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TERMS OF REFERENCE

TECHNICAL ASSESSMENT OF THE LONG-TERM GUARANTEES PACKAGE

Purpose of this document

This document includes the Terms of Reference for the technical assessment of the long-term guarantees package which will be carried out by the European Insurance and Occupational Pensions Authority (EIOPA).

The technical assessment tests various hypotheses and scenarios. **The inclusion of an approach in the test should not be understood as pre-empting or in any way restricting the final agreement on the long-term guarantee measures in the trilogue for the Omnibus II Directive.** The purpose of testing several approaches is to collect data and provide a reliable basis for an informed decision on the long-term guarantee measures.

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1. TECHNICAL ASSESSMENT OF THE LONG-TERM GUARANTEES PACKAGE

1.1. Context

- 1.1.1. The trilogue negotiations between the European Parliament, the Council and the European Commission on the Commission's proposal for a Directive amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (the so-called Omnibus II proposal) have agreed that Solvency II should include regulatory measures to deal with the issues associated with insurance products with long-term guarantees that may be affected by artificial volatility.
- 1.1.2. 'Artificial volatility' is volatility of technical provisions, capital resources (known as own funds) or capital requirements that can reasonably be considered to be due to short-term inefficiency of market pricing and does not reflect changes in the long-term financial position or risk exposure of insurance or reinsurance undertakings carrying out insurance business of a long-term nature.
- 1.1.3. The trilogue parties agreed in July 2012 that the impact of the package of the proposed long-term guarantees measures (the LTG package) should be evaluated to assess the effects that implementation of the various elements of the package under negotiation in trilogue will have on policy holders and beneficiaries, insurance and reinsurance undertakings, supervisory authorities and the financial system as a whole.

1.2. Procedure

- 1.2.1. EIOPA is requested to run a technical assessment that collects both qualitative and quantitative information from insurance and reinsurance undertakings and supervisory authorities on the effects of the proposed LTG package.
- 1.2.2. The trilogue parties, EIOPA and where appropriate, in particular in all cases where there is a potential systemic risk, financial stability, macro-economic or internal market functioning issue, the European Systemic Risk Board (ESRB) were involved in the development of this Terms of Reference (ToR). It is particularly important that the co-legislators, the European Parliament and the Council, are fully consulted on and agree with what will be evaluated as part of the technical assessment.
- 1.2.3. The co-legislators and EIOPA were consulted on the draft ToR from 10 August to 10 September 2012. The updated draft ToR were discussed at the trilogue meeting on 18 September 2012. The final ToR were agreed between the trilogue parties on 14 December 2012.

- 1.2.4. The Commission and EIOPA will then finalise the technical specifications, including the reporting templates by 25 January 2013, before EIOPA launches the exercise on 28 January 2013.
- 1.2.5. In providing quantitative data for the purposes of the technical assessment, insurance and reinsurance undertakings should follow the technical specifications. The ToR are not provided to the participants.
- 1.2.6. Insurance and reinsurance undertakings and supervisory authorities should also respond to the qualitative questionnaires annexed to the final ToR.
- 1.2.7. Insurance and reinsurance undertakings will have 9 weeks to provide the quantitative and qualitative information requested to their national supervisory authorities. Information should therefore be submitted by end March 2013. The national supervisory authorities should validate, analyse and report the results to EIOPA. In addition, EIOPA should have access to individual anonymised data of the undertakings participating in the assessment in the same way that EIOPA had access to data of insurance groups in QIS5.
- 1.2.8. Once the technical assessment has been launched EIOPA will initiate a Q&A process in order to respond to questions relating to the technical specifications and the qualitative questionnaires. Where questions are of a political nature and not purely technical, the trilogue parties should be consulted. Where appropriate, national supervisory authorities should be involved in the Q&A process.
- 1.2.9. The maximum response time for questions received should be five working days. This may be extended by two working days where consultation with the trilogue parties is deemed necessary.
- 1.2.10. A final report shall be provided to the co-legislators by 12 July 2013 by the Commission based on the findings of EIOPA's technical assessment and reports of national supervisory authorities. EIOPA should submit its findings to the Commission by 14 June 2013. The reports of the national supervisory authorities should be annexed to EIOPA's findings. EIOPA's findings including the reports of the national supervisory authorities should be made available to the co-legislators.

