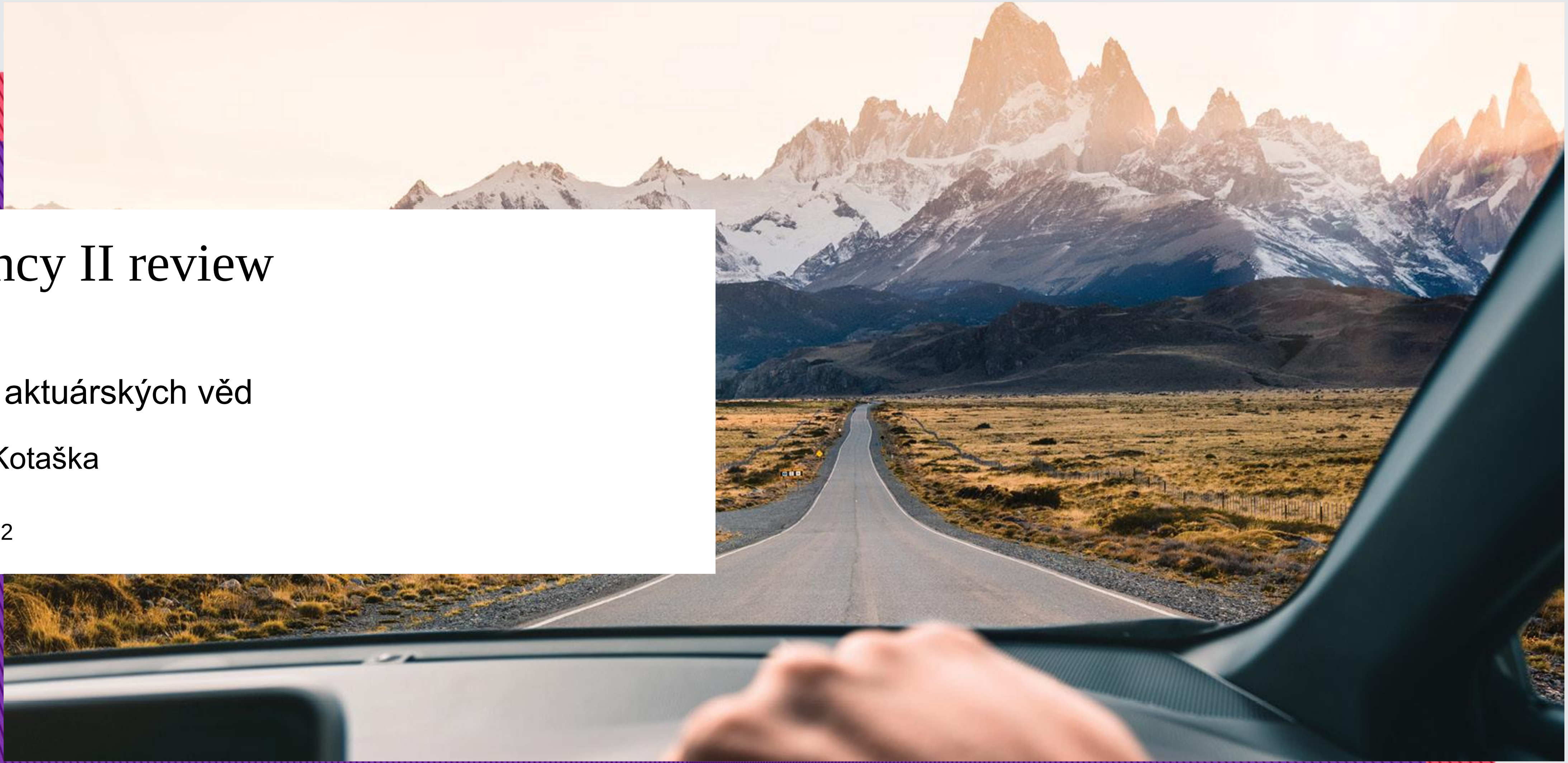
Solvency II review



Seminář aktuárských věd

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8. dubna 2022

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Purpose

This presentation was prepared as a background information for discussing potential changes to Solvency II regulations and what impacts they might have on insurance companies. It has been prepared for general informational purposes only and does not purport to be, and is not, a substitute for specific professional advice. While the matters identified are believed to be generally correct, before any specific action is taken, specific advice on the circumstances in question should be obtained.

Limitations

This summarised material has been prepared based on EIOPA Final Opinion on Solvency II review, which forms an advice to European Commission and the EU Commission Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/38/EC. The final changes to the Solvency II legislation are subject to further expert and political negotiations and might be different from the EIOPA Opinion, EU Commission Proposal and the information stated in this material.

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Content

What is Solvency II?

Prudential regulation of insurance companies in EU (EEA)

- Framework Directive 2009/138/EC
- Delegated Regulation (EU) 2015/35
- 63 Delegated Acts / Implementing acts / Implementing Technical Standards, etc
  - See https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/solvency2-directive-level-2-measures-full_en.pdf
- 36 EIOPA Guidelines
- Setting out the main rules for prudential supervision of insurance companies, i.e.
  - Valuation of assets and liabilities others than technical provisions
  - Technical provisions calculation
  - Capital requirements calculation
  - Own funds determination
  - Investments
  - System of governance rules
  - Reporting and disclosure

Solvency II was developed between early 00's and approximately 2014 and came into force on 1 January 2016.

Solvency II review

Why is Solvency II being reviewed?

Legislative requirements

- Legal requirement for the EU Commission to review certain parts of the regulation by 2020, in particular
  - Long-term guarantees measures and measures on equity risk;
  - Methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement standard formula;
  - Member States' rules and supervisory authorities' practices regarding the calculation of the Minimum Capital Requirement;
  - Group supervision and capital management within a group of insurance or reinsurance undertakings.

