

# Solvency II Compliance Assessment Tool

26<sup>th</sup> NOVEMBER 2019

# Agenda

1. Introduction
2. Regulatory update
3. Update from ViClarity on new developments in the pipeline
4. New features in the tool
5. Refresher on using the tool for year-end
6. Questions & Answers Session
7. Lunch

# **Solvency II**

# **Regulatory update**

Patrick Meghen

# Reliances and Limitations

- **These slides are for general information purposes only. Action should not be taken solely on the basis of the information set out herein without taking specific advice**
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**Changes to date**

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**Future changes**

# 1

## Changes to date (a reminder from last year)

Document amended	Changes entered into force
Commission Delegated Regulation (EU) 2015/35 ( <b>“Delegated Regulations”</b> )	Apr 2016
	Sep 2017
	Oct 2017
Implementing Regulation (EU) 2015/2450 ( <b>“Reporting QRTs”</b> )	Oct 2016
Guidelines on reporting for Financial Stability Purposes ( <b>“Financial Stability QRTs”</b> )	Jun 2017
Guidelines on the supervision of branches of third country insurance undertakings	Jun 2017
S.I. No. 485 of 2015 - European union (insurance and reinsurance) regulations 2015	Aug 2017
Implementing Regulation (EU) 2015/2450 ( <b>“Reporting QRTs”</b> ), Implementing Regulation (EU) 2015/2452 ( <b>“Public Disclosure QRTs”</b> ) and National Specific Templates ( <b>“NSTs”</b> )	Dec 2017

## 1

## Changes to date (a reminder from last year)

Document amended	Changes entered into force
Domestic Actuarial Regime	May 2018
	Nov 2018
Solvency II Directive	July 2018
Delegated Regulations Updates	July 2018
Guidelines on reporting for Financial Stability Purposes	July 2018
Guidelines on the supervision of branches of third country insurance undertakings	July 2018
Commission Implementing Regulation (EU) 2018/1843 ( <b>“Public Disclosure QRTs”</b> )	Q4 2018
Commission Implementing Regulation (EU) 2018/1844 ( <b>“Reporting QRTs”</b> )	Q4 2018
National Specific Templates ( <b>“NSTs”</b> )	Q4 2018

# 1

## Changes to date (2019)

Document amended	Changes entered into force
Amendments to the Delegated Regulations – “2018 Interim Review”	July 2019
	Jan 2020

## 2

## Future Changes

Document	Date published	In Force
Commission Implementing Regulation (EU) 2019/XXXX (“ <b>Public Disclosure QRTs</b> ”)	Jun 2019	Q4 2019
Commission Implementing Regulation (EU) 2019/XXXX (“ <b>Reporting QRTs</b> ”)	Jun 2019	Q4 2019
National Specific Templates (“ <b>NSTs</b> ”)	Oct 2019	Q4 2019
Amendments to the Delegated Regulations - “ <b>2020 Review</b> ” – Wave 1	June 2019	Dec 2020
Amendments to the Delegated Regulations - “ <b>2020 Review</b> ” – Wave 2	Oct 2019	Dec 2020

# Amendments to the Delegated Regulations 2018 Interim Review

- First Discussion paper dates back to December 2016
- EIOPA provided 2 sets of advice to European Commission
- The Commission didn't include all items recommended by EIOPA (Interest rate risk in particular)
- Commission published its draft delegated regulations 9<sup>th</sup> November 2018
- Revised Draft published on 8<sup>th</sup> March 2019
- Published in official Journal 18<sup>th</sup> June 2019
- The majority of changes entered into force on 8th July 2019 with some specific changes not entering into force until 1st January 2020.

# 2018 Interim Review - Delegated Regulations

- Topics include:

- |  |
|--|
| • Unrated debt and unlisted equity   |
| • Simplifications on look-through  |
| • Counterparty Default and risk mitigation techniques                                      |
| • Loss-absorbing capacity of deferred taxes  |
| • Own Funds  |
| • Risk calibrations for non-life premium and reserve risk, health and non-life catastrophe |
| • Simplifications  |

# 2018 Interim Review - Delegated Regulations

## Market Risk

### Unrated debt and unlisted equities

- Allow reducing the capital charge in some circumstances
- Can apply 'type 1' equity risk to unlisted equities
- 22% capital charge for ring-fenced long-term equity investments
- Use own internal credit assessment if no credit rating available
- High quality private placements – potential to use credit institutions' internal ratings for spread risk

### Currency

- Use of a local currency other than the one used to prepare accounts for groups

# 2018 Interim Review - Delegated Regulations

## Look-through approach

### Look-through

- Expands the simplifications permitted:
  - Remove the 20% limit for Unit-linked investments
  - Allow grouping of exposures provided grouping is prudent
- New simplification based on last reported asset allocation of collective investments
- Look-through approach should be applied to related undertakings that hold or manage assets on behalf of the insurer

