

# Milliman Solvency II Compliance Assessment Tool Seminar

22 NOVEMBER 2023

# Agenda

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Welcome &  
Introduction  
Mike Claffey

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S2CAT updates  
Ian O'Donnell

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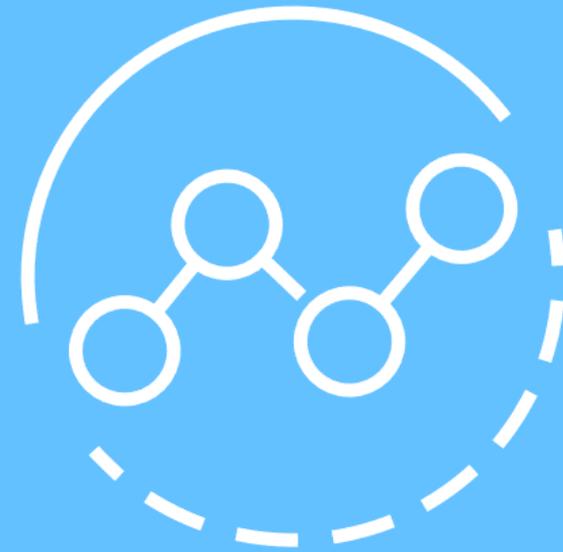
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Our favorite  
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Rebecca  
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ViClarity  
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# S2CAT updates

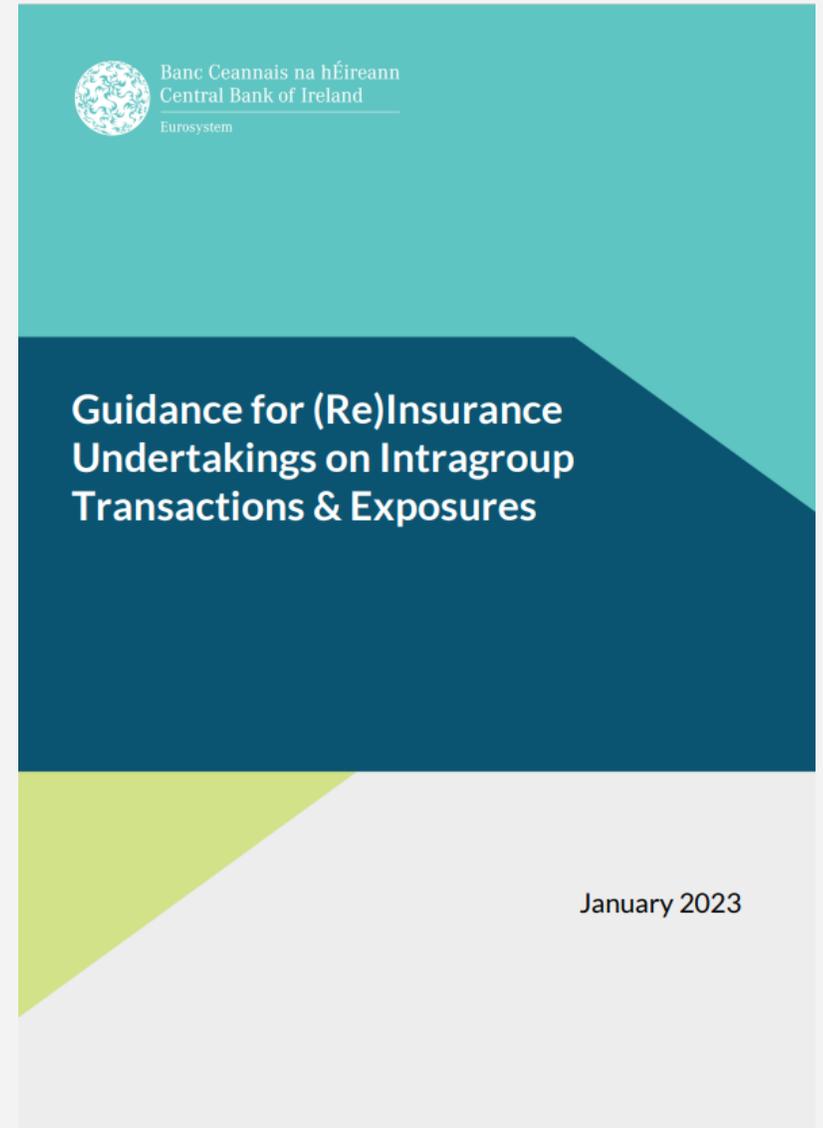
Ian O'Donnell

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# Guidance on Intragroup Transactions & Exposures

