

Insurance Europe assessment of EIOPA's second set of advice on the Solvency II review

Topic	Areas of <b>improvement</b> and where Insurance Europe's views are reflected	Areas where EIOPA's feedback is <b>negative</b> or potentially negative
<p><b>Recalibration of standard parameters of premium and reserve risks</b></p>	<p><b>Negative</b> in areas where EIOPA maintains increases in SCR. While Insurance Europe questioned EIOPA's approach for recalibration of the standard parameters, EIOPA maintained most of its proposals from the draft advice or made only minor changes. On the <b>positive</b> side, the premium risk parameter for medical expense does not change.</p> <ul style="list-style-type: none"> <li>• Decreased premium risk parameter:               <ul style="list-style-type: none"> <li>◦ Assistance: 6.5% (from 9%)</li> <li>◦ Medical expense: No change (compared to the initially increase foreseen in the draft advice).</li> </ul> </li> <li>• Decreased reserve risk parameters:               <ul style="list-style-type: none"> <li>◦ Credit and suretyship: 17.2% (from 19%)</li> <li>◦ Legal expenses: 5.5% (from 12%)</li> <li>◦ Worker's compensation: no change</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Increased premium risk parameters:               <ul style="list-style-type: none"> <li>◦ Credit and suretyship: 19% (from 12%)</li> <li>◦ Legal expenses: 8.7% (from 7%)</li> <li>◦ Worker's compensation: 9.6% (from 8%)</li> </ul> </li> <li>• Increased reserve risk parameters:               <ul style="list-style-type: none"> <li>◦ Assistance: 22% (from 20%)</li> <li>◦ Medical expenses: 5.7% (from 5%)</li> </ul> </li> </ul>
<p><b>Volume measure for premium risk</b></p>	<p><b>Broadly positive.</b> While EIOPA did not fully take on board the industry's proposed approach. EIOPA's final advice improved in comparison to the draft advice as it recognises the overstatements introduced in the capital required when applying volatility factors beyond N+1. In particular, EIOPA proposes to make a distinction between annual and multiyear contracts regarding the definition of FP<sub>future</sub>.</p> <p>On the <b>positive</b> side, Insurance Europe welcomes that EIOPA decided not to introduce a specific definition for the initial recognition date.</p> <p>On the <b>negative</b> side however, EIOPA continues to consider the notice period in the initial recognition date leading to inconsistency with calibration principles (estimated sigma factors are based on one-year earned premiums) and inconsistencies across markets and undertakings. <u>In addition, EIOPA did not apply an adjustment factor to FP<sub>existing</sub> for multiyear contracts.</u></p> <ul style="list-style-type: none"> <li>• EIOPA proposes to make a distinction between annual and multiyear contracts regarding the definition of FP<sub>future</sub>:               <ul style="list-style-type: none"> <li>• For annual contracts: FP future definition remains unchanged.</li> <li>• For multiyear contracts, EIOPA advises to close the gap, and to apply an adjustment factor of 30%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The approach to determine the volume measure proposed by Insurance Europe was unfortunately dismissed</li> <li>• When determining the initial recognition date, the notice period is still considered.               <ul style="list-style-type: none"> <li>◦ This is not consistent with the calibration,</li> <li>◦ It introduces a legal feature that is not reflective of the economic substance of the risk under consideration.</li> </ul> </li> </ul>

