The (Re-)calibration dilemma

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In the current economic situation insurers are seen as relevant actors regarding economic growth and financing of the real economy, putting the focus on the capital charge for types of assets, and its appropriateness. Moving towards a risk based framework in Insurance, regulatory capital requirements have to reflect actual risks and how they are managed. Such a framework must be neutral so that investments with the same risk should be subject to the same capital charges. It should not create obstacles, nor provide artificial incentives.

It is tempting to propose specific treatments for individual assets in the standard formula, as it will result in higher risk sensitivity. But this has a price: complexity of calculations will increase. A more granular approach might also reduce the number of observations available and, for relatively new asset classes, there may be a short record of historical performance data, thus data quality and credibility becoming an issue. Furthermore, capital requirements have been developed for a number of years. What are the odds for significant new insights into the risk profile for individual asset classes? It is time to move on. With regulatory uncertainty identified as a high risk for insurers, clarity regarding capital requirements is key. This doesn't exclude a future revision, always based on evidence.

EIOPA has shown that it will do it, as it has been the case in the field of Securitisations, where we suggest a more granular approach in this field. EIOPA developed a number of criteria on the structure of the securitisation, quality of underlying assets, underwriting process and the transparency for investors. As a result, we suggest that securitisations meeting all these criteria have a lower risk profile and capital charge than those which do not.. Calibrations cannot be carved in stone, nor can evidence be thin ice. It would certainly be wrong to downplay the influence of regulatory capital requirements on investments decisions. In the end insurers will only invest if it makes economic sense, and this is how it should be.