- Published on 30/01/2023 following consultation paper CP150.
- Applicable from 30/01/2023. The guidance doesn't create new legal obligations, but does need careful consideration.
- The guidance is split into two sections:
  1. Governance and management of material IGTs.
  2. Key exposures:
    - i. Intragroup assets
    - ii. Intragroup reinsurance
    - iii. Cash pooling/treasury function arrangements



# Solvency II DPM and Taxonomy 2.8.0

Final version released in March 2023 and hotfix issued in October.

Changes applicable for Q4 2023 reporting.

Many new templates, changes to existing templates and removal of certain templates.

## Summary of Changes

| Template Changes (count) | QRTs - Solo Annual | QRTs - Solo Quarterly | QRTs - Group Annual | QRTs - Group Quarterly | ECB Reporting - Solo Annual | ECB Reporting - Solo Quarterly | Financial Stability Reporting - Solo Annual | Financial Stability Reporting - Solo Quarterly | Financial Stability Reporting - Group Annual | Financial Stability Reporting - Group Quarterly |
|--------------------------|--------------------|-----------------------|---------------------|------------------------|-----------------------------|--------------------------------|---|--|--|---|
| Removed                  | 15                 | 2                     | 14                  | 2                      | 16                          | 3                              | 5   | 0  | 4  | 0   |
| Edited*                  | 41                 | 7                     | 27                  | 5                      | 42                          | 7                              | N/A   | 3  | N/A  | 5   |
| New                      | 22                 | 1                     | 19                  | 1                      | 23                          | 3                              | 0   | 3  | 0  | 3   |

\* Includes change in modelling, remodelling of particular column or row of existing table, change in drop-down item labels, deletion of a section of template.

## Solvency II Reporting Solo: New Templates

|   |  |   |  |
|---|--|---|--|
| S.04.03 Basic Information - list of underwriting entities [annual]                  | S.04.04 Activity by country - location of underwriting [annual]            | S.04.05 Activity by country - location of risk [annual]                         | S.06.04 Climate change-related risks to investments [annual]   |
| S.14.02 Non-Life obligation analysis [annual]                                       | S.14.03 Cyber underwriting risk [annual]                                   | S.23.01 Own Funds [Quarterly]   | S.26.08 Solvency Capital Requirement - for undertakings using an internal model (partial or full) [annual] |
| S.26.09 Internal model: Market and Credit risk - for financial instruments [annual] | S.26.10 Internal model - Credit event risk Portfolio view details [annual] | S.26.11 Internal model - Credit risk details for financial instruments [annual] | S.26.12 Internal model - Credit risk Non-Financial Instruments [annual]                                    |
| S.26.13 Internal model - Non-life & Health NSLT Underwriting risk [annual]          | S.26.14 Internal model - Life and Health underwriting risk [annual]        | S.26.15 Internal model - Operational risk [annual]                              | S.26.16 Internal model - Model Changes [annual]  |
| S.36.05 IGT - P&L [annual]  | S.36.06 IGT - Off-balance sheet and contingent liabilities [annual]        | S.36.07 IGT - Insurance and reinsurance [annual]                                |  |

# NST Updates April & November 2023

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## April 2023

- The following NST's were impacted by template changes:
  - NST.01.01.01 (Annual Non-Life Income Statement)
  - NST.01.01.03 (Quarterly Non-Life Income Statement)
  - NST.02.01.01 (Annual Life Income Statement)
  - NST.02.01.03 (Quarterly Life Income Statement)
  - NST.07.01.01 (Annual Non-Life Premiums, claims and expenses. Detailed split by Class and Distribution Channel)
- The changes impact the 'P3 - QRT Annual Solo' module and 'P3 - QRT Quarterly Solo' module of the tool. No new questions were added but the NST templates and log files have been updated where required.

