



CRO FORUM

Mr. Gabriel Bernardino
Chairman
European Insurance and Occupational Pensions Authority (EIOPA)
Westhafenplatz 1
60327 Frankfurt am Main
Germany

20 April 2018

Dear Gabriel,

2018 Insurance Stress Test – informal consultation package

We are writing to you on behalf of Insurance Europe, the European Insurance CFO Forum and the CRO Forum in relation to the 2018 Insurance Stress Test. We would like to express to you, in the strongest possible terms, our concerns with EIOPA's proposals for the technical specifications and associated data requirements issued on 10 April. Put simply, the insurance industry does not consider that what is proposed is achievable within the foreseen timescales. We are also beginning to struggle to see the point of an exercise of this type.

Response to draft technical specifications

As we have made clear when previously consulted on the 2018 Stress Test, given its exacting time constraints and the objective of the exercise, many groups had intended to take a 'top-down' approach. This would have used internal stress or scenario testing processes, supplemented by additional input from business units or subsidiaries, to produce reasonable approximations of the post-stress impact on group assets and liabilities.

After reviewing the consultation package and discussing it with your team on 16 April, it is apparent that this is not an option if insurers are to provide the granularity of data requested. Even subsequent to the issue of the draft technical specification and templates on which we provided our initial key messages, it is further proposed to request even more detailed data in the form of solo entity information and liability cash flows, just adding to the unnecessary granularity.

It is our view that the proposals go far beyond what EIOPA has previously communicated and preclude any top-down or simplified approaches. Instead, participants would have to perform a 'bottom-up' exercise, including a consolidation process, resembling a full, but non-standard, quarterly closing process.

We believe this approach, given the complexity of the calculation requirements, cannot be followed in the limited time foreseen for the performance of the test. A large number of groups have come to the conclusion that it will be all but impossible to produce reliable and credible outputs within nine weeks, particularly given the need to engage with national supervisors and satisfy internal governance procedures as part of the process.

We also firmly believe that the level of data requested is unwarranted by the objective of the exercise, which is to identify vulnerabilities in the financial system.

We therefore urge you to reconsider these proposals and adopt a more realistic position that fulfils the objectives of the stress test while also allowing participants the flexibility necessary to approach the exercise on a best endeavours basis and be able to deliver a sensible output. We will continue to engage with you in this process; however, it must be recognised that we will need time to together develop suitable alternative proposals.

Consultation process

Despite early and comprehensive engagement with the industry, we are concerned that the consultation process has been ineffective. Our concerns about the feasibility of the exercise, timelines and methodology have been shared with EIOPA on several previous occasions but remain unaddressed in the draft specifications.

We are also concerned that these substantive issues have only become apparent very late in the process, as we only received the specifications, templates and other papers from EIOPA on 10 April, with written feedback requested by close of business on 16 April. As we have already observed, this was an unrealistically short span of time to examine the proposals with the attention they deserve and we could not collate and complete our normal process in this timescale.

Public disclosure and post-stress SCR

We have previously expressed our profound concerns about the public disclosure of the results of the Stress Test, and the recalculation and any publication of the SCR on a post-stress basis. We believe that, bearing in mind the timeline and approach, such results would likely be misleading and we should differentiate the insurance exercise from the bank 'pass/fail' approach given the Solvency II SCR is already a stressed '1 in 200' measure. The negative market impact that public disclosure of individual company results could have should not be underestimated, and previous exercises have demonstrated how even positive results on an aggregate basis can be misconstrued and result in unwarranted negative coverage of the industry.

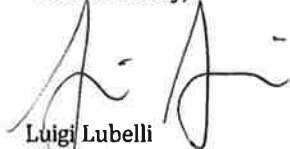
The public disclosure of individual results is not required to fulfil EIOPA's financial stability mandate, and the focus of the exercise should remain at a macro-prudential level. EIOPA's stated goal for the Stress Test is the identification of vulnerabilities, not a capital exercise, especially since this is a stress on a stress. Hence, a qualitative disclosure of sector-wide vulnerabilities identified through the stress test would meet EIOPA's goals and not require any individual public disclosures. Otherwise, the focus will inevitably be on the numbers, not the narrative and the market may make incorrect or overly simplified assumptions as a result. This could be extremely damaging.

We regret to say that, after seeing the extreme complexity of the detailed proposals, and departure from important aspects of the Solvency II framework (no recalculation of transitionals, immediate not graduated UFR change, not taking management actions into account) our opposition to such voluntary disclosure is becoming firmer.

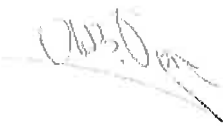
We understand that the unworkable specifications and reporting proposals are driven to a significant degree by the need to validate individual disclosure. While we appreciate the desire for 'validation' from a supervisory perspective, this cannot be achieved by requesting voluminous detailed information or driving us down an unachievable 'bottom up' approach outside our established stress testing processes. An alternative approach to both 'validation' and the exercise itself that is achievable and realistic in the timescale available is required.

We reiterate our willingness to collaborate with EIOPA to find a workable solution to ensure the 2018 Stress Test is a successful exercise that meets its supervisory goals.

Yours sincerely,



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European Insurance CFO Forum



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