Development on the markets

- Prolonged period of low and even negative interest rates
- Covid-19

Political developments

- Capital markets union
- Sustainability in finance

Timeline of the Solvency II review in EU

Feb 2019
EU Commission Call for Advice for Solvency II review

Feb 2019 – Dec 2020
Work on EIOPA's Opinion, including 2 impact assessment studies

22 Sep 2021
EU Commission draft proposal

Q4 2021 – 2022
Political negotiations at EU level

~ 2024 – 2025
Entry into force in Member States

- Draft Framework Directive amendments
- Expected changes in Implementing Regulation (technical details)
- Draft Directive on insurance resolution

EIOPA Opinion

Key points under review, as asked by the EU Commission

The main specific considerations and proposals of the consultation paper were as follows:

- Review of LTG Measures
  - Considerations to **choose a later starting point for the extrapolation of risk-free interest rates for the euro** or **to change the extrapolation method** to take into account market information beyond the starting point
  - Considerations to **change the calculation of the volatility adjustment** to risk-free interest rates, in particular to address overshooting effects and to reflect the illiquidity of insurance liabilities
  - Other changes related to **Matching Adjustment** (diversification between portfolios), transitionals and other measures
- Revisions to Existing Framework
  - The proposal to **increase the calibration of the interest rate risk submodule** in line with empirical evidence. The proposal is consistent with the advice EIOPA provided on the SCR standard formula in 2018
  - Other areas reviewed, such as contract boundaries, **risk margin**, calibration of the SCR (individual modules or correlations), risk mitigation techniques
- New Regulatory Tools
  - The proposal to include **macro-prudential tools** in the Solvency II Directive
  - The proposal to establish a minimum harmonised and comprehensive **recovery and resolution framework** for insurance
  - Introduction of harmonized **Insurance Guarantee Schemes** across EU

https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa-bos-19-465_cp_opinion_2020_review.pdf

Executive summary

EIOPA opinion

EIOPA package as published on 17 December

- Opinion with the advice to the EU Commission
- Background analysis – original options considered in the consultation, their justification
- Background impact assessment – based on information requests made in 2020, summarizing the impacts on solvency position
- Report on QRTs – detailed suggested changes to the reporting templates

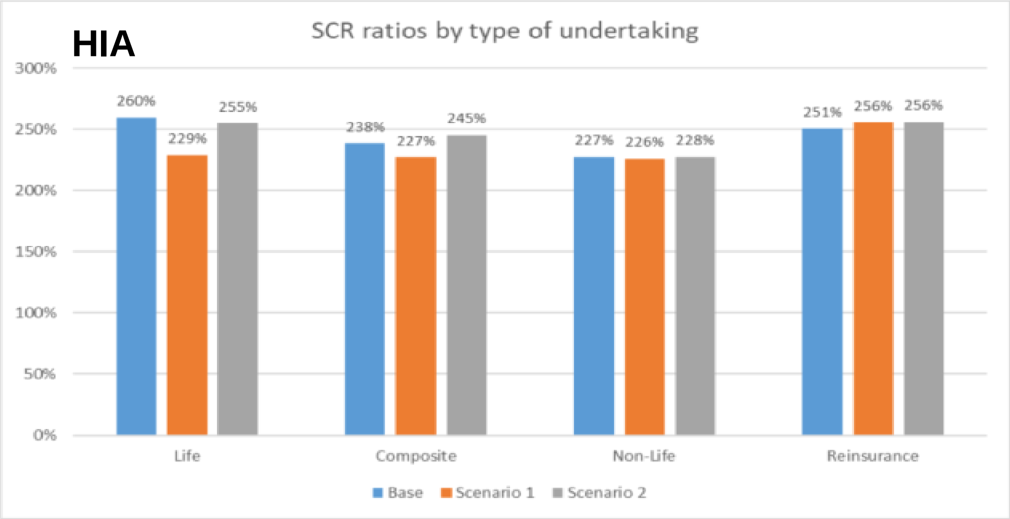
Main suggested changes with largest impacts

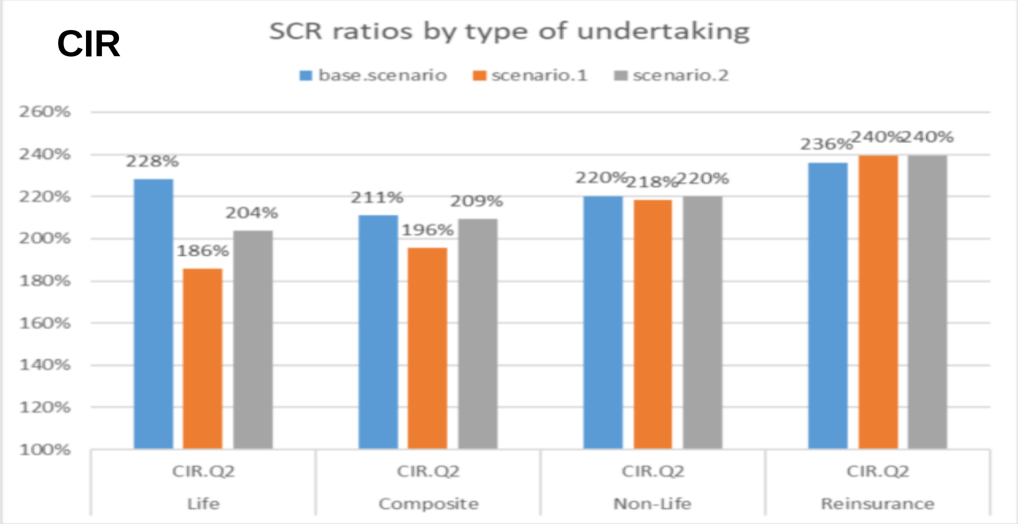
- Review of LTG measures
  - New extrapolation method
  - Changes in VA
- Adjustments to existing framework
  - Change in interest rate risk SCR
  - Risk margin calculation
- New regulatory tools
  - resolution and recovery,
  - liquidity risk,
  - Insurance Guarantee Schemes

