



Industry data collection exercise Draft results

**EIOPA CHIA information request –
Q2 2020**

Introduction

- The secretariat prepared and ran an exercise to gather a subset of the data requested by EIOPA in its complementary holistic impact assessment (CHIA) information request.
- Ten members participated and contributed data.
- The information and statistics presented in the following slides are based on the data sample gathered, unless otherwise specified by use of “total market”. Note that the sample size differs for each section.
- Where total market impacts are provided, the assumption is that the sample is sufficiently representative and is for illustrative purposes only. It cannot be assumed that the sample is sufficiently representative of the entire market.
- **Caution should be exercised when using or referencing the information presented.**

Key findings

■ Overall impact

- With IRR, the aggregate SCR ratio fell 31% pts {237% to 206%}.
 - There is a variable impact across national markets: change in national market SCRs range from -51% to +12% points
- Without IRR, the aggregate SCR ratio fell 19% {236% to 217%}.
- As expected, CHIA exercise has clearly shown that EIOPA's "balanced outcome" was not achieved at Q2 2020.

■ Valuation

- There was an increase in the value of the technical provisions of +0.7%.
- Primarily driven by increase in the BEL of life liabilities due to the alternative extrapolation approach.

■ Standard Formula SCR

- Changes could increase total market SCR by up to €50bn (note that this figure is influenced by the markets who provided data).
- This is driven by IRR changes, partially offset by changes to correlations.
- Almost no data provided on LTE submodule usage – the data received continued to show extremely limited usage.

Impact on Solvency position - CHIA

■ Scenario 1 (with IRR changes)

- Aggregate impact of CHIA on sample was 31% points fall in SCR ratio
- Impacts were varied across national markets and companies
 - Impact on national market SCRs ranged from -51% to +12% points.
 - Impact on individual company SCRs ranged from -137% to +134% points.

	EoF	SCR	SCR ratio
Baseline	€304 bn	€128 bn	237%
Scenario 1	€294 bn	€143 bn	206%
Impact	-€10 bn	+€15 bn	-31%

■ Scenario 2 (without IRR changes)

- Aggregate impact of CHIA on sample was 19% points fall in SCR ratio
- No change in aggregate SCR ratio {236% to 217%}
 - Impact on national market SCRs ranged from -34% to +8% points.
 - Impact on individual company SCRs ranged from -114% to +136% points.

EIOPA data

Holistic impact assessment – YE2019

Overall impact on solvency

	Base case	Scenario 1	Scenario 2
SCR ratio	247%	234%	248%
Change of surplus in excess of SCR	/	-15 bn	+7 bn
Change of SCR	/	+25 bn	+2 bn
Change of own funds	/	+10 bn	+9 bn


- CHIA shows that EIOPA’s targeted “balanced outcome” is not achieved at Q2 2020.
- Further assessment of impact at national market level is needed to understand the true impacts of the proposals.

Complementary HIA – Q2 2020

	Base case	Scenario 1	Scenario 2
SCR ratio	226%	204%	216%
Change of surplus in excess of SCR	/	-40 bn	-21 bn
Change of SCR	/	+31 bn	+11 bn
Change of own funds	/	-9 bn	-9 bn

Impact on technical provisions

- At Q2 2020, there was an overall increase in the technical provisions, predominantly driven by the extrapolation methodology change.
- Changes are driven by the following proposals
 - RFR extrapolation methodology (negative impact)
 - Volatility adjustment (positive impact)
 - Risk margin (positive impact)



	Technical Provisions		BEL	Risk Margin
Non-life	-0.5%		+0.1%	-9.8%
Life	+0.9%		+1.1%	-11.8%
Unit-linked	+0.2%		+0.5%	-12.9%
Total	+0.7%		+1.0%	-11.7%

HIA vs CHIA

Holistic impact assessment – YE2019

	Technical Provisions	BEL	Risk Margin
Non-life	-0.5%	+0.0%	-8.6%
Life	+0.0%	+0.4%	-15.0%
Unit-linked	-0.1%	+0.2%	-17.5%
Total	0.0%	+0.3%	-14.5%

- Large increase in the value of BEL for life liabilities.
- Decrease in benefits from risk margin proposals
- The offsetting effects of the risk margin are no longer large enough at 30 June to compensate for increase in BEL.

