19th HydraMeeting
20-22 September 2017

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Solvency II
Where the journey is heading to

Dr. Petra Reindl, Jürgen Brucker

20-22 September 2017

HELLENIC ASSOCIATION OF INSURANCE COMPANIES

Munich RE

Agenda

1. **Back in time**
2. **Back to today**
3. **Back to the future**

Back in time:
Where do we come from?

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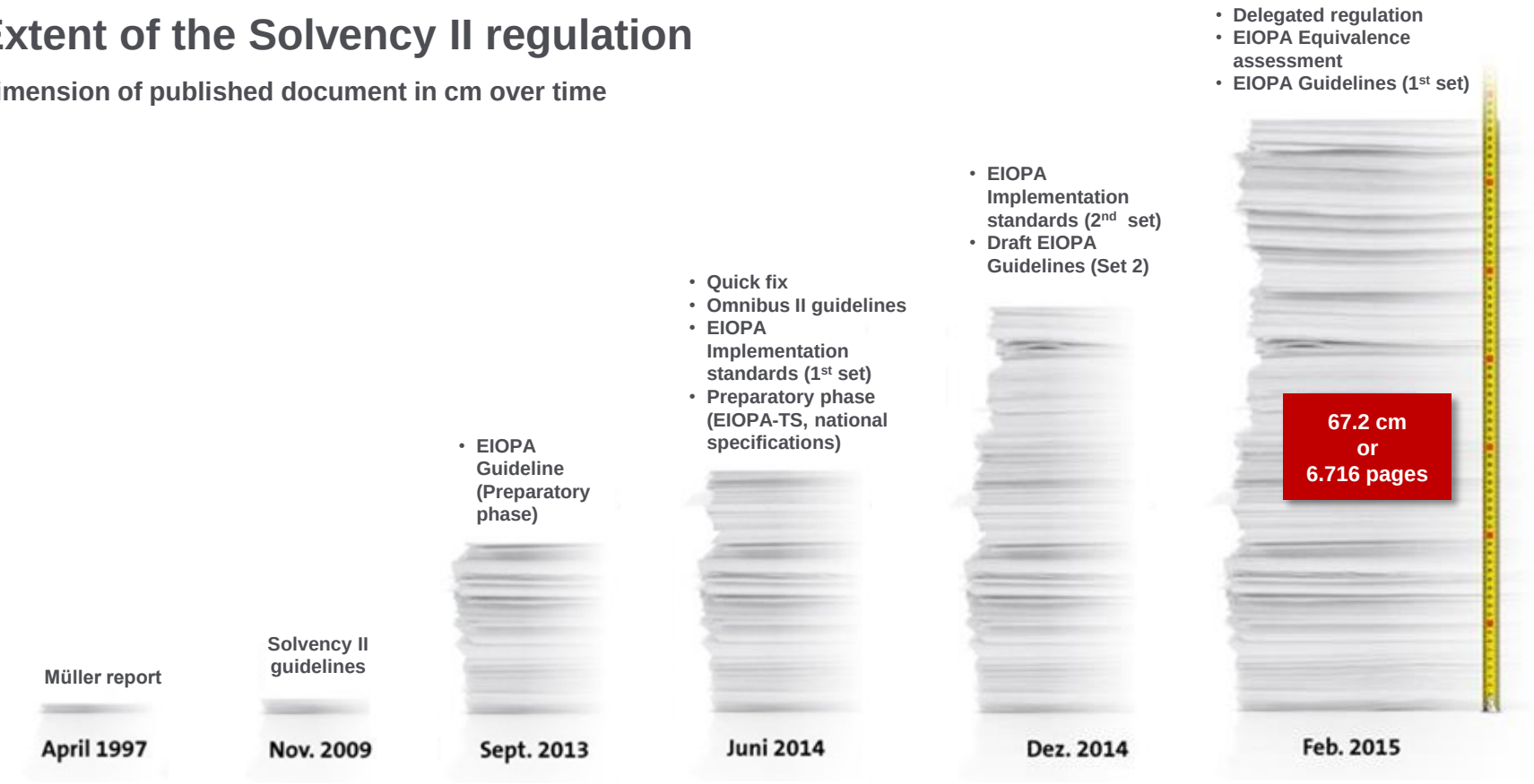
Extent of the Solvency II regulation

