



Industry data collection exercise Draft results

**EIOPA HIA information request –
Q2 2020**

Introduction

- The secretariat prepared and ran an exercise to gather a subset of the data requested by EIOPA in its first holistic impact assessment (HIA) information request.
- Eleven 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

- Aggregate SCR ratio fell 22% {263% to 241%}.
 - There is a variable impact across national markets: change in national market SCRs range from -65% to +16% points.
- No change in aggregate SCR ratio if IRR changes not taken into account.

■ Valuation

- No significant change in value of technical provisions.
- The impact of changes to extrapolation of RFR, VA and risk margin broadly offset each other.
 - Proposed tapering expected to reduce total market risk margin by up to €24bn.
 - EIOPA HIA VA was higher than current VA (primarily due to change in risk correction methodology). This is not expected to be the case in the 2nd HIA exercise.

■ Standard Formula SCR

- Changes could increase total market SCR by up to €46bn.
- This is driven by IRR changes, partially offset by changes to correlations.
- Long-term equity usage expected to be extremely limited (1% of equity).
- Indication that SF DVA could reduce spread risk SCR by up to 20%.

Impact on Solvency position

■ Scenario 1 (with IRR changes)

- Aggregate impact of HIA on sample was 22% points fall in SCR ratio
- Impacts were varied across national markets and companies
 - Impact on national market SCRs ranged from -65% to +16% points.
 - Impact on individual company SCRs ranged from -283% to +137% points.

	EoF	SCR	SCR ratio
Baseline	€332 bn	€126 bn	263%
Scenario 1	€334 bn	€138 bn	241%
Impact	+€2 bn	+€12 bn	-22%

■ Scenario 2 (without IRR changes)

- No change in aggregate SCR ratio {263% to 263%}
 - Impact on national market SCRs ranged from -13% to +17% points.
 - Impact on individual company SCRs ranged from -99% to +141% points.

Impact on technical provisions

- Overall, there was very little reported change in the value of the technical provisions. The changes largely offset each other and were mainly driven by:
 - RFR extrapolation methodology (negative impact)
 - Volatility adjustment (positive impact)
 - Risk margin (positive impact)

	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%

- Risk Margin: Extrapolating impact of EIOPA's risk margin proposals to the total market suggests a decrease in the risk margin of c.€25bn.

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.

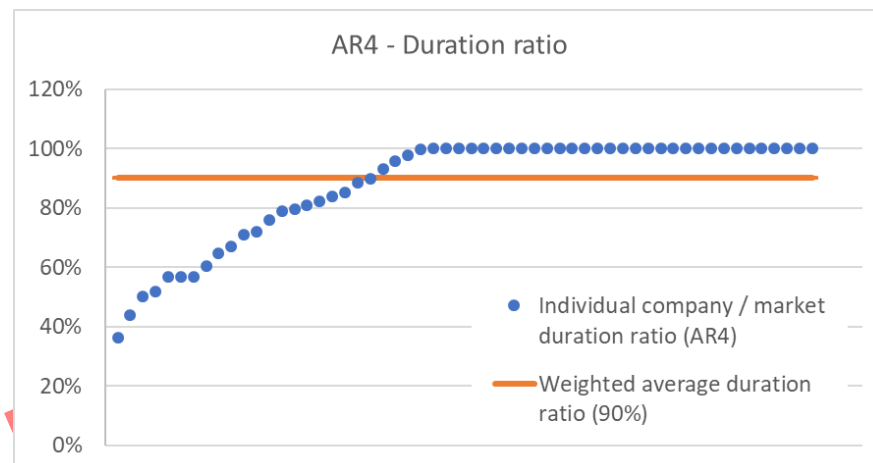
Application ratio

- 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

- 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 90% and is broadly consistent with the previous data collected by secretariat.



