

# Milliman Solvency II Compliance Assessment Tool Seminar

6 December 2022

# Agenda

1

Welcome &  
Introduction  
Mike Claffey

2

S2CAT updates  
2022/2023  
Eilish Moloney

3

Solvency II  
2020 update  
Ian O'Donnell

4

Our favourite  
features  
Pauric  
Mullan &  
Tracy  
Fitzgerald

5

ViClarity  
update  
Ogie Sheehy






# S2CAT updates 2022/2023

Eilish Moloney

6 December 2022

# Solvency II Updates

<b>1</b>	<b>Historic changes</b>	
<b>2</b>	<b>Changes this year</b>	
<b>3</b>	<b>Future changes</b>	

## Historic Changes to S2CAT

Reminder from last year 1/4

Document amended	Changes entered into force
Commission Delegated Regulation (EU) 2015/35 ("Delegated Regulations")	Apr 2016 Sep 2017 Oct 2017
Implementing Regulation (EU) 2015/2450 ("Reporting QRTs")	Oct 2016
Guidelines on reporting for Financial Stability Purposes ("Financial Stability QRTs")	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 ("Reporting QRTs"), Implementing Regulation (EU) 2015/2452 ("Public Disclosure QRTs") and National Specific Templates ("NSTs")	Dec 2017



## Historic Changes to S2CAT

Reminder from last year 2/4

Document amended	Changes entered into force
Domestic Actuarial Regime	May 2018 Nov 2018
Solvency II Directive	July 2018
Delegated Regulations Updates	Jun 2017
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 ("Public Disclosure QRTs")	Q4 2018
Commission Implementing Regulation (EU) 2018/1844 ("Reporting QRTs")	Q4 2018
National Specific Templates (" <b>NSTs</b> ")	Q4 2018

## Historic Changes to S2CAT

Reminder from last year 3/4

Document amended	Changes entered into force
Amendments to the Delegated Regulations – “2018 Interim Review”	Jul 2019 Jan 2020
Commission Implementing Regulation (EU) 2019/2102 (“ <b>Public Disclosure QRTs</b> ”)	Q4 2019
Commission Implementing Regulation (EU) 2019/2103 (“ <b>Reporting QRTs</b> ”)	Q4 2019
National Specific Templates (“ <b>NSTs</b> ”)	Q4 2019
EIOPA Taxonomy Update (“ <b>QRTs</b> ”)	Q4 2020

## Historic Changes to S2CAT

Reminder from last year 4/4

Document amended	Changes entered into force
S.I. No. 184 of 2021 – <b>Recovery Plan Requirements</b> for Insurers CBI Recovery Plan Guidelines for (Re)Insurers	June 2021
Guidelines on information and communication technology (ICT) security and governance ( <b>EIOPA-BoS-20/600</b> )	June 2021
<b>NST.13</b> – Update for Brexit	June 2021