Dimension of published document in cm over time



Source: GDV; Munich Re elaboration

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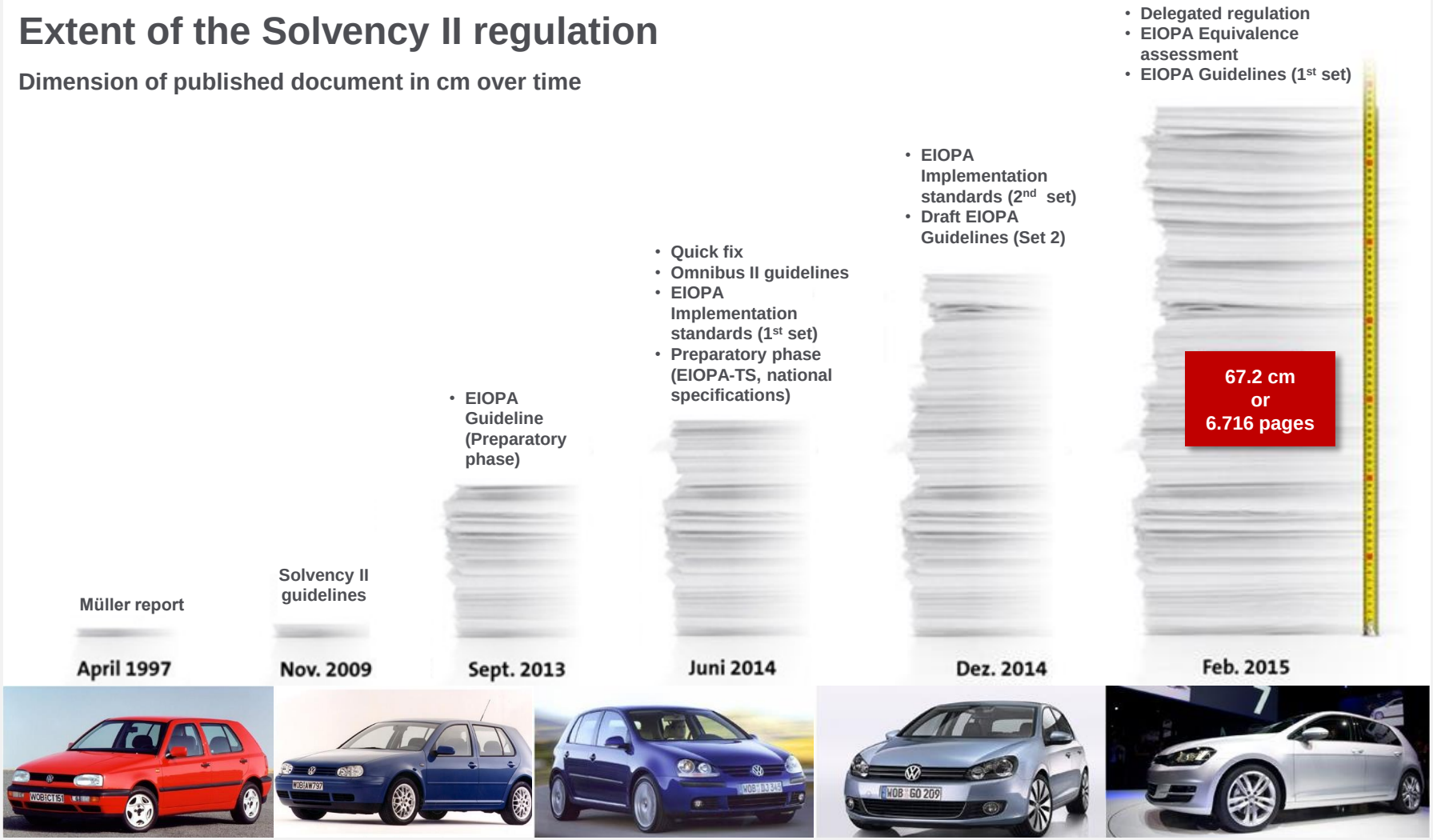

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Back to today:
First market-wide Solvency II data available!

