Updated 16th June 2023

E&F Liquidity Project v1

Two-Pager Template, version 2023/B1

# ECONOMICS & FINANCE WORKING GROUP – PROJECT IDEA 2-PAGER

**LANGUAGE**: Use whichever language you wish, preferably the one with which you can best express yourself. The first draft will benefit from being done in the language in which you think. We may need to translate to English at a later stage.

Assume that others might use Google Translate. You may translate it yourself, but *the primary focus is capturing the ideas*.

**COMPLETENESS**: Complete each box *as appropriate*. Some boxes may be irrelevant or may be filled in *later*.

|  |
| --- |
| ***PROJECT NAME***  Liquidity, liquidity risks & liquidity risk management for EU insurers and pension companies |
| ***WHO IS RESPONSIBLE FOR THIS 2-PAGER?***  Samuel Achord (E&F WG, Danish DDA) |
| ***SHORT DESCRIPTION***  Liquidity is complex. Individual liquidity risks yield to analysis and risk mgmt., but real-world liquidity risk events are complex, with many non-trivial interactions, and are often triggered by market movements and other external events. For insurers, pensions companies, banks and other financial institutions, liquidity encompasses investment and market liquidity; repos and funding liquidity; derivatives, hedging and margin calls; investment funds and their liquidity and liquidity demands (UK LDI case); customers’ behaviour and the potential for large-scale surrenders and withdrawals.  The purpose of this project is (1) to collect definitions, resources and relevance to insurers (& pensions) to serve as a basis for discussion among stakeholders, (2) to assess the state of liquidity risk mgmt. across the EU via a survey, and (3) to develop a practical and theoretical framework for liquidity risk mgmt. by EU insurers (& pensions). |
| ***EXTENDED DESCRIPTION***  To make things more complex, “liquidity” is a term with several meanings which are used to describe market functioning, market dynamics, an insurance company’s liquid resources, its next-day liquidity needs, its long-term structural liquidity needs from the balance between investments and future liabilities. Moreover, the multiple things which “liquidity” aims to describe (processes, dynamics, needs, metrics) often coincide and interact, making the language itself a barrier for non-experts.  The analysis of components (assets, derivatives, liabilities, repos) is key to understanding liquidity and liquidity risks. Synthesis and scenarios are key to successful risk mgmt. and in preventing disastrous surprises from real-world events (which are often, in retrospect, non-trivial combined scenarios). |
| ***PEOPLE, PROJECT TEAM & ROLES***  Who proposed the idea (1+):  Coordinator:  Project manager:  Guide(s):  Member(s):  Reviewer(s):  **PEOPLE, PROJECT TEAM & ROLES** (delete this box after completing the template): Projects are short-term. Projects require people to assume roles. This project, you may lead or support. The next project, it may change. We need to give each other the chance to lead, coordinate, support, etc. And we should support each other to succeed in those roles.   * A project needs a coordinator and a project manager. This can be the same person. * Guides are the people with a deeper interest in the project, in guiding and shaping. * Member(s) are people who would like to help, but for this project do not want to be a Guide. * Reviewer(s) are interested in the progress and output, and in providing review and feedback. It's important to identify and keep track of interested reviewer(s). |
| ***INTERESTS ANALYSIS***  AAE Committee(s) & WGs: Insurance Committee, Pensions Committee & Risk Mgmt Committee. WGs to be found via IC, PC & RMC.  Key internal stakeholders: TBD  Key external stakeholders: EIOPA, ESRB  Other external stakeholders: ECB, national regulators, national actuarial associations, insurance trade bodies  Investigated bodies: primarily insurance companies, but also pensions companies |
| ***VALUE (multi-dimensional value for stakeholders)***  [your text here]  **VALUE** (delete this box after completing the template): Value is a broad term. It may be in the form of concrete output, report, tools, etc. It may also be in supporting others in discussions with regulators or other stakeholders. There may be value in creating new methods. There may be value in building relationships and in sharing knowledge.  Whatever the perceived or proposed value, this value should be described here, so that other readers can understand it. As you perceive there to be value in this work, please describe that.  Value in analysing, separating, etc…and later in synthesising  Value in opening a discussion of liquidity risk more widely, so that more actuaries understand it (it is currently a bit niche)  Value in educating the stakeholders that make decisions and draft new legislation / regulation |
| ***DELIVERABLES (in more detail)***  Overall, the deliverables in total aim to achieve two things: ensuring liquidity risk is properly understood by stakeholders and supporting the development of a suitable framework for managing and reporting on liquidity risk. To that end, the following deliverables are proposed:   1. **Initial report on liquidity risk**: definitions of liquidity risks; resources & regulations; relevance to P&C, life & pensions 2. Framework: a practical and theoretical approach to liquidity stress testing, analysis and reporting, to help ensure that EU authorities’ analyses, discussions, and future draft legislation is suitable to the EU insurance and pensions markets 3. Survey of current practices in liquidity risk management, which leads to #4 4. An AAE opinion on good practice currently and emerging good practices. This opinion should motivate that other stakeholders take into consideration our report and framework (#1 & #2). |
| ***RESOURCING (needs, availability & commitment)***  [your text here]  **RESOURCING** (delete this box after completing the template): It's important to put timelines on projects. To finish them, it's important to have honest plans and discussions for who will do what AND what is needed to complete the project idea (as it is presented here). In this box, the project team / coordinator should record who has agreed to spend time on the project. This is about getting personal commitment AND not asking for (too much) more time than volunteers are willing to give. By having an open discussion of resourcing, we hope to be more respectful of volunteers' time and goodwill. |
| ***TIMELINES***  Initial report & draft survey: end Q4 2023  Framework, survey report, & AAE opinion: Q1-Q2 2023 |