Risk correction

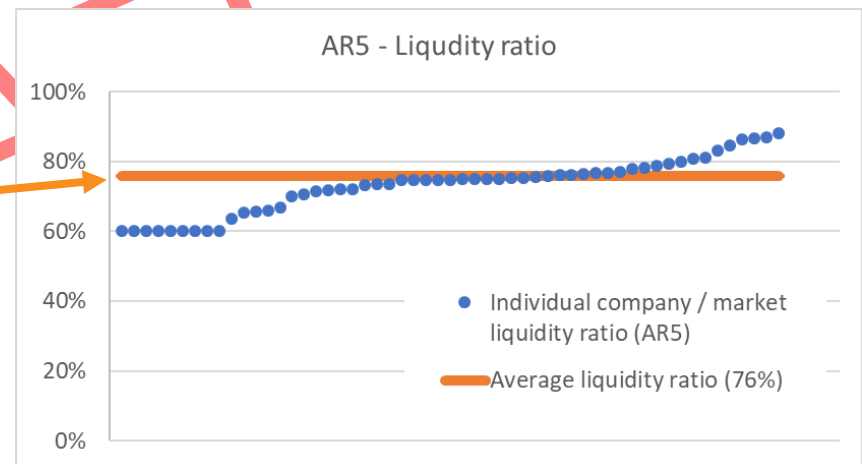
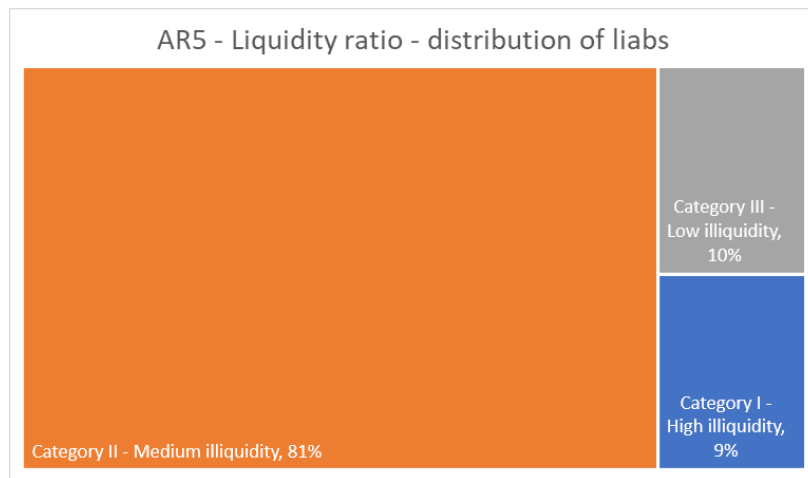
- In low yield environment, EIOPA's proposed risk corrections are lower than the current risk corrections. This results in an increase in the level of the VA.
- At YE2019, for the EUR representative portfolio
 - EIOPA's proposed risk correction was 0.14%
 - The existing risk correction was 0.21%
- It is important to note that the proposed risk corrections are detrimental when spreads become elevated.
- For example, at 31 March 2020,
 - EIOPA's proposed risk correction was 0.40%*
 - The existing risk correction was 0.21%*

*Source: Secretariat calculations

Volatility adjustment

Liquidity ratio

- EIOPA proposed a new approach to deriving the liquidity ratio, based on a bucketing approach which measured the “illiquidity” of liabilities by assessing contractual obligations and impact on BEL of different underwriting shocks.
- Each category is assigned a liquidity ratio (100%, 75% and 60%) depending on its perceived “illiquidity”. Each undertaking’s liquidity ratio was calculated as the weighted average of the individual ratios.



This chart shows the distribution of the liabilities in the sample across the liquidity categories.

