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AllianzGI Insurance Snapshot: Impact of the LTG Measures

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For professional investors only

Dr. Florian Ueltzhöfer
Actuary DAV/IVS

Teoman Kaplan
Actuary DAV

Having seen the volatility of the Solvency Ratios throughout the CoViD crisis in our first two instalments, we are going to take a closer look at the optional parts of the Solvency II regulation. These are crucial when it comes to explaining why every country is different. Understanding these measures is important, because these are also parts of the upcoming review.

There are permanent Long-Term Guarantee (LTG) measures called Volatility Adjustment (VA) and Matching Adjustment (MA) on the one hand, and the temporary transitional measures on the Technical Provisions (TTP) or risk-free rates (TRFR) on the other hand. Today we focus on the VA and TTP only, as the MA is only applied in ES and UK, and the impact of the TRFR is negligible.

The blue bars in today's graph show the average impact of removing the VA on the Solvency ratio of undertakings using it. Conversely, the green bars show the impact of the TTP.

The biggest VA impact – by far – can be observed in the Netherlands. The second biggest is seen in Germany. In our first instalment, in contrast, we have seen these two markets at the opposite ends of the scale with respect to the overall CoViD crisis impact on Solvency ratios. At the same time, the VA impact on Denmark – the only other country with increased Own Funds during Q1 2020 – is also quite substantial.

The common factor of DK and NL – in contrast to all the negatively affected markets – is the irrelevance of the TTP. At first glance, Belgium seems to be the exception to the rule: but only one BE undertaking uses the TTP.

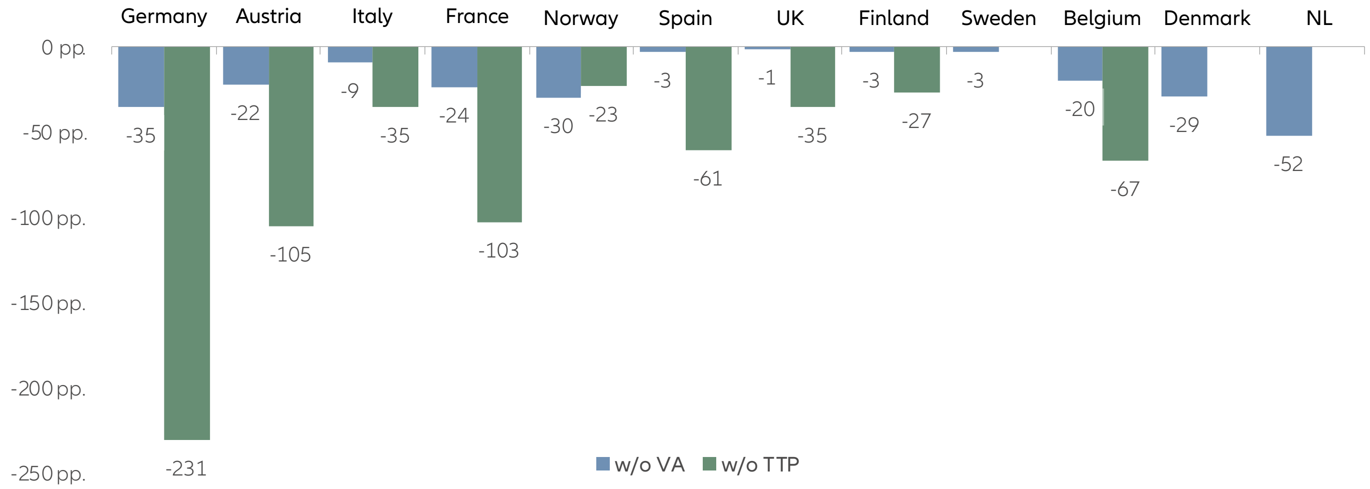
Going forward, we will take a deeper look at the VA, and show that the strong correlation between the substantial impact of the VA and the increase in solvability during Q1 2020 for BE, DK and NL are not coincidental.

Further, we need to discuss the importance of the TTP in some countries. We will show how the evolution of the Insurance Balance Sheet – finding suitable substitutes for traditional asset classes – is key to stabilising the Own Funds, and how this increased resilience gives more flexibility for investment opportunities in the long run.

Finally, we will look at Sweden and Finland, where neither the VA nor the TTP play a major role.

LOOKING FORWARD TO FUTURE DISCUSSIONS ON THIS CHANNEL!

Impact of Solvency Ratio after removal of (optional) LTG measures and/or Transitionals



Source: EIOPA, Report on long-term guarantees measures and measures on equity risk 2020.

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