



Changes to solvency regulations

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Outline

Solvency II / Solvency UK developments

**Insurance Capital Standards
developments**

Life IBNR APN

Q&A



SOLVENCY II & SOLVENCY UK – TIMELINES



Solvency II live

1 Jan 2016

Solvency II Interim review

2018



Solvency II 2020 review



EIOPA's opinion
(878 pages!)

Various reviews/negotiations
Final stop: European Council approval

Implementation?



2016

2017

2018

2019

2020

2021

2022

2023

2024

2025

2026

SAM live

1 July 2018

Solvency UK ("SUK")



Risk Margin effective 31 Dec 2023

Matching adjustment effective 30 Jun 2024

Rest of SUK effective 31 Dec 2024

SII AND SUK – SELECTION OF CHANGES CONSIDERED



- Relevant to **South African life insurers**
- **Pillar 1** (focus of this presentation)
- Both **changes proposed** by SII/SUK and **considered but not changed**

Area	Relevant items considered	Change?
BEL	Extrapolation of risk-free rates (SII)	Yes
BEL	Matching adjustment (SII & SUK)	Yes
BEL	Alignment with IFRS17 (SII)	No
RM	Risk Margin (SII & SUK)	Yes
SCR	Equity risk (SII)	Yes
SCR	Interest-rate curve risk (SII)	Yes
SCR	Calibrations <i>incl</i> life u/w risk, property risk, correlations (SII)	No
SCR	Crypto assets (SII)	EIOPA to provide advice by Jun'25
SCR	Treatment of sustainability risks (SII)	EIOPA issued consultation paper Dec'23 – advice incl. pillar 2/ORSA

Detail in next slides

SII and SUK – RISK MARGIN CHANGE



New tapering factor

- SII TBC in delegated acts.
- SUK: $\lambda = 0.9$ (life), $\lambda_{floor} = 0.25$

$$\sum_{t \geq 0} CoC \times \frac{SCR(t) \times \max(\lambda^t, \lambda_{floor})}{(1 + r_{t+1})^{t+1}}$$

- SAM = current SII = 6% p.a.
- SII proposed change 4.75% p.a.
- SUK change 4% p.a.

Solvency II Risk Margin criticisms

- RM too large
- RM too volatile/sensitivity to interest-rates
- Incentivising transfer of risk to non-SII jurisdictions
- RM too inflexible

