EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

Agenda item 7: Long term guarantees - first report and preparations for second report

EIOPA Insurance & Reinsurance Stakeholder Group meeting
Frankfurt, 15 February 2017

Introduction

- Why is the topic on the agenda?
  - o Importance of long term guarantees
  - o Views of stakeholders on 2016 report
- What is expected from IRSG?
  - o Any views on 2016 report?
  - o From industry: provision of information for 2017 report
  - o In later years: IRSG view on an EIOPA opinion
- Next steps
  - o Information request for 2017 report
  - o Production of report

What are the long term guarantee measures?

Measure	Area of impact – risk free rate (RFR) or equity risk (ER) or other	Voluntary (V) or compulsory (C)
1) Extrapolation of the risk-free interest rate term structure	RFR	C
2) Matching adjustment	RFR	V
3) Volatility adjustment	RFR	V
4) Symmetric adjustment mechanism to the equity risk sub-module	ER	C
5) Duration-based equity risk sub-module	ER	V
6) Extension of the recovery period in exceptional adverse situations	Other – provides undertakings with longer period in which to return to the SCR	V
7) Transitional measure on the risk-free interest rates	RFR	V
8) Transitional measure on technical provisions	Other – provides for gradual rather than abrupt calculation of technical provisions on Solvency II compared with Solvency I basis	V

What is the purpose of the long term guarantees measures?

- Long term guarantees: ensure appropriate treatment of insurance products that include long-term guarantees
- Equity risk: appropriate capital requirements in relation to changes in the level of equity prices
- Underlying reason: the short term volatility of market-consistent valuations may not be consistent with provision and pricing of long term products

What is EIOPA’s role?

- Annual report on long term guarantees until 1 January 2021
- NSAs to provide EIOPA with information on:
  - Availability of long term guarantees
  - Numbers applying LTG measures
  - Impact on undertakings’ financial position of LTG measures
  - Effect on investment behaviour and whether provide undue capital relief
  - Impact of any extension of the recovery period
  - Compliance with transitional measures
- Opinion on application of long term guarantee measures

What is Commission’s role?

- Commission to submit report to Parliament and Council, if necessary accompanied by legislative proposals
- To be based on opinion submitted by EIOPA
- To include impact on
  - *policyholder protection;*
  - *functioning and stability of European insurance markets;*
  - *the internal market and in particular competition and level playing field;*
  - *the extent to which insurers continue to operate as long-term investors;*
  - *the availability and pricing of annuity products;*
  - *the availability and pricing of competing products;*
  - *long-term investment strategies by insurance undertakings in relation to products to which matching adjustment applied relative to those in relation to other long-term guarantees;*
  - *consumer choice and consumer awareness of risk;*
  - *the degree of diversification in the insurance business and asset portfolio of insurance and reinsurance undertakings;*
  - *financial stability*

What are the results so far?

- 2016 report
- Limited data set. But showed:
- Widespread use
  - o *Nearly 1/3 (901 out of 3050) of undertakings use one of voluntary measures accounting for 69.4% of technical provisions of European insurers*
    - Volatility adjustment is measure used most
    - Transitional measure on technical provisions widely used, in most cases simultaneously with volatility adjustment or matching adjustment
- Significant impact
  - o *Measures result in average increase in SCR ratio of 60% for all insurers in EEA*
    - For those which are using the measures, increase in SCR ratio is average of 72%
    - Up to 153% for individual countries

Next steps

- Publication of impact of LTG measures on individual undertakings via disclosure requirements
- Preparation by EIOPA of 2017 LTG report
- To include impact on competition and level playing field
- Request for information to undertakings
    - Impact of the equity risk measures
    - Impact of the extrapolation
    - Losses due to bond defaults/downgrades and replacement of bonds for matching adjustment portfolios