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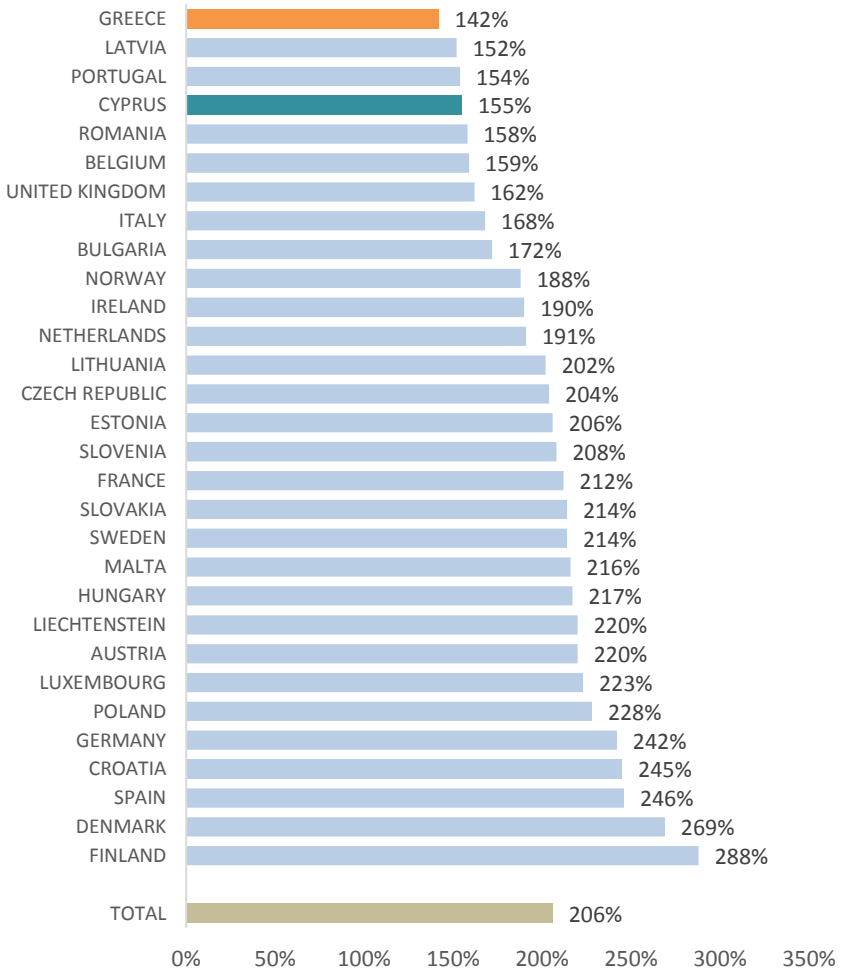
Median Solvency II ratio



Visible trends

Transparency and Solvency II volatility

- SFCR disclosures are wide and quite revealing
- Solvency II volatility continues to appear a major issue

Products

- Insurers have moved towards
  - traditional products with rather low (or sometimes) zero guaranteed products
  - Unit-linked products

Investments

- Low investment rates have led to asset re-risking which lead to higher Solvency II capital charges
- Especially in southern Europe, concentration in local sovereigns and corporate credit caused some Solvency II volatility

Market consistency

- Due to political compromises, Solvency II regulation moved away from the anticipated pure market consistency to a framework which incorporates various LTG measures

Role of regulator

- Role of EIOPA will shift from *regulation* to *supervision* according to Chairman of EIOPA

