European Actuarial Academy

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The Way to a New European Solvency Concept

Prof. Dr. Martin Balleer,
Georg-August-Universität Göttingen, Germany
European Actuarial Academy (EAA)

05th – 08th June 2014, Arandelovac, Serbia

XII International Symposium on Insurance

„RISK MANAGEMENT ON THE INSURANCE MARKET – TOWARDS THE CONCEPT OF SOLVENCY II“

Introduction

Targets of Solvenvcy II

- Financial stability of the insurance companies (consumer protection !)
- Harmonization of insurance supervision, no supervision arbitrage
- Risk based valuation of assets and liabilities and risk-based capital
- Risk-based capital under the regime of same risk, same capital
- Independency from national accounting principles

Requirements of Solvency II

- Market consistent valuation of the balance sheet
- Required ruin probability (0.05%) and probability measure (VaR)
- Implementation of an efficient risk management culture
- Transparency by detailled and actual reporting

Development of Solvency II

First phase of Solvency II

- Starting point: 2002, delegated to CEIOPS as leading institution
- Consulting phase: Waves of specific calls for advice
- Field tests European wide: Quantitative Impact Studies QIS 1-4
- One problem (not solved): Harmonisation with accounting IFRS; IFRS failed in calculating liabilities under the regime of market consistent valuation; Solvency defined an own approach by „best estimate“ plus risk margin
- Solvency II – Directive approved in 2009 by European Parliament with application date 1.1.2013.

Development of Solvency II

The long way to Solvency II

1st phase

2nd phase

3rd phase

Start 2002

December 2009

Autumn 2012

April 2014

2016-01-01

calls for advice

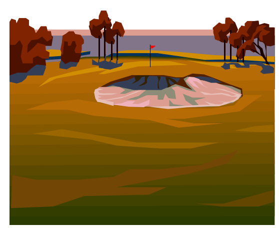
Directive

Omnibus II

QIS1 –QIS4

QIS5

LTGA



2002 — 2009 — 2012 — 2014 — 2016

Source: Baldauf, Actuarial Association of Europe (aae)

Development of Solvency II

Second phase of Solvency II

- Lisbon Treaty as a consequence of the financial crisis. Result: Founding of EIOPA

- Field test QIS 5 indicated significant problems. Result: Upate by Omnibus II-Directive as an amendment of the Solvency II-Directive and Quick-Fix-Directive with time shift to an aplication date 1.1.2014.

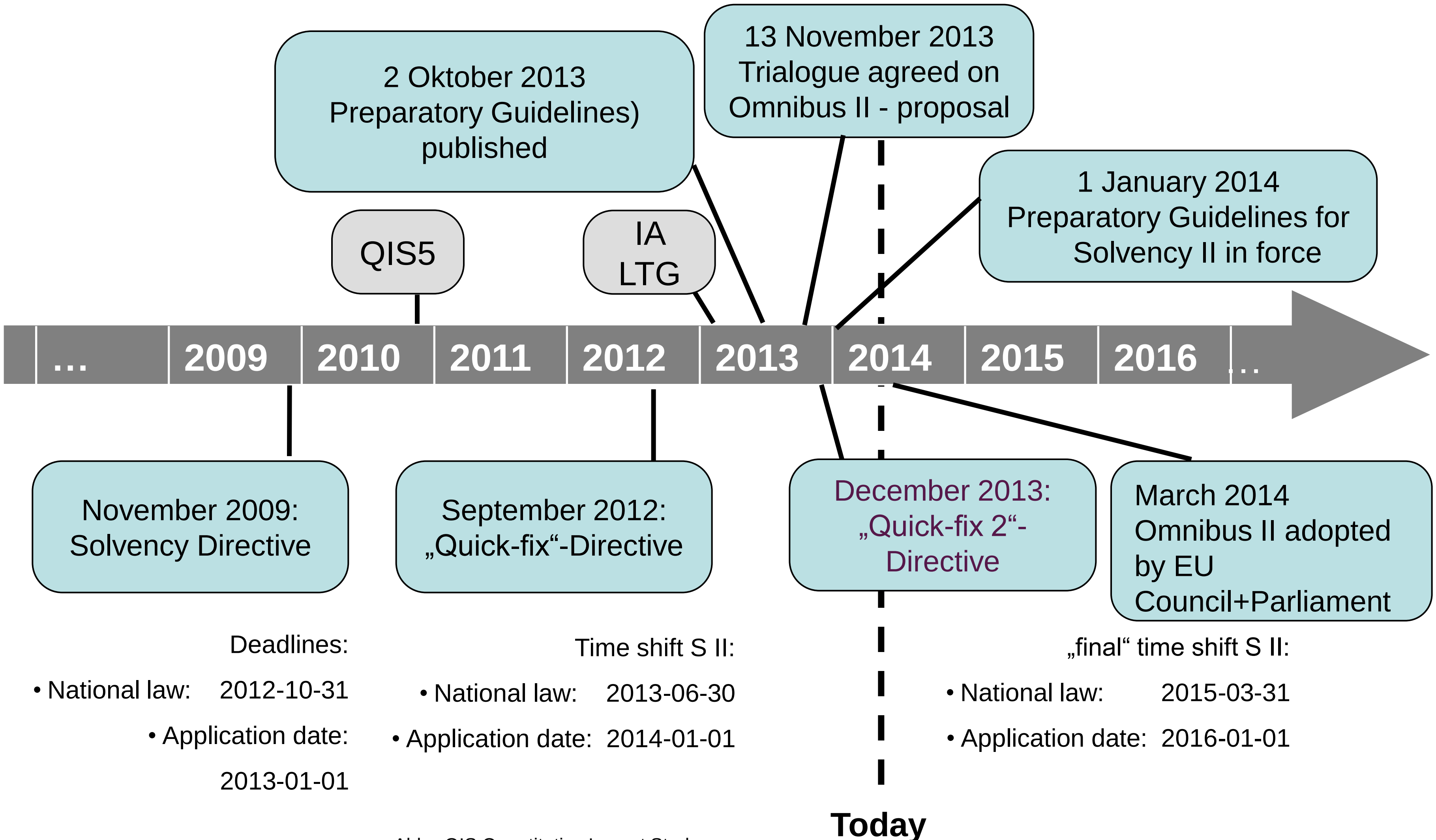
- No consensus about the proposed Omnibus II-Directive by Trilog Parties (European Commission, European Council, European Parliament). Result: Mandating EIOPA for another field study (LTGA = Long Term Guarantees Assessment) to solve the valuation of long-term guarantees.

