



15 Sep 2022

Prudent Harmonized Reduced Set of Scenarios

EVENT

EVENT TYPE:

Workshop

START DATE:

15 Sep 2022

END DATE:

15 Sep 2022

Objective

This workshop is intended to:

- present the framework of Prudent Harmonized Reduced Set of Scenarios
- exchange with experts of the industry on their views on it
- gather views of the industry regarding the format of the scenarios to be published by EIOPA (risk factors to be included, market conventions, etc.)
- discuss the first impact assessment timeline

About Prudent Harmonized Reduced Set of Scenarios

The advice provided by EIOPA to the European Commission regarding the 2020 Solvency II review introduces a new valuation methodology as a proportionality measure for undertakings that have liabilities with options and guarantees but that currently don't use stochastic valuation.

The Prudent Harmonized Reduced Set of Scenarios provides a proportionality measure for the following undertakings:

- whose liabilities offer material options and guarantees
- who currently conduct a deterministic valuation
- who are to be considered as Low Risk Profile Undertakings.

Under the current legal framework, these undertakings would theoretically have to use a “full stochastic valuation” through an ESG (Economic Scenario Generator) or closed formulas where possible.

However, to determine through a quantitative assessment whether their liabilities include material options and guarantees, undertakings would in practice need to:

- have a stochastic Best Estimate Model designed to run thousands of risk neutral cash flow projections, which is not the case of the models used by undertakings who solely use deterministic valuation
- or have an ESG to generate thousands of risk neutral scenarios

To facilitate this quantitative assessment, EIOPA will publish approximately 10 pseudo-risk neutral scenarios. This low number of scenarios will enable undertakings that only have a deterministic model to run their cash-flow model on each of these 10 scenarios to obtain a weighted average sum of the discounted cash-flows, that is to say a pseudo stochastic Best Estimate that will be compared to the deterministic Best Estimate.

From a technical perspective, the scenarios will be weighted to ensure acceptable martingale properties as well as prudent market consistent properties.

The development of the methodology will include a first impact assessment addressed to undertakings which currently conduct a full stochastic valuation with an ESG, to validate that the PHRSS framework provides an acceptable approximation of the value of options and guarantees.

Target audience

This is an industry workshop open to representatives of the insurance industry and to any other interested parties

Practical information

Date: 15 September 2022,

Time: 1:30 - 4:30 pm CEST

Format: this event will take place digitally via Webex

Registration for this event is now closed. Please contact training&events@eiopa.europa.eu for any inquiries.

ADD TO YOUR CALENDAR

LAST UPDATED ON:

12 Sep 2022