	Comments Template on Request for Feedback on Methodological Considerations regarding Illiquid Liabilities	Deadline 7 December 2018 23:55 CET
Name of Company:	Insurance Europe	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to CP-18-004@eiopa.europa.eu** **Our IT tool does not allow processing of any other formats.** **The numbering of the reference refers to the questions** in the Request for Feedback on Methodological Considerations regarding Illiquid Liabilities. Please indicate to which question your comment refers.	
Reference	**Comment**	
General Comment	The current treatment of long-term insurance business and long-term investment by insurers under Solvency II is overly conservative. This is primarily because Solvency II generally assumes that insurers are exposed to the risk of loss due to forced asset sales on their entire investment portfolio. This assumption is flawed and has a number of negative consequences which result in an overestimation of the value of liabilities and excessive capital requirements which are not reflective of the risks which insurers are exposed to. One important aspect is that in fact insurers can earn an illiquidity premium which should be reflected in the discount rate used to value the liabilities.	

Insurance Europe therefore supports the investigation of insurers ability to avoid 'detrimental forced asset sales and consideration of the illiquidity of insurance liabilities would be part of this work. Work on forced selling should form a key basis of regulatory changes which aim to improve the Solvency II framework to improve the treatment of long-term liabilities and long-term investments.

As noted by EIOPA, the assessment of the illiquidity of liabilities should identify the features of the insurance liabilities which may impact the ability of insurers to hold their assets without being forced to sell. Where detrimental forced selling can be avoided a number of important economic effects need to be reflected in Solvency II:

- The nature of asset risk changes from a short-term exposure to price changes to a long-term under-performance.

EIOPA's proposed approach

EIOPA has proposed to develop a number of "illiquidity indicators" without providing sufficient information on how these indicators will be used. Further information on EIOPA's intentions with regard to these indicators is needed to enable stakeholders to provide more comprehensive input on how they should be designed.

EIOPA has proposed to assess the illiquidity of the assets and liabilities separately. Insurance Europe considers this approach to be fundamentally flawed:

- It does not reflect how insurers manage their liquidity (and other investment) risks in practice. A holistic assessment of illiquidity which encompasses all asset and liability cashflows (including other sources of liquidity such as profits from other businesses and new premiums reinsurance) is preferable and will provide a more representative view of the true liquidity risks. A holistic approach is the only way to capture an insurer's asset-liability management (ALM) and liquidity management.
- It is limited to an assessment of existing policies. In reality, an insurer is likely to have a

significant source of additional liquidity from own funds or from future premiums arising from existing contracts, renewals or new sales. Own funds can be kept in a going concern perspective, are very predictable and hold over long periods of time. Future premiums not only provide a regular and predictable income stream but also provide stability to the balance sheet i.e. as older policies mature, they are renewed or replaced which provides the insurer with a predictable liability profile to support investment in long-term assets.

Insurance Europe also regards the methodologies proposed by EIOPA to be highly theoretical and likely to provide only limited insight into real-world liquidity considerations and risks.

- An assessment of the "terms and conditions of the contract (e.g. cancellation rights)" gives qualitative information on the potential illiquidity of each contract. It provides information of what is theoretically possible but no information on what is probable. As shown in EIOPA's analysis, contract design is largely unrelated to average surrender/cancellation rate. However, EIOPA did not assess the link between terms and conditions of the contract and the volatility of lapse rates.
- An assessment of the duration of insurance liabilities in stressed circumstances does not appear to provide sufficiently useful information from which to appropriately assess the insurer's liquidity profile.
- The sensitivity of liability cash flows when exposed to stress conditions allows a quantitative analysis. However, the proposed approach is not practicable beyond simple examples and does not consider the sources of insurers liquidity.
- EIOPA's paper puts significant focus on analysis and measurement of the holding period of individual investments. However, it is not at all clear how the holding period of individual assets impacts the risk of forced selling. It does not appear to be of any prudential relevance. An insurer selling at a gain is not a concern – it is ány potential loss arising from being a forced-seller during a temporary market price drop that is of concern.
- Long-term investment cannot be defined by the holding period of individual securities. Any assessment of long-term investment should focus at a portfolio level. There are many valid reasons, consistent with good risk management practices, why an insurer will

