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Other aspects of LTG measures

Workshop on the 2020 review of Solvency II
Frankfurt, 5 June 2019

Other aspects of the LTG measures

- Reporting and disclosure
- Risk management
- Interaction of LTG measures with the risk margin
- Extension of the recovery period

Public disclosure of LTG and equity risk measures



Solvency II Framework – Public disclosure LTG measures

Articles 51(1), 51 (1a), 308c(4), 308d (5) Solvency II Directive

Articles 296(2) d-g and 297(3) Solvency II Regulation

Implementing technical standards (ITS) with regard to the procedures, formats and templates of the solvency and financial condition report (commission implementing regulation (EU) 2015/2452 of 2 December 2015)

Guidelines on reporting and public disclosure (EIOPA-BOS-15/109 EN,14/09/2015)

Public disclosure of LTG and equity risk measures



Content of the SFCR

- ✓ MA: description of the MA and of the portfolio of obligations and assigned assets to which the MA is applied, as well as a quantification of the impact of a change to zero of the MA on the undertaking's financial position.
- ✓ VA: Use and quantification of the impact of a change to zero of the VA on the undertaking's financial position.
- ✓ TRFR: Use and quantification of the impact of not applying this transitional measure on their financial position.
- ✓ TTP: Use and the quantification of the impact of not applying that transitional deduction on their financial position.

S.22.01- undertakings

Template S.22.01.21

Impact of long term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010					
Basic own funds	R0020					
Eligible own funds to meet Solvency Capital Requirement	R0050					
Solvency Capital Requirement	R0090					
Eligible own funds to meet Minimum Capital Requirement	R0100					
Minimum Capital Requirement	R0110					

S.22.01- groups

Template S.22.01.22

Impact of long term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010					
Basic own funds	R0020					
Eligible own funds to meet Solvency Capital Requirement	R0050					
Solvency Capital Requirement	R0090					

Public disclosure of LTG and equity risk measures



Content of the SFCR

- ✓ DBE: use and amount of the capital requirement for the duration-based equity risk sub-module resulting from such use.
- ✓ Extrapolation: No explicit requirements existing

Public disclosure of LTG and equity risk measures



Deficiencies (Thematic focus LTG report 2017)

NSAs observations

- ✓ The level of detail of the information provided varies by undertakings. Whereas some undertakings focus solely on quantitative information others provided further qualitative information including background information on the LTG measures. Thus, the description of LTG measures was observed to be very brief in some cases and could well be more comprehensive to ensure better understanding of the effectiveness of the measures.
- ✓ Only disclosing the quantitative information of QRT S.22.01. without further explanations of the figures was identified as a negative example by some NSAs.
- ✓ Reporting of fact that undertaking was not meeting SCR without transitionals during year where they were meeting it at year end?

Public disclosure of LTG and equity risk measures



Deficiencies (Thematic focus LTG report 2017)

NSAs observations

- ✓ Relative impact of the measures (e.g. “the SCR changes by x % without application of the LTG measures”)
 - Mixed observations, depending on the country
 - relative impact of the measures on the SCR or the solvency ratio, sometimes also on Own Funds and TP.
- ✓ **Summary of the SFCR**
 - ✓ Information on the use of the measures: often included depending on the country and the measure, more frequent for MA and TTTP/TRFR, less frequent for the VA
 - ✓ Information on the impact of the measures: rarely included

Public disclosure of LTG and equity risk measures



Deficiencies (Thematic focus LTG report 2017)

Stakeholders' perception

- ✓ Importance of transparency on the measures, in particular with regard to their impact on the solvency position
- ✓ Main concerns: completeness and comparability of information
- ✓ Need for further qualitative considerations next to the quantitative figures
- ✓ Examples of additional information of interest (see page 157 of 217 report):
 - More details on MA: Composition of MA assets, derivation of MA
 - solvency ratios with and without the measures
 - result of sensitivity calculations, also for extrapolation (standardized?)
 - Qualitative explanations on the impact of the measures
- Measures planned with respect to coping with the transitional phase etc.

