

To: Solvency II Working Group, Economics and Finance Committee
From: Prudential Team
cc:
Date: 12-07-2019
Reference: ECO-SLV-19-132

Subject: Informal Call with EIOPA on 2020 Review

Comments

Please find below a summary of a recent discussion between the secretariat and EIOPA working-level staff on the recent developments on the Solvency II 2020 review.

During the discussion, the secretariat shared the agreed Insurance Europe positions, on the basis of the table agreed at the July EcoFin Committee meeting.

■ Expected timeline

- **End-Sept:** Approval of consultation paper at BoS.
- **Start/mid-Oct:** Start of 3-month public consultation process [note that the consultation is starting earlier than previously indicated but no extension to the consultation period is foreseen].
- Information requests currently expected are:
 - Mid-September:** 2-month exercise to gather data on high impact changes (VA, RFR Extrapolation, IRR).
 - Start/mid-Oct:** 2-month exercise to gather costs and benefits data to assess other changes.
 - March 2020** – exercise to gather data for holistic assessment – only 1 scenario expected to be tested.
 - All requests will use **YE 2018 data** for comparability.

■ Extrapolation – Risk Free Rates

- EIOPA is now also investigating a 4th option; adopting a different extrapolation methodology with a 20yr LLP [the one currently used by the Dutch NSA for pension schemes].
- Changes relating to EURIBOR confirmation/IBOR transition are not being discussed as part of 2020 review but are being monitored elsewhere by EIOPA.

■ Risk margin

- EIOPA will address all four items raised by the EC in the Call for Advice.
- However, EIOPA's advice will be based on previous work.

■ Matching Adjustment

- The proposals to address **the fixed asset cashflows** and **diversification** issues are being considered and do not appear to have a lot of opposition.
- EIOPA/NSAs have not discussed the other potential improvements that Insurance Europe considered namely. the use of materiality thresholds and removing the “no unbundling” criteria.

■ Volatility Adjustment

- Two of the ideas discussed at the Workshop have been dropped: the **Middle bucket approach** and **asset driven approach** are no longer being considered; therefore, the other ideas remain under consideration.
- EIOPA is assessing which approaches to test to satisfy the Call for Advice. The following criteria are **important from EIOPA's perspective**:
 - How the undertaking specific information would affect the VA
 - Illiquidity** features of liabilities
 - Overshooting** effects of VA that could arise due to different asset mix and different asset maturity
- Inclusion of equity and property yields is not currently under discussion. EIOPA noted that it believed there to be macroprudential implications associated with attributing a yield to equity/property.
- The removal of Unit Linked assets from the representative portfolio is also not under discussion within EIOPA.

■ Interest rate risk

- EIOPA's proposal will likely be consistent with that in the 2018 Review (ie. shifted approach).

■ Spread risk – DVA

- Discussion on DVA is within VA working group and not spread risk working group.
- EIOPA are still investigating the spread risk calibrations.

■ Equity risk

- EIOPA said they would be interested in feedback on the analysis shown at the workshop which showed equity returns compared to risk free rates because at the workshop the industry appeared very surprised by the results.

■ Property risk

- EIOPA are considering a recalibration without UK data.