SII and SUK – RISK MARGIN CHANGE



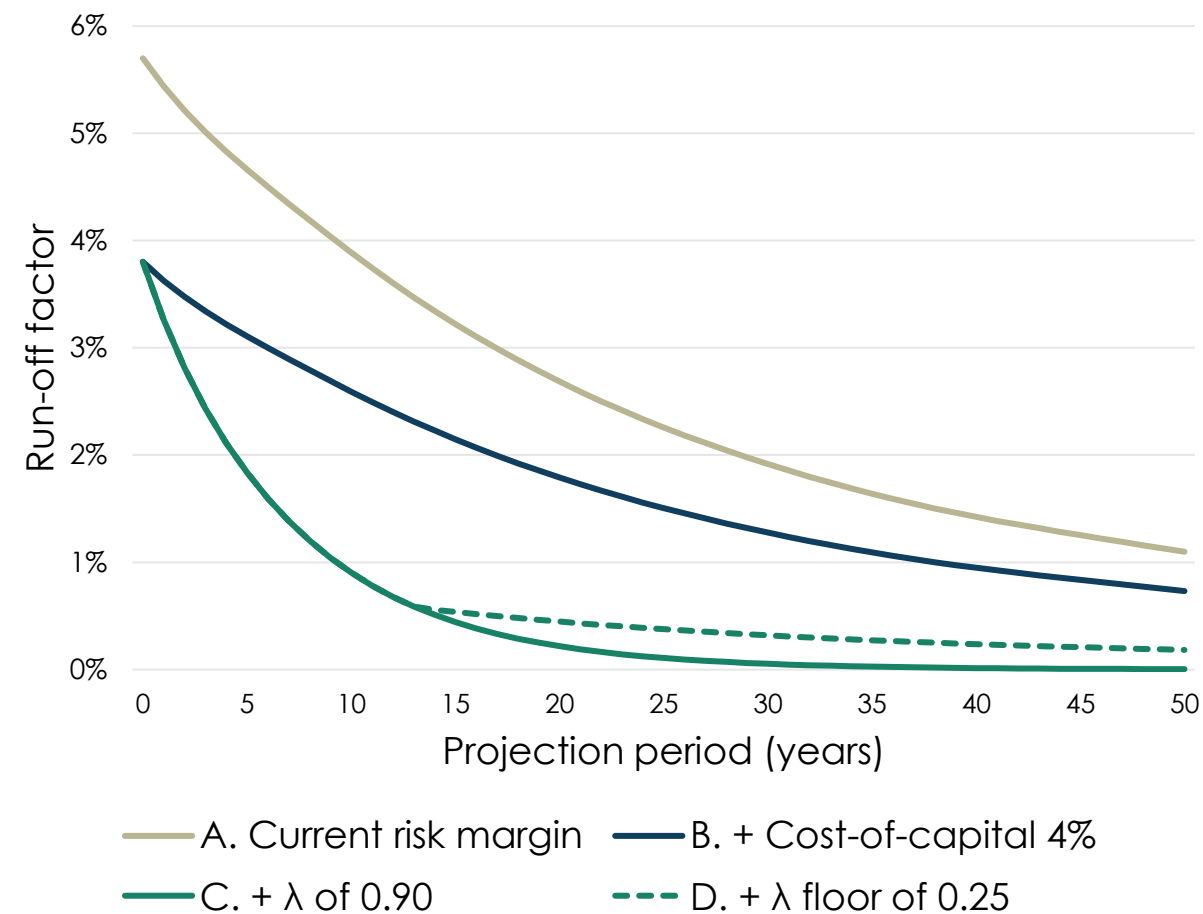
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Illustrative example of SUK change