# 2018 Interim Review - Delegated Regulations

## Counterparty Default and risk mitigation techniques

### Counterparty Default

- Credit derivatives covered in the spread risk sub-module are not in scope for the counterparty default risk sub-module.
- The loss-given-default can now be calculated on a counterparty level
- Trade exposures to qualifying Central Counterparties lower counterparty risk
- Recognition of guarantees issued by regional governments and local authorities aligned with credit institutions
- Not disproportionately penalised when reinsurer ceases to comply with SCR

### Risk Mitigation Techniques

- More flexibility in this aspect
- Developments in risk management practices should be reflected in SCR
  - Take account of risk mitigating techniques when they will be replaced at expiry
  - Allow for netting arrangements and where several arrangements have the effect of a risk mitigation technique

# 2018 Interim Review - Delegated Regulations

## LACDT Standardisation

### Loss Absorbing Capacity of Deferred taxes

- Widely divergent practices between countries
- Shouldn't use overly optimistic assumptions
- Adopt a risk management **policy** related to deferred taxes
- Specific rules
  - New business sales can't exceed business plan
  - Can't use more than five years
  - Assumptions should not be more favourable than those used for the valuation of LACDT pre-shock
  - Returns shall be assumed equal to the forward rates unless can provide credible evidence of likely returns in excess of those implicit returns.
  - Discuss LACDT in SFCR and RSR

# 2018 Interim Review - Delegated Regulations

## Own Funds

### Own Funds

- Some items may provide for a partial principal loss-absorbing mechanism where SCR is breached during 3 consecutive months
- Possibility to repay an own-fund item within first 5 years

# 2018 Interim Review - Delegated Regulations

## Risk Calibrations

### Non-life Underwriting risk

- Volume measure for NL premium risk changing
  - The definition of FPfuture has been expanded so that, for multi-year contracts where the initial recognition date falls in the following 12 months, it is equal to 30% of the expected present value of premiums to be earned under segments, after the following 12 months.
- Parameters for Premium and Reserves Risk changing for some Non-Life and NSLT lines.
- Natural catastrophe risk – calculation should take account of the contractual limits
- Marine Risk - The word “tanker” has been replaced with “vessel” in order to expand the scenario to include all insurance entities writing marine business. A threshold has been introduced such that vessels with an insured value of less than €250,000 are not included in the scenario.
- Marine, Fire and Aviation Risk – can be done on Net basis

# 2018 Interim Review - Delegated Regulations

## Simplifications

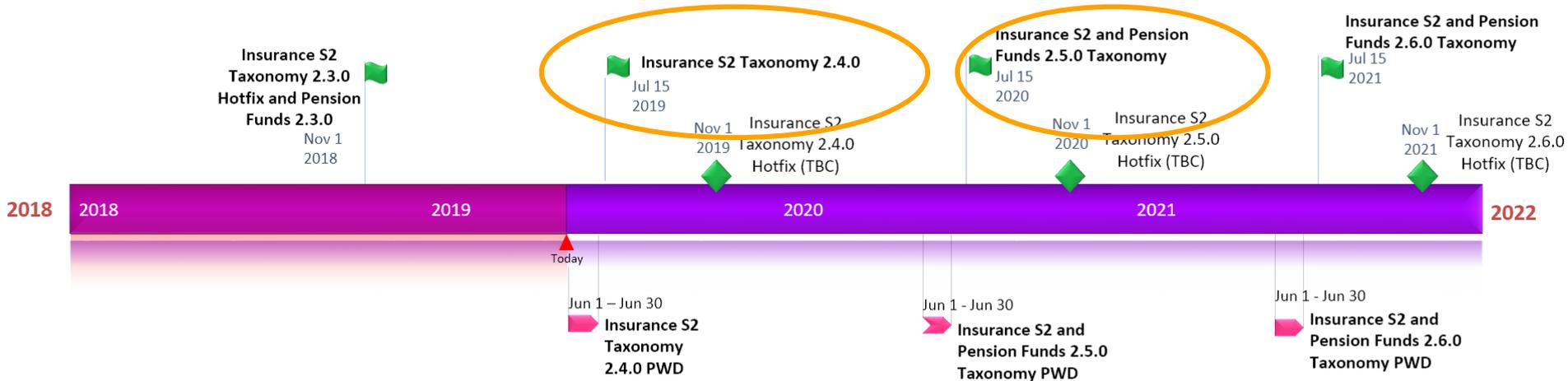
### Simplified calculations

- Lapse risk – allow at homogeneous risk group rather than per-policy
- Spread Risk & Market Risk Concentration – if a single nominated ECAI is required, all investments not covered by this ECAI can be assumed to be of credit quality step 3 if certain criteria met
- Natural catastrophe risk – Groupings of risk zones can be used.
- Fire risk submodule simplified - may be calculated as the maximum of the largest industrial, commercial or residential fire risk concentrations
- Life and health mortality – reflect that it can vary over time
- Counterparty default – can use type 1 if standard deviation is less than 20% (previously 7%)

# General schedule of taxonomy releases

EIOPA's planned updates to QRTs

- EIOPA have stated that they expect one taxonomy release per year but that there may be more than one in extraordinary circumstances
- This update is part of Taxonomy 2.4.0
- The next update, Taxonomy 2.5.0 is expected in July 2020.



