



The Actuarial Profession  
making financial sense of the future

Plenary Session 3  
Carlos Montalvo Rebuelta, Executive Director, EIOPA

# Solvency II and EIOPA: Difference makers or more of the same?

Monday 5 November

© 2012 The Actuarial Profession • www.actuaries.org.uk

## Index

- EIOPA
- Update on Solvency II:
  - Timing
  - Need
  - Outstanding issue: LTG
  - Preparing for Implementation
  - Solvency II and actuarial tasks
- Q&A (from actuaries to a lawyer, i.e. easy ones)

## EIOPA



© 2012 The Actuarial Profession • www.actuaries.org.uk

2

## Background

### What is EIOPA?

- European Insurance and Occupational Pensions Authority
- It's mission:
  - “Protect the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system, for the Union economy, its citizens and businesses”

© 2012 The Actuarial Profession • www.actuaries.org.uk

3

## Background

### EIOPA Timeline

- Financial crisis in 2007 and 2008
- November 2008: Committee of Wise Men
- February 2009: De Larosière Report published
- March 2009 – 22 September 2010: European Legislative process
- 16 December 2010: EIOPA Regulation enters into Force
- 1 January 2011: EIOPA established

© 2012 The Actuarial Profession • www.actuaries.org.uk

4

## Background

### Legal Status

- European Union body with legal personality
- Administrative and financial autonomy
- Autonomous budget - revenues from national authorities and EU Budget
- Accountable to EU institutions

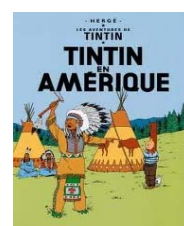


© 2012 The Actuarial Profession • www.actuaries.org.uk

5

## Background

### EIOPA shall contribute to:



© 2012 The Actuarial Profession • www.actuaries.org.uk

6

## Background

### EIOPA's main tasks and responsibilities

- High-quality regulatory standards/practices
- Consistent application of legally binding acts
- Supervision
- Co-operate closely with ESRB
- Peer review analyses
- Monitor and assess market developments
- Undertake economic analyses of markets
- Foster protection of policyholders

© 2012 The Actuarial Profession • www.actuaries.org.uk

7

## Background

### EIOPA's powers

- Develop draft technical standards
- Issue guidelines and recommendations
- In certain cases, remedy emergency situations
- Settle disagreements in cross-border situations
- Monitor correct application of EU law
- Methodologies for products and distribution

© 2012 The Actuarial Profession • www.actuaries.org.uk

8

## Background

### EIOPA's tools

- Colleges
- Expert Groups/Committees
- Stakeholder Groups
- Impact Assessment/Consultation/ Stress Tests
- Peer Reviews
- Sectoral/Cross-Sectoral Training

© 2012 The Actuarial Profession • www.actuaries.org.uk

9

## EIOPA's Current Priorities

### Solvency II

- But not only Solvency II...
  - Institutions for Occupational Retirement Provisions Directive
  - Consumer Protection Initiatives
  - Crisis Management
  - Financial Stability

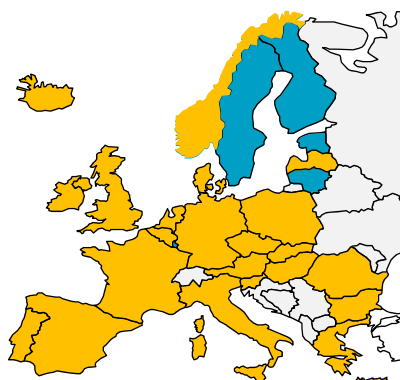
© 2012 The Actuarial Profession • www.actuaries.org.uk

10

## Background

### Staff Demographics

- 87 staff members from 22 different countries:
- Male: 44 %
- Female: 56 %
- SNEs: 11
- Staff (TAs+CAs): 76