	transact within its long-term portfolio including reduction of concentration, portfolio optimisation and rebalancing. EIOPA has indicated plans for an extensive data collection exercise early in 2019 on the basis of this consultation. However, the data collection can be expensive and resource intensive for insurers and it is premature to do such an exercise before there is greater clarity over the overall framework, methodologies and how they will be used in practice to achieve better alignment between Solvency II and long-term risks. Once this is clear, a data exercise, if found to be of value, can be appropriately designed. **Insurance Europe proposal** Insurance Europe considers that the "illiquidity indicators" should be the exposure to losses arising from forced asset sales. The most appropriate way to measure this risk would most likely be through an appropriately designed liquidity stress test. For simplicity, Insurance Europe proposes that exposure to forced sales, required to meet the liquidity needs, should be assessed on the basis of a deterministic scenario including liquidity events the insurer is exposed to (i.e. for the majority of insurers this is likely to be a lapse event). Once the insurer is able to identify its exposure to loss due to forced asset sales, then it will be able to identify the portion of its assets which are "long-term" assets. These assets are exposed to long-term asset risks which should be reflected in the capital requirements for these assets; for bonds, this is default risk and for equities it is long-term underperformance (taking into account dividends as well as capital gains/losses).	
Q1	Insurance Europe strongly agrees that the illiquidity of insurance liabilities should be discussed in the context of the assets backing those liabilities. Illiquidity should be assessed according three key elements : time horizon, predictability and going-concern. The starting point for the investigation should be an asset-liability assessment, on a going-concern basis, of the insurer's ability to hold their assets without being forced to sell them.	

	In addition to those aspects suggested by EIOPA, Insurance Europe details the following specific considerations which also need to be made as part of the assessment: • The economic impact of being able to avoid forced selling is intuitively deemed more significant for long-term products (such as annuities, profit sharing products, funeral business, etc.) and their associated assets, however it can have an important impact on any product and related assets. For example, non-life products (such as motor, house, etc.) have typically a one year contract boundary but the settlement can take many more years. Also, for such products, renewals and new business can create a going-concern situation where there is a core level of liabilities which is very stable • It is key to observe that a significant part of the undertakings' balance sheets are the own funds (at least the SCR) that are kept on a going concern perspective, which are very predictable and held over long periods of time. Hence own funds should also be taken into account in the assessment. • EIOPA should take account of exit valuations that may be influenced by spread developments. The insurer may be able to pass some of the losses arising from spread-increases to the client when they unexpectedly lapse the insurance contract. As example, unit-linked liabilities will have no /very limited liquidity risk. • In order to analyse the predictability of insurance liabilities, one could also use the historical volatility of lapse rates as an indicator. For example, the German life insurance market is characterized by stable lapse rates. Since 1995, relative year-on-year changes in the overall lapse rate have never exceeded 10% of the previous rate (even during the 2007–2009 financial crisis). Lapse rates have been falling every year for the last ten years, which might be partially due to the lower unemployment rate. A further observation is that lapse rates do hardly depend on the contractual maturity. However, there seems to be a dependency to the expired duration of the contract: lapse mostly happens in the first years of the contract whereas "older" contracts are rarely cancelled.	

Q2	Any product in principle that satisfies an appropriate set of criteria should be in scope. Only pure unit linked are less relevant in this particular context as they do not have ALM aspects to them as the investment decision relies on the policyholder's behaviour. However, their profits can be sources of liquidity that can help avoid forced selling of assets backing other products and this can be relevant in assessing the overall ability of the insurer to avoid forced selling.	
Q3	No, Insurance Europe does not consider that the solvency position is of significant impact in the assessment of surrender risk. The surrender calibrations (40% for retail and 70% for commercial business) are already considered overall prudent and extreme. They already effectively assume a solvency problem because this is most likely the only scenario which could possibly cause anything approaching the level of surrenders implied by the scenario. Making surrender risk explicitly dependent on solvency ratios could potentially create 'cliff edge' effects and procyclical mechanisms.	
Q4	Insurance Europe considers that an assessment of contract terms and conditions leads to an analysis which focuses on legal form over economic substance. As such, the outcomes of this assessment should be assessed very carefully because it could result in effectively long-term contrats being judged as short-term contracts. To go beyond legal appearances, it is key that the assessment relies on going concern. Other characteristics to take into account include: • "Positive" incentives not to cancel (e.g. loyalty bonuses); • The level and long-term value (to the customer) of any guarantees • Observed renewal rates for products with short contractual durations	