# Changes this year

June 2022

Sustainability Risks

SCR - Reserve Risk undertaking specific parameters

QRT Approval

# Changes this year

December 2022

MCR inflationary increase

EIOPA Revised Guidelines to the Valuation of Technical Provisions

EIOPA Revised Guidelines to Contract Boundaries

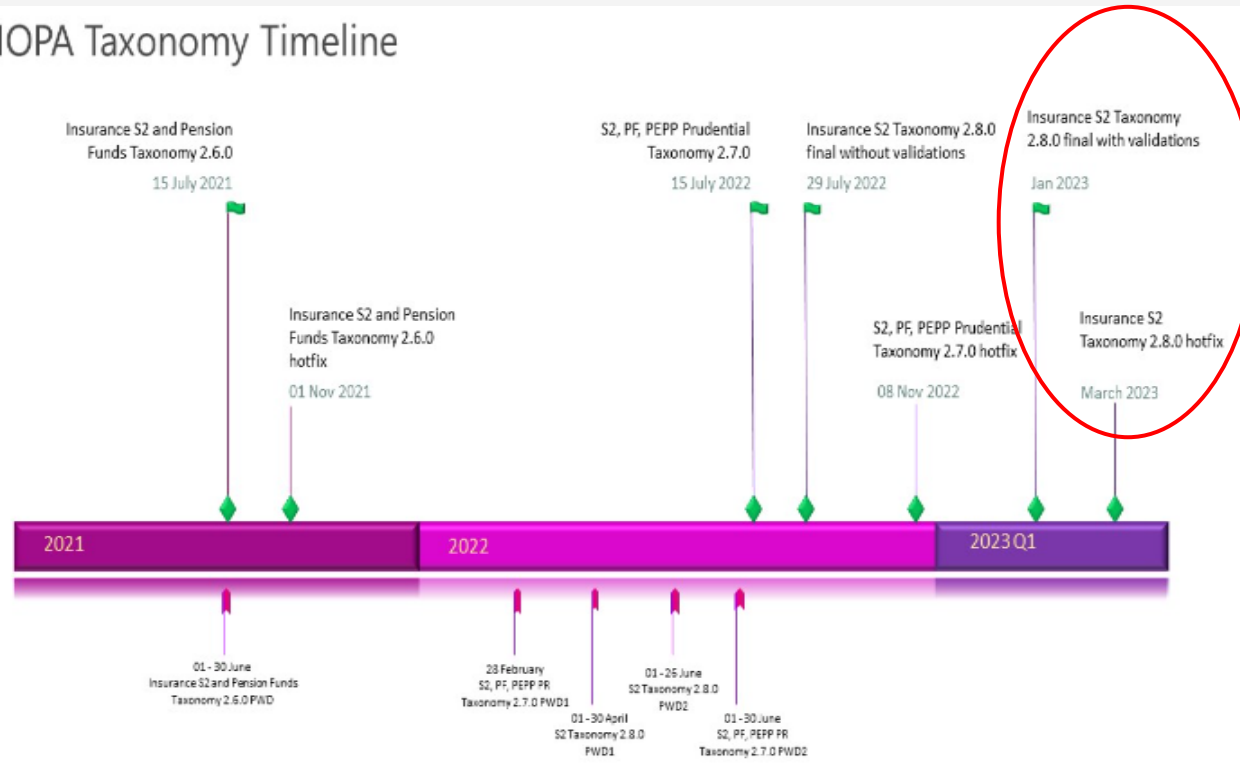
QRT updates Taxonomy 2.7.0

CBI Cross Industry Guidance on Outsourcing

# Future Changes 2023

## QRT updates Taxonomy 2.8.0

### EIOPA Taxonomy Timeline



## Possible changes??

EIOPA 2023 strategic agenda?

Solvency II 2020 Review (possibly 2025)

CBI changes to the Domestic Actuarial Regime?

Other CBI initiatives?



# Thank you

Eilish Moloney

[Eilish.Moloney@milliman.com](mailto:Eilish.Moloney@milliman.com)