## November 2023

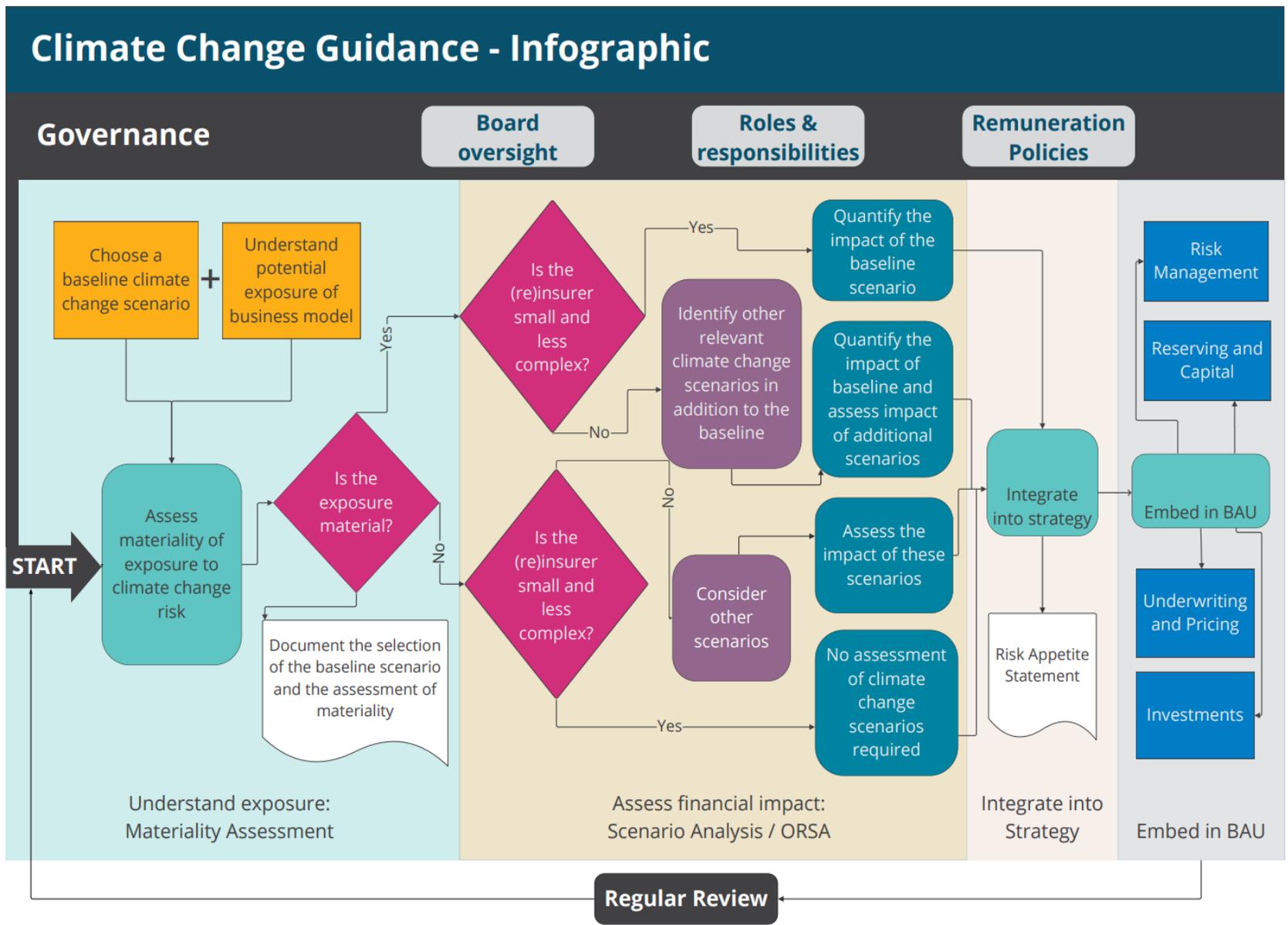
- Removal of NST.14.01.03 (quarterly NST.14 Non-Life Policy & Customer Information). Impacting 'P3 - QRT Quarterly Solo' module of the tool.
- No template changes were made.
- XBRL has been changed to be more in line with EIOPA Taxonomy 2.8.0.