1.3. Objectives

- 1.3.1. The technical assessment has the following objectives:
 - to assess, first and foremost, the impact of the proposed LTG package on policy holder protection
 - to assess whether the proposed LTG package will allow supervisory authorities to supervise insurance and reinsurance undertakings and insurance and reinsurance groups efficiently and effectively

- to assess whether the proposed system can be implemented efficiently and effectively by all insurance and reinsurance undertakings and the cost of implementation
- to assess whether the proposed system provides the right incentives for good risk management and wide risk diversification and contributes to the correct risk reflection of the undertakings
- to assess, in cooperation with ESRB, the impact on financial stability and whether the proposed system has the potential to create systemic risks
- to assess the impact of the proposed LTG package on the single market, including on cross-border business
- to assess the impact of the proposed LTG package on insurance and reinsurance undertakings' solvency position and also possible competition distortions in national markets and the single market
- to assess the impact of the proposed LTG package on long-term investments by insurance and reinsurance undertakings

In addition, where EIOPA and the ESRB identify additional material issues relating to the LTG measures, these may be included in the assessment, provided these issues concern the legal objectives of the two authorities.

1.4. Scope of the assessment

1.4.1. The LTG package currently under negotiation includes the following measures:

- **Article 77a:** Adapted relevant risk-free interest rate term structure (Counter-cyclical Premium)
- **Article 77b:** Extrapolation
- **Article 77c:** Matching adjustment for certain life insurance obligations
- **Article 77e:** Matching adjustment for certain insurance obligations not covered by Article 77c
- **Article 308b:** Transitional measures
- **Article 138(4):** Extension of recovery period

1.4.2. The technical assessment should evaluate the impact of these proposed measures individually and also look at the combined impact of these measures to the extent that the multiple use of different measures by undertakings is possible.

1.4.3. The technical assessment should look at the impact of the proposed measures on the solvency position of individual undertakings (solo level) by looking at the effect of the measures on the Solvency II balance sheet (assets and

liabilities, technical provisions and own funds), capital requirements (SCR and MCR), own funds and capital surpluses.

- 1.4.4. Participating undertakings should also be asked to provide quantitative data on their solvency position under the current regime (Solvency I) both at the reference date and at other historical dates tested.
- 1.4.5. In order to ensure that all undertakings in the sample, in particular the small ones, are able to carry out the technical assessment calculations, the calculations shall be run using the reference date of 31 December 2011.
- 1.4.6. Since the LTG package is designed to address the problems relating to artificial volatility of own funds and capital requirements, the technical assessment should evaluate the impact of the proposed measures at different reference dates to capture different market conditions. This should include market conditions as at 31 December 2009 and as at one date corresponding to normal and pre-crisis market conditions.
- 1.4.7. The granularity of the quantitative information collected should be such that it is possible to assess the impact of the proposed LTG package on solo undertakings of different nature, size and complexity operating in different Member States.
- 1.4.8. The different types of undertakings should include life undertakings, non-life undertakings and reinsurance undertakings, as well as mutuals. Composite undertakings should be regarded as either life or non-life undertakings based on the predominant part of their business.
- 1.4.9. In relation to certain measures (for example Article 77e), it would also be useful for the results to be sufficiently granular to see the effect of the measure on different insurance obligations.
- 1.4.10. In addition to the quantitative assessment, participating undertakings will be asked to submit accompanying qualitative information in order to get a better understanding of how they applied some of the options tested and also on the feasibility of the technical specifications. In order to ensure that comprehensive information is received from all types of undertakings, national supervisory authorities and EIOPA should consider asking undertakings not participating in the quantitative technical assessment to submit qualitative information regarding the impact on the implementation of different options in terms of practicability and expected burden.

1.5. Participation

- 1.5.1. The technical assessment should be based on a representative sample of individual undertakings selected by national supervisory authorities, in collaboration with EIOPA, and based on the following criteria:
 - the sample consists of individual insurance and reinsurance undertakings;

- for each Member State the sample is representative of the national market, in particular in relation to the nature, size and complexity¹ of undertakings; the sample should also be representative in relation to the insurers that are affected by the proposed long-term guarantee measures.
- in relation to life business, the sample should cover at least 50% of the market of each Member State, calculated according to technical provisions.
- in relation to non-life business, the sample should cover at least 20% of the market of each Member State, calculated according to gross written premiums², and should in particular capture non-life obligations most affected by the proposed LTG package³.
- the sample allows separate results to be derived for different national markets, and for undertakings of different nature, size and complexity.

1.5.2. National supervisory authorities and EIOPA should ensure that undertakings which are of special interest for the purposes of the technical assessment are included in the sample. When selecting participants, national supervisory authorities may also take into account the ability of the undertakings to perform the quantitative analysis within the given timeframe.

1.5.3. The objectives and importance of the exercise should be communicated to the participants.

1.6. Outputs

1.6.1. The trilogue parties have identified a number of outputs that they would like the technical assessment to deliver.