Public disclosure of LTG and equity risk measures



Options for improvement

✓ Possible additional elements on the SFCR

Voluntary measures (MA, VA, TRFR, TTP and DBE)

- Qualitative information on the rationale for the use of the voluntary measures or brief description of the measures
- Dependency on the measures to comply with capital requirements
- SCR and MCR ratios with and without

Voluntary measures as well as extrapolation:

- Explicit requirement to disclose the results of the sensitivity analysis of TP and EOF to the assumptions underlying the measure
 - Including quantification of the impact of different scenarios on the undertaking's financial position
 - Minimum requirements on which assumptions to be tested/ specific standardised scenarios

Public disclosure of LTG and equity risk measures



Options for improvement

✓ Possible additional elements on the SFCR

MA, VA:

- Qualitative description regarding RM implications

TTP, TRFR:

- Description and/or quantification of progress made towards Solvency II compliance
- Timeline of the phasing-in (if 2032 or shorter)

Public disclosure of LTG and equity risk measures



Options for improvement

✓ Mandatory content on the SFCR summary

Voluntary measures (MA, VA, TRFR, TTP and DBE)

- Use of the measures
- Impact, if significant (at least in case of dependency on the measures to comply with capital requirements)
- Material changes in the impact of the measures

Voluntary measures as well as extrapolation

- Results of the sensitivity analysis if significant??

Public disclosure of LTG and equity risk measures



Options for improvement

✓ Possible changes to the quantitative templates

Voluntary measures (MA, VA, TRFR, TTP)

- Add columns to S.22.01.21 and 22.01.22 (amounts without the measures and total impact)
- Add cells showing SCR ratio with/without the measures

Extrapolation

- Specific template?
- Add columns to S.22 with standardized scenarios?

Risk management in view of LTG measures

Solvency II Framework – Risk Management requirements

Articles 44 and 45 Solvency II Directive:

- liquidity plan for undertakings applying the MA or the VA
- assessment of the sensitivity of technical provisions regarding the assumptions underlying extrapolation, VA and MA
- assessment of compliance with capital requirements with and without the measures and in the case of non-compliance, the potential measures to restore compliance
- analysis of LTG measures in the ORSA

Risk management in view of LTG measures



Liquidity plan

- ✓ Supervisory experience varies across member states
- ✓ Differences in liquidity plans observed:
 - ✓ Time horizon, Granularity (time intervals, split of business)
 - ✓ Scenarios considered
 - ✓ Indicators assessed, typically however the mismatch of asset and liability cashflows is analysed
- ✓ No impact of VA on liquidity plans observed
- ✓ Impact of MA on liquidity plans: Separate monitoring of MA portfolio, allowance for long-term liquidity planning, interlink with matching criterion

Risk management in view of LTG measures



ALM management

- ✓ Reporting on the sensitivity analysis in the RSR not satisfactory for VA and extrapolation:
 - ✓ Sensitivity analysis was not reported by a big share of undertakings
 - ✓ Analysis of assumptions underlying the measures poor
 - ✓ Only small share of undertakings quantified impact of the assumptions
- ✓ Reporting on the impact of a forced sale:
 - ✓ For VA users majority of undertakings did not report on that matter in the RSR
 - ✓ MA users typically reported on these considerations (typical situations considered include selling or downgrading of a portion of the portfolio)
- ✓ Interlink of analysis performed with ALM management
 - ✓ Reporting on that matter poor but individual cases observed

Deficiencies (Thematic focus LTG report 2018)

NSAs observations

- ✓ It is not yet sufficiently clear what is addressed with “underlying assumptions” as undertakings did sensitivities on the interest rate or spread level but not on the key parameters of the interest rate term structure or on the building blocks of the VA.
- ✓ Information is rather general, more detailed and quantitative information would be useful.
- ✓ Where information is provided, judgement on the relevance of assumptions or the sensitivities calculated is often missing.
- ✓ No details are reported on how ALM management is performed.

Risks management in view of LTG measures



Other risk management requirements

- ✓ Analysis of measures (Art. 44.2a of the Directive) – relevant for both VA and MA: No deficiencies identified, report contains fact finding on numbers of undertakings concerned and measures reported
- ✓ Written policy on risk management (Art. 44.2a of the Directive) – relevant for VA: Experience of NSAs limited, contents observed varies (some undertakings describe motivation for application of VA, others criteria for when VA is applied, others analysis performed in respect of VA)