	In addition, there are a number of non-contractual disincentives which also need to be considered. • Fiscal incentives (which can be material for certain long-term savings contracts and should be considered in a separate category for macroprudential purposes); • The legal difficulties of surrendering an employee-benefit scheme; • The disincentives driven by cost of, and the underwriting burden, to the policyholder of sourcing a replacement contract; • The availability of other products (in the insurance, the pension or the banking sector) offering equivalent returns and guarantees; • the Inheritance rules and other tax disincentives (for example, in some jurisdictions, the life insurance capital can be out of the scope of the inheritance capital and the inheritance rules are not applied to the life insurance capital). Insurance Europe also considers that (Discretionary) Future Profit sharing features have to be analysed in an ALM context. Although future discretionary benefits (FDB) themselves are less predictable than guaranteed cash flows, in the end FDB help to avoid forced sales. If current capital income is lower than originally forecasted, then the payments for profit participation are also reduced (buffer effect). So, precisely because the profit participation is not fixed in advance, it increases the predictability of the sum of all incoming and outgoing payments and, thus, reduces the risk of forced assets sales.	
Q5	Yes, Insurance Europe firmly believes that disincentives to surrender/cancel a contract have an important impact on the surrender risk to the insurer. All else being equal, any rational individual or entity will naturally be less inclined to surrender a contract in the presence of any disincentives such as surrender penalties. There is always a portion (floor factor) of premature contract terminations which is caused by changes (or initial misjudgements) of private financial, professional or personal circumstances (e.g. becoming parents, home purchase, illness, divorce, unemployment). Terminations for such	

reasons are hardly dependent on the incentives in the contract design nor on economical circumstances. However, for the insured collective they are predictable to a large degree and part of the best estimate projections. This explains that EIOPA finds no strong connection between surrender rates and the existence of disincentives to surrender in the historical sample.

Nevertheless, under certain circumstances there might be additional terminations for different reasons. Whether such terminations actually occur depends strongly on the contract design. Assuming that some policyholders would terminate their contracts on the basis of a pure profitability calculation, then not only the financial market constellation but also the exact contractual conditions would be decisive. Lapse discounts or surplus participation which is linked with the regular termination of the contract, e.g., can result in a continuation of the contract being advantageous even if interest rates rise. This means that disincentives to surrender a contract can have a strong effect although this effect cannot be observed at all times and in all data samples. However, as this incentive effect occurs precisely in adverse financial situations, it can lower surrender risk for the undertaking significantly.

The existence of a mandatory environment, e.g. automatic/mandatory participation in 2nd pillar retirement savings, where local laws require investments to remain in a 2nd pillar environment is also relevant for consideration. In this case, surrender can usually happen only:

- On a collective (=level of the contract) basis when the sponsoring undertaking decides to bring the contract to another insurance entity at the end of the contract term (but only if the sponsor chooses to carry over the accrued pension entitlement and stakeholders (employees/beneficiaries/unions) have given consent). Otherwise the accrued benefits will remain with the original insurance undertaking as paid up.

- On an individual basis (beneficiary level, not contract level) when a participant in such a pension scheme changes jobs (there is no other means/trigger to have a value transfer to another pension scheme).

