Siegbert Baldauf, Clemens Frey, Lauri Saraste

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Roundtable EIOPA 27 September 2017

How to read this document:

- Until now, we do not know EIOPA's final advice to Commission.
- We do know the issues to be considered in this advice.
- This intended advice will be published in the consultation paper in November.
- Consultation period will last 8 weeks until end of December.
- Final advice will be send to Commission end of February 2018.

Why do we propose to start already now occupy ourselves with the issues covered by this second set of advice?

EIOPA's document prepared for the roundtable meeting and the discussion during this meeting allow a first assessment of EIOPA's view on these issues.

Because of the complexity of some of these issues, it seems to be recommendable to start early with a detailed analysis even if the final proposal is not available. If we want to contribute to the further discussion and the expected consultation paper, we are well advised to start now.

Roundtable meeting SCR Review:

Input: Roundtable on the SCR Review (slide deck) provided to participants up-front

The discussion was structured as follows:

1.	09.00 – 09.30	Introductory remarks and update on the process
2.	09.30 – 10.30	Loss absorbing capacity of deferred taxes
3.	10.30 – 11.30	Risk Margin
4.	11.30 – 12.30	Volume measure for premium risk and premium and reserve risks recalibration
5.	13.30 – 14.30	Interest rate risk
6.	14.30 – 15.15	Longevity and mortality risks
7.	15.15 – 16.00	Simplifying the look-through approach
8.	16.00 – 16.45	Counterparty default risk module: simplifications envisaged, exposures to CCPs and possible adjustments to reflect EMIR
9.	16.45 – 17.15	AOB
10.	17.15 – 17.30	Closing remarks

For each agenda item, EIOPA presented the slides to initiate a discussion.

Item 1)

An information request to undertakings for impact assessment is planned
On **LAC DT and interest rate risk** (8 weeks in November –December)
Content see below!

Considering year-end activities in the undertakings, we recommended an earlier start of the exercise

Item 2)

A background principle for EIOPA is the valuation guideline 9, that future profits are limited (to restrict uncertainty). As LAC DT is in the standard formula, it needs to be harmonized. Similar assumptions are needed for similar elements.
On future profits, EIOPA were not willing to allow for higher investment returns than RFR.

Slide 7: EIOPA acknowledges differences in LAC DT resulting from differences in tax regimes
Nevertheless, EIOPA is striving for a harmonisation in some fields:
Profitability of new business
Horizon of new business (see slides 8 – 12)

<u>Information request for an impact assessment will request data on</u>

- profitability of new business over past years
- assumed profitability of new business in projected years in calculation of LAC DT
- assumed profits from returns on assets and liabilities in projected years in LAC DT calculation

Task: We should analyse the consequences already recognizable from the conception of this information request and assess the expected result

Item 3)

Risk margin: Cost of capital rate

Participants addressed the methodology underlying the risk margin calculation as a whole. EIOPA's analysis will be restricted to the COC – Rate.

EIOPA follow the methodology used in the past for the determination of the COC – Rate. (see CEIOPS-SEC-40-10 15 April 2010 **QIS5 Calibration Paper)**

It was acknowledged that this rate reflects a long-term expectation and therefore can be compared with the UFR. The concrete methodology remained unclear. The old methodology is drafted in slide 17 (equity risk premium, insurance-specific beta + adjustment)

EIOPA will check whether RM discount rate could include VA or MA as the reference undertaking might be able to use these

EIOPA will make a suggestion (a number) for the CoC rate.

Question: What can we contribute to this discussion? Are there other approaches possible? Comparable with UFR – methodology?

Item 4)

Recalibration of premium and reserve risk

EIOPA targets at recalibration for five LoBs

EIOPA has collected data on gross and net basis, and adjusted the data base as done in 2011 by the Joint Working Group (JWG).

EIOPA will use the same methodology (esp. for deletion of outliers, re-scaling to European market data) as in 2011 for doing the recalibration. Other methods shown in the presentation were only for comparison and deeper understanding.

Differences to 2011 results mainly stem from better data basis, e.g. better representation of key markets for the particular LoBs as compared to 2011.

As part of the consultation, EIOPA will make available the extensive underlying analyses.

Questions: Do we see a need for recalibration of other LoBs? Do we agree with the approach to re-use the JWG methodology? Any observations in terms of the envisaged results, e.g. the strong difference for reserve risk in credit and suretyship?

Volume measure for premium risk and

EIOPA will close the gap in Future Premiums, as proposed by AAE (and others) – see Insurance Policy B on page 44, by deleting part of a sentence in the guidelines. They point out that the notion "Recognition Date" is well defined by Article 17 of the Delegated Acts.
Participants of the roundtable have pointed out that still there is a potential of volatile results due to the volume measure throughout the year.

EIOPA has promised to take a further look at the need for differentiating 1-year and multi-year policies, esp. in terms of applying the same (1/200 year) factor for subsequent years of a single policy. Analyses are not finalized though.

Questions: Do we want to raise other topics? Can we formulate a proposal for damping factors to be applied for multi-year contracts?

Item 5)

Interest rate risk

EIOPA provided the results of their analysis. Besides the shift approaches (relative and lognormal) they had tested two additional approaches (minimum shock and a combined approach – slide 50)

EIOPA decided not to follow up the shifted approach because backtesting showed a breach of the realized risk-free rate curve 3 times. It is therefore assessed not to be sufficiently prudent to measure the 1 in 200 year event. (slides 52, 53)

The now proposed methods do not suffer from this shortcoming. Methods. EIOPA intend to consult on these methods.

<u>Information request for an impact assessment will request data on</u>

- the impact of methods 1 and 2

Question: Should we try to do further investigation to support the shifted approach? Is the observed breach (three times) an acceptable criterion for exclusion?
What is the impact of the shifted approach compared to the combined approach?
How far do we want to engage here?

Item 6)

Longevity and mortality risks
The presented results have been developed with the Lee-Carter model (Cairns-Blake-Dowd also considered). The results confirm the current longevity stress of 20%.
Based on these result age-dependent shocks could be considered.

Question: Would it improve results if this additional granularity (age dependent shocks) were introduced in the standard formula calculation? Effects on complexity?
Other criteria like e.g. sex, social status would not be considered even though they have an impact on the result. Should USP be considered?

Item 7)

Simplifying the look-through approach

EIOPA stated that the 20% threshold will remain. But there might be no look-through requirement for UL funds. Also they said that a grouping approach might be allowed in the look-through.

EIOPA needs still to do some further analysis. To avoid errors, some additional qualitative information might be needed from the industry.

Stakeholders pointed out that the target asset allocation (of the underlying fund) rarely is available so it should be allowed to use the last actual allocation instead, which can be found quite easily.

One open question still seemed to be how often and in what kind of situations the 'error term' needs to be calculated, e.g. if funds include leveraged assets etc.

Do we have further remarks on this issue?

Item 8)

Counterparty default risk module: simplifications envisaged, exposures to CCPs and possible adjustments to reflect EMIR

EIOPA strive for improvement of the simplified formulas.

Slides 85 – 87 contain some ideas ("policy options") for subsequent finalization.

Not many comments from the stakeholders

Do we have further remarks on this issue?