- Update of Omnibus II-Directive was approved by Trilog Parties and European Parliament in 2013/2014.Result: Quick-Fix-Directive with time shift to an application date 1.1. 2016 on (Level 1 status is reached).

Development of Solvency II

Source: Baldauf, Actuarial Association of Europe (aae)

Actual status of Solvency II – Level 1



Deadlines:

- National law: 2012-10-31
- Application date: 2013-01-01

Time shift S II:

- National law: 2013-06-30
- Application date: 2014-01-01

„final“ time shift S II:

- National law: 2015-03-31
- Application date: 2016-01-01

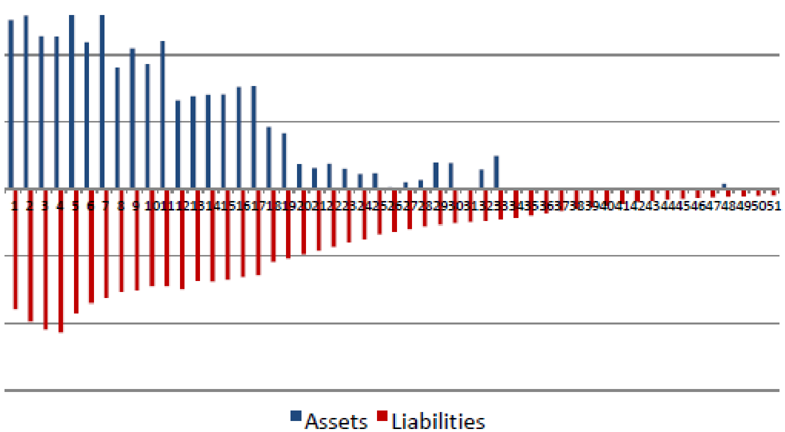
Abbr.:QIS Quantitative Impact Study,
IA LTG Impact Assessment Long Term Guarantees,

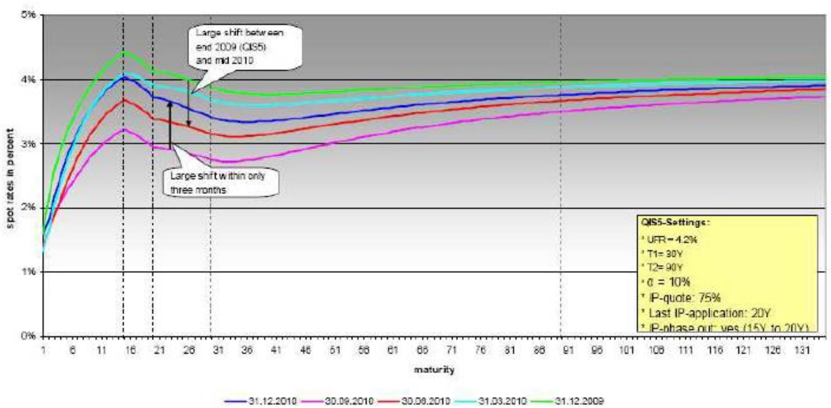
Development of Solvency II

Excurs: Long-term guarantees

- „Best estimate“ reserves = Discounted cash-flows; discount rate = risk-free interest rate curve.

