Memo for information

To: Solvency II Working Group
From: Prudential Team
cc:
Date: 07-07-2021
Reference: ECO-SLV-21-196

Subject: Internal Model Diversification Study – Phase II

Summary

On Wednesday 30 June, the secretariat attended a call organised by EIOPA's Project Group on Diversification in Internal Models. The aim of the call was to provide insights about the data request of the **phase 2 study on Diversification in Internal Models** and to collect participant's initial feedback.

EIOPA has now circulated the draft technical specifications and reporting templates (see attachments). Stakeholders can provide feedback on these to Henry.Daha@eiopa.europa.eu and Zakaria.Raiti@eiopa.europa.eu by **Monday 2 August CoB** via the template for comments.

Due to the technical nature of the study and its relation to individual internal models, **the secretariat does not propose to submit any Insurance Europe feedback**. However, if members are interested in providing feedback via Insurance Europe, please contact the prudential team.

Background

EIOPA's stated aims of its diversification study are

- to gain an overview of the current approaches in the market and, on best effort basis, analyse and compare the levels of diversification,
- to facilitate a better understanding of modelling dependencies, aggregation and resulting diversification benefits,
- to enhance quality and convergence of supervision on diversification in internal models.

The diversification study is structured in two phases:

- **Phase 1** (here) tested top-level risk dependencies ie diversification between market, credit, life, non-life, health and operational risks.
  - It was launched on 1 October 2020 with a submission deadline to NSAs by 15 January 2021.
  - EIOPA intends to provide feedback to participating entities in the second half of 2021.

- **Phase 2** tests lower-level risk dependencies.
  - It be launched in October 2021.
  - It will be based on YE2019 balance sheets for consistency with the phase 1 analysis.
  - Although the focus is on lower-level risk dependencies, the analysis undertaken will be similar to phase 1.
  - EIOPA have designed the data request to leverage the data collected for the non-life comparative survey which many of the participants are also completing.

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- The overall data request consists of:
    - Quantitative Excel template
    - Validation template to check consistency between Phase 1 and 2
    - Qualitative template

EIOPA also provided a brief update on the Market and Credit Risk Comparative Study (MCRCS), anticipating that the structure will be consistent to the previous year's one, except for an additional analysis specifically developed to consider inflation, Covid-19 effects on market and credit risk and a time series analysis of the results of the MCRCS since 2017.

Next steps

- Draft templates have been circulated on **6 July 2021**
- Deadline for written feedback on the draft templates **2 August 2021**
- Phase 2 data request to be launched in **October 2021**
- Deadline for submission to NSAs in **January 2022**