

7 December 2018

**AAE summary response to Request for Feedback on Methodological Considerations
regarding Illiquid Liabilities (reference EIOPA-PSC-18_093)**

The AAE welcomes EIOPA's initiative to analyse the specificities of insurers in relation to liability-driven investment behaviour.

The illiquidity characteristic of insurance liabilities plays an important role in the investment strategy of some undertakings, as it gives information about the expected need of liquidity. Illiquid liabilities allow a reliable assessment of future cash flows and based on this an investment in long-term (illiquid) assets.

Under the current regulation, an adjustment to the risk-free interest rate term structure to reflect illiquidity premium can either be done directly at company level provided the strict conditions of the MA are respected or indirectly based on an EU representative portfolio under the VA as defined by EIOPA.

An analysis considering all aspects affecting the economics and the capabilities of undertakings to hold such illiquid liabilities is valuable. Other elements to be considered include: national specificities affecting options of policyholders, possible management actions and the possible impact resulting from new business (future premium payment).

There are several aspects of policyholder behaviour influencing persistency of a policy, though these do not necessarily include the solvency position of the undertaking. Fiscal consequences stemming from surrender of products with tax benefits and / or government funding can have an impact on surrender rates and risk

The illiquidity characteristics of both assets and liabilities need further consideration, with the aim of achieving a treatment which is coherent with the Solvency II framework.

The AAE will be happy to support this work. We are looking forward to an explicit discussion about the value of illiquid liabilities in the context of the various issues affecting their valuation.

For more information please contact

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