1.6.2. These outputs will be delivered through a combination of the following:

- quantitative data obtained from the insurance industry
- qualitative information obtained from the insurance industry
- qualitative information obtained from supervisory authorities
- additional analysis carried out by EIOPA

¹ In particular the sample should be representative in relation to the type of undertaking (life insurance undertaking, non-life insurance undertaking, reinsurance undertaking) and the market concentration.

² To the extent practicable, EIOPA may replace this volume measure by the technical provisions, possibly restricted to those technical provisions that cover liabilities with an average duration longer than a specified threshold.

³ Including annuities stemming from non-life insurance business (e.g. workers' compensation) and health insurance similar to life insurance business.

Table 1: Outputs of the technical assessment

	Industry quantitative	Industry qualitative	Supervisory authorities qualitative	EIOPA Analysis
Adapted relevant risk-free interest rate term structure				
<i>Proportion of total Technical Provisions likely to be affected (given that liabilities using MA cannot benefit from CCP) and likely impact on Solvency 2 balance sheet</i>	X			
<i>Under a variety of scenarios for duration of the "stressed situation in financial markets"</i>				X
<i>Determining representative portfolio of assets at EU level</i>			X	X
<i>Determining representative portfolio of assets at national level</i>			X	X
<i>Likely difference in spread per country vs. EU</i>				X
<i>Assessment of portion of spread between representative portfolio of assets and risk free rate</i>				X
<i>The same under several possible quantifications of the portion and several possible formula-based specifications for determining the proportion of the spread between the risk free rate and the representative portfolio of assets</i>				X
<i>Impact assessment of different levels of the CCP</i>	X			
<i>Impact assessment of national CCP options</i>			X	X
<i>Impact assessment of different calibrations of the CCP risk sub-module and of the deletion of the sub-module</i>				X
<i>Assessment of ECON proposal of 15 June 2012 on the CCP</i>				X
<i>Assessment of impact of scenarios 1 and 6 as set out in table 2, but where the counter-cyclical premium does not apply</i>				X
Extrapolation				
<i>Assessment of impact on Technical Provisions and Solvency 2 balance sheet of extrapolation scheme using 10, 15, 20 and 40 year convergence period - overall and per currency NB: only 10 and 40 years to be included in quantitative assessment for feasibility reasons</i>	X			X
<i>Under scenarios where interest rates remain low for 2, 5, 7, 10 years</i>				X
Article 77c Matching adjustment				
<i>Assessment of reliability of matching adjustment mechanism to dampen impact on short-term volatility of spreads over time</i>				X
<i>Assessment of range of fundamental spreads for a variety of realistic portfolios of assets (for distinct markets for assets typically associated with Article 77c qualifying products)</i>				X
<i>The composition of asset portfolio and the corresponding impact of Art 77c on the risk free curve in relation to the assessment of the fundamental spread and the asset quality</i>				X
<i>Proportion of total Technical Provisions likely to be affected and likely monetary impact on Solvency 2 balance sheet of Art 77c by country and product</i>	X			
<i>Assessment of the reliability of the estimation of the fundamental spread on which the calculation of Art 77c is based</i>				X
<i>Assessment of the impact of any mis-estimation of the fundamental spread on the solvency of the insurer</i>				X
<i>Assessment of ECON proposal of 15 June 2012 on the matching adjustment</i>				X

Article 77e Matching adjustment					
<i>Assessment of reliability of matching adjustment mechanism to dampen impact on short-term volatility of spreads over time</i>					X
<i>Assessment of range of fundamental spreads for a variety of realistic portfolios of assets (for distinct markets for assets typically associated with Article 77e qualifying products), separately for life and non-life obligations</i>					X
<i>The composition of asset portfolio and the corresponding impact of Art 77e on the risk free curve in relation to the assessment of the fundamental spread and the asset quality</i>					X
<i>Assessment of distribution of lapse and early surrender risk for products with policyholder options (per type of policy) and likely portion of matching adjustment to be attributed to policies, in particular the robustness of the distribution in stressed situations</i>	X	X			X
<i>Different options for the adaptation for lapse risk</i>	X				X
<i>Identification of possible contract options that could be considered</i>			X	X	X
<i>Identification of contracts for which a possibility to split contracts exist</i>			X	X	X
<i>Proportion of total Technical Provisions likely to be affected and likely monetary impact on Solvency 2 balance sheet of Art 77e separately for life and non-life obligations by country and product; under scenarios of fundamental spread based on 5% and 95% confidence interval and under different scenarios of the proportion</i>	X				X
<i>Assessment of the reliability of the estimation of the fundamental spread on which the calculation of Art 77e is based</i>					X
<i>Assessment of the reliability of the estimation of the adjustment of Art 77e for lapse and early surrender risk</i>					X
<i>Assessment of the impact of any mis-estimation of the fundamental spread of the adjustment for lapse and early surrender risk on the solvency of the insurer</i>					X
<i>Impact assessment of the impact of alternative requirements on policyholder protection and financial stability</i>					X
Transitional Measures					
<i>Proportion of Technical Provisions affected and monetary impact over 7 year transition by country and product class</i>	X				X

