X CONGRESSO NAZIONALE ATTUARI

5/7 GIUGNO 2013 ROMA

L'Attuario: una professione in evoluzione al servizio della società

Insurance Risk Management: Solvency II

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Europe in the world

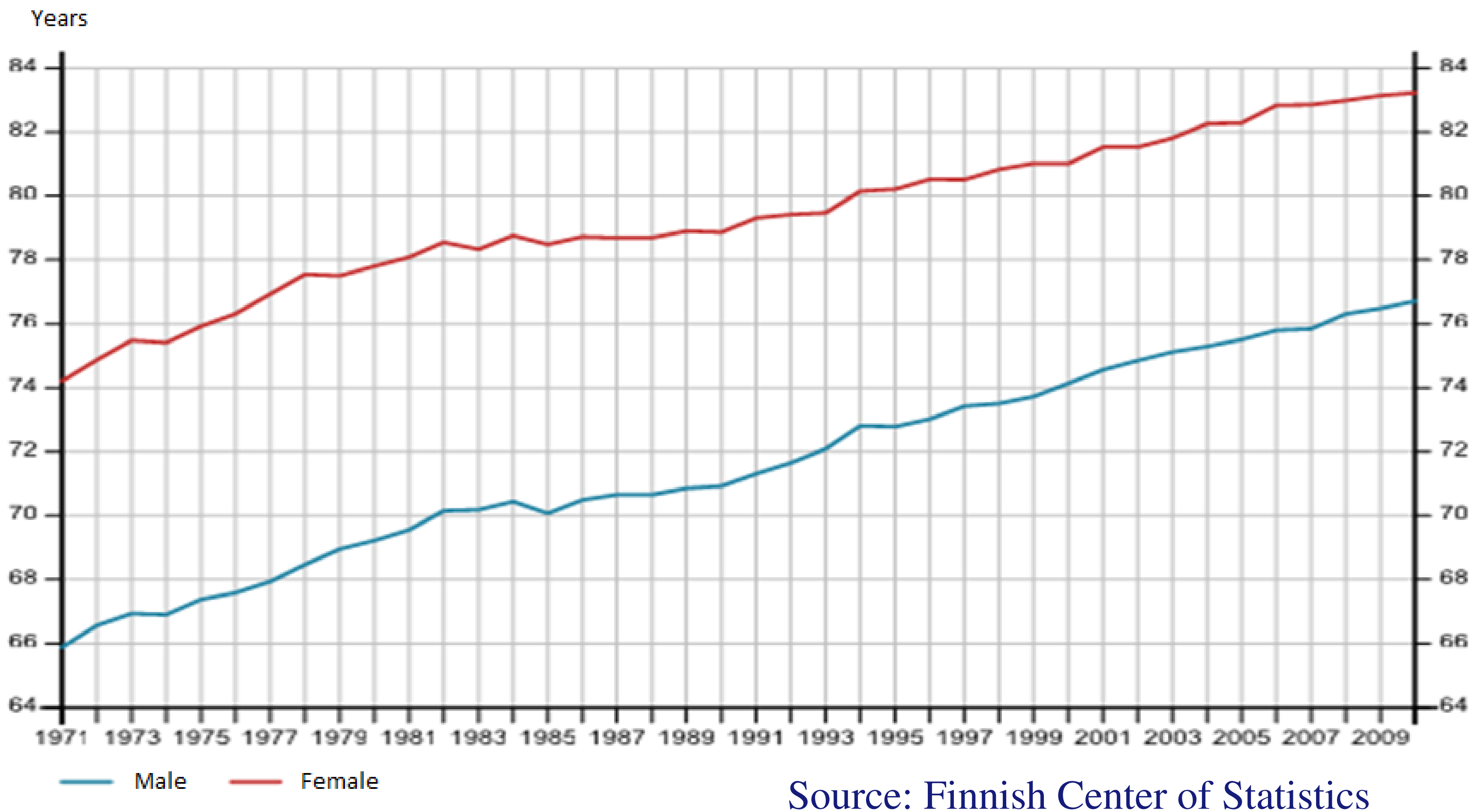
Ageing is accelerating: our working age population will be reduced by about 2 million by 2020, and the number of 60+ is increasing twice as fast as before 2007
Productivity levels are lagging behind: two-thirds of our income gap with the US is due to lower productivity
Our public finances are very severely affected: deficits at 7% GDP on average and debt levels at over 80%; 2 years wiped out 20 years of consolidation
Global competition is fierce: EU share of global exports is declining relative to China and India
We must face up long-term realities – globalisation, pressure on resources, ageing, technological trends – and tap our full potential

Presentation of J.M. Barroso to the Informal European Council, 11 February 2010

Stresses to traditional insurance:

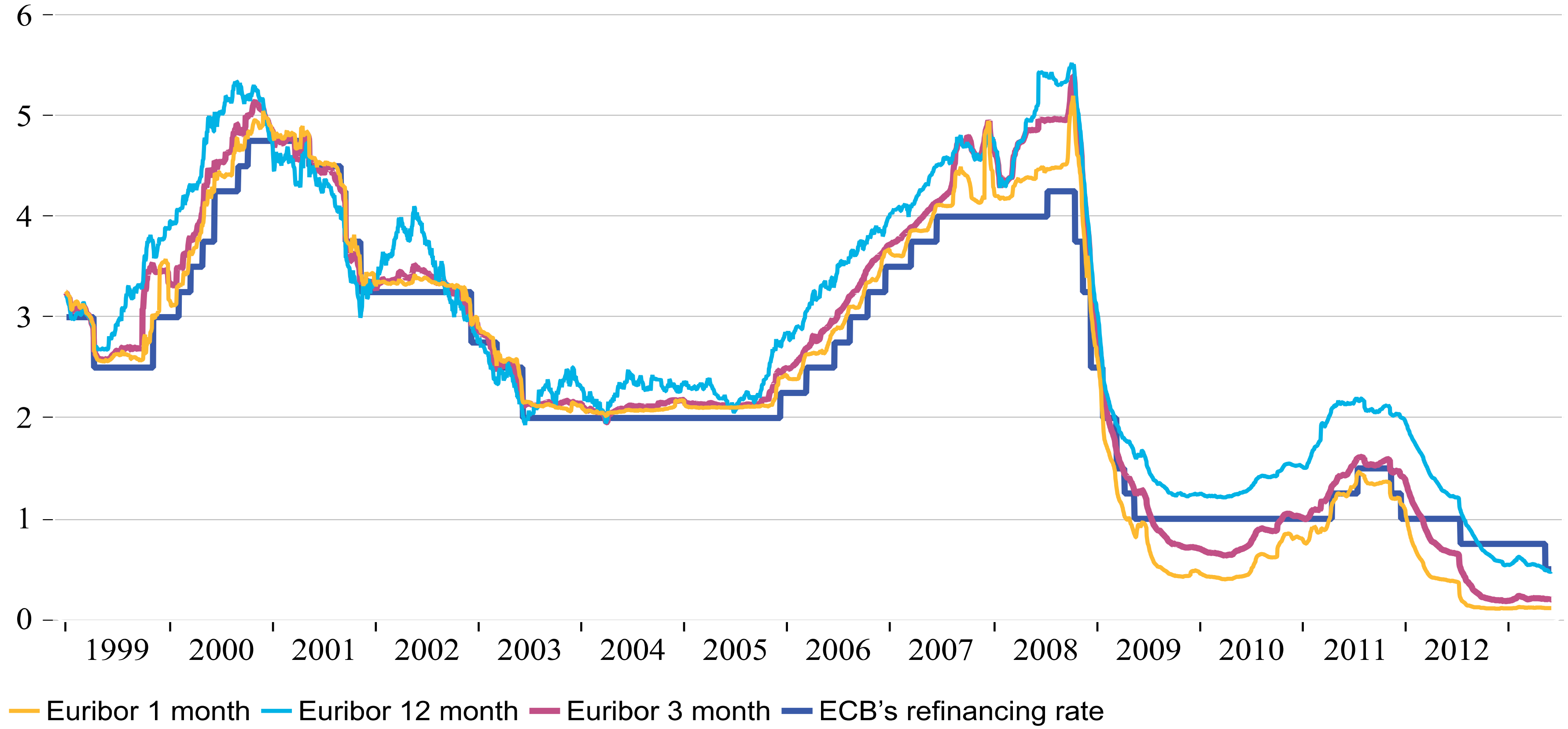
- Increasing longevity,
- Declining interest rates, and…
- Solvency II and emerging risk management

Longevity in Finland since 1971



Source: Finnish Center of Statistics

The ECB's refinancing rate and market interest rates



Lähde: Macrobond

Solvency II: 3 pillars and a roof

Group supervision & cross-sectoral convergence

Groups are recognised as an economic entity
=> supervision on a consolidated basis
(diversification benefits, group risks)

Pillar 1: quantitative requirements	**Pillar 2: qualitative requirements and supervision**	**Pillar 3: prudential reporting and public disclosure**
1. Harmonised calculation of technical provisions 2. "Prudent person" approach to investments instead of current quantitative restrictions 3. Two capital requirements: the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR)	1. Enhanced governance, internal control, risk management and own risk and solvency assessment (ORSA) 2. Strengthened supervisory review, harmonised supervisory standards and practices	1. Common supervisory reporting 2. Public disclosure of the financial condition and solvency report (market discipline through transparency)

Internal Market & Services DG

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Earlier and recent reactions to Solvency II

CEA (now Insurance Europe), March 2007

A challenging Framework bringing industry and supervisors closer to each other

The industry will be ready for Solvency II. A large number of companies have not waited for the new Framework to adopt or launch the implementation of best practice risk management tools based on an economic approach.

However, if Solvency II remains a challenge to insurers, it also necessitates an evolution from supervisors: the solvency regime will need to be harmonized across borders without national gold-plating of the standards. In addition a lead supervisor for international groups must be given the necessary competences. This effort shall be supported by a mutual learning process and constructive cooperation, primarily between the industry and the supervisors, but also with the other key actors of Solvency II.