# QRT Changes (1)

## Amendments to the following:

**Implementing Technical Standards with regard to the templates for the submission of information to the supervisory authorities**

**Implementing Technical Standards with regard to the procedures, formats and templates of the solvency and financial condition report**

- Insurance Data Point Model and Taxonomy 2.4.0 (Published 15/07/2019)
- Not published in the Official Journal yet
- These amendments will enter into force in December 2019 and are applicable from Q4 2018

# QRT Changes (2)

## Reporting QRTs

- Deals with a number of changes to the underlying regulations:
  - Commission Delegated Regulation (EU) 2018/1221 - concerning the calculation of regulatory capital requirements for securitisations and simple, transparent and standardised securitisations held by insurance and reinsurance undertakings
  - Commission Delegated Regulation (EU) 2019/981 - the “2018 Interim review”

# QRT Changes (3)

## Reporting QRTs

### Changes to templates

- new column “SCR calculation approach for CIU” to reflect the approach taken for the SCR calculation in **S.06.02 – List of assets**
- Reporting of specific information on credit quality steps in **S.06.02 - List of assets**
- Changes to allow for securitisations included in **S.26.01 - SCR Market risk**
- New column “Debt portfolio share” and new rows in **S.26.07 - Simplifications** for the basis for the SCR and for market share based on residential fire risk exposure
- New column “Number of vessels below the threshold of EUR 250k” and deletion of information regarding “Mass accident – Disability 10 years in **S.27.01 - Non-life and Health catastrophe risk**
- Introduction of simplifications in templates **S.26.01, S.26.02, S.26.03, S.26.04, S.26.05, S.27.01 (Various SCR)** in line with the Delegated Regulation (EU) 2019/981
- Up-date of the list of ECAIs in several templates reflecting changes in the list and allowing to reflect the case when no ECAI has been nominated and a simplification is being used to calculate the SCR
- Some other tidy ups and corrections

# QRT Changes (4)

## Reporting & Disclosure QRTs

### Changes to templates

- New table on deferred taxes in templates **S.25.01** and **S.25.02** in reporting and disclosure

		Yes/No
		C0109
“Approach based on average tax rate	R0590	“-

“Calculation of loss absorbing capacity of deferred taxes

		LAC DT
		C0130
LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	“-

# NST Changes (1)

## NST 14 - Non-Life Policy & Customer Information

- Aggregate information from non- reinsurance undertakings. These data specifically relate to the number of contracts written, for each type of policy, for the main countries in which the undertaking operates.
- Was requested for the first time in the Q3 2019 return.
- The CBI Insurance Newsletter\* on 30 September 2019 stated that it will be required twice yearly going forward – in Q4 and Q2.

## NST.12 Quarterly Aggregate Balance Sheet Statement

- The Notes for completion have been updated
- Seems to be mainly formatting and a small bit more information

\*[CBI Insurance Newsletter](#)

