	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Name of Company:	Waszink Actuarial Advisory	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to CP-16-008@eiopa.europa.eu** **Our IT tool does not allow processing of any other formats.** The numbering of the questions refers to the discussion paper on the review of specific items in the Solvency II Delegated Regulation.	
Reference	**Comment**	
General Comment		
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Q19.1	The use of the risk free rate as discount rate in the CoC formula for the Risk Margin has led to excessive and excessively volatile risk margins. Moreover, the use of risk free discount rates is a major contributor to procyclicality of the Risk Margin, as it leads to higher Risk Margins when interest rates are low. Furthermore, the Risk Margin which should serve as a buffer against risk, has now	

become a major source of risk in itself. This brings additional hedging costs for firms. Also, hedging against the volatility of the risk margin may, whilst neutralizing the change in value of the Risk Margin, increase a firm's overall SCR as the change in Risk Margin in the shock scenario for the SCR may not be taken into account in the Standard Formula.

Finally, the use of risk free discount rates allows the Risk Margin to become larger than the SCR at any point in time over the run-off period of the liabilities. This is clearly at odds with the requirement from the Solvency II Directive that the Risk Margin should reflect the cost of holding an amount of SCR necessary to support the insurance and reinsurance obligations over the lifetime thereof.

We conclude that not the suitability of the Cost- of-Capital rate, but the use of the risk free discount rate in the underlying formula requires attention most urgently.

We would also like to refer to the following observations made recently by the UK Institute and Faculty of Actuaries in relation to this topic:

Although the purpose of the risk margin may seem reasonable, the mechanism and

	parameters chosen tend to result on excessively high risk margins that are disproportionately high for long duration business, such as annuities. We therefore agree that there is merit in revisiting the design of the risk margin *In an ideal world, consideration might be given to moving away from the 'cost of capital' concept that underlies the risk margin. Some potential modifications which could offer a more realistic approach include: · reducing the cost of capital rate from 6% per annum, to 2% or 3%; · reducing the cost of capital rate by a fixed amount (e.g. 0.5%) over each year of the projection subject to a minimum of 1% say, after 10 years; · treating longevity risk as hedgeable so that it was excluded from the risk margin. (This might only be acceptable if the best estimates were determined using rates from longevity hedges); · using a higher fixed discount rate for determining the risk margin, rather than the risk free rate; and · applying a margin to risk free rates to determine the discount rate (perhaps subject to an upper limit) for determining the risk margin.* *The current low interest rates scenario has painfully highlighted that SII can increase strains on the industry in the absence of a real risk. The construction of the risk margin is peculiarly sensitive to low interest rates. This is leading to some very difficult decisions for firms as to how to hedge this SII induced risk, with some perverse impacts on the results from capital models.*	
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