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	<ul style="list-style-type: none"> <li>No introduction of specific definition for initial recognition date</li> </ul>	<ul style="list-style-type: none"> <li>It creates inconsistencies across markets and undertakings (there is no difference in the risk under consideration whether the notification period exists or not).</li> </ul> <p>Against this background, the initial recognition date should coincide with the start of the insurance cover.</p> <ul style="list-style-type: none"> <li>Adjustment factor not applied to <math>FP_{existing}</math>, which is in contradiction with EIOPA's own conclusions.</li> <li>Insurance Europe's proposal how to take account of increased cession of reinsurance was dismissed, arguing it would be difficult to verify for NSAs.</li> </ul>
<b>Recalibration of mortality and longevity risks</b>	<p><b>Positive. EIOPA advises the status quo for longevity risk and mortality risk.</b></p>	
	<ul style="list-style-type: none"> <li>EIOPA advises to maintain the 20% stress for longevity risk.</li> <li>EIOPA advises to maintain the 15% stress for mortality risk.</li> </ul>	
<b>Catastrophe risks sub-module</b>	<p><b>Broadly positive. A number of simplifications to the catastrophe risk submodules are proposed, which Insurance Europe supports. Similarly, a number of recalibrations are welcome.</b></p>	
	<ul style="list-style-type: none"> <li>A number of simplifications have been proposed by EIOPA, some of which were developed by Insurance Europe. <ul style="list-style-type: none"> <li>Removal of 10yr scenario from Mass Accident risk submodule</li> <li>A simplification for the fire risk submodule</li> <li>A simplification for the natcat submodules</li> </ul> </li> <li>EIOPA propose increased risk sensitivity through a change the risk measure in the fire, aviation and marine risk submodules to be net (rather than gross) of reinsurance.</li> <li>Several incorrect calibration parameters were amended to provide a more realistic capital requirement for these perils. For example, the proposed standard formula parameters for German Windstorm risk, Hungarian Flood and Slovakian Earthquake risk.</li> </ul>	<ul style="list-style-type: none"> <li>Some of the proposed recalibration parameters remain overly prudent relative to the modelling input used in the recalibrations. For example, the proposed standard formula parameters for Italian Earthquake risk and Greece Earthquake risk.</li> <li>Different methodologies were used during the recalibration process which may have resulted in a lack of consistency (eg internal model analysis was used in the calibration of French windstorm risk but not French flood risk, proxies were used where there was no model input available eg in Slovenia).</li> <li>Different approaches were taken to the materiality of PERILS which has also resulted in a lack of consistency. For example, Slovenian windstorm risk parameters are proposed despite these not breaching the materiality threshold previously used by EIOPA.</li> </ul>

<p><b>Interest rate risk</b></p>	<p>Remains <b>negative</b> overall, but with some <b>mixed</b> developments compared to the draft advice.</p> <p>EIOPA makes specific proposals for change in the 2018 review. While these are less damaging than previous proposals for euro denominated assets and liabilities, they remain very conservative.</p> <p><b>For other currencies, such as the Swedish and Norwegian krona, the new proposal can be even more conservative than the previous proposals. This is not properly analysed in the EIOPA technical advice.</b></p> <p><i>Note: Regarding the impact assessment, EIOPA has conducted an assessment of the impact based on information received from 275 undertakings as part of its information request as well as information sourced from the QRTs. Based on its analysis, EIOPA concludes:</i></p> <ul style="list-style-type: none"> <li>• The shifted approach will result in an aggregate SCR breach of around €150 million</li> <li>• The median impact on life insurer’s solvency ratios will be a decrease of 11%</li> <li>• But 10% of undertakings will have a decrease in their solvency ratios in excess of 90%</li> </ul> <p><i>Unfortunately, EIOPA has not provided a concrete assessment of the total additional capital increase neither at country level nor in aggregate. Insurance Europe believes that the assessment provided is not representative of the true impact, for example is based on a simplified calculation where the impact is estimated on the basis of the 10 years maturity and not on the full interest rate curve, which distorts the results for certain currencies. <a href="#">It is therefore imperative that the Commission conducts a full impact assessment of the shifted approach for all currencies.</a></i></p>		
	<table border="1"> <tr> <td data-bbox="506 887 1176 1238"> <ul style="list-style-type: none"> <li>• EIOPA has proposed a shifted approach methodology.</li> <li>• A gradual implementation of the changes is proposed to reduce the immediate impact of the proposals.</li> </ul> </td> <td data-bbox="1176 887 1825 1238"> <ul style="list-style-type: none"> <li>• The calibration of EIOPA’s shifted approach will result in significantly increased capital requirements for interest rate risk.</li> <li>• EIOPA rejected stakeholders’ request to make the interest rate risk submodule consistent with the valuation methodology by only stressing the liquid part of the curve (and then extrapolating the illiquid part of the curve).</li> <li>• EIOPA acknowledge that changes to the interest rate risk submodule may impact the market risk correlations but notes this was not a priority and <i>could potentially</i> form part of a future review.</li> <li>• The design and calibration of the shifted approach was not formally consulted upon with stakeholders.</li> </ul> </td> </tr> </table>	<ul style="list-style-type: none"> <li>• EIOPA has proposed a shifted approach methodology.</li> <li>• A gradual implementation of the changes is proposed to reduce the immediate impact of the proposals.</li> </ul>	<ul style="list-style-type: none"> <li>• The calibration of EIOPA’s shifted approach will result in significantly increased capital requirements for interest rate risk.</li> <li>• EIOPA rejected stakeholders’ request to make the interest rate risk submodule consistent with the valuation methodology by only stressing the liquid part of the curve (and then extrapolating the illiquid part of the curve).</li> <li>• EIOPA acknowledge that changes to the interest rate risk submodule may impact the market risk correlations but notes this was not a priority and <i>could potentially</i> form part of a future review.</li> <li>• The design and calibration of the shifted approach was not formally consulted upon with stakeholders.</li> </ul>
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<p><b>Market risk concentration</b></p>	<p><b>Neutral.</b> As requested by the EC, EIOPA has provided information on the assumptions made by undertakings when calculating the market risk concentrations submodule. Clarification of the expected treatment of “mixed” exposures has also been proposed.</p>		