Source: Q3 2016 EIOPA data
https://eiopa.europa.eu/Pages/Financial-stability-and-crisis-prevention/Insurance-Statistics.aspx

Greece Solvency II ratios show some volatility and benefits from transitional measures

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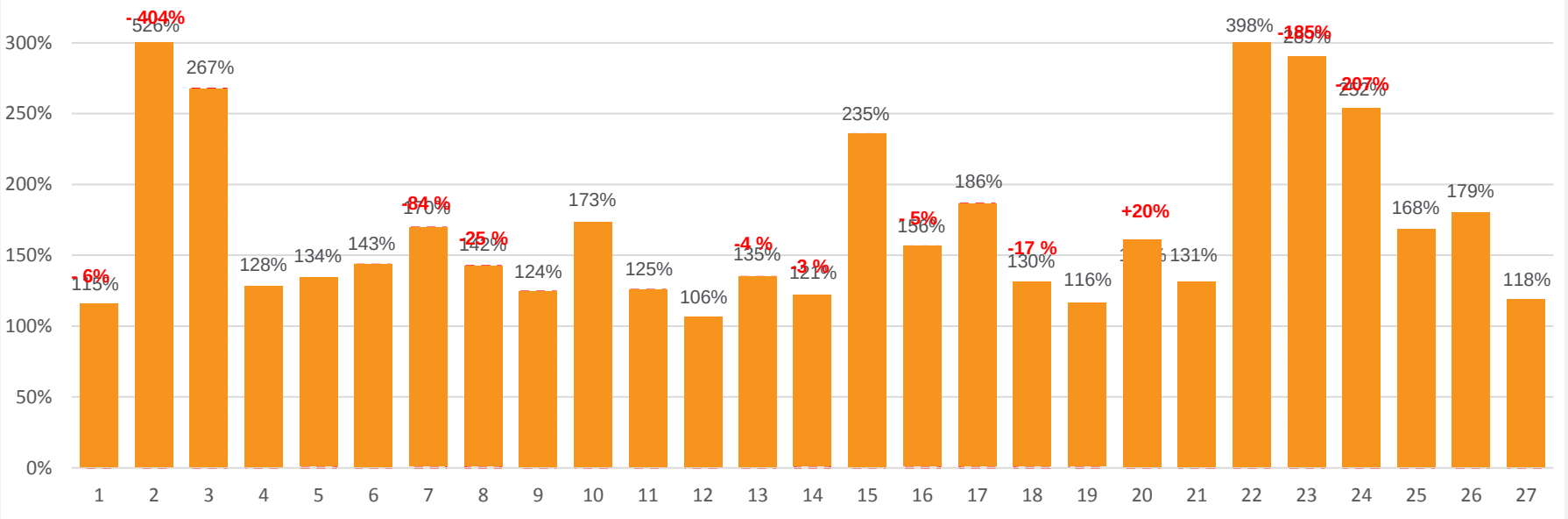
Solvency II ratio with and without transitional measures



Comments

- Overall capitalization of Greece insurance companies appears in line with regulator's requirement
- Greece companies rely on transitional measures, similarly to other European peers
- Without transitional measures, several companies' Solvency II ratio would fall below regulatory requirement; the drop span from few Solvency II-ratio points to hundreds points (especially on the Life side)

Source: Q4 2016 Solvency II Wire; Munich Re elaboration

Cyprus shows overall compliance to Solvency II ratio with some players close to 100%

