

To: Solvency II WG
From: Prudential Team
cc:
Date: 06-07-2022
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Subject: Closing event on the 2021 Insurance Stress Test

Summary

On 6 July, the secretariat attended the closing event on EIOPA's Insurance Stress Tests (ST), which was organised by EIOPA to discuss participants' feedback on the 2021 ST and present future initiatives and areas of focus of the next ST exercise. This was attended by C-level representatives of participating insurers as well as representatives of the European industry associations.

Introductory remarks from Petra Hielkema

- EIOPA is committed to fostering good engagement with stakeholders and will continue to engage at multiple stages of future exercises.
- EIOPA aims to improve stress test exercises, but this is not always straightforward due to large heterogeneity of participants (size, complexity, model developments, etc.)
- Future exercises will test different market scenarios and also need to include other aspects, such as Cyber risk.
- Regarding individual public disclosure, EIOPA published its recent opinion on public disclosure of ST results as it felt it had addressed all industry concerns, so further engagement with industry on this topic was no longer the right route. However, EIOPA is happy to continue to engage with industry on this issue as long as it leads to an acceptable outcome from supervisory perspective.

Feedback on 2021 ST exercise

- EIOPA received feedback from 30 out of the 44 ST participants.
- Feedback covered 9 different areas (Objectives, Timelines, Organisation, ST package, Pre-launch & Q&A, Pre-validation, Report, stakeholders' engagement and Validation).
 - Pre-validation and Pre-launch and Q&A were regarded as the most positive areas (score 3.9 out of 5), while the ST Objectives received the lowest score (score 3.1 out of 5).
 - Key feedback was that the ST shocks are not realistic, the approach should be simplified, and company-level disclosure is not required for the macroprudential purpose of the exercise. However, EIOPA defended the scenario and its plausibility and highlighted that its mandate supported a micro-prudential approach.
 - EIOPA acknowledged the validation phase could be improved because there are too many rounds of validation. However, it noted that central validation by EIOPA will continue as it allows for comparison across participants
- EIOPA stated that liquidity risk is currently not a concern for the insurance industry, and, for the moment, it is not foreseen as an ancillary component for the 2024 exercise.
- Feedback from participants showed that the average resource requirements were 200 employee-days per participant (although the sample included one group which was an outlier at 1,300 employee-days).

Areas of focus of the next ST exercise

- The next EIOPA ST exercise will be in 2024, consistent with the agreed 3-year cycle. This will include a capital component and likely an additional component (eg cyber) which is still to be decided.
- EIOPA will publish a discussion paper on *the methodological principles of stress testing of cyber risks* in November 2022. This will be a 3-month public consultation to collect stakeholders' feedback on whether cyber is a material risk.
- The European Commission is expected to mandate EIOPA (alongside EBA, ESMA and ESRB) to conduct a cross-sectorial climate stress test in 2023/2024. This exercise is expected to focus on transition risk. EIOPA highlighted its intention to conduct this stress test using a top-down approach using existing QRT data to avoid adding additional burden on insurance companies.
- EIOPA is investing in top-down modelling based on SII data (note: this would allow EIOPA to do stress testing without input from companies in the future).

Q&A

- In response to query about the use of the word vulnerability rather than sensitivity, EIOPA explained it talks about vulnerability in its report to make clear it is not a capital exercise. However, it also clarified that that post-stress SCR data is needed to assess if some participants may breach their SCR and thus would need to raise capital.
- EIOPA clarified that liquidity risk is not a concern, but this could change in the future
- Cyber risk is increasingly relevant, with a consultation paper on this topic to be released in November 2022
- EIOPA clarified that the 2024 exercise will cover a market scenario (although it is likely not a low rate one) and additionally a topical part yet to be decided.

In case of questions, members can contact prudential@insuranceeurope.eu.