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	<ul style="list-style-type: none"> <li>A concrete proposal has been put forward by EIOPA which should remove ambiguity for certain exposures. Insurance Europe had no objection to this proposal.</li> </ul>	<ul style="list-style-type: none"> <li>EIOPA does not agree with industry recommendation to exempt strategic participations from this submodule.</li> </ul>
Currency risk at group level	<p><b>Broadly negative, as EIOPA proposes some changes, however not comprehensive and not in line with Insurance Europe’s proposal. On the positive side, EIOPA proposed improvements in the sense of flexibility over reporting currency. The benefits of this proposals are still to be confirmed by market participants.</b></p> <p><b>Insurance Europe had put forward a comprehensive approach which would remove the capital requirements for currency exposures which backed reasonable foreign currency capital requirements. This was unfortunately rejected by EIOPA, on the basis of need for simplicity.</b></p>	
	<ul style="list-style-type: none"> <li>A proposal has been put forward to allow groups to nominate an alternative “reporting currency” for the purposes of the currency risk submodule calculation which may ease the capital burden for specific groups.</li> </ul>	<ul style="list-style-type: none"> <li>EIOPA disregards the Insurance Europe proposal for alterations to the currency risk submodule standard formula as it believes it will overstate the diversification benefits.</li> <li>There is no recognition of the issues caused by the currency risk submodule for solo undertakings with foreign liabilities.</li> </ul>
Unrated debt	<p><b>Mixed. On the positive side, the advice foresees some improvements in line with Insurance Europe’s request (eg extension to CQS 3 debt) in the internal assessment approach. However, in order to have an application of CQS 3 in practice, the respective ratios have to be adjusted too. At the moment ratios for CQS 2 and 3 are equal. The internal models approach has not been improved, and it is likely to have very limited application in practice.</b></p> <p><b>On the negative side, the proposal is still viewed too burdensome and costly by some markets who invest primarily through funds. the proposal is still too burdensome when investing through funds.</b></p>	
	<ul style="list-style-type: none"> <li>On the internal assessment approach: EIOPA has proposed a number of improvements in line with concerns raised by the industry (eg inclusion of CQS3 debt in scope, reference to annual vs semi-annual statements)</li> </ul>	<ul style="list-style-type: none"> <li>The internal model approach remains highly unworkable (eg request for 50% retention rate by banks, internal credit ratings are acceptable only if they have supervisory approval, issues of client confidentiality, etc)</li> <li>The excessive burden on look through approach is still considerable.</li> </ul>
Unlisted equity	<p><b>Negative, as in practice there will be very limited application of this proposal which is very burdensome. EIOPA also ignored the industry proposal on the recalibration of long-term equity investment strategies. EIOPA’s proposals focused solely on unlisted equity, remain very complex given the expected marginal benefit (ie reductions from 49% to 39% SCR).</b></p>	