	In terms of evidence, Insurance Europe would suggest investigation of existing supervisory data on surrenders as a primary source of data on this topic. The UK market notes some evidence of single premium bond business, prior to the Retail Distribution Review, where products exhibit lower levels of lapses when a surrender penalty applies.	
Q6	The insurer's ALM is based on liability cashflows which usually consider the prudently estimated lapse rate. Beyond that, the characteristics identified do not affect investment behaviour. The cashflow projections which the asset management is based on usually consider the estimated lapse rate conditional on the market scenario under consideration. If deemed relevant, also scenarios with stressed (higher) lapse rates are considered. Additionally, sometimes the risk of having to cover unexpected cashflows from the liquidity reserve because of higher than expected lapses is taken into account as well.	
Q7	Insurance Europe does not consider biometrical risks to be relevant as part of a qualitative assessment of illiquidity. The biometrical risks inherent in the contracts are already reflected in the expected liability cashflows and do not require additional assessment in the context of the contractual T&Cs.	
Q8	Products which do not create material liabilities or require material capital requirements should be excluded from the work on illiquid liabilities. However, Insurance Europe believes it is important to keep in mind that, for example, product details and local interpretations can differ between countries as well as companies providing "unit-linked products with no guarantee". Therefore, conclusions about the scope should not be drawn only based on the name of the products.	
Q9	No, Insurance Europe does not agree that Macaulay duration, and/or possible variations of Macaulay duration in times of stress, are an appropriate indicator for assessing the illiquidity of most insurance liabilities. In the introductory section in part 3 (page 6 of the consultation document), the illiquidity of	

	insurance liabilities is discussed in the context of the features of insurance liabilities which may impact the ability of insurers to hold their assets without being forced to sell them. The duration of the liability cashflow profiles, provided by undertakings, does not provide any information on the potential need to be forced seller of assets. It is possible to have liquid 30 year duration contracts and illiquid 5 year duration contracts. The variation of the Macaulay duration in times of stress is also not considered a good indicator, as a change in duration as a result of interest rate movements does not directly show whether this results from a change in cash flows (indicating a change in liquidity) or from the convexity effect (without any change in cash flows). Indirect effects on cash flows because of changes in policyholder behaviour after interest rate changes can more easily be measured by directly looking at the cash flow level itself instead of looking at the duration.	
Q10	As noted in response to Q9, Insurance Europe does not support the use of Macaulay duration as a suitable indicator of illiquidity. If EIOPA are to pursue this approach, the components needed to define these cashflows are: • Best estimate base-case cash flows, without stochastic components. • For sensitivity research, probable/likely changes to best estimate assumptions. Insurance Europe believes that the risk margin should be excluded from the cashflows. For practicability and comparability, stochastic simulations and averaging over enormous sets of stochastic cash flows (or other approaches, like median) should be avoided. Note that, in this context, stochastic simulations refers to the calculation of the time value valuation. Intrinsic value should, of course, be captured in the best estimate cashflows and sensitivity runs. Insurance Europe also strongly recommends that any analysis is completed at a high-level unit of account (LoB or total), since the general account assets are not attributable to specific products (or to LoBs into which a product can be unbundled).	

Q11	Considering that the proposed approach tries to capture optionality impacts through stress-testing, Insurance Europe does not foresee the benefit of using an option adjusted or effective durations.	
Q12	No. If duration is to be analysed, Insurance Europe supports an assessment at a level reflecting the way insurers manage liquidity in practice. This approach would be consistent with the objective of the overall exercise which should be to research the link between liabilities and assets.	
Q13	Insurance Europe does not agree that this approach should be further investigated.	
Q14	As noted in response to Q10, Insurance Europe proposes that for practicability and comparability reasons, stochastic simulations and averaging over large sets of stochastic cash flows (or other approaches, like median) should be avoided.	
Q15	Insurance Europe is skeptical about the effectiveness of the two approaches for measuring the illiquidity of the liabilities. Furthermore, the application of these approaches to an extensive set of cashflows from a real insurance portfolio with billions of present values and up to 100 time stamps in the future is not practicable. In the proposed approaches, it is the size of the shock that determines the perceived illiquidity of the liability. From that perspective, the application of average lapses/surrender could be considered to provide the necessary information and would show high levels of illiquidity. In addition, Insurance Europe notes that the 1st approach is more straightforward than the 2nd. But for simple examples only. There is also a time-inconsistency in both calculations. For the first, the minimum can be based on the base-case for one horizon, and on the stress-case for another horizon. For the second, the maximum can change over time. Most conservative would be to take the minimum cash-flow for each period. Indeed, that is what we would advocate for stochastic	

