

Insurance Europe key position on LTG measures ahead of the French Presidency Council meeting on 18 March

Key messages to convey

Volatility adjustment

- The industry does not support introducing a quality overshooting ratio to the VA.
- The EC's proposal for the VA is supported with the exception of the proposed change to the risk correction (RC) which is a key element of the VA calculation. Insurance Europe strongly supports the retention of the current RC methodology. However, if a change is taken forward, the calibration must be improved to avoid undermining the purpose and effectiveness of the VA. This can be achieved by:
 - Gradually reducing the impact of the risk correction on the level of the VA when credit spreads widen significantly ie when spreads are in excess of twice their long-term averages (LTAS).
 - Reducing the percentages in case the spread values exceed their LTAS.
- The industry does not support the introduction of new safeguards for internal model users in terms of the Dynamic Volatility Adjustment (DVA).

Extrapolation of RFR curves

- If a change in the extrapolation methodology is taken forward, Insurance Europe supports that the calibration of the extrapolation should be improved to ensure that any unintended consequences, such as increased volatility, are minimised.
- Unjustified changes should not be introduced, as they would increase the cost of long-term products and increase volatility.
- The main extrapolation parameters, including the convergence parameter, should be included in the Directive.
- The key "speed of convergence" parameter must be significantly increased to least 15% for the EURO and to around 70% for SEK to avoid excessive increases in the valuation of long-term liabilities and magnification of the artificial volatility to interest rate movements.

Matching adjustment

- The EC proposal on Article 86 to remove the restrictions on diversification of MA and non-MA portfolios is supported by the industry.

Duration-based equity risk submodule (DBER)

- The industry supports EC's proposal to remove the DBER submodule as this is currently not widely used.
- However, it is important that the Long-Term Equity (LTE) criteria are improved to ensure that long-term equity investments are adequately recognised in the Solvency II framework and that the usability of the LTE submodule is maximised.

Reporting

- Public reporting/disclosure with and without the VA/MA should be removed
- Supervisory reporting of the impact of transitional measures is sufficient and appropriate

Industry responses to questions/options put forward by French Presidency

"Extrapolation of the relevant risk-free interest rate term structure" – Transitional mechanism

- **Question 1 [Public disclosure]** – Public disclosure of the proposed transitional measures on the risk-free rate is only appropriate if the transition measure is an option which can be selected by the insurer.

If the proposed transitional measure is implemented on a mandatory basis, then there should be no requirement for public disclosure.

- **Question 4 [Optionality Phasing in at Insurer or NSA's choice for whole market]** – Optionality of applying this measure should be at the individual insurer's choice.

Capital requirement for interest rate risk – Transitional mechanism

- **Question 7 [Public disclosure]** – Public disclosure of the proposed transitional measures on the interest rate risk submodule is only appropriate if the transition measure is an option which can be selected by the insurer.

If the proposed transitional measure for IRR is implemented on a mandatory basis, then there should be no requirement for public disclosure.

- **Question 10 [Optionality Phasing in at Insurer, insurer subject to NSA or NSA's choice for whole market]** – Optionality of applying this measure should be at the individual insurer's choice, potentially subject to supervisory approval.

Volatility adjustment – quality overshooting

- **Question 11** – Insurance Europe does not support the inclusion of a quality overshooting ratio to the volatility adjustment.

"Extrapolation of the relevant risk-free interest rate term structure" – Linear mechanism for the transitional mechanism

- **Question 12** – The EC's linear phasing-in mechanism would be an appropriate approach to a phasing-in mechanism for the change to the alternative extrapolation methodology. .

Article 77a "Extrapolation of the relevant risk-free interest rate term structure" – Duration of the transitional mechanism

- **Question 13** – The EC's proposal to apply the transition mechanism for extrapolation of RFR rates duration of phasing-in

Capital requirement for interest rate risk – Duration of the transitional mechanism

- **Question 14** – A 5-year phasing-in period for interest rate risk is supported.