



In a nutshell...

Solvency II: a new shadow meeting was held in April on the compromises proposed so far; the next meeting will be held in May.

IRRD: Parliament is negotiating the final compromise text.

EIOPA has published: i) a report on the calculation of the Ultimate Forward Rate for 2024, changing the UFR to 3.3% and ii) the new comparative study on market and credit risk modeling in insurance companies' internal models that refers to 2021 data.

The Financial Stability Board has prepared a document on resolution planning for insurers.

In the appendix we introduce a new section on the monitoring of the Volatility Adjustment and its components.

Index

Highlights

- *Review 2020: Recent developments*

New reports

- *EIOPA: Ultimate Forward Network value update for 2024*
- *EIOPA: Comparative study on market and credit risk modelling*
- *FSB: Summary of technical workshop on resolution planning for Insurers*

Appendix

- *Volatility Adjustment: trends and components*

Highlights



Review 2020: Recent developments

a) Solvency II Directive

A new shadow meeting on the compromises so far proposed **was held in April**; ahead of the **next meeting in May**, rapporteur Markus Ferber will present a revised version of his compromise proposals. Difficulties encountered in the negotiations in Parliament are causing **the vote in the ECON committee to be postponed until June**.

b) Insurance Recovery and Resolution Directive (IRRD)

Discussions are ongoing in the European Parliament to negotiate the latest compromises; the vote on the report is expected to take place together with the Solvency II vote.

New reports



EIOPA: Ultimate Forward Rate value update for 2024

On April 27, EIOPA published the report on the calculation of the Ultimate Forward Rate (UFR) for 2024. The value of the UFR to be applied in the calculation of the risk-free curve for the euro currency will be 3.3 percent (down from the current value of 3.45 percent).

In the report, EIOPA points out that, for all currencies, **most UFRs** (calculated as the sum of the expected real rate and expected inflation) **decline due to the substantial increase in inflation observed in 2022** and the subsequent decline in the expected real rate. Expected inflation, on the other hand, remains generally stable.

EIOPA: Comparative study on market and credit risk modelling

Last April 3, EIOPA published the results of its new comparative study on market and credit risk modeling in insurance companies' internal models (based on data as of the end of 2021).

The objective of the study is **to compare a number of "key metrics"**- developed by EIOPA and referring to a set of "benchmark portfolios" of the sampled companies - to measure **the calibration of combined credit and market risks** rather than the actual risk profile in terms of solvency indicators. The analysis also takes into account the different approaches regarding the use of the Volatility Adjustment ("dynamic" or "static") and the elements expressing the environmental sustainability of the assets part of the portfolio.

The study focuses on **euro-denominated instruments** and some sterling- and U.S. dollar-denominated instruments from **20 participating companies based in 7 different member states**, representative of almost all euro investments held by insurance companies with approved internal models in the European Economic Area.

EIOPA points out that the **overall results show moderate to significant dispersion**, in part attributable to specificities of the companies' models and business.

FSB: Summary of technical workshop on resolution planning for Insurers

Last **March 27**, the **Financial Stability Board (FSB)** published the [summary of the technical workshop on the topic of resolution planning in the insurance sector](#) held on July 12, 2022.

The workshop focused on the topics addressed by the FSB in **two different Papers, published in early 2022**, respectively:

- i. on [resolution financing](#): analyses the different sources of resolution financing, including privately financed policyholder protection schemes and stand-alone resolution funds, and their interaction;
- ii. on [financial and operational interconnectedness between companies](#): focuses on exploring, mapping and assessing financial and operational interconnectedness in insurance companies, especially in the case of groups or financial conglomerates.

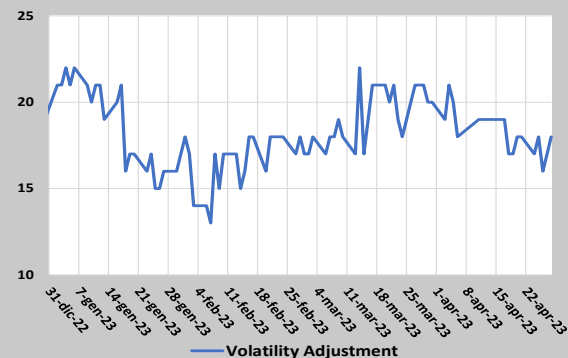
Volatility Adjustment: trends and its components

On April 28, the Volatility Adjustment applicable by European companies was **18 bps** (ANIA estimates), slightly lower than the value recorded at the end of March (20 bps) (fig. 1).