	liabilities. However, in Insurance Europe's view, considering the liability cash flows in isolation, as proposed, does not provide a comprehensive view of the liquidity characteristics of the liabilities. A more holistic approach is necessary, encompassing assets and liabilities. **Insurance Europe proposal** Insurance Europe believes that the "illiquidity indicators" should be the exposure to losses arising from forced asset sales. The most appropriate way to measure this risk would most likely be through an appropriately designed liquidity stress test. For simplicity, Insurance Europe believes that exposure to forced sales, required to meet the liquidity needs, should be assessed on the basis of a deterministic scenario including liquidity events the insurer is exposed to (i.e. for the majority of insurers this is likely to be a lapse event). Once the insurer is able to identify its exposure to loss due to forced asset sales, then it will be able to identify the portion of its assets which are "long-term" assets. These assets provide the insurer with an illiquidity premium which should be incorporated into the discount rate used to value the liabilities. They are also exposed to long-term asset risks which should be reflected in the capital requirements for these assets; for bonds this is default risk and for equities it is long-term underperformance (taking into account dividends as well as capital gains/losses).	
Q16	As noted previously, Insurance Europe does not believe that considering liability cash flows in isolation provides a comprehensive view of the liquidity risk to the insurer. Nevertheless, Insurance Europe considers that, as a general rule, any measure should take into account the time value of money and therefore use discounted cash flows. Not to do so would be technically incorrect and could lead to the wrong conclusions. For consistency, Insurance Europe would propose to use the Solvency II risk free rate curves.	

Q17	As previously discussed in response to Q15, the proposed methods would require extraction of modelled liability cash flows under base and stressed scenarios for all product types, which would be extremely burdensome for undertakings to provide. Assumptions and projections would have to be made for new business and renewals as they have to be made for cash flows of in force obligations included in the best estimate.	
Q18	Insurance Europe believes that the assessment should be made on only one stress scenario combining both assets and liabilities' shocks and not stand alone shocks. The projection of cashflows after each individual scenario would result in a significant additional reporting burden. Insurance Europe notes that some of the proposed stresses appear implausible. For example, the 100% mortality rate and 100% lapse assumption. The current 40% mass lapse is already an extreme assumption. Lapse risk is the most important risk for the assessment of illiquidity and should consider contractual properties and the impact of market scenarios. The other risks proposed only have a subordinate role. In valuation models for life insurance products, the effect from expected market fluctuations is already captured via dynamical lapses and thus already captured in the expected cash-flows stemming from these. Thus, these liabilities could already be considered as illiquid. Please also refer to the Insurance Europe proposal outlined in response to Q15.	
Q19	No, Insurance Europe does not believe that the scenarios capture the interconnections because they are based on assumptions about the behaviour of the policyholders and their objectives with regard to their life insurance covers/pension products. An equivalent single scenario which combines both assets and liabilities' shocks would better	

	capture the interconnections between lapses and market risks.	
Q20	In theory, multi-year horizon stresses should be considered because shocks on insurance business are never instantaneous and allow the insurer to take management actions. The analysis could also be limited to the horizons that are relevant from an asset-only perspective. However, for simplicity, Insurance Europe would support further investigation of instantaneous shocks provided that they appropriately reflect the full range of management actions. See also response to Q15.	
Q21	Insurance Europe does not agree with the proposed restriction of shocks to policies where the event results in a loss. This does not reflect the nature of insurance business, of which mutualisation is fundamental. In a liquidity assessment it is irrelevant whether there is an increase/decrease in technical provisions.	
Q22	No, Insurance Europe believes that any assessment of the management of investments should be made at the level that reflects the ALM practices of each firm, such as at portfolio level. The fixed level of granularity being investigated by EIOPA does not provide sufficiently meaningful information to aid the understanding of the insurer's ALM, which should be the overarching focus of the whole exercise. EIOPA's paper puts significant focus is put on analysis and measurement of the holding period of individual investments. However, it is not at all clear how the holding period of individual assets impacts the risk of forced selling. It does not appear to be of any prudential relevance. An insurer selling at a gain is not a concern – it is any potential loss arising from being a forced-seller during a temporary market price drop that is of concern. The hypotheses implied by the investigation, that only insurers who buy and hold investments can	

claim to be long-term investors, is deeply flawed. It also runs contrary to the prudent person principle and sound risk management practices.

