

January 2020

TERMS OF REFERENCE

LOW INTEREST RATES WORKING GROUP

The persistent low interest rate environment presents a major and urgent challenge for financial services and insurance in Europe. Most insurers (life and non life) are affected by this macro-economic situation.

The introduction of Solvency II has brought benefits in making clear the financial and risk impacts of product designs in this environment.

Throughout Europe, actuaries check that insurers are able to fulfil their obligations even in a period where capital markets offer low interest rates over long time. At the same time, in their capacity as actuarial function and risk management function holders, they will help to see that the Solvency II requirements are met.

The Working Group will consider, from the point of view of the actuarial profession and in line with the strategic objectives of the AAE, matters relating to low/negative interest rates impacting on insurance. In particular, the Working Group will:

1. Analyse the economic consequences of a persistent low interest rate environment. In particular two scenarios will be considered :
 - a. Low/negative interest rates over a period of 5, 10 or 15 years
 - b. Rising interest rates after a fixed period of low interest rates
2. Share product innovations and regulatory adaptations across Europe (SO3)
3. Provide examples of analyses and comments to be incorporated into the Actuarial Function Report and Risk Management Report (SO2)
4. Assist the Insurance Committee in keeping in touch with European authorities (EIOPA, ESM, EC) in particular in the context of 2020 review of Solvency II (SO1)
5. Consider any material that it deems important regarding the protection of consumers in a low interest rate environment

The LIR Working Group reports to the Insurance Committee of the AAE and does not have a fixed term of operation. It will liaise with the Solvency II Working Group and the Non Life Working Group on areas of shared importance.

Membership is open to representatives of Member Associations of the AAE and is not restricted to one representative per member association. Interested individuals may also participate in the work of the working group, even if not formally representing a Member Association.

The Terms of Reference were approved by the AAE Board of Directors on 8 January 2020.