© 2012 The Actuarial Profession • www.actuaries.org.uk

11

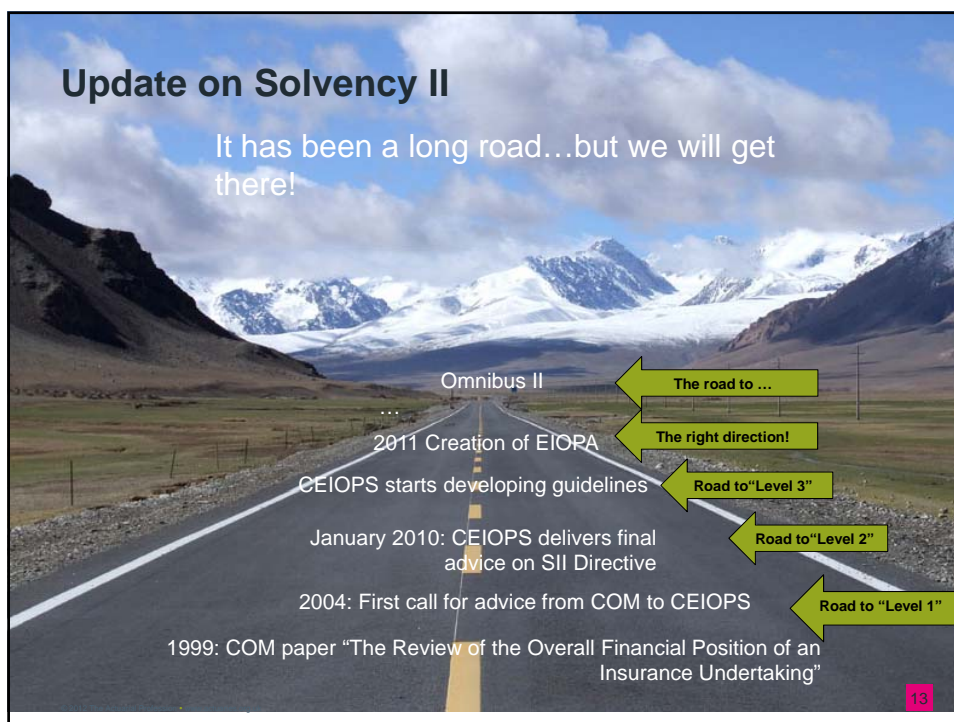
## Update on Solvency II

© 2012 The Actuarial Profession • www.actuaries.org.uk

12

## Update on Solvency II

It has been a long road...but we will get there!



13

## Timing



© 2012 The Actuarial Profession • www.actuaries.org.uk

14

## Update on Solvency II

### Where is Solvency II

- Directive (O.J. 17 December 2009)
  - to be updated by “Omnibus II” Directive (OMDII)
  - “Quick-fix” Directive (OJ 14 September 2012):
- Implementing measures
  - awaiting proposal from European Commission
- Technical Standards and guidelines
  - under preparation by EIOPA
  - public consultation following publication of OMDII

© 2012 The Actuarial Profession • www.actuaries.org.uk

15



## What is the Omnibus II Directive about?

- Basically: EIOPA and Solvency II
- Power and scope for drafting regulatory and implementing technical standards

But also...

- Transitional measures
- Discussions on technical and political content matters (resulted in delays)
  - volatility, proportionality, national and sector-specific interests

© 2012 The Actuarial Profession • www.actuaries.org.uk

16

## Update on Solvency II

### Will Solvency II enter into force on 1 January 2014?

- Discussions ongoing between European Commission, Parliament and Council (trilogue)
- EIOPA supports:
  - A clear timetable for Solvency II
  - A commitment to implement by all parties
  - Sufficient time following the legislative process for implementation by undertakings and supervisors