Insurance Europe March 2013

The insurance industry is the largest institutional investor in Europe, investing heavily in long-term assets

Not addressing the issues of artificial volatility and pro-cyclicality risks insurers shifting from longer-term to shorter-term assets, leading unnecessarily to a range of unintended adverse macroeconomic impacts:

- Limiting the insurance industry's traditional role of investing in and assisting growth in the European economy
- Reducing the insurance industry's traditional role as a stabiliser in financial markets, and thereby reducing systemic risk and market volatility

Unless these issues are resolved, consumers may also suffer because companies stop selling long-term guaranteed products and/or increase policyholders' charges due to unnecessarily high capital requirements for these products

- Products with long-term guarantees provide essential social benefits, such as retirement provision, in many countries

EIOPA’s chair Gabriel Bernardino, interview 3.4.2013

“One misunderstanding that needs clearly to be spelled out is that it’s not Solvency II that provokes challenges to business. It’s the economic environment. Solvency II makes one difference: You need to recognize it earlier. If you have a market consistent valuation of assets and liabilities it will be much more clear that you have a challenge in your portfolio. If you continue to have a valuation that does not reflect the market, then you can pretend that there is no problem. But the problem exists. Solvency II makes this transparent and that is good for consumers, for companies and also for supervisors. We need to have a preventive supervision. Supervision should not be there to act when the fire is already in your home. Supervision should be there to prevent that the fire occurs.”

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Current state of the play

Long Term Guarantee Impact Assessment

- Undertakings ran a test of different scenarios, under the guidance of EIOPA, testing among other things
  - Countercyclical premium,
  - Matching adjustment, and
  - Extrapolation.
- EIOPA will report on its findings to Commission on June 14
- Commission will, based on EIOPA report, produce its thoughts on the way forward
- Trilogies will resume after the summer break and it is possible to have a deal on Omnibus II
- With a deal on Omnibus II it is possible that Solvency II is in place from the start of 2016

Meanwhile, interim measures are developed

- EIOPA has now on consultation its guidelines on interim measures before Solvency II is in force
- After consultation EIOPA will give its guidelines on a comply or explain basis to national supervisors
- EIOPA guidelines will put in place parts of Solvency II from pillars II (qualitative aspects) and III (disclosure)

- The ECB is also starting to collect data from the insurance sector – hopefully with the same timetable together with EIOPA.

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Role of the Groupe Consultatif in Solvency II

The Groupe Consultatif Actuariel Europeen

- **The *Groupe Consultatif Actuariel Européen* was established in 1978**
- **It represents actuarial associations in the countries of the European Union.**
- **Its purpose is to provide advice and opinions to the various organisations of the European Union (EU) - the Commission, the Council of Ministers, the European Parliament, EIOPA and their various committees – on actuarial issues in European legislation.**
- **The *Groupe* currently has 33 member associations, representing about 17,000 actuaries.**
- **The actuarial associations in 26 of the 27 Member States of the European Union (Malta is an observer) are currently members of the *Groupe*, along with associations in EEA countries, Switzerland, and a number of EU candidate states.**

The Groupe Consultatif Actuariel Europeen

- **Through its Core Syllabus for actuarial education, Mutual Recognition Agreement, and code of professional conduct, the Groupe has in place a robust governance framework which ensures the objectivity, integrity and independence of actuaries.**
- **Advice and comments provided by the Groupe on behalf of the European actuarial profession are totally independent of industry interests.**
- **The Groupe regularly publishes, via its web site (http://www.gcactuaries.org), surveys amongst its member associations on issues of topical relevance in pensions, insurance and investment and financial risk.**
- **The Groupe is in links with the EU institutions, the CEIOPS / EIOPA, the Industry associations (CEA, CRO Forum, CFO Forum, Amice).**
- **The Solvency 2 project team is divided into 5 teams with approximately 50 actuaries in all : Pillar 1 (life), Pillar 1 (non life), Pillar 5 (Pillar 2 + Pillar 3!), Groups, Internal models. It responds to most consultations on behalf of its members.**

Long-term guarantees

- The S II Project Manager and members of the GC SII life working group were closely involved in the 2011 Commission Task Force on LTGA
- more recently the GC (with a wider remit across pensions, investments and insurance) has written about MC from the theoretical financial mathematics point of view
- GC will do more work to explore how that MC theory can be practically used in areas such as IORP and SII
- with new GC SII project management giving a wider representation (DE, FR, UK) we have an opportunity to take a fresh look
- we need to weave some of the MC theory - into what is practical, especially bearing in mind the current economic conditions (arguably exceptional conditions) in which regulators and insurers now find themselves

Groupe Consultatif and the final stages

- There still exists the possibility of having a modern risk-based solvency regime for Europe not so far in the future
- Groupe Consultatif is continuing its support to Solvency II as such and its expert work to solve the problems that still delay the final introduction of Solvency II

Thank you for your attention!