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	<ul style="list-style-type: none"> <li>The requirement to have 25 asset managers for diversification reasons has been amended to 5.</li> </ul>	<ul style="list-style-type: none"> <li>The proposals for unlisted equity remain complex and the criteria not straightforward to meet.</li> <li>EIOPA ignored the industry proposal for recalibrating long-term equity investment strategies.</li> </ul>
Strategic equity investments	<p><b>Negative:</b> EIOPA proposes no changes in the criteria for strategic equity investments, arguing that such proposals were not requested by the EC. Insurance Europe had argued that insurers would make more use of this tailored treatment if two criteria were changed, ie removal of the forward-looking short-term volatility criterion and change of the ownership &amp; control threshold from 20% to 10%.</p>	
	<ul style="list-style-type: none"> <li>EIOPA does acknowledge industry input on how criteria should be amended.</li> </ul>	<ul style="list-style-type: none"> <li>EIOPA refrains from making any proposals to the EC.</li> </ul>
Simplification of the counterparty default risk	<p><b>Positive.</b> Insurance Europe supported simplifications to the submodule aimed at reducing the burden of calculations. It should be noted that the proposed simplifications were chosen to be the most prudent options.</p>	
	<ul style="list-style-type: none"> <li>EIOPA has proposed three new simplified calculations and some clarifications on the existing text have been provided. These proposals are in response to Insurance Europe feedback.</li> <li>There are also several proposals regarding the treatment of derivatives in the submodule.</li> </ul>	<ul style="list-style-type: none"> <li>The complexity of the submodule is acknowledged by EIOPA but no analysis or proposals have been put forward to simplify its structure.</li> <li>Some of the proposed simplified calculations are very prudent which is likely to inhibit their usage</li> <li>EIOPA have disregarded the Insurance Europe proposal to apply a fixed rate risk charge for cash at bank exposures.</li> </ul>
Treatment of exposures to CCPs and changes resulting from EMIR	<p><b>Positive.</b> The proposals introduce significant reductions in the SCR for centrally cleared derivatives (ie in some cases new SCR will be 4% of previous SCR for CCP derivatives). Also, positive that benefit of collateralisation will be recognised also for bilateral transactions, in line with Insurance Europe requests.</p>	
	<ul style="list-style-type: none"> <li>Positive to see that EIOPA proposes reductions for SCR on both cleared and bilateral derivatives, in line with Insurance Europe's requests of the past few years (ie post-EMIR)</li> </ul>	
Simplification of the look-through approach	<p><b>Positive.</b> EIOPA's proposals are broadly in line with Insurance Europe position. The simplifications to the look-through approach suggested in the draft advice are also reflected in the final advice. On the <b>negative</b> side, the introduction of the additional condition (ie the obligatory assessment of error introduced in SCR calculation when full look-through is not applied) could imply an additional burden.</p>	

	<ul style="list-style-type: none"> <li>the simplifications to the look-through approach suggested: <ul style="list-style-type: none"> <li>the carve-out of assets for unit/index linked products from the 20% limit.</li> <li>the possibility to use the last reported asset allocation of the collective investment undertaking or fund to calculate the SCR</li> <li>the permission to use groupings of exposures also when the target asset allocation is not available at the level of granularity necessary</li> </ul> </li> <li>Updated wording for Art 84(3) and 84(3)(b) reflects Insurance Europe's demand to remove the condition to manage 'strictly' according to the target asset allocation. New wording is: 'manage assets according to target asset allocation'.</li> </ul>	<ul style="list-style-type: none"> <li>Introduction of the additional condition (ie the obligatory assessment of error introduced in SCR calculation when full look-through is not applied)</li> </ul>
<p><b>Look-through approach at group level</b></p>	<p><b>Positive. In line with Insurance Europe's request, EIOPA suggests making a change to the DA.</b></p>	
	<ul style="list-style-type: none"> <li>EIOPA proposes change to ensure that the look-through approach for related undertakings at solo level is mirrored at group level and vice versa.</li> <li>The application of the look-through for the related undertakings implies that SCR calculation will take into account diversification benefits within each related undertaking.</li> </ul>	
<p><b>Loss-absorbing capacity of deferred taxes</b></p>	<p><b>These own-initiative proposals remain overall negative, however with some clear improvements vs. previous discussions.</b></p> <p><b>On the positive side, EIOPA has retained for the most part a principle based approach as opposed to a "formulaic" approach to foster convergence in the recognition of future profits, and some of the restrictions in the projection of these future profits have been relaxed compared to the draft advice.</b></p> <p><b>However, on the negative side, the overarching foundation for these principles seems to be that assumptions post-shock cannot be more "favourable" than assumptions in the balance sheet (pre-shock). EIOPA advises that these principles be in the form of amendments to the Delegated Acts, as opposed to opinions/guidelines. In addition, EIOPA still proposes some arbitrary caps (eg projection horizon of new business sales is limited to 5 years).</b></p>	

