Society of Actuaries in Ireland

Solvency II Update

28.11.13

Solvency II Committee

Membership	
John Bolger	Brian Morrissey
Myra Daly	Jim Murphy
Liam Dempsey	Colin Murray
Shane Fahey	Edel O’Connell
Declan Lavelle	Dick Tulloch
Dermot Mannion	Ger Bradley

* John Armstrong, Michael Culligan and Mike Frazer recently stepped down from the Committee

Solvency II Committee

- 2012/2013 highlights
  - EIOPA interim guidelines consultation
  - External audit pre-consultation
  - Working group paper on treatment of Irish DB pensions under Solvency II
  - Member meetings
- 2013/2014 workplan
  - Engages with CBI, An Taoiseach's SII group, Insurance Ireland and DIMA
  - Member updates and support
  - Revisit draft level 2 and 3 texts and input to Groupe Consultatif work in this area
  - Lead Society responses to any further Solvency II consultations

Recent developments

14 June 2013
EIOPA findings on LTGA published

27 Sept 2013
EIOPA final guidelines on preparation for Solvency II

4 Nov 2013
CBI final guidelines on preparation for Solvency II

13 Nov 2013
Trilogue agreement on Omnibus II

Main focus today

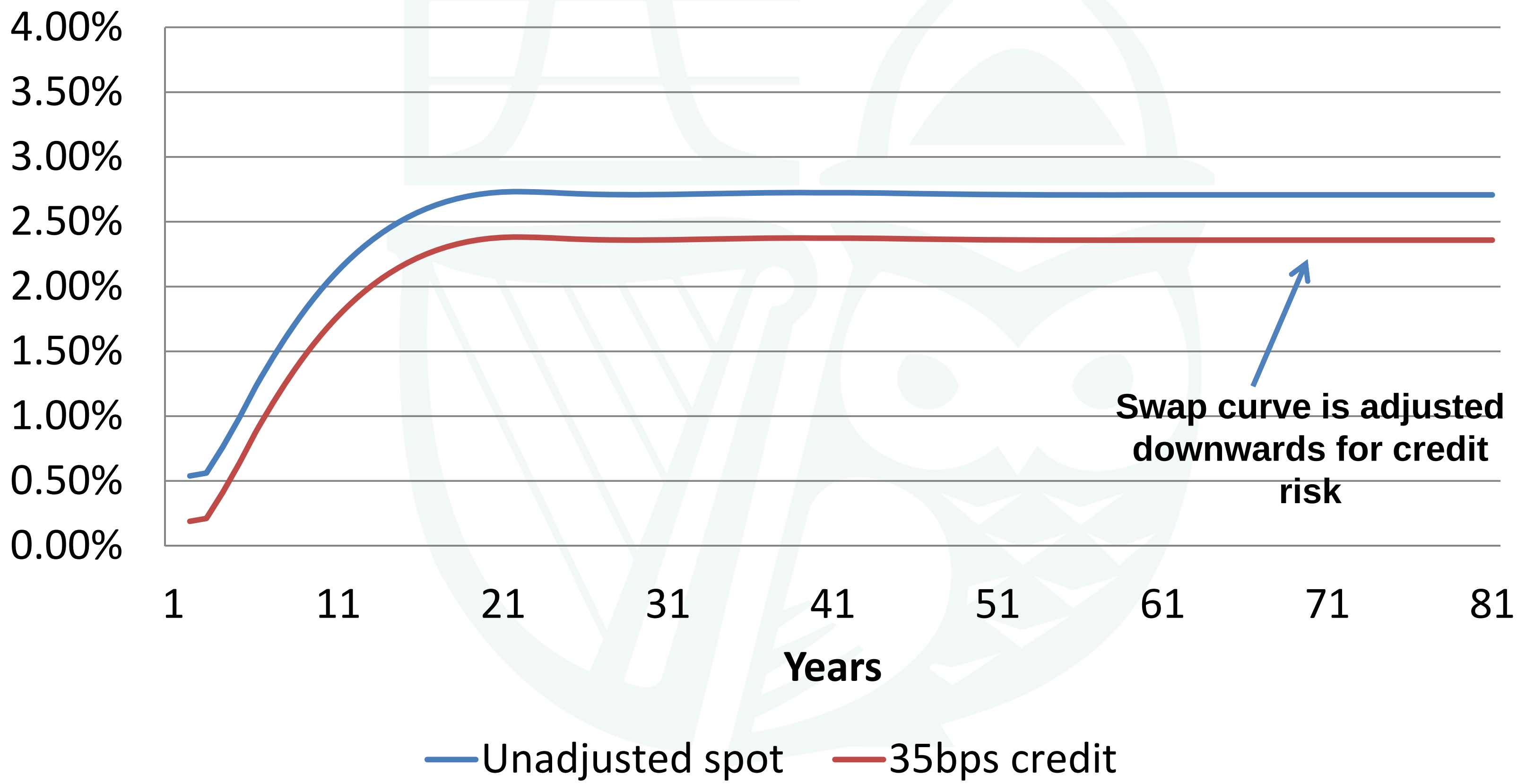
Omnibus II

- Yield curve extrapolation
- Matching adjustment
- Volatility adjustment
- Transitionals
- Equivalence