Complementary HIA – Q2 2020

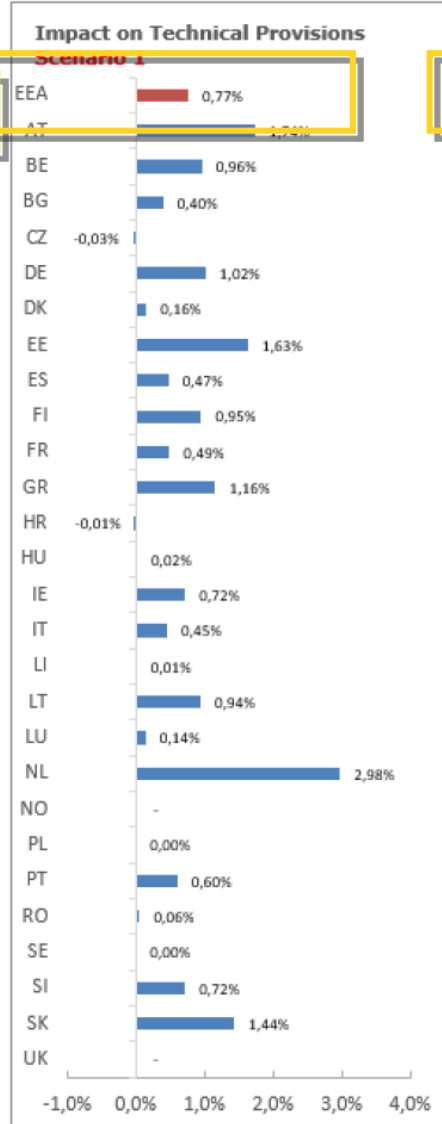
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Life	+0.9%	+1.1%	-11.8%
Unit-linked	+0.2%	+0.5%	-12.9%
Total	0.7%	+1.0%	-11.7%