© 2012 The Actuarial Profession • www.actuaries.org.uk

17

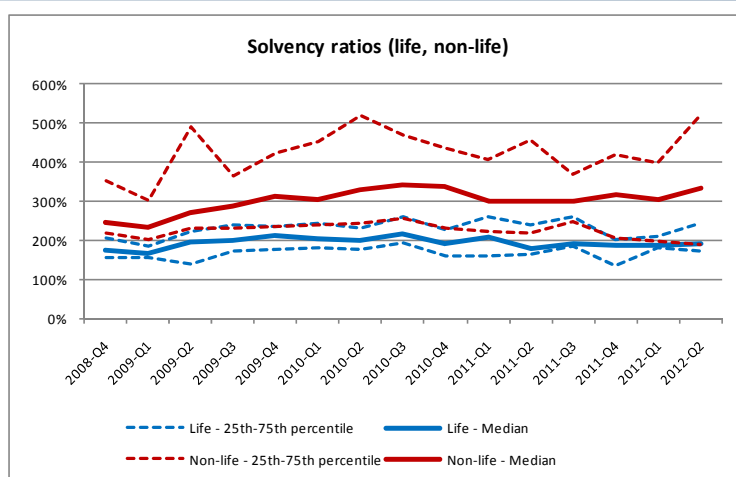
## Need



© 2012 The Actuarial Profession • www.actuaries.org.uk

18

## Solvency I ratios

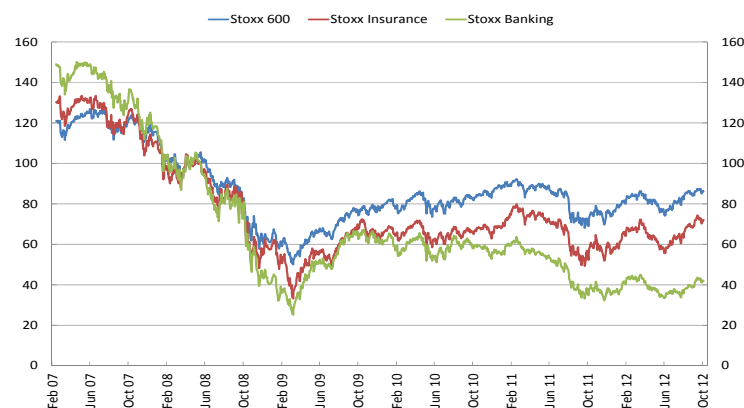


10 October 2012

19

## Market “wisdom”

### EuroStoxx Equity Indices



Source: Bloomberg  
Last Observation 03 October 2012.  
Note: 22/04/2008 = 100

10 October 2012

20

## EIOPA Risk Dashboard

Risk	Score	Impact	Timing	Qualification
Macro *	1	High	Short-term	<ul style="list-style-type: none"> <li>Political risk with regard to sovereigns and Eurozone</li> <li>Weak worldwide growth outlook with a significant dispersion in outlook within Eurozone</li> </ul>
Credit	2	Very High	Short-term	<ul style="list-style-type: none"> <li>High spreads for sovereigns and financials</li> <li>Substantial banking exposures</li> </ul>
Market *	1	High	Medium-term	<ul style="list-style-type: none"> <li>Investing when markets are imbalanced</li> <li>Low yield environment increases re-investment risk</li> </ul>
Liquidity/ funding	3	Medium	Medium-term	<ul style="list-style-type: none"> <li>Lapse rates stabilised</li> <li>Ratio of liquid over illiquid investments rising</li> <li>Funding via cat bonds intact</li> </ul>
Profitability/ Solvency	4	Medium	Structural	<ul style="list-style-type: none"> <li>Combined ratio stabilised since Q2/2011</li> <li>Solvency ratios are stable</li> </ul>
Interlinkages/ Imbalances	6	High	Medium-term	<ul style="list-style-type: none"> <li>Interbank market tensions are of concern</li> <li>Risk of banking crisis spillovers</li> <li>Increased exposures to financials in some jurisdictions</li> </ul>
Insurance *	5	Medium	Structural	<ul style="list-style-type: none"> <li>Slight increases in life and non-life premiums, but uncertainty about medium-term sustainability of growth</li> <li>Fewer natural catastrophes than in 2011</li> </ul>

\* Expert judgment applied.

## Usefulness of Solvency II

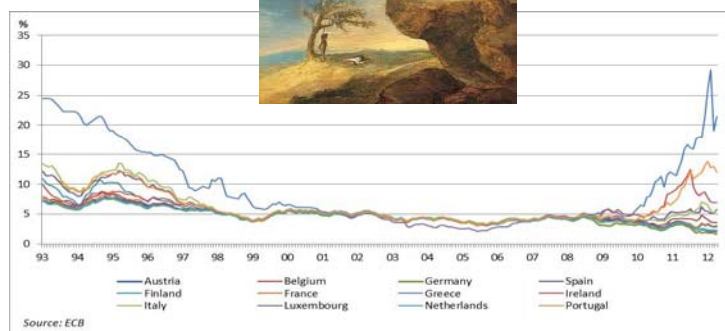
### A reminder of what Solvency II should mean for the insurance industry

- Better understanding and management of risks
- Use of (partial) internal models and undertaking specific parameters
- Enhanced group supervision
- Harmonised reporting framework and reliable disclosure
- Contribute to financial stability
- Increased protection of consumers

**Good reasons to implement Solvency II soon!**

22

## Outstanding issue: LTG



## Outstanding challenge: long-term guarantees

### How to deal with the impact on long-term guaranteed products?

- EIOPA to conduct an impact assessment
- Technical specification and scope to be agreed
- Planned launch in October 2012?
- 8 weeks for undertakings to provide information
- Outcome:
  - Final report by the Commission (March 2013?)
  - Based on findings of EIOPA's technical assessment

© 2012 The Actuarial Profession • www.actuaries.org.uk

24

## Outstanding challenge: long-term guarantees

### What are EIOPA's objectives?

- Acknowledgement of measures which effectively mitigate the effect of short-term volatility
- Preserve transparency of economic approach
- Reward long-term Asset-Liability Management and hedging strategies
- Build counter-cyclical measures
- Reinforce level playing field
- Raise awareness of Boards