	<p>Note: Regarding the impact assessment, EIOPA has conducted it on the data received from companies that responded to the latest EIOPA input gathering. Based on this sample, EIOPA concludes the following:</p> <ul style="list-style-type: none"> <li>• Capping the profits from new business to those in the business plan would decrease the amount of LACDT from 39bn to 37bn (ie a decrease in solvency ratio from 210,5% to 208.6%).</li> <li>• Restricting the projection of new business to 5 years and returns to the relevant risk-free rate would lead to a decrease in the amount of LACDT from 39 bn to 34.7 bn (ie a decrease in solvency ratio from 210,5% to 206.3%).</li> <li>• EIOPA has performed the impact assessment as if no future management actions were applied which overestimates the assessment.</li> </ul>		
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However, EIOPA advises that the FMAs are subject to the requirements set out in Article 23 of the Delegated Regulation, to be considered plausible.</li> <li>• <b>Role of system of governance:</b> EIOPA agrees that undertakings should be allowed some discretion in determining how their governance requirements are organized, but rules out that the audit function would be appropriate given its specific role and the independent assessment it should carry out.</li> </ul> </td> <td data-bbox="1173 619 1839 1283"> <ul style="list-style-type: none"> <li>• <b>Future profits stemming from return on assets:</b> returns in excess of the risk-free rates are allowed, but <u>limited</u> to the level assumed in the pre-shock DTA calculation – therefore no pull-to-par and no equity market rebound assumptions are permitted.</li> <li>• <b>Future profits stemming from new business – projection assumptions:</b> EIOPA advises to <u>link</u> the projection of new business (sales and profits) with the business plan.</li> <li>• <b>Future profits - projection of new business sales:</b> EIOPA advises that projection horizons in the post-shock scenario do not exceed those used for normal business planning. 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In addition, EIOPA advises that the total <u>amount</u> of new business sales in the LAC DT projection should not exceed that of the business plan.</li> <li>• <b>Role of compliance with MCR and SCR after shock loss:</b> The extent of compliance with SCR/MCR should be reflected, and any method by which post-shock solvency is taken into account must be assessed by the supervisor.</li> <li>• <b>Supervisory reporting and disclosure:</b> EIOPA advises for additional disclosures to the public and to the supervisors (by amending the SFCR and the RSR in the DA).</li> <li>• <b>The validation of the LAC DT</b> should reside with the risk management function and not with the actuarial function, whose focus is on technical provisions and underwriting risk.</li> </ul> </td> </tr> </table>	<ul style="list-style-type: none"> <li>• <b>Future profits stemming from returns on assets:</b> returns in excess of the risk-free rates are <u>allowed</u>, subject to proof (previously EIOPA was intending to only allow risk free projected returns).</li> <li>• <b>Projection horizon of future profits stemming from new business:</b> Profits from new business can be projected over a <u>longer horizon</u> than that of the business plan; however, EIOPA advises that haircuts are applied to these profits to reflect the increased uncertainty. 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Risk margin	<p><b>Negative.</b> EIOPA's recommendation not to change the 6% CoC does not address the issues of size and volatility of the risk margin, and its inappropriateness for certain long-term products. EIOPA rejected the extensive arguments and evidence</p>		

