarial Function role
- External audit of Solvency II balance sheet
- National Specific Templates
- Reporting exemptions
- Prior approval for use of Volatility Adjustment
- Use of LTG and transitional measures

- UK – Pillar 2 additions already in place (liquidity risk management, R&R); post Brexit changes? (Risk margin, MA)



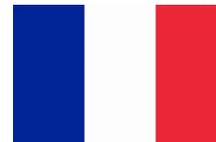
- The Netherlands – impact of UFR considered in ORSA and dividend payments; R&R



- Germany – strongly defending position of 20 year LLP



- France – internal models pressure



Solvency II 2020 review

Divergent practices identified

- EIOPA identifies divergent practices in Best Estimate calculation in relation to:
 - ESG calibration
 - Contract boundaries
 - Future Management Actions
 - Expenses
 - Expense inflation
 - Valuation of options & guarantees

Solvency II 2020 review

- EIOPA considers the following objectives in evaluating options:
 - Improved transparency & better comparability
 - Ensuring a level playing field through sufficiently harmonised rules
 - Effective & efficient supervision
 - Market consistent, promoting good risk management, limited procyclicality and artificial volatility of TPs and Own Funds
- Areas where proposals would improve harmonisation
 - LTG
 - Pillar 2 – macro prudential aspects, recovery & resolution etc.
 - Audit
 - FoE / FoS
 - Fit and proper requirements
 - Insurance guarantee schemes