© 2012 The Actuarial Profession • www.actuaries.org.uk

25

## Outstanding challenge: long-term guarantees

### How can this challenge be met?

- Deciding when it is appropriate to adjust the basic risk-free discount rate to get the relevant rate for discounting liabilities
  - When there is a match between assets and certain life insurance obligations which is ensured until maturity
  - Potentially in addition, a proportion of the adjustment is foreseen for other obligations where the matching is not ensured due to existence of policyholders' options
  - When financial market stress is the cause of volatility in the own funds
- And how to frame the transition from current rates to risk-free rate

© 2012 The Actuarial Profession • www.actuaries.org.uk

26

## Preparing for implementation



© 2012 The Actuarial Profession • www.actuaries.org.uk

27

## Preparing for implementation

### What is EIOPA doing?

- Drafting technical standards and guidelines
  - Own Funds, SCR, Governance, Capital add-ons, SPVs
- Pre-application process for internal models
- Preparing for EIOPA's operational tasks
  - List of authorised firms, exceptional fall in financial markets, risk free rate

© 2012 The Actuarial Profession • www.actuaries.org.uk

28

## Preparing for Implementation

### Reporting

- Final report on CP9 and CP11 published in July 2012
- Stable basis for early implementation efforts
- There are specific reporting requirements for life insurers:
  - Based on the different nature of technical provisions and duration of liabilities
  - Certain product types, such as variable annuities
- Examples of life risks which templates aim to capture are:
  - mortality, disability/morbidity, lapse

© 2012 The Actuarial Profession • www.actuaries.org.uk

29

## Preparing for Implementation

### ORSA

- Final Report to CP 8 also published in July 2012
- Stable basis for early implementation efforts
- Key aspects of the assessment
  - A top-down process owned by the board
  - Full risk picture (risk management and internal controls)
  - Should be an integral part of the business strategy
  - Provides a connection between business strategy and capital planning
  - Can company “afford” its strategic plan 3-5 years ahead

© 2012 The Actuarial Profession • www.actuaries.org.uk

30

## Preparing for Implementation

### Internal Models

- Close collaboration with NSA to ensure consistent pre-application processes
- Meetings with industry stakeholders
- EIOPA Opinion on use of External Models and Data
- Use of Economic Scenario Generators
- Board needs to understand model and its limitations

© 2012 The Actuarial Profession • www.actuaries.org.uk

31



## Solvency II and Actuarial tasks

© 2012 The Actuarial Profession • www.actuaries.org.uk

32

## Solvency II and Actuarial tasks

### Tasks of the Actuarial function

- **Coordination** of **calculation** of technical provisions
- **Validation of** underlying **models, assumptions, data** as well as the **results of the calculation**
- Opinion on **pricing, underwriting** and **reinsurance** policy
- **Opinion on** the risks modeled in the insurer's **risk management** system in particular for internal models
- Conclusions from these analysis to be **reported to the management /** decision taking body

## Solvency II and Actuarial tasks

### Valuation of technical provisions (TP)

- Guidelines to increase consistency and convergence of professional practice in the calculation of TP
- To be applied both by actuaries and others appointed to such tasks
- Need for a proportionate assessment
  - Examples of simpler methodologies to value TP
  - Based on nature, scale and complexity of risks
- Expert judgment recognised as key component

## Solvency II and Actuarial tasks

### Contract Boundaries

- Premiums should fully reflect the risks
  - Meaning they are always equal or larger than the benefits and expenses.
- Application of criteria at the:
  - Level of the portfolio rather than contract level
- Some exemptions
  - Wider contract boundary necessary for certain life insurance products

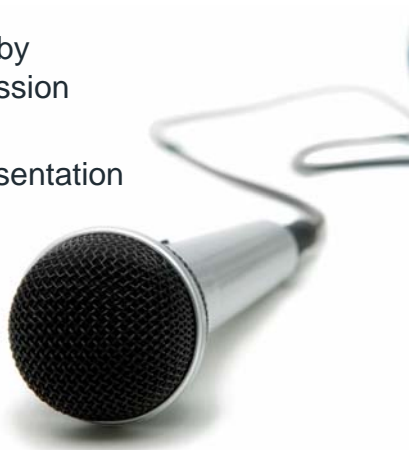
---

## Questions or comments?

---

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



© 2012 The Actuarial Profession • www.actuaries.org.uk

36

---

• **THANK YOU!**

**Carlos.Montalvo@eiopa.europa.eu**

© 2012 The Actuarial Profession • www.actuaries.org.uk

37