# NST Changes (2)

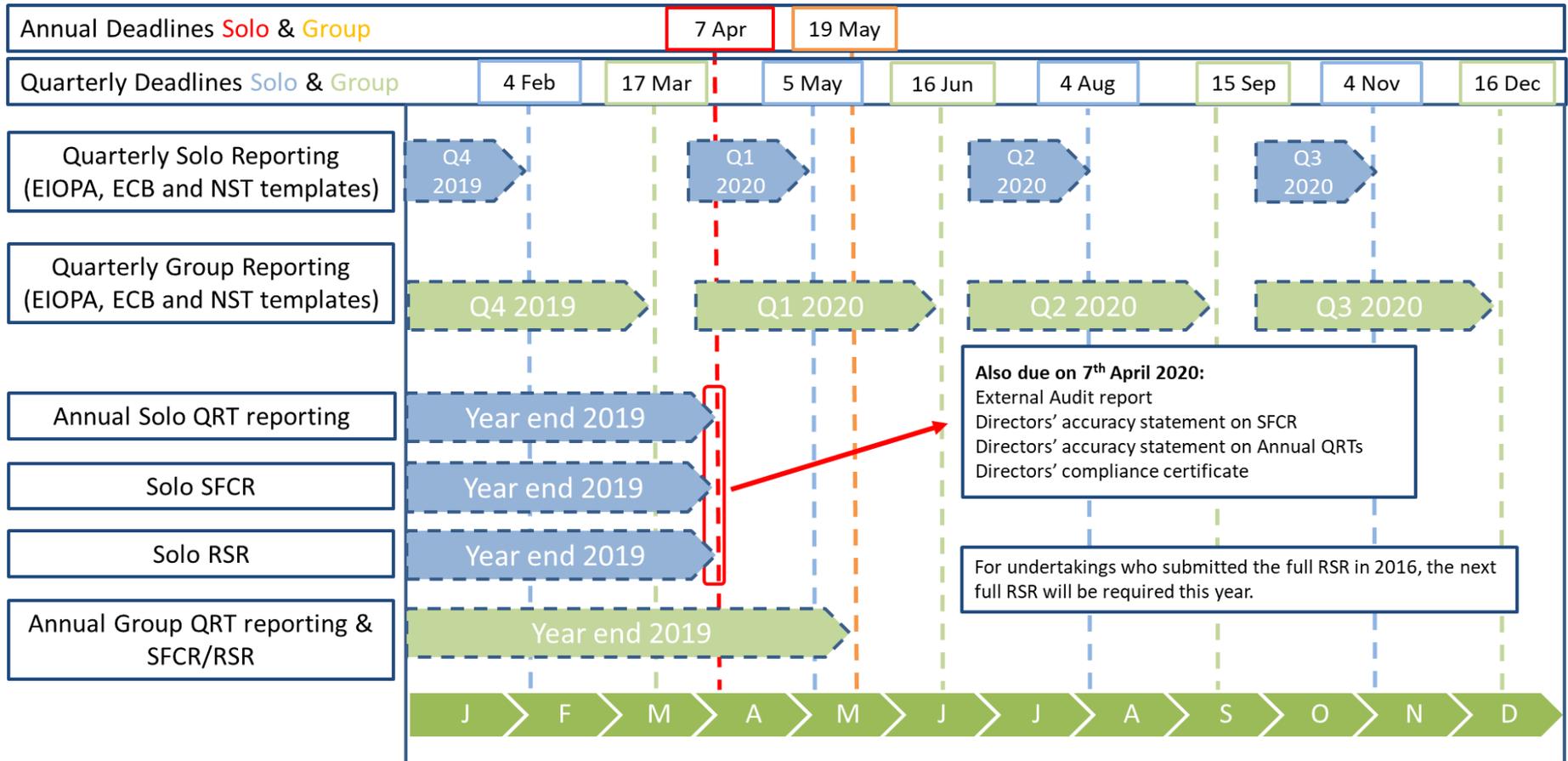
## NST 13 Quarterly Aggregate Reporting of Security Holdings

- The Notes for completion have been updated
- Clarification: The assets to report on NST 13 are those with a CIC (SE.06.02 Column C0290) beginning with 1, 2, 3, 4, 5 or 6. Please note CIC Codes preceded by XT or XL **should be included** for CIC code beginning 1,2,4,5,6 only.
  - 1 - Government bonds
  - 2 - Corporate Bonds
  - 4 - Collective Investment Undertakings
  - 5 - Structured Notes
  - 6 - Collateralised Securities

## NST Log Files

- Minor updates

# Reporting Deadlines 2020



# In Summary

- Minor changes to QRTs, log files to bring in line with legislation changes
- Delegated Regulations amended for the 2018 Interim review
- Annual changes expected to the QRTs and log files
- Some small changes to the NSTs
- Delegated Regulations will see substantial changes again following the 2020 review which is under consultation

Lots of changes to monitor....

.....but don't panic as

**S2CAT does the hard work so you don't have to..**



# Solvency II Compliance Assessment Tool

26<sup>th</sup> NOVEMBER 2019

# **Solvency II 2020 Review**

Padraic O'Malley

# Reliances and Limitations

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# 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