Impact of 30y LLP change over time

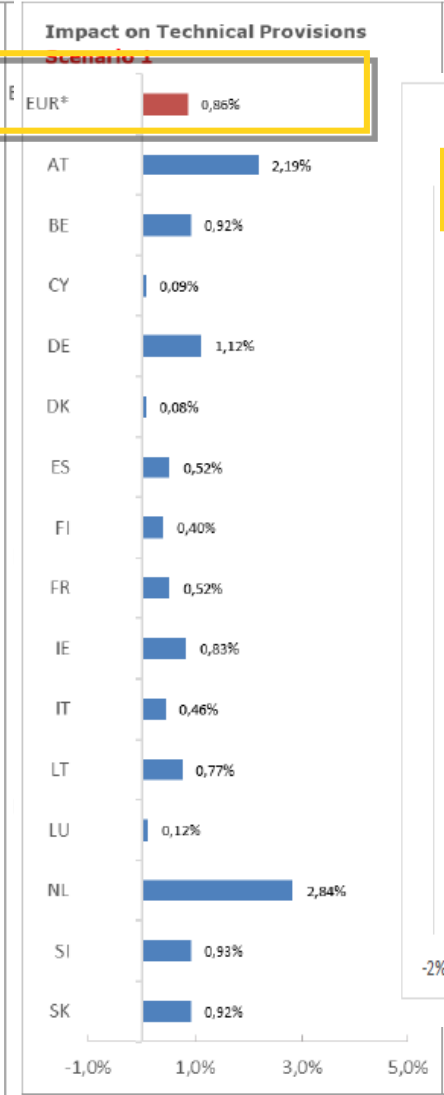
YE 2016



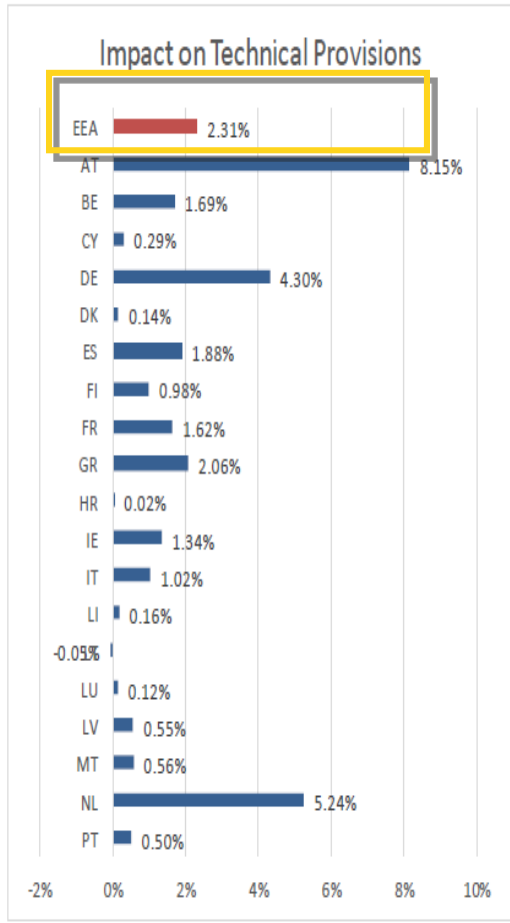
YE 2017



YE 2018

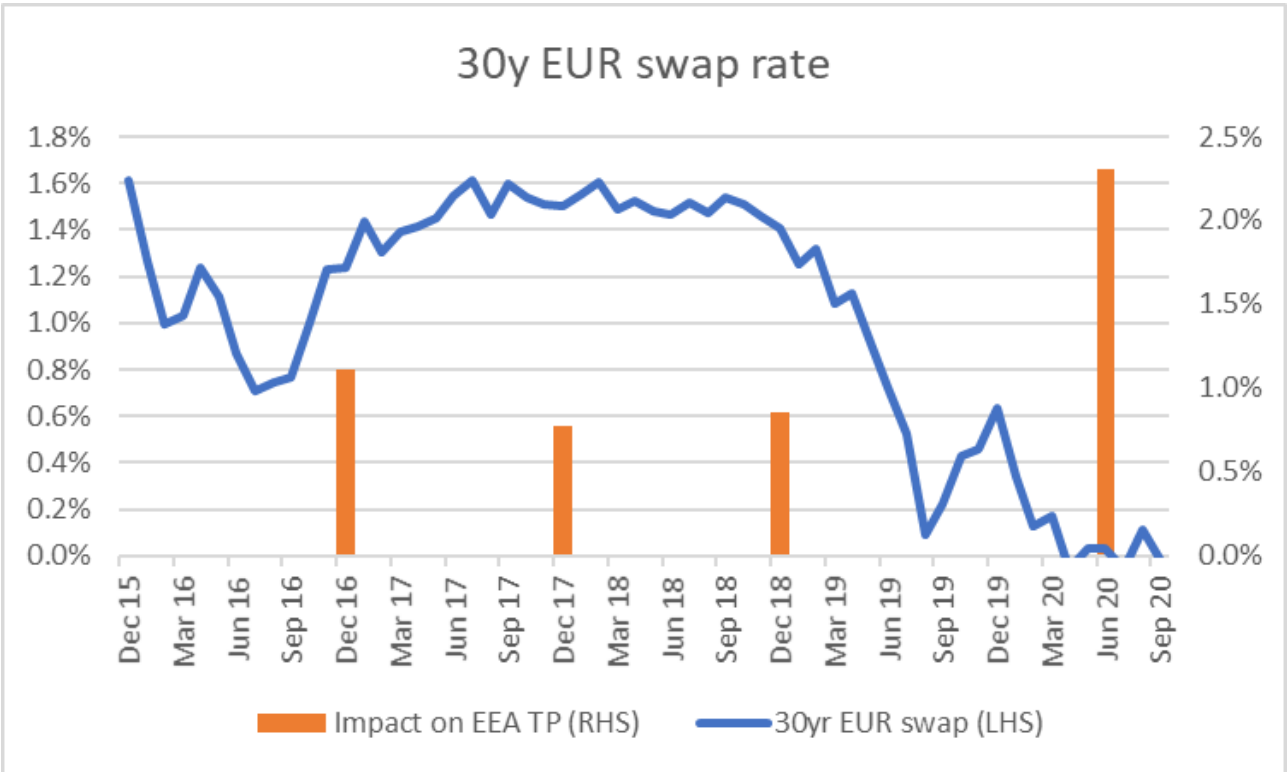


Q2 2020



Source: EIOPA LTG Reports

Long-dated swap rates



Source: EIOPA, Refinitiv

Volatility adjustment

Reminder of EIOPA's proposed changes

Reference weights

- Introduce Rescale parameter to re-weight the allocations within the reference portfolio to remove the property and equity allocations.
- Change calculation methodology to "CF fixed" approach

Risk correction

- Change risk correction to be % of prevailing spreads
 - 50% of corp. spreads up to long-term average spread, 40% thereafter
 - 30% of EEA-sov spreads up to long-term average spread, 20% thereafter

Country component

- Introduce macroeconomic VA which is Option 7 country component
- Note: this was not relevant for either HIA exercise as it had not triggered at YE 2019 or Q2 2020.