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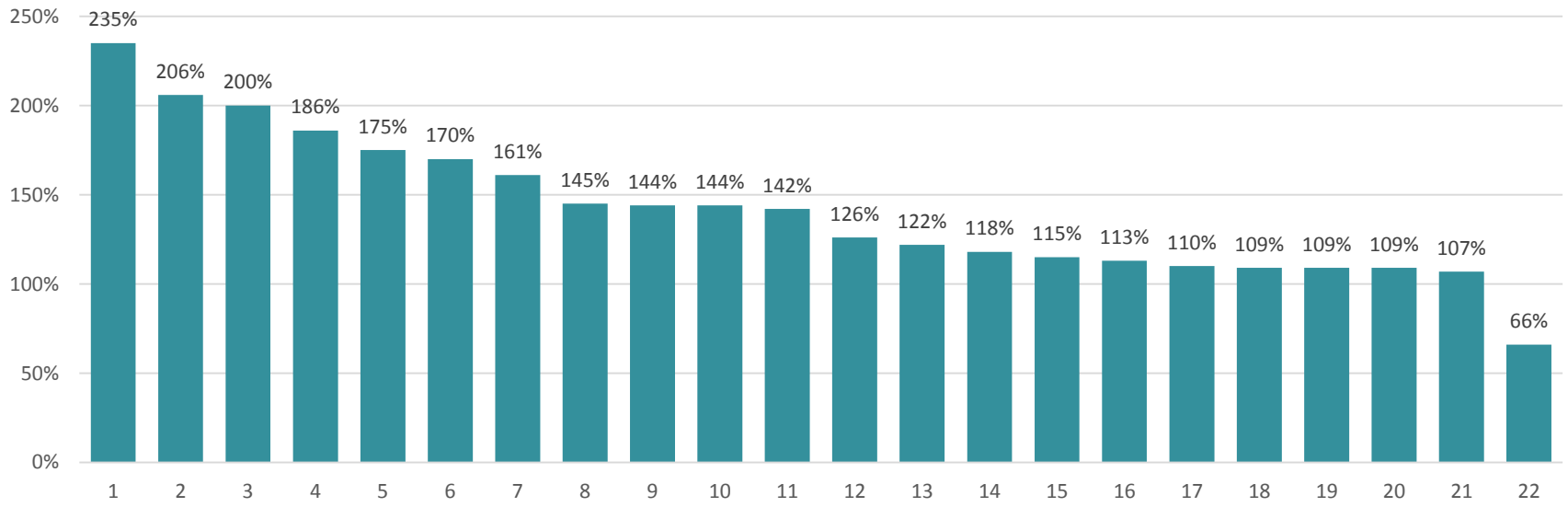
Solvency II ratio



Comments

- Capitalization of Cypriot insurance companies appears in line with regulator's requirement
- Only one player below the 100% Solvency II ratio
- The anticipated market consolidation did not yet materialize

Source: Q4 2016 Solvency II Wire; Munich Re elaboration

Own Funds quality is rather high for Cyprus while Greece companies leverage also Tier 3 Capital

