IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

Advice on interbank lending rate (IBOR) transitions

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European Insurance and Occupational Pensions Authority

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EXECUTIVE SUMMARY

The IRSG supports EIOPA's intention to be transparent in this change, to follow rather than lead the market and to avoid unnecessary material impact on undertakings arising from a technical change due to IBOR transitions. We are generally supportive of the approach proposed.

Given that this is a technical change to the base curve due to the Euribor/Libor switch, which does not represent any change in the underlying risks, one would not envisage it should give rise to substantive change in liability valuations. It is therefore important that the impact is fully understood and is minimised. In this regard we would not necessarily dismiss the need for transitional measures or an 'upward adjustment'.

Facilitation of effective ALM by insurers is an important consideration which should also be reflected in the switch timing.

In addition, we would encourage close co-operation with regulators from other jurisdictions to ensure a consistent approach is adopted as far as possible.

The risk of not finding a way to make the transition before any deadline should be avoided. The possibility of ending up using government bond rates as the benchmark might be the scenario which brings the biggest uncertainties.

Our answers to specific questions follow.

EIOPA QUESTIONS

Q1: Do you agree with the overall approach of the immediate switch subject to the two preconditions?

Yes. We agree that the liquidity and proximity condition tests are appropriate.

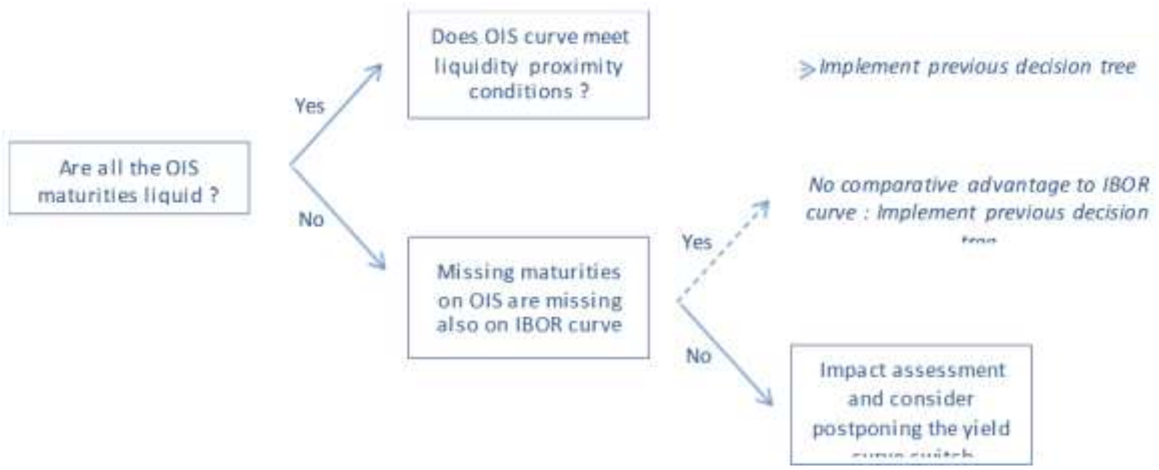
We suggest that caution be exercised in the timing of the switch and that, even where liquidity and proximity criteria are met, the timing of the ending of publication of IBOR curves be considered.

In order to facilitate effective ALM, EIOPA could set a transition date on a provisional basis, and this date would be revised if the liquidity / proximity conditions were not met 3 months in advance.

In the meantime, EIOPA could start :

- Providing both curves so that stakeholders can measure the impact of the change, and
- Estimating a LTAS based on the OIS curve to improve the visibility of the actors on the subject.

The EIOPA decision tree could be amended as follows in the case IBOR curves have not stopped being published :



Q2: Do you agree with the way the 'liquidity' condition is defined?

Yes

Q3: Do you agree with the way the 'proximity' condition is defined?

Yes

Q4: Do you believe the 'proximity' condition has to be met for three consecutive months or a shorter period would be sufficient?

We believe that the period proposed is appropriate.

Q5: Do you think there is another condition EIOPA would need to consider for the immediate switch to the new OIS term structures?

No. The risk of not finding a way to make the transition before any deadline should be avoided. The possibility of ending up using government bond rates as the benchmark might be the scenario which brings the biggest uncertainties.

Q6: Do you believe that the foreseen changes in the RFR methodology due to IBOR transitions and the method of switching the underlying instruments (depending on the proximity and liquidity condition) could have an impact on the market rates itself, and if so, with what impact and how might this be mitigated?

No

Q7: Do you agree with the overall approach regarding the CRA?

Yes. The CRA should be allowed to drop to zero or near to zero if the market pricing indicates so. CRA has been very low for a number of years which reflects the low risk level inherent in the market. Also new legislation, e.g. EMIR, has further decreased the possible credit risk here.

Q8: Is there any alternative option you believe EIOPA would need to consider regarding the treatment of the CRA?

No

Q9: Would you have a view on how to treat the CRA for those currencies for which the CRA is currently being derived from either the CRA for the EUR or the CRA for the USD?

N/A

Q10: What is your opinion about the proposed changes in the LLPs and the use of government bonds for the JPY and CHF?

EIOPA is proposing changes for some currencies. We believe that no immediate decision should be made to change the current LLP, e.g. to reduce the LLP as proposed for GBP to 30 years from 50 years. A twelve month waiting period before assessing the need for any change based on the depth and liquidity in the market would seem sensible. This is important as this will otherwise impact company ALM, risk management and hedging policies.

Q11: What is your view on the proposed treatment of the LTAS?

We agree with the proposal.

EIOPA’s Insurance and Reinsurance Stakeholder Group

Westhafen Tower, Westhafenplatz 1

60327 Frankfurt – Germany

Tel. + 49 69-951119-20

Stakeholder.Groups@eiopa.europa.eu

https://www.eiopa.europa.eu/about/working-stakeholders