Risks management in view of LTG measures



ORSA

- ✓ Undertakings typically reflected on the LTG measures in their ORSA
- ✓ Detail of what is reported however varies across undertakings and countries
- ✓ Examples of information reported:
 - ✓ Reflection of impact of measures on the solvency position/ratio in the next couple of years
 - ✓ Impact of measures on key figures such as TP, OF, SCR or solvency position/ratio
 - ✓ Reflection of implications of the considerations
 - ✓ Reflection of the need to use the transitionals
 - ✓ Explanation of the measures applied in case of non-compliance without transitionals

Interaction of LTG measures with the risk margin



Excerpt from CfA on the risk margin

EIOPA should assess the ongoing appropriateness of: [...] the assumptions regarding the asset mix of the receiving undertaking, in particular with regard to the assumption of risk-free investments. This assessment should take into account the potential interactions between the recognition of market risk and the use of the volatility adjustment and the matching adjustment in the risk margin calculation

What is your view on the interactions between the recognition of market risk and the use of the volatility adjustment and the matching adjustment in the risk margin calculation?

Extension of the recovery period



Solvency II Framework – Extension of the recovery period

Articles 138 (4) and 143(1) Solvency II Directive

Articles 288 and 289 Solvency II Regulation

Guidelines on the extension of the recovery period in exceptional adverse situations (EIOPA-BOS-15/108 EN, 14/09/2015)

Extension of the recovery period



Article 138(4) Solvency II Directive

In the event of exceptional adverse situations affecting (re)insurance undertakings representing a significant share of the market or of the affected lines of business, as declared by EIOPA, and where appropriate after consulting the ESRB, the supervisory authority may extend, for affected undertakings, the period set out in the second subparagraph of paragraph 3 by a maximum period of seven years, taking into account all relevant factors including the average duration of the technical provisions.

Without prejudice to the powers of EIOPA under Article 18 of Regulation (EU) N° 1094/2010, for the purposes of this paragraph EIOPA shall, following a request by the supervisory authority concerned, declare the existence of exceptional adverse situations. The supervisory authority concerned may make a request if insurance or reinsurance undertakings representing a significant share of the market or of the affected lines of business are unlikely to meet one of the requirements set out in paragraph 3.

Article 138(4) Solvency II Directive

Exceptional adverse situations exist where the financial situation of insurance or reinsurance undertakings representing a significant share of the market or of the affected lines of business are seriously or adversely affected by one or more of the following conditions:

- (a) a fall in financial markets which is unforeseen, sharp and steep;
- (b) a persistent low interest rate environment;
- (c) a high-impact catastrophic event.

Extension of the recovery period

Observations

- No experience on the extension: no NSA request to EIOPA
- Limited number of SCR breaches, market share of undertakings affected negligible (specially for life)

Country	Undertakings breaching the SCR	Market share in non-life gross written premiums	Market share in life technical provisions
BU	1	5.86%	0.00%
CY	1	6.15%	0.00%
CZ	1	1.27%	0.00%
GR	1	2.89%	1.77%
IE	1	0.94%	0.00%
LU	6	1.83%	0.04%
NL	1	0.00%	0.00%
NO	1	1.17%	0.00%
PT	2	5.25%	0.34%
UK	10	0.32%	0.00%
Total EEA	25	0.39%	0.01%

Extension of the recovery period



Deficiencies

- Role of ESRB

The ESRB has developed an internal procedure related to its consultative role mainly oriented to the possibility of a request for consultation from NSAs before granting an extension to individual undertakings (i.e. after EIOPA has declare the exceptional adverse situation)

The declaration of an exceptional adverse situation refers to the market and is based in macro-prudential considerations

The decision to grant an extension of the recovery period refers to an individual undertaking and is mainly based on its specific circumstances

Extension of the recovery period

Options for improvement

✓ Possible changes to Article 138(4)

- In the event of exceptional adverse situations affecting insurance and reinsurance undertakings representing a significant share of the market or of the affected lines of business, as declared by EIOPA, ~~and where appropriate after consulting the ESRB~~, the supervisory authority may extend, for affected undertakings, the period set out in the second subparagraph of paragraph 3 by a maximum period of seven years, taking into account all relevant factors including the average duration of the technical provisions.
- Without prejudice to the powers of EIOPA under Article 18 of Regulation (EU) N° 1094/2010, for the purposes of this paragraph EIOPA shall, following a request by the supervisory authority concerned, **and where appropriate after consulting the ESRB**, declare the existence of exceptional adverse situations.



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Thank you