1.7. Technical Assessment

- 1.7.1. Table 2 outlines the approaches and scenarios that should be tested by participating undertakings.
- 1.7.2. For most long-term guarantee measures more than one approach is tested. This should ensure that sufficient information on the measure is collected to assess the overall impact of the final agreement on a package of measures. The technical assessment tests various hypotheses and scenarios. **The inclusion of an approach in the test should not be understood as pre-empting or in any way restricting the final agreement.** The purpose of testing several approaches is to collect data and provide a reliable basis for an informed decision on the long-term guarantee measures.
- 1.7.3. Calculations of the SCR should be carried out using the standard formula as the default option. Participating undertakings may use internal models as an

alternative, provided that internal models are subject to a pre-application process and results are accompanied by standard formula results. The internal models may also be used to calculate the capital requirement for counter-cyclical premium risk.

- 1.7.4. Where participating undertakings opt to use internal models to calculate the SCR, they should provide additional qualitative information on the internal model used including the state of the application process. EIOPA may further specify this information request.
- 1.7.5. The technical specifications for the technical assessment are based on the Council proposal for the LTG measures dated 9 July 2012 (proposed Directive text) and the extracts of the draft Delegated Acts in Annex 3 which are based on that Council proposal. Alternative requirements are also tested on the matching adjustment (see 1.7.21 and 1.7.23). **The choice of the Council proposal as a basis of the technical specifications is not intended to pre-empt the outcome of the negotiations of the co-legislators on the Omnibus II Directive.**
- 1.7.6. EIOPA should collect the necessary information to estimate the impact of various scenarios on technical provisions, capital requirements and the solvency position of the insurers of the national market.

Scenario 0

- 1.7.7. The technical assessment includes the calculation of a scenario where none of the long-term guarantee measures apply (scenario 0). In this scenario no counter-cyclical premium, no matching adjustments, no measure on the extrapolation and no transitional measures apply. The purpose of the scenario is to provide a neutral starting point for assessing the impact of the measures. **The inclusion of scenario 0 in the test does not imply that it is a policy option.** It is included for technical purposes only.

Adapted relevant risk-free interest rate term structure (Counter-cyclical premium)

- 1.7.8. The technical specifications are based on the assumption that for all EEA currencies there is a stressed financial situation, but that a stressed financial situation does not exist for any third country currencies.
- 1.7.9. Participating undertakings will test three abstract levels of the adaptation (a standard approach of 100 bps as well as 50% and 250% of that amount).
- 1.7.10. For the technical assessment EIOPA shall determine, in accordance with the politically agreed Omnibus II text and the draft Delegated Acts, the adaptations per currencies (for each currency of the EEA) for the tested reference dates. The determinations should be sent for agreement to Council, the European Parliament and the Commission. EIOPA should estimate the

impact of these adaptations on technical provisions, capital requirements and the solvency position of the undertakings for the tested reference dates.

- 1.7.11. In order to test the adaptation per national financial market (Article 77a(4) of the proposed Directive text), EIOPA should collect information from national supervisors about its likely application at the reference and the different historic dates tested. EIOPA should determine, after having consulted with the supervisory authority concerned, the amount of the adaptation in accordance with Article 77a(4) and the relevant provisions of the draft Delegated Acts. EIOPA should collect the necessary information to estimate the impact of including such adaptation on technical provisions, capital requirements and the solvency position of the insurers of the national market for the tested reference dates.
- 1.7.12. EIOPA's summary of the results of the technical assessment shall include annexes setting out, both in relation to the adaptation according to Article 77a(2) and the adaptation according to Article 77a(4), the following:
- the methodology for deriving the representative portfolios
 - the composition of the representative portfolios
 - the methodology for the determination of the relevant portions of the spread in accordance with Art 41bis(2) of the draft Delegated Acts
 - the values for w and S referred to in Article 41bis(1) of the draft Delegated Acts for each currency of the EEA
- 1.7.13. The SCR standard formula of the technical specifications includes a sub-module for counter-cyclical premium risk as set out in the draft implementing measures shared in October 2011. The quantitative assessment should include an analysis of the impact of the capital requirement for counter-cyclical premium risk. It should be assessed to what extent the capital requirement countervails the capital relief that the counter-cyclical premium provides. The assessment should consider how this changes when the calibration and aggregation of the capital requirement is changed or the capital requirement is deleted.
- 1.7.14. In addition, EIOPA should also assess the impact on the financial position of insurers of the counter-cyclical premium as set out in the ECON proposal of 15 June 2012. Compared to the counter-cyclical premium as specified in the proposed Directive text and in the draft Delegated acts, the following differences should be taken into account for this purpose:
- The application of the counter-cyclical premium is restricted to liabilities the duration of which is longer than 7 years.
 - There is no adaptation per national financial market (Article 77a(4) of the proposed Directive text).