There are many reasons for turnover within a portfolio which do not impact the ability of the insurer to hold this portfolio over the long term. These include:

1. Active management
2. Rebalancing to bring allocations back within risk limits and tolerances
3. To reflect risk management (e.g. to reduce certain counterparty exposures or to reflect changing views of credit quality)
4. Investment of premium income
5. To reflect changes in benchmark allocations in passive management strategies (e.g. updates to standard FTSE/MSCI indices)
6. Accounting and fiscal considerations

The key elements which should considered at portfolio level are the insurer's risk appetite, risk profile, strategic asset allocation and exposure to forced asset sales.

In addition, Insurance Europe highlights the following drawbacks of the proposed methodology:

- The data is not sufficiently deep to provide significant conclusions on an undertaking's ability to hold assets over the long-term. Long term investment cannot be investigated on a period shorter than 5 years.
- It appears that the calculation may be incorrect. For example, if the number of units held at time t-1 is 10 and 2 are sold, then the number of units held is 8 (= 10 - 2), whereas under the proposed calculation this would appear to be 6 (= 8 - 2).
- The 2016 data may be an outlier where undertakings did still change their investment choices in anticipating on Solvency II.
- The analysis of holding periods in the German business model is influenced by business policy reasons and regulatory requirements (e.g. financing of "Zinszusatzreserve", expectations of the capital markets development, or steering of SCR-sensitivities). These influences have

	nothing to do with liquidity issues. Resulting sales are not forced but self-chosen. • Insurers may buy and sell short-term bonds instead of holding cash.	
Q23	Insurance Europe reiterates that any consideration of holding periods should be done at portfolio level, not at individual assets level granularity. In the proposed analysis, additional clarity is required on the treatment of changes in investments for specific purposes, such as treatment of (a) new business (presumably this is excluded),(b) transfers between sub-funds within the same entity/during corporate restructuring; and (c) reinsurance/M&A. Presumably all of these need to be excluded from the calculation in order to generate a true reflection of the holding period and how this would change. In this respect, any data request should include a comment field where new business or risk management decisions with significant impact on the metrics can be mentioned (just to have the opportunity to put numbers into perspective where necessary). One potential area of interest could be to examine the link between the duration of the credit exposures and the duration of the illiquid liabilities. Another, related area could be whether longer-term credit exposures (against longer-term liabilities) are invested in higher ratings than short-term credit exposures (against shorter-term liabilities).	
Q24	No. • The data is not a sufficiently deep to provide significant conclusions on an undertakings ability to hold assets over the long-term. Long term investment cannot be investigated on a period shorter than 5 years. • The year end 2015 data may be an outlier where undertakings were still changing their investment choices in anticipation of Solvency II. • The analysis of holding periods is influenced by business policy reasons and regulatory requirements (e.g. financing of “Zinszusatzreserve”, expectations of the capital markets	

	development, or steering of SCR-sensitivities). These influences are not related to liquidity issues. Resulting sales are not forced but self-chosen. • Some markets invest a substantial amount of total assets in loans. These loans are non-listed and there is barely a secondary market. Insurers have to accept a large discount when selling these loans. Therefore, a large portion of these assets are normally held until maturity, however, loans are obviously not covered by the EIOPA analysis yet. The same arguments hold for real estate, alternative investments / infrastructure and/or mortgages. Even if some of these classes do not have a maturity, they are held for quite long time periods to earn the higher return of these asset classes.	
Q25	EIOPA has indicated plans for an extensive data collection exercise early in 2019 on the basis of this consultation. However, the data collection can be expensive and resource intensive for insurers and it is premature to do such an exercise before there is greater clarity over the overall framework, methodologies and how they will be used in practice to achieve better alignment between Solvency II and long-term risks. Once this is clear a data exercise may indeed be of value and can be appropriately designed. Insurance Europe proposes a qualitative, rather than quantitative approach, which it believes would provide the necessary information: • Assess the asset classes that cover the majority of the balance sheet (focus on portions of the balance sheet made up by bonds and equities); • Identify holding periods at portfolio level from asset management policies; • Assess duration/maturity profile of the fixed income portfolios.	
Q26	As noted previously, the data and methods do not fit for the purpose of assessment of long-term investment. Consequently, Insurance Europe does not consider the outcomes to be relevant. The results for participations do not seem credible; there may be volatility here from developing insights in the early years of SII application on treatment of related collective investment	