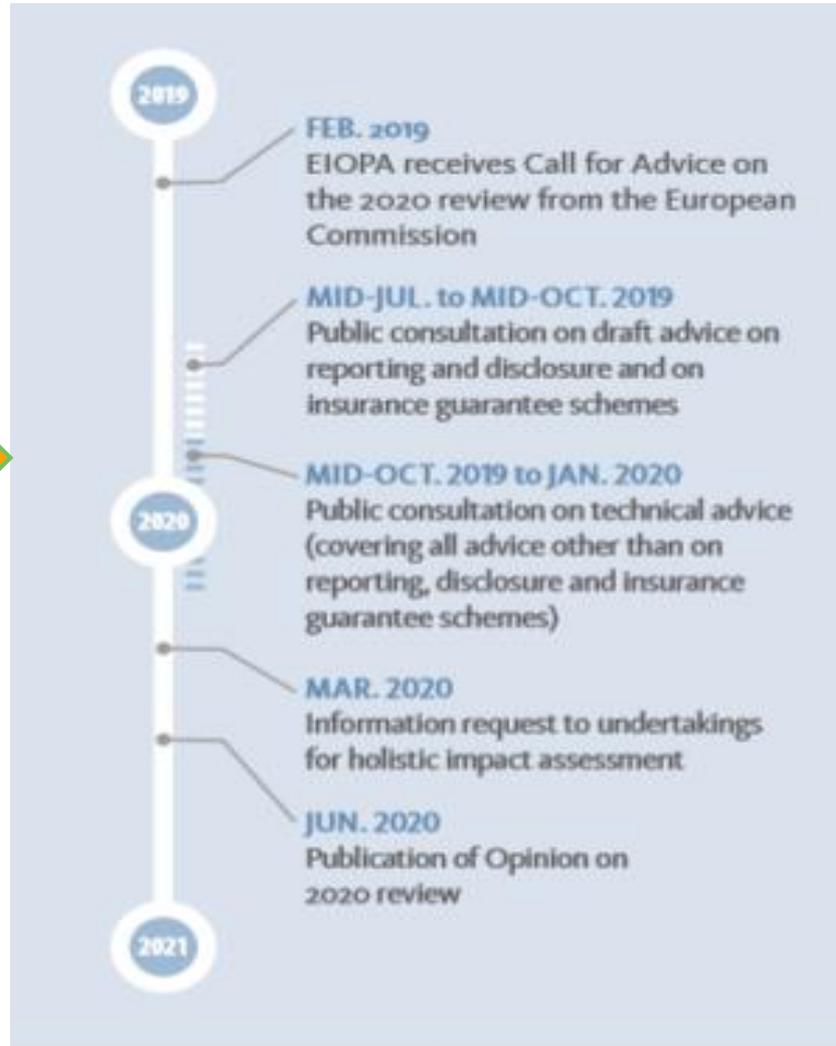
Group supervision & capital management

# 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



Source: EIOPA Fact sheet on the 2020 review of Solvency II

# 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)

## Insurance Guarantee Schemes

- Harmonisation of National Insurance Guarantee Schemes (67 pages)

# EIOPA Proposals – First Set

## Insurance Guarantee Schemes, General Issues & Financial Stability Reporting

### Insurance Guarantee Schemes

- Every member state should have an IGS
- Minimum set of harmonised features
- Home country principle

### General Issues

- Split QRTs into core and non-core
- Change annual reporting deadline to be as for 2018 (16 weeks instead of reducing to 14 weeks)

### Financial Stability Reporting

- Some fields added & some deleted

# EIOPA Proposals – First Set

## QRTs

- Some deleted, replaced, merged or new format; addition and removal of fields
- Some major changes proposed:
  - Changes in templates related to cross border business
  - New QRTs on underwriting of cyber risk and on non-life product information
  - New Asset QRT
  - New QRTs for internal model SCR
  - Existing variation analysis templates removed with some new ones added
- Second Set
  - Changes to Group QRTs also proposed

# EIOPA Proposals – First Set

## Reports

- **SFCR**

- Split into policyholder and non-policyholder section (more technical information)
- External audit of balance sheet, at a minimum
- Variation of Own Funds
- Sensitivities of SCR and Own Funds
- Easing of language requirements for group SFCR
- Extension of deadlines by two weeks

- **RSR (Second Set)**

- Changes to structure and content proposed

# EIOPA Consultation Papers – Second Set

## One 878 page paper covering:

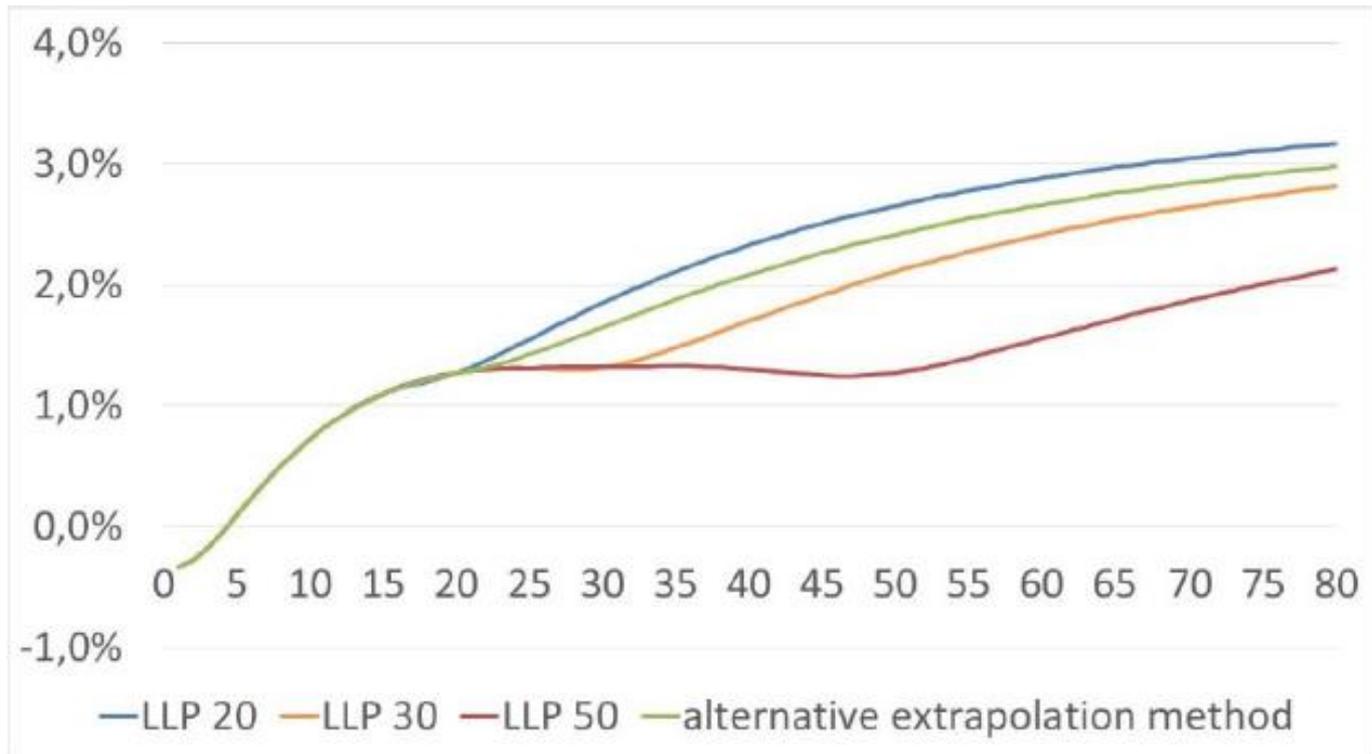
- LTG measures and measures on equity risk (258 pages)
- Technical provisions (43 pages)
- Own funds (27 pages)
- Standard Formula SCR (76 pages)
- MCR (14 pages)
- Reporting and disclosure (34 pages)
- Proportionality (37 pages)
- Group supervision (106 pages)
- FoS/FoE (11 pages)
- Macroprudential 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:  
15 January 2020**