Key impacts of EIOPA proposals

- Holistic Impact Assessment (HIA) – base scenario as at end of 2019
- Complementary Information Request (CIR) – base scenario as at Q2 2020
- Both included two scenarios – Scenario 1 with all proposed changes and Scenario 2 which excluded the IR risk calibration

	Participation	Impacts
HIA	392 undertakings (covering 73% of EEA life TP and 52% of NL GWP)	Scenario 1: Average solvency ratio decreased from 247% to 234% Scenario 2: Negligible effect
CIR	278 undertakings (covering 68% of EEA life TP and 45% of NL GWP)	Scenario 1: Average solvency ratio decreased from 226% to 204% Scenario 2: Average solvency ratio down to 216%





Extrapolation of the Risk-Free Interest Rate Term Structure

EIOPA final advice

Alternative method chosen, meaning:

First smoothing point

- Determination consistently applied for all currencies. Availability of bonds assessed on volume criterion
- Stabilized and should not vary on yearly basis – changes only in case the residual bond criterion gives different result for two consecutive years
- For EUR it would be 20 years at the end of 2019
- For term structure determined based on swaps – if liquid swap rates exist after the FSP, these should be taken into account

Extrapolation method

- Smooth extrapolation by means of LLFR, determined as weighted average of forward rates before and after the FSP (weighs depending on the liquidity of respective rates)

Introduction of the new method

- Modification of the method for current period of very low interest rates – this should phase out until 2032

$$f_{FSP,FSP+h} = \ln(1 + UFR) + (LLFR - \ln(1 + UFR)) * B(a, h)$$

$$B(a, h) = (1 - e^{-ah})/ah$$

h… maturity for which the forward rate is determined
a… convergence parameter (10%)

Interest rate level similar to end of 2019

Country	Absolute impact of advice (excl. IRR) on Surplus per YE 2019 in million euro	Relative impact of advice (excl. IRR) on Surplus per YE 2019 in %-points
EEA	5.111	1%

Interest rate level similar to mid-2020

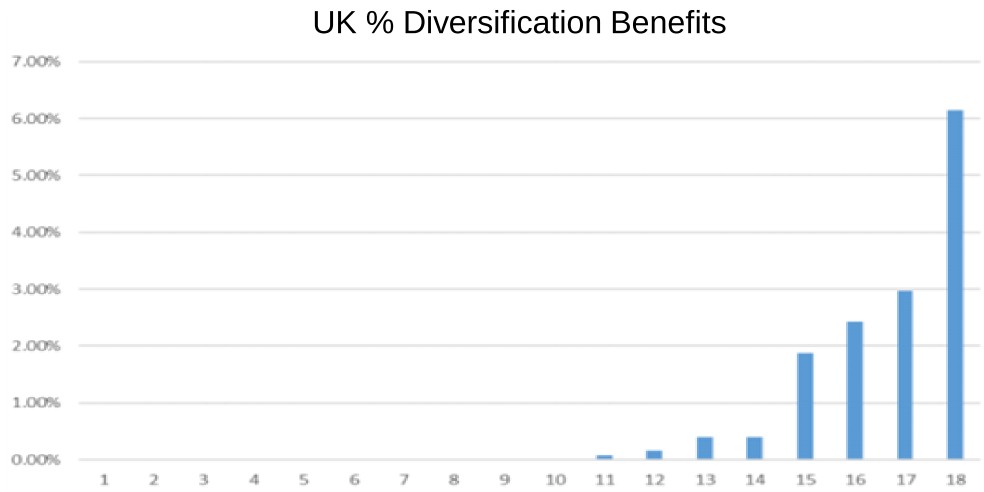
Without phasing-in mechanism	Impact of package (excl. IRR) per mid-2020 in million euro	Impact of package (excl. IRR) per begin-2023 in million euro	Impact of package (excl. IRR) per begin-2032 in million euro
EEA	-20.044	-15.062	-4.617

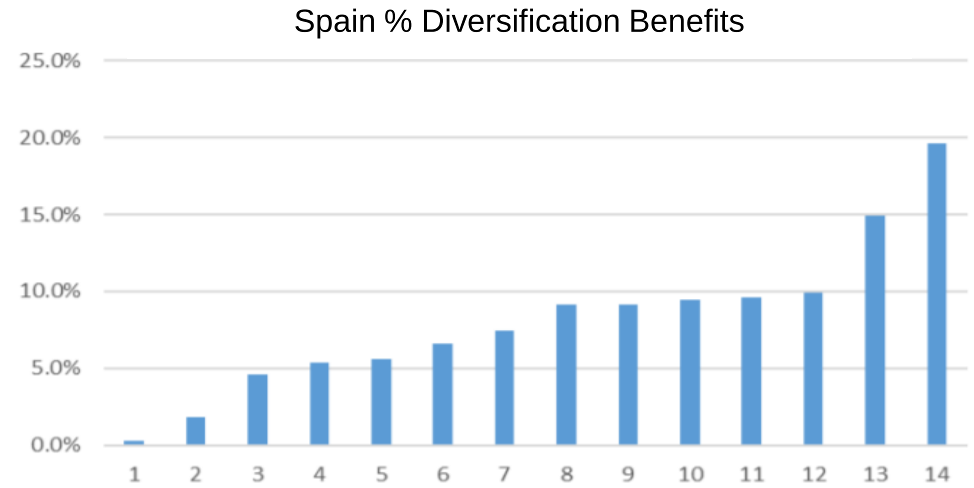
With phasing-in mechanism	Impact of package (excl. IRR) per mid-2020 in million euro	Impact of package (excl. IRR) per begin-2023 in million euro	Impact of package (excl. IRR) per begin-2032 in million euro
EEA	11.413	12.727	-4.617

Matching Adjustment

EIOPA final advice

1. Removing the limitations on diversification benefits in SCR standard formula calculation
2. Additional requirements on eligibility of restructured assets
   - Underlying assets provide sufficiently fixed level of income
   - Loss absorbency features of the assets' cash flows
   - If assets include financial guarantees, those shall not increase MA
   - Undertaking is able to properly identify, measure, monitor, manage, control and report the underlying risks.