# Solvency II 2020

Latest Update

Ian O'Donnell

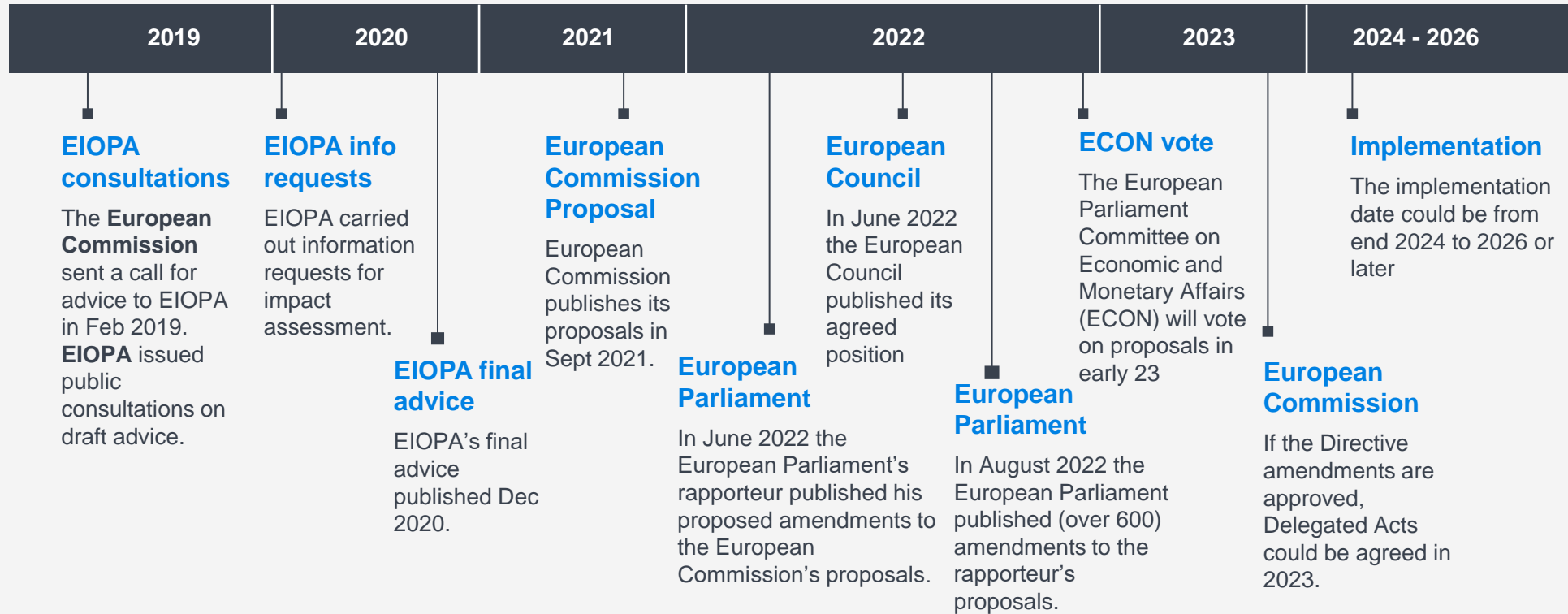
6 December 2022





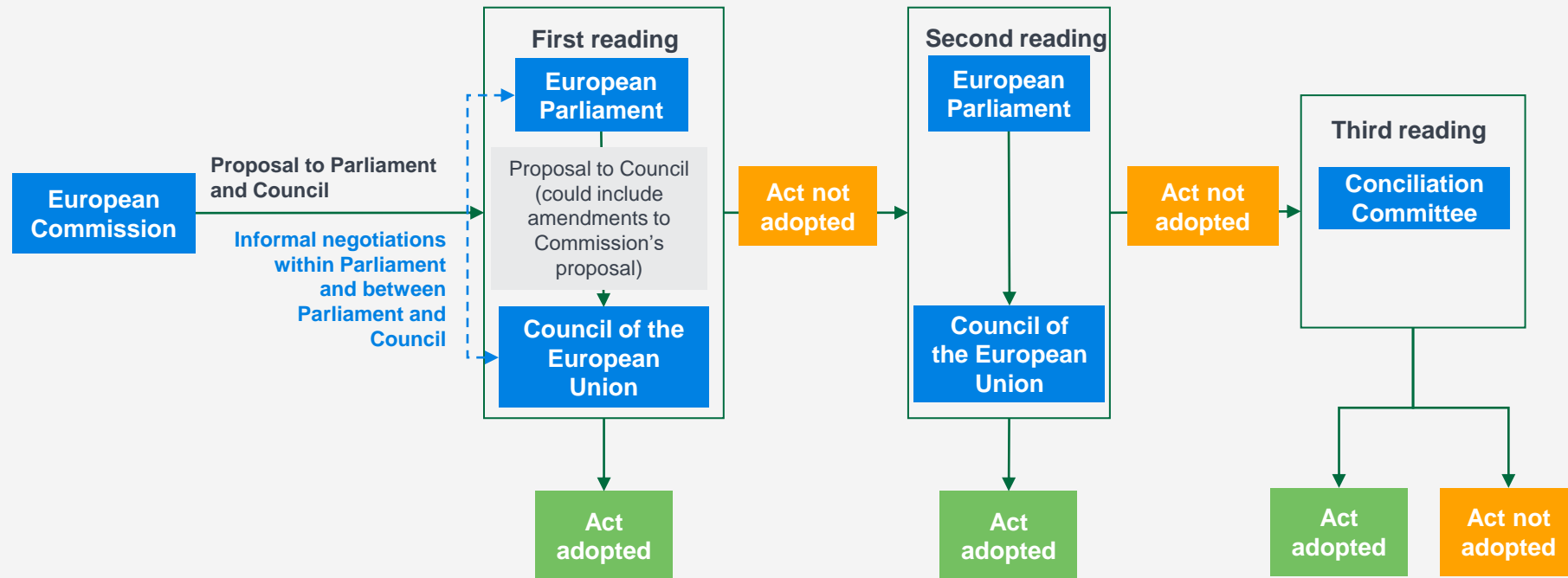
# Timeline

Hasn't this been going on for a while now?



# Legislative process

Who are all these people?





## Legislation

What are all the docs?

Level	Description	Purpose	Responsibility of
1	Directive	Sets out overall framework	Council and Parliament
2	Delegated Acts	Supplement the Directive (with further details)	Prepared and adopted by the European Commission (with advice from EIOPA); Council and Parliament scrutinize and have the right to object.
2.5	Technical Standards	Conditions of application of Delegated Acts	European Commission Drafted by EIOPA
3	Guidelines	EU-wide regulatory guidelines to ensure consistency	EIOPA

# Areas impacted

What are the possible changes?