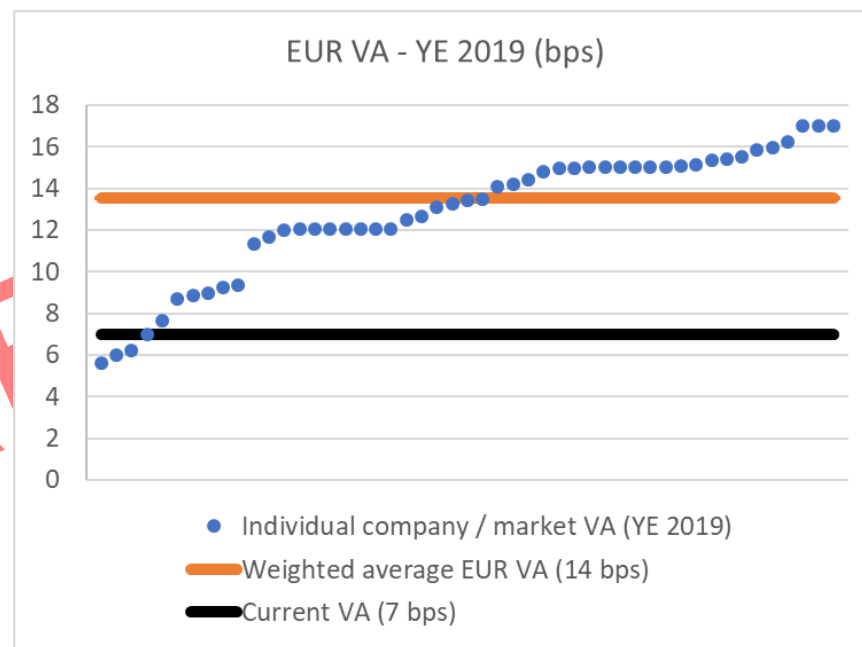
This chart shows the distribution of individual company/market liquidity ratios.

The average liquidity ratio is based on the aggregate information in the left hand chart

Volatility adjustment

Level of the VA

- **EIOPA's HIA VA was higher** than the current VA at YE 2019 for the majority of firms.
 - The weighted average HIA VA was 14 basis points
 - The current VA was 7 basis points
- The change to the **risk corrections** has a positive impact at YE2019.
- The combined impact of the **increased GAR and liquidity application ratio** broadly have a neutral impact.
- The combined impact of the **Rescale factor and duration ratio** have an overall positive impact.
 - For individual companies using the EUR portfolio, where duration ratio is above 71% the combined impact is overall positive.



Impact on SF SCR

■ Scenario 1 (with IRR changes)

- Aggregate SCR for sample increased from €77.5bn to €87.8bn (+13%).
- Extrapolated impact on total market is €46 bn increase in EU SCR.
- Impact on national market SCRs ranged from -2% to +36%.
- Changes in market risk SCR (IRR and diversification) were the largest driver of change (see table below for breakdown)
- No impact was reported on the aggregate net equity risk SCR

■ Scenario 2 (without IRR changes)

- Aggregate SCR for sample increase from €77.5bn to €77.7bn (+0.3%).

Net SCR(€ bn)	Baseline	Scenario 1	Scenario 2
IRR risk	9.6	27.8	9.5
Equity risk	23.8	23.8	23.8
Property risk	7.9	8.0	7.9
Spread risk	25.4	25.8	25.8
Concentration	2.7	2.7	2.7
Currency	5.5	5.5	5.5
Diversification	- 14.3	- 20.0	- 14.9
Total market risk SCR	60.2	72.6	59.8

Long-term equity (LTE) submodule

- As part of HIA, EIOPA proposed to make some changes to the eligibility criteria of the LTE submodule.
- Data provided shows **very limited** expected usage of the LTE submodule, both in baseline (existing Article 171a) and after EIOPA’s proposed changes.
- **Note:** Data coverage and quality was poor (sample from 11 markets covering 12% of SCR for standard formula users). The results should be treated with appropriate caution.

	Baseline (existing Art 171)	After EIOPA proposals
Number of markets where LTE submodule is reported to be used	1	5
Total equity reported to be allocated	€30 million	€1.3 billion
Average allocation to LTE across sample	0.0%	1.0%
Impact on undiversified equity SCR	Negligible	€0.2bn - €0.4bn*

*After diversification, the reported impact is negligible

Additional data request items

■ **Maximum own funds buffer**

- Reported to be €14bn across the sample although there is significant data points missing which suggests this is likely to be a low estimate.
- This suggests the Maximum Own Funds buffer for the total market could be in excess of €70bn.

■ **Standard formula DVA**

- Individual market data suggests the impact of the proposed SF DVA could be a reduction in the spread risk SCR of up to 20%.
- Incomplete and inconsistent data make it difficult to assess the total impact.

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