Volatility Adjustment (1 of 3)

EIOPA final advice

1. Introducing permanent and macro-economic VA with better reflection of undertakings' own assets and liabilities, with the aim of mitigate overshooting effects and recognizing illiquidity characteristics of insurers' liabilities
   a. Permanent VA - $VA_{perm} = GAR \cdot AR^4{}_i \cdot AR^5{}_i \cdot Scale \cdot RC\_S$
      - Recognizes the illiquidity of insurance liabilities
      - $AR^4{}_i$ – application ratio for overshooting (ratio of the 'sensitivity of the undertakings fixed income investments against changes in credit spreads' over the 'sensitivity of the best estimate liabilities against a change in the amount of the volatility adjustment')
      - $AR^5{}_i$ – application ratio measuring the degree of liquidity of liabilities (determined on the basis of bucketing of liabilities into three categories according to their illiquidity features)
      - $Scale$ is a scaling factor of a representative portfolio
      - RC_S – risk-corrected spread of the representative portfolio

   b. Macro-economic VA - $VAmacro{,}j = GAR*AR4i \cdot AR5i*\ \omega j*max(RC\_Sj*Scalej$ - 1.3$*RC_S*Scale$; 0)
      - Improves the current country-specific VA, is intended for crisis periods with widened credit spreads
      - ωj - factor designed to ensure a gradual and smooth activation of the country component and mitigating the cliff effect. It is calculated with reference to each country portfolio
      - $Scalej$ - scaling factor of the representative portfolio for country j
      - RC_Sj - risk-corrected spread of the representative portfolio for country j.

   c. General Application Ratio increased from 65% to 85%
2. New disclosure and reporting requirements – disclosing the size of undertaking specific VA and the best estimate it is applied to; and reporting to supervisors the size of the application ratios
3. VA to be subject to supervisory approval for new VA users

Volatility Adjustment (2 of 3)

Impacts

VA tested as follows

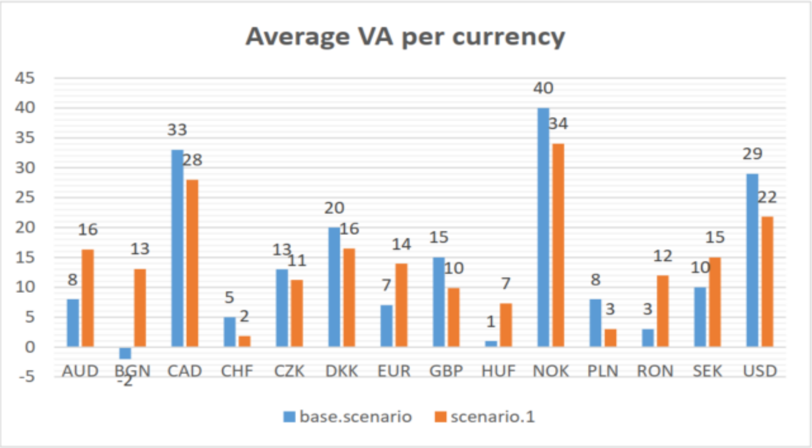
- Split in a "permanent VA" and a "macroeconomic VA" where the permanent VA is based on currency reference portfolios including application ratios to correct for mismatches in the fixed income assets and insurance liabilities in respect of duration and volume (application ratio 4) and for illiquidity (application ratio 5);
- Macroeconomic component of the VA based on Option 7 (amending the trigger and calculation of country-specific increase of the VA)
- Simplifications for the calculation of the application ratios – in particular, introduction of a "bucketing approach" for the "illiquidity" application ratio
- Increase of the General Application Ratio (GAR) from 65% to 85%
- Introduction of a revised new spread risk correction

Impacts in general

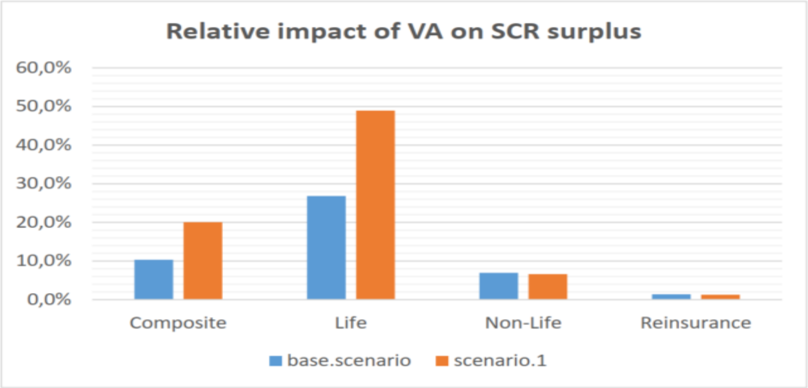
- Difficult to separate only VA impacts on solvency position – extrapolation and interest rate risk calculation come also into play and also there are different application ratios for the countries
- Inequally spread across the countries – the impacts also depend on use of constant/dynamic VA by internal model users.
- It seems that DE, IT undertakings using standard formula will benefit from better solvency ratio, whereas for NO standard formula users or NL internal model companies with dVA the solvency ratio would be somehow lower.