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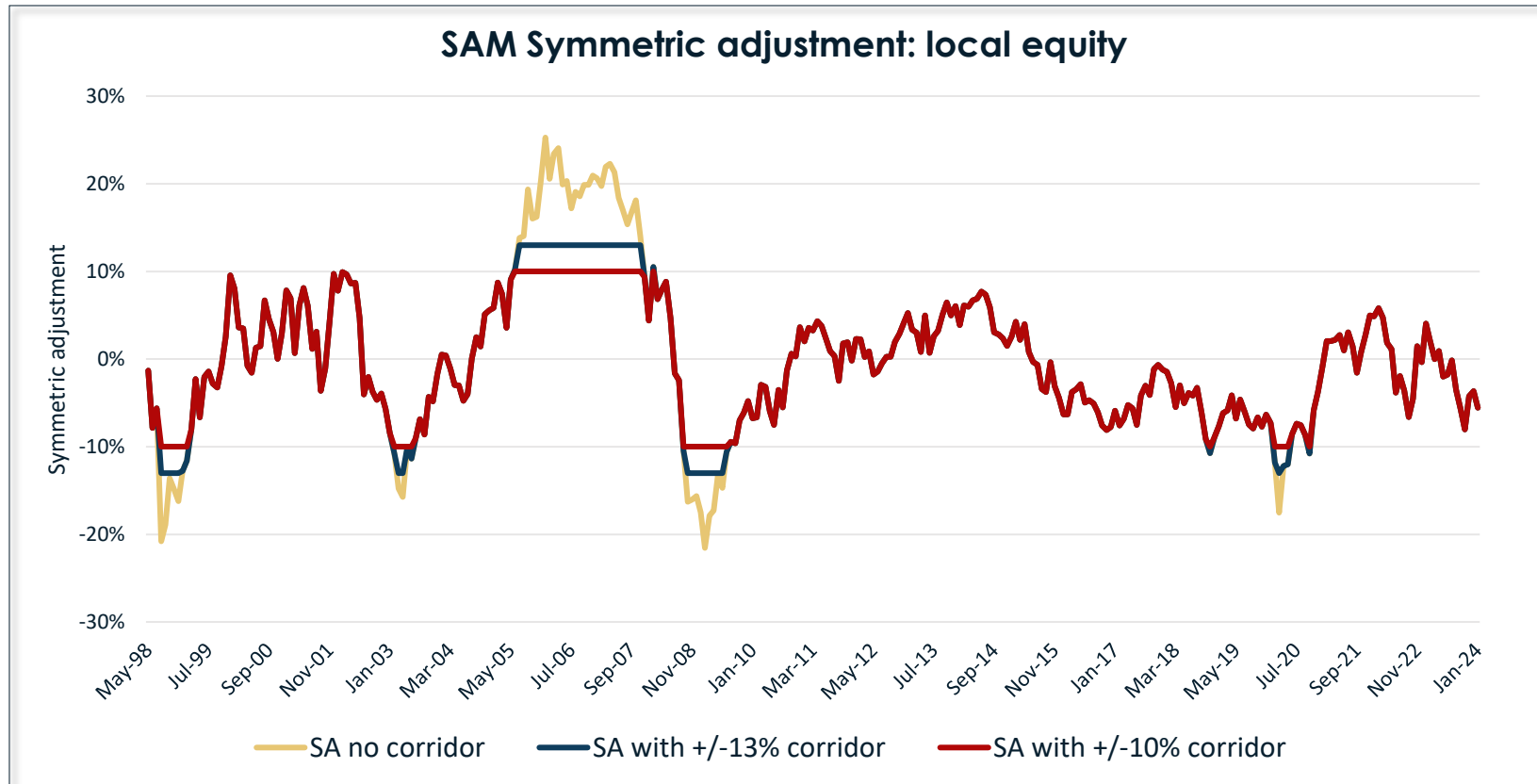
SAM change?

SAM Risk Margin =
(current) Solvency II Risk Margin

SII – EQUITY RISK CHANGE



$$\text{equity shock}_{\text{price}(i)} = \text{base equity shock}_i + \underbrace{\text{symmetric adjustment}_i}_{\text{SAM}}$$



SAM = Current SII*
Subject to corridor +/-10%

Solvency II concerns

Not enough short-term relief during market distress or rallies e.g. during COVID-19

EIOPA considered +/-17%

Latest Solvency II proposed change +/-13%

SAM change?

SII – INTEREST-RATE CURVE RISK CHANGE



Solvency II Interest-rate risk concerns

- Underestimation of interest-rate risk
- Negative rates *not* shocked

EIOPA proposal

- Recalibrate using “relative shift” method (term dependent **additive** and **relative** shocks)
- Negative rates shocked but with floor

Latest Solvency II proposed change

- In line with EIOPA proposal
- Maybe phased in over 5-year period

Current approach

- **SII**: term dependent relative shock, nominal curve only.
- **SAM**: as per SII, but different calibration and also separate real curve shock.

SAM change?

- Negative rates less of concern?
- “Relative shift” better?
- Calibration re-assess with more recent data?

SII & SUK – FURTHER READING



- [Amendments to the Solvency II Directive \(Milliman, Feb 2024\)](#)
 - [Review of Solvency II \[UK\] Update: Policy Statements 2/24 and 3/24 \(Milliman, Mar 2024\)](#)
 - [Consultation Paper on the Opinion on the 2020 review of Solvency II \(EIOPA, Oct 2019\)](#)
 - [A review of the risk margin – Solvency II and beyond \(Institute and Faculty of Actuaries' Risk Margin Working Party, Sep 2019\)](#)
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Insurance Capital Standards

*and awkward
questions about SAM
group reporting
requirements*



Insurance Capital Standard



Key Points

- Developed by the IAIS
- Group-wide standard for Internationally Active Insurance Groups (IAIGs)
- Aims to:
 - **Enhance global convergence among group capital standards**
 - **Improve comparability between groups that operate under different solvency regimes**
- Goes live as a prescribed capital requirement (PCR) in **2025**
- Demonstrate that local requirement at least as conservative



But Why?!?