	<p>put forward by the industry that the CoC is too high. A value of 2-3% would be appropriate while remaining prudent. This is a missed opportunity for EIOPA to address these weaknesses, which are generally accepted by stakeholders throughout Europe.</p> <p>An <b>improvement</b> compared to the draft advice: in the final advice EIOPA admitted that its main focus so far was restricted to provide advice on revising the CoC rate as a fixed amount. EIOPA advises to perform the review of other aspects of the risk margin as a part of the 2020 review.</p>	
<p><b>Comparison of own funds in insurance and banking sectors</b></p>	<ul style="list-style-type: none"> <li>• <b>Future review:</b> EIOPA advises to perform a review of other aspects of the risk margin as a part of the 2020 review.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Outdated assumptions:</b> EIOPA has remained wedded to methodologies first developed in 2007-2008, and in particular the following assumptions: <ul style="list-style-type: none"> <li>○ Debt funding is omitted when CoC is determined</li> <li>○ Equity Risk Premium is backward looking</li> <li>○ Use of a levered beta</li> </ul> </li> <li>• <b>Industry proposals:</b> Stakeholders provided EIOPA with detailed proposals for a number of improvements to the risk margin framework. EIOPA has dismissed these with very brief, high-level comments.</li> <li>• <b>Purpose of the Risk Margin:</b> EIOPA does not appear to have done any work to assess the true transfer cost for different lines of business, and whether the risk margin genuinely simulates that in a reasonable way across a range of products. EIOPA has a duty to do this work.</li> </ul>
	<p><b>Mixed..</b> On the <b>positive</b> side, compared to the first draft, EIOPA advises to allow partial conversion and to extend the exceptional waiver in case of conversion. On the <b>negative</b> side PLAM waiver options are not available for all adverse scenarios. Moreover, EIOPA does not acknowledge trigger inversion and the 3-month period in Art 71(8)(c) has not been extended.</p>	
	<ul style="list-style-type: none"> <li>• Introducing permission to partially write down RT1 instruments where mandatory trigger of 3 months SCR has been breached, but only as long as 75% SCR breach and MCR breach triggers have not been triggered. As a minimum RT1 is written down on a straight-line basis so that full write down is reached at 75% SCR breach (and no MCR breach). Additionally, SCR coverage should be recalculated, and if necessary further write down should be performed.</li> </ul>	<ul style="list-style-type: none"> <li>• As PLAM waiver options are not available for all adverse scenarios, the risk remains that in certain circumstances write-down will lead to a deterioration of the solvency ratio.</li> <li>• Compared to the draft advice, EIOPA added an adverse clarification that no PLAM waiver should be available where PLAM reduces own funds via a reduction of T3.</li> <li>• The impact of trigger inversion is not addressed. EIOPA believes this is intended by the Directive.</li> <li>• The 3-month period in Art 71(8)(c) should be extended to 6 months.</li> </ul>

	<ul style="list-style-type: none"> <li>Supervisors are enabled to grant an exceptional waiver from the requirement to write down or convert, subject to conditions.</li> <li>For rT1 instruments which convert on trigger, the approach set out in the first bullet is also applicable.</li> <li>Tax effect of writing down RT1 on trigger. No alignment with banking. Recommendation to allow for full recognition of amount of RT1 on issuance. .</li> </ul>		
<b>Capital instruments only eligible as tier 1 up to 20% of total tier 1</b>	<b>Positive. EIOPA recommends the status quo by keeping the 20% limit untouched.</b>		
	<ul style="list-style-type: none"> <li>EIOPA advises the retention of the 20% limit which is also supported by the industry. If the 20% were removed, EIOPA believes that there are no changes to the features of hybrid instruments that would fully mitigate the resulting loss in capital quality.</li> </ul>		
<b>Article 209(3): Allowed adjustments to risk-mitigation techniques</b>	<b>Neutral. EIOPA does not propose to include a new concept of "exposure adjustments" but it provide clarification of its interpretation of what can be considered to be sufficiently similar.</b>		
	<ul style="list-style-type: none"> <li>EIOPA advises to maintain the existing text, noting that the current requirement of similarity is sufficient. It recommends that undertakings record any deviations between the risk mitigating effect in the standard formula and the actual risk mitigation in the ORSA.</li> <li>EIOPA further clarifies what it meant by "dynamic hedging" which is not permissible in the standard formula.</li> </ul>		
<b>USP for lapse risk</b>	<b>Negative. EIOPA does not advise to introduce a USP for lapse risk despite an industry proposal</b>		
		<ul style="list-style-type: none"> <li>EIOPA has rejected the industry proposal on the grounds that it has shortcomings with regards to scope, data quality and method appropriateness.</li> </ul>	
<b>Recognition of adverse development covers</b>	<b>Negative. EIOPA propose not to alter the standard formula to recognise adverse development covers (ADCs), despite a comprehensive proposal put forward by the industry.</b>		