	undertakings. So not necessarily buying and selling, but also changes in classification in balance sheet line items (e.g. back and forth between 'UCITS' and 'Related Undertakings Including participations'). Insurance Europe also reiterates its concerns about the 2016 data; it may be an outlier due to changes in investment strategy as a result of the implementation of Solvency II as well as effects of the low yield environment on asset allocation.	
Q27	No, Insurance Europe does not consider that regression analysis, fitting across a wide variety of product types, is an appropriate indicator of the liquidity of liabilities. As noted previously, Insurance Europe prefers a more qualitative approach from ALM and investment policies perspective which demonstrates that links exist between the liabilities and the assets. A mathematical link seems to serve no (clear) purpose. While the proposed regression analysis is potentially interesting, from a highly theoretical point of view, it appears that the equation contains too many parameters to be estimated with the data. Beyond that it is not comprehensible why which quantities are time-dependent and which are not.	
Q28	Insurance Europe questions the overall rationale for this part of the exercise and does not support the assessment of excess returns in this way. Neither long-term, nor short-term, spread risk is relevant for a bond which is held to maturity (except the implicit default risk). The exercise is, therefore, very theoretical. Insurance Europe also regrets to read that EIOPA restricts its thinking to only life insurers (page 27). As noted previously, non-life insurance technical provisions may extend to long horizons similar to those of life. The proposed restriction to Euro bonds will also not be reflective of the UK, US or other markets	

	and a material proportion of the bond market is in >10-year maturities, which appear to be excluded. Insurance companies are significant investors in longer dated bonds to back long dated liabilities.	
Q29	No. As noted above, Insurance Europe does not support the proposed analysis of excess returns. It is also worth noting that losses relative to risk-free rate doesn't necessarily require an SCR. That depends on whether the change was driven purely by spread changes, without any changes in default fundamentals. A dynamic illiquidity premium on the liabilities may change with it. The first (and second) formula under section 4.2.2.1 is unclear, based on the description below the formula. Why is the part before x in the formula?	
Q30	As noted above, Insurance Europe does not support the proposed assessment of excess returns. Nevertheless, if the assessment is to be done, the proposed approach appears to be broadly reasonable. If there is an asset that migrates from AAA to AA between t=0 and t=1 (with probability 1), the formula seems to suggest that the excess return for this bond at time t=1 is equal to the excess return of (some other) AA bond between t=0 and t=1. In that case, the excess return is overestimated/the loss due to the downgrade (from AAA to AA) is ignored. Insurance Europe also notes that it is not clear whether more than one rating agency will be used, and what happens to bonds where ratings are withdrawn. Notching has been ignored, but there is a big difference between BBB+ and BBB- bonds in terms of credit risk.	
Q31	No.	
Q32	No comment.	

Q33	No, Insurance Europe reiterates that the long-term spread risk is not relevant for a bond which is held to maturity (except the implicit default risk). The reasoning underlying the analysis is only justified for undertakings whose financial results account for unrealized financial gains. For example, an undertaking buys at par a bond maturing in 5 years yielding 2.5%. The financial results of this bond are known from the acquisition date up to the next five years with the only uncertainty of a possible default and forced sales. If the undertaking can avoid forced sales then switching from one index to another is not fully reflective of economic reality. Although valuing every asset at market value and taking market yield makes sense in the context of assessing a market value for the company, it does not give a reliable indication about the ability of the undertaking to hold its position over long period of time and discourages long term investments**.**	
Q34	No.	
Q35	No.	