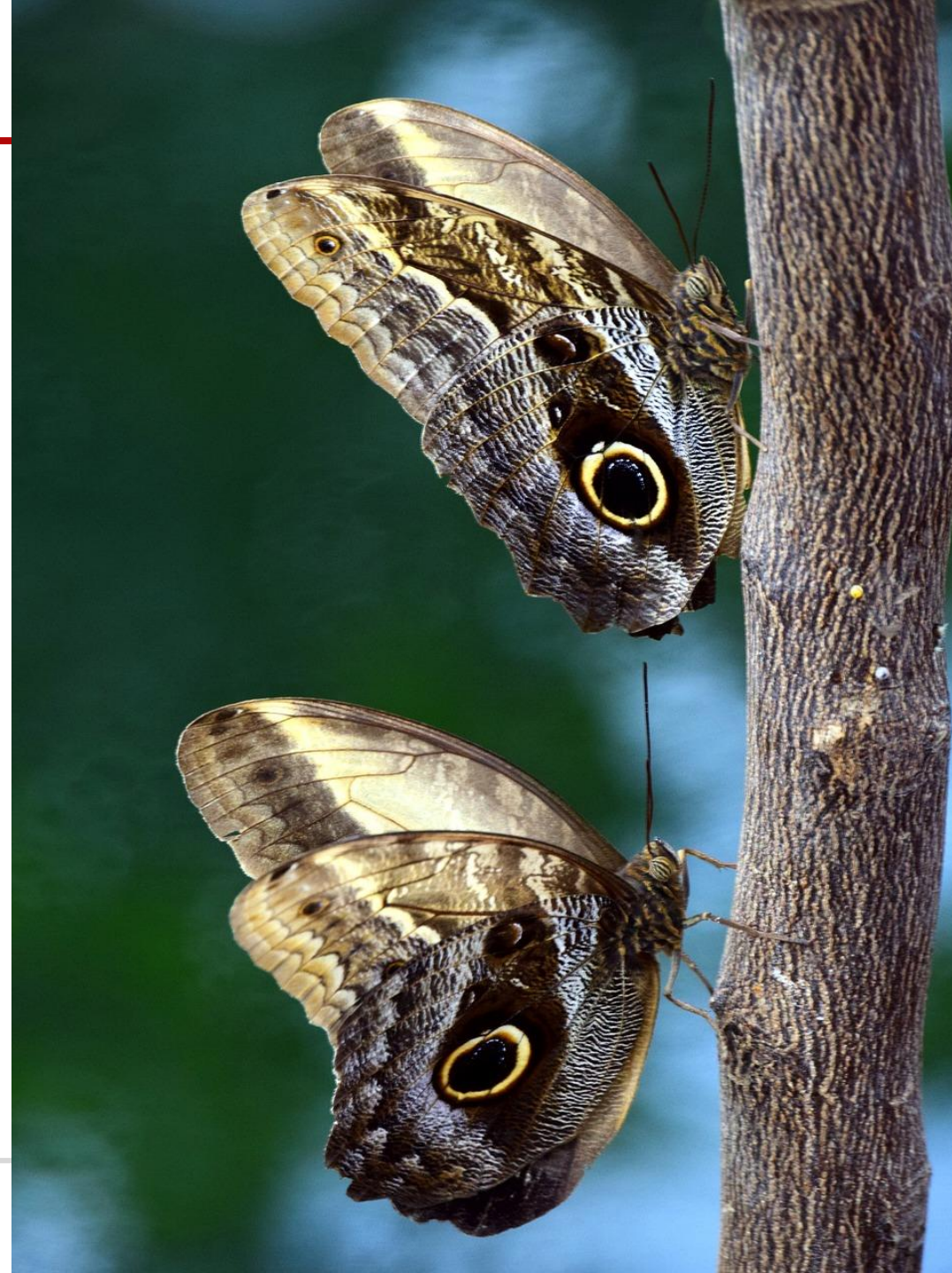
- ❑ Need to demonstrate ongoing compliance with ICS
- ❑ Better specified for group reporting than SAM (and Solvency II)
- ❑ SAM Group reporting could be informed by ICS
- ❑ South Korea, Taiwan, Japan already adopted a form of ICS for local reporting
- ❑ Non-equivalent jurisdictions may find ICS more appealing
- ❑ ICS apply to more than just two South African insurers?

