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Snapshot: No country like the other

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Dr. Florian Ueltzhöfer
Actuary DAV/IVS

In our first instalment, we have seen a diverse picture of how the Solvency Ratios in the European insurance markets were impacted during the market crisis developing in Q1/2020 and the following recovery period. Today, we are going to take a closer look at the development of the Eligible Own Funds (EOF), and the Solvency Capital Requirement (SCR). In other words, we are going to analyse whether the changes in Solvency Ratio are mainly due to the volatility of the available capital or due to the changes in required capital.



Teoman Kaplan
Actuary DAV

For a clearer presentation, today, we are going to focus on Q1/2020 only. Again, we have ordered the countries from strongest deterioration to strongest improvement of Solvency Ratio. Apparently, neither the EOF nor the SCR – by themselves – give a clear indication on the development of the Solvency Ratio.

Especially looking at the SCR, the data seems rather erratic with only three countries (DE, FR, DK) showing an increase of SCR at all. Even more, Denmark belongs to the four countries with an improved Solvency Ratio despite the increase in SCR!

Apart from Sweden and Belgium, however, we have that an increase/decrease in EOF has resulted in an overall improvement/deterioration of the Solvency Ratio. Interestingly, the market with the strongest reduction in EOF belongs to the exceptions. It turns out that the main drivers of these various results lie in the peculiarities of the Solvency II model.

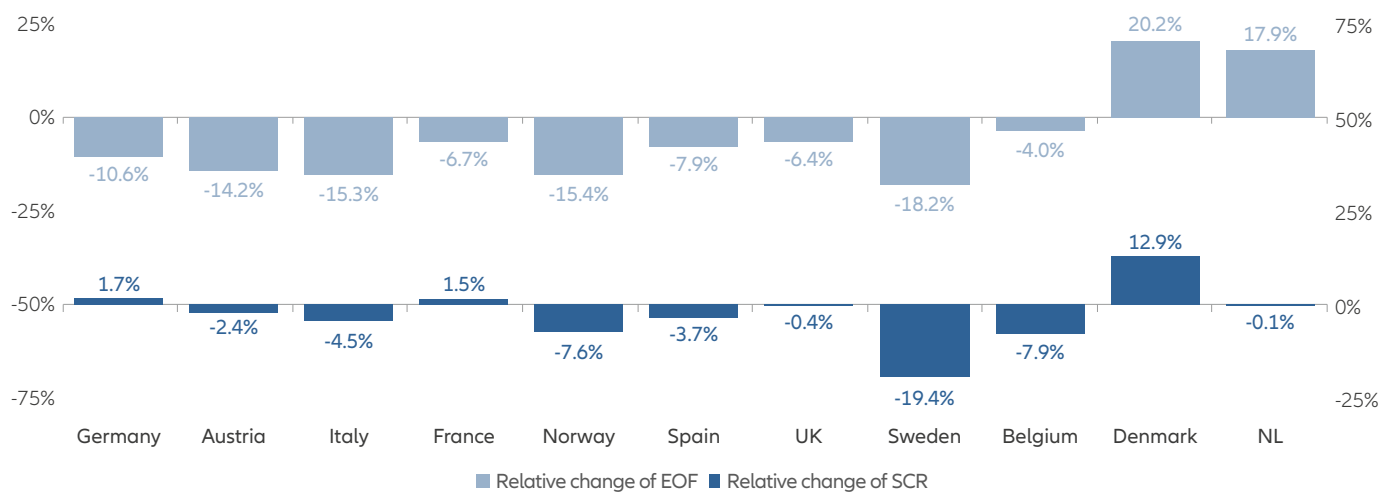
During the decade long preparatory phase for Solvency II, a strong focus has been set in the prevention of wrong incentives arising from the short-term time horizon of the capital requirements in contrast to the long-term business model of Insurance companies. Given the diversity of European insurance markets, therefore, a variety of obligatory and optional Long-Term Guarantee (LTG) measures have been introduced. The CoViD crisis has put these measures to the test:

- In SE and, BE, it appears as if the measures have produced the desired results?
- In DK and NL, the effects seem to have been overshooting prompting EIOPA to react in its review opinion?
- Especially in IT but also in DE, AT, and FR, however, it appears as if these measures have not worked out as planned?
- ES and UK, the only two countries applying the Matching Adjustment, must be treated separately.

Continuing our series, in the next instalments we are going to further analyse these findings and its implications towards the on-going Evolution of the Insurance Asset Management, which – as we have seen – takes different paths in different countries.

LOOKING FORWARD TO FUTURE DISCUSSIONS ON THIS CHANNEL!

Development of EOF and SCR of Life and Other Undertakings in the CoViD-crisis (Q1/20)



Source: EIOPA Insurance Statistics (SQ Own Funds 2020); own presentation.

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