- 1.7.15. In addition, EIOPA should assess the impact on the financial position of insurers of scenarios 1 and 6 as set out in table 2, but where the counter-cyclical premium does not apply.

Extrapolation

- 1.7.16. The technical specifications include an annex setting out the starting point of the extrapolation and the ultimate forward rates for each relevant currency. It also includes a description of the methodology for the derivation of the starting point and the ultimate forward rates.
- 1.7.17. As a neutral position on extrapolation, a starting point for the euro extrapolation of 30 years and a convergence period of 40 years, consistent with the methodology applied in QIS5, was chosen. The extrapolation for the pound sterling should be determined on the basis of conditions in sterling markets.

Matching adjustment for certain life insurance obligations

- 1.7.18. The technical specifications include the fundamental spreads for all EEA currencies and for each relevant duration, credit quality and asset class. The specifications also include an annex setting out the methodology for the derivation of the fundamental spreads.
- 1.7.19. The technical specifications should include sufficient detail and examples on the calculations to ensure a consistent application by participants.
- 1.7.20. The matching adjustment is calculated for the current assets of the undertaking. Once Solvency II becomes applicable, insurance and reinsurance undertakings may change their assets in order to comply with the requirements of the matching adjustment and to increase the scope of application and impact of the matching adjustment. EIOPA should collect the necessary information to assess the impact of the matching adjustment once it becomes applicable, taking into account likely changes in assets.
- 1.7.21. The technical specifications include two versions of the matching adjustment. The first version is in line with the proposed Directive text and the draft Delegated Acts. The second version differs in the following way from the first version:
- The second subparagraph of paragraph 7 of Article 77c of the proposed Directive text does not apply.
 - Article 42(2) of the draft Delegated Acts does not apply.
 - Article 42quinquies of the draft Delegated Acts does not apply.
- 1.7.22. In addition, EIOPA should also assess the impact on the financial position of insurers of the matching adjustment as set out in the ECON proposal of 15

June 2012. Compared to the matching adjustment as specified in the proposed Directive text and in the draft Delegated acts, the following differences should be taken into account for this purpose:

- The application of the matching adjustment is restricted to life insurance undertakings.
- Article 77c(1)(b) does not apply. Instead, the portfolio of life insurance obligations to which the matching adjustment is applied and the assigned portfolio of assets are ring-fenced, identified, managed and organised separately from the other activities of the life insurance undertaking, without any possibility of transfer.
- Article 77c(1)(ja) of the proposed Directive text does not apply.
- Article 77c(7) does not apply. Instead, the assets allocated to the lowest credit quality step of investment grade assets shall be limited to 10% of the total value of assigned assets.

Matching adjustment for certain insurance obligations not covered by Article 77c

- 1.7.23. The technical specifications include three versions of this matching adjustment. The first version is in line with the proposed Directive text and the draft Delegated Acts. The second and third versions are based two sets of alternative requirements (called alternative requirements 1 and alternative requirements 2). For all three versions of this matching adjustment the application is restricted to life insurance obligations and annuity obligations arising from non-life contracts as set out in Article 77e(1) of the proposed Directive text.
- 1.7.24. The technical specifications include a standardised method for calculating the adaptation of the matching adjustment according to Article 77e(2a) of the proposed Directive text. The adaptation based on the standard requirements captures all underwriting risks and applies to all insurance obligations, including those that do not include options for policyholders.
- 1.7.25. The matching adjustment is calculated for the current assets of the undertaking. Once Solvency II becomes applicable, insurance and reinsurance undertakings may change their assets in order to comply with the requirements of the matching adjustment and to increase the scope of application and impact of the matching adjustment. EIOPA should collect the necessary information to assess the impact of the matching adjustment once it becomes applicable, taking into account possible changes of assets.
- 1.7.26. Alternative requirements 1 differ from the proposed Directive text in the following way:

Article 77e(1)(d), (f) and (h) do not apply.

