



Additional Insurance Europe comments related to LTGA background documents

MA calibration for government bonds

The fundamental spreads are based on mid-2012 data instead of year-end 2011 data.

The long-term average spreads are limited to around 12 years of historic data, even where longer data series exist (eg UK Government bonds). There appears to be no reconstruction in the long-term average spreads to achieve an estimate of the 30 year average as required under Level 2 Article 42 quarter (2). The impact of not doing this reconstruction can lead to a material impact on the MA. We believe that more work is required during/after the impact assessment to refine the currently used methodology.

The long-term average spread appears to be derived against a risk-free rate that includes the current 35bps credit deduction. This is not consistent with the expectation that, based on the methodology proposed for deriving the credit risk deduction; it has been lower than 35bps historically. Indeed an earlier version of the technical specifications (v5 which sets out in greater detail EIOPA's derivation of the historic credit deductions – Table 8) indicates that the average over a longer period is 13bps for the Euro. This suggests that the fundamental spread could be overstated by as much as 22bps for the Euro (and by similar amounts for other currencies) which is very material.

For more comments on the calibration of the credit risk adjustment, please also refer to comment ECO4 in the document ECO-SLV-13-008.

Finally, some countries (eg Norway) are missing in the analysis and for others there are no calibrations provided (eg Cyprus, Estonia, etc.).

MA calibration for corporate bonds

We would welcome to have the same insights in the calibrations as for government bonds. In particular, it would be useful to understand how defaults and downgrade allowances have been determined and how spreads have been derived (ie compared to swap rates or to swap rates adjusted for credit risk).

The same observations made for government bonds might also apply to corporate bonds (eg the use of a 35bps deduction for all years, leading to a significant understatement of the MA).

Additionally, we note that the example spreadsheets do not derive all the fundamental spreads for all MA versions. Also, the calibrations need to be adjusted to reflect that for some of the MA versions the MA on BBB assets is limited to the higher (and not to the lower) of the MA on AA and MA on A, as stated in the final Terms of Reference.

On the calibration details, we believe that more work is required during/after the impact assessment. For example, we believe it would be necessary to assess the wider macroeconomic impacts (market distortions) of using duration bands.

Finally, the calibrations for year-end 2004 and year-end 2009 are still missing.



Excel spreadsheet for the 77e MA standard and alternative

We welcome the fact that EIOPA has provided a spreadsheet example and would suggest having a Helper Tab for the LTGA. However there are a few elements that need to be adjusted to make this spreadsheet workable as a Helper Tab:

- The application ratio calculation seems to be wrong (cell E22 should be "1-E20/E21" rather than "E20/E21").
- We do not understand why the mortality shock is combined with a downward interest rate shock as there is no mention of such a combination in the technical specifications. Additionally, we would like to note that combining two 99.5% stresses leads to confidence levels far higher than 99.5%.
- The other shocks listed in the technical specifications (eg Life catastrophe, disability) need to be included as well.
- Other adjustments based on the outcome of this consultation should be taken into account. In particular, we believe the restriction that prevents "negative net outflows" from being taken into consideration in the calculation of the MA application ratio is not needed and will give rise to issues for long term products (see also our comment ECO37 in the document ECO-SLV-13-008).