



# **Industry data collection exercise**

**EIOPA information request –  
December 2019**

# Introduction

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- The secretariat prepared and ran an exercise to gather a subset of the data requested by EIOPA in its December information request.
- The data requested covered
  - the long-term equity risk submodule
  - interest rate risk submodule
  - the volatility adjustment
- Fifteen members participated and contributed data.
- The information and statistics presented in the following slides are based on the data sample gathered, unless otherwise specified. Note that the sample size differs for each section.
- It cannot be assumed that the sample is sufficiently representative of the entire market. **Therefore caution should be exercised when using or referencing the information presented.**

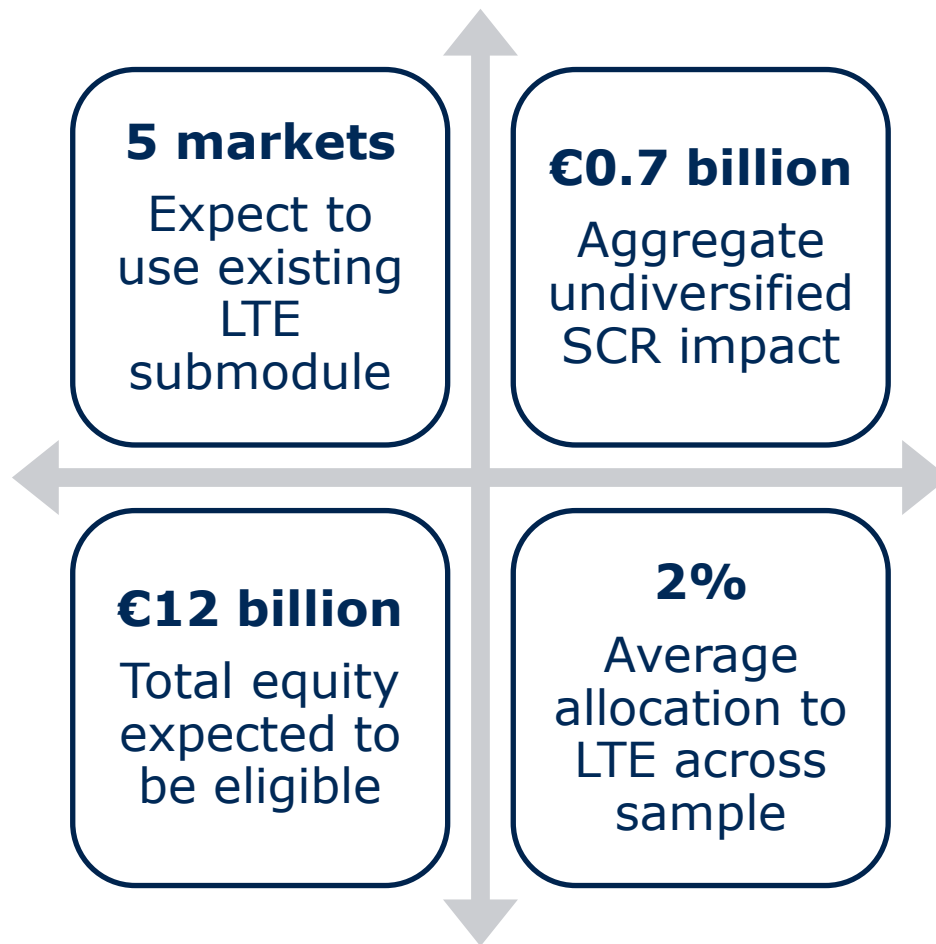
# Key findings

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- **Long-term equity submodule** (Art. 171a)
  - 5 markets expect to make use of LTE submodule
  - About 2% of equity allocations are expected to be eligible for reduced 22% risk factor
- **Interest rate risk**
  - EIOPA proposals expected to decrease average SCR ratios by between 36% - 50% points
  - Total capital increase across EEA of between €60bn and €85bn
- **Volatility Adjustment**
  - EIOPA proposed two approaches, each of which combined a number of options included in the consultation paper
  - Both of these approaches would decrease aggregate SCR ratios
  - Impact of proposals is both on level of Own Funds and the SCR