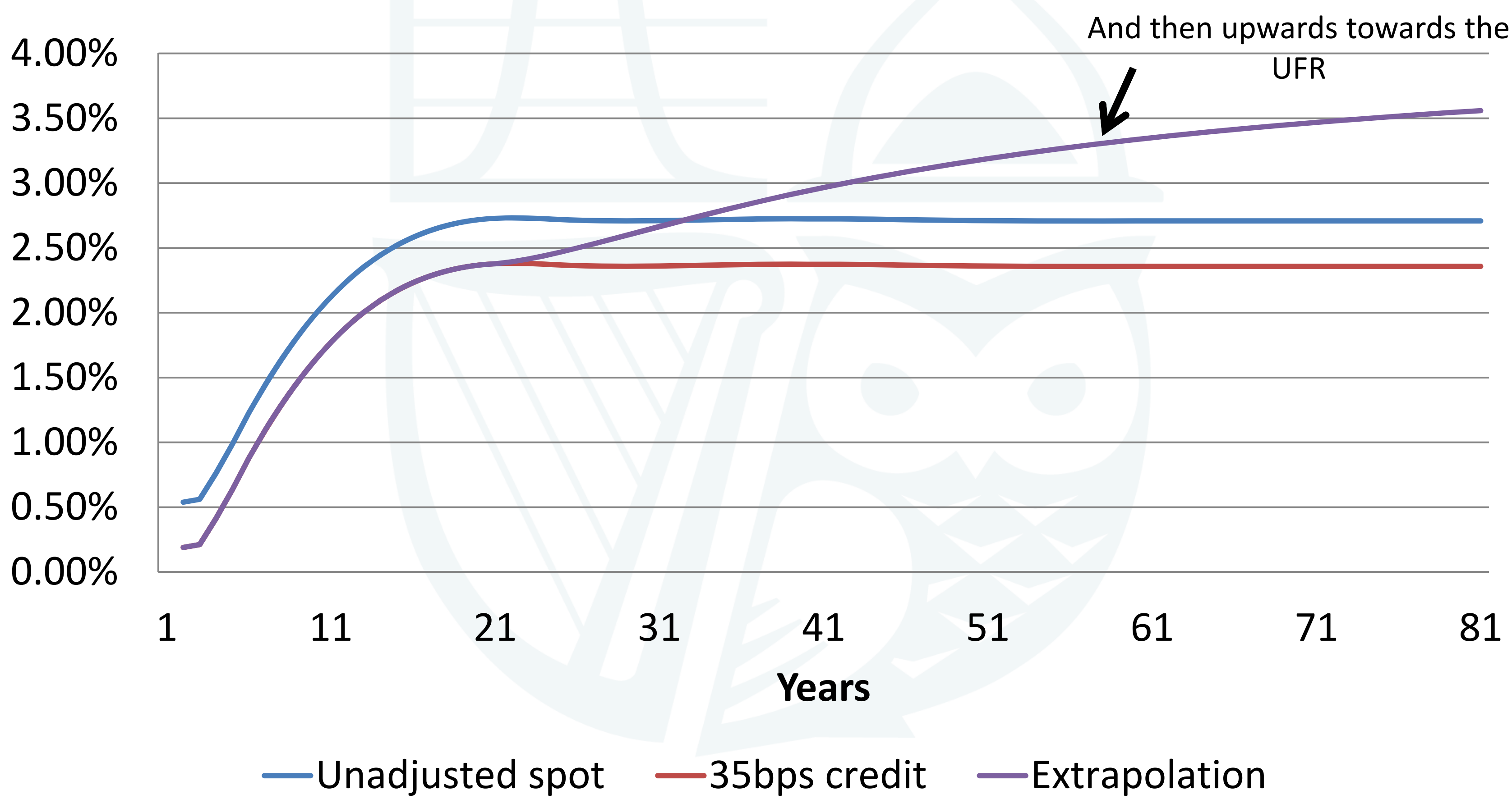
Extrapolation – article 77(a)

- Risk free curve should be based on markets where deep, liquid & transparent
- Beyond that point, the yield curve should be extrapolated
- Parameters for Euro:
  - Swap curve will be the starting point
  - Adjust for credit (default) risk (35bps?)
  - Last liquid point (LLP) of 20 years (based on current market conditions)
  - Ultimate forward rate (UFR) of 4.2%
  - Convergence period of 40 years (based on current market conditions)