# Guidance on Climate change risk

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- Published on 27/03/2023 following consultation paper CP151.
- Aim of the guidance:
  - clarify the CBI's expectations on how (re)insurers address climate change risks
  - assist in development of governance and risk management frameworks
- Overarching Principals & Specific guidelines
- Holistic approach/ framework
- First step is a detailed materiality assessment of potential risk exposure.

# Guidance on Climate change risk



## CBI ORSA Feedback:

### Materiality assessment

- Holistic approach
- Secondary impacts
- Assets & Liabilities
- Change in materiality over different time horizons
- Inside out materiality
- Use results in strategy and planning

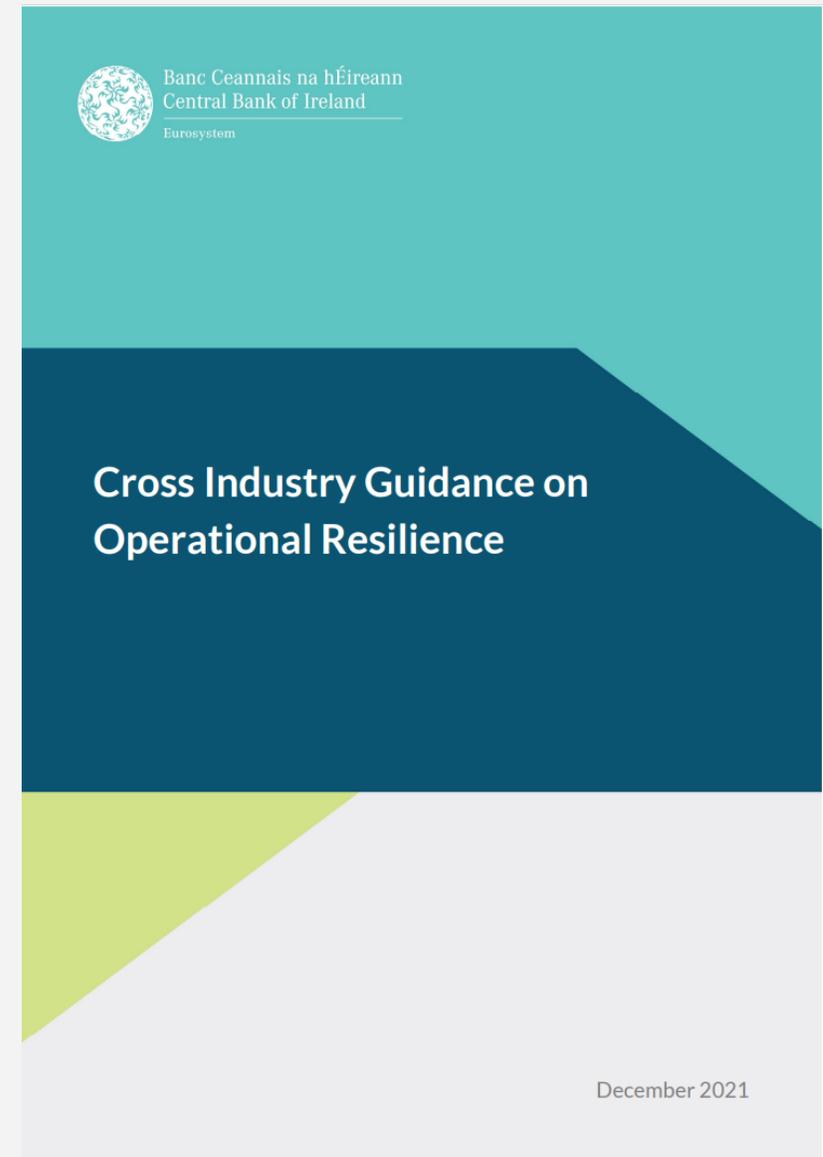
### Quantitative analysis

- Link to climate change scenario
- Financial impacts of secondary risks
- Combinations of risks

# Operational Resilience

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- Pillar 1 – Identifying & preparing
- Pillar 2 – Responding & adapting
- Pillar 3 – Recovering & learning