- Problem:
  - High volatility of the discount rate generates high volatility of the solvency quotas.
  - Duration gap between assets and liabilities asks for extrapolation of the discount rate with the consequence of controversial discussions about the used method.





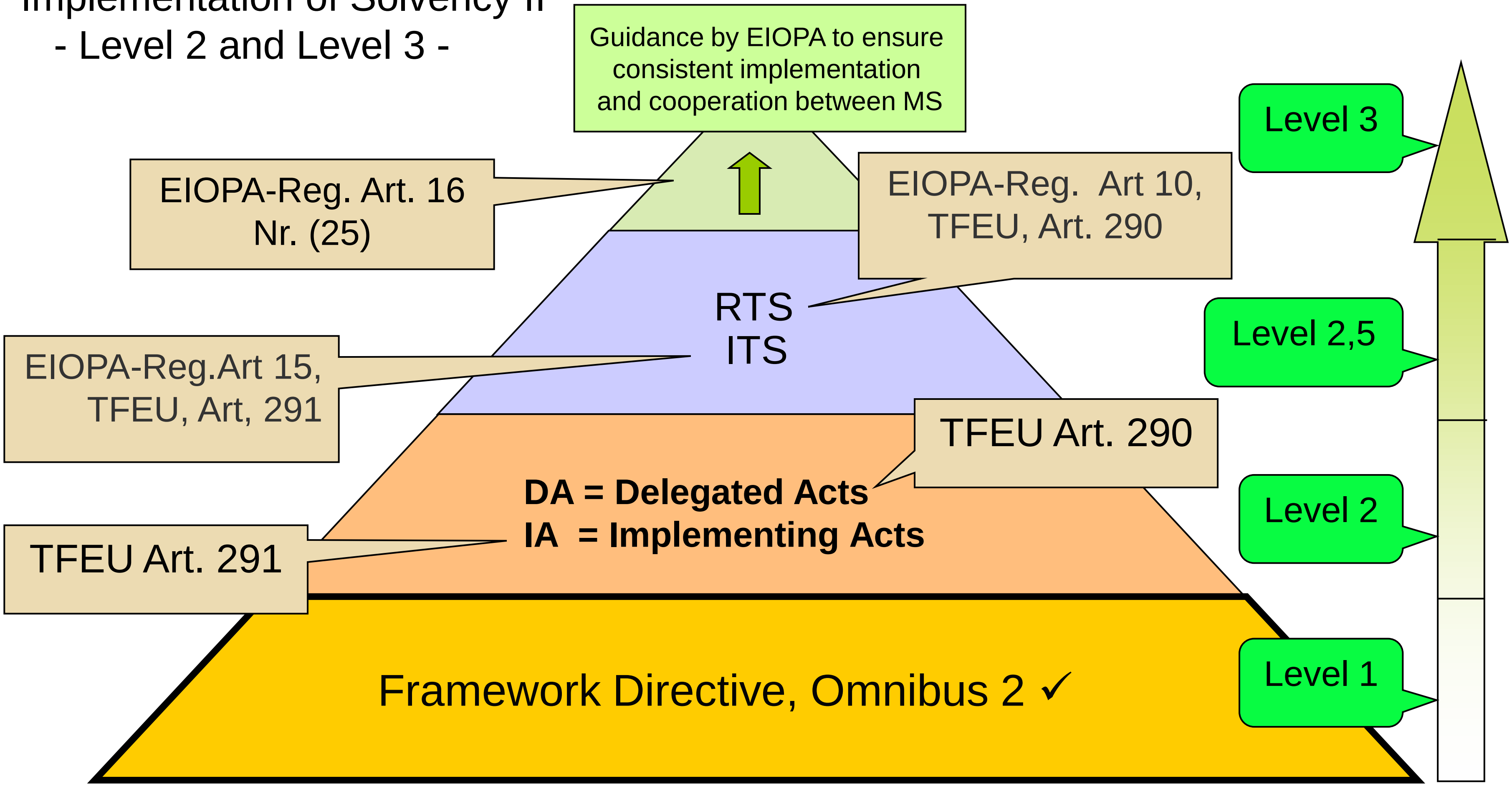
Development of Solvency II

Third phase of Solvency II

- Implementation procedures (Level 2) following the new processes substituting the Lamfalussy-process according to the Articles 290 („Delegated Acts“) and 291(„ Implementing Acts“) of the Lisbon Treaty (Treaty on the Functioning of the European Union – TFEU).
- Regulatory Technical Standards (RTS), Implementing Technical Standard (ITS) and EIOPA Guidelines are going to present concrete application procedures and technical measures.
- Until 1.1.2016 a preparatory phase will support the regulators and companies to implement Solvency II by several additional Guidelines.