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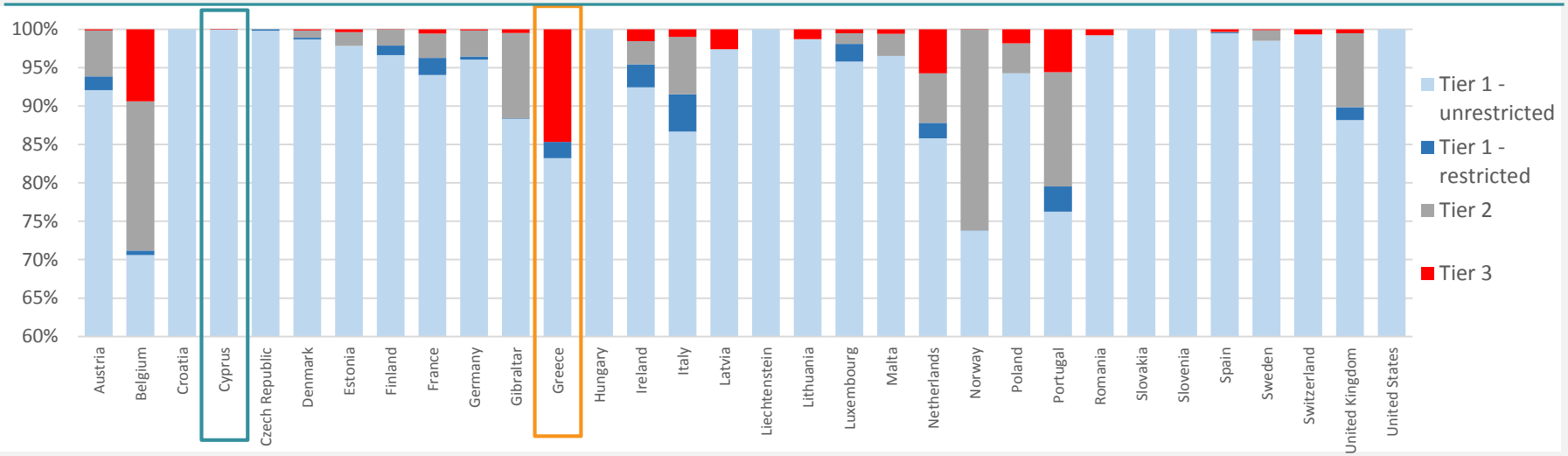
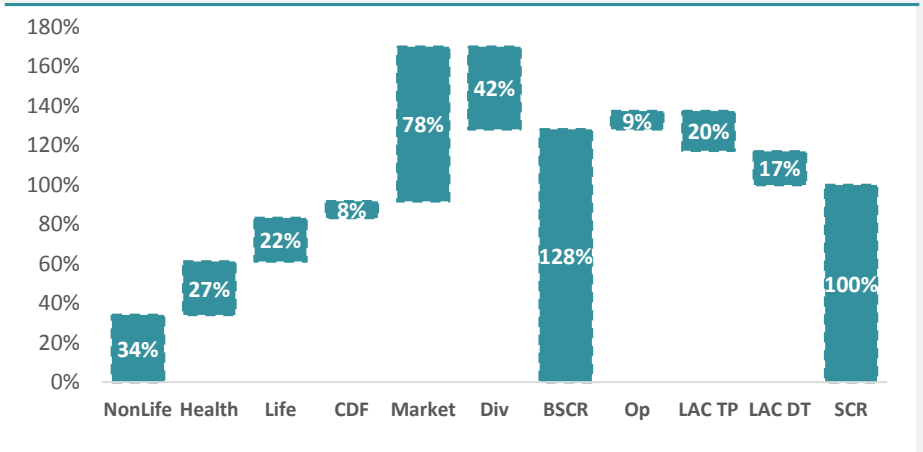
Own funds composition in %



European SCR composition



Comments

- All the Cyprian companies analysed show Own Funds of the highest quality i.e. Unrestricted Tier 1
- Greece companies appear to rely also on Tier 3
- In the analysed European basket (~1.400 companies), market risk appears by far the largest risk driver followed by Non-Life Risk

Source: Solvency II Wire; Munich Re elaboration

Own Funds quality is rather high for Cyprus while Greece companies leverage also Tier 3 Capital