...But how many bases can we tolerate?

ICS vs SAM

Similarities

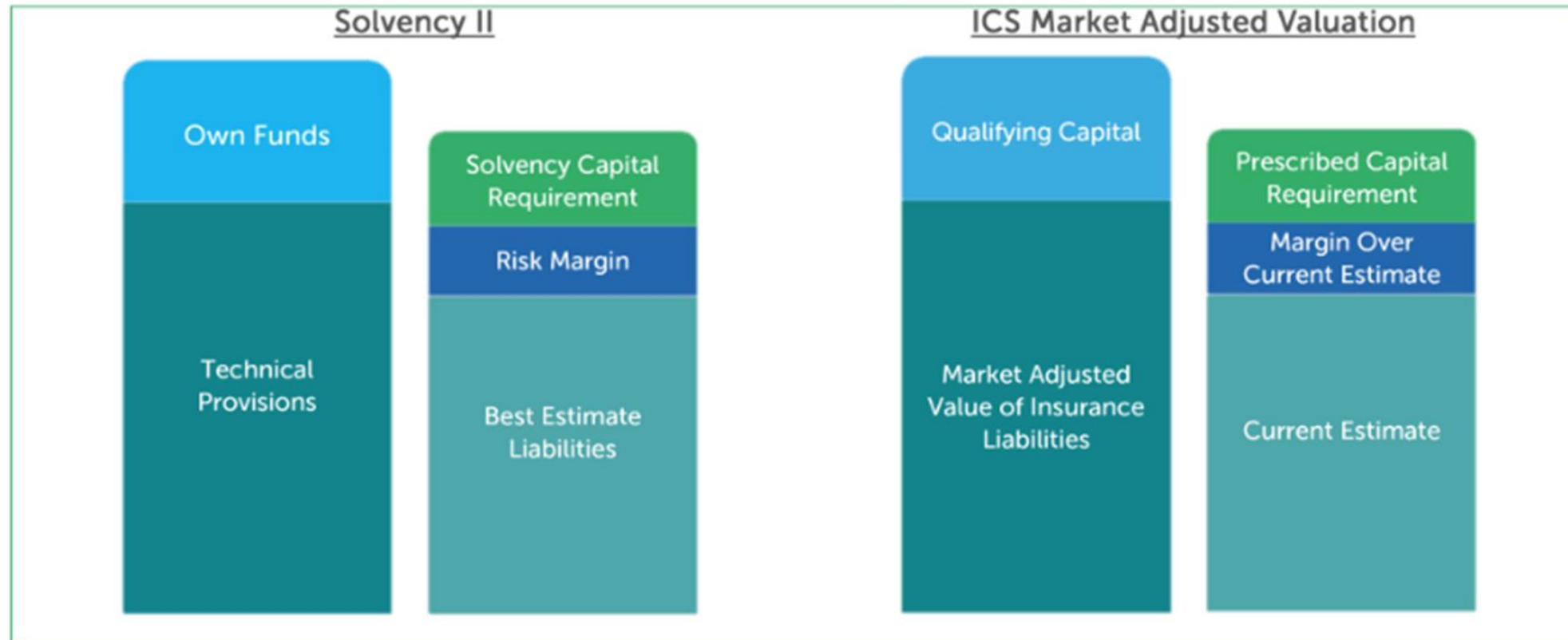
- Risk-based approach
- Assets valued at market value
- Market-consistent liabilities, gross of reinsurance
- Includes a risk margin
- Based on 1-in-200-year balance-sheet stresses over one year
- Treatment of management actions and policyholder behaviour broadly consistent
- Equity risk includes the Neutral Adjusted Dampener (NAD), a countercyclical measure similar to the equity symmetric adjustment





