Memo for information

To:	Solvency II Working Group
From:	Prudential Team
cc:	
Date:	14-12-2020
Reference:	ECO-SLV-20-279
Subject:	Summary of EIOPA 2020 LTG Report

Comment

EIOPA published its 2020 Report on long-term guarantee measures and measures on equity risk (LTG Report).

This is the fifth and final LTG report and is based on undertaking's financial position at year-end 2019. Consistent with the 2019 report, it contains an assessment of the overall impact of the LTG package on:

- the financial position of undertakings;
- policyholder protection;
- investment;
- consumers and products;
- competition and level playing field; and
- financial stability.

It also contains a more in-depth analysis of each individual measure.

The quantitative analysis shows a similar picture to the 2019 report (which is to be expected given the broadly similar economic environment). The main differences to previous years' reports is the omission of the UK data which has a significant impact on the analysis for some measures, notably the Matching Adjustment.

A summary of the secretariat's analysis of the report is included below and the main quantitative results can be found in the annex. Should members have any comments, please contact prudential@insuranceeurope.eu

Background

EIOPA are mandated to provide an annual report on the impact of the application of the LTG measures and measures on equity risk to the EP, Council and Commission. The analysis contained in these reports will form the basis of an EIOPA Opinion on the assessment of the application of LTG measures and measures on equity risk which it expects to finalise in 2020.

The 2020 LTG Report is based upon data collected from the QRTs as at 31 December 2019. Please note that, consistently with the withdrawal of the United Kingdom (UK) from the European Union (EU) on 31 January 2020, the EEA data shown in the report do not take into account data from UK undertakings.

EIOPA also carried out a questionnaire to ascertain the experience of NSAs with regard to the impact of the LTG measures and the measures on equity risk during 2019 as well as during the first half of 2020.

The secretariat's main observations on the content of the report include:

Impact on the financial position of undertakings

- At least one measure is applied by 651 undertakings covering 80% of the total EEA technical provisions.

Prudential Team •
Insurance Europe aisbl • Rue Montoyer 51, B-1000 Brussels
Tel: +32 2 894 30 00 • E-mail: prudential@insuranceeurope.eu

www.insuranceeurope.eu

- Removing all LTG measures would reduce the average SCR ratio of undertakings using any of the measures by 43% points (from 247% to 204%).
- The total impact of removing the measures was lower than experienced in previous years, due to the omission of the UK data.
- Removing the measures would not cause any country-level SCR ratio to fall below 100%. However, it would result in the SCR ratio of 4% of undertakings, who use the measures, to fall below 100%.

Impact on policyholder protection

- **NSAs raised no concrete observations** on positive or negative effects of the LTG measures or equity risk measures on policyholder protection.
- One NSA indicated one case of **undue capital relief** in relation to the VA and SA in 2019 and beginning of 2020. However, No NSA imposed yet a capital add-on based on observed cases of undue capital relief in respect of the LTG measures and equity risk measures.
- An analysis of the **fundamental spreads used in MA portfolios** shows that the calibration of these spreads is more than sufficient to absorb the losses incurred due to downgrade and default over the year.

Impact on investment

- **No EEA-wide trends** in investment behaviour were noted by NSAs (although several jurisdictional level trends were reported).
- Most of the trends that were identified relate to search-for-yield behaviour in the ongoing context of low interest rates. EIOPA note that none of the observations could be clearly linked to the use of LTG measures on the basis of factual evidence.
  - Seven NSAs mentioned specific **trends regarding the holding of equities**. Four of those identified a slight increase of equities, with three a slight decrease.
  - Three NSAs identified a trend of **increasing bond duration**.

Impact on consumers and products

- Approximately half of the jurisdictions observed a reduction in the availability of traditional life insurance products with long-term guarantees and an increase in the availability of unit-linked business.
- In relation to the size of guarantees, the majority of jurisdictions observed a reduction in the size and duration of guarantees.
- The majority of NSAs observed that the current trends in the availability of products with long-term guarantees had not raised consumer protection issues.

Impact on competition and level playing field

- NSA reported the negative impacts of undershooting and overshooting of the VA.
- They also highlighted that comparability of solvency ratios was being negatively influenced because the publication of the SCR ratios with and without the LTG measures is not sufficiently transparent.

Impact on financial stability

- The beneficial impacts of both the MA and VA on financial stability during the first half of 2020 were highlighted by NSAs. Some NSAs also highlighted VA overshooting issues which were evidenced in Q1 2020.
- One NSA also highlighted the stabilising effect of the current extrapolation methodology. However, this was countered by other NSAs.

Volatility Adjustment/DVA

- At EEA level removing the VA results in an average reduction of the SCR ratio of 25 percentage points.
  - For standard formula users, the average impact was -12% points
  - For non-DVA internal model users, the average impact was -9% points
  - For DVA internal model users, the average impact was -47% points

Annex – Quantitative summary of impact of LTG measures and measures on equity risk

	Number of firms applying measure/ in sample	EEA market share of undertakings using measure/ in sample	EEA SCR with measure	EEA SCR without measure	EEA SCR with measure	EEA SCR without measure	Impact on EEA capital req'ment	Impact on eligible own funds to cover SCR
			Undertakings applying measure		All undertakings			
LTG measures								
Matching adjustment	14	2%	250%	231%	259%	259%	+0	-2
Volatility adjustment	631	79%	247%	222%	259%	243%	+35	-14
Transition on RFRs	5	0%	229%	181%	259%	259%	+0	0
Transition on TPs	159	25%	318%	196%	259%	247%	+5	-60
All measures	**651**	**80%**	**247%**	**204%**	**259%**	**231%**	**+40**	**-76**

Duration-based equity risk sub-module

- Used by one undertaking with negligible impact at EEA level.

Symmetric adjustment to equity risk

- Used by all undertakings who use the standard formula to calculate the equity risk charge.
- EIOPA has estimated that removing the symmetric adjustment has an immaterial effect on the SCRs. This is because the symmetric adjustment was 0.08% points at YE2019.