# Individual Accountability Framework (IAF)

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- Feedback statement from CBI issued last week

| SEAR   | Conduct Standards   | Business Standards   | Fitness & Probity  | ASP   |
|--|---|--|--|---|
| <ul style="list-style-type: none"><li>• Obligations on senior individual within firms</li><li>• Applies from 01/07/2024</li><li>• Extension for I/NEDs by 1year.</li></ul> | <ul style="list-style-type: none"><li>• Standard of behaviour expected of firms and individuals</li><li>• Applies from 29/12/2023</li></ul> | <ul style="list-style-type: none"><li>• Standards to be met by businesses</li><li>• Part of the Consumer protection code</li></ul> | <ul style="list-style-type: none"><li>• Enhancements to the current regime</li><li>• Some aspects in force from 29/12/2023</li></ul> | <ul style="list-style-type: none"><li>• Enforcement directly against individuals for breaches</li></ul> |

# Thank you

Ian O'Donnell

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# Solvency II Review

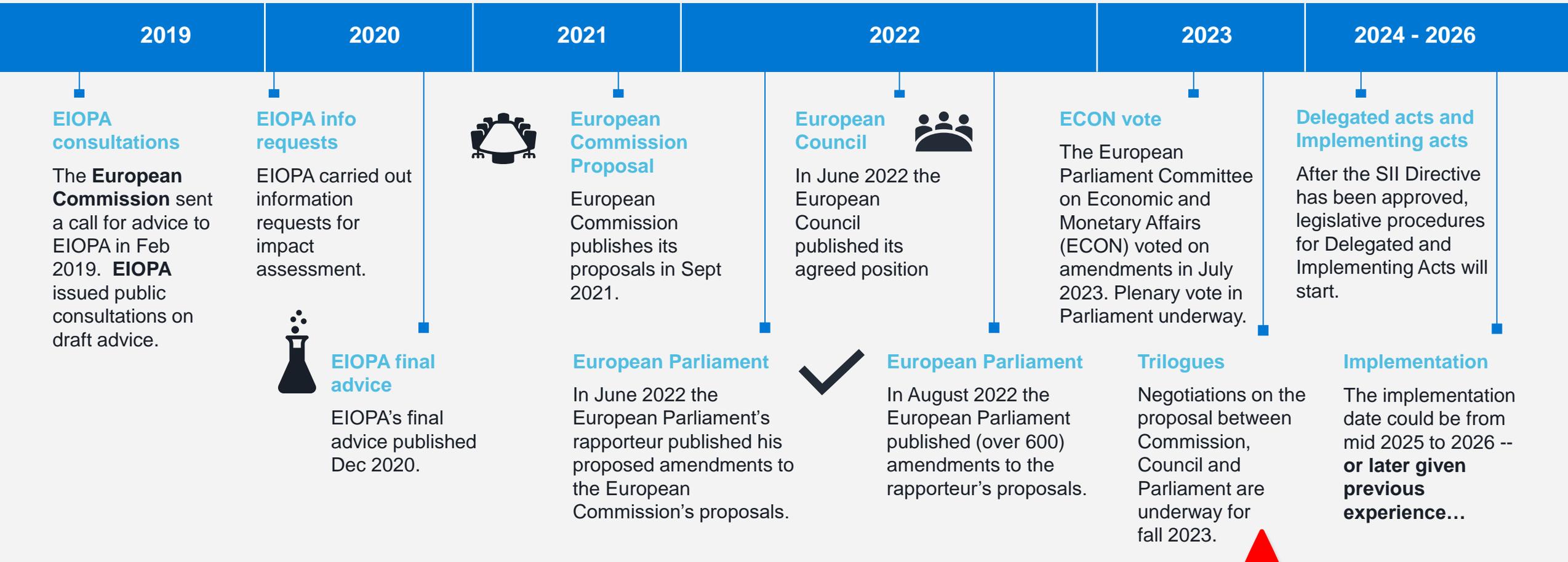
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# Timeline