Article 77e(2a): The adaptation to the matching adjustment does apply to all obligations, not only those that include options to the policyholder. The adaptation should capture all the risks that may cause losses through forced

sales. In this way, the adaptation should measure the potential mismatch between asset and liability cash-flows and reduce the matching adjustment where there is a material risk of mismatch and forced sale of assets.

Article 77e(3)(a) and (b) do not apply. The fundamental spread should be equal to the credit spread that corresponds to the probability of default of the assets and should not include a component for downgrading risk.

Article 77e(7) does not apply.

- 1.7.27. Alternative requirements 1 differ from the draft Delegated Acts in the following way: Articles 42, 42quater(3), and 42quinquies do not apply. While Article 42sexies(2) remains applicable under the alternative requirements 1, EIOPA shall analyse from a qualitative perspective the impact of this safeguard and whether its removal would create problems from a supervisory or prudential perspective.
- 1.7.28. With regard to the matching adjustment based on alternative requirements 1, undertakings should, where possible, provide qualitative and quantitative information about the impact of removing each of the restrictions referred to paragraph 1.7.26 individually and in combination. EIOPA shall analyse the prudential soundness of removing the requirements referred to in paragraphs 1.7.26 and 1.7.27.
- 1.7.29. Alternative requirements 2 are in line with the proposed Directive text and the draft Delegated acts, but include the following change to the draft Delegated Acts: in Article 42sexies(1), the confidence level for the adaptation of the matching adjustment is not 99.5%, but 99.9%.

Transitional measures

- 1.7.30. For the purpose of the calculation of the SCR standard formula, the stresses of the interest rate risk sub-modules are applied to the whole risk-free interest rates including the part of the rate that is based on Solvency I rules.

Historical scenarios

- 1.7.31. If it is more practicable, the calculation for the reference dates 31 December 2004 and 2009 should be based on the same assets and liabilities as the calculation for the reference date of 31 December 2011. The Technical Specifications should set out how the value of assets, the relevant risk-free interest rate term structure and the assumptions on future discretionary benefits should be modified for these calculations.
- 1.7.32. In order to ensure the practicability of the assessment for small insurance and reinsurance undertakings, they may be asked to only calculate the scenarios for the reference date 31 December 2011.

Risk of persistently low interest rates

- 1.7.33. As part of the technical assessment EIOPA should analyse and quantify the impact of persistently low interest rates, namely that the risk-free interest rates of all EEA currencies remain at a low level for 2, 5, 7 and 10 years. For this purpose, EIOPA should identify the point of lowest euro interest rates since 1 January 2012 and assume that the rates for all maturities and EEA currencies remain unchanged after that point in time. EIOPA should estimate the impact of these scenarios on the financial position and annual change in own funds of the insurers. EIOPA should collect the necessary data from participating undertakings to carry out this analysis.

Spread sheets

- 1.7.34. The spread sheets for the participants should have a “summary tab” showing the main results of the calculations.

2. ANNEXES:

Annex 1 - Qualitative questionnaire for insurance and reinsurance undertakings

Where appropriate, please include separate answers in relation to **each of the options** of the LTG measures as described in section 1.3.

1. Implementation costs

- Q1. Please provide an estimate of the additional resources (in person weeks) that are likely to be required to implement the requirements of the proposed long-term guarantee package:
- (i) to develop appropriate systems and processes for their implementation (i.e. the resources for initial implementation), and
 - (ii) to carry out a valuation each year of the measures in accordance with the methodology proposed (i.e. the on-going resource required each year).
- Q2. Which elements of the proposed LTG package do you expect to be most time and resource consuming in terms of implementation? Please provide details.
- Q3. What level of resources (in person weeks) was required to complete the technical assessment?
- Q4. On what aspect(s) of the technical specifications did you dedicate most of your resources when completing the technical assessment?
- Q5. Please set out any views you may have about the feasibility of the methodologies set out in the technical specifications, in relation to each of the proposed measures of the LTG package.

2. Product availability

- Q6. Do you envisage any impact on the offer of specific insurance products as a potential outcome of the application of the proposed measures in the LTG package? If so, please provide details. Could those products be replaced by other products without major implications for consumers?

3. Risk management

- Q7. Please set out any views you may have about the incentives for effective risk management, in relation to each of the proposed measures in the LTG package.
- Q8. How would you be able to demonstrate that the measures applied provide the right incentive for good risk management?

- Q9. Please set out any views you may have on if and how the proposed measures in the LTG package provide a correct reflection of the risks you are exposed to/underlying your insurance obligations.
- Q10. What do you consider to be the impact of the proposed LTG package on your asset allocation and risk diversification? Which elements and implementation options are likely to impact the allocation of assets backing insurance obligations? Which asset classes might be most affected? Which types of insurance obligations do these assets cover?