Volatility Adjustment (3 of 3)

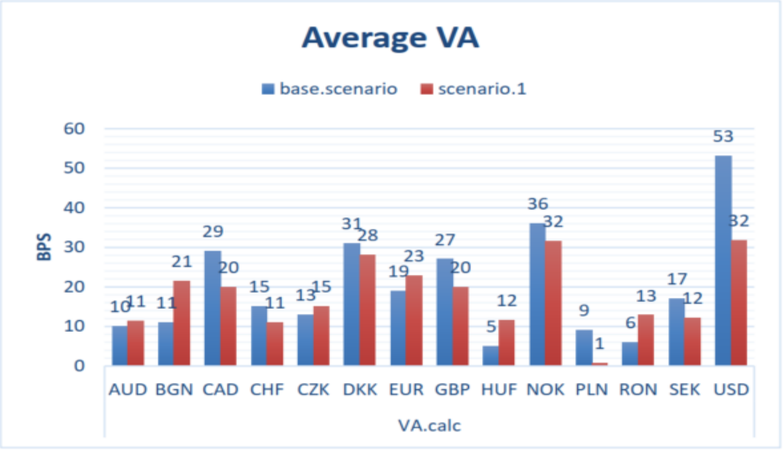
Holistic Impact Assessment



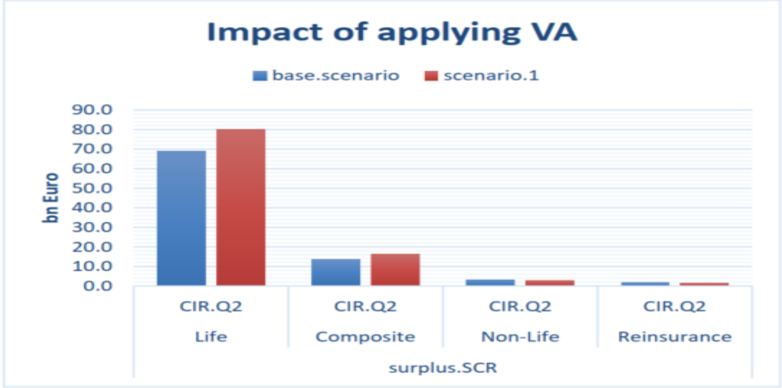
New VA would increase the SCR surplus from 42 bnEUR to 59 bnEUR under scenario1 (together with alternative extrapolation and new interest rate risk calculation)



Complementary Information Request



New VA would increase the SCR surplus from 87,4 bnEUR to 100,6 bnEUR under scenario1 (together with alternative extrapolation and new interest rate risk calculation)



Other areas related to Long-Term Guarantee measures

EIOPA final advice

Transitional measures

1. More detailed SFCRs disclosures (reasons for use, assessment of dependency on the measures)
2. New application of transitionals only allowed if:
   - Undertaking newly falls under Solvency II because it passed exemption threshold; or
   - Undertaking transfers a portfolio which falls under transitional to another undertaking
3. Clarification for cases of potential capital add-on for imposed in case of deviation from underlying assumptions for transitionals

Long-Term and Strategic Equity investments

1. More details on LTE criteria and introducing a liquidity buffer for non-life and reinsurance liabilities and assigned portfolio of assets:
   - Buffer calculated as High-Quality Liquid Assets (after haircut)/BE_portfolio
2. Widening the Symmetric adjustment to equity risk charge from +/-10% to +/-17% and introducing a floor of 22% capital charge
3. Amended mechanism for declaring the exceptional adverse situation, extension of the recovery period and consultation with ESRB

Further risk management and disclosure considerations

- Amendments to ORSA capital requirements assessment (identification of potential deterioration of financial conditions)
- Information of LTG-use to be disclosed in SFCR part for other stakeholders; policyholders' section only to include figures
- Sensitivity analysis to include impact of change of the convergence parameter of the extrapolation method to 5% (

Risk Margin

EIOPA final advice

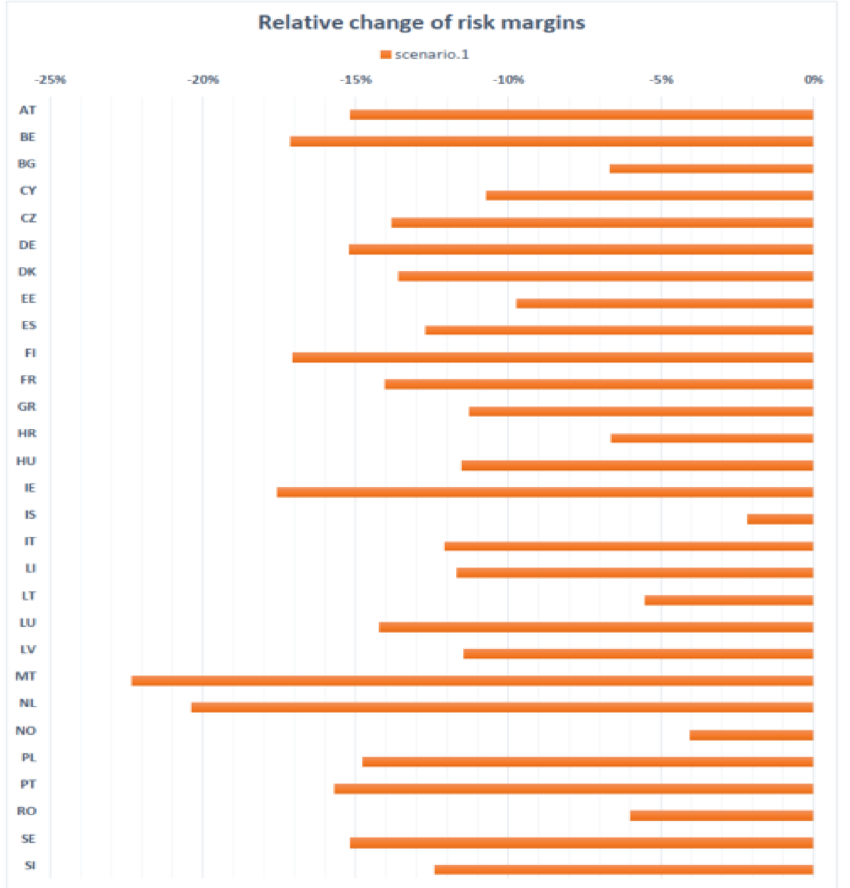
EIOPA suggests to change the risk margin calculation formula in order to introduce a floored, exponential and time dependent element λ:

$$RM_{scenario} = CoC \cdot \sum_{t\geq 0} \frac{SCR(t) \times \max(\lambda^t, 0.5)}{(1+r(t+1))^{t+1}} \quad \text{, where } \lambda = 0.975$$

The λ factor shall ensure that the RM takes into account the dependence on risks over time in a simple and transparent manner, based on prudent calibration.

It ensures that the future projected SCRs are adjusted for this new emergence of risks which leads to an annual reduction of the SCR.

HIA estimated impact of **17 bnEUR** at EEA level (**15% reduction in the risk margin).**



SCR Standard Formula

EIOPA final advice

Interest rate risk

- **Increased calibration** in order to account for **steep fall or interest rates** and **negative interest rates**
- Floor of -1,25% introduced for downward scenario
- **Phase-in period of five years** for the changes
- HIA: gross interest rate risk increase by 60 bnEUR, net increase by 40bnEUR; total SCR increase by 23 bnEUR (12%). Countries most affected – NO, IT, FR, DE, AT
- HIA: decrease of solvency ratio from 257% to 231%
- CIR: decrease of solvency ratio from 220% to 198%
- Generally, the impact is borne by life and composite undertakings, negligible effect on non-life companies

Other changes

- Reduction of correlation parameter for spread risk and interest rate risk to 0,25 under the downward shock
- Simplification for computing CDR risk-mitigating effect
- Grandfathering exemption on government bonds issued not in domestic currency before 2020 from market concentration and spread risk calculation

Other revisions of existing framework

EIOPA final advice

Best Estimate

- Minor changes to **contract boundaries, expense assumptions, definition of EPIFP / future management actions**

Own funds

- Amendment to the Directive to clarify that the group supervisor should assess the level of double leverage and take actions when double leverage is excessive (leverage ratio >100%)

MCR

- Updates to the **risk factors for non-life insurance risks**
- Clarification of legal provisions on non-compliance with MCR

Reporting and disclosure

- **Splitting SFCR for consumers and other public, changes in the structure, disclosure of sensitivity analysis results**
- **Auditing requirement of the SII balance sheet**
- Changes to the QRTs and the deadlines submissions

Proportionality

- Increasing the **thresholds for entities out of scope**
- New category of „**low risk undertakings**“ with somehow less strict requirements on Pillar 1 calculations, governance requirements and reporting

Macro-Prudential Issues

EIOPA final advice

- Additional supervisory measures to address sector-wide shocks (possibility to restrict or suspend dividend or restricting purchase of own shares) – EIOPA to issue guidelines on the exceptional circumstances when these measures are to be used
- Strengthened call for Liquidity Risk Framework
  - Liquidity risk monitoring and stress testing
  - All undertakings to draft liquidity risk management plans (possibility to waive this requirement by supervisors)
- Improvements in ORSA to include macro-prudential perspective; and
- Including the macroprudential perspective in the Solvency II with tools for national supervisors:
  - Require a capital surcharge for systemic risk;
  - Define soft concentration thresholds;
  - Consideration of macroeconomic concerns in prudent person principle;
  - Require pre-emptive recovery and resolution plans and systemic RM plans; and
  - Impose a temporarily freeze on redemption rights in exceptional circumstances

Recovery and Resolution

EIOPA final advice

Minimum harmonised and comprehensive recovery and resolution framework to facilitate cross-border cooperation, including

- Recovery measures including the request for pre-emptive recovery planning and early intervention measures;
- All relevant aspects (e.g. objectives, designation authority) around the resolution process; and
- Triggers for early intervention, entry into recovery and into resolution, to be judgement-based and contain relevant qualitative and quantitative factors
- More intensive dialogue between companies and supervisors, in order to better understand the strategy, recent technical and financial results, changes in products and investments and their impacts, etc.
- Requirement for resolution planning by the resolution authorities with cooperation from supervisors, capturing significant share of national markets (inclusion of insurers based on harmonized criteria) and protecting critical functions of financial system
- Trigger for entering into recovery: breach of SCR

Insurance Guarantee Schemes (“IGSs”)

EIOPA final advice

- Establishment of a European network of national IGSs across the EU which are sufficiently harmonised and adequately funded
- More detailed description of options for operationalising the home-country approach (preferred option – home country pays the policyholders the minimum EU harmonised coverage level for the LoBs agreed at EU level, including the compulsory insurances of the host country paid at the coverage level of the host)
- Examples of covered LoBs include fire, accident insurance, liability, suretyship products, sickness and other damages to property
- MS should guarantee up to 100% of a certain amount (e.g. EUR 100.000) for selected eligible policies associated to social hardship
- Transitional phase to allow flexibility in implementation

