

To: Solvency II Working Group, Long Term Investments & Sustainable Finance PG  
From: Prudential Team  
cc:  
Date: 19-03-2021  
Reference: ECO-SLV-21-105  
  
Subject: EIOPA stress test event - 18 March 2021

## Summary

- Over 100 attendees from industry associations and participating companies.
- EIOPA presented its slide deck (see [ECO-SLV-21-104](#)) and then answered the questions put forward by stakeholders.
- Overall, there was a high degree of consistency in the points raised by stakeholders which echoed feedback already provided by Insurance Europe.
- EIOPA noted its intention to provide written feedback to the main points/questions raised by stakeholders (the secretariat will also circulate these to members once received)

Further information on the discussion is provided below.

## Introduction

- EIOPA introduced the event with a reminder of the rationale for the stress test exercise ie to test the impact of a second severe disruption in the financial and real economy due to the ongoing global pandemic.
- EIOPA noted that its intention is for the stress test exercise to become a more accepted supervisory tool and it had made efforts over the past three years to facilitate this via methodological principles consultations etc.
- A reminder was made that EIOPA would request companies permission to publish individual company results, and EIOPA noted its intention to publish a report detailing its aggregate findings and recommendations.

## Timeline

- EIOPA is considering to launch a consultation with participating companies in early-April with the intention of stabilising the technical specifications earlier so that companies can proceed with their calculations in a more timely manner.
- If this approach were to be implemented, the deadline for closing the Q&A process would be brought forward to mid-May. In theory, this would allow companies an extra 2-3 weeks for their calculations.

## Liquidity component

- Participants have already provided an indication of their preferred approach to modelling the liquidity component (ie at solo level or group level)
  - 6 companies reported a group approach
  - 1 company reported a solo approach but with a subgroup
  - 37 companies reported using a solo approach

- The selection of which solos is under discussion between companies, NSAs and the EIOPA project group.
- EIOPA highlighted that the liquidity stress testing component remains a work in progress and noted it continued to leverage work by other associations and bodies (IAIS, ESRB).
- Many stakeholders pushed back on the non-inclusion of financial bonds as high-quality liquid assets.
- Similarly, concerns were raised about the level of liquidity haircuts and their application.

#### Methodological issues

- EIOPA confirmed its intention to use a UFR consistent with the Solvency II framework.
  - At the reference date, a UFR of 3.75% will be used ie no recalculation of the baseline is necessary.
  - In the stress scenario, a UFR of 3.6% will be modelled (consistent with the 2021 UFR parameter).
- No capping of the positive impact of marginal shocks will be applied for the 2021 exercise.
- EIOPA did not consider the sequencing of the non-life shocks to be an issue and noted that all shocks should be applied simultaneously.
  - **If members continue to have concerns about this, please contact the secretariat with examples of the issue.**
- EIOPA disagrees with industry position on
  - the treatment of participating entities and considers an equity shock to be a good proxy.
  - the treatment of mortgage loans, EIOPA considers the use of RMBS to be appropriate given liquidity, prepayment risk and wider market volatility.

#### *Incorporating of downgrade risk for corporate bonds*

- EIOPA is assessing how to incorporate the downgrade of corporate bonds into the market shocks.
- Additional operational burden for companies and limitations of the ECB model appear to be the major constraints.
- **EIOPA remains open to feedback on this issue.**

#### Operational issues

- EIOPA noted that, depending on the management actions that companies want to incorporate, two full runs (ie the fixed balance sheet and constrained balance sheet) may not be required.
- The scope of management actions to be modelled and any proposed simplifications should be discussed with NSAs.

#### Reporting and validations

- EIOPA confirmed it will no longer request the validation templates (eg projected cashflows or model point cashflows)
- Stakeholders highlighted that the EIOPA's requested split of assets into life/non-life would be challenging for some companies