# EIOPA Proposals – Second Set

## Long Term Guarantees

- Changes in LLP being considered for Euro



# EIOPA Proposals – Second Set

## Long Term Guarantees

### Matching Adjustment

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

### Volatility Adjustment

- Allowance of negative spreads on corporate and government bond portfolios
- 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

# EIOPA Proposals – Second Set

## Technical Provisions

- Some tidying up of 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

# EIOPA Proposals – Second Set

## SCR

### Interest Rate Risk SCR

- Relative shift approach proposed
- 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

# EIOPA Proposals – Second Set

## MCR

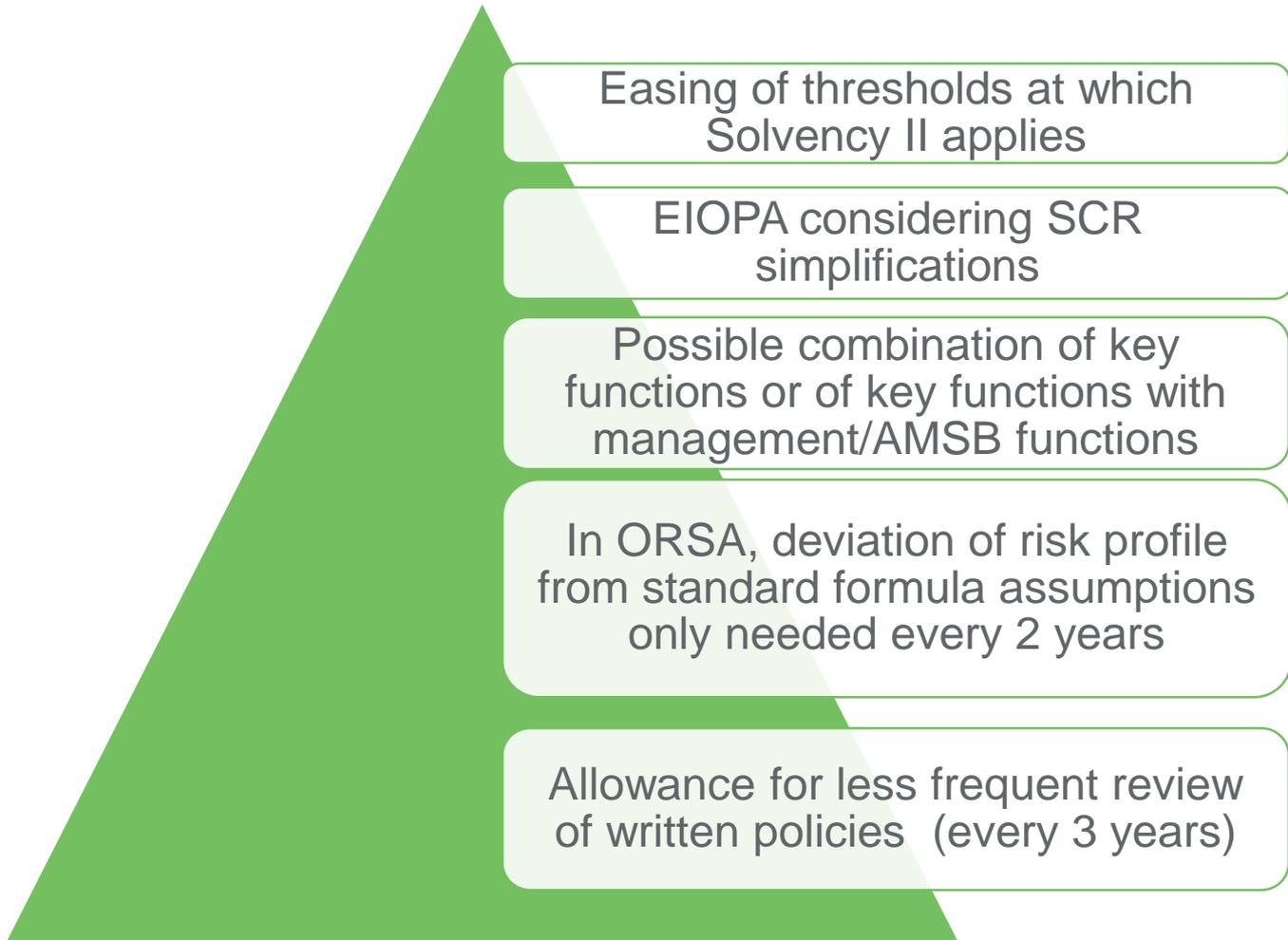
- Some changes in non-life factors

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

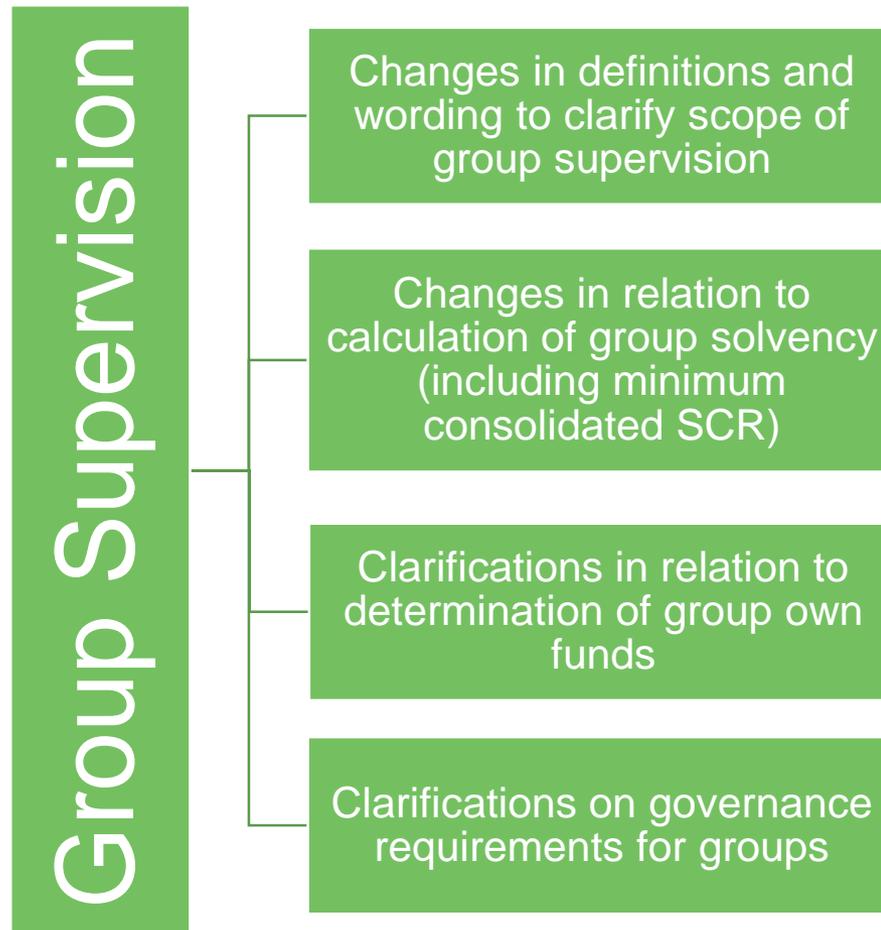
# EIOPA Proposals – Second Set

## Proportionality



# EIOPA Proposals – Second Set

## Group Supervision



# EIOPA Proposals – Second Set

## 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:
  - with regard to concerns about policyholder protection (EIOPA given remit to intervene)
  - during ongoing supervision, in particular in relation to:
    - a) system of governance
    - b) outsourcing arrangements and distributions partners
    - c) business strategy and claims handling
    - d) consumer protection
- Host member states to be given power to request information in a timely manner



# EIOPA Proposals – Second Set

## Macroprudential policy

- Include article on macroprudential objectives, policy and surveillance in Directive
  - supplement provisions that already have macroprudential impact e.g. LTG and equity risk measures
- Allow supervisors to include a capital surcharge to cover systemic risk
- Allow supervisors define soft thresholds for action if asset exposures increase dramatically or reach a certain level
- Require ORSA to consider macroprudential perspective
- Expand PPP to include consideration of macroeconomic concerns (e.g. risk related to credit cycle)
- Give supervisors power to require systemic risk management plans
- Make need for a liquidity risk framework more specific and require liquidity risk management plans
- Grant supervisors power to temporarily freeze policyholder redemption rights in certain situations