		<ul style="list-style-type: none"> <li>• EIOPA has provided a few counterexamples where the industry proposal would not provide a sufficient level of prudence. EIOPA has, therefore, concluded that it would not be appropriate to adjust the SF to account for ADCs.</li> <li>• See industry proposal in annex.</li> </ul>
<b>Impact assessment</b>	<b>Negative:</b> EIOPA has provided an inconsistent impact assessment which does not address Insurance Europe's request for an overall assessment of the impact on the ability of insurers to provide long-term products and investment.	
		<ul style="list-style-type: none"> <li>• EIOPA has provided a holistic risk assessment but this does not reflect the relative importance of the topics and provides little information on the aggregate impact.</li> </ul>

**1. Proposal for addressing shortcomings in comparison of own funds in banking and insurance**

**Extension of PLAM waiver option**

Insurance Europe believes the PLAM waiver option should be available whenever PLAM would lead to a reduction of relevant solvency coverage ratios (ie group SCR or MCR ratio, solo SCR ratios), including in the following cases where:

- PLAM reduces solvency coverage via a reduction of deferred tax assets and thus via a reduction of eligible Tier 3
- PLAM reduces a relevant solvency coverage where PLAM is triggered by the breach of the Group MCR (in case of trigger inversion)

Therefore, Insurance Europe believes that regarding the proposed addition **to Art 71 (paragraph 2057):**

- Condition (i) *[neither of the trigger events specified in points (a) and (b) of paragraph 8 have been met]* should be deleted
- Condition (ii) should be amended (text added) as follows: *the supervisory authority has exceptionally waived the triggering of the principal loss absorbency mechanism based on projections provided by the insurance or reinsurance undertaking at the same time as it submits the recovery plan required by Article 138(2) of Directive 2009/138/EC which demonstrate that the triggering of the principal loss absorbency mechanism is very likely to lead to a tax liability or a tax asset that will have a significant adverse effect on its Solvency Capital Requirement coverage, a certification by the insurance or reinsurance undertaking's statutory auditors that all of the assumptions used in the projections are realistic.*

**2. Industry proposal for the recognition of adverse development covers**

For all segments ~~set out in Annex II~~, the standard deviation for non-life reserve risk of a segment shall be equal to the product of the standard deviation for non-life gross reserve risk of the segment ~~set out in Annex II~~ and the adjustment factor for non-proportional reinsurance. For all segments ~~set out in Annex II~~ the reserve risk adjustment factor for non-proportional reinsurance shall be equal to:

$$NPres = (A - (B - C) \times D) / A$$

- A: Impact on the BOF of reserve risk scenario as defined under the SF = Nominal best estimate net reserves x Standard deviation for non-life gross reserve risk of the segment x 3
- B: ADC recovery under reserve risk scenario = The lower of the following:
  - ~~(Nominal outstanding best estimate net reserves covered by the reinsurance structure + Paid net reserves covered by the reinsurance structure since inception of the reinsurance structure + Nominal outstanding best estimate net reserves covered by the reinsurance structure x 3 x Standard deviation for non-life gross reserve risk of the segment) - Change in ultimate reserves covered by ADC (ie ADC recoveries) - Reinsurance structure attachment point~~ ~~Nominal best estimate net reserves covered by the reinsurance structure x (1 + 3σ(res,s)) - Reinsurance structure attachment point~~



■ Reinsurance structure cover size

- **C:** Additional reinsurance premium or the equivalent thereof
- **D:** Cession to the reinsurer in %