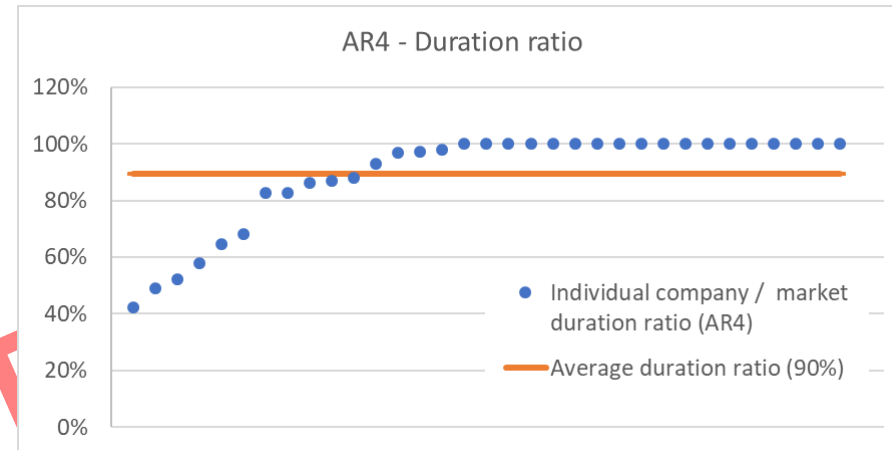
Application ratio

- Three cumulative application ratios are used
 - Duration ratio (AR4)
 - Liquidity ratio (AR5) based on bucketing criteria
 - General application ratio of 85%

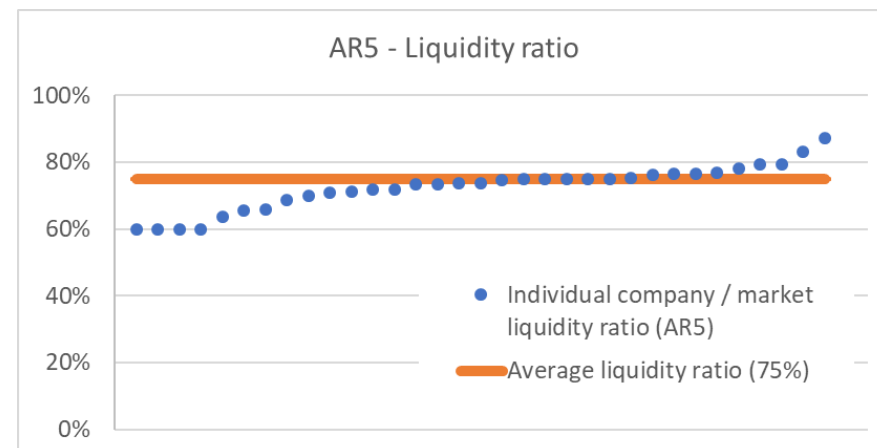
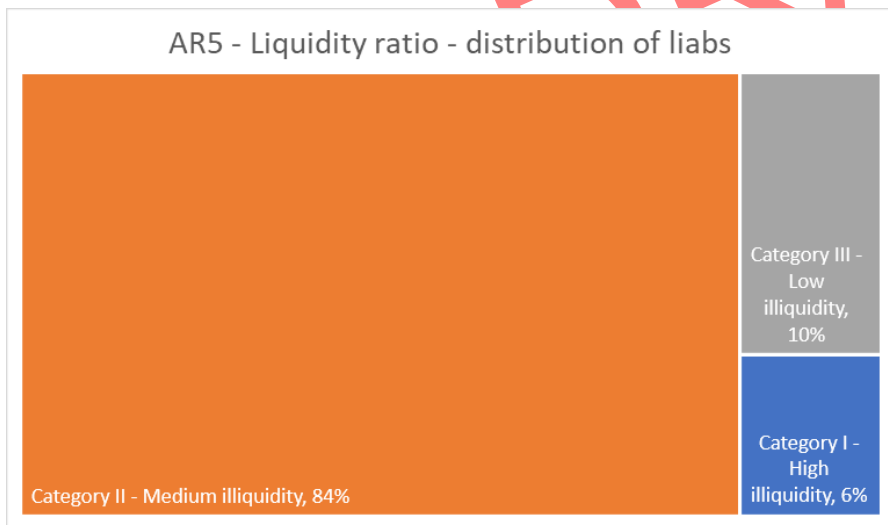
Volatility adjustment

Duration ratio

- No change was expected to the liquidity or duration application ratios.
- The duration ratio, AR4, is calculated as per EIOPA's previous methodology. It is capped at 100%.
- The weighted average duration of the sample was 87% and consistent with the previous data collected by secretariat.



