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EIOPA-18/287
08 May 2018

EIOPA's Insurance Stress Test 2018 - Informal consultation with stakeholders

Dear ~~Mr~~ Lubelli, *DEAR LUIGI,*
Dear Mr Jones, *DEAR OLAV,*
Dear Mr Raaflaub, *DEAR PATRICK,*

I would first like to take this opportunity to thank you for your participation in EIOPA's workshops on the 2018 Insurance Stress test which took place on 16 and 23 April 2018 in Frankfurt as well as for your written inputs and comments during the informal consultation process.

In your letter dated 20 April 2018 you have raised several issues regarding the timeline of the exercise, the granularity and complexity of the data requested and lack of flexibility of the technical specifications. Furthermore, you have raised concerns regarding the objective of the exercise along with your opposition to the public disclosure of results. In this context, EIOPA took into account to the extent possible the major observations received from the different stakeholders, already addressing the main points you have raised. Therefore, please let me summarize the most important amendments implemented in the revised stress test package that is currently under an approval process at EIOPA's Board of Supervisors:

Timeline

The timeline has been extended by 4 additional weeks, bringing the calculation period to a total of more than 13 weeks, compared to the approximately 8 weeks of the 2016 exercise.

Methodologies

We acknowledged the fact that some groups might opt for a group proxy model approach, therefore we are allowing two alternative approaches: 1) A full reassessment of the solos' positions followed by a consolidation at group level and 2) The use of a group proxy model (what you describe as a 'top down' approach). Any combination of those two approaches is also allowed for the purpose of this exercise, in order to accommodate the different approaches followed by the participants.

Granularity of the information and complexity of the exercise

In line with stakeholders' written proposals received during the initial consultation phase in late 2017, the information currently requested at group level elaborates on the standard QRT templates adding some information necessary for validation purposes. Allowing participants to choose which templates to be filled based on the approach they use (group proxy model, full reassessment of the solos' positions) represents a decrease in burden for groups but also allows for validation sustaining the feasibility of the exercise.

Furthermore, to decrease the complexity and granularity of the exercise, the reporting templates have been simplified by deleting the lapse template and by reducing the information required in the liabilities, own funds and LTG templates.

Additionally, in order to reduce the complexity and burden of the two market scenarios, the "Lapse permanent shock" for both market scenarios has been removed.

We believe the above simplifications significantly decrease the burden of the exercise and are based on the written feedback from the stakeholders that responded to the specific request from EIOPA.

'Unwarranted' data request

The information collected for the analysis is needed to assess the balance sheet and the capital position of the groups under stressed scenarios. As mentioned before, the templates elaborate on the standard QRTs adding some information on 1) the marginal contribution to the Group SCR and Own Funds of the entities included via D&A and operating in equivalent countries under book-value regimes (e.g. US); 2) surrender values to be paid out after the market and instantaneous lapse shock under the 'Yield Curve up' scenario to make an assessment on potential liquidity implications.

We already allowed simplifications on the more complex parts such as allowing the recalculation of the risk margin according to scaling process.

As in the previous stress test exercise in 2016, we keep asking the marginal impacts of LTG and transitional measures on the excess of assets over liabilities, own funds and SCR. This is very important from a financial stability perspective, in order to understand how the measures function in adverse market conditions on different groups.

Against this background, and in the light of the fact that the granularity of the information contained in these templates has been reduced, we believe the data request is fully aligned with the purpose of the exercise.

Consultation process

To take into account all stakeholder opinions and concerns, the consultation process has been prolonged by organizing an additional physical meeting at EIOPA on the 23 April 2018. In addition, we have extended the written comments deadline until 24 April.

Nonetheless, I do note that not all stakeholders exhibited the same willingness to cooperate by providing specific suggestions, despite the additional time provided.

Public disclosure

EIOPA believes that transparency in disclosing the results is key to ensure a level playing field and enhance market discipline. Furthermore, one of EIOPA's core responsibilities is to support the transparency of markets so the public disclosure of the stress test results is expected to generate positive effects on the overall understanding of the resilience of different groups to adverse market developments.

Explicit consent from the participating groups on individual disclosure will be requested during the first submission of the results and ex-post of running the stress test exercise. Furthermore, the results of those participating groups which do not consent for the public disclosure of their results will be incorporated in the aggregated figures to the extent that they cannot be individually identified.

Individual disclosure will only cover the impact of the scenarios on the group balance sheet including the excess of assets over liabilities.

Concluding, as a result of our close interaction and continuous consultation I believe that we have taken into consideration most of your concerns regarding the stress test exercise.

I am confident that the prolonged calculation period combined with the simplifications and adjustments made, safeguard the feasibility of the exercise and are fully consistent with the risk management and reporting capabilities of the largest insurance groups in Europe.

Let me express once more my gratitude for your engagement in this important EIOPA project. I look forward to further engaging with you in the next steps of this exercise.

Yours sincerely,