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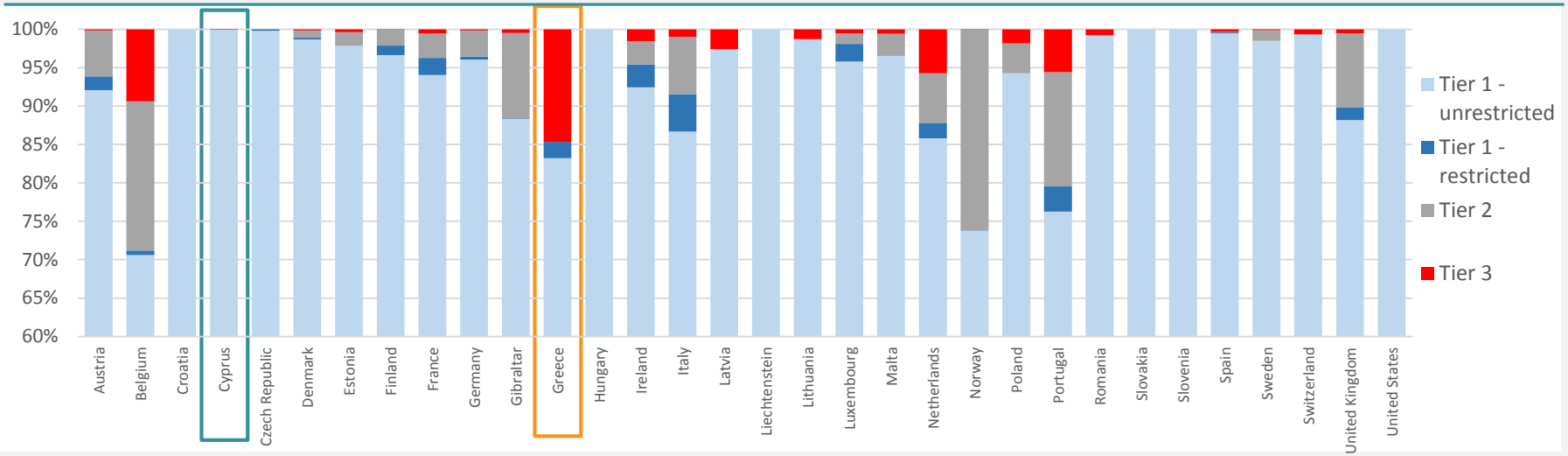
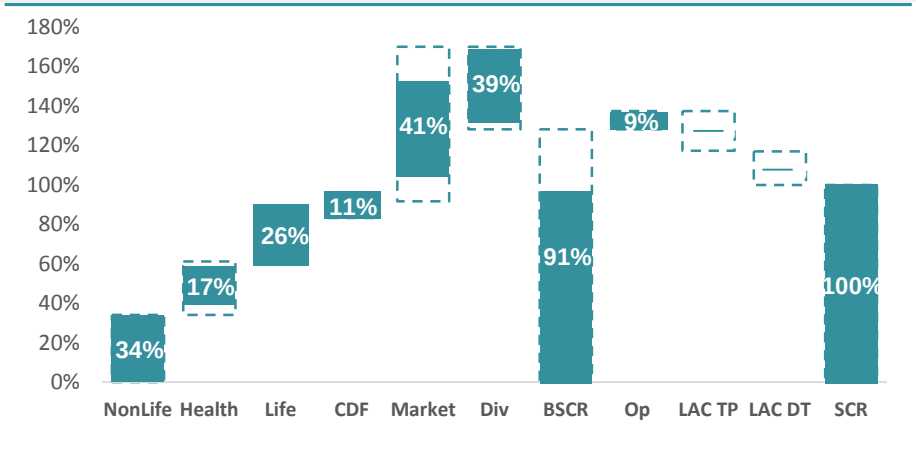
Own funds composition in %



Greece SCR composition



Comments

- All the Cyprian companies analysed show Own Funds of the highest quality i.e. Unrestricted Tier 1
- Greece companies appear to rely also on Tier 3
- In the analysed European basket (~1.400 companies), market risk appears by far the largest risk driver followed by Non-Life
- In the Greece sample, the weight of market risk appears lower; interestingly Greece companies do not benefit from Loss absorbency capacity of technical provision nor deferred tax

Source: Solvency II Wire; Munich Re elaboration

Munich Re solutions‘ spectrum can be tailor-made to meet clients‘ objectives

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	Proportional reinsurance		Contingent reinsurance
	Prospective cover	Retrospective cover	Trigger cover
Solution	**Accident / UW Year Quota Share**	**Loss Portfolio Transfer**	**Contingent Prosp/retrospective solution**
Nature	▪ Frequency protection with high capital effect with “lean” reinsurance expenses	▪ Transfer of outstanding claims reserves to the reinsurer	▪ Silent cover which is automatically activated should a pre-defined trigger be triggered
+	▪ Effective capital relief both under standard formula and PIM depending on structuring features ▪ Full frequency protection	▪ Effective capital relief both under standard formula and PIM ▪ Protection of future adverse developments ▪ Reduced earnings volatility	▪ Positive impact on the ORSA policy ▪ Price depends on the correlation of the trigger to the underlying ceded portfolio
-	▪ Limited single large-loss protection	▪ One-off transaction	▪ No positive effect on capitalization until the cover is not activated
Capital impact	●●●○	●●●●	●●○○
Easiness to implement	Low – High	Low – High	Low – High