# EIOPA Proposals – Second Set

## Recovery and Resolution

- Minimum harmonised framework
- Pre-emptive recovery plans required
  - Capture significant share of each market but coverage level to be determined
  - Non compliance with SCR is trigger for entry into recovery
- Introduction of early intervention powers proposed with adequate triggers to be introduced
- Each member state to have an officially designated administrative resolution authority
  - Require authorities to develop resolution plans and conduct pre-emptive resolvability assessments
  - Resolution authorities should be equipped with a broad set of resolution powers.
  - Member States to establish cross-border cooperation and coordination arrangements between national resolution authorities for crisis situations
  - Triggers for entry to resolution relating to viability, exhaustion of recovery measures, public interest

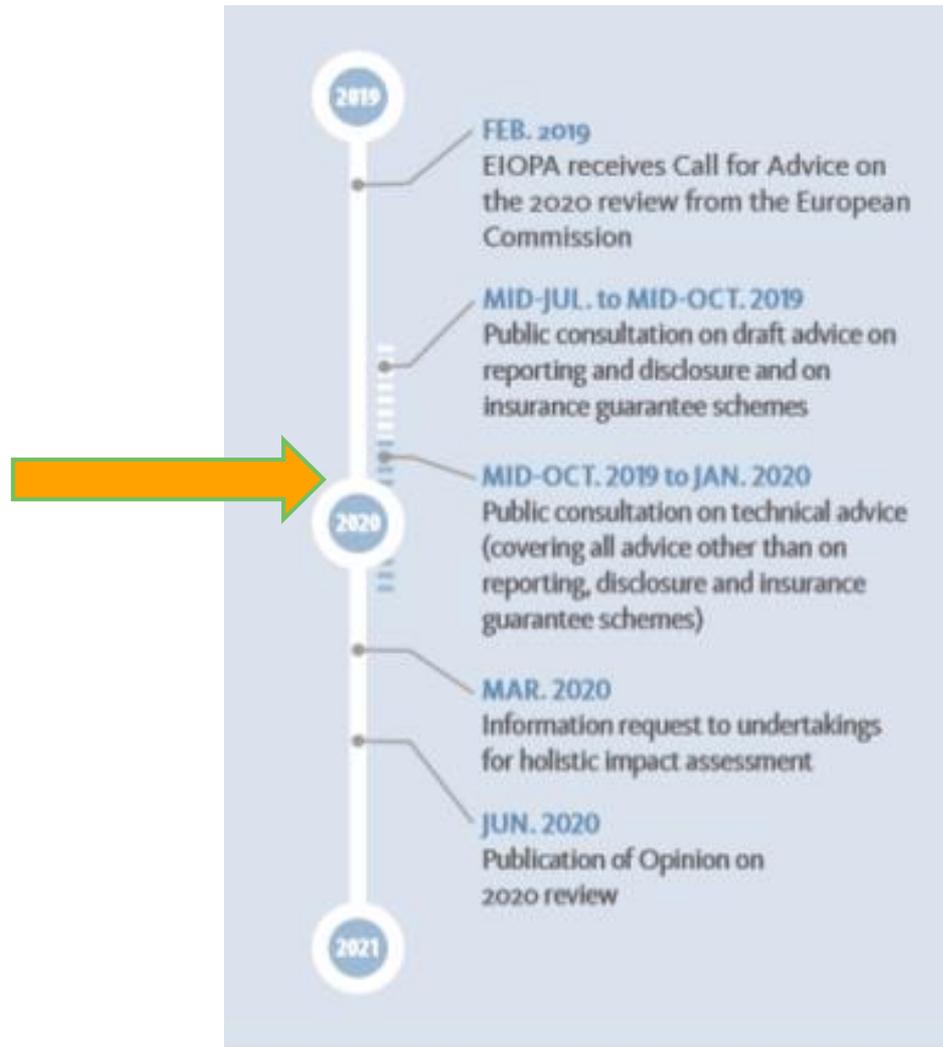
# EIOPA Proposals – Second Set

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



Source: EIOPA Fact sheet on the 2020 review of Solvency II

# Milliman Briefing Notes

- Please see our website for recent Briefing Notes prepared by our consultants addressing Solvency II and relevant regulatory updates.
- EIOPA consultation paper on the opinion on the 2020 review of Solvency II  
– *11<sup>th</sup> November 2019*
- EIOPA paper on proposals for Solvency II 2020 review: Package on Supervisory Reporting and Public Disclosure – Quantitative Reporting Templates  
– *2<sup>nd</sup> October 2019*
- EIOPA Paper on proposals for Solvency II 2020 review: Package on Supervisory Reporting and Public Disclosure – Solvency and Financial Condition Report  
– *2<sup>nd</sup> October 2019*
- EIOPA Consultation Paper on proposals for Solvency II 2020 review: Harmonisation of National Insurance Guarantee Schemes across EU Member states  
– *2<sup>nd</sup> October 2019*



**Thank you**