

To: Solvency II Working Group, Economics and Finance Committee
From: Prudential Team
cc:
Date: 27-09-2021
Reference: ECO-SLV-21-233

Subject: Informal discussion with EC on Solvency II impact assessment

Summary

Following the publication of its legislative proposals and accompanying impact assessment last week, the secretariat organised an informal call with the EC at working level to seek clarification of the assumptions underlying the headline impacts ie €90bn short term capital release and €30bn long term.

A summary of the discussion is detailed below. If members have any queries, please contact prudential@insuranceturope.eu

Calculations

- EC confirmed its calculations shows a >€90bn short-term impact and the €16-€30bn long-term impact, depending on market conditions
- However, they caveated that a number of assumptions have to be made when making these calculations and therefore they are approximate.
- They also noted that they would not expect industry to be able to reconcile the numbers with publicly available information.

Assumptions underlying impact assessment

- EC noted that unless otherwise stated, it should be assumed that the EC follows EIOPA's advice, including on level 2 texts.
- The following assumptions were therefore confirmed to be used in the calculations:
 - Extrapolation convergence parameter
 - 10% (over long term)
 - 20% (at point of implementation)
 - Interest rate risk SCR: the stressed curves are extrapolated
 - Risk margin: lambda parameter is 0.975 and CoC is 5%
 - Volatility adjustment:
 - Rescale parameter is included
 - Credit spread sensitivity ratio (CSSR) is consistent with EIOPA's duration ratio (AR4)
 - Illiquidity application ratio (AR5) is excluded
 - Risk correction is changed as per EIOPA advice
 - GAR is 85%

Impact on VA

- We highlighted that the stated impact of the change to the VA illiquidity ratio on page 41 of the impact assessment was between €12 and €29 billion (for the sample).

- However, elsewhere in the document (page 183), the impact of removing the illiquidity application ratio was noted to be €5-€11 billion.
- The EC clarified that these related to different capital measurements.
 - €5-€11 billion refers to impact on additional capital resources.
 - €12 -€29 billion refers to impact on excess of own funds over capital requirements.
- This suggests that the removal of the liquidity application ratio also has a large impact on the capital requirements.

Process for developing level 2 texts

- EIOPA has already provided its advice on level 2 issues and therefore EC does not expect to need more advice.
- EC also noted that the process that was set out in its communication document.