# Long-term equity (LTE) submodule

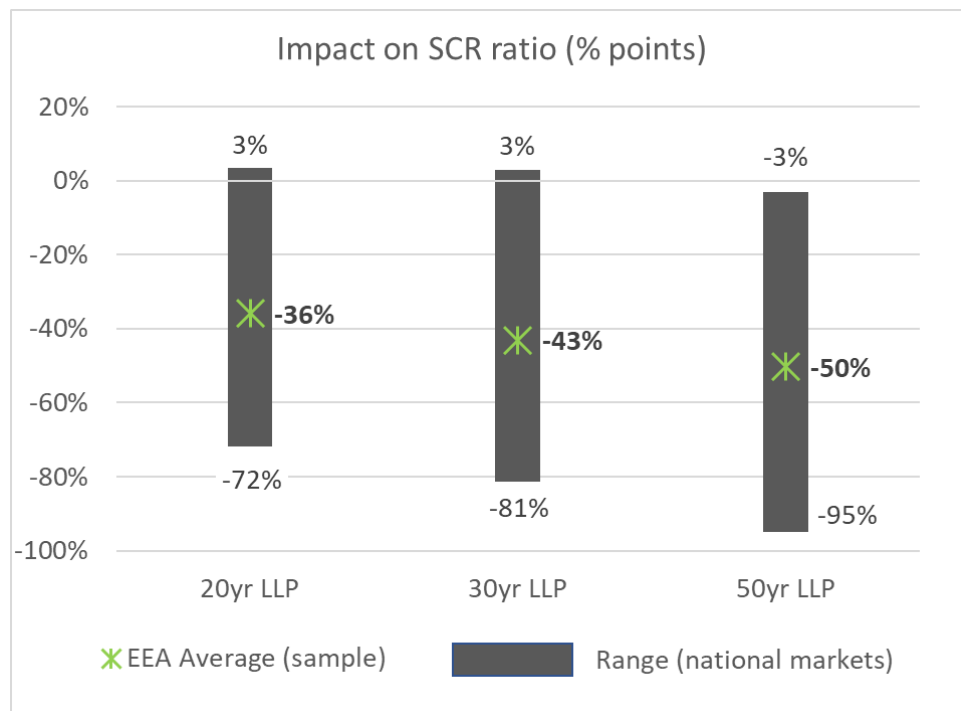
- EIOPA requested data on undertakings' expected usage of Long-Term Equity (LTE) risk submodule (Article 171a).
- Data provided shows very limited expected usage of the LTE submodule
- **Note:** Data coverage and quality was poor. The results should be treated with appropriate caution.



Sample from 12 markets covering 7% of SCR for standard formula users.

# Interest rate risk submodule

- EIOPA requested undertakings test the impact of its interest rate risk proposals under the assumption of a 20y, 30y and 50y EUR LLP.
- Data indicates that EIOPA proposals could create an additional €60bn+ of SCR for standard formula users.
- Average impact is drop in SCR ratio of at least 36% points but up to a 72% fall for some markets (and more on an individual company basis).



Impact on SCR	Sample	Estimated EEA market*
<b>20yr LLP</b>	<b>€17.9 bn</b>	<b>€60 bn</b>
30yr LLP	€22.1 bn	€70 bn
50yr LLP	€24.3 bn	€85 bn

\*Total market impact derived through by scaling sample impact using SCR

Sample from 14 markets covering 31% of SCR for standard formula users.

# Volatility Adjustment

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- EIOPA requested that undertakings test the impact of their proposed Approach 1 and Approach 2, under the baseline (ie YE 2018) and under a 100-basis point shock scenario.
- Approaches 1 and 2 were the combination of the following “options”.