EU Commission draft proposal

Executive summary

EU Commission broadly in line with EIOPA opinion

Content of the EU proposal

- Suggested amendments to the Framework Directive (2009/138/EU)
- Proposal for a new Directive on insurance resolution
- Communication by EU Commission, outlining the expected changes in Level 2 Regulation (still being finalized)
- Impact assessment

Main deviations from EIOPA opinion

- Slightly amended approach to VA (dropping suggested application ratio for illiquidity of liabilities)
- Envisaging decrease in the CoC rate from 6% to 5% and dropping the floor in the tapering approach
- Not introducing Insurance Guarantee Schemes
- Much more complex rules for resolution planning

Expected next steps

- Trialogue between the EU Commission, Council and Parliament to agree on the Framework Directive
- Preparation of Level 2 Regulation as outlined by the EU Commission
- Implementation date expected probably during 2024-2025

EU Commission proposal at a glance

Widely in line with EIOPA opinion

- Except for particular details in VA, lowering the risk margin and dropping the Insurance Guarantee Schemes
- Other parts remained basically unchanged from what EIOPA has proposed
- Recovery and resolution in a separate directive

Full impacts rather unclear, but EU COM aim is to contribute to release of capital surplus

- Short-term capital release: up to 90 bn EUR* (mostly due to volatility adjustment and risk margin)
- Long-term capital release: up to 30 bn EUR (due to phasing-in of extrapolation and new interest rate risk SCR calculation)

Full details also not clear

- EU Commission only communicated the main points and principles that will be implemented in Level 2, however that is still under preparation

** Based on sample data and EU Commission calculations*

Example how amendments are suggested

(23) Article 44 is amended as follows:

(a) paragraph 2 is amended as follows:

(i) point (e) is replaced by the following:

‘(e) operational risk management, including cyber security as defined in Article 2, point (1), of Regulation (EU) 2019/881 of the European Parliament and of the Council*;

* Regulation (EU) 2019/881 of the European Parliament and of the Council of 17 April 2019 on ENISA (the European Union Agency for Cybersecurity) and on information and communications technology cybersecurity certification and repealing Regulation (EU) No 526/2013 (Cybersecurity Act) (OJ L 151, 7.6.2019, p. 15).’;

(ii) the following subparagraph is added:

‘Where insurance or reinsurance undertakings apply the volatility adjustment referred to in Article 77d, their liquidity plans shall take into account the use of the volatility adjustment and assess whether liquidity constraints may arise which are not consistent with the use of the volatility adjustment.’;

Volatility Adjustment

Replacing the application ratio for overshooting by credit spread sensitivity ratio

Dropping the application ratio for measuring the degree of illiquidity of liabilities

EU Commission proposal

Framework Directive

Paragraph 38 (amending Article 77d):

- Application ratio raised to 85% in line with EIOPA advice
- Slightly changed structure of the „permanent“ VA – undertaking-specific „credit spread sensitivity ratio“ introduced instead of application ratios

$$VA_{cu} = 85\% \cdot CSSR_{cu} \cdot RCS_{cu}$$

- For EUR, macro-VA may increase the permanent VA in line with the EIOPA advice with minor amendments as regards the credit spread sensitivity ratio in the formula

$$VA_{Euro,macro} = 85\% \cdot CSSR_{Euro} \cdot \max(RCS_{co} - 1.3 \cdot RCS_{Euro}; 0) \cdot \omega_{co}$$

- New use of VA only after a supervisory approval

Foreseen Level 2 changes

- Possible change the Delegated Regulation to address overshooting due to differences in the credit spread sensitivity of assets and the interest-rate sensitivity of liabilities – i.e. details as to calculate the $CSSR_{cu}$

Recovery and Resolution

EU Commission proposal much more complex due to legal certainty

EIOPA final advice

EIOPA called for a **minimum harmonised and comprehensive recovery and resolution framework** to facilitate cross-border cooperation, including

- Recovery measures including the request for pre-emptive recovery planning and early intervention measures;
- All relevant aspects (e.g. objectives, designation authority) around the resolution process; and
- Triggers for early intervention, entry into recovery and into resolution, to be judgement-based and contain relevant qualitative and quantitative factors
- More intensive dialogue between companies and supervisors, in order to better understand the strategy, recent technical and financial results, changes in products and investments and their impacts, etc.
- Requirement for resolution planning by the resolution authorities with cooperation from supervisors, capturing significant share of national markets (inclusion of insurers based on harmonized criteria) and protecting critical functions of financial system
- Trigger for entering into recovery: breach of SCR

EU Commission proposal

Complex stand-alone directive

Scope

- All (re-)insurance undertakings authorized under SII, their parent insurance undertakings, holding companies, third country branches
- Resolution authorities to be set up by Member States

Pre-emptive recovery planning

- Groups and standalone insurers to draw up and submit pre-emptive recovery plans (to cover at least 80% of national markets)
- Regularly updated, setting out actions to be taken in order to restore financial positions

Resolution planning

- At least 70% of undertakings subject to resolution planning by the authorities

Resolution tools

- Listing the tools (write-downs, solvent run-off, sale of busines…) and supervisory powers to use them
- Safeguards as to the use of the tools
- Preventive measures to be included in Solvency II (updating recovery plan, executing measures from the plan, suspending variable remuneration, …)