## LTG measures

- Extrapolation
- Volatility adjustment
- Matching adjustment



## Technical Provisions

- Risk margin
- Expenses in BEL
- Contract boundaries
- EPIFP



## SCR

- Interest rate risk
- Correlations
- Symmetric adjustment
- Eligibility for LT equities



## Proportionality

- Thresholds
- Low risk profile undertakings
- Proportionality Measures



## Pillar 2

- Macroprudential considerations
- Liquidity risk
- Systemic Risk Management Plans



## Pillar 3

- SFCR
- QRTs



## Recovery & Resolution plans

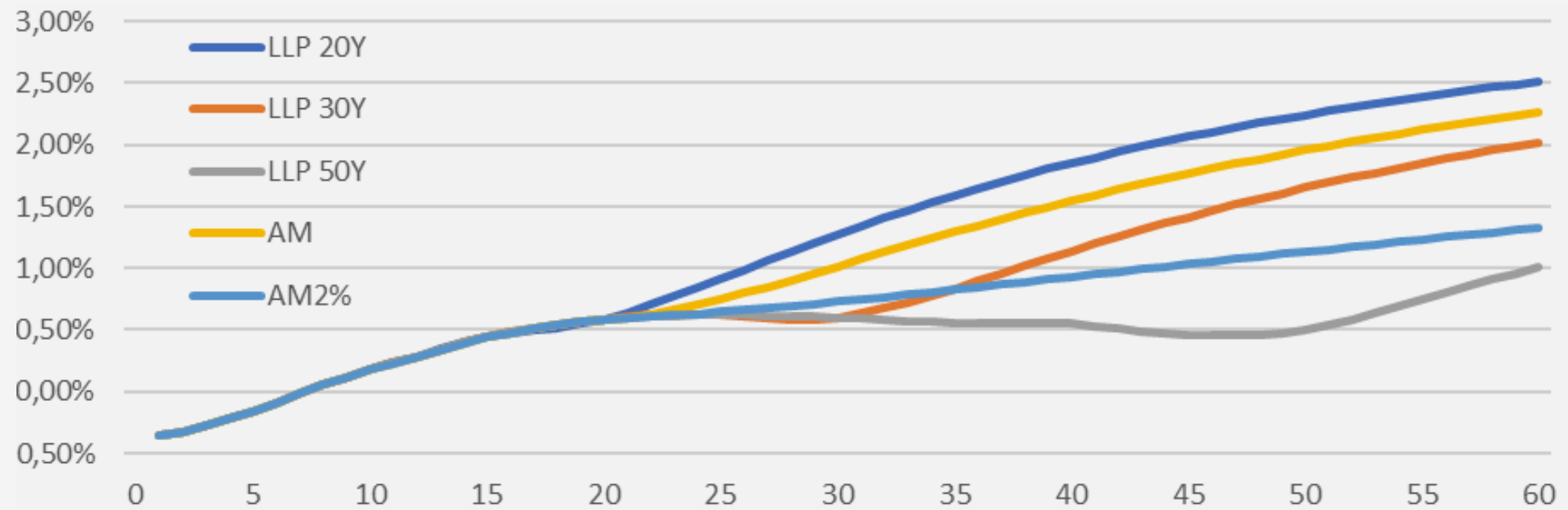


## Insurance Guarantee Schemes



## Extrapolation (1/2)

What did EIOPA propose again?



## Extrapolation (2/2)

What did everybody else have to say about this?

### European Commission

- Largely follows EIOPA's proposal
- Details deferred to Delegated Acts

### Council of the European Union

- Consistent with Commission

### European Parliament Rapporteur

- Prefers to include details in Directive
- Proposes alpha of 20% and no transition period

### Other Members of Parliament

Range of views including:

- Alpha parameter 5% - 20%
- First smoothing point 20 – 30 years
- Transition period: None / 2029 – 2032
- Disclose impact / restrict dividends if alpha decreased



# Volatility Adjustment

Did they all agree on this one then?

## EIOPA

- Supervisory approval required in all countries
- 65% increased to 85%

## European Commission

- Largely follows EIOPA's proposal
- Details deferred to Delegated Acts

## Council of the European Union

- In line with the Commission
- Added another factor

## European Parliament Rapporteur

- Prefers to include details in Directive (and not Delegated Acts as proposed by Commission)
- Deleted proposal to replace country component with macro component; Views unclear

## Other Members of Parliament

Range of views including whether change is needed and others based on EIOPA, Commission & Council proposals.

# Risk Margin

The good news item...