<b>Approach 1</b>
Representative portfolio approach
Application ratios: <ul style="list-style-type: none"><li>■ 65% general application ratio</li><li>■ Lower of duration ratio or liquidity ratio</li></ul>
Risk corrections are set to be % of prevailing spread
Macro VA to replace national market component

<b>Approach 2</b>
Own assets portfolio approach
Application ratios: <ul style="list-style-type: none"><li>■ 65% general application ratio</li><li>■ Lower of duration ratio or liquidity ratio</li></ul>
Risk corrections are set to be % of prevailing spread (although different %'s to Approach 1)

- Sample consisted of data from 13 markets covering 20% of the EEA SCR

# Volatility Adjustment

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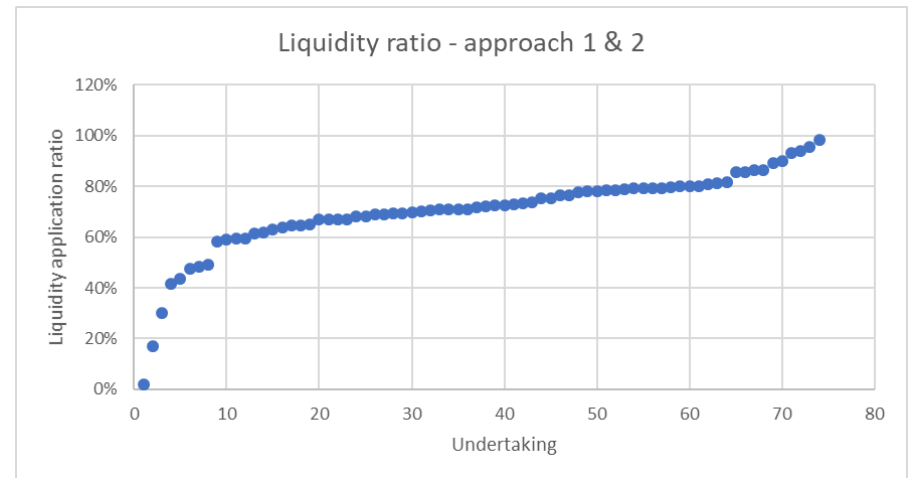
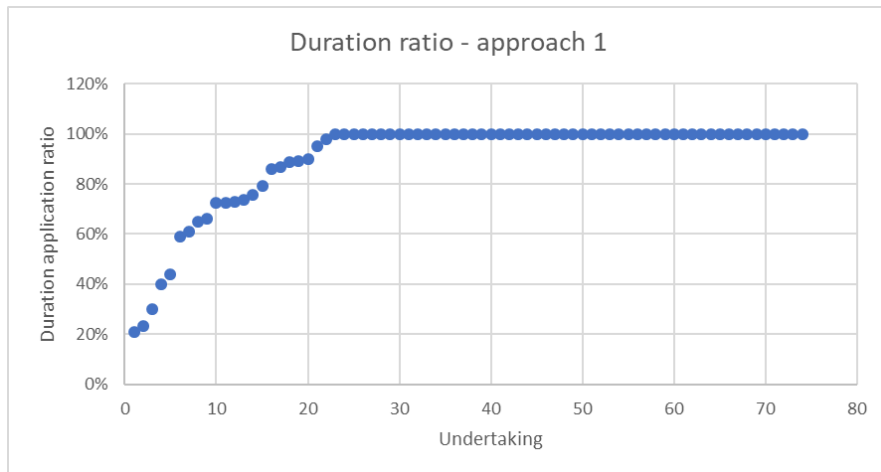
Results at aggregate EEA level (impact shown in brackets below)

(€bn)	Eligible OF	SCR	SCR ratio
Current	285.0	128.4	222%
Approach 1	281.7	132.8	212%
Impact	(-3.3)	(+4.4)	(-10%)
Approach 2	279.2	134.7	207%
Impact	(-5.8)	(+6.3)	(-15%)

- Both Approach 1 and 2 would have led to a detrimental impact on the aggregate EEA solvency position.
- Own Funds are impacted due to changes in the value of technical provisions.
- SCR impacts largely arise from the impact on internal models (changes in DVA-modelling).
- As expected, the impacts were variable across the different markets.

# VA – duration and liquidity ratios

- EIOPA requested details of the duration and liquidity ratios which undertakings used in their calculations.
- The distribution of the duration and liquidity ratios for 74 undertakings /markets are shown below
- The data shows that, based on its own methodology, EIOPA could assess that
  - some undertakings have duration-related overshooting issues
  - all undertakings have some liquidity issues.



- Each blue dot represent the individual duration/liquidity application ratio for an undertaking/market

# VA – level

- The distribution of the undertaking-specific VAs for 69 undertakings /markets are shown below (with EUR-denominated VA).