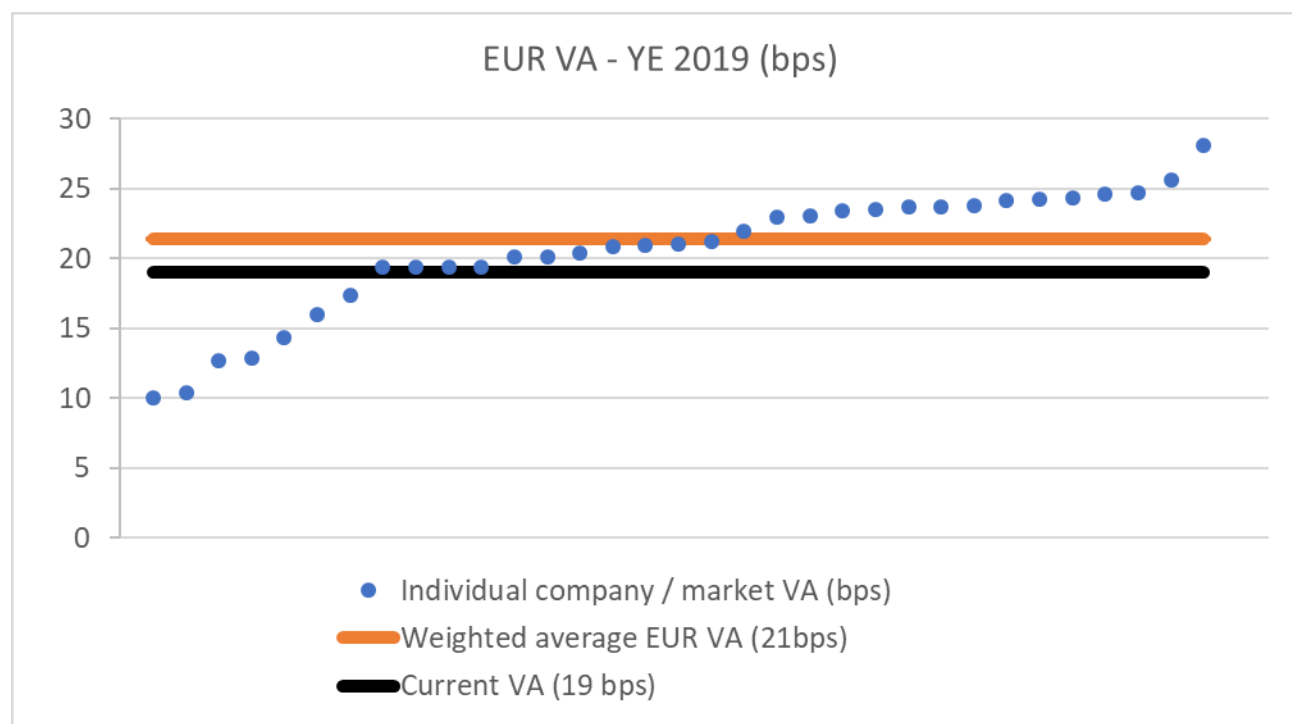
Liquidity ratio



Volatility adjustment

Level of the VA

- **EIOPA's CHIA VA was higher** than the current VA at Q2 2020 for the majority of firms.
 - The weighted average HIA VA was 21 basis points
 - The current VA was 19 basis points



Impact on SF SCR

■ Scenario 1 (with IRR changes)

- Aggregate SCR for sample increased from €82.1bn to €92.4bn (+13%).
- Impact on national market SCRs ranged from -3% to +31%.
- Changes in market risk SCR (IRR and diversification) were the largest driver of change (see table)
- Only a minor impact was reported on the aggregate net equity risk SCR.

■ Scenario 2 (without IRR changes)

- Aggregate SCR for sample increase from €82.1bn to €85.7bn (+4%).

Market risk SCR

Net SCR(€ bn)	Baseline	Scenario 1	Scenario 2
IRR risk	6.2	19.9	6.3
Equity risk	18.2	18.6	18.6
Property risk	7.8	8.1	8.0
Spread risk	27.4	29.2	29.2
Concentration	2.2	2.2	2.2
Currency	5.9	6.0	6.0
Diversification	- 12.0	- 18.2	- 13.3
Total market risk SCR	54.9	65.0	56.5

Additional items

■ **LT Equity**

- Almost no data was provided on the LT equity risk usage
- Where data was provided, it continued to signal that very few insurers expect to be able to use the LTE submodule.

■ **Own funds buffer**

- EIOPA analysis shows the Maximum Own Funds buffer to be 3% of Available Own Funds at YE 2019.
- This equates to a maximum of €50bn of EoF becoming ineligible.

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