UK Solvency II review

UK Solvency II review – key points

UK announced its own SII review following Brexit

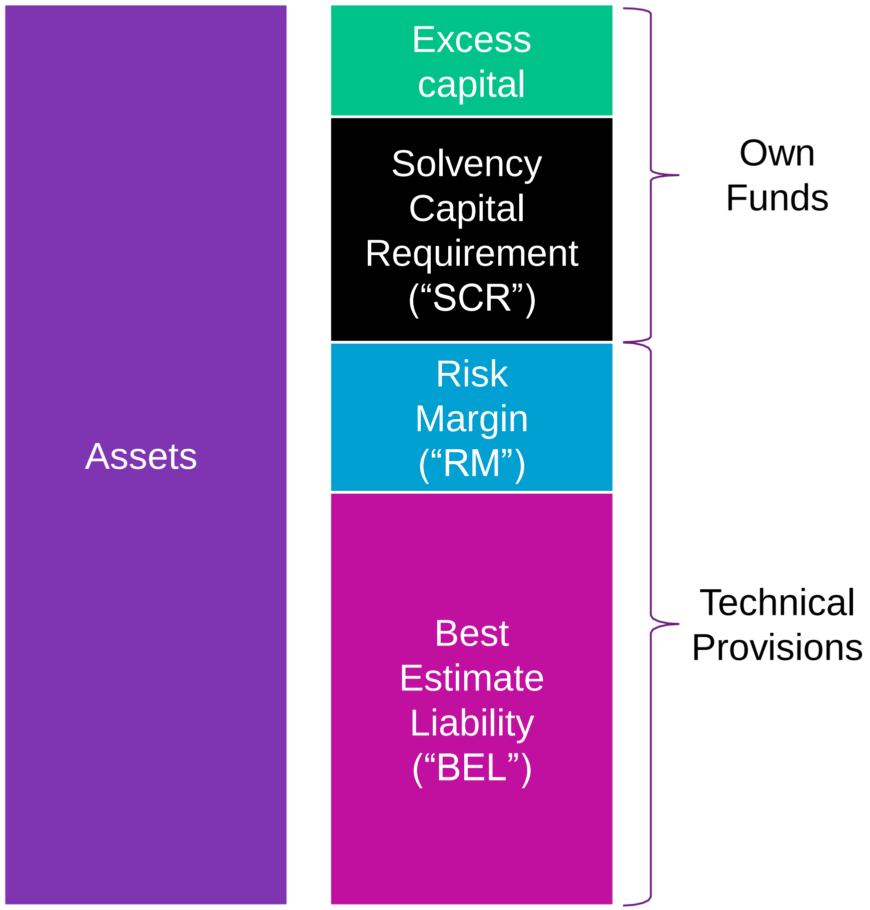
Key reviewed areas, as outlined in the HMT Call for Evidence (October 2020):

- **Risk Margin**
- **Matching adjustment**
- SCR calculation (including group SCR using multiple internal models)
- Transitional Measure on Technical Provisions
- Reporting requirements
- Branch capital requirements for foreign insurance firms
- Thresholds for regulation under Solvency II
- Mobilisation of new insurance firms
- **Basic Risk-Free Rate (changing from LIBOR to SONIA swaps)**

- Significant change is coming to many aspects of the UK's insurance regulatory regime. A comprehensive reform package is **expected in April 2022**.
- Indications are that there will be a **10-15% release of capital** for life insurers and a cut of around **60-70% of the risk margin** for long-term life insurers.
- On behalf of the Association of British Insurers ("ABI"), WTW analysed a significant proportion of UK life insurer data that was submitted for the 2021 Quantitative Impact Study and our report is in the public domain.

Solvency II Balance Sheet

The QIS focused on two important concepts: the MA and RM



Matching Adjustment

- Own Funds volatility arises if backing assets and liabilities don’t move consistently when spreads change, producing adverse investment incentives.
- The MA offsets short-term asset fluctuations caused by risks other than credit default and credit rating downgrade risk by adjusting the BEL for eligible liability cashflows.
- It is derived such that changes in the BEL mirror spread driven changes in market value of the backing assets.

Risk Margin

- Technical Provisions correspond to the current amount insurance and reinsurance undertakings would have to pay if they were to transfer their obligations immediately to another undertaking.
- The RM is currently calculated based on a cost of capital methodology using 6% of the non-hedgeable risks (insurance risk, operational risk, counterparty default risk and non-hedgeable market risk).

Solvency II Balance Sheet

The QIS methodology: "zero information on policy direction"

Asset yield	Spread over basic risk-free rate or "Credit Spread" / Basic risk-free rate		Current	QIS
		Fundamental Spread ("FS")		
		Matching Adjustment ("MA")	*Probability of default* *…plus cost of downgrade,* *floored at 35% of 30-year average spread*	*Probability of default* *…plus 25% of current spread* *…plus 25% of 5-year average spread* *…plus allowance for valuation uncertainty*

Risk Margin ("RM") / Best Estimate Liability ("BEL")	Current	QIS
	$$CoC.\sum_{t\geq 0}\frac{SCR'_t}{(1+r_{t+1})^{t+1}}$$	**"MOCE"** $$SCR'_0.\frac{\Phi^{-1}(p)}{\Phi^{-1}(0.995)} where\ p = 0.85$$ **"Lambda COC"** $$CoC.\sum_{t\geq 0}\frac{SCR'_t.\max(\lambda^t, 0.5)}{(1+r_{t+1})^{t+1}}, where\ \lambda = 0.975$$

The WTW Independent Report

Headline findings from our report were striking

Item	Business / firms	Scenario A	Scenario B
Matching Adjustment	All	-44% (£14.1bn)	-13% (£4.3bn)
Risk Margin	Annuity business	-56% (£8.7bn)	-21% (£3.3bn)
	Non-annuity business	-42% (£4.4bn)	-18% (£1.9bn)
Own Funds	All	-4.2% (£3.3bn)	-1.0% (£0.8bn)
Solvency Ratio	Firms with MAP	-8%	-2%
	Annuity specialists	-31%	-11%

- A lack of information in the QIS on how the SCR would be impacted by updated MA methodology.
- A 60-70% reduction in RM for long-term life insurers and 10-15% release of capital for life insurers.

Thank you – Any questions?

Willis Towers Watson

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