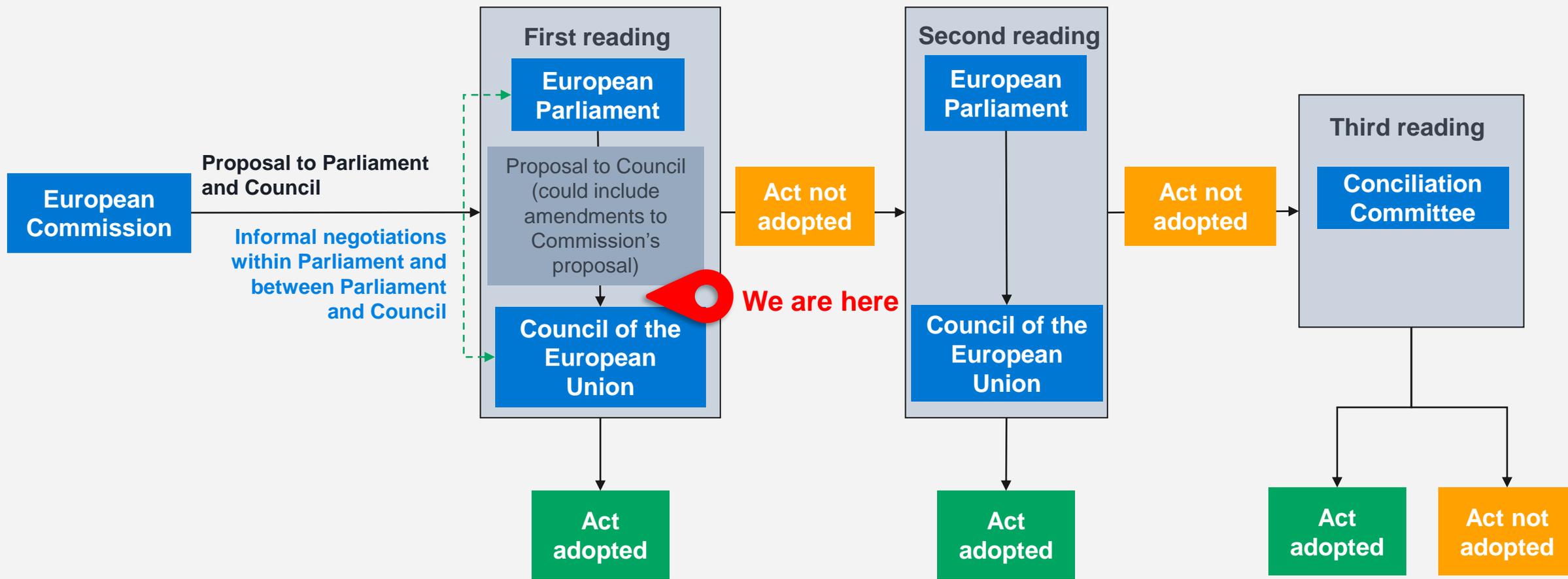
The Solvency II reforms had lost some momentum, but Trilogues regarding the Directive are finally underway



**We are here** 

# Legislative process

The Solvency II reforms are subject to an extensive and complex approval process involving three major stakeholders



# Legislation

| Level | Description         | Purpose   | Responsibility of   |
|-------|---------------------|---|---|
| 1     | Directive           | Sets out overall framework                          | Council and Parliament  <b>We are here</b>             |
| 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<br>Drafted by EIOPA   |
| 3     | Guidelines          | EU-wide regulatory guidelines to ensure consistency | EIOPA   |

# Areas impacted

The Solvency II review has wide-ranging impacts – today’s focus is on select highlights from the Parliament’s amendments

|  |   |   |  |
|--|---|---|--|
| <b>LTG measures</b> <ul style="list-style-type: none"><li>• Extrapolation</li><li>• Volatility adjustment</li><li>• Matching adjustment</li></ul>                     | <b>Technical Provisions</b> <ul style="list-style-type: none"><li>• Risk margin</li><li>• Expenses in BEL</li><li>• Contract boundaries</li><li>• EPIFP</li></ul>  | <b>SCR</b> <ul style="list-style-type: none"><li>• Interest rate risk</li><li>• Correlations</li><li>• Symmetric adjustment</li><li>• Eligibility for LT equities</li></ul>  | <b>Proportionality</b> <ul style="list-style-type: none"><li>• Thresholds</li><li>• Low risk profile undertakings</li><li>• Proportionality Measures</li></ul>  |
| <b>Pillar 2</b> <ul style="list-style-type: none"><li>• Macroprudential considerations</li><li>• Liquidity risk</li><li>• Systemic Risk Management Plans</li></ul>  | <b>Pillar 3</b> <ul style="list-style-type: none"><li>• SFCR</li><li>• QRTs</li></ul>    | <b>Recovery &amp; Resolution plans</b>   | <b>Insurance Guarantee Schemes</b>    |

# Risk Margin

The European Parliament is proposing even more risk margin release...