## EIOPA

- Risk margin reduced by applying a factor to the SCR projection.
- Factor starts at 97.5% at year 1 and reduces to 50% by year 28.
- No change to cost of capital



## European Commission

- Details deferred to Delegated Acts
- Supports introduction of reduction factor but proposes no floor of 50%
- Proposes reducing cost of capital from 6% to 5%



## Council of the European Union

- No reference



## European Parliament Rapporteur

- Prefers to include details in Directive (and not Delegated Acts as proposed by Commission)
- Factor starting at 90%
- Cost of capital of 4%

### Other Members of Parliament

Range of views on reduction factor and cost of capital.

# SCR interest rate risk capital

Last technical one for today!

## EIOPA

- Downward shock when interest rates are negative to a minimum of -1.25%
- Between 20 and 90 years shock will be linearly interpolated.
- At 90 years up and down shock is 20%
- Phased in over 5 years



## European Commission

- As per EIOPA except for extrapolation:
- Shocked rates extrapolated in same manner as base but towards stressed UFR 15bps lower or higher than base UFR



## Council of the European Union

- Agrees that “significant changes” are needed and should be phased in.



## European Parliament Rapporteur

- Negative floor applies to interest rate down shock such that likelihood of not being above negative floor at all times is sufficiently small

### Other Members of Parliament

Seem to agree with rapporteur on need for a floor. However, “the floor should not be flat but term dependent”

# Sustainability

To be or not to be... sustainable...

## EIOPA

- April 2021 opinion on use of climate change scenarios in **ORSA**
- Dec 2020 SII 2020 opinion: **SFCR** information

## European Commission

- Delegated Regulation August 2022 incorporate in:
  - Risk management policies and processes
  - ORSA
  - Investment decisions
  - Product approval process
- In addition to EIOPA proposals, EIOPA should report on risk profile of environmental or socially harmful investments.

## Council of the European Union

- In addition to Commission proposals:
- EIOPA should evaluate undertakings' assessments of their material exposure to risks related to biodiversity loss and define future actions, if necessary

## European Parliament Rapporteur

Removed all references to sustainability from the Directive "there is little evidence to suggest that insurance undertakings are systematically underestimating sustainability risks".

## Other Members of Parliament

Proposed to further build on Commission suggestions by including climate risk in equity & spread modules and mandated transition to sustainable economy

## Pillar III

### Reporting & Disclosure

- **External audit** of the SFCR covering the Solvency II balance sheet at a minimum, with the option for each member state's supervisor to also include the SCR and eligible own funds (excluding low risk profile undertakings) ✓
- Increase **deadline** for solo SFCR and RSR from 14 weeks to 18 weeks (to allow for new audit requirement). Increase deadline for group SFCR from 20 weeks to 24 weeks. ✓
- Structure of **SFCR** split into 2 parts: one part addressed to policyholders (not required for reinsurers or captives) and the other part addressed to professional users ✓
- EIOPA consultation paper on reporting & disclosure – new **taxonomy** for YE 2023 reporting ✓

# EIOPA guidelines

Apply from 1 January 2023

## Valuation of Technical Provisions

- **Assumption setting** – materiality, governance, communication & uncertainty, documentation, validation
- **Investment management expenses** – take into account admin & trading expenses for investments related to and at least equal to TPs + SCR
- Project **expenses** based on long term business strategy
- Options & guarantees, Future management actions, EPIFP

## Contract Boundaries

- “further detailed guidance on the already existing requirements”
- “focus on the **unbundling** of an insurance and reinsurance contract and the assessment whether a financial guarantee or a cover has a discernible effect on the economics of the contract”

# Areas impacted

Status

## LTG measures

- Extrapolation
- Volatility adjustment
- Matching adjustment



## Technical Provisions

- Risk margin
- Expenses in BEL
- Contract boundaries
- EPIFP



## SCR

- Interest rate risk
- Correlations
- Symmetric adjustment
- Eligibility for LT equities



## Proportionality

- Thresholds
- Low risk profile undertakings
- Proportionality Measures



## Pillar 2

- Macroprudential considerations
- Liquidity risk
- Systemic Risk Management Plans



## Pillar 3

- SFCR
- QRTs



## Recovery & Resolution plans



## Insurance Guarantee Schemes







# Thank you

Ian O'Donnell

[Ian.ODonnell@milliman.com](mailto:Ian.ODonnell@milliman.com)

# Demo of the Tool

And the ViClarity Platform

Pauric Mullan

Tracy Fitzgerald

6 December 2022





# Q&A