Extrapolation



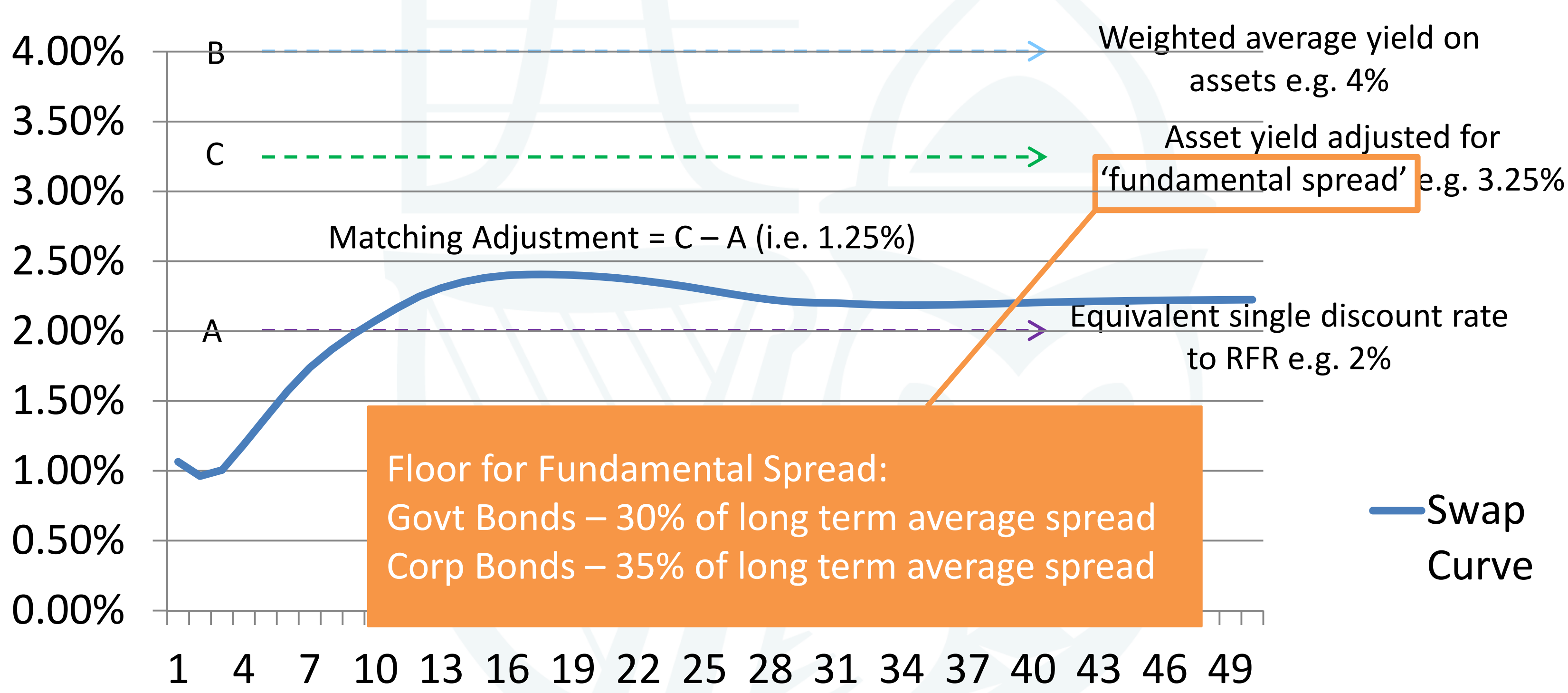
Extrapolation



Matching adjustment – article 77b

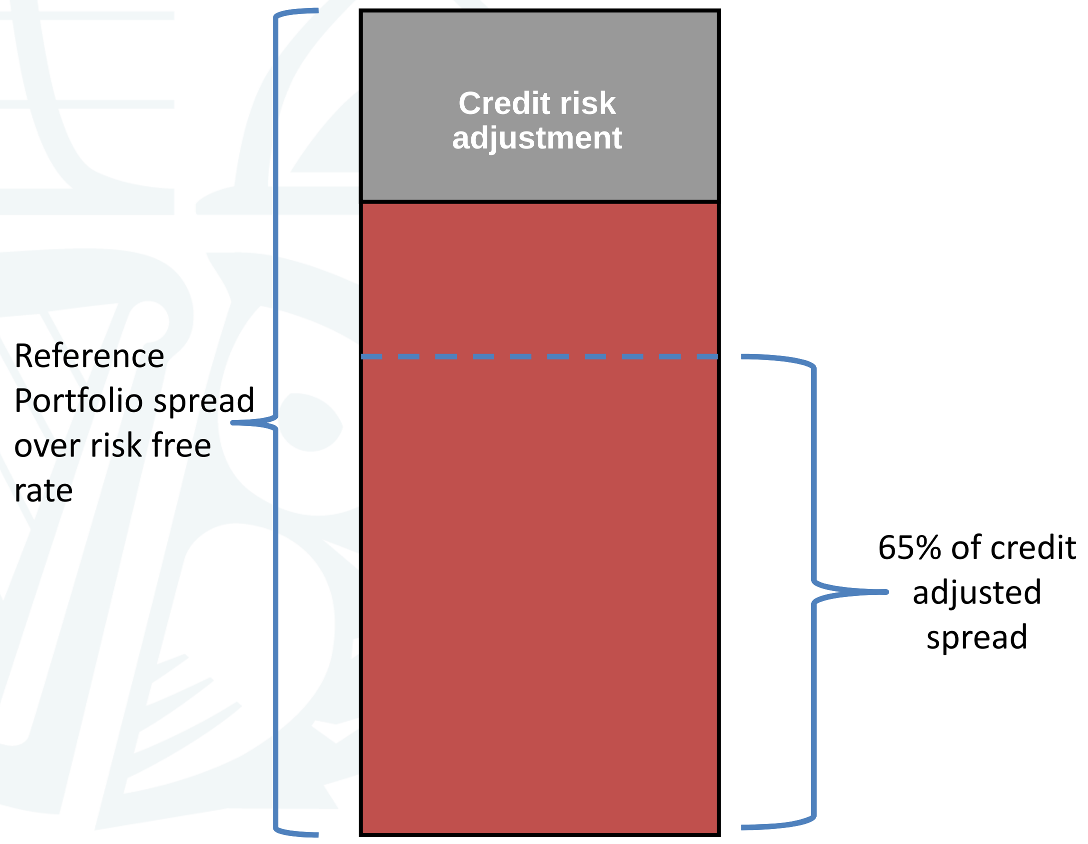
Restrictions	Criteria
Asset	- Must be an identified 'ring fenced' portfolio of assets - Bonds and similar assets - Materially match the liability cashflow - Can only change if cashflows materially change - Asset cashflows fixed, but inflation link OK if for matching - Issuer not allowed to change cashflows unless neutral
Product	- No future premiums - Longevity, expense, revision or mortality risk* allowed - No options except surrender option if SV = value of assets * Mortality shock should not increase BEL by more than 5%
Other	- Requires supervisory approval - Not allowed if Volatility Adjustment or Transitionals apply

Matching adjustment – article 77c



Volatility Adjustment – article 77d

- Reference portfolio for each currency
- Apply VA first, then extrapolate yield curve
- Member states can require prior approval



National Volatility Adjustment

- If risk adjusted country spread > 100bps

  AND
- Risk adjusted country spread > 2 * risk adjusted currency spread

  THEN
- Country volatility adjustment increased by

  = 65% * (Risk adjusted country spread - 2 * risk adjusted currency spread)
- Applies to products sold in that country

<u>Example:</u>

- Currency risk adjusted spread = 50bps => currency volatility adjustment = 32.5bps
- Country risk adjusted spread = 175bps
- Increase in volatility adjustment = 65% * (175bps – 2 * 50bps) = 48.75bps
- So country volatility adjustment = 81.25bps

Transitionals – article 308

- Grandfathering of Solvency I eligible solvency margin items for 10 years