## Proposal by EIOPA

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



## Proposal by European Commission

- (Important) details deferred to Delegated Acts, but Commission already communicated intended changes
- Supports introduction of reduction factor, but proposes no floor of 50%
- Proposes reducing cost of capital from 6% to 5%



## Amendments by Council of the European Union

- No reference



## Amendments by European Parliament

- Fixing cost of capital to 4.5% in the Directive already
- Requirement in Directive that reduction factor should consist of an exponential and time-dependent element

### Views that have not made it

- Explicit inclusion of EIOPA's formula in the Directive



# Equity risk

Parliament proposes to widen scope of long-term equity (LTE) module (with 22% charge) and insert it in the Directive

## Proposal by EIOPA

- Cap/floor for symmetric adjustment (SA) to equity risk charge is increased from +/-10% to +/-17%
- Phasing out of the duration-based equity risk sub-module
- Updates to LTE criteria



## Proposal by European Commission

- Adopts EIOPA's proposal for SA cap/floor
- Duration-based equity risk sub-module is removed, but with a grandfathering provision
- Updates to LTE module deferred to Delegated Acts, but intention is to simplify criteria



## Amendments by Council of the European Union

- No change to SA cap/floor
- Adopts Commission's proposal regarding the duration-based equity risk sub-module
- No reference to LTE module



## Amendments by European Parliament

- Adopts Commission's proposal for SA cap/floor and duration-based equity risk sub-module
- Exclude unit-linked equities from scope SA cap/floor
- LTE module is moved from Delegated Acts to Directive
- Scope of LTE module is widened to OECD countries
- Required LTE holding period lowered to 5 years
- Crypto-asset provisions



# Sustainability

Sustainability was a key item in the negotiations within Parliament – and is also expected to be key again for the Trilogues

## Proposal by EIOPA

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



## Proposal by 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.



## Amendments by Council of the European Union

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



## Amendments by European Parliament

- In addition to the Commission's proposals:
- Further requirements for climate change scenarios
- Requirement for specific plans, targets and processes to monitor and address risks from ESG factors

### Views that have not made it

- The Parliament's rapporteur (Markus Feber) initially took out all sustainability measures, but these have been reintroduced



## Other additions by Parliament

- **Gender targets:**

- *Undertakings shall set individual quantitative objectives in view of improving gender-balanced representation of both sexes within their governance structures*

- **Crypto capital:**

- *The Commission is empowered to adopt Delegated Acts to reflect the risk posed by crypto-assets in the market risk sub-module and in the counterparty risk sub-module*

- **Standard Formula recalibration every five years (with UK data removed)**

- Supervisors may **publish** the outcome of **stress tests**

- EIOPA to investigate the potential effects of lifting the **composite ban** with respect to policyholder protection, potential cross-subsidisation between life and non-life activities, market efficiency and competitiveness

# Negotiations so far

## Key elements

### Meetings

- Solvency II trilogues held on 17 & 25 October
- Next Solvency II trilogues scheduled: 22 November and 14 December

### Analysis

Further analysis requested on:

- Reporting
- LTG & LTE
- Sustainability
- Group supervision

### Key items discussed

- Including technical details in Level 1 text (Parliament) versus Level 2 (Council & Commission)
- Reporting & audit
- LTG & LTE
- Sustainability & governance
- Macroprudential supervision & Group supervision
- Risk margin  $\lambda$ -factor
- Volatility adjustment (overshooting ratio)
- Proportionality criteria

### Continuing focus

- Sustainability

# Thank you

Aisling Barrett

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# Demo of the Tool

Rebecca O'Mahoney

John Keane

22 NOVEMBER 2023



# ViClarity Update

Ogie Sheehy

22 NOVEMBER 2023



# Q&A