The decline was driven by a slight drop in the value of internal rates of return for both government and corporate portfolios representative of the average portfolio of European companies (fig. 3) - and the resulting drop in the risk-corrected currency spread from 31 bps to 28 bps (fig. 2) - while the term structure of risk-free rates remained essentially stable (fig. 4).

Fig. 5 shows the discounted value of a 1,000-euro, 10-year and 20-year cash flow as of March 31 and April 28, respectively.

Fig. 1 - Volatility Adjustment



Volatility Adjustment and risk-free rates

month	VA euro	VA Italy	RFR 10y (+ VA)	RFR 20y (+ VA)
28/04/2023	18	18	3,06%	2,92%
31/03/2023	20	20	3,05%	2,87%

Source: ANIA calculations on EIOPA and Refinitiv data

Fig 2 - Risk corrected spreads: currency vs. country (bps)

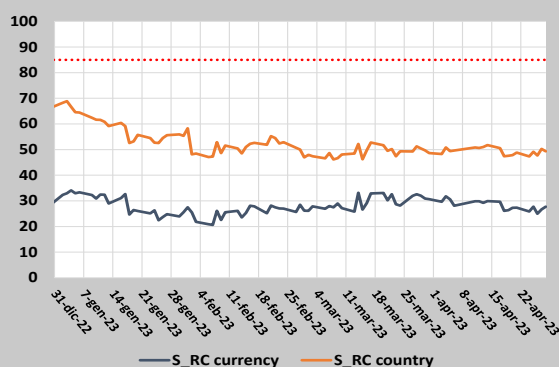


Fig. 3 - Risk corrected spreads: govies vs. corporate (bps)

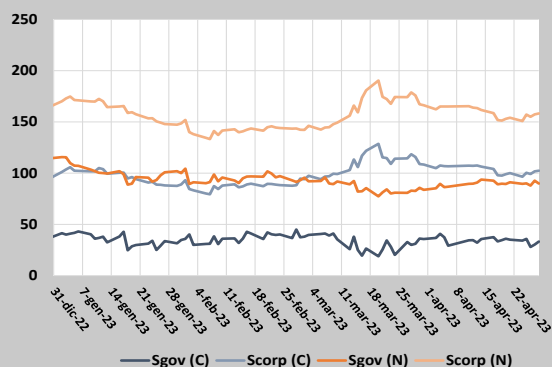


Fig. 4 - The risk-free rate curve (%)

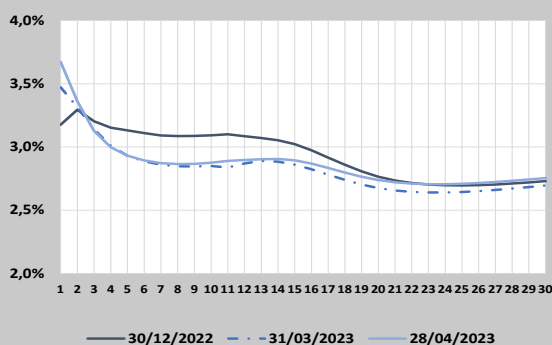
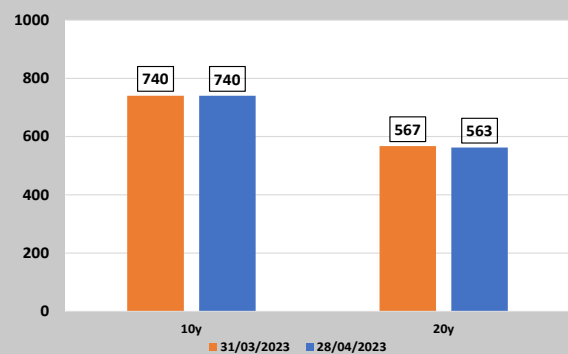


Fig. 5 - The impact on cash-flows (euro)



Source: ANIA calculations on EIOPA and Refinitiv data