4. Investment choices

- Q11. Do you envisage any impact on your investment decisions as a potential outcome of the application of the measures in the proposed LTG package? If so, please provide details. Can participants on financial markets adapt to these changed investment choices without major implications?
- Q12. Do you envisage any impact on your investment choices as a potential outcome of the non-application of the measures to address artificial volatility? If so please provide details.

5. Additional questions

- Q13. In your view, which elements and implementation options of the LTG measures best serve the purpose of reducing the artificial volatility of own funds?

Only for undertakings belonging to an insurance group

- Q14. What are your views on the feasibility and complexity of the LTG measures applied at group level.

Only for internal model users:

- Q15. Please provide details on the assumptions, methodologies and state of approval and application of your internal model.

For the Article 77c Matching Adjustment:

- Q16. Please provide details about credit quality of the assigned assets, including details of the percentage of the assets value, compared to the total asset value, and the average maturity and spread over the risk-free interest rate for each credit class (AAA, AA, A, BBB, BB, B, lower), separately for government bonds and other bonds.
- Q17. Please provide an estimation of the relative standard deviation of each quarterly paid cash-flow. The estimation of this relative standard deviation aims at quantitatively measuring and ensuring the predictability of the cash-flows when applying the matching adjustment.

- Q18. Do you intend to apply the matching adjustment under Solvency II? If yes, how would you restructure your current asset portfolio to comply with the conditions for the matching adjustment or to improve its impact?
- Q19. How would you restructure the asset-liability management in your undertaking, to guarantee a ring-fenced and/or separately managed and organized asset portfolio?

For the Article 77e Matching Adjustment:

- Q20. Please provide details about credit quality of the assigned assets, including details of the percentage of the assets value, compared to the total asset value, and the average maturity and spread over the risk-free interest rate for each credit class (AAA, AA, A, BBB, BB, B, lower), separately for government bonds and other bonds.
- Q21. Please provide lapse rates per type of obligation on average for the last 3 years and the last 10 years for the insurance obligations subject to this Matching Adjustment. Please also provide this information, split into lapse rates during tax advantage period and after. Please provide a list of contract options by the policyholder that might impact the liability cash-flows by type of obligation. Please indicate possibility to split the contract by type of obligation.
- Q22. Please provide details of the methodology used to split insurance contracts into different portions when composing the portfolio of insurance obligations.
- Q23. Please provide an estimation of the relative standard deviation of each quarterly net cash-flow, the net cash-flow being defined as the outgoing (claim) cash-flow minus incoming (premium) cash-flow. The estimation of this relative standard deviation aims at quantitatively measuring and ensuring the predictability of the cash-flows when applying the extended matching adjustment.
- Q24. Do you intend to apply the extended matching adjustment under Solvency II? If yes, how would you restructure your current asset portfolio to comply with the conditions for the extended matching adjustment or to improve its impact?
- Q25. How would you restructure the asset-liability management in your undertaking, to guarantee a ring-fenced and/or separately managed and organized asset portfolio?

Where appropriate, EIOPA may provide multiple-choice answers for these questions.

Annex 2 - Qualitative questionnaire for supervisory authorities

Where appropriate, please include separate answers in relation to **each of the options** of the six LTG measures as described in section 1.3

1. Policyholders protection

- Q1. What do you consider to be the impact of the LTG package on policyholder protection for existing contracts? Which impact do you expect on new business? Please provide explanations in relation to for example the likelihood of default of insurers due to insufficient technical provisions, likelihood of cut in benefits and any other factors.
- Q2. How would you see the proposed LTG package interacting with other existing counter-cyclical measures, such as the extension of the recovery period set out in Article 138(4)? Would these measures have similar effects on policyholder protection?

2. Product availability

- Q3. Do you envisage any impact on the offer of specific insurance products as a potential outcome of the application of the proposed measures in the LTG package? If so, please provide details. Could those products be replaced by other products without major implications for consumers?
- Q4. Do you envisage any impact on the offer of specific insurance products as a potential outcome of the non-application of the proposed measures to address artificial volatility? If so, please provide details. Could those products be replaced by other products without major implications for consumers?
- Q5. Might insurance products benefitting from LTG measures displace other products offered by insurers or non-insurers?

3. Effective supervision

- Q6. In your view, which elements and implementation options of the proposed package best serve the purpose of reducing the artificial volatility of technical provisions, as own funds or capital requirements in relation to the insurance undertakings you supervise?
- Q7. What do you consider to be the impact of the proposed LTG package on the supervision of the undertakings you supervise? Please provide separate answer for insurance undertakings and for insurance groups.
- Q8. How do you expect that the undertaking-specific nature of the Article 77c and Article 77e matching adjustments will affect the supervisory review process of the undertakings and groups you supervise?