Development of Solvency II

Implementation of Solvency II
- Level 2 and Level 3 -

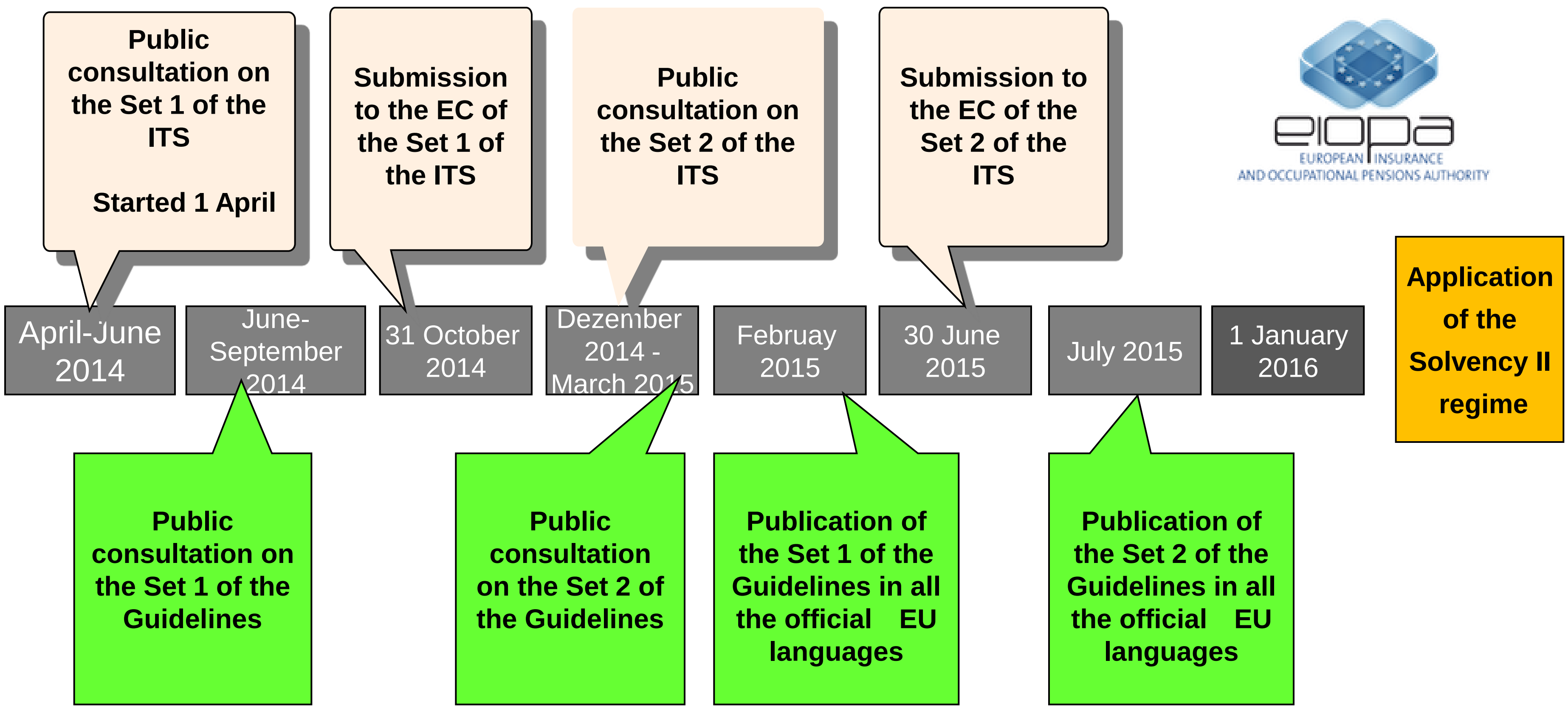


Source: Baldauf, Actuarial Association of Europe (aae)

RTS = Regulatory Technical Standard
ITS = Implementing Technical Standard

Development of Solvency II

Implementation procedures for ITS and Guidelines



Source: Baldauf, Actuarial Association of Europe (aae)

Thank you for your attention !

Dr. Martin Balleer
martin.balleer@actuarial-academy.com