Comments Template on EIOPA-CP-19-006 Consultation paper on the Opinion on the 2020 Review of Solvency II			Deadline 15/01/2020 23:55 CET
Stakeholder name:	*AREF (Association of Real Estate Funds)*		
	Disclosure of comments: EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential.		*Public*
	Please send the completed template to CP-19-006@eiopa.europa.eu, in MSExcel Format, (our IT tool does not allow processing of any other formats).		

Questions to stakeholders		Response
	Q2.1	No comment
	Q2.2	No comment
	Q2.3	No comment
	Q2.4	No comment
	Q2.5	No comment
	Q2.6	No comment
	Q2.7	No comment
	Q2.8	No comment
	Q2.9	No comment
	Q2.10	No comment
	Q2.11	No comment
	Q2.12	No comment
	Q3.1	No comment
	Q3.2	No comment
	Q3.3	No comment
	Q3.4	No comment
	Q3.5	No comment
	Q3.6	No comment
	Q3.7	No comment
	Q3.8	No comment
	Q3.9	No comment
	Q4.1	No comment

	Q5.1	We are not aware of additional data sources outside those that have been identified in the consultation paper. However, we draw a different conclusion from the data sources that you have identified. As the consultation paper makes clear, the current market shock of 25% for all types of property and all geographical locations is an intentional but very substantial simplification of investment in a highly complex asset class. The analysis in 5.3.3. concludes that there is insufficient, granular data to allow an asset by asset or country by country property shock to be calculated. Using the same analysis to conclude that the existing 25% shock should not be revisited gives a spurious sense of scientific accuracy to the 25%, which as the consultation paper makes clear took the UK IPD data as the most comprehensive index available at the time. As the various papers provided by us, the European Association for Investors in Non-Listed Real Estate (“INREV”) and others since the original assessment of the shock, and indeed the consultation paper itself recognise, this is not reflective of the level of volatility across the EEA or globally. Furthermore, as the consultation paper notes, the extreme point of volatility in the UK index was during the 2008 financial crisis. Work undertaken for us suggests that the volatility in 2008 was exacerbated by structural, systemic issues in the UK real estate market that have been addressed significantly since then. MSCI/IPD, whose UK index was used to establish the 25% shock, provided a detailed paper in 2011 setting out that a 15% shock would be better reflective of the maximum shock for the European market as a whole. This was followed up by a further detailed report in 2017, which you cite in your consultation document. The 2017 MSCI report, with the benefit of better retrospective transactional information, concludes that the 15% shock estimated in 2011 remains the best estimate of the actual market shock. In its analysis of the data sources, which effectively means MSCI / IPD, the consultation document notes the differences in quality and quantity of data available for the different EEA countries, and notes that for the 17 EEA countries for which data is available “only 6 countries have quarterly indices for all types of properties” and “At the end of 2017 3 countries were excluded from these indices because of insufficient underlying volumes (valuations or transactions) during a significant period”. Unlike the consultation document, we see this as a strength rather than a weakness of the data. The MSCI/IPD underlying data is provided by institutional investors in real estate of which life insurers are a major component. The lack of data on some countries is a result of these countries not being significant investment markets for institutional investors at the time. Equally, the most comprehensive data is available for those markets in which insurers actually invest in volume. This is also reflective of the MSCI/IPD methodology which is value-weighted, as explained in their 2017 paper. Overall, we believe that the MSCI/IPD analysis of the underlying MSCI / IPD data is more convincing than the EIOPA analysis of the underlying MSCI/IPD data.
	Q5.2	No comment
	Q5.3	No comment
	Q5.4	No comment
	Q5.5	No comment
	Q5.6	No comment
	Q5.7	No comment
	Q8.1	No comment
	Q8.2	No comment
	Q9.1	No comment
	Q9.2	No comment
	Q9.3	No comment
	Q9.4	No comment

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	Q9.5	No comment	
	Q9.6	No comment	
	Q9.7	No comment	
	Q11.1	No comment	
	Q11.2	No comment	
	Q11.3	No comment	
	Q11.4	No comment	
	Q11.5	No comment	
	Q11.6	No comment	
	Q12.1	No comment	
	Q12.2	No comment	
	Q12.3	No comment	
	Q12.4	No comment	
		Comment	
	General comments	No comment	
	Comments on Executive Sumnmary	No comment	
Chapter (enter 1, …, 14 or A for Annexes)	**Paragraph** (enter only the second number, e.g. 11 for paragraph 3.11)	**Comment**	

5	3	We would make the following additional points that we feel are relevant: • In your analysis of recalibrating the property shock ("Option 2"), you state that it "would imply an unrealistic degree of geographical diversification for many standard formula users (small insurers often hold only property in their own country)". However, the current shock effectively assumes 100% investment in UK property by all European insurers. Even without any additional diversification benefit, the data suggests a significantly lower shock than the current 25%; • Insurers are increasingly investing in "alternative" property types, particularly student accommodation and residential property which exhibit less volatility than traditional assets. The consultation paper only analyses this for the options for stand-alone shocks for different asset classes, rather than also considering it also as a factor to be taken into consideration in lowering the general shock under Option 2. The concerns set out in 5.99 regarding the valuation of residential property do not take into account that investment by insurers in residential property is typically in whole blocks of purpose built "build to rent" property. • Property is an illiquid asset. Insurers holding significant investments in property are life insurers investing to meet long-term liabilities. The consultation paper quotes Article 105 of the Solvency II Directive in respect of market risk module, "It shall properly reflect the structural mismatch between assets and liabilities, in particular with respect to the duration thereof." A property shock that assumes a sale of all property assets at the bottom of the market, intended to meet liabilities that are expected to crystalise over many years, would seem as much of a duration mismatch as making no market shock adjustment. We believe that this should be taken into account in assessing the appropriateness of the level of shock for property under the standard model. The depth of shock to the UK market in 2008, triggered by forced sellers of assets, also resulted in the period of maximum shock being of short duration, the bottom of the market in 2008 being followed by recovery in 2009. Nobody sold assets in the worst year for the UK market unless they had to. As life insurers were holding property to meet liabilities that crystalise over a longer period of time, they did not need to realise a material proportion of those assets to meet liabilities in 2008. Equally investments in property funds would be in vehicles with different vintages and durations so the insurer would not face a sale of all their assets at the bottom of the market from structural constraints of the vehicles involved.