- Q9. Do you currently have sufficient insight into surrender dynamics (and other policyholder options relevant for the matching adjustment) to assess the likely relevance of the Article 77e matching adjustment calculations to the undertakings you supervise? Please provide details of the surrender dynamics.
- Q10. How would you deal with surrender rates and credit quality of asset deviating from expectations included in the calculation of the matching adjustment?
- Q11. What are the challenges that you expect in performing the supervisory review process on those undertakings applying the transitional measures on discount rate for certain insurance obligations together with the Solvency II valuation of assets and technical provisions?
- Q12. What changes, if any, do you expect in the supervisory review process with regard to those insurance undertakings which are applying any of the proposed measures in the LTG? Please provide details in relation to each of the proposed measures in the LTG package.
- Q13. Please provide any views you may have on the adequacy of additional reporting requirements related to the application of the proposed LTG measures.
- Q14. Are there elements of the proposed LTG package which would render the supervision of insurers more difficult or less effective? (E.g. with regards to challenging the assumptions used by undertakings, guaranteeing that the supervisory process is focussed on most important risks, ensuring equal treatment of undertakings.)

4. Implementation costs

- Q15. How do you envisage implementing the requirements of the proposed LTG package in your authority?
- Q16. Which elements of the proposed LTG package do you expect to be most time and resource consuming in implementation? Please provide details.
- Q17. Do you see ways to facilitate the implementation for your authority? If so, please provide details.
- Q18. What would be the expected obstacles you might face during the implementation phase of the proposed LTG package?

5. Risk management

- Q19. Based on the features of insurance products in your national market, which risks do you think would not be properly reflected by certain LTG measures and implementation options?
- Q20. How do you intend to supervise the requirement to not anticipate the adaptation of risk free rates in following the observation of a stressed situation of financial markets? How can you prevent this anticipation in pricing, valuation and risk management? (paragraph 5 of Article 77a)

6. Impact on financial stability

- Q21. On the reference dates of 31 December 2009 and 31 December 2011, would you have applied the measure of adapted risk free interest rate (paragraph 4 of Article 77a) in your market? If so, please explain why the national financial market is in a temporary and exceptional stressed situation and why the adaptation according to paragraph 2 of Article 77a would not have been sufficient to address that situation.
- Q22. If the answer to the previous question was positive, what would you consider to be the appropriate level of the measure for your market at both dates by relevant currency? Please provide an answer in basis points. How does the size of the adaptation compare with the size of the adaptation according to paragraph 2 of Article 77a? If the answer to the previous question was positive, what was the impact on your market of that stressed situation?
- Q23. What do you consider to be the impact of the LTG package on the asset allocation of the undertakings you supervise? Which elements and implementation options are likely to impact the allocation of assets backing insurance obligations? Which asset classes might be most affected? Which types of insurance obligations might be affected? Is the design of certain proposed measures of the LTG package likely to trigger unintended consequences with regard to asset allocation and risk appetite? Please distinguish, where possible, by measure of the LTG package.
- Q24. Please provide any views you may have on the pro-cyclical effects and/or systemic risk that the measures and implementation options of the LTG package may entail.
- Q25. Please provide any views you may have on if and how the LTG package can mitigate short term fluctuations in own funds in relation to the long term business.

7. Competition and the single market

- Q26. Do you see measures of the proposed LTG package which might result in disadvantages for small undertakings vs. large ones? Please provide details on rationale and explanations.
- Q27. Do you see measures of the proposed LTG package which might result in disadvantages for national undertakings in your jurisdiction vs. undertakings of other Member States? Please provide details on rationale and explanations.
- Q28. Under current conditions, and being aware that it is a Member State option, would you favour the use of the proposed measure in Article 77c, Article 77e or the transitional measures in Article 308b? Please provide explanations.

8. Additional questions

- Q29. Please provide the current level of the interest rate calculated according to Article 20 of Directive 2002/83/EC. When was this last changed? Do you expect this rate to change before 1 January 2014?
- Q30. What is the percentage of the technical provisions for non-life LTG obligations in relation to technical provisions for all non-life obligations in your national market?
- Q31. Do you see any issues in relation to the application of the proposed LTG measures to pegged currencies? How should the adapted risk free interest rate apply to pegged currencies?
- Q32. Do you see any issues in relation to the application of the proposed LTG measures to insurance groups?

Where appropriate, EIOPA may provide multiple-choice answers for these questions.

Annex 3: Draft Delegated Acts

See separate document