- Phased equity shock over 7 years for equities acquired prior to 1 January 20156
- Derogation in first year is Solvency II capital requirements not met but Solvency I is met
  - subject to progress report requirements
- Various others ...

Transitionals – article 308

Interest rates	Technical provisions deduction
- Supervisory approval required - 16 year linear transition from Solvency I interest rate to Solvency II - Applies to business written prior to 1 January 2016 - Not allowed for business where Matching Adjustment used - Cannot use technical provisions deduction - Must disclose impact	- Supervisory approval required - 16 year transition period (linear) - Deduction = difference between Solvency II and Solvency I TPs at end 2015/start 2016 - Supervisor can allow recalculation every 2 years or if material change in risk profile - Adjustment can be limited if it would improve financial position beyond Solvency I - Cannot used interest rate transitional - Must disclose impact

Equivalence – articles 172, 227, 260

- Article 172: Relating to reinsurance undertakings
  - 5 year temporary equivalence with possibility of 1 year extension
- Article 227: Relating to third country undertakings
  - 10 year temporary equivalence with possibility of 10 year extension
- Article 260: Group supervision
  - 5 year temporary equivalence with possibility of 1 year extension

Workplan to implementation

Spring 2014	EP Plenary vote followed by official publication of final Directive
Aug 2014	Commission will propose Delegated Acts
During 2014 & 2015	EIOPA will consult on level 3 guidelines
Feb 2015	Delegated Acts to be confirmed
1 Jan 2016	Implementation of Solvency II