Balance sheet: ICS vs SAM

Balance Sheet: Solvency II vs ICS





Some Key Differences

- Consolidation vs deduction and aggregation
- Contract boundaries: SAM treats as lapse/surrender; ICS and S2 as paid up
- Encumbered assets more defined
- Significant differences in calibration, for example
 - Currency risk: different stresses for different currency pairs; no calibration for African currencies other than ZAR
 - Health underwriting risk
 - Catastrophe allowance
- Percentile based MOCE (85th)
- No retrenchment shock

• **All government bonds are treated as risk-free**

• **Reinsurance always allowed (non-equivalent jurisdictions don't exist)**

• **Clarity on currency risk**

• **Equity risk = 48% for South Africa**

Life IBNR APN

and other updates



Other SAM Phase 2 discussions

- Homogenous grouping for lapse risk
- Information Note on SCR treatment of short- term provisions
- ALSI vs SWIX debate for equity risk and Equity Symmetric Adjustment
- Treatment of short contract boundary business ($T < 1$ vs $T = 1$)
- Credit Quality Steps
- Micro insurance topics



APN 116 – Life IBNR

- You should hold IBNRs for life technical provisions.
- Ideally this should be explicit. Helpful for IFRS17 separation of LRC and LIC
- You should stress life IBNRs when determining the SCR
- Generally, apply the life underwriting stress to the value of the IBNR provision
- No, this probably isn't a perfect 1 in 200 stress
- Some additional complexity relating to ongoing claim payment liabilities (e.g. loss of income)
- Interest rate risk may also be relevant
- Yes, proportionality and materiality still apply.
- Yes, the stress for retrenchment is 50%.



APN 116: INCURRED BUT NOT REPORTED PROVISIONS - GUIDANCE FOR CALCULATING TECHNICAL PROVISIONS AND SOLVENCY CAPITAL REQUIREMENTS ON LIFE INSURANCE OBLIGATIONS

Classification

This Advisory Practice Note (**APN**) provides guidance for Members calculating or reviewing Life Insurance *Technical Provisions* and/or *Solvency Capital Requirements* under the Prudential Standards, regulations, directives and guidance notes, as required by the Insurance Act (2017).

Abstract

This APN outlines considerations with respect to Life Incurred But Not Reported (**IBNR**) provisions for Members calculating or reviewing life insurance *Technical Provisions* and *Solvency Capital Requirements* for regulatory reporting under the Prudential Standards required by the Insurance Act (2017).

Purpose

The purpose of this APN is to provide a guide to support *Members* of the Actuarial Society of South Africa in the allowance of IBNR provisions in the calculation of *TPs* and their treatment in the calculation of the Life Underwriting Risk Capital Requirement within the SCR.

Legislation or Authority

Insurance Act (2017) and Prudential Standards, regulations, directives and guidance notes.

Application

This applies to *Members* calculating or reviewing *Technical Provisions* and *Solvency Capital Requirements* for life insurance regulatory reporting under the Prudential Standards, regulations, directives and guidance notes required by the Insurance Act (2017). This applies to all life insurance business, including individual and group business.

Disclaimer

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- Significant review in Europe & the UK
- Unlikely to get major changes in SA for several years
- Imperfections in standard formula – robust assessment of appropriateness required
 - ❖ *Mortality Catastrophe, Interest rate risk, life IBNRs, retrenchment risk, interest rate risk, expenses, LACDT, risk free government bonds, asset concentration risk, small portfolio variability, CPD for current assets in Risk Margin*
 - ❖ *Equity risk*
 - ❖ *Reinsurance in non-eligible jurisdictions, foreign government bonds, foreign currencies, CQS*
 - ❖ *Risk Margin*