insurance europe

Memo for action

To: Solvency II Working Group
From: Prudential Team
cc:
Date: 08-06-2020
Reference: ECO-SLV-20-114

Subject: For feedback – COVID-19 market monitoring framework

Member's input requested

Members are requested to provide feedback on the first version of the COVID-19 market monitoring report which can be found in the annex.

The secretariat highlights that the reference points remain under consideration and welcomes member's views on the level at which these should be set. The report and reference points will be updated, if necessary, and circulated weekly (note that the secretariat monitors the movements daily).

Comments should be sent to **prudential@insuranceeurope.eu** **by 19 June.**

Content

The secretariat has implemented the framework for monitoring financial markets movements which it does on a daily basis. As discussed, this monitoring is a key reference framework for triggering a discussion on the activation of the contingency plan, which is outlined below.

If there are no significant changes in the markets, the secretariat proposes to provide a weekly update report to members.

Prudential Team • Economics and Finance
Insurance Europe aisbl • ,
Tel: +32 2 894 30 33 • E-mail: prudential@insuranceeurope.eu

www.insuranceeurope.eu

Contingency plan overview

- *There are at this stage no indications of solvency concerns, yet the future market movements are not certain and there is a risk that it further deteriorates and in particular there is a risk of market volatility of the type we have seen in mid-March, and during the last crisis (2007/8 and 2011) or even worse.*
- *We know that under extreme market turbulences Solvency II, in its current form, will not work well enough and this can create significant problems for companies and for customers and the wider economy in terms of eg procyclical actions that insurers can be pushed towards.*
- *If there is such extreme market turbulence, then we can urge policymakers to take* ***rapid emergency action****. This action should be framed as* ***temporary fixes*** *until the review is done – such an approach would speed up the legislative process (note: in banking the Commission has only committed to temporary fixes for any emergency measures).*
- *The back-up plan needs to be based on simple and temporary actions, easy to implement, which would benefit all markets and avoid complicated and lengthy industry negotiations.*
- *The following temporary fixes* would be advocated for if the emergency situation arose:*
  - ***Changes in the VA: Options 7 for the country adjustment and a General Application Ratio of 85%***
  - ***Changes in the Risk Margin: Cost of Capital from 6% to 3%***
- *How do we monitor* ***the need for action****?*
  - *Insurance Europe will use its COVID-19 monitoring framework (market related information)*
  - *Members will have their own relevant information from member companies and inform the secretariat of strong concerns that require urgent action (solvency related information)*
  - *If the monitoring indicates a need for discussion/action this will be first discussed within Insurance Europe but then communicated and coordinated with PEIF, CFO Forum, AMICE before action is taken*
- Once we have a joint industry package, the current temporary emergency fixes can be reviewed to see if they can/should be better aligned with the changes sought from the SII review

Annex: First draft report – COVID-19 monitoring framework

Insurance Europe COVID-19 Market Monitoring
08/06/2020

The summary below provides an overview of the key market metrics which are being monitoring as part of the contingency measures developed in response to the Covid-19 pandemic.

Euro market data	Monitor	Current Level 8 June	Change relative to... 1 year	YE2019	1 week	1 day	Reference point Level	Date
Government bond spreads (10yr)								
ECB		0.3%	0.2%	0.2%	0.0%	0.0%	0.7%	17/03/2020
Austria		0.0%	0.2%	0.2%	0.0%	0.0%	0.2%	17/03/2020
Belgium		0.1%	0.2%	0.2%	-0.1%	0.0%	0.3%	17/03/2020
France		0.1%	0.3%	0.2%	0.0%	0.1%	0.3%	17/03/2020
Germany		-0.3%	0.2%	0.1%	0.0%	0.0%	-0.4%	17/03/2020
Italy		1.4%	-0.8%	0.2%	-0.1%	0.0%	2.4%	17/03/2020
Netherlands		-0.1%	0.3%	0.2%	0.0%	0.0%	0.0%	17/03/2020
Spain		0.6%	0.2%	0.3%	-0.1%	0.0%	1.1%	17/03/2020
EUR Swap rates								
1yr		-0.3%	0.0%	0.1%	0.0%	0.0%	-0.5%	11/03/2020
5yr		-0.3%	-0.1%	-0.1%	0.0%	0.0%	-0.5%	09/03/2020
10yr		0.0%	-0.3%	-0.2%	0.1%	0.0%	-0.3%	09/03/2020
20yr		0.2%	-0.5%	-0.4%	0.1%	0.0%	-0.1%	09/03/2020
30yr		0.2%	-0.7%	-0.5%	0.1%	0.0%	-0.3%	11/03/2020
Corporate bond spreads								
iBoxx EUR Financials		149.8	1.8	41.6	- 38.5	-	304.5	24/03/2020
iBoxx EUR Non-Financials		133.5	- 2.5	32.0	- 31.2	-	237.3	03/04/2020
iBoxx EU High-Yield		497.2	34.3	153.4	- 69.2	-	944.0	23/03/2020
Equity Markets								
MSCI Europe		221.0	1.2%	-9.4%	5.9%	1.0%	164.5	18/03/2020
MSCI World		303.1	9.3%	-3.8%	3.1%	1.0%	224.2	23/03/2020
Volatility measures								
VSTOXX		27.8	78.2%	99.6%	-7.48%	1.00%	85.6	16/03/2020
Latest applicable monthly EUR VA								
31 May 2020		0.25%						
Refinitiv Equity Sector Indices								
European Non-Life		82.5	-14.7%	-15.7%	5.8%	1.0%	60.4	23/03/2020
European Life and Health		79.9	-13.1%	-20.0%	17.9%	1.0%	50.0	18/03/2020
European insurance		103.3	-8.5%	-16.7%	16.4%	1.0%	67.9	18/03/2020

Key

Better than reference point

Worse than reference point

Source: Refinitiv/EIOPA