Source: Munich Re

Back to the future:
Where Solvency II is heading to

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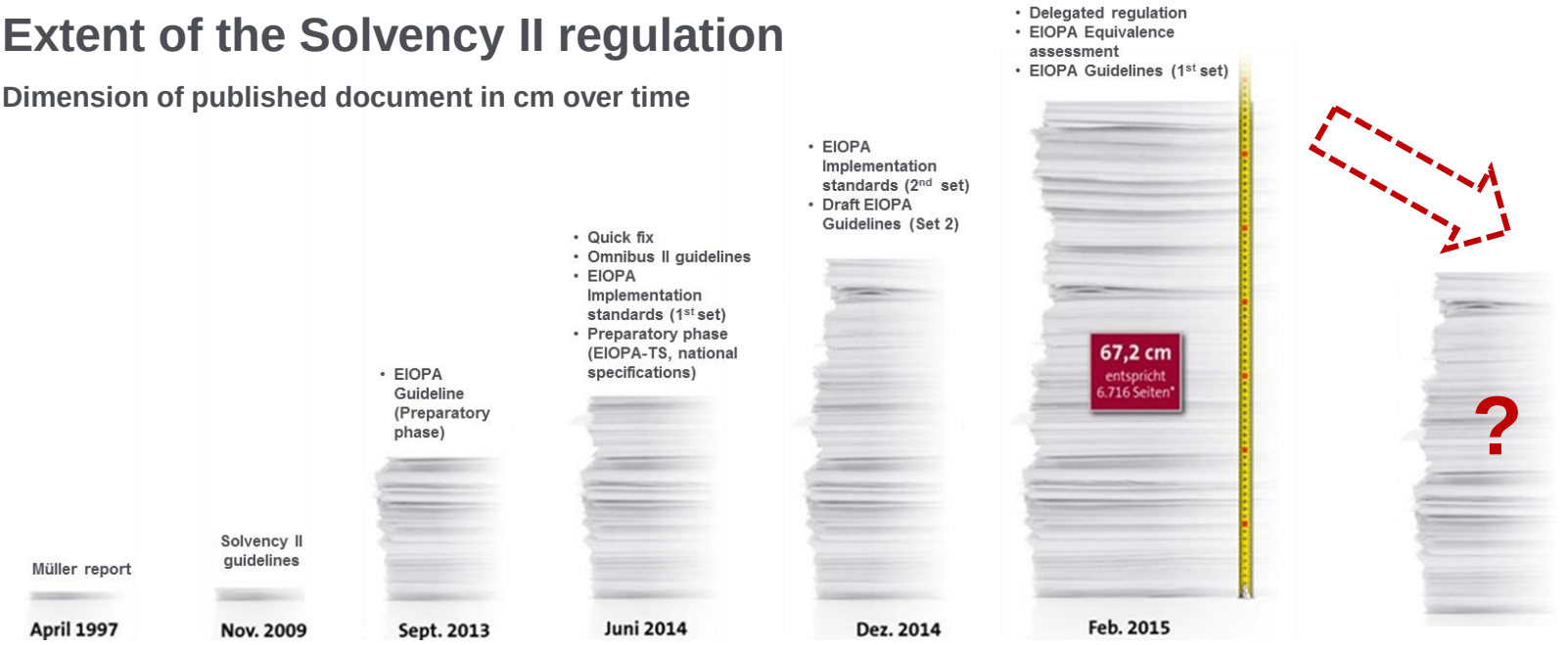

Currently EIOPA is reviewing the Solvency II regulation in order to:

- look for possible <u>simplifications</u> in the SCR standard formula
- ensure the proportionate application of